

PLAINTIFF'S  
EXHIBIT

305

Gordon v. Microsoft

Microsoft

Board of Directors' Report  
*Finance & Administration*

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Q91-4

MS-PCA 1189449  
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PLAINTIFF'S  
EXHIBIT

1184

U.S. District Court, N.D. Cal.  
Case No. 2:96CV645B

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See page 163 for a list of Acronyms that are used throughout this book.

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*Finance*  
*Results of Operations*

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# Results of Operations Compared with Prior Year

	FY91		FY90		Growth
Net revenues	\$1,843.4	100.0%	\$1,183.5	100.0%	56%
Cost of revenues	<u>362.6</u>	<u>19.7</u>	<u>252.7</u>	<u>21.3</u>	44
Gross profit	<u>1,480.8</u>	<u>80.3</u>	<u>930.8</u>	<u>78.7</u>	59
Operating expenses:					
Research and development	235.4	12.8	180.6	15.3	30
Sales and marketing	533.6	28.9	317.6	26.9	68
General and administrative	<u>62.0</u>	<u>3.3</u>	<u>39.3</u>	<u>3.3</u>	58
Total operating expenses	<u>831.0</u>	<u>45.0</u>	<u>537.5</u>	<u>45.5</u>	55
Operating income	<u>649.8</u>	<u>35.3</u>	<u>393.3</u>	<u>33.2</u>	65
Interest income - net	37.3	2.0	30.8	2.6	21
Non-operating expense	<u>(16.5)</u>	<u>(0.9)</u>	<u>(13.5)</u>	<u>(1.1)</u>	22
	<u>20.8</u>	<u>1.1</u>	<u>17.3</u>	<u>1.5</u>	20
Income before income taxes	670.6	36.4	410.6	34.7	63
Provision for income taxes	<u>207.9</u>	<u>11.3</u>	<u>131.4</u>	<u>11.1</u>	58
Net income	\$ <u>462.7</u>	<u>25.1%</u>	\$ <u>279.2</u>	<u>23.6%</u>	66
Average shares outstanding	<u>187.7</u>		<u>179.1</u>		
Net income per share	\$ <u>2.47</u>		\$ <u>1.56</u>		58

	Q91-4		Q90-4		Growth
Net revenues	\$526.6	100.0%	\$337.0	100.0%	56%
Cost of revenues	<u>97.5</u>	<u>18.5</u>	<u>70.0</u>	<u>20.8</u>	39
Gross profit	<u>429.1</u>	<u>81.5</u>	<u>267.0</u>	<u>79.2</u>	61
Operating expenses:					
Research and development	70.2	13.3	52.5	15.6	34
Sales and marketing	146.9	27.9	92.2	27.3	59
General and administrative	<u>17.9</u>	<u>3.4</u>	<u>11.8</u>	<u>3.5</u>	52
Total operating expenses	<u>235.0</u>	<u>44.6</u>	<u>156.5</u>	<u>46.4</u>	50
Operating income	<u>194.1</u>	<u>36.9</u>	<u>110.5</u>	<u>32.8</u>	76
Interest income - net	10.4	2.0	10.0	3.0	4
Non-operating expense	<u>(3.9)</u>	<u>(0.7)</u>	<u>(2.9)</u>	<u>(0.9)</u>	35
	<u>6.5</u>	<u>1.3</u>	<u>7.1</u>	<u>2.1</u>	(8)
Income before income taxes	200.6	38.2	117.6	34.9	71
Provision for income taxes	<u>62.2</u>	<u>11.8</u>	<u>37.6</u>	<u>11.2</u>	65
Net income	\$ <u>138.4</u>	<u>26.3%</u>	\$ <u>80.0</u>	<u>23.7%</u>	73
Average shares outstanding	<u>190.8</u>		<u>185.3</u>		
Net income per share	\$ <u>0.73</u>		\$ <u>0.43</u>		70

## FY91

FY91 was another tremendous financial success for Microsoft. Net revenue growth at 56% combined with substantial improvements in gross profit and operating expense growth in line with revenue growth led to record net income.

Extraordinary 82% growth increased IFG's share of Microsoft's net revenues to 49% in FY91 from 42% in FY90. Europe grew 90% to \$688.3 million. By the end of FY91, Microsoft was number one in the European PC/Mac word processing, Mac spreadsheets and PC/Mac integrated (Works) markets.

During FY91, major foreign currencies strengthened through mid-February (the Deutschemark, our barometer of foreign currencies, reached a post WW-II high on February 11, 1991) and then declined to FY90 levels by the end of the fiscal year. The exchange rate factor in year over year revenue growth was \$73.7 million, which represented 18% of IFG net revenue growth and 11% of total net revenue growth.

From a product group perspective Applications at \$934.5 million, led the way with 66% growth. The applications portion of net revenues increased to 51% in FY91 from 48% in FY90.

Win 3.0 provided 3.2 million additional sockets for Windows applications and \$170.1 million in net revenues in FY91. Win 3.0 updates added an additional \$28.4 million in net revenues during FY91. Win 3.0 sockets and the aggressive \$129 competitive upgrade program resulted in a major shift in the environment on which Microsoft applications are sold. Gross revenue from Windows applications was \$503.3 million, or 52% of total gross revenue from applications as compared to 23% in FY90. Windows applications accounted for \$369.1 million of the \$391.0 million growth in gross applications revenues.

Cost of revenues declined to 19.7% in FY91 from 21.3% in FY90 and 25.4% in FY89. The decrease resulted from manufacturing efficiencies, reductions in product cost and sales mix of higher margin products such as MLP's, single-media boxes and Windows applications.

As a percentage of net revenues, the growth in sales and marketing (68%) outpaced the growth in net revenues (56%). The growth in sales and marketing was due principally to the exchange rate factor and planned increases in headcount.

## Q91-4

Net revenues grew 56%, the same as for the fiscal year, to \$526.6 million. Net income of \$138.4 million was a record percentage of sales at 26.3%.

USSMD net revenues grew 72% to \$177.3 million, \$47.6 million higher than the previous quarter's record sales. International finished goods, while showing excellent 54% growth, was sequentially down for the first time in eight quarters. A strong dollar *reduced* revenues by \$2.7 million during Q91-4 compared with rates in Q90-4.

From a product group perspective, Applications grew 77% to \$257.2 million from \$145.2 million in Q90-4 and Systems grew 52% to \$187.3 million from \$123.0 million in Q90-4.

As in the prior comparable quarter, Systems net revenues were buoyed by a new product. The 928 thousand unit initial DOS RUP sell-in contributed \$50.7 million in net revenues during Q91-4, just as Win 3.0 contributed \$29.8 million in net revenues in Q90-4.

Shipments of Win 3.0 were strong during Q91-4 at 1.2 million units. Q91-4 was the first quarter where more than half of the Win 3.0 unit shipments were in the OEM channel.

The introduction of Excel 3.0 pulled Mac applications revenues to \$57.2 million for Q91-4, an increase of 55% from \$36.8 million in FY90. Prior to Q91-4, FY91 Mac applications revenues were slightly lower than for the comparable period in FY90.

# FY91 versus FY90

## Net Revenues (in millions)

	FY91		FY90		Growth
<u>Channel</u>					
International Finished Goods	\$ 895.6	48.6%	\$ 492.5	41.6%	82%
USSMD	<u>563.3</u>	<u>30.6</u>	<u>358.3</u>	<u>30.3</u>	57
Retail	<u>1,458.9</u>	<u>79.2</u>	<u>850.8</u>	<u>71.9</u>	72
Domestic OEM	187.0	10.1	151.3	12.8	24
International OEM	<u>150.4</u>	<u>8.2</u>	<u>155.8</u>	<u>13.2</u>	(4)
OEM	<u>337.4</u>	<u>18.3</u>	<u>307.1</u>	<u>26.0</u>	10
Other	<u>47.1</u>	<u>2.5</u>	<u>25.6</u>	<u>2.1</u>	85
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,183.5</u>	<u>100.0%</u>	56
<u>Product Group</u>					
Applications	\$ 934.5	50.7%	\$ 563.0	47.6%	66
Systems	578.2	31.4	364.9	30.8	58
SPAG	213.0	11.6	129.4	10.9	65
Languages	55.4	3.0	54.5	4.6	2
Network	44.1	2.4	34.5	2.9	28
Other	<u>18.2</u>	<u>0.9</u>	<u>37.2</u>	<u>3.2</u>	(51)
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,183.5</u>	<u>100.0%</u>	56

Net revenues for FY91 increased 56% over FY90. Retail was bolstered by sales of Win 3.0 and Windows applications. European finished goods was the fastest growing market increasing 90% to \$688.3 million from \$361.9 million in FY90. International ROW finished goods increased 59% to \$207.3 million from \$130.6 million in FY90. A weaker U.S. dollar had a \$73.7 million favorable impact on FY91 revenues.

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

	FY91			FY90			Change-				
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Revenues				
DOS/GW Basic	16,466	\$ 267.2	\$ 16	14,852	\$218.5	\$ 15	Units	\$/Unit	Volume	Price	Total
Serial/Bus Mouse	1,911	187.8	98	1,261	121.1	96	650	2	62.4	4.3	66.7
Win Excel	620	184.9	298	314	84.7	270	306	28	82.8	17.4	100.2
Win 3.0	3,234	170.1	53	358	29.8	83	2,876	(30)	240.0	(99.7)	140.3
Win Word	562	153.5	273	110	30.5	277	452	(4)	125.0	(2.0)	123.0
PC Word	422	122.5	290	540	129.9	241	(118)	49	(28.4)	21.0	(7.4)
PC Works	991	64.6	65	957	51.7	54	34	11	1.9	11.0	12.9
Mac Word	298	56.5	189	301	60.4	201	(3)	(12)	(0.4)	(3.5)	(3.9)
Mac Excel	232	53.4	231	223	47.0	211	9	20	1.9	4.5	6.4
DOS RUP	928	50.7	55	--	--	--	--	--	--	--	--
LAN Manager	241	33.6	147	48	7.4	154	193	(7)	29.9	(1.7)	28.2
Win Project	88	33.4	378	6	1.8	308	82	70	25.2	6.4	31.6
Win 3.0 Updates	531	28.4	55	205	9.4	46	326	9	14.9	4.1	19.0
Win Office	56	26.2	467	--	--	--	--	--	--	--	--
OEM Mouse	1,169	<u>25.7</u>	22	366	<u>7.5</u>	20	803	2	16.4	1.8	18.2
		<u>\$1,460.5</u>			<u>\$799.7</u>						
Percent of net revenues		<u>79%</u>			<u>68%</u>						

Increased sales of Win 3.0 and Win 3.0 updates (\$159.3 million), Windows applications (\$281.0 million), Mice (\$84.9 million) and the DOS RUP (\$50.7 million) accounted for 87% of the revenue growth in FY91. Revenues from Win 3.0, including updates, and Windows applications were 41% of net revenues for FY91 as compared to 20% for FY90. The lower unit price for Win 3.0 in FY91 reflects a shift to sales in the OEM channel.

FY91 versus FY90

Cost of Revenues

Channel	FY91			FY90		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
International FG	46.7%	16.0%	7.5%	41.0%	21.4%	8.8%
USSMD	31.4	15.5	4.9	30.8	19.2	5.9
Domestic OEM	10.3	7.9	0.8	12.3	4.0	0.5
International OEM	9.2	-	-	13.9	-	-
Other	2.4	13.5	0.4	2.0	16.4	0.3
Product cost - gross	100.0%		13.6	100.0%		15.5
Effect of revenue adjustments			x105.4%			x103.0%
Product cost - net			14.3			15.9
Non-product costs			5.4			5.4
			19.7%			21.3%

Product Group	FY91			FY90		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Applications	50.0%	11.0%	5.5%	47.6%	15.2%	7.3%
Systems	29.6	10.7	3.2	27.6	10.0	2.8
SPAG	11.4	34.8	4.0	10.9	37.8	4.1
Languages	3.0	17.2	0.5	4.6	20.4	0.9
Other (includes UPB)	6.0	7.2	0.4	9.3	4.3	0.4
Product cost - gross	100.0%		13.6%	100.0%		15.5%

Cost of revenues dropped to 19.7%. Despite a shift from OEM to retail, product costs fell substantially, principally because of decreases in Applications product costs. Contributing to the lower percentage were manufacturing efficiencies, and a favorable sales mix of higher margin products such as Windows applications, MLPs and other retail licenses.

Operating Expenses (in millions)

	FY91	FY90	Growth
Payroll	\$267.5	\$182.8	\$104.7 57%
Marketing	150.1	91.1	59.0 65
Depreciation	47.6	30.3	17.3 57
Employee fringes	42.3	29.3	13.0 44
Supplies and equipment	44.0	29.9	14.1 47
Travel and entertainment	38.0	23.3	14.7 63
All other	221.5	150.8	70.7 47
	\$831.0	\$537.5	\$293.5 55

Operating expenses grew 55%, slightly less than net revenue growth, to \$831.0 million. Operating expenses as a percent of net revenues decreased from 45.5% to 45.0%.

FY91 versus FY90

Non-operating Income (in millions)

	<u>FY91</u>	<u>FY90</u>	<u>Change</u>
Interest income	\$41.8	\$34.4	\$7.4
Interest expense	<u>(4.5)</u>	<u>(3.6)</u>	<u>(0.9)</u>
	<u>37.3</u>	<u>30.8</u>	<u>6.5</u>
Financial asset allowance	(10.7)	(5.9)	(4.8)
Foreign currency transactions	(0.8)	(0.1)	(0.7)
All other	<u>(5.0)</u>	<u>(7.5)</u>	<u>2.5</u>
	<u>(16.5)</u>	<u>(13.5)</u>	<u>(3.0)</u>
	<u>\$20.8</u>	<u>\$17.3</u>	<u>\$3.5</u>

The tax rate for FY91 was 31%, down from 32% in FY90.

Net income in FY91 was \$462.7 million compared to \$279.2 million in FY90. Net income as a percentage of net revenues increased from 23.6% to 25.1%. This 1.5% improvement was reflected in improvements in gross profit (1.6%) and operating expenses (0.5%) offset by a decrease in non-operating income (0.4%) and an increase in income taxes (0.2%).



Q91-4 versus Q90-4

Net Revenues (in millions)

	Q91-4		Q90-4		Growth
<u>Channel</u>					
International Finished Goods	\$226.4	43.0%	\$146.8	43.6%	54%
USSMD	<u>177.3</u>	<u>33.7</u>	<u>102.9</u>	<u>30.5</u>	72
Retail	<u>403.7</u>	<u>76.7</u>	<u>249.7</u>	<u>74.1</u>	62
Domestic OEM	65.8	12.5	39.2	11.6	68
International OEM	<u>44.5</u>	<u>8.5</u>	<u>40.4</u>	<u>12.0</u>	10
OEM	<u>110.3</u>	<u>21.0</u>	<u>79.6</u>	<u>23.6</u>	39
Other	<u>12.6</u>	<u>2.3</u>	<u>7.7</u>	<u>2.3</u>	64
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$337.0</u>	<u>100.0%</u>	56
<u>Product Group</u>					
Applications	\$257.2	48.8%	\$145.2	43.1%	77
Systems	187.3	35.6	123.0	36.5	52
SPAG	47.4	9.0	35.1	10.4	35
Languages	11.1	2.1	17.0	5.0	(35)
Network	18.6	3.5	5.6	1.7	232
Other	<u>5.0</u>	<u>1.0</u>	<u>11.1</u>	<u>3.3</u>	(55)
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$337.0</u>	<u>100.0%</u>	56

Net revenues increased 56% as the introduction of the DOS RUP powered USSMD revenues to record levels. International finished goods' growth was modest relative to previous quarters in the fiscal year. European finished goods grew 47% to \$161.4 million from \$110.1 million in FY90. International ROW finished goods increased 77% to \$65.0 million from \$36.7 million in FY90.

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

	Q91-4			Q90-4			Change				
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	\$/Unit	Volume	Price	Total
DOS/GW Basic	4,295	\$ 66.5	\$15	4,463	\$ 63.0	\$14	(168)	\$ 1	\$ (2.4)	\$5.9	\$ 3.5
Win Excel	194	54.6	281	77	23.2	303	117	(22)	35.7	(4.3)	31.4
DOS RUP	928	50.7	55	-	-	-	-	-	-	-	-
Win 3.0	1,199	49.5	41	358	29.8	83	841	(42)	70.3	(50.6)	19.7
Serial/Bus Mouse	404	39.0	96	315	31.0	99	89	(3)	8.9	(0.9)	8.0
Win Word	147	36.6	248	48	14.3	294	99	(46)	29.5	(7.2)	22.3
PC Word	96	26.3	273	104	29.2	280	(8)	(7)	(2.2)	(0.7)	(2.9)
Mac Excel	77	18.0	234	65	14.5	224	12	10	2.7	0.8	3.5
LAN Manager	102	16.6	163	33	2.6	78	69	85	5.4	8.6	14.0
Win Office	32	14.1	439	-	-	-	-	-	-	-	-
Mac Word	73	13.5	185	52	7.4	141	21	44	2.9	3.2	6.1
PC Works	239	13.2	55	417	17.8	43	(178)	12	(7.6)	3.0	(4.6)
Mac Excel Updates	100	11.2	112	13	1.3	98	87	14	8.5	1.4	9.9
Win Excel Upgrades	99	10.9	110	-	-	-	-	-	-	-	-
Win Word Upgrades	69	8.7	125	19	3.0	155	50	(30)	7.7	(2.0)	5.7
		<u>\$429.4</u>			<u>\$237.1</u>						
Percent of net revenues		<u>82%</u>			<u>70%</u>						

The product sales highlight for the quarter was the introduction of the DOS RUP which provided revenue growth of \$50.7 million from the sale of 927.6 thousand units. Win 3.0 and Windows applications revenues increased significantly from Q90-4. OEM became the primary channel for Win 3.0 during Q91-4 as 62.9% of Win 3.0 unit shipments, including updates and bundles, were in the OEM channel. Win Excel sales were especially strong in Europe where 124,000 units were sold for revenues of \$40.5 million.

Q91-4 versus Q90-4

Cost of Revenues

Channel	Q91-4			Q90-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
International FG	40.4%	15.1%	6.1%	42.8%	19.6%	8.4%
USSMD	35.2	14.5	5.1	30.0	17.2	5.2
Domestic OEM	11.5	9.1	1.1	11.3	5.1	0.6
International OEM	10.7	-	-	13.8	-	-
Other	2.2	17.5	0.4	2.1	21.3	0.4
Product cost - gross	100.0%		12.7	100.0%		14.6
Effect of revenue adjustments			x107.6%			x103.3%
Product cost - net			13.6			15.1
Non-product costs			4.9			5.7
			18.5%			20.8%

Product Group	Q91-4			Q90-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Applications	48.1%	10.2%	4.9%	42.5%	13.1%	5.6%
Systems	33.1	10.7	3.5	34.8	11.2	3.9
SPAG	9.0	36.4	3.3	10.2	36.6	3.7
Languages	2.2	18.3	0.4	4.9	16.2	0.8
Other (includes UPB)	7.6	6.9	0.6	7.6	6.6	0.6
Product cost - gross	100.0%		12.7%	100.0%		14.6%

Cost of revenues declined sharply to 18.5%, primarily because of the shift towards sales of applications products with higher margins; Windows applications, MLP's and other retail licenses. This occurred despite a lower percentage of OEM business in relation to the comparable quarter. DOS RUP margins were a favorable factor.

Operating Expenses (in millions)

	Q91-4	Q90-4	Change	
Payroll	\$ 83.2	\$ 53.5	\$29.7	55.5%
Marketing	53.0	36.9	16.1	43.7
Marketing accrual	(17.9)	(14.4)	(3.5)	(24.3)
Depreciation	13.6	9.1	4.5	49.5
Supplies and equipment	12.0	9.5	2.5	26.3
Employee fringes	13.2	9.3	3.9	41.9
Travel and entertainment	13.1	7.2	5.9	81.9
All other	64.8	45.4	19.4	42.7
	\$235.0	\$156.5	\$78.5	50.1

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— Q91-4 versus Q90-4

Non-operating Income (in millions)

	<u>Q91-4</u>	<u>Q90-4</u>	<u>Variance</u>
Interest income	\$12.0	\$12.2	\$(0.2)
Interest expense	<u>(1.6)</u>	<u>(2.2)</u>	<u>0.6</u>
	<u>10.4</u>	<u>10.0</u>	<u>0.4</u>
Financial asset allowance	(2.1)	(4.6)	2.5
Foreign currency transactions	(1.1)	1.0	(2.1)
All other	<u>(0.7)</u>	<u>0.7</u>	<u>(1.4)</u>
	<u>(3.9)</u>	<u>(2.9)</u>	<u>(1.0)</u>
	<u>\$ 6.5</u>	<u>\$7.1</u>	<u>\$(0.6)</u>

The tax rate for Q91-4 was 31%, down from 32% in Q90-4.

Net income increased 73% to \$138.4 million compared to \$80.0 million in FY90. Net income as a percentage of net revenues increased from 23.7% to 26.3%. This 2.6% improvement was reflected in improvements in gross profit (2.3%) and operating expenses (1.8%) offset by a decrease in non-operating income (0.8%) and an increase in income taxes (0.6%).

Results of Operations Compared with Competition

Most recent quarter	Microsoft		Novell		Lotus		Borland*	
Net revenues	\$526.6	100.0%	\$150.2	100.0%	\$186.4	100.0%	\$137.1	100.0%
Cost of revenues	<u>97.5</u>	<u>18.5</u>	<u>27.1</u>	<u>18.0</u>	<u>39.1</u>	<u>21.0</u>	<u>28.7</u>	<u>20.9</u>
Gross profit	<u>429.1</u>	<u>81.5</u>	<u>123.1</u>	<u>82.0</u>	<u>147.3</u>	<u>79.0</u>	<u>108.4</u>	<u>79.1</u>
Operating expenses:								
Research and development	70.2	13.3	19.2	12.8	30.0	16.1	14.1	10.3
Sales and marketing	146.9	27.9	43.9	29.2	84.4	45.3		
General and administrative	<u>17.9</u>	<u>3.4</u>	<u>8.3</u>	<u>5.5</u>	<u>17.4</u>	<u>9.3</u>	<u>78.1</u>	<u>57.0</u>
Total operating expenses	<u>235.0</u>	<u>44.6</u>	<u>71.4</u>	<u>47.5</u>	<u>131.8</u>	<u>70.7</u>	<u>92.2</u>	<u>67.3</u>
Operating income	<u>194.1</u>	<u>36.9</u>	<u>51.7</u>	<u>34.5</u>	<u>15.5</u>	<u>8.3</u>	<u>16.2</u>	<u>11.8</u>
Interest income - net	10.4	2.0	7.4	4.9	(2.0)	(1.1)	2.1	1.5
Non-operating expense	<u>(3.9)</u>	<u>(0.7)</u>	<u>-</u>	<u>-</u>	<u>(2.0)</u>	<u>(1.1)</u>	<u>2.1</u>	<u>1.5</u>
	<u>6.5</u>	<u>1.3</u>	<u>7.4</u>	<u>4.9</u>				
Income before income taxes	200.6	38.2	59.1	39.4	13.5	7.2	18.3	13.3
Provision for income taxes	<u>62.2</u>	<u>11.8</u>	<u>20.7</u>	<u>13.8</u>	<u>4.3</u>	<u>2.3</u>	<u>6.5</u>	<u>4.7</u>
Net income	<u>\$138.4</u>	<u>26.3%</u>	<u>\$ 38.4</u>	<u>25.6%</u>	<u>\$ 9.2</u>	<u>4.9%</u>	<u>\$ 11.8</u>	<u>8.6%</u>
Average shares outstanding	<u>190.8</u>		<u>74.0</u>		<u>44.4</u>		<u>26.0</u>	
Net income per share	<u>\$ 0.73</u>		<u>\$ 0.52</u>		<u>\$ 0.21</u>		<u>\$ 0.45</u>	

Trailing twelve months	Microsoft		Novell		Lotus		Borland*	
Net revenues	\$1,843.4	100.0%	\$556.4	100.0%	\$704.6	100.0%	\$511.2	100.0%
Cost of revenues	<u>362.6</u>	<u>19.7</u>	<u>119.6</u>	<u>21.5</u>	<u>139.0</u>	<u>19.7</u>	<u>116.1</u>	<u>22.7</u>
Gross profit	<u>1,480.8</u>	<u>80.3</u>	<u>436.8</u>	<u>78.5</u>	<u>565.6</u>	<u>80.3</u>	<u>395.1</u>	<u>77.3</u>
Operating expenses:								
Research and development	235.4	12.8	68.5	12.3	177.3	25.2	58.7	11.5
Sales and marketing	533.6	28.9	161.0	28.9	311.2	44.1		
General and administrative	<u>62.0</u>	<u>3.3</u>	<u>31.9</u>	<u>5.8</u>	<u>65.4</u>	<u>9.3</u>	<u>293.7</u>	<u>57.5</u>
Total operating expenses	<u>831.0</u>	<u>45.0</u>	<u>261.4</u>	<u>47.0</u>	<u>553.9</u>	<u>78.6</u>	<u>352.4</u>	<u>69.0</u>
Operating income	<u>649.8</u>	<u>35.3</u>	<u>175.4</u>	<u>31.5</u>	<u>11.7</u>	<u>1.7</u>	<u>42.7</u>	<u>8.3</u>
Interest income - net	37.3	2.0	20.0	3.6	0.1	-	9.6	1.9
Non-operating expense	<u>(16.5)</u>	<u>(0.9)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>20.8</u>	<u>1.1</u>	<u>20.0</u>	<u>3.6</u>	<u>0.1</u>	<u>1.7</u>	<u>9.6</u>	<u>1.9</u>
Income before income taxes	670.6	36.4	195.4	35.1	11.8	1.7	52.3	10.2
Provision for income taxes	<u>207.9</u>	<u>11.3</u>	<u>67.9</u>	<u>12.2</u>	<u>19.0</u>	<u>2.7</u>	<u>19.9</u>	<u>3.9</u>
Net income	<u>\$ 462.7</u>	<u>25.1%</u>	<u>\$127.5</u>	<u>22.9%</u>	<u>\$ (7.2)</u>	<u>(1.0)%</u>	<u>\$ 32.4</u>	<u>6.3%</u>
Average shares outstanding	<u>187.7</u>		<u>72.0</u>		<u>43.2</u>		<u>24.8</u>	
Net income per share	<u>\$ 2.47</u>		<u>\$ 1.77</u>		<u>\$ (0.17)</u>		<u>\$ 1.31</u>	

\*Borland's operating results reflect the acquisition of Ashton-Tate, accounted for as a pooling of interests. Average shares outstanding have been adjusted @ .372 Borland shares for each Ashton-Tate share.

Comparison with Competition (Consecutive Quarters)

MICROSOFT

	<u>Sep. 30, 1990</u>	<u>Dec. 31, 1990</u>	<u>Mar. 31, 1991</u>	<u>Jun. 30, 1991</u>	<u>Trailing 12 months</u>
Net revenues	\$369.4	\$460.5	\$486.9	\$526.6	\$1,843.4
Cost of revenues	<u>76.0</u>	<u>93.6</u>	<u>95.5</u>	<u>97.5</u>	<u>362.6</u>
Gross profit	<u>293.4</u>	<u>366.9</u>	<u>391.4</u>	<u>429.1</u>	<u>1,480.8</u>
Operating expenses:					
Research and development	50.8	54.1	60.3	70.2	235.4
Sales and marketing	106.7	139.2	140.8	146.9	533.6
General and administrative	<u>12.9</u>	<u>14.3</u>	<u>16.9</u>	<u>17.9</u>	<u>62.0</u>
Total operating expenses	<u>170.4</u>	<u>207.6</u>	<u>218.0</u>	<u>235.0</u>	<u>831.0</u>
Operating income	<u>123.0</u>	<u>159.3</u>	<u>173.4</u>	<u>194.1</u>	<u>649.8</u>
Interest income - net	8.4	9.3	9.2	10.4	37.3
Non-operating expense	<u>(4.4)</u>	<u>(5.1)</u>	<u>(3.1)</u>	<u>(3.9)</u>	<u>(16.5)</u>
	<u>4.0</u>	<u>4.2</u>	<u>6.1</u>	<u>6.5</u>	<u>20.8</u>
Income before income taxes	127.0	163.5	179.5	200.6	670.6
Provision for income taxes	<u>39.4</u>	<u>50.6</u>	<u>55.7</u>	<u>62.2</u>	<u>207.9</u>
Net income	\$ <u>87.6</u>	\$ <u>112.9</u>	\$ <u>123.8</u>	\$ <u>138.4</u>	\$ <u>462.7</u>
Average shares outstanding	<u>185.0</u>	<u>185.6</u>	<u>189.5</u>	<u>190.8</u>	<u>187.7</u>
Net income per share	\$ <u>0.47</u>	\$ <u>0.61</u>	\$ <u>0.65</u>	\$ <u>0.73</u>	\$ <u>2.47</u>
<hr/>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>20.6</u>	<u>20.3</u>	<u>19.6</u>	<u>18.5</u>	<u>19.7</u>
Gross profit	<u>79.4</u>	<u>79.7</u>	<u>80.4</u>	<u>81.5</u>	<u>80.3</u>
Operating expenses:					
Research and development	13.7	11.8	12.4	13.3	12.8
Sales and marketing	28.9	30.2	28.9	27.9	28.9
General and administrative	<u>3.5</u>	<u>3.1</u>	<u>3.5</u>	<u>3.4</u>	<u>3.3</u>
Total operating expenses	<u>46.1</u>	<u>45.1</u>	<u>44.8</u>	<u>44.6</u>	<u>45.0</u>
Operating income	<u>33.3</u>	<u>34.6</u>	<u>35.6</u>	<u>36.9</u>	<u>35.3</u>
Interest income - net	2.3	2.0	1.9	2.0	2.0
Non-operating expense	<u>(1.2)</u>	<u>(1.1)</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>(0.9)</u>
	<u>1.1</u>	<u>0.9</u>	<u>1.2</u>	<u>1.3</u>	<u>1.1</u>
Income before income taxes	34.4	35.5	36.8	38.2	36.4
Provision for income taxes	<u>10.7</u>	<u>11.0</u>	<u>11.4</u>	<u>11.8</u>	<u>11.3</u>
Net income	<u>23.7%</u>	<u>24.5%</u>	<u>25.4%</u>	<u>26.3%</u>	<u>25.1%</u>

Comparison with Competition (Consecutive Quarters)

NOVELL

	<u>Jul. 28, 1990</u>	<u>Oct. 27, 1990</u>	<u>Jan. 26, 1991</u>	<u>Apr. 27, 1991</u> <sup>(1)</sup>	Trailing 12 months
Net revenues	\$131.1	\$140.5	\$134.6	\$150.2	\$556.4
Cost of revenues (2)	<u>32.7</u>	<u>30.8</u>	<u>29.0</u>	<u>27.1</u>	<u>119.6</u>
Gross profit	<u>98.4</u>	<u>109.7</u>	<u>105.6</u>	<u>123.1</u>	<u>436.8</u>
Operating expense:					
Research and development	16.3	16.3	16.7	19.2	68.5
Sales and marketing	37.9	39.9	39.3	43.9	161.0
General and administrative	<u>7.4</u>	<u>8.1</u>	<u>8.1</u>	<u>8.3</u>	<u>31.9</u>
Total operating expenses	<u>61.6</u>	<u>64.3</u>	<u>64.1</u>	<u>71.4</u>	<u>261.4</u>
Operating income	36.8	45.4	41.5	51.7	175.4
Non-operating income	<u>4.0</u>	<u>3.3</u>	<u>5.3</u>	<u>7.4</u>	<u>20.0</u>
Income before income taxes	40.8	48.7	46.8	59.1	195.4
Provision for income taxes	<u>14.7</u>	<u>16.1</u>	<u>16.4</u>	<u>20.7</u>	<u>67.9</u>
Net income	\$ <u>26.1</u>	\$ <u>32.6</u>	\$ <u>30.4</u>	\$ <u>38.4</u>	\$ <u>127.5</u>
Average shares outstanding	<u>69.3</u>	<u>71.5</u>	<u>73.0</u>	<u>74.0</u>	<u>72.0</u>
Net income per share	\$ <u>0.38</u>	\$ <u>0.46</u>	\$ <u>0.42</u>	\$ <u>0.52</u>	\$ <u>1.77</u>
<hr/>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues (2)	<u>24.9</u>	<u>21.9</u>	<u>21.5</u>	<u>18.0</u>	<u>21.5</u>
Gross profit	<u>75.1</u>	<u>78.1</u>	<u>78.5</u>	<u>82.0</u>	<u>78.5</u>
Operating expense:					
Research and development	12.4	11.6	12.4	12.8	12.3
Sales and marketing	28.9	28.4	29.2	29.2	28.9
General and administrative	<u>5.7</u>	<u>5.8</u>	<u>6.0</u>	<u>5.5</u>	<u>5.8</u>
Total operating expenses	<u>47.0</u>	<u>45.8</u>	<u>47.6</u>	<u>47.5</u>	<u>47.0</u>
Operating income	28.1	32.3	30.9	34.5	31.5
Non-operating income	<u>3.0</u>	<u>2.3</u>	<u>3.9</u>	<u>4.9</u>	<u>3.6</u>
Income before income taxes	31.1	34.6	34.8	39.4	35.1
Provision for income taxes	<u>11.2</u>	<u>11.5</u>	<u>12.2</u>	<u>13.8</u>	<u>12.2</u>
Net income	<u>19.9%</u>	<u>23.1%</u>	<u>22.6%</u>	<u>25.6%</u>	<u>22.9%</u>

(1) Novell entered a licensing, distribution and support agreement with IBM in January 1991. Sales to IBM were \$17.1 million during the quarter.

(2) Improvements in cost of revenues are attributed to the planned phase-out of certain hardware products and, for the quarter ended April 27, 1991, to increased revenues from their high-end NetWare v3.x product line.

Comparison with Competition (Consecutive Quarters)

LOTUS

	<u>Sept. 30, 1990</u>	<u>Dec. 31, 1990</u> <sup>(1)</sup>	<u>Mar. 31, 1991</u>	<u>Jun. 30, 1991</u> <sup>(2)</sup>	<u>Trailing 12 months</u>
Net revenues	\$157.4	\$186.4	\$174.4	\$186.4	\$704.6
Cost of revenues	<u>28.4</u>	<u>34.7</u>	<u>36.8</u>	<u>39.1</u>	<u>139.0</u>
Gross profit	<u>129.0</u>	<u>151.7</u>	<u>137.6</u>	<u>147.3</u>	<u>\$65.6</u>
Operating expense:					
Research and development	31.5	88.8	27.0	30.0	177.3
Sales and marketing	71.6	73.5	81.7	84.4	311.2
General and administrative	<u>15.5</u>	<u>15.6</u>	<u>16.9</u>	<u>17.4</u>	<u>65.4</u>
Total operating expenses	<u>118.6</u>	<u>177.9</u>	<u>125.6</u>	<u>131.8</u>	<u>\$53.9</u>
Operating income	10.4	(26.2)	12.0	15.5	11.7
Non-operating income	<u>1.5</u>	<u>2.9</u>	<u>(2.3)</u>	<u>(2.0)</u>	<u>0.1</u>
Income before income taxes	11.9	(23.3)	9.7	13.5	11.8
Provision for income taxes	<u>3.3</u>	<u>8.3</u>	<u>3.1</u>	<u>4.3</u>	<u>19.0</u>
Net income	\$ <u>8.6</u>	\$ (31.6)	\$ <u>6.6</u>	\$ <u>9.2</u>	\$ <u>(7.2)</u>
Average shares outstanding	<u>43.0</u>	<u>42.6</u>	<u>42.8</u>	<u>44.4</u>	<u>43.2</u>
Net income per share	\$ <u>0.20</u>	\$ (0.74)	\$ <u>0.15</u>	\$ <u>0.21</u>	\$ <u>(0.17)</u>
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>18.0</u>	<u>18.6</u>	<u>21.1</u>	<u>21.0</u>	<u>19.7</u>
Gross profit	<u>82.0</u>	<u>81.4</u>	<u>78.9</u>	<u>79.0</u>	<u>80.3</u>
Operating expense:					
Research and development	20.0	47.6	15.5	16.1	25.2
Sales and marketing	45.5	39.4	46.8	45.3	44.1
General and administrative	<u>9.9</u>	<u>8.4</u>	<u>9.7</u>	<u>9.3</u>	<u>9.3</u>
Total operating expenses	<u>75.4</u>	<u>95.4</u>	<u>72.0</u>	<u>70.7</u>	<u>78.6</u>
Operating income	6.6	(14.0)	6.9	8.3	1.7
Non-operating income	<u>1.0</u>	<u>1.5</u>	<u>(1.3)</u>	<u>(1.1)</u>	<u>—</u>
Income before income taxes	7.6	(12.5)	5.6	7.2	1.7
Provision for income taxes	<u>2.1</u>	<u>4.5</u>	<u>1.8</u>	<u>2.3</u>	<u>2.7</u>
Net income	<u>5.5%</u>	<u>(17.0)%</u>	<u>3.8%</u>	<u>4.9%</u>	<u>(1.0)%</u>

(1) Research and development expense includes a \$53 million charge for purchased research and development from the acquisition of Samna Corporation (Windows word processor).

(2) Net revenues were favorably affected by the introduction of 123 for DOS version 2.3, Notes 2.0 and a Windows version of cc:mail.

Comparison with Competition (Consecutive Quarters)

BORLAND<sup>(1)</sup>

	<u>Sep. 30, 1990</u>	<u>Dec. 31, 1990</u>	<u>Mar. 31, 1991</u>	<u>Jun. 30, 1991</u>	<u>Trailing 12 months</u>
Net revenues	\$113.0	\$127.4	\$133.7	\$137.1	\$511.2
Cost of revenues	<u>26.9</u>	<u>32.5</u>	<u>28.0</u>	<u>28.7</u>	<u>116.1</u>
Gross profit	<u>86.1</u>	<u>94.9</u>	<u>105.7</u>	<u>108.4</u>	<u>395.1</u>
Operating expense:					
Research and development	15.0	13.4	16.2	14.1	58.7
Sales, general and administrative	<u>63.5</u>	<u>77.9</u>	<u>74.2</u>	<u>78.1</u>	<u>293.7</u>
Total operating expenses	<u>78.5</u>	<u>91.3</u>	<u>90.4</u>	<u>92.2</u>	<u>352.4</u>
Operating income (expense)	7.6	3.6	15.3	16.2	42.7
Non-operating income	<u>2.8</u>	<u>2.8</u>	<u>1.9</u>	<u>2.1</u>	<u>9.6</u>
Income before income taxes	10.4	6.4	17.2	18.3	52.3
Provision for income taxes	<u>3.4</u>	<u>4.3</u>	<u>5.7</u>	<u>6.5</u>	<u>19.9</u>
Net income	\$ <u>7.0</u>	\$ <u>2.1</u>	\$ <u>11.5</u>	\$ <u>11.8</u>	\$ <u>32.4</u>
Average shares outstanding	<u>24.3</u>	<u>24.2</u>	<u>24.8</u>	<u>26.0</u>	<u>24.8</u>
Net income per share	\$ <u>0.29</u>	\$ <u>0.09</u>	\$ <u>0.46</u>	\$ <u>0.45</u>	\$ <u>1.31</u>
<hr/>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>23.8</u>	<u>25.5</u>	<u>20.9</u>	<u>20.9</u>	<u>22.7</u>
Gross profit	<u>76.2</u>	<u>74.5</u>	<u>79.1</u>	<u>79.1</u>	<u>77.3</u>
Operating expense:					
Research and development	13.3	10.5	12.1	10.3	11.5
Sales, general and administrative	<u>56.2</u>	<u>61.1</u>	<u>55.5</u>	<u>57.0</u>	<u>57.5</u>
Total operating expenses	<u>69.5</u>	<u>71.6</u>	<u>67.6</u>	<u>67.3</u>	<u>69.0</u>
Operating income (expense)	6.7	2.9	11.5	11.8	8.3
Non-operating income	<u>2.5</u>	<u>2.2</u>	<u>1.4</u>	<u>1.5</u>	<u>1.9</u>
Income before income taxes	9.2	5.1	12.9	13.3	10.2
Provision for income taxes	<u>3.0</u>	<u>3.3</u>	<u>4.3</u>	<u>4.7</u>	<u>3.9</u>
Net income	<u>6.2%</u>	<u>1.8%</u>	<u>8.6%</u>	<u>8.6%</u>	<u>6.3%</u>

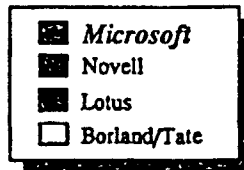
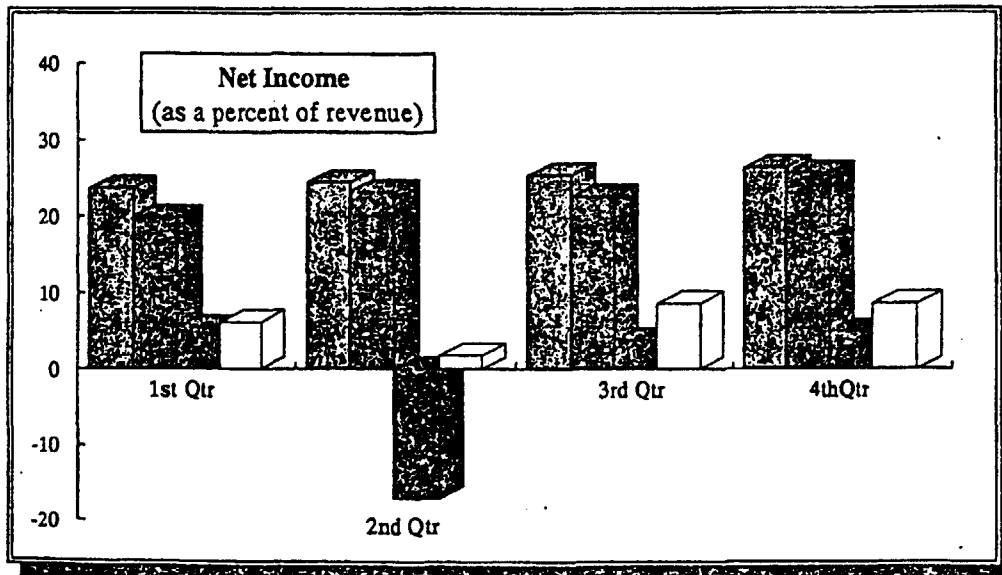
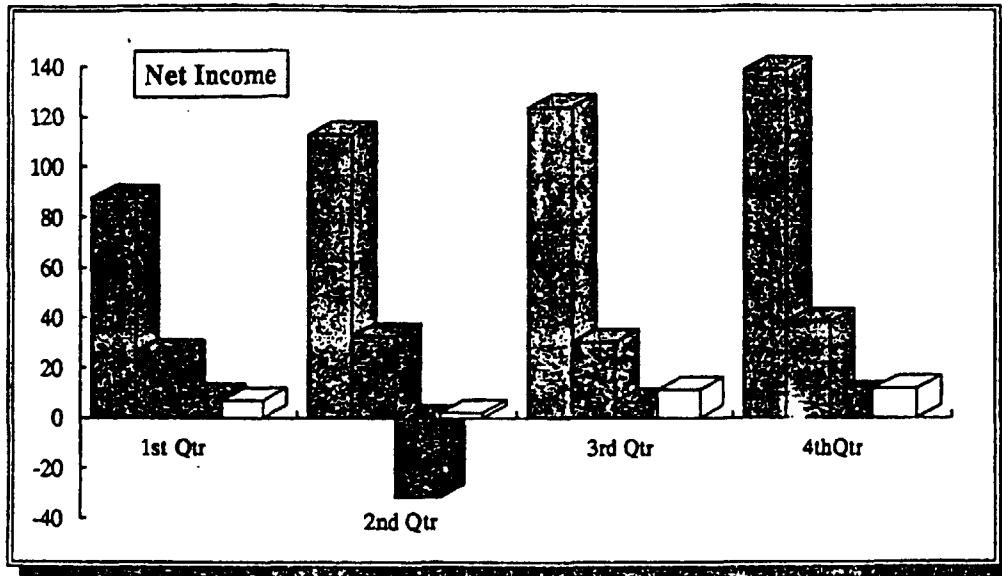
(1) Borland's operating results reflect the July 9, 1991 acquisition of Ashton-Tate, accounted for as a pooling of interests. The cost of the acquisition will be approximately \$430 million, a premium of \$140 million. Average shares outstanding have been adjusted @ .372 Borland shares for each Ashton-Tate share.

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## Comparison with Competition



MS 0164439  
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# Comparison with Competition

## Balance Sheet (in millions)

	Microsoft Jun. 30, 1991		Novell Apr. 27, 1991		Lotus Jun. 29, 1991		Borland (1) Jun. 29, 1991	
Current assets:								
Cash and short-term investments	\$ 686.3	42%	\$299.8	52%	\$217.3	33%	\$175.1	40%
Accounts receivable - net	243.3	15	131.2	23	129.2	20	70.8	16
Inventories	47.1	3	7.4	1	20.7	3	15.3	4
Other	51.8	3	24.9	4	11.9	2	29.8	7
Total current assets	1,028.5	63	463.3	80	379.1	58	291.0	1
Property, plant and equipment - net	530.2	32	87.4	15	145.6	22	100.7	23
Other assets	85.5	5	28.1	5	132.0	20	44.0	10
	<u>\$1,644.2</u>	<u>100%</u>	<u>\$578.8</u>	<u>100%</u>	<u>\$656.7</u>	<u>100%</u>	<u>\$435.7</u>	<u>100%</u>
Current liabilities	\$ 293.4	18%	\$ 82.3	14%	\$159.1	24%	\$103.1	24%
Long-term liabilities	—	—	10.0	2	160.0	25	15.0	3
Stockholders' equity	1,350.8	82	486.5	84	337.6	51	317.6	73
	<u>\$1,644.2</u>	<u>100%</u>	<u>\$578.8</u>	<u>100%</u>	<u>\$656.7</u>	<u>100%</u>	<u>\$435.7</u>	<u>100%</u>

## Other Data

	Microsoft 1991 1990		Novell 1991 1990		Lotus 1991 1990		Borland 1991 1990 Tate Borland Tate Borland			
Closing Stock Price (\$30.90) (2)	\$67.75	\$50.67	\$54.00	\$27.38	\$34.25	\$34.75	\$16.38	\$48.50	\$12.13	\$21.38
Common Shares Outstanding (in millions)	174.2	170.6	71.6	67.2	42.9	42.5	25.1	15.0	26.6	13.6
Market Value (in millions) (2)	\$11,802	\$8,641	\$3,866	\$1,840	\$1,469	\$1,477	\$411	\$728	\$323	\$291
Trailing Twelve Months Revenues (in millions)	\$1,843	\$1,183	\$556	\$439	\$705	\$645	\$511		\$352	
Price/Revenues Ratio	6.4x	7.3x	7.0x	4.2x	2.1x	2.3x	2.3x		1.4x	
Trailing Twelve Months EPS	\$2.47	\$1.56	\$1.77	\$0.91	\$(0.17)	\$2.29	\$1.31		\$0.74	
Price/Earnings Ratio	27.4x	32.5x	30.5x	30.1x	NM	15.2x	37.0x		28.9x	
Cash (in millions)	\$686	\$449	\$300	\$174	\$217	\$320	\$175		\$171	
Cash per Share	\$3.94	\$2.63	\$4.19	\$2.59	\$5.06	\$7.53	\$7.18		\$7.31	
Book Value (in millions)	\$1,351	\$919	\$486	\$281	\$338	\$334	\$318		\$247	
Book Value per Share	\$7.76	\$5.39	\$6.79	\$4.18	\$7.88	\$7.86	\$13.02		\$10.56	
Price/Book Value Ratio	8.7x	9.4x	8.0x	6.5x	4.3x	4.4x	3.7x		2.0x	

(1) Borland's operating results reflect the acquisition of Ashton-Tate, accounted for as a pooling of interests. The cost of the acquisition will be approximately \$30 million, a premium of \$140 million. Average shares outstanding have been adjusted @ .372 Borland shares for each Ashton-Tate share.

(2) Borland and Ashton-Tate closing stock price and market value are as of July 17, 1991, after the acquisition announcement.

# Comparison with Competition

	IBM (1)	Apple Computer (2)	Oracle (3)	Software Publishing	Computer Assoc
	3/31/91	6/28/91	5/31/91	3/31/91	3/31/91
<b>Income statement (in millions)</b>					
Net revenues	\$13,545.0	\$1,528.6	\$287.1	\$30.5	\$401.1
Net income (loss)	(1,731.1)	(53.1)	5.5	0.1	64.2
Net income per share	(3.02)	(0.44)	0.04	0.01	0.35
<b>Trailing twelve months (in millions)</b>					
Net revenues	\$68,378.0	\$6,155.9	\$1,027.9	\$154.0	\$1,348.2
Net income (loss)	3,252.0	327.1	(12.4)	15.8	159.2
Net income (loss) per share	5.67	2.72	(0.09)	1.26	0.86
<b>Balance sheet (in millions)</b>					
Cash	\$ 4,965.0	\$ 889.7	\$101.5	\$ 72.1	\$ 54.3
Other current assets	32,693.0	1,938.6	484.7	24.9	833.4
Other assets	46,267.0	627.1	271.4	22.0	711.4
	<u>\$83,925.0</u>	<u>\$3,455.4</u>	<u>\$857.6</u>	<u>\$119.0</u>	<u>\$1,599.1</u>
Liabilities	\$44,730.0	\$1,789.1	\$512.9	\$ 22.9	\$ 508.7
Equity	39,195.0	1,666.3	344.7	96.1	1,090.4
	<u>\$83,925.0</u>	<u>\$3,455.4</u>	<u>\$857.6</u>	<u>\$119.0</u>	<u>\$1,599.1</u>
<b>Other data</b>					
Closing stock price (June 30, 1991)	\$97.13	\$41.50	\$8.50	\$14.38	\$10.13
Common shares outstanding (in millions)	571.4	116.8	137.3	12.0	180.7
Market value (in millions)	\$55,500	\$4,847	\$1,167	\$172	\$1,830
Price/revenues ratio	0.8x	0.8x	1.2x	1.1x	1.4x
Price/earnings ratio	17.0x	14.8x	n/a	10.9x	11.8x
Cash per share	\$8.69	\$7.62	\$0.74	\$6.01	\$0.30
Book value per share	\$68.59	\$14.27	\$2.51	\$8.01	\$6.03
Price/book value ratio	1.4x	2.9x	3.4x	1.8x	1.7x

(1) IBM adopted a new pension accounting standard during the quarter which resulted in a one-time \$2.3 billion after-tax charge.

(2) During its quarter ended June 28, 1991, Apple took a \$224.9 million charge, \$138.9 million after tax, for "restructuring, cost reduction and other activities."

(3) On June 3, 1991, Oracle signed a letter of intent with Nippon Steel to form a joint venture to market Oracle's products in Japan. Nippon agreed to purchase \$200 million of Oracle securities, \$100 million of ten-year subordinated debentures and \$100 million of convertible preferred stock. Nippon Steel will receive a 49% interest in the joint venture and preferential access to Oracle technology.

# Results of Operations Compared with Plan

	Actual FY91		Plan FY91		Variance
Net revenues	\$1,843.4	100.0%	\$1,516.2	100.0%	22%
Cost of revenues	<u>362.6</u>	<u>19.7</u>	<u>297.1</u>	<u>19.6</u>	22
Gross profit	<u>1,480.8</u>	<u>80.3</u>	<u>1,219.1</u>	<u>80.4</u>	22
Operating expense:					
Research and development	235.4	12.8	253.9	16.7	(7)
Sales and marketing	533.6	28.9	511.1	33.7	4
General and administrative	<u>62.0</u>	<u>3.3</u>	<u>46.5</u>	<u>3.1</u>	33
Total operating expenses	<u>831.0</u>	<u>45.0</u>	<u>811.5</u>	<u>53.5</u>	2
Operating income	<u>649.8</u>	<u>35.3</u>	<u>407.6</u>	<u>26.9</u>	59
Interest income - net	37.3	2.0	38.5	2.5	(3)
Non-operating expense	<u>(16.5)</u>	<u>(0.9)</u>	<u>(13.2)</u>	<u>(0.8)</u>	26
	<u>20.8</u>	<u>1.1</u>	<u>25.3</u>	<u>1.7</u>	(18)
Income before income taxes	670.6	36.4	432.9	28.6	55
Provision for income taxes	<u>207.9</u>	<u>11.3</u>	<u>134.2</u>	<u>8.9</u>	55
Net income	\$ <u>462.7</u>	<u>25.1%</u>	\$ <u>298.7</u>	<u>19.7%</u>	55
Average shares outstanding	<u>187.7</u>		<u>187.4</u>		
Net income per share	\$ <u>2.47</u>		\$ <u>1.59</u>		

	Actual Q91-4		Plan Q91-4		Variance
Net revenues	\$526.6	100.0%	\$440.9	100.0%	20%
Cost of revenues	<u>97.5</u>	<u>18.5</u>	<u>82.7</u>	<u>18.7</u>	18
Gross profit	<u>429.1</u>	<u>81.5</u>	<u>358.2</u>	<u>81.3</u>	20
Operating expense:					
Research and development	70.2	13.3	66.0	15.0	7
Sales and marketing	146.9	27.9	130.7	29.7	12
General and administrative	<u>17.9</u>	<u>3.4</u>	<u>11.9</u>	<u>2.7</u>	50
Total operating expenses	<u>235.0</u>	<u>44.6</u>	<u>208.6</u>	<u>47.4</u>	13
Operating income	<u>194.1</u>	<u>36.9</u>	<u>149.6</u>	<u>33.9</u>	30
Interest income - net	10.4	2.0	11.2	2.5	(7)
Non-operating expense	<u>(3.9)</u>	<u>(0.7)</u>	<u>(2.4)</u>	<u>(0.5)</u>	63
	<u>6.5</u>	<u>1.3</u>	<u>8.8</u>	<u>2.0</u>	(26)
Income before income taxes	200.6	38.2	158.4	35.9	27
Provision for income taxes	<u>62.2</u>	<u>11.8</u>	<u>49.1</u>	<u>11.1</u>	27
Net income	\$ <u>138.4</u>	<u>26.3%</u>	\$ <u>109.3</u>	<u>24.8%</u>	27
Average shares outstanding	<u>190.8</u>		<u>191.3</u>		
Net income per share	\$ <u>0.73</u>		\$ <u>0.57</u>		

# FY91 versus Plan

## Net Revenues (in millions)

	Actual		Plan		Variance
<u>Channel</u>					
International FG	\$ 895.6	48.6%	\$ 650.9	43.0%	38%
USSMD	563.3	30.5	453.0	29.9	24
Retail	1,458.9	79.1	1,103.9	72.9	32
Domestic OEM	187.0	10.1	156.6	10.3	19
International OEM	150.4	8.2	167.1	11.0	(10)
OEM	337.4	18.3	323.7	21.3	4
Other	47.1	2.6	88.6	5.8	(47)
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,516.2</u>	<u>100.0%</u>	<u>22</u>
<u>Product Group</u>					
Applications	\$ 934.5	50.7%	\$ 743.0	49.0%	26
Systems	578.2	31.4	436.8	28.8	32
SPAG	213.0	11.6	149.8	9.9	42
Languages	55.4	3.0	62.6	4.1	(12)
Network	44.1	2.4	57.6	3.8	(23)
Other	18.2	0.9	66.4	4.4	(73)
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,516.2</u>	<u>100.0%</u>	<u>22</u>

Net revenues for FY91 were 22% over plan. International finished goods benefited from stronger than planned Win 3.0 and Windows applications sales. European finished goods revenues of \$688.3 million were 43% over plan. International ROW finished goods were 22% over plan at \$207.3 million. Lower than planned foreign exchange rates resulted in a \$63.6 million favorable exchange rate variance for FY91. The worldwide OEM results are net of an unplanned \$30.5 million increase in the reserve for prepaid balances.

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

	Actual			Plan			Change				
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Revenues				
							Units	\$/Unit	Volume	Price	Total
DOS/GW Basic	16,466	\$ 267.2	\$16	15,485	\$ 250.9	\$ 16	981	\$ -	\$15.9	\$ 0.4	\$16.3
Serial/Bus Mouse	1,911	187.8	98	1,746	140.4	80	165	18	13.3	34.1	47.4
Win Excel	620	184.9	298	530	135.5	256	90	42	23.2	26.2	49.4
Win 3.0	3,234	170.1	53	993	88.2	89	2,241	(36)	199.3	(117.4)	81.9
Win Word	562	153.5	273	408	106.8	261	154	12	40.1	6.6	46.7
PC Word	422	122.5	290	504	125.7	250	(82)	40	(20.4)	17.2	(3.2)
PC Works	991	64.6	65	1,539	65.7	43	(548)	22	(23.4)	22.3	(1.1)
Mac Word	298	56.5	189	301	60.4	201	(3)	(12)	(0.4)	(3.5)	(3.9)
Mac Excel	232	53.4	231	251	54.1	216	(19)	15	(4.2)	3.5	(0.7)
DOS RUP	928	50.7	55	254	11.2	44	674	11	29.8	9.7	39.5
LAN Manager	241	35.6	147	206	49.8	242	35	(95)	8.7	(22.9)	(14.2)
Win Project	88	33.4	378	35	14.1	403	53	(25)	21.3	(2.0)	19.3
Win 3 Updates	513	28.4	55	433	16.7	39	80	16	3.1	8.6	11.7
Win Office	56	26.2	467	9	4.4	512	47	(45)	24.3	(2.5)	21.8
OEM Mouse	1,169	25.7	22	248	6.9	28	921	(6)	25.5	(6.7)	18.8
		<u>\$1,460.5</u>			<u>\$1,130.8</u>						
Percent of net revenues		<u>79%</u>			<u>75%</u>						

For FY91, products with the largest favorable variance from plan were Win 3.0 (\$81.9 million), Win Excel (\$49.4 million), Serial/Bus Mouse (\$47.4 million), Win Word (\$46.7 million) and the DOS RUP (\$39.5 million). The Win 3.0 price variance resulted from higher than planned OEM sales.

FY91 versus Plan

Largest Revenue Shortfalls (units in thousands, revenue in millions)

	Actual		Plan		Revenue Shortfall
	Units	Revenue	Units	Revenue	
Win 286	538	\$ 5.7	2,126	\$21.5	\$15.8
Win 386	225	2.6	783	14.2	11.6
LAN Manager	139	18.9	140	29.0	10.1
PM Excel	10	3.5	28	9.2	5.7
OS/2	141	7.6	161	12.3	4.7

Cost of Revenues

Channel	Actual			Plan		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
International FG	46.7%	16.0%	7.5%	42.3%	17.2%	7.3%
USSMD	31.4	15.5	4.9	31.0	16.8	5.2
Domestic OEM	10.3	7.9	0.8	10.1	2.9	0.3
International OEM	9.2	-	-	10.8	-	-
Other	2.4	13.5	0.4	5.8	9.4	0.5
Product cost - gross	100.0%		13.6	100.0%		13.3
Effect of revenue adjustments			x105.4%			x102.3%
Product cost - net			14.3			13.6
Non-product costs			5.4			6.0
			19.7%			19.6%

Product Group	Actual			Plan		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Applications	50.0%	11.0%	5.5%	49.2%	12.0%	5.9%
Systems	29.6	10.7	3.2	28.4	8.5	2.4
SPAG	11.4	34.8	4.0	10.0	36.8	3.7
Languages	3.0	17.2	0.5	4.2	17.9	0.7
Other (includes UPB)	6.0	7.2	0.4	8.2	7.1	0.6
Product cost - gross	100.0%		13.6%	100.0%		13.3%

Cost of revenues as a percentage of sales was very close to plan for FY91. Product costs were higher than plan primarily because of higher than planned sales of the OEM mouse. Non-product costs were lower than planned from favorable variances in royalties and freight, offset by an unfavorable variance in inventory adjustments. Inventory adjustments includes \$13.3 million in unplanned accruals for inventory obsolescence.

Operating Expenses (in millions)

	Actual	Plan	Variance	
Payroll	\$287.5	\$298.6	\$11.1	3.7%
Marketing	150.1	137.0	(13.1)	(9.6)
Depreciation	47.6	50.5	2.9	5.7
Employee fringes	42.3	37.2	(5.1)	(13.7)
Supplies and equipment	44.0	40.8	(3.2)	(7.8)
Travel and entertainment	38.0	38.4	0.4	1.0
All other	221.5	209.0	(12.5)	(6.0)
	\$831.0	\$811.5	\$(19.5)	(2.4)

Operating expenses for FY91 at \$831.0 million were 2% over plan of \$811.5 million, and as a percentage of net revenues were 45% compared with a plan of 47%. Payroll was below plan due to hire date slippage. The unfavorable variance in Marketing consists of a domestic overspending of \$3.4 million and subsidiary overspending of \$9.7 million. Business units/subsidiaries with large unfavorable variances were Germany (\$3.2 million), ABU (\$2.8 million), England (\$1.8 million), Japan (\$1.7 million), GBU (\$1.0 million), Australia (\$741 thousand), France (\$703 thousand) and Spain (\$644 thousand).

# FY91 versus Plan

## Headcount

Total Headcount	Actual	Plan	Variance
June 30, 1991	8,226	7,985	(241)
March 31, 1991	7,341	7,850	509
December 31, 1990	6,769	7,439	670
September 30, 1990	6,121	6,915	794
June 30, 1990	5,635	5,375	(260)

## Operating Headcount (Total above less Manufacturing)

Actual	Product				Product			
	Channels	Groups	G&A	Total	Channels	Groups	G&A	Total
June 30, 1991	3,864	2,933	630	7,427	52%	40%	8%	100%
March 31, 1991	3,392	2,605	577	6,574	52	39	9	100
December 31, 1990	3,045	2,451	534	6,030	50	41	9	100
September 30, 1990	2,679	2,305	482	5,466	49	42	9	100
June 30, 1990	2,415	2,105	462	4,982	49	42	9	100
Plan								
June 30, 1991	3,571	2,964	578	7,113	50	42	8	100
March 31, 1991	3,486	2,920	574	6,980	50	42	8	100
December 31, 1990	3,265	2,752	557	6,574	50	42	8	100
September 30, 1990	3,001	2,553	515	6,069	49	42	9	100
June 30, 1990	2,286	2,006	454	4,746	48	42	10	100
Variance								
June 30, 1991	(293)	31	(52)	(314)				
March 31, 1991	94	315	(3)	406				
December 31, 1990	220	301	23	544				
September 30, 1990	322	248	33	603				
June 30, 1990	(129)	(99)	(8)	(236)				

## Non-operating Income (in millions)

	Actual	Plan	Variance
Investment income	\$41.8	\$42.7	\$(0.9)
Interest expense	(4.5)	(4.2)	(0.3)
	<u>37.3</u>	<u>38.5</u>	<u>(1.2)</u>
Financial asset allowance	(10.7)	(7.0)	(3.7)
Foreign currency transactions	(0.8)	0.1	(0.9)
All other	(5.0)	(6.3)	1.3
	<u>(16.5)</u>	<u>(13.2)</u>	<u>(3.3)</u>
	<u>\$20.8</u>	<u>\$25.3</u>	<u>\$(4.5)</u>

Non-operating income was \$20.8 million for FY91 compared to a plan of \$25.3 million. Financial asset allowance includes unplanned charges of \$2.9 million for non-performing investments. All other includes \$3.0 million of stock bonus expense.

The tax rate for FY91 was 31%, as planned.

Net income in FY91 was \$462.7 million (25.1% of net revenues) compared to a plan of \$298.7 million (19.7% of net revenues). The 5.4% favorable variance was primarily from holding operating expenses at close to planned levels (8.5%) less the tax affect (2.4%).

Q91-4 versus Plan

Net Revenues (in millions)

	Actual		Plan		Variance
<u>Channel</u>					
International FG	\$226.4	43.0%	\$185.3	42.0%	32%
USSMD	<u>177.3</u>	<u>33.7</u>	<u>133.8</u>	<u>30.4</u>	22
Retail	<u>403.7</u>	<u>76.7</u>	<u>319.1</u>	<u>72.4</u>	26
Domestic OEM	65.8	12.5	42.8	9.7	54
International OEM	<u>44.5</u>	<u>8.5</u>	<u>44.8</u>	<u>10.2</u>	(1)
OEM	<u>110.3</u>	<u>21.0</u>	<u>87.6</u>	<u>19.9</u>	26
Other	<u>12.6</u>	<u>2.3</u>	<u>34.2</u>	<u>7.7</u>	(63)
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$440.9</u>	<u>100.0%</u>	19
<u>Product Group</u>					
Applications	\$257.2	48.8%	\$212.3	48.1%	21
Systems	187.3	35.6	121.5	27.6	54
SPAG	47.4	9.0	40.1	9.1	18
Languages	11.1	2.1	20.1	4.6	(45)
Networks	18.6	3.5	24.2	5.5	(23)
Other	<u>5.0</u>	<u>1.0</u>	<u>22.7</u>	<u>5.1</u>	(78)
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$440.9</u>	<u>100.0%</u>	19

Net revenues for Q91-4 were 19% over plan. USSMD revenues soared with the introduction of the DOS RUP. OEM had record results from higher than planned licenses of Win 3.0 and \$12.5 million from IBM for prior period royalties. European finished goods revenues of \$161.4 million were 19% over plan. International ROW finished goods revenues of \$65.0 million exceeded plan by 30%.

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

	Actual			Plan			Change— Revenues—				
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	\$/Unit	Volume	Price	Total
DOS/GW Basic	4,295	\$ 66.5	\$ 15	3,415	\$ 62.9	\$ 18	880	\$ (3)	\$16.1	\$(12.5)	\$ 3.6
Win Excel	194	54.6	281	146	37.0	253	48	28	12.1	5.5	17.6
DOS RUP	928	50.7	55	104	4.7	45	824	10	37.3	8.7	46.0
Win 3.0	1,199	49.5	41	332	29.2	88	867	(47)	76.1	(55.8)	20.3
Serial/Bus Mouse	404	39.0	96	454	37.0	81	(50)	15	(4.1)	6.1	2.0
Win Word	147	36.6	248	115	30.2	261	32	(13)	8.3	(1.9)	6.4
PC Word	96	26.3	273	130	32.9	254	(34)	20	(8.5)	1.9	(6.6)
Mac Excel	77	18.0	234	65	14.5	224	12	10	2.7	0.8	3.5
LAN Manager	102	16.6	163	65	20.8	318	37	(155)	11.8	(16.0)	(4.2)
Win Office	32	14.1	439	3	1.7	531	29	(92)	14.8	(2.4)	12.4
Mac Word	73	13.5	185	80	18.0	225	(7)	(40)	(1.6)	(2.9)	(4.5)
PC Works	239	13.2	55	417	17.8	43	(178)	12	(7.6)	3.0	(4.6)
Mac Excel Updates	100	11.2	112	15	1.4	96	85	16	8.2	1.6	9.8
Win Excel Upgrades	99	10.9	110	—	—	—	—	—	—	—	—
Win Word Upgrades	69	8.7	125	11	1.7	164	58	(39)	9.7	(2.7)	7.0
		<u>\$429.4</u>			<u>\$309.8</u>						
Percent of net revenues		<u>82%</u>			<u>70%</u>						

For Q91-4, products with the largest favorable variance from plan were the DOS RUP (\$46.0 million), Win 3.0 (\$20.3 million) and Win Excel (\$17.6 million). Also noteworthy is Mac Excel updates with revenues exceeding plan by \$9.8 million. The Win 3.0 price variance resulted from higher than planned OEM sales.

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Q91-4 versus Plan

Cost of Revenues

Channel	Actual			Plan		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
International FG	40.4%	15.2%	6.1%	41.4%	17.0%	7.0%
USSMD	35.2	14.5	5.1	31.4	16.2	5.1
Domestic OEM	11.5	9.1	1.1	9.5	2.6	0.2
International OEM	10.7	-	-	9.9	-	-
Other	2.2	17.5	0.4	7.8	7.8	0.7
Product cost - gross	100.0%		12.7	100.0%		13.0
Effect of revenue adjustments			x107.6%			x102.3%
Product cost - net			13.6			13.3
Non-product costs			4.9			5.4
			18.5%			18.7%

Product Group	Actual			Plan		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Applications	48.1%	10.2%	4.9%	48.4%	11.8%	5.7%
Systems	33.1	10.7	3.5	27.1	8.7	2.4
SPAG	9.0	36.4	3.3	9.2	36.9	3.4
Languages	2.2	18.3	0.4	4.6	17.7	0.8
Other (includes UPB)	7.6	6.9	0.6	10.7	6.1	0.7
Product cost - gross	100.0%		12.7%	100.0%		13.0%

Cost of revenues as a percentage of revenues was 18.5% as compared to a plan of 18.7%. A favorable variance in product cost - gross from cost reductions in applications products was impacted by unplanned revenue adjustments for returns (\$9.0 million), OEM prepaid balance reserve adjustment (\$6.0 million) and the reclassification of FY91 US PSS revenues (\$4.1 million) to operating expenses. In the non-product cost category, lower than planned royalties and a favorable manufacturing variance were the primary favorable factors offset by an unfavorable variance in inventory adjustments. Inventory adjustments includes a \$5.8 million unplanned accrual for inventory obsolescence.

Operating Expenses (in millions)

	Actual	Plan	Variance	
Payroll	\$83.2	\$82.9	\$ (0.3)	(0.3)%
Marketing	53.0	29.8	(23.2)	(78.0)
Marketing accrual	(17.9)	-	17.9	-
Depreciation	13.6	14.2	0.6	4.2
Supplies and equipment	12.0	8.4	(3.6)	(42.9)
Employee fringes	13.2	9.9	(3.3)	(33.3)
Travel and entertainment	13.1	9.7	(3.4)	(35.0)
All other	64.8	53.7	(11.1)	(20.7)
	\$235.0	\$208.6	\$ (26.4)	(12.7)

Operating expenses for Q91-4 at \$235.0 million were 13% over plan of \$208.6 million. The variance was primarily due to the deferral of planned spending to Q91-4.

Q91-4 versus Plan

Non-operating Income (in millions)

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Investment income	\$12.0	\$12.2	\$(0.2)
Interest expense	<u>(1.6)</u>	<u>(1.0)</u>	<u>(0.6)</u>
	10.4	11.2	(0.8)
Financial asset provision	(2.1)	(1.7)	(0.4)
Foreign currency transactions	(1.1)	-	(1.1)
All other	<u>(0.7)</u>	<u>(0.7)</u>	<u>-</u>
	(3.9)	(2.4)	(1.5)
	<u>\$ 6.5</u>	<u>\$ 8.8</u>	<u>\$(2.3)</u>

Non-operating income was \$6.5 million for Q91-4 as compared to a plan of \$8.8 million. Third party borrowings in connection with the repatriation of foreign earnings to minimize taxes increased interest expense over planned levels. The financial asset provision includes unplanned charges resulting from the Dorling Kindersley investment (\$400 thousand). A strong dollar increased hedging costs during the quarter.

The tax rate for Q91-4 was 31%, as planned.

Net income was \$138.4 million (26.3% of net revenues) compared to a plan of \$109.3 million (24.8% of net revenues). The 1.5% net income margin improvement primarily resulted from improvements in operating expenses (2.8%) offset by non-operating income (0.7%) and income taxes (0.7%).

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*Finance*  
***Financial Condition***

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# Financial Condition

	Jun. 30, 1991		Jun. 30, 1990		FY Change	
Current assets:						
Cash and short-term investments	\$ 686.3	41.7%	\$ 449.2	40.6%	\$237.1	53%
Accounts receivables - net	243.3	14.8	181.0	16.4	62.3	34
Inventories	47.1	2.9	55.6	5.0	(8.5)	(15)
Other	<u>51.8</u>	<u>3.2</u>	<u>34.1</u>	<u>3.1</u>	<u>17.7</u>	<u>52</u>
Total current assets	1,028.5	62.6	719.9	65.1	308.6	43
Property, plant and equipment - net	530.2	32.2	325.4	29.5	204.8	63
Other assets	<u>85.5</u>	<u>5.2</u>	<u>60.0</u>	<u>5.4</u>	<u>25.5</u>	<u>43</u>
Total assets	<u>\$1,644.2</u>	<u>100.0%</u>	<u>\$1,105.3</u>	<u>100.0%</u>	<u>\$538.9</u>	<u>49</u>
Current liabilities:						
Accounts payable	\$ 85.9	5.2%	\$ 51.0	4.6%	\$ 34.9	68
Customer deposits	25.7	1.6	17.2	1.6	8.5	49
Accrued compensation	41.6	2.5	28.8	2.6	12.8	44
Notes payable	19.5	1.2	6.5	0.6	13.0	200
Income taxes payable	44.5	2.7	42.6	3.8	1.9	4
Other	<u>76.2</u>	<u>4.6</u>	<u>40.7</u>	<u>3.7</u>	<u>35.5</u>	<u>87</u>
Total current liabilities	<u>293.4</u>	<u>17.8</u>	<u>186.8</u>	<u>16.9</u>	<u>106.6</u>	<u>57</u>
Stockholders' equity:						
Common stock and paid-in capital	394.5	24.0	219.5	19.9	175.0	80
Retained earnings	959.3	58.3	688.9	62.3	270.4	39
Translation adjustment	<u>(3.0)</u>	<u>(0.1)</u>	<u>10.1</u>	<u>0.9</u>	<u>(13.1)</u>	<u>(130)</u>
Total stockholders' equity	<u>1,350.8</u>	<u>82.2</u>	<u>918.5</u>	<u>83.1</u>	<u>432.3</u>	<u>47</u>
Total liabilities and equity	<u>\$1,644.2</u>	<u>100.0%</u>	<u>\$1,105.3</u>	<u>100.0%</u>	<u>\$538.9</u>	<u>49</u>

	FY91	FY90
Cash flows from operations:		
Net income	\$462.7	\$279.2
Depreciation and amortization	75.6	46.3
Current liabilities, excluding notes payable	93.6	46.9
Accounts receivable	(62.3)	(69.8)
Inventories	8.5	(17.8)
Other current assets	(17.7)	(14.9)
Translation adjustment	<u>(13.1)</u>	<u>14.4</u>
Net cash from operations	<u>547.3</u>	<u>284.3</u>
Cash flows from (used for) financing:		
Notes payable	13.0	(18.9)
Common stock issued	94.4	72.7
Common stock repurchased	(196.7)	(46.7)
Income tax benefits related to stock options	<u>85.3</u>	<u>37.1</u>
Net cash from (used for) financing	<u>(4.2)</u>	<u>44.2</u>
Cash flows used for investments:		
Additions to property, plant and equipment	(256.1)	(161.2)
Other	<u>(49.9)</u>	<u>(18.9)</u>
Net cash used for investments	<u>(306.0)</u>	<u>(180.1)</u>
Net change in cash and short-term investments	237.1	148.4
Cash and short-term investments at beginning of period	<u>449.2</u>	<u>300.8</u>
Cash and short-term investments at end of period	<u>\$686.3</u>	<u>\$449.2</u>

Financial Condition

	Jun. 30, 1991		Mar. 31, 1991		Qtr Change	
Current assets:						
Cash and short-term investments	\$ 686.3	41.7%	\$ 605.2	40.3%	\$ 81.1	13
Accounts receivables - net	243.3	14.8	223.3	14.9	20.0	9
Inventories	47.1	2.9	52.9	3.5	(5.8)	(11)
Other	51.8	3.2	47.6	3.2	4.2	9
Total current assets	1,028.5	62.6	929.0	61.9	99.5	11
Property, plant and equipment - net	530.2	32.2	479.6	31.9	50.6	11
Other assets	85.5	5.2	93.8	6.2	(8.3)	(9)
Total assets	\$1,644.2	100.0%	\$1,502.4	100.0%	\$141.8	9
Current liabilities:						
Accounts payable	\$ 85.9	5.2%	\$ 89.2	5.9%	\$ (3.3)	(4)
Customer deposits	25.7	1.6	15.1	1.0	10.6	70
Accrued compensation	41.6	2.5	31.3	2.1	10.3	33
Notes payable	19.5	1.2	20.6	1.4	(1.1)	(5)
Income taxes payable	44.5	2.7	31.8	2.1	12.7	40
Other	76.2	4.6	64.9	4.3	11.3	17
Total current liabilities	293.4	17.8	252.9	16.8	40.5	16
Stockholders' equity:						
Common stock and paid-in capital	394.5	24.0	356.1	23.7	38.4	11
Retained earnings	959.3	58.3	888.5	59.2	70.8	8
Translation adjustment	(3.0)	(0.1)	4.9	0.3	(7.9)	(161)
Total stockholders' equity	1,350.8	82.2	1,249.5	83.2	101.3	8
Total liabilities and equity	\$1,644.2	100.0%	\$1,502.4	100.0%	\$141.8	9
			Q91-4		Q90-4	
Cash flows from operations:						
Net income			\$138.4		\$ 80.0	
Depreciation and amortization			21.1		13.8	
Current liabilities, excluding notes payable			41.6		(2.2)	
Accounts receivable			(20.0)		(29.7)	
Inventories			5.8		(5.5)	
Other current assets			(4.2)		(2.6)	
Translation adjustment			(7.9)		5.7	
Net cash from operations			174.8		59.5	
Cash flows from financing:						
Notes payable			(1.1)		(0.1)	
Common stock issued			20.1		22.3	
Common stock repurchased			(68.6)		(30.3)	
Income tax benefits related to stock options			19.6		14.9	
Net cash from financing			(30.0)		6.8	
Cash flows used for investments:						
Additions to property, plant and equipment			(65.2)		(53.9)	
Other			1.5		(9.8)	
Net cash used for investments			(63.7)		(63.7)	
Net change in cash and short-term investments			81.1		2.6	
Cash and short-term investments at beginning of period			605.2		446.6	
Cash and short-term investments at end of period			\$686.3		\$449.2	

## Financial Condition

### Measures of Financial Strength (in millions)

	6/30/91	6/31/90
Cash and short-term investments	\$ 686.3	\$ 449.2
Total assets	1,644.2	1,105.3
Stockholders' equity	1,350.8	918.5

### Rate of Return Indicators (annualized)

Net Income Return On	Q91-4	Q90-4	FY91	FY90
Equity (average)	48.8%	36.7%	40.8%	37.7%
Assets (average)	40.3	30.2	33.7	30.6
Non-cash equity (average)	97.7	75.3	81.6	76.5
Non-cash assets (average)	68.6	52.2	57.3	51.9
Net revenues	26.3	23.7	25.1	23.6

As shown in the FY91 statement of cash flows on page 24, net income plus non-cash depreciation and amortization generated cash of \$538.3 million, compared to \$325.5 in the prior year. Cash flow provided by operations was over a half-billion dollars.

An additional \$179.5 million was provided by stock option exercise proceeds and the related tax benefits. Shares were available for such option activity via stock repurchases of \$196.7 million. During FY91, property, plant and equipment was acquired at a cost of \$256.1 million, an increase of 59% over FY90. Total cash invested in long-term assets was \$306.0 million.

Cash and short-term investments increased \$237.1 million in FY91 to \$686.3 million.

### Stock Repurchases

To provide shares for its stock option plan and reduce its dilutive effect, 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 the quarter. Purchases are made on our behalf by Goldman Sachs at our direction. Our authorization based on proceeds from the prior quarter's stock option exercises was \$132.0 million. However, because prices seemed high during Q91-4, we repurchased only 1,018,500 shares at an average price of \$67.39 per share for a total of \$68.6 million.

### Year-To-Date Stock Purchases

	Shares adjusted for 3:2 split	Amount (millions)	Average Price
Q91-1	1,086,000	\$ 45.1	\$ 41.54
Q91-2	892,500	39.6	44.37
Q91-3	649,500	43.4	66.83
Q91-4	1,018,000	68.6	67.39
	<u>3,646,000</u>	<u>\$196.7</u>	53.95

## Cash and Short-Term Investments

Cash and short-term investments increased \$81.1 million in Q91-4 and \$237.1 million during FY91 to \$686.3 million at year-end. These liquid assets comprise 67% of current assets, 42% of total assets, and 51% of stockholders' equity, compared with 62%, 41%, and 49% at June 30, 1990.

During Q91-4, the "Microbank" concept was expanded, enabling Treasury to invest and manage certain Subsidiary structural surplus cash balances from Redmond. Germany and France made transfers to these portfolios during the quarter and procedures, accounting and reporting policies were established. Similar arrangements are now being established for Italy.

The Microbank goal is centralized management of international cash, with Treasury serving as the "banker" for the Company's international needs. This allows us to establish consistent investment practices, centralize international funding and borrowing, and streamline the collection of intercompany foreign currency receivables. It also allows efficient planning and accumulation of currencies to meet specific foreign currency commitments, such as those required for the construction of international facilities.

During June 1991, subsidiary profits totalling \$149.6 million were repatriated from international subs to MS Corp. (Germany \$23.6 million, France \$31.1 million, Switzerland \$6.5 million, Sweden \$3.4 million, and Ireland \$85.0 million).

### Cash and Investment Portfolio Balances (in millions)

	<u>Domestic</u>	<u>International</u>	<u>Total</u>	<u>6/30/91</u>	<u>6/30/90</u>
Investment Portfolios	\$557.1	\$ 69.9	\$627.0	91.4%	93.6%
Cash and money market funds	<u>(5.1)</u>	<u>64.4</u>	<u>59.3</u>	<u>8.6</u>	<u>6.4</u>
	<u>\$552.0</u>	<u>\$134.3</u>	<u>\$686.3</u>	<u>100.0%</u>	<u>100.0%</u>

### Trading Room

During Q91-4, the Treasury group opened the Trading Room to consolidate investment, foreign currency hedging and cash management activities. This Windows environment enhances access to market information services, treasury systems capabilities and internal controls.

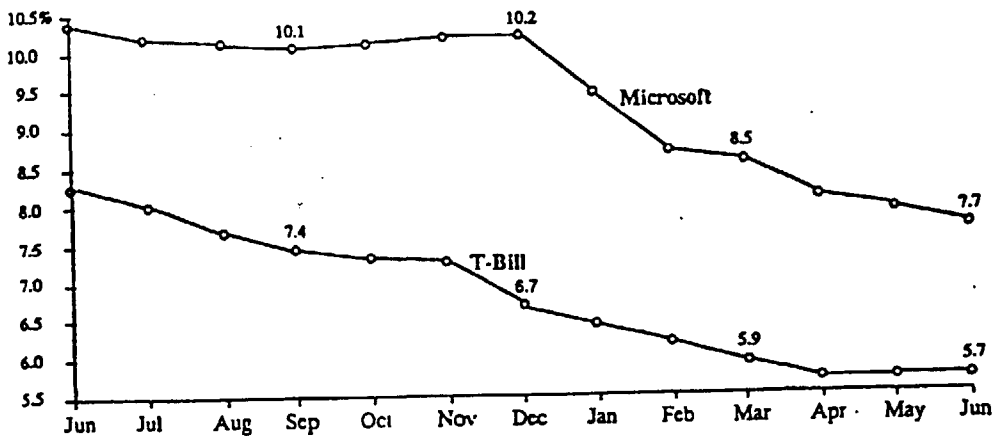
### Portfolio Characteristics

During FY91, short-term interest rates declined consistently. The MS portfolio yield remained about 2% above that of the benchmark 90-day U.S. Treasury Bill. The overall liquidity and credit quality of investments in the portfolio was improved slightly.

Market sentiment is that short-term rates have bottomed, and may trend up if the economic recovery takes hold later in FY92.

# Cash and Short-Term Investments

The following table compares the MS portfolio pre-tax yield with that of the benchmark 90-day T-Bill during FY91:



At June 30, 1991 the portfolio was in compliance with all investment guidelines. We continue to emphasize diversification among security types, industry groups, and individual issuers. At June 30, 1991 the portfolio contained 226 positions, with an average holding of \$2.8 million. The average maturity at June 30, 1991 was 120 days compared to 138 days at June 30, 1990. The following tables summarize certain portfolio characteristics ("Yield" represents the weighted average yield to maturity on a *pre-tax* basis)

Security Type	June 30, 1991			June 30, 1990		
	Cost	Percent	Yield	Cost	Percent	Yield
Commercial Paper	\$ 218.0	34.8%	6.2%	\$ 0.0	0.0%	0.0%
Corporate Bond	52.0	8.3	8.9	23.7	5.6	6.8
Floating Rate Notes	9.3	1.5	6.7	5.0	1.2	9.5
Fixed Rate Auction Preferred	25.8	4.1	13.0	28.8	6.8	12.8
Loan Participations	35.0	5.6	6.1	79.3	18.8	8.6
Money Market Preferred	100.6	16.0	6.7	105.7	25.2	10.6
Municipal Securities	169.3	27.0	9.5	150.4	35.7	10.9
U.K. Preferred Stock	17.0	2.7	6.8	28.0	6.7	10.2
	<u>\$627.0</u>	<u>100.0%</u>	<u>7.7</u>	<u>\$420.9</u>	<u>100.0%</u>	<u>10.4</u>

The portfolios continue to include both taxable and tax-advantaged securities, and are diversified across a broad group of money market and short-term fixed income security types. Approximately 50% are taxable, 27% are tax-exempt, and 23% are tax-advantaged.

Of our investment securities, 99% of our investments carry explicit or implied investment-grade credit ratings. During FY91, we increased our holding of top-tier securities (those rated "AAA", "AA", and "A") to 64% from 59%.



# Cash and Short-Term Investments

Credit Rating	June 30, 1991		June 30, 1990	
	Amount	Percent	Amount	Percent
AAA	\$71.5	11.4%	\$36.9	8.8%
AA	86.2	13.8	66.9	16.0
A	245.3	39.1	143.5	34.1
BBB	207.5	33.1	135.8	32.3
MS Rated	13.3	2.1	0.0	0.0
Total Investment Grade	623.8	99.5	383.1	91.2
BB	0.0	0.0	1.2	0.1
B	3.2	0.5	4.9	1.2
Non-Rated	0.0	0.0	31.7	7.5
Total Non-Investment Grade	3.2	0.5	37.8	8.8
Total Portfolio	\$627.0	100.0%	\$420.9	100.0%

## 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 due July 1, 1991.

### Non-Investment Grade

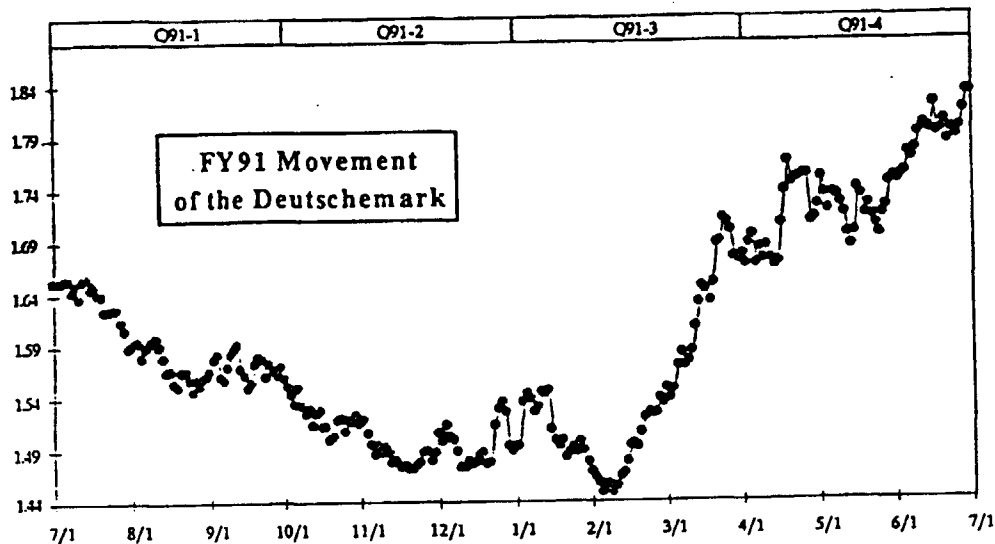
BB	less near term vulnerability to default than other non-investment grade issues.
B	greater vulnerability to default, but currently has the capacity to meet interest and principal payments.
CCC	vulnerable to default and is dependent upon favorable business conditions.

Industry Diversification	June 30, 1991		June 30, 1990	
	Amount	Percent	Amount	Percent
Automotive	\$11.8	1.9%	\$3.0	0.7%
Banking	39.0	6.2	45.4	10.8
Business Service	24.9	4.0	13.0	3.1
Finance	19.0	3.0	20.4	4.8
Food/Beverage	37.6	6.0	7.9	1.9
Industrial	31.1	5.0	22.9	5.4
Insurance	17.7	2.8	5.0	1.2
Municipalities	168.3	26.8	133.4	31.7
Natural Resources	89.9	14.3	20.5	4.9
Pharmaceuticals	15.0	2.4	5.0	1.2
Retailing	6.1	1.0	22.4	5.3
Securities	34.8	5.6	4.0	1.0
Utilities	50.5	8.1	61.8	14.7
Other	81.3	12.9	56.2	13.3
	\$627.0	100.0%	\$420.9	100.0%

#### Cash and Short-Term Investments

##### Foreign Exchange Hedging Program

The dollar continued to strengthen against most major currencies in Q91-4. Our benchmark European currency, the Deutschmark, weakened a total of 8% during the quarter, and a total of 9% for the year. During Q91-4, we executed forward hedge contracts valued at over \$85.4 million compared to \$130.7 million in Q91-3. For FY91, hedge contracts totaling \$399.0 million were executed.



We recorded net foreign currency translation costs of \$1.1 million in Q91-4. This represents the cost of protecting our foreign currency denominated amounts receivable against the strengthening dollar.

The Q91-4 hedging cost offset cumulative prior hedging gains thru Q91-3 of \$0.3 million, resulting in a total net foreign currency translation cost of \$0.8 million for FY91, or 0.2% of the total contract volume for the year.

##### Non-Performing Investments

During Q91-4, we sold our \$5 million non-performing investment in troubled Lomas Financial for \$0.67 shortly before they filed bankruptcy and offered holders a price of \$0.24 along with a variety of equity and further subordinated debt of the reorganized company.

At June 30, 1991, our only remaining non-performing investment is \$10.4 million of Tucson Electric Power Co. money market preferred stock. The utility continues to negotiate with the Arizona regulators and creditors, but has threatened bankruptcy. We believe present Microsoft reserves are adequate to cover this investment as further discussed in the Other Assets section.

## Accounts Receivable

	Net Receivables	DSO	Allowance	
			Dollars	% of AR
Q91-4	\$243	57	\$36.3	15%
Q91-3	223	54	37.1	17
Q91-2	227	57	33.6	15
Q91-1	177	56	29.1	16
Q90-4	181	56	26.3	15

Accelerated revenue growth during Q91-4 (Q91-4 exceeded Q91-3 by \$63.7 million) and special terms on DOS RUP, (applicable to \$32.0 million of total accounts receivables at year-end), resulted in a 9% increase in net accounts receivable.

	DSO		Total	Aging Summary			
	Q91-4	Q91-3		Current	1-30	31-60	Over 60
Retail							
USSMD	45	43	\$101.5	\$ 76.7	\$ 19.8	\$ 3.0	\$ 2.0
International	56	56	<u>144.8</u>	<u>95.6</u>	<u>26.5</u>	<u>8.7</u>	<u>14.0</u>
Retail			<u>246.3</u>	<u>172.3</u>	<u>46.3</u>	<u>11.7</u>	<u>16.0</u>
OEM							
Domestic	20	24	14.4	6.7	2.2	2.7	2.8
International	90	91	<u>61.0</u>	<u>39.4</u>	<u>2.2</u>	<u>3.6</u>	<u>15.8</u>
OEM			<u>75.4</u>	<u>46.1</u>	<u>4.4</u>	<u>6.3</u>	<u>18.6</u>
Other	87	94	<u>10.5</u>	<u>8.4</u>	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>
Total Accts Receivables-billed	<u>57</u>	<u>54</u>	<u>332.2</u>	<u>\$226.8</u>	<u>\$51.3</u>	<u>\$ 18.7</u>	<u>\$35.4</u>
Aging percentages				68%	15%	6%	11%
OEM GAAP adjustments			18.0				
Sales returns reserve			(61.9)				
Reseller rebates			(8.6)				
Allowance			<u>(36.3)</u>				
Subtotal			<u>(88.8)</u>				
Accounts receivable-net			<u>\$243.4</u>				

The over 60 days receivable balance reflects ongoing payment delays in Germany (\$3.6 million), Brazil (\$2.9 million), Italy (\$1.7 million), France (\$1.5 million), India (\$1.2 million) and Japan (\$1.1 million), as well as slow payments from International OEM customers Daewoo (\$2.1 million), Samsung (\$1.5 million), SMT Goupil (\$1.5 million), Gold Star (\$1.1 million) and Plus & Plus (\$821,000). The allowance for doubtful accounts represents 103% of all accounts over 60 days. The increase in Other DSO reflects the \$2.5 million increase in MS Press accounts receivable.

### Ten Largest Accounts Receivable (in millions)

	Total	Aging Summary			
		Current	1-30	31-60	Over 60
Ingram Micro	\$42.4	\$30.4	\$ 9.1	\$2.1	\$ 0.8
Merisec	26.9	18.6	7.9	0.2	0.2
Egghead	23.2	20.7	2.6	0.0	(0.1)
Olivetti	8.5	7.4	0.5	0.1	0.5
Computer 2000	7.8	6.7	0.6	0.1	0.4
CompUSA	6.0	5.8	0.1	0.1	0.0
Datatech	4.2	0.6	1.3	2.3	0.0
Epson	4.2	4.7	0.0	0.0	(0.5)
NEC	4.0	2.8	0.2	0.2	0.8
BSP Software	<u>3.6</u>	<u>1.0</u>	<u>1.9</u>	<u>0.5</u>	<u>0.2</u>
Total	<u>\$130.8</u>	<u>\$98.7</u>	<u>\$24.2</u>	<u>\$5.6</u>	<u>\$ 2.3</u>
Aging percentages	100%	75.4%	18.5%	4.3%	1.8%

## Inventories

### Days' Sales (dollars in millions)

	<u>Total Inventory</u>	<u>Days' Sales</u>
Q91-4	\$47.1	59
Q91-3	\$2.9	74
Q91-2	\$3.4	83
Q91-1	\$8.4	90
Q90-4	\$5.6	99

Inventories decreased 11% during Q91-4. Consolidated days inventory on hand (calculated based on the past three months product costs) decreased 20%. This was primarily due to a 21% increase in allowances.

### Inventory by location (in millions)

	<u>June 30</u>	<u>March 31</u>	<u>Change</u>
Sub Warehouses	\$31.9	\$29.7	\$ 2.2
Campus North	10.7	17.3	(6.6)
Ireland	3.8	3.7	0.1
Puerto Rico	0.7	2.2	(1.5)
	<u>\$47.1</u>	<u>\$52.9</u>	<u>\$(5.8)</u>

### Inventory by subsidiary (in millions)

	<u>June 30</u>	<u>March 31</u>	<u>Change</u>
Other	\$15.7	\$14.7	\$ 1.0
Canada	5.3	2.7	2.6
France	4.2	5.0	(0.8)
Australia	2.9	2.7	0.2
Germany	2.3	2.4	(0.1)
England	1.5	2.2	(0.7)
	<u>\$31.9</u>	<u>\$29.7</u>	<u>\$ 2.2</u>

### Raw materials, finished goods and allowances (in millions)

	<u>June 30</u>	<u>March 31</u>	<u>Change</u>
Raw materials	\$18.5	\$20.6	\$(2.1)
Finished goods	15.5	13.1	2.4
Allowances	(21.3)	(15.2)	(6.1)
<u>Domestic Inventory</u>	<u>12.7</u>	<u>18.5</u>	<u>(5.8)</u>
Raw materials	1.4	1.5	(0.1)
Finished goods	4.8	6.5	(1.7)
Allowances *	(7.6)	(7.0)	(0.6)
<u>ICON Inventory</u>	<u>(1.4)</u>	<u>1.0</u>	<u>(2.4)</u>
Raw materials	7.8	6.9	0.9
Finished goods	34.9	33.8	1.1
Allowances	(6.9)	(7.3)	0.4
<u>International Inventory</u>	<u>35.8</u>	<u>33.4</u>	<u>2.4</u>
<u>Consolidated Inventory</u>	<u>\$47.1</u>	<u>\$52.9</u>	<u>\$(5.8)</u>
Raw materials	\$27.7	\$29.0	\$(1.3)
Finished goods	\$5.2	\$3.4	1.8
Allowances	(35.8)	(29.5)	(6.3)
<u>Consolidated Inventory</u>	<u>\$47.1</u>	<u>\$52.9</u>	<u>\$(5.8)</u>

\* Includes allowance for obsolescence that has not been allocated to International Inventory.

## Inventories

Significant to the decrease in domestic raw materials are reduced inventory levels of Mice (\$1.5 million), Win Excel (\$501,000) and Win Word (\$442,000). The decrease in raw Mice represents their conversion into finished goods. The reduction in both Win Excel and Win Word is due to higher than expected demand. The increase in domestic finished goods is due to the build up in Mice (\$1.1 million), Win Office (\$1.1 million) and Mac Excel (\$286,000). The increase in Mice inventories reflects inventory stockpiling for the high demand anticipated this fall. Win Office inventories have increased due to anticipated higher demand from the recent reduction in pricing. Mac Excel 3.0 was released in April, and as a result, inventory levels in Q91-3 were artificially low as we dried out the channel. The change in Domestic allowances is due to an increase of the reserve for obsolescence. The decrease in ICON finished goods inventory is due to a movement towards WCM with shorter lead times and a quicker throughput. In Q91-3, ICON recorded a reserve for obsolescence related to all international finished goods inventory. This global reserve, combined with Q91-4's decrease in finished goods inventory, caused a negative net inventory balance for ICON. The increase in International inventory is primarily due to a large increase in Canada's inventory. This increase is due to the subsidiary ordering too much inventory from CN during Q91-4. Canada's days sales increased from 77 at March 31, 1991 to 136 days at June 30, 1991. These International increases were partially offset by a stronger U.S. dollar during Q91-4 which caused a decrease in dollar denominated inventory values.

## Property, Plant and Equipment

FY91

### Property, Plant and Equipment (in millions)

	<u>Jun. 30, 1991</u>	<u>Jun. 30, 1990</u>	<u>Change</u>
Land	\$122.9	\$ 85.5	\$ 37.4
Buildings	203.9	109.0	94.9
Leasehold improvements	38.0	17.4	20.6
Furniture and equipment	62.0	41.7	20.3
Computer equipment	<u>221.9</u>	<u>145.7</u>	<u>76.2</u>
	648.7	399.3	249.4
Accumulated depreciation	<u>(118.5)</u>	<u>(73.9)</u>	<u>(44.6)</u>
Net	<u>\$530.2</u>	<u>\$325.4</u>	<u>\$204.8</u>

The increase in land was primarily due to the expansion at Corporate Campus (\$34.9 million). The increase in buildings primarily resulted from construction on Corporate Campus (\$76.2 million), in England (\$18.2 million), and in Ireland (\$0.5 million). Significant leasehold improvements occurred domestically (\$11.9 million), Puerto Rico (\$2.6 million), France (\$2.4 million), and Australia (\$1.8 million). The increase in furniture and equipment is due to telecommunications equipment (\$9.6 million), additions to domestic furniture (\$3.3 million), and broadly based increases in the subsidiaries (\$7.4 million). Computer equipment experienced a record year of growth. Internationally, significant purchasers of computers were Germany (\$3.5 million), France (\$3.3 million), Ireland (\$3.0 million), and Australia (\$2.4 million).

	<u>Quantity</u>	<u>Cost</u>	<u>Avg Price</u>
	<u>Purchased</u>	<u>(millions)</u>	<u>(thousands)</u>
<u>Personal Computers</u> (domestic)			
Compaq 386 computers	2,844	\$ 21.2	\$7.4
Northgate computers	1,218	6.8	5.6
Compaq 486 computers	419	5.8	13.8
IBM PS/2 computers	396	3.6	9.1
Apple computers	679	3.5	5.1
Other personal computers	<u>435</u>	<u>3.0</u>	<u>6.9</u>
Subtotal	<u>5,991</u>	<u>43.9</u>	<u>7.3</u>
<u>Other Computer Equipment</u>			
Subsidiaries (includes PCs and AS 400s)		18.1	
Corporate networking equipment		5.5	
VAX equipment		5.1	
Disk Drives	572	1.4	
Printers	513	1.6	
Other		<u>6.0</u>	
Gross additions		<u>81.6</u>	
Retirements		<u>(5.4)</u>	
Net additions		<u>\$76.2</u>	

Property, Plant and Equipment

Q91-4

Property, Plant and Equipment (in millions)

	<u>Jun. 30</u>	<u>Mar. 31</u>	<u>Change</u>
Land	\$122.9	\$122.6	\$ 0.3
Buildings	203.9	175.0	28.9
Leasehold improvements	38.0	34.3	3.7
Furniture and equipment	62.0	55.6	6.4
Computer equipment	<u>221.9</u>	<u>197.9</u>	<u>24.0</u>
	648.7	585.4	63.3
Accumulated depreciation	<u>(118.5)</u>	<u>(105.8)</u>	<u>(12.7)</u>
Net	<u>\$530.2</u>	<u>\$479.6</u>	<u>\$50.6</u>

During Q91-4, Building 23 was purchased (\$6.7 million), and costs for construction at Corporate Campus (Buildings 16, 17, 18, 19 and 22) totaled \$20.9 million. Costs for construction in progress at England totaled \$1.4 million.

Significant leasehold improvements were made in Australia (\$1.8 million) and France (\$1.6 million). Additions to domestic furniture and equipment totaled \$5.1 million and were partially offset by retirements of manufacturing equipment (\$1.1 million). Subsidiary furniture and equipment increased \$2.4 million principally in Australia (\$1.1 million) and France (\$0.9 million).

	<u>Quantity</u>	<u>Cost</u>	<u>Avg Price</u>
<u>Personal Computers (worldwide)<sup>(1)</sup></u>	<u>Purchased</u>	<u>(millions)</u>	<u>(thousands)</u>
Compaq 386 computers	1,130	\$ 7.5	\$ 6.6
Northgate computers	465	2.6	5.6
Compaq 486 computers	168	2.1	12.5
Apple computers	271	1.3	4.8
IBM PS/2 computers	74	0.7	9.5
Other personal computers	<u>277</u>	<u>1.9</u>	<u>6.9</u>
Subtotal	<u>2,385</u>	16.1	6.8
<u>Other Computer Equipment</u>			
Corporate networking equipment		2.0	
Mac Pac & Nixdorf equipment		1.0	
Printers	265	0.8	
Monitors	323	0.5	
Disk Drives	256	0.5	
VAX equipment		0.5	
Memory		0.2	
Other		<u>3.1</u>	
Gross additions		<u>24.7</u>	
Retirements		<u>(0.7)</u>	
Net additions		<u>\$24.0</u>	

Q91-4	\$24.0
Q91-3	\$14.0
Q91-2	\$18.0
Q91-1	\$20.2
Q90-4	\$19.0

(1) We began capturing the detail of worldwide computer equipment purchases for the first time during Q91-4.

## Other Assets

	<u>Jun. 30, 1991</u>	<u>Jun. 30, 1990</u>	<u>Change</u>
Financial Assets (in millions)			
Santa Cruz Operation	\$19.9	\$19.9	\$ -
Dorling Kindersley	15.5	-	15.5
Non-performing investments	10.4	10.2	0.2
Other	<u>2.5</u>	<u>1.4</u>	<u>1.1</u>
Sub-total	48.3	31.5	16.8
Valuation allowance	<u>(8.2)</u>	<u>(5.1)</u>	<u>(3.1)</u>
	<u>40.1</u>	<u>26.4</u>	<u>13.7</u>
Intellectual Property Rights (in millions)			
Consumer Software, Inc.	13.0	-	13.0
Other	<u>16.0</u>	<u>40.7</u>	<u>(24.7)</u>
Sub-total	29.0	40.7	(11.7)
Accumulated amortization	<u>(9.0)</u>	<u>(20.7)</u>	<u>11.7</u>
	<u>20.0</u>	<u>20.0</u>	<u>-</u>
Miscellaneous	<u>25.4</u>	<u>13.6</u>	<u>11.8</u>
	<u>\$85.5</u>	<u>\$60.0</u>	<u>\$25.5</u>

Financial assets represent our minority investments in companies with strategic technology together with any non-performing securities that have been removed from the Treasury portfolio. Non-performing 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. Non-performing investments are carried at cost and the total valuation provision that is made each month covers any losses on their disposition as well as an allowance for non-performing assets. The valuation allowance is charged to other 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 includes other long-term assets, primarily lease and other deposits.

The \$25.5 million increase in other assets during FY91 is primarily due to the purchase of a 26% interest in Dorling Kindersley Holdings Limited (DK) for \$15.5 million and the acquisition of Consumer Software, Inc. for \$14.3 million, of which \$13.0 million is included in intellectual property rights. Microsoft also loaned DK \$3.9 million at 7.5% interest payable quarterly with principal due after seven years.

During FY91, investments in Tucson Electric Power Co. money market preferred stock (\$10.4 million) and in Uniroyal Plastics increasing rate notes (\$1.6 million) were reclassified as non-performing investments.

Investments in money market preferred stock of Lomas Financial (par value \$5 million), Uniroyal Plastics (\$1.6 million) and Easco (\$1.2 million) were sold during FY91. Also, \$2 million of Heileman Brewing increasing rate notes were written off. Losses on these transactions were charged against the valuation allowance.



# Other Assets

	<u>Jun. 30, 1991</u>	<u>Mar. 31, 1991</u>	<u>Change</u>
Financial Assets (in millions)			
Santa Cruz Operation	\$19.9	\$19.9	\$ -
Dorling Kindersley	15.5	16.5	(1.0)
Non-performing investments	10.4	15.4	(5.0)
Other	<u>2.5</u>	<u>2.4</u>	<u>0.1</u>
Sub-total	48.3	54.2	(5.9)
Valuation allowance	<u>(8.2)</u>	<u>(7.7)</u>	<u>(0.5)</u>
	<u>40.1</u>	<u>46.5</u>	<u>(6.4)</u>
Intellectual Property Rights (in millions)			
Consumer Software, Inc.	13.0	13.0	-
Other	<u>16.0</u>	<u>38.9</u>	<u>(22.9)</u>
Sub-total	29.0	51.9	(22.9)
Accumulated amortization	<u>(9.0)</u>	<u>(28.4)</u>	<u>19.4</u>
	<u>20.0</u>	<u>23.5</u>	<u>(3.5)</u>
Miscellaneous	<u>25.4</u>	<u>23.8</u>	<u>1.6</u>
	<u>\$85.5</u>	<u>\$93.8</u>	<u>\$(8.3)</u>

During Q91-4, financial assets decreased from the sale of Lomas Financial (par value \$5 million) for \$3.7 million. The financial asset provision charged to non-operating expense was \$2.1 million for the quarter.

## Santa Cruz Operation

### Results of Operations (in millions, unaudited)

	<u>Year Ended</u> <u>6/30/91</u>	<u>Year Ended</u> <u>6/30/90</u>	<u>Change</u>
Net revenues	\$131.4	\$97.5	35%
Cost of revenues	<u>51.6</u>	<u>37.6</u>	37
Gross profit	79.8	59.9	33
Operating expenses	<u>85.9</u>	<u>64.4</u>	33
Net loss	\$ <u>(6.1)</u>	\$ <u>(4.5)</u>	36

### Financial Condition (in millions, unaudited)

	<u>6/30/91</u>	<u>6/30/90</u>	<u>Change</u>
Current assets	\$34.4	\$34.8	\$ (0.4) (1)%
Fixed assets	<u>13.3</u>	<u>13.1</u>	<u>0.2</u> 1
Total assets	<u>\$47.7</u>	<u>\$47.9</u>	<u>\$(0.2)</u> -
Current liabilities	\$32.0	\$30.1	\$ 1.9 6
Long-term liabilities	3.5	4.5	(1.0) (22)
Stockholders' equity	<u>12.2</u>	<u>13.3</u>	<u>(1.1)</u> (8)
Total liabilities & equity	<u>\$47.7</u>	<u>\$47.9</u>	<u>\$(0.2)</u> -

SCO's book value at June 30, 1991, unaudited, is \$12.2 million, of which Microsoft's 18.1% share is \$2.2 million. The cost of Microsoft's investment was \$19.9 million, so cost in excess of our prorata share of book value is approximately \$17.7 million.

SCO had disappointing results for the quarter ended June 30, 1991. Net revenues were \$32.2 million, down from the previous quarter's net revenues of \$33.6 million and below SCO's forecast of \$36.2 million. The net loss for the quarter was \$4.2 million, almost twice that for the previous quarter (\$2.2 million).

#### Other Assets

SCO's European business was especially slow, down 14% quarter to quarter. The company attributes this to increased competition, particularly from the IBM RISC system RS 6000.

During the quarter, SCO entered into agreements with Compaq and DEC that provide funding for ACE software development in exchange for future product discounts. The agreements are for approximately \$1 million each, are due on signing and are nonrefundable. SCO records revenue from these agreements as they incur the related engineering expense.

SCO's large quarterly loss will affect their financing alternatives. They have had plans to obtain equity financing from select companies involved with ACE. It now appears SCO will need to obtain equity financing from a larger list of companies at a lower valuation. SCO financed its current quarter's loss by reducing receivables and stretching payables (including amounts due Microsoft) as well as from the ACE software agreements. With its tight cash flow, profitability in the next quarter will be important for its banking relationship.

During the quarter, SCO reorganized its operations on a geographical and product-line business units basis, to pattern its operations after Microsoft's.

Together with the reorganization, SCO is attempting to reduce operating expenses. Operating expenses increased at a lower rate during the quarter and SCO expects expenses to decline further. SCO's headcount declined slightly from 1,363 at March 31, 1991 to 1,330 at June 30, 1991.

SCO settled a copy infringement suit with Lotus on June 17, 1991. Lotus dropped the suit after SCO agreed to stop manufacturing, distributing and licensing all versions of SCO Professional, a spreadsheet product. SCO Professional has not been significant to SCO's revenues.

#### Dorling Kindersley

#### Results of Operations (in millions, unaudited)

	Year Ended June 30, 1991	Year Ended June 30, 1990	Growth
Net revenues	\$62,930	\$41,664	51%
Cost of sales	<u>31,837</u>	<u>28,814</u>	10
Gross margin	-31,093	12,850	142
Operating expense	<u>25,632</u>	<u>10,077</u>	154
Operating income	5,461	2,773	97
Taxation	<u>2,239</u>	<u>1,094</u>	105
Net income	<u>\$ 3,222</u>	<u>\$ 1,679</u>	92

DK's preliminary book value at June 30, 1991 should be over 5 million BPS (\$8.2 million) of which Microsoft's 26% share represents \$2.1 million. The cost of Microsoft's 26% investment was \$15.5 million, so cost in excess of our pro-rata share of book value is approximately \$13.4 million. DK also has both an outstanding \$3.2 million long-term loan and an unused \$5.0 million line of credit with Microsoft.

At DK's July 31 Board meeting, a semiannual dividend of approximately \$400,000 was approved. The allowable dividend is based on a formula in Microsoft's agreement with DK. The semiannual dividend brings total annual dividends to approximately \$760,000. Microsoft will receive a dividend of approximately \$100,000.

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#### Other Assets

DK projects FY92 net revenues of approximately \$88.0 million. The company capitalizes the cost of new publications and amortizes them over periods of up to two years. Because of these investments, compensation of principals and dividend payments, FY92 cash flow is projected to be only slightly better than break even.

The Company has formed a multimedia group and seems more enthusiastic about developing products for electronic publication by Microsoft than we anticipated when we made our investment in March.

DK is negotiating for the possible purchase of Bartholomew's, a Scottish cartography division of Harper Collins. Bartholomew's publishes maps and atlases under various trade names and is known as publisher of the Times/Bartholomew's World Atlas. They are developing a cartographic database, called GIS (Geographical Information System), which is expected to result in more efficient publishing of maps. DK has proposed a price of 7 million BPS for Bartholomew's subject to customary due diligence. Apparently there are no other serious offers and Harper Collins has countered at 7.5 million BPS. Any definitive agreement reached between DK and Harper Collins requires prior approval of Microsoft pursuant to our investment agreements. We have expressed interest in acquisition of electronic publishing rights to Bartholomew products, but have declined to provide DK direct financing for the acquisition at this time, at least.

DK has recently expressed an interest in going public in the UK as a way of funding the Bartholomew acquisition and/or relieving cash flow pressures from growth. In the judgement of Microsoft Directors on the DK Board, improvements in DK information systems, management organization, and financial reporting will be necessary before the company is ready for a public offering. The potential of a public offering may accelerate the need for Microsoft to decide to buy the entire company, as buy out agreements in place with DK entitle Microsoft to private rather than public valuation multiples in certain scenarios.

#### Intellectual Property Rights

Amortization of intellectual property rights charged to research and development totaled \$3.7 million for Q91-4. This decrease in the net book value was partially offset by a loan to Citrix Systems (\$330,000). Fully amortized intellectual property rights totalling \$15.9 million were written off during Q91-4 with no resulting charge to earnings.

The loan to Citrix is the first phase of a \$2.0 million equity investment Microsoft plans to make. The final agreement is expected to be signed in September 1991. Our primary objectives for investing in Citrix are to focus an ISV on Win and NT, to get an application developed for NT and to obtain third party support for OS/2 1.3 and 2.0 development. The agreement provides Microsoft a seat on Citrix's Board.

The increase in miscellaneous other assets includes \$818,000 added to our VEBA Trust Fund, \$731,000 in other assets of subsidiaries and a \$250,000 long-term loan to Intelligent Environments to encourage their development of OS/2 PM development tool Application Manager for Windows.

#### Current Liabilities

FY91 current liabilities increased \$106.6 million to \$293.4 million at June 30, 1991. Accounts payable was up \$34.9 million, which was in line with our operating expense growth. Customer deposits increased \$8.5 million, this was primarily due to increases in OEM deposits (\$10.0 million) and revenue deferrals (\$3.0 million), offset by a decrease in reseller rebates (\$4.8 million). Accrued compensation increased \$12.8 million, due to additional accruals (\$5.3 million), compensation payable to the subsidiaries (\$5.2 million), and increased withholding for the employee stock purchase plan (\$2.4 million). The increase in accrued compensation is directly related to the increase in headcount during FY91. Subsidiary short-term borrowings increased \$13.0 million. Income taxes payable increased \$1.9 million to \$44.5 million at June 30, 1991. Other current liabilities increased \$35.5 million, partially due to additions to the litigation reserve (\$11.8 million), stock benefit reserve (\$1.0 million), and claims reserve (\$16.0 million). The net increase in these reserves (\$28.8 million), along with the increase in business taxes payable (\$10.2 million), additional marketing fund accruals (\$2.6 million) and the decrease in SofDesign payments (\$8.6 million) account for most of the \$35.5 million increase in other current liabilities during FY91.

Q91-4 current liabilities increased \$40.5 million to \$293.4 million at June 30, 1991. Accounts payable was down \$3.3 million, principally from the payment of royalties (\$2.2 million). Customer deposits increased \$10.6 million for OEM deposits on DOS 5.0. Accrued compensation increased \$10.3 million, largely due to domestic performance bonus accruals (\$4.7 million) and withholding for the employee stock purchase plan (\$3.5 million). Subsidiary short-term borrowings decreased \$1.1 million. Income taxes payable increased \$12.7 million, reflecting increased taxable income, a decrease in income tax benefits related to stock options and the refund of \$5.1 million U.S. federal FY90 income taxes. The litigation reserve was increased \$2.4 million to \$13.9 million and there was a \$5 million increase in the stock benefit reserve. The net increase in these reserves (\$7.4 million), together with the accrual of an additional \$2.8 million of marketing funds, account for most of the \$11.3 million increase in other current liabilities during Q91-4.

#### Stockholders' Equity

FY91 stockholders' equity increased \$432.3 million during FY91, from \$918.5 million at June 30, 1990 to \$1,350.8 million at June 30, 1991. Net income (\$462.7 million), the exercise of stock options (\$94.4 million) and income tax benefits related to stock options (\$85.3 million) were offset by the translation adjustment of the Company's permanent investment in foreign subsidiaries (\$13.1 million) and the repurchase of 3,646,500 shares (\$196.7 million).

Q91-4 stockholders' equity increased \$101.3 million in Q91-4, from \$1.25 billion at March 31, 1991 to \$1.35 billion at June 30, 1991. Net income (\$138.4 million), the exercise of stock options (\$20.1 million) and income tax benefits related to stock options (\$19.6 million) were offset by the translation adjustment of the Company's permanent investment in foreign subsidiaries (\$8.0 million) and the repurchase of 1,018,500 shares (\$68.6 million).

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# Channel Reporting

FY91

	Actual		Plan		Variance
Net Revenues					
International FG	\$ 895.6	48.6%	\$ 650.9	43.0%	38 %
USSMD	<u>563.3</u>	<u>30.6</u>	<u>453.0</u>	<u>29.9</u>	24
Retail	<u>1,458.9</u>	<u>79.2</u>	<u>1,303.9</u>	<u>72.9</u>	32
Domestic OEM	187.0	10.1	156.6	10.3	19
International OEM	<u>150.4</u>	<u>8.2</u>	<u>167.1</u>	<u>11.0</u>	(10)
OEM	<u>337.4</u>	<u>18.3</u>	<u>323.7</u>	<u>21.3</u>	(4)
Other	<u>47.1</u>	<u>2.5</u>	<u>88.6</u>	<u>5.8</u>	(47)
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,516.2</u>	<u>100.0%</u>	22

	Actual			Plan			Variance
	Income	Percentage		Income	Percentage		
	(Loss)	Total	Revenue	(Loss)	Total	Revenue	
Operating Income (Loss)	\$371.2	57.1%	41.4%	\$188.8	46.3%	29.0%	\$182.4
International FG	<u>157.1</u>	<u>24.2</u>	<u>27.9</u>	<u>80.1</u>	<u>19.7</u>	<u>17.7</u>	<u>77.0</u>
USSMD	<u>528.3</u>	<u>81.3</u>	<u>36.2</u>	<u>268.9</u>	<u>66.0</u>	<u>24.4</u>	<u>259.4</u>
Retail	109.5	16.8	58.6	87.9	21.6	56.1	21.6
Domestic OEM	<u>86.2</u>	<u>13.3</u>	<u>57.3</u>	<u>98.7</u>	<u>24.2</u>	<u>59.1</u>	<u>(12.5)</u>
International OEM	<u>195.7</u>	<u>30.1</u>	<u>58.0</u>	<u>186.6</u>	<u>45.8</u>	<u>57.6</u>	<u>9.1</u>
OEM	(74.2)	(11.4)	-	(47.9)	(11.8)	-	(26.3)
Other	<u>\$149.8</u>	<u>100.0%</u>	35.3	<u>\$407.6</u>	<u>100.0%</u>	26.9	<u>\$242.2</u>

Q91-4

	Actual		Plan		Variance
Net Revenues					
International FG	\$226.4	43.0%	\$185.3	42.0%	22 %
USSMD	<u>177.3</u>	<u>33.7</u>	<u>133.8</u>	<u>30.3</u>	33
Retail	<u>403.7</u>	<u>76.7</u>	<u>319.1</u>	<u>72.3</u>	26
Domestic OEM	65.8	12.5	42.8	9.7	54
International OEM	<u>44.5</u>	<u>8.5</u>	<u>44.8</u>	<u>10.2</u>	(1)
OEM	<u>110.3</u>	<u>21.0</u>	<u>87.6</u>	<u>19.9</u>	26
Other	<u>12.6</u>	<u>2.3</u>	<u>34.2</u>	<u>7.8</u>	(63)
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$440.9</u>	<u>100.0%</u>	19

	Actual			Plan			Variance
	Income	Percentage		Income	Percentage		
	(Loss)	Total	Revenue	(Loss)	Total	Revenue	
Operating Income (Loss)	\$ 84.5	43.5%	37.3%	\$ 64.1	42.8%	34.6%	\$20.4
International FG	<u>63.8</u>	<u>32.9</u>	<u>36.0</u>	<u>38.5</u>	<u>25.7</u>	<u>28.8</u>	<u>25.3</u>
USSMD	<u>148.3</u>	<u>76.4</u>	<u>36.7</u>	<u>102.6</u>	<u>68.5</u>	<u>32.1</u>	<u>45.7</u>
Retail	42.0	21.6	63.8	24.7	16.5	57.7	17.3
Domestic OEM	<u>27.4</u>	<u>14.2</u>	<u>61.6</u>	<u>27.1</u>	<u>18.1</u>	<u>60.5</u>	<u>0.3</u>
International OEM	<u>69.4</u>	<u>35.8</u>	<u>62.9</u>	<u>51.8</u>	<u>34.6</u>	<u>59.1</u>	<u>17.6</u>
OEM	(23.6)	(12.2)	-	(4.8)	(3.1)	-	(18.8)
Other	<u>\$194.1</u>	<u>100.0%</u>	36.9	<u>\$149.6</u>	<u>100.0%</u>	33.9	<u>\$44.5</u>

## Channel Reporting

### Headcount

	June 30, 1991		March 31, 1991		December 31, 1990		September 30, 1990		June 30, 1990	
International FG	1,573	40.7%	1,380	40.7%	1,258	41.3%	1,063	39.7%	974	40.3%
USSMD	828	21.4	777	22.9	747	24.5	714	26.7	629	26.0
OEM (Redmond)	57	1.5	57	1.7	55	1.8	50	1.9	46	1.9
PSS	847	21.9	743	21.9	632	20.7	559	20.7	519	21.4
Other	407	10.6	300	8.8	234	7.8	180	6.8	136	5.8
Sales support	152	3.9	135	4.0	119	3.9	113	4.2	111	4.6
Total channels	3,864	100.0%	3,392	100.0%	3,045	100.0%	2,679	100.0%	2,415	100.0%

#### Notes:

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

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

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

Sales support includes: Corpcom and PR & Tradeshows.

### Quarterly Revenues (in millions)

	Q91-1		Q91-2		Q91-3		Q91-4 *		FY91 *	
International FG	\$165.0	44.7%	\$251.7	54.7%	\$252.6	51.9%	\$226.4	43.0%	\$ 895.6	48.6%
USSMD	128.1	34.7	128.3	27.9	129.7	26.6	177.3	33.7	563.3	30.6
Domestic OEM	29.7	8.0	38.0	8.2	53.4	11.0	65.8	12.5	187.0	10.1
International OEM	35.0	10.3	31.3	6.8	36.6	7.5	44.5	8.5	150.4	8.2
Other	8.6	2.3	11.2	2.4	14.6	3.0	12.6	2.3	47.1	2.5
	\$369.4	100.0%	\$460.5	100.0%	\$486.9	100.0%	\$526.6	100.0%	\$1,843.4	100.0%

	Q90-1		Q90-2		Q90-3		Q90-4		FY90	
International FG	\$ 80.2	34.1%	\$123.0	40.9%	\$142.5	45.8%	\$146.8	43.6%	\$ 492.5	41.6%
USSMD	79.5	33.8	97.5	32.5	78.3	25.2	103.0	30.6	358.2	30.3
Domestic OEM	35.2	15.0	31.9	10.6	45.0	14.5	39.2	11.6	151.3	12.8
International OEM	35.2	15.0	41.9	13.9	38.4	12.4	40.3	12.0	155.8	13.2
Other	5.1	2.2	6.1	2.0	6.7	2.2	7.7	2.3	25.6	2.2
	\$235.2	100.0%	\$300.4	100.0%	\$310.9	100.0%	\$337.0	100.0%	\$1,183.4	100.0%

	Q89-1		Q89-2		Q89-3		Q89-4		FY89	
International FG	\$ 57.6	32.7%	\$ 82.4	39.3%	\$ 79.6	40.4%	\$ 79.2	35.9%	\$298.7	37.2%
USSMD	62.6	35.5	59.8	28.5	43.8	22.2	65.1	29.6	231.3	28.8
Domestic OEM	22.7	12.9	27.4	13.1	32.4	16.4	32.5	14.8	115.0	14.3
International OEM	28.6	16.2	36.2	17.2	36.0	18.3	38.7	17.6	139.6	17.4
Other	4.9	2.8	4.1	2.0	5.2	2.6	4.7	2.1	18.9	2.4
	\$176.4	100.0%	\$209.9	100.0%	\$197.0	100.0%	\$220.2	100.0%	\$803.5	100.0%

	Q88-1		Q88-2		Q88-3		Q88-4		FY88	
International FG	\$ 31.8	31.0%	\$ 49.0	31.4%	\$ 55.4	34.2%	\$ 66.1	38.8%	\$202.3	34.2%
USSMD	30.6	29.8	54.1	34.7	53.3	32.9	51.1	30.0	189.0	32.0
Domestic OEM	21.9	21.3	31.5	20.2	26.0	16.1	23.1	13.5	102.5	17.3
International OEM	14.4	14.0	17.9	11.5	22.2	13.7	25.4	14.9	79.9	13.5
Other	3.9	3.8	3.4	2.2	5.0	3.1	4.8	2.8	17.1	2.9
	\$102.6	100.0%	\$155.9	100.0%	\$161.8	100.0%	\$170.5	100.0%	\$590.8	100.0%

\* See the following Channel sections for analysis.

## International Finished Goods

### Comments

#### FY91

796,000 units of Win 3.0 shipped in FY91.

Win Excel and Win Word shipped 347,000 and 250,000 units respectively.

New subsidiaries were formed in Portugal, Venezuela, New Zealand, Mexico, and Austria.

IFG accounted for 49% of total consolidated net revenues compared to 42% for FY90.

IFG net revenues grew 82% from FY90.

#### Q91-4

The dollar strengthened against all major European currencies.

European net revenues decreased 19% from Q91-3 due in part to a 14% foreign exchange rate fluctuation.

Net revenues for ICON and Far East increased 24% from Q91-3.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$895.6	100.0%	\$650.9	100.0%	\$244.7
Cost of revenues	198.2	22.1	157.3	24.2	(40.9)
Operating expenses	194.1	21.7	174.7	26.8	(19.4)
Allocations	132.1	14.8	130.1	20.0	(2.0)
Burdened operating income	\$371.2	41.4%	\$188.8	29.0%	\$182.4

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$226.4	100.0%	\$185.3	100.0%	\$41.1
Cost of revenues	46.5	20.5	42.2	22.8	(4.3)
Operating expenses	55.4	24.5	45.1	24.3	(10.3)
Allocations	40.0	17.7	33.9	18.3	(6.1)
Burdened operating income	\$84.5	37.3%	\$64.1	34.6%	\$20.4



# International Finished Goods

## Lending Products (units in thousands, revenues in millions)

FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	347	\$125.7	\$362	274	\$ 85.7	\$312	73	\$ 40.0	\$50
PC Word	305	103.1	338	354	102.6	289	(49)	0.5	49
Win Word	250	95.4	381	169	58.2	344	81	37.2	37
BUS/Serial Mouse	841	92.2	110	733	66.0	90	108	26.2	20
Win 3.0	796	85.8	108	428	47.6	111	368	38.2	(3)
DOS/GW Basic	787	50.7	64	564	37.2	66	223	13.5	(2)
PC Works	331	44.9	135	369	42.4	115	(38)	2.5	20
Mac Word	104	24.9	239	105	26.7	254	(1)	(1.8)	(15)
Mac Excel	88	24.0	274	101	26.5	262	(13)	(2.5)	12
Win 3.0 Upd	279	19.0	68	38	2.5	64	241	16.5	4
		<u>\$665.7</u>			<u>\$495.4</u>			<u>\$170.3</u>	
Percent of net revenues		<u>74%</u>			<u>76%</u>				

Win 3.0, Win Excel, Win Word, and Mice shipments accounted for 58% of the favorable variance in net revenues.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	124	\$ 40.5	\$328	80	\$ 24.6	\$307	44	\$15.9	\$21
PC Word	76	23.3	305	96	28.0	290	(20)	(4.7)	15
Win Word	67	23.2	345	48	16.4	341	19	6.8	4
BUS/Serial Mouse	189	19.8	104	206	18.6	90	(17)	1.2	14
Win 3.0	165	15.6	95	124	13.9	112	41	1.7	(17)
DOS/GW Basic	193	12.3	64	154	10.2	66	39	2.1	(2)
PC Works	62	8.3	133	105	12.0	114	(43)	(3.7)	19
DOS RUP 5.0	146	8.2	56	24	1.4	59	122	6.8	(3)
Win Excel Upd	58	7.1	124	6	0.7	118	52	6.4	6
Mac Excel	23	6.0	267	28	7.4	262	(5)	(1.4)	5
		<u>\$164.3</u>			<u>\$133.2</u>			<u>\$31.1</u>	
Percent of net revenues		<u>73%</u>			<u>72%</u>				

Win Excel, Win Word, DOS RUP and Win Excel Update accounted for 87% of the favorable variance in net revenues.

## Product Group Revenues (in millions)

FY91

	Actual		Plan		Variance
Applications	\$573.7	64.0%	\$448.5	68.9%	\$125.2
Systems	186.3	20.8	100.2	15.4	86.1
SPAG	104.5	11.7	74.5	11.4	30.0
Languages	35.5	4.0	32.6	5.0	2.9
Other	7.1	0.8	0.5	0.1	6.6
Adjustments	(11.5)	(1.3)	(5.4)	(0.8)	(6.1)
Net revenues	<u>\$895.6</u>	<u>100.0%</u>	<u>\$650.9</u>	<u>100.0%</u>	<u>\$244.7</u>

# International Finished Goods

Q91-4

	Actual		Plan		Variance
Applications	\$151.2	66.8%	\$128.5	69.4%	\$22.7
Systems	45.1	19.9	28.0	15.1	17.1
SPAG	22.9	10.1	21.3	11.5	1.6
Languages	6.9	3.0	8.8	4.7	(1.9)
Other	2.9	1.3	0.1	0.1	2.8
Adjustments	(2.6)	(1.1)	(1.4)	(0.8)	(1.2)
Net revenues	<u>\$226.4</u>	<u>100.0%</u>	<u>\$185.3</u>	<u>100.0%</u>	<u>\$41.1</u>

## Net Revenues (in millions)

FY91

	Actual		Plan		Net Variance	Operations Variance	Exchange Rate Variance
<b>EUROPE</b>							
France	\$220.0	24.6%	\$148.2	22.8%	\$ 71.8	\$ 55.9	\$15.9
Germany	212.9	23.8	135.4	20.8	77.5	60.8	16.7
England	79.4	8.9	60.3	9.3	19.1	11.1	8.0
Nordic Region	68.7	7.7	52.2	8.0	16.5	12.7	3.8
Benelux	35.4	3.9	24.7	3.8	10.7	8.7	2.0
Italy	33.7	3.8	28.1	4.3	5.6	3.4	2.2
Switzerland	24.3	2.7	21.3	3.3	3.0	0.3	2.7
Spain	13.9	1.6	10.4	1.6	3.5	2.2	1.3
	<u>688.3</u>	<u>77.0</u>	<u>480.6</u>	<u>73.9</u>	<u>207.7</u>	<u>155.1</u>	<u>52.6</u>
<b>ICON</b>							
Canada	56.0	6.2	49.2	7.6	6.8	6.1	0.7
Africa/India/Middle East	10.9	1.2	5.9	0.9	5.0	5.0	-
Mexico	6.3	0.7	6.5	1.0	(0.2)	(0.2)	-
Brazil	5.8	0.6	11.0	1.7	(5.2)	(5.2)	-
Venezuela	1.5	0.2	1.2	0.2	0.3	0.3	-
	<u>80.5</u>	<u>8.9</u>	<u>73.8</u>	<u>11.4</u>	<u>6.7</u>	<u>6.0</u>	<u>0.7</u>
<b>FAR EAST &amp; JAPAN</b>							
Japan	55.2	6.1	43.3	6.5	11.9	4.8	7.1
Australia	54.3	6.1	39.4	6.1	14.9	11.6	3.3
Singapore	4.9	0.5	2.5	0.4	2.4	2.4	-
Korea	2.9	0.3	3.3	0.5	(0.4)	(0.4)	-
Asia Pacific	2.5	0.3	1.7	0.3	0.8	0.8	-
Redmond Taiwan	2.1	0.2	0.8	0.1	1.3	1.3	-
Taiwan	1.5	0.2	3.9	0.6	(2.4)	(2.3)	(0.1)
	<u>123.4</u>	<u>13.7</u>	<u>94.9</u>	<u>14.5</u>	<u>28.5</u>	<u>18.2</u>	<u>10.3</u>
Redmond operations	3.4	0.4	1.6	0.2	1.8	1.8	-
Total International ROW	<u>207.3</u>	<u>23.0</u>	<u>170.3</u>	<u>26.1</u>	<u>37.0</u>	<u>26.0</u>	<u>11.0</u>
	<u>\$895.6</u>	<u>100.0%</u>	<u>\$650.9</u>	<u>100.0%</u>	<u>\$244.7</u>	<u>\$181.1</u>	<u>\$63.6</u>

Net revenues for International Finished Goods grew 82% from FY90. The European subsidiaries grew 90% while the International ROW subsidiaries grew 59%. Key contributors to the \$403.1 million increase were Germany (\$112.2 million), France (\$100.4 million), England (\$37.6 million) and Japan (\$23.0 million).

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## International Finished Goods

The favorable net revenue variance for FY91 was the result of higher than planned product shipments (74%) and favorable exchange rate variances (26%). All of the subsidiaries performed at a higher level than plan except Brazil, Taiwan, Korea and Mexico. These latter subsidiaries were affected by aggressive sales forecasts which did not materialize due to a combination of economic conditions, piracy issues and immature market development. In addition, both Mexico and Taiwan had general manager turnover which may have affected achievement of the plan.

### Q91-4

	Actual		Plan		Net Variance	Operations Variance	Exchange Rate Variance
<b>EUROPE</b>							
France	\$ 51.7	22.8%	\$ 42.4	22.9%	\$ 9.3	\$10.4	\$(1.1)
Germany	46.7	20.6	36.9	19.9	9.8	10.5	(0.7)
England	19.3	8.5	16.8	9.1	2.5	2.1	0.4
Nordic Region	14.8	6.5	14.3	7.7	0.5	0.8	(0.3)
Benelux	9.2	4.1	7.2	3.9	2.0	2.4	(0.4)
Italy	8.8	3.9	8.5	4.6	0.3	0.4	(0.1)
Switzerland	6.6	2.9	5.9	3.2	0.7	0.5	0.2
Spain	4.3	1.9	3.4	1.8	0.9	0.8	0.1
	<u>161.4</u>	<u>71.2</u>	<u>135.4</u>	<u>73.1</u>	<u>26.0</u>	<u>27.9</u>	<u>(1.9)</u>
<b>ICON</b>							
Canada	18.1	8.0	15.8	8.5	2.3	2.0	0.3
Africa/India/Middle East	4.0	1.8	1.6	0.9	2.4	2.4	-
Mexico	1.6	0.7	1.7	0.9	(0.1)	(0.1)	-
Brazil	0.5	0.2	3.5	1.9	(3.0)	(3.0)	-
Venezuela	0.4	0.2	0.3	0.2	0.1	0.1	-
	<u>24.6</u>	<u>10.9</u>	<u>22.9</u>	<u>12.4</u>	<u>1.7</u>	<u>1.4</u>	<u>0.3</u>
<b>FAR EAST &amp; JAPAN</b>							
Australia	19.3	8.5	11.2	6.0	8.1	7.2	0.9
Japan	16.2	7.2	11.8	6.4	4.4	2.6	1.8
Singapore	1.5	0.7	0.6	0.3	0.9	0.9	-
Korea	1.0	0.4	1.1	0.6	(0.1)	(0.1)	-
Asia Pacific	0.7	0.3	0.5	0.3	0.2	0.2	-
Redmond Taiwan	0.4	0.2	0.1	0.1	0.3	0.3	-
Taiwan	0.2	0.1	1.2	0.6	(1.0)	(1.0)	-
	<u>39.3</u>	<u>17.3</u>	<u>26.5</u>	<u>14.3</u>	<u>12.8</u>	<u>10.1</u>	<u>2.7</u>
Redmond operations	<u>1.1</u>	<u>0.5</u>	<u>0.5</u>	<u>0.2</u>	<u>0.6</u>	<u>0.6</u>	<u>-</u>
Total International ROW	<u>65.0</u>	<u>28.8</u>	<u>49.9</u>	<u>26.9</u>	<u>15.1</u>	<u>12.1</u>	<u>3.0</u>
	<u>\$226.4</u>	<u>100.0%</u>	<u>\$185.3</u>	<u>100.0%</u>	<u>\$41.1</u>	<u>\$40.0</u>	<u>\$1.1</u>

In Q91-4, 66% (\$27.2 million) of the favorable variance came from Germany, France, and Australia. Substantially all of the Q91-4 variance was the result of operations performance rather than exchange rate differences. Australia grew 72% from Q91-3, and represented 63% of the total quarterly growth of International ROW.

Europe's Q91-4 net revenues decreased 19% from Q91-3. During that time, the dollar strengthened 12% to 14% against the major European currencies. The significant decrease in Q91-4 European net revenues was caused by the strengthening dollar coupled with a recessionary European economy.

# International Finished Goods

## Cost of Revenues

FY91

	Actual			Plan		
	Sales Mix	Cost 11.2%	Weighted Cost 7.0%	Sales Mix	Cost 12.8%	Weighted Cost 8.8%
Applications	63.2%	32.2	3.7	68.3%	37.5	4.2
SPAG	11.5	21.5	4.4	11.3	20.6	3.1
Systems	20.5	19.3	0.7	15.3	20.1	1.0
Languages	3.9	24.0	0.2	5.0	81.4	0.1
Other	0.9		16.0%	0.1		17.2%
Product cost - gross	100.0%			100.0%		
Effect of adjustments			x 1.01			x 1.00
Product cost - net			16.4%			17.3%

The favorable FY91 COGS variance was due to lower than planned product costs for all product groups, except Systems. Significant cost reductions in Applications and SPAG more than offset the effect of the shift in sales mix to Systems, which had higher than planned product costs.

Q91-4

	Actual			Plan		
	Sales Mix	Cost 10.0%	Weighted Cost 6.6%	Sales Mix	Cost 12.7%	Weighted Cost 8.7%
Applications	66.0%	31.3	3.1	68.8%	37.4	4.3
SPAG	10.0	23.0	4.5	11.4	19.6	2.9
Systems	19.7	21.1	0.6	15.0	20.2	1.0
Languages	3.0	20.7	0.3	4.7	72.6	0.1
Other	1.3		15.1%	0.1		17.0%
Product cost - gross	100.0%			100.0%		
Effect of adjustments			x 1.01			x 1.00
Product cost - net			15.3%			17.1%

The favorable variance was due to lower than planned Applications product costs and a shift in sales mix away from lower margin SPAG. The Applications' variance was partially due to higher than planned MLP sales. This was partially offset by higher than anticipated Systems sales and product costs.

# International Finished Goods

## Operating Expenses (in millions)

FY91

	Actual	Plan	Net Variance	Operations Variance	Exchange Rate Variance
<u>EUROPE</u>					
Germany	\$ 40.4	\$ 36.4	\$ (4.0)	\$ (1.5)	\$ (2.5)
France	39.2	38.3	(0.9)	1.7	(2.6)
England	23.0	18.2	(4.8)	(2.6)	(2.2)
Nordic Region	16.4	14.3	(2.1)	(1.4)	(0.7)
Benelux	8.5	7.2	(1.3)	(0.9)	(0.4)
Italy	8.1	7.4	(0.7)	(0.2)	(0.5)
Spain	5.2	3.6	(1.6)	(1.2)	(0.4)
Switzerland	4.4	5.8	1.4	1.8	(0.4)
	<u>145.2</u>	<u>131.2</u>	<u>(14.0)</u>	<u>(4.3)</u>	<u>(9.7)</u>
<u>ICON</u>					
Canada	9.7	10.5	0.8	0.9	(0.1)
Brazil	3.8	3.3	(0.5)	(0.5)	-
Mexico	2.5	1.9	(0.6)	(0.6)	-
Africa/India/Middle East	0.7	0.6	(0.1)	(0.1)	-
Venezuela	0.3	0.4	0.1	0.1	-
	<u>17.0</u>	<u>16.7</u>	<u>(0.3)</u>	<u>(0.2)</u>	<u>(0.1)</u>
<u>FAR EAST &amp; JAPAN</u>					
Australia	12.8	10.5	(2.3)	(1.5)	(0.8)
Japan	12.7	9.3	(3.4)	(1.8)	(1.6)
Korea	0.9	1.2	0.3	0.3	-
Taiwan	0.6	1.2	0.6	0.6	-
Singapore	0.6	0.8	0.2	0.2	-
Redmond Taiwan	0.4	-	(0.4)	(0.4)	-
Asia Pacific	0.1	0.2	0.1	0.1	-
	<u>28.1</u>	<u>23.2</u>	<u>(4.9)</u>	<u>(2.5)</u>	<u>(2.4)</u>
Redmond operations	3.8	3.6	(0.2)	(0.2)	-
Total International ROW	<u>48.9</u>	<u>43.5</u>	<u>(5.4)</u>	<u>(2.9)</u>	<u>(2.5)</u>
	<u>\$194.1</u>	<u>\$174.7</u>	<u>\$ (19.4)</u>	<u>\$ (7.2)</u>	<u>\$ (12.2)</u>

	Actual	Plan	Variance
Marketing	\$ 60.7	\$ 51.3	\$ (9.4)
Employee recruiting	6.9	3.3	(3.6)
Bad debt expense	6.4	3.4	(3.0)
Rent & utilities	10.0	7.5	(2.5)
Other	110.1	109.2	0.9
	<u>\$194.1</u>	<u>\$174.7</u>	<u>\$ (19.4)</u>

Operating expenses for FY91 were higher than plan due to an unfavorable exchange rate variance of \$12.2 million and a \$7.2 million operations variance. Germany, England, and Japan were primarily responsible for the \$9.4 million marketing variance which occurred almost entirely in Q91-4 (\$7.6 million). The employee recruiting variance occurred principally in France and Germany (\$2.7 million) and was related to difficulty in attracting qualified employees because of the tight labor market. The bad debt expense variance was caused by a \$1.2 million accrual at Corporate headquarters during Q91-3, to safeguard against economic conditions in Mexico and Brazil. The rent and utilities variance was caused by occupying new facilities while continuing the lease obligation in vacated facilities in France and Japan.

International Finished Goods

Operating Expenses (in millions)

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Net Variance</u>	<u>Operations Variance</u>	<u>Exchange Rate Variance</u>
<u>EUROPE</u>					
Germany	\$12.8	\$10.0	\$ (2.8)	\$ (3.1)	\$ 0.3
France	11.1	9.8	(1.3)	(1.5)	0.2
England	6.5	4.2	(2.3)	(2.2)	(0.1)
Nordic Region	4.9	3.1	(1.8)	(1.9)	0.1
Italy	2.5	2.1	(0.4)	(0.5)	0.1
Benelux	2.5	1.8	(0.7)	(0.8)	0.1
Spain	1.8	1.0	(0.8)	(0.7)	(0.1)
Switzerland	<u>1.2</u>	<u>1.4</u>	<u>0.2</u>	<u>0.2</u>	<u>—</u>
	<u>43.3</u>	<u>33.4</u>	<u>(9.9)</u>	<u>(10.5)</u>	<u>0.6</u>
<u>ICON</u>					
Canada	2.7	2.8	0.1	0.2	(0.1)
Brazil	1.0	0.9	(0.1)	(0.1)	—
Mexico	0.5	0.5	—	—	—
Africa/India/Middle East	0.2	0.1	(0.1)	(0.1)	—
Venezuela	<u>0.1</u>	<u>0.1</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>4.5</u>	<u>4.4</u>	<u>(0.1)</u>	<u>—</u>	<u>(0.1)</u>
<u>FAR EAST &amp; JAPAN</u>					
Australia	4.8	2.9	(1.9)	(1.6)	(0.3)
Japan	3.8	2.5	(1.3)	(0.9)	(0.4)
Korea	0.3	0.3	—	—	—
Singapore	0.3	0.2	(0.1)	(0.1)	—
Taiwan	0.2	0.3	0.1	0.1	—
Asia Pacific	0.1	0.1	—	—	—
Redmond Taiwan	<u>0.1</u>	<u>—</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>—</u>
	<u>9.6</u>	<u>6.3</u>	<u>(3.3)</u>	<u>(2.6)</u>	<u>(0.7)</u>
Redmond operations	<u>(2.0)</u>	<u>1.0</u>	<u>3.0</u>	<u>3.0</u>	<u>—</u>
Total International ROW	<u>12.1</u>	<u>11.7</u>	<u>(0.4)</u>	<u>0.4</u>	<u>(0.8)</u>
	<u>\$55.4</u>	<u>\$45.1</u>	<u>\$ (10.3)</u>	<u>\$ (10.1)</u>	<u>\$ (0.2)</u>

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$19.4	\$11.8	\$ (7.6)
Marketing accrual	(2.5)	—	2.5
Employee recruiting	1.8	0.5	(1.3)
Payroll & payroll taxes	15.7	14.7	(1.0)
Other	<u>18.0</u>	<u>15.9</u>	<u>(2.1)</u>
	<u>\$55.4</u>	<u>\$45.1</u>	<u>\$ (10.3)</u>

The Q91-4 marketing variance is the result of incremental funding approved during mid-year reviews, unplanned overspending, and slippage of budgeted expenditures from prior quarters. The marketing accrual variance represents the reversal of amounts accrued in prior periods due to the slippage of planned expenditures. The recruiting variance reflects the 16% increase in headcount during the quarter.

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# International Finished Goods

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Channels
June 30, 1991	1,573	1,531	(42)	21.2%	40.7%
March 31, 1991 *	1,380	1,204	(176)	21.0	40.7
December 31, 1990 *	1,258	1,401	143	20.9	41.3
September 30, 1990 *	1,063	1,208	145	19.4	39.7
June 30, 1990 *	974	969	(5)	19.6	40.3

\* Actual and plan have been restated from prior BOD reports to exclude development headcount.

## Allocations

Actual allocations were close to plan for FY91. As a percentage of net revenues, allocations were 5.2% less than plan due to higher than planned net revenues.

Q91-4 allocations were \$6.1 million higher than plan. Significant variances occurred in Applications (\$2.5 million) and International R&D (\$1.4 million).

## Burdened Operating Income

FY91 burdened operating income of \$371.2 million was 97% higher than plan. Net revenues exceeded plan by 38% while COGS operating expenses and allocations were below plan as a percentage of revenue.

Q91-4 burdened operating income was 32% higher than plan. COGS and allocations, as a percentage of net revenues, were under plan by 2.3% and 0.6%, respectively. Operating expenses as a percentage of net revenues were 0.2% higher than plan resulting primarily from marketing expenses during the quarter.

# USSMD

## Comments

### FY91

Record revenue growth and operating income were achieved due to favorable market acceptance of Windows applications and strong demand for Win Excel and Win Word Upgrades. Windows and Windows applications accounted for 46% of USSMD's gross revenues.

The DOS RUP was announced June 11, 1991. The RUP launch was even more successful than FY90's introduction of Win 3.0.

The \$129 competitive upgrade program increased market penetration for Win Excel and Win Word.

### Q91-4

Record net revenue and operating income were achieved due to the DOS RUP introduction and continued demand for Windows applications.

The DOS RUP shipped 781,500 units, becoming our first operating system directly marketed to end users.

The Win Excel and Word competitive \$129 upgrade program continued to create strong demand. Due to the impressive results of this program, Phase II was kicked off with a 1.5 million piece direct mailing on July 8, 1991.

Mac Excel 3.0 shipped in March, generating \$9.6 million in revenue.

## Results of Operations (in millions)

### FY91

	Actual		Plan		Variance
Net revenues	\$563.3	100.0%	\$453.0	100.0%	\$110.3
Cost of revenues	123.9	22.0	107.4	23.7	(16.5)
Operating expense	161.5	28.7	154.5	34.1	(7.0)
Allocations	120.8	21.4	111.0	24.5	(9.8)
Burdened operating income	\$157.1	27.9%	\$80.1	17.7%	\$77.0

USSMD FY91 gross revenues were 27% above plan with GUI revenues accounting for 87% of the positive variance. Net revenue growth from FY90 to FY91 was \$205 million or 57%.

### Q91-4

	Actual		Plan		Variance
Net revenues	\$177.3	100.0%	\$133.8	100.0%	\$43.5
Cost of revenues	37.4	21.1	30.6	22.9	(6.8)
Operating expense	39.5	22.3	36.1	27.0	(3.4)
Allocations	36.6	20.6	28.6	21.3	(8.0)
Burdened operating income	\$63.8	36.0%	\$38.5	28.8%	\$25.3

Lead by strong Application and Systems sales, Q91-4 net revenues surpassed plan by 33% and Q90-4 revenues by 72%.

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Leading Products (units in thousands, revenues in millions)

FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Mouse	1,059	\$ 95.1	\$ 90	876	\$ 72.3	\$ 82	183	\$22.8	\$ 8
Win Excel	250	57.8	231	212	47.3	223	38	10.5	8
Win Word	291	56.9	196	219	47.6	218	72	9.3	(22)
Win 3.0	645	46.5	72	565	40.6	72	80	5.9	-
DOS RUP	782	42.5	54	212	8.7	41	570	33.8	13
Mac Word	194	31.6	163	196	33.8	173	(2)	(2.2)	(10)
Mac Excel	144	29.4	204	150	27.6	184	(6)	1.8	20
Win Excel Upg	210	23.0	109	-	-	-	-	-	-
Win Office	49	22.9	472	9	4.4	513	40	18.5	(41)
Win Project	55	19.3	349	22	8.0	361	33	11.3	(12)
		\$425.0			\$290.3			\$134.7	
Percent of net revenues		75%			64%				

Windows applications dominated the FY91 sales charts with 5 of the top 10 USSMD products. The Microsoft Mouse shipped over one million units and surpassed plan by 21%. This positive variance was due primarily to strong sales for Windows/Mouse and Paintbrush/Mouse bundles. Leveraging off Win 3.0 sales and the slippage of competitive Windows applications, Win Excel and Win Word exceeded plan by 22% and 20%, respectively. Win and Mac Word per unit revenues were below plan due to a shift in sales mix to the deeply discounted education channel. The DOS RUP, released during the fourth quarter, was 388% above plan. The \$129 Win Excel/Win Word upgrade direct mail program was targeted at users of competitive products (i.e., Lotus 1-2-3 and Word Perfect) by providing an inexpensive upgrade to MS Windows applications. The program generated \$34.3 million in revenues. FY91 Win Excel units surpassed FY90 units of 153,000 by 66% included UPGs. Win Office on a \$/unit basis was below plan due to April's reduction in SRP from \$995 to \$750.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
DOS RUP	782	\$ 42.5	\$ 54	80	\$ 3.3	\$ 41	702	\$39.2	\$ 13
Mouse	215	19.2	89	216	17.9	83	(1)	1.3	6
Win Excel	60	13.3	220	52	11.6	223	8	1.7	(3)
Win Word	70	12.8	182	61	13.4	221	9	(0.6)	(39)
Win 3.0	170	12.2	72	208	15.3	74	(38)	(3.1)	(2)
Mac Excel	54	11.9	220	37	7.1	194	17	4.8	26
Win Office	27	11.9	445	3	1.7	513	24	10.2	(68)
Mac Excel Upd	90	10.0	111	9	0.7	79	81	9.3	32
Win Excel Upg	91	10.0	109	-	-	-	91	10.0	109
Mac Word	46	7.6	166	51	10.5	209	(5)	(2.9)	(43)
		\$151.4			\$81.5			\$69.9	
Percent of net revenues		85%			61%				

Q91-4 revenues were bolstered by the extremely successful launch of DOS RUP, which accounted for 21% of gross revenues. The Win/Mouse bundle accounted for 37% of Mouse revenues in Q91-4 compared to a planned 25%. The Ballpoint Mouse was introduced during Q91-4, posting revenues of \$1.2 million compared with a plan of \$618,000, a 50% favorable variance. Win and Mac Word were under plan on a

# USSMD

\$/unit basis due to a shift in sales mix to schools where the product is deeply discounted. During Q91-4 the SRP for Win Office was revised from \$995 to \$750 resulting in a negative \$/unit variance. The SRP for Mac Excel updates was revised from the budgeted \$99 to \$129, accounting for the positive \$/unit variance.

## Product Group Revenue (in millions)

### FY91

	Actual		Plan		Variance
Applications	\$383.6	68.1%	\$301.2	66.5%	\$ 82.4
Systems	106.5	18.9	68.5	15.1	38.0
SPAG	97.0	17.2	78.0	17.2	19.0
Languages	23.0	4.1	31.7	7.0	(8.7)
Adjustments	(46.8)	(8.3)	(26.4)	(5.8)	(20.4)
Net revenues	<u>\$563.3</u>	<u>100.0%</u>	<u>\$453.0</u>	<u>100.0%</u>	<u>\$110.3</u>

The Applications variance reflects robust Windows applications demand (\$91.8 million over plan) which was partially offset by the unfavorable variance in DOS applications (\$8.9 million). Strong DOS RUP shipments contributed to the 55% favorable Systems plan variance. Language revenues were below plan by 27% due to slippage in the ship date for Professional C 7.0 and Professional FORTRAN from March until June. Revenue adjustments exceeded plan due to volume driven rebates and a \$9.0 million unplanned sales return provision.

### Q91-4

	Actual		Plan		Variance
Applications	\$116.4	65.7%	\$ 85.7	64.1%	\$30.7
Systems	56.5	31.8	23.9	17.8	32.6
SPAG	20.6	11.6	19.7	14.7	0.9
Languages	5.6	3.2	11.8	8.8	(6.2)
Adjustments	(21.8)	(12.3)	(7.3)	(5.4)	(14.5)
Net revenues	<u>\$177.3</u>	<u>100.0%</u>	<u>\$133.8</u>	<u>100.0%</u>	<u>\$43.5</u>

Q91-4 mirrored the year with Windows applications and DOS providing the lion's share of the revenue. Revenue adjustments (\$12.0 million in rebates and \$9.6 million in returns reserve provision) partially offset the revenue variance. Rebates varied unfavorably from plan by \$4.8 million due to revenue volume and a shift in the sales mix to direct accounts which receive rebates (80% versus plan of 76%). Based on the unplanned Q91-4 increase, the sales-returns provision varied unfavorably from plan by 5% of net revenues.

## Customer Classification Revenues (in millions)

	FY91			Q91-4		
	Sales	Percent	Discount %	Sales	Percent	Discount %
Distributors/Franchisors	\$292.9	48.0%	45.8	\$ 86.1	43.2%	45.8
LVRs/Major Chains/Jobbers	198.1	32.5	42.9	73.1	36.7	42.1
End User	43.7	7.2	25.7	17.0	8.5	13.7
Corporate Accounts	26.2	4.3	51.1	8.5	4.3	54.0
Education	18.1	3.0	49.0	5.3	2.6	54.4
Value Added Resellers	15.6	2.6	59.8	3.8	1.9	62.6
Government	13.3	2.2	44.0	4.7	2.4	42.7
Other	2.1	0.2	53.6	0.7	0.4	49.5
Gross revenues	<u>\$610.0</u>	<u>100.0%</u>	44.7%	<u>\$199.2</u>	<u>100.0%</u>	43.9%

# USSMD

The large volume of DOS RUP products sold to major chains during Q91-4, particularly Egghead, shifted the sales mix away from Distributors/Franchisors as is reflected in the variance between FY91 and Q91-4. Q91-4 End User revenue consisted primarily of Mac Excel Updates (\$5.0 million), Win Excel Upgrades (\$4.6 million) and Win Word Upgrades (\$3.5 million). Q91-4 Corporate Accounts discounts increased by 1.7% from Q91-3 levels due to deep discounts offered to Ernst & Young. Education revenue represents only direct sales to educational institutions. Q91-4 total Education channel revenue (including AED revenue imbedded in distribution and IBM ACIS) was \$11.8 million. Revenue from the Government channel consisted of \$3.1 million through Government Distributors, \$1.0 million through direct sales to state and local governments and \$559,000 to government integrators.

## Significant Customers (in millions)

	<u>Q91-4</u>	<u>Q91-3</u>	<u>Q91-2</u>	<u>Q91-1</u>	<u>Q90-4</u>
Ingram Micro	\$ 45.7	\$ 31.6	\$ 39.4	\$ 39.7	\$28.2
Egghead	36.8	17.8	19.1	12.0	18.1
Merisel	32.8	26.6	25.4	23.1	14.6
Soft Warehouse	9.4	5.4	3.4	4.1	3.1
Corporate Software	9.3	5.3	5.5	4.0	2.8
Software Spectrum	7.4	4.5	2.8	6.7	2.9
Softmar	4.0	2.2	2.7	2.7	1.5
Computerland	3.8	4.7	5.5	3.2	3.8
IBM	3.7	3.0	0.6	7.7	0.4
800 Software	3.2	2.1	1.7	1.6	1.4
	<u>\$156.1</u>	<u>\$103.2</u>	<u>\$106.1</u>	<u>\$104.8</u>	<u>\$76.8</u>
Percent of gross revenue	<u>78%</u>	<u>74%</u>	<u>77%</u>	<u>77%</u>	<u>75%</u>

Sales to USSMD's top 3 customers accounted for 58% of gross revenues. The Q91-4 results are somewhat skewed by the DOS RUP. Egghead mounted a major promotion behind the RUP and purchased \$17.1 million of product. Overall DOS RUP accounted for 46% of Egghead sales, 27% of Merisel sales and 21% of Ingram Micro sales.

## Cost of Revenues

Q91-4	21.1%
Q91-3	21.9%
Q91-2	23.0%
Q91-1	22.4%
Q90-4	23.4%

## Q91-4

	Actual			Plan		
	Sales Mix	Cost	Weighted Cost	Sales Mix	Cost	Weighted Cost
Applications	58.5%	10.9%	6.4%	60.5%	11.0%	6.7%
SPAG	10.4	32.0	3.3	13.9	36.0	5.0
Languages	2.8	15.4	0.4	8.3	16.0	1.3
Multimedia	-	11.2	-	0.4	8.8	-
Systems	<u>28.3</u>	<u>15.5</u>	<u>4.4</u>	<u>16.9</u>	<u>18.7</u>	<u>3.2</u>
Product cost - gross	<u>100.0%</u>		<u>14.5</u>	<u>100.0%</u>		<u>16.2</u>
Effect of adjustments			<u>x 112.4</u>			<u>x 105.9</u>
Product cost - net			<u>16.3%</u>			<u>17.1%</u>

USSMD

While all product cost percentages except Multimedia, which had minimal sales, are under plan, the weighted product cost variance is primarily due to a change in product mix. Explosive sales of high margin DOS RUP, which had below plan product costs and discounts, were responsible for the shift in product mix. Systems' COGS also benefitted from the slippage of low margin Window 3.1 updates. SPAG's favorable variance is primarily due to lower than planned product costs on all Mouse products and sales mix, which favored our established Mouse with Windows SKU's over the lower margin Naked Mouse. The cancellation of the lower margin Font products and the constrained sales of the Ballpoint Mouse also positively affected SPAG's product cost percentage. These favorable variances were partially offset by higher than planned revenue adjustments. Royalty expense of \$969,000, 0.5% of net revenue, is below plan of \$1.9 million and 1.4%. This favorable variance is primarily due to a planned royalty on Mail products that did not materialize due to the acquisition of Consumer Software, Inc.. Flight Simulator and COBOL royalties are below plan due to lower than planned sales.

Operating Expenses (in millions)

FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$ 64.7	\$ 60.6	\$(4.1)
Marketing fund & incentive programs	16.9	15.3	(1.6)
Travel & entertainment	8.5	7.1	(1.4)
Other	<u>71.4</u>	<u>71.5</u>	<u>0.1</u>
	<u>\$161.5</u>	<u>\$154.5</u>	<u>\$(7.0)</u>

Marketing expenses for all product groups (with the exception of Languages and Entry) were over plan. Significant marketing variances occurred in Analysis (\$2.6 million), Graphics (\$1.0 million), SPAG (\$496,000) and Data Access (\$445,000). The unfavorable marketing variance in Analysis was due to incremental funding for Win Excel. Due to higher than planned revenues, Marketing Fund and Incentive Programs were above plan in terms of absolute dollars, though as a percent of net revenues actual expenses were 3.0% compared to a planned 3.4%.

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing accrual	\$(14.9)	\$ -	\$14.9
Marketing	25.3	10.9	(14.4)
Marketing fund & incentive programs	6.4	4.9	(1.5)
Other	<u>22.7</u>	<u>20.3</u>	<u>(2.4)</u>
	<u>\$ 39.5</u>	<u>\$36.1</u>	<u>\$(3.4)</u>

SPAG marketing was over plan by (\$1.5 million) due to the Ballpoint and Mouse push. In Q91-4, a reversal of \$14.9 million in accrued marketing expenses was made. Q91-4 marketing expenses for all product groups (with the exception of Graphics) were over plan. Unfavorable marketing variances occurred in Analysis (\$4.4 million) due to the Win Excel 3.0 launch (\$3.0 million), and Win Computing (\$1.0 million). The unfavorable marketing variances in Office (\$4.4 million) were due to timing differences for Win Word (\$1.3 million) and Mac Word (\$660,000) programs. Windows marketing was over plan by \$1.9 million due to incremental funding for Windows World and the Windows Champions promotion. The marketing fund variance was due to higher than planned revenues.

USSMD

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Channels
June 30, 1991	828	844	16	11.1%	21.4%
March 31, 1991	777	844	67	11.8	22.9
December 31, 1990	747	783	36	12.4	24.5
September 30, 1990	714	773	59	13.1	26.7
June 30, 1990	629	610	(19)	12.6	26.0

Allocations

FY91 allocated expenses exceeded plan in absolute dollar terms, but were favorable to plan as a percentage of revenues. Significant unfavorable dollar variances included PSS (\$4.1 million), Corpcom (\$1.2 million) and Systems (\$1.1 million).

Q91-4's unfavorable variances occurred in PSS (\$3.0 million) and Applications and Systems (\$1.5 million and \$690,000 respectively).

Burdened Operating Income

FY91 burdened operating income was an impressive \$77.0 million over plan, primarily due to strong Application and Systems revenue and lower than planned COGS. Burdened operating income was 27.9% compared to 18.1% in FY90.

Q91-4 burdened operating income was 36.0% of net revenues or \$25.3 million above plan. Increased demand for Windows applications, the DOS RUP introduction and lower than planned COGS contributed to a very successful quarter.

## Worldwide OEM

### Comments

#### FY91

*Win 3.0* revenue continued to ramp and grew steadily as a percentage of total Worldwide OEM revenues.

*Finished Goods* sales to Domestic OEMs continued to increase, producing \$38 million of revenue in FY91 compared to \$20.9 million in FY90. Sales of Mouse products (\$18.7 million) and packaged MS-DOS sales (\$15.8 million) accounted for the majority of this revenue.

#### Q91-4

*MS-DOS Version 5.0* licenses were signed with virtually every significant OEM, helping to make this the Company's most successful product launch ever.

*IBM* revenues for Q91-4 were \$16.1 million, \$14.9 million greater than the plan. Much of this revenue resulted from catch-up LAN Manager and OS/2 reporting by IBM.

### Results of Operations (in millions)

#### FY91

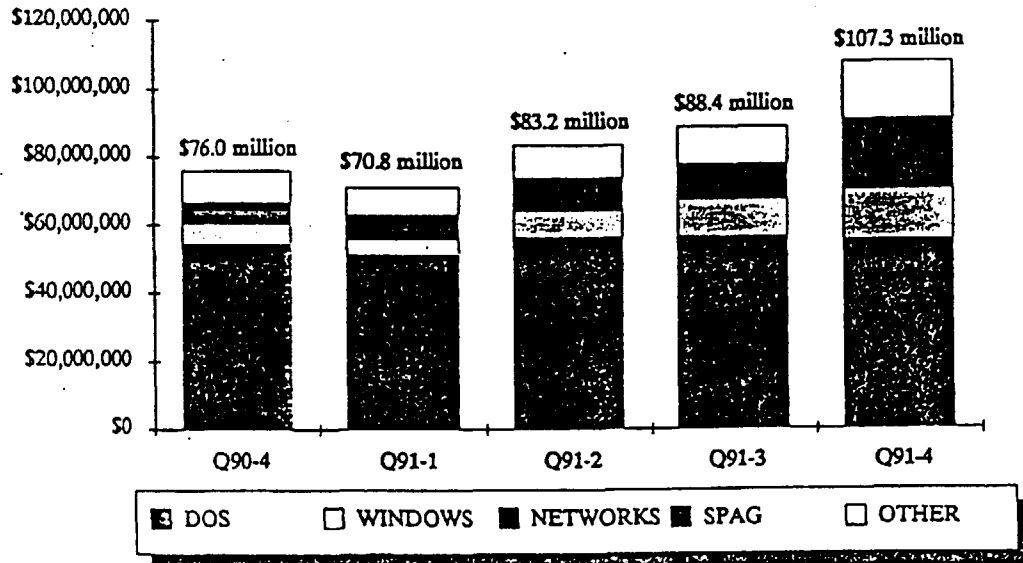
	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	\$337.4	100.0%	\$323.7	100.0%	\$13.7
Cost of revenues	22.6	6.7	12.7	3.9	(9.9)
Operating expenses	34.1	10.1	32.1	9.9	(2.0)
Allocations	85.0	25.2	92.3	28.6	7.3
Burdened operating income	\$195.7	58.0%	\$186.6	57.6%	\$9.1

#### Q91-4

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	\$110.3	100.0%	\$87.6	100.0%	\$22.7
Cost of revenues	7.4	6.7	3.6	4.1	(3.8)
Operating expenses	9.0	8.2	8.7	9.9	(0.3)
Allocations	24.5	22.2	23.5	26.9	(1.0)
Burdened operating income	\$69.4	62.9%	\$51.8	59.1%	\$17.6

Worldwide OEM

Leading Products



MS-DOS revenue grew by 16% in FY91 to \$218.1 million. This revenue growth was attributable to 10% higher unit sales combined with an increase in revenue per unit sold. Average MS-DOS royalty rates are rising as smaller OEMs, with higher royalty rates, capture greater market share.

Win 3.0 spurred a 116% jump in total FY91 Windows revenue of \$46.0 million. Higher Windows royalty rates coupled with a 29% increase in unit sales generated this performance. During FY91, approximately one unit of Windows was reported for every five MS-DOS systems that were reported shipped by OEMs.

Networks revenue of \$27.0 million was nearly double the amount recorded in FY90. LAN Manager royalties produced the majority of this growth, with revenue of \$21.1 million in FY91 compared to \$7.1 million in FY90. Revenue from both IBM and DEC was strong, including some catch-up reporting from IBM.

Mouse products rode the coattails of Windows, with revenue reaching \$18.7 million. FY90 revenue was only \$3.8 million.

# Worldwide OEM

## Net Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
<u>Domestic</u>						
Licensing	\$161.9	\$135.0	\$26.9	\$52.4	\$37.6	\$14.8
Packaged Goods	<u>37.9</u>	<u>21.6</u>	<u>16.3</u>	<u>12.7</u>	<u>5.2</u>	<u>7.5</u>
Gross domestic revenue	<u>199.8</u>	<u>156.6</u>	<u>43.2</u>	<u>65.1</u>	<u>42.8</u>	<u>22.3</u>
Domestic revenue adjustments						
GAAP accrual	(2.8)	—	(2.8)	0.7	—	0.7
Prepaid reserve accrual	<u>(10.0)</u>	—	<u>(10.0)</u>	—	—	—
Total adjustments	<u>(12.8)</u>	—	<u>(12.8)</u>	<u>0.7</u>	—	<u>0.7</u>
Net domestic revenue	<u>187.0</u>	<u>156.6</u>	<u>30.4</u>	<u>65.8</u>	<u>42.8</u>	<u>23.0</u>
<u>International</u>						
International ROW						
Japan	52.5	60.1	(7.6)	21.3	15.5	5.8
Taiwan	27.3	24.3	3.0	10.6	7.3	3.3
Korea	18.9	18.1	0.8	3.0	4.8	(1.8)
Asia Pacific	4.2	2.3	1.9	1.6	0.6	1.0
Redmond operations	3.5	3.1	0.4	1.3	1.0	0.3
Mexico	2.0	1.6	0.4	0.6	0.4	0.2
Canada	1.4	0.8	0.6	0.4	0.2	0.2
ALME	1.2	0.6	0.6	0.3	0.1	0.2
Brazil	1.1	1.4	(0.3)	0.2	0.4	(0.2)
Singapore	0.8	0.2	0.6	0.2	0.1	0.1
Australia	0.7	0.6	0.1	0.3	0.2	0.1
Venezuela	—	—	—	—	—	—
MS Redmond Far East	<u>0.1</u>	—	<u>0.1</u>	<u>0.1</u>	—	<u>0.1</u>
	<u>113.7</u>	<u>113.1</u>	<u>0.6</u>	<u>39.9</u>	<u>30.6</u>	<u>9.3</u>
<u>Europe</u>						
Germany	20.0	19.1	0.9	7.8	5.2	2.6
Italy	15.1	12.9	2.2	5.5	3.3	2.2
England	10.9	7.5	3.4	2.1	2.0	0.1
Nordic Region	9.3	6.9	2.4	4.1	1.7	2.4
Benelux	5.0	3.0	2.0	0.9	0.8	0.1
France	4.3	4.1	0.2	0.4	1.0	(0.6)
Switzerland	—	—	—	—	—	—
Spain	<u>0.1</u>	<u>0.5</u>	<u>(0.4)</u>	—	<u>0.2</u>	<u>(0.2)</u>
	<u>64.7</u>	<u>54.0</u>	<u>10.7</u>	<u>20.8</u>	<u>14.2</u>	<u>6.6</u>
Gross Int'l revenue	<u>178.4</u>	<u>167.1</u>	<u>11.3</u>	<u>60.7</u>	<u>44.8</u>	<u>15.9</u>
Int'l Revenue adjustments						
GAAP accrual	(7.5)	—	(7.5)	(10.2)	—	(10.2)
Prepaid reserve accrual	<u>(20.5)</u>	—	<u>(20.5)</u>	<u>(6.0)</u>	—	<u>(6.0)</u>
Total adjustments	<u>(28.0)</u>	—	<u>(28.0)</u>	<u>(16.2)</u>	—	<u>(16.2)</u>
Net Int'l revenue	<u>150.4</u>	<u>167.1</u>	<u>(16.7)</u>	<u>44.5</u>	<u>44.8</u>	<u>(0.3)</u>
	<u>\$337.4</u>	<u>\$323.7</u>	<u>\$13.7</u>	<u>\$110.3</u>	<u>\$87.6</u>	<u>\$22.7</u>

FY91 Worldwide OEM net revenues were 4.2% higher than the plan. These revenues included a \$10.3 million GAAP accrual adjustment and a \$30.5 million addition to the prepaid balance reserve. Absent these adjustments, Worldwide OEM gross revenue of \$378.2 million was 117% of plan, Domestic OEM gross revenue was 128% of plan, and International OEM gross revenue was 107% of plan.



— Worldwide OEM

Significant Customers (in millions)

	FY91			Q91-4		
	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
IBM	\$ 24.8	\$ 4.6	\$ 20.2	\$ 16.1	\$ 1.2	\$ 14.9
Compaq	14.7	13.1	1.6	5.9	3.7	2.2
Unisys Corp.	12.9	12.1	0.8	5.1	4.7	0.4
Olivetti	12.8	11.0	1.8	4.7	2.9	1.8
NEC	12.6	12.2	0.4	5.5	2.4	3.1
Zenith	11.0	8.9	2.1	2.5	2.2	0.3
Toshiba	10.4	12.9	(2.5)	2.9	3.7	(0.8)
Fujitsu	10.0	10.0	—	2.5	2.5	—
SCO	8.4	8.3	0.1	2.0	2.1	(0.1)
AST	7.6	4.7	2.9	2.2	1.3	0.9
American Tel. & Tel.	7.4	5.4	2.0	1.1	2.0	(0.9)
Datatech	7.3	1.6	5.7	4.2	—	4.2
Epson	7.3	7.6	(0.3)	4.5	1.0	3.5
Gateway 2000	7.2	3.3	3.9	2.8	0.8	2.0
NCR	6.8	5.5	1.3	2.0	1.6	0.4
Nokia	6.8	4.5	2.3	1.7	1.1	0.6
Siemens Nixdorf	6.8	6.5	0.3	1.6	1.3	0.3
Samsung	5.8	4.3	1.5	1.5	1.0	0.5
Dell	5.0	4.0	1.0	1.5	1.2	0.3
Compuadd	4.7	4.5	0.2	1.3	1.1	0.2
Other Customers	<u>187.9</u>	<u>178.7</u>	<u>9.2</u>	<u>54.2</u>	<u>49.8</u>	<u>4.4</u>
Gross Revenue	<u>378.2</u>	<u>323.7</u>	<u>54.5</u>	<u>125.8</u>	<u>87.6</u>	<u>38.2</u>
Revenue adjustments	<u>(40.8)</u>	<u>—</u>	<u>(40.8)</u>	<u>(15.5)</u>	<u>—</u>	<u>(15.5)</u>
Net revenue	<u>\$337.4</u>	<u>\$323.7</u>	<u>\$13.7</u>	<u>\$110.3</u>	<u>\$87.6</u>	<u>\$22.7</u>

During FY91 the Domestic channel experienced steady growth in MS-DOS licenses and systems shipped (\$95.8 million versus \$81.6 million in FY90), partially as a result of increasing European market penetration by domestic OEMs such as Compaq, Tandon, AST, and Dell. Every significant domestic OEM has been licensed for MS-DOS 5.0. Although several OEMs have been converted from packaged product to royalty licenses, finished goods MS-DOS remains stable (\$15.8 million in FY91 versus \$13.9 million in FY90). New Windows licenses and higher royalty rates resulted in a 153% increase in Windows revenue from FY90. OEMs reported Windows royalties on 28% of systems shipped with MS-DOS. Key OEMs in the Win 3.0 camp include Zenith (\$3.3 million), Unisys (\$2.1 million), Gateway 2000 (\$2.0 million), and Compuadd (\$1.5 million). In conjunction with the increase in Windows licenses, OEM Mouse sales increased dramatically, from \$3.8 million in FY90 to \$18.7 million in FY91. During Q91-4, Compaq spearheaded a successful promotion offering a Ballpoint Mouse with the purchase of its laptop computers, resulting in the sale of 47,000 Ballpoint Mice. IBM's \$14.9 million favorable variance for the quarter results from revised royalty reports from inception to date for LAN Manager and OS/2 and unbudgeted fees relating to NT and Win 3.0.

## Worldwide OEM

In Europe, Q91-4 licenses were predominantly for MS-DOS 5.0. Vobis, previously the largest DRI DOS OEM in the world, licensed MS-DOS 5.0 and Win 3.0 this quarter, resulting in unbudgeted UPB billings of \$1.9 million. They were the first OEM in Germany to ship MS-DOS 5.0. Overall, the FY91 growth in European OEM sales has been flat due to restructuring of the market and competition from lower-priced Far East and U.S. clones. This has led to consolidation of the OEMs, including the merger/acquisition of Victor/Tandy and Fujitsu/Nokia/ICL. The larger OEMs such as Siemens Nixdorf have given up market share to smaller OEMs such as Schmitt, Schneider, and Vobis. Nevertheless, Microsoft's OEM revenues have increased due to the licensing of the smaller OEMs at higher royalty rates and conversion of packaged product customers to royalty licenses.

In the Far East, OEMs have been rethinking their marketing strategies due to the fact that export business is down. Many of the Q91-4 variances in the Far East resulted from UPB billings associated with new agreements (see UPB section). Acer had a \$1.2 million unfavorable variance as a result of PPB concessions permitting recoupment of a prior PPB and delaying billing of a minimum commitment until Q92-2. Timely localization of MS-DOS 5.0 and Win 3.0 has contributed to the successful licensing effort during the year. The Korean FTC investigation into our per processor licensing is continuing, resulting in some unfavorable publicity but no tangible financial impact during FY91. In ICON, progress is being made with the Indian government to permit payment of OEM fees. It is anticipated that FY92 will see the payment of outstanding receivables, reporting of additional shipments, and the signing or renewal of Indian licenses.

Other significant variances from plan for Q91-4 included the following:

NEC - Revenue includes \$1.3 million in unbudgeted Win 3.0 sales. MS-DOS revenue was also significantly above plan primarily due to the timing of NEC's royalty reporting.

AST - Unbudgeted Mouse sales of \$470,000, combined with MS-DOS royalties which were \$305,000 greater than plan, created the favorable revenue variance.

Datatech - A new MS-DOS agreement resulted in UPB billings that were \$3.2 million greater than budget. Actual MS-DOS shipments of 71,000 units were 48,000 greater than plan, adding \$809,000 to the favorable variance.

Epson - This favorable variance was attributable to minimum commitment billings triggered by an amendment to Epson's master agreement.

Gateway 2000 - Mouse, MS-DOS, and Windows revenues were \$1.1 million, \$493,000 and \$421,000, respectively, above budget. Gateway ships these products with all its systems.

At the end of FY91, the gross Prepaid Balance (PPB) for worldwide OEM customers was \$170.4 million, a \$4.6 million increase from Q91-3. This increase results from positive UPB (\$11.0 million) net of approximately \$6.4 million that is no longer available for recoupment (e.g., license agreements that have expired). Included in the \$6.4 million figure is \$1.4 million relating to SMT Goupil, which declared bankruptcy this quarter, and \$1.2 million relating to an expired agreement with Novell.

Worldwide OEM

Prepaid Balances (in millions)

	<u>June 30, 1991</u>	<u>March 31, 1991</u>
Fujitsu LTD	\$ 18.9	\$ 17.3
Samsung Electronics	5.9	4.4
NCR	5.9	5.1
Hitachi LTD	5.1	5.3
Epson	5.0	1.0
3 COM	4.7	5.2
Sanyo Electronics	4.5	3.3
Schneider Rundfunkwerke	4.3	3.7
Zenith	3.6	3.7
Acrr	3.5	4.6
Olivetti Spa	3.4	4.3
Mitsubishi Electronics	3.2	2.2
Sun Microsystems	3.1	2.8
Datatech	3.0	0.2
Copam	2.8	3.3
Other	<u>93.5</u>	<u>99.4</u>
Gross	170.4	165.8
Reserve	<u>(41.0)</u>	<u>(35.0)</u>
Net prepaid balance	<u>\$129.4</u>	<u>\$130.8</u>

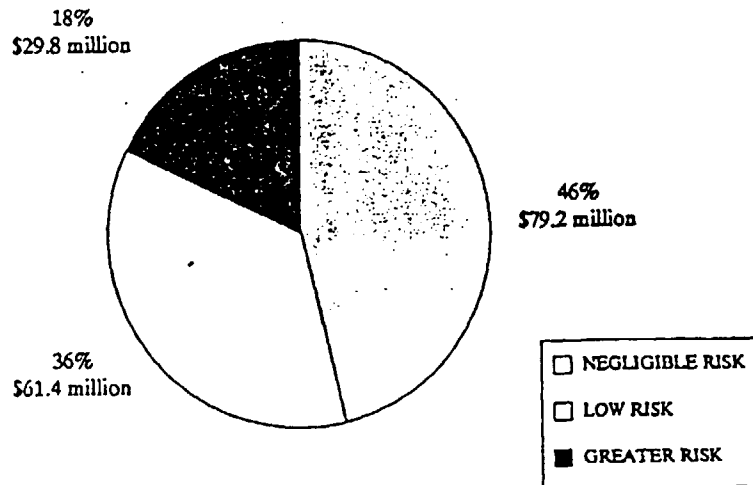
Because prepaid balances can be recouped with royalties from products shipped in succeeding quarters, prepaids reduce the amount of revenue we will recognize related to future customer shipments. On the other hand, prepaid balances not only smooth the revenue stream somewhat, but, in the face of increasing competition (Novell/DRI, IBM), make it costly for a customer to move to a competitor.

Prepaid balances sometimes become large when an OEM either overcommits on expected shipments or commits to a software product like OS/2 that does not do as well in the market as anticipated. When a sizable prepaid builds up, there is a possibility that the OEM will request some type of revenue concession relating to it. Microsoft's response to these requests has been to negotiate an agreement where both parties receive value. Normally, any concessions are prospective and are not on a dollar for dollar basis.

Typical methods of reducing prepaid balances include modifying single-product (MS-DOS, OS/2) licenses to cover multiple products; adding product without increasing minimum commitments; reducing future minimum commitments and increasing corresponding royalty rates; or extending the term of the agreement with a reduced minimum commitment or no new commitment. For example, an OEM may be allowed to recoup the prepaid balance by adding Windows to the license without additional minimum commitments, resulting in faster recoupment of the PPB for the OEM and more Windows sockets for Microsoft.

In analyzing the risk of future concessions associated with current PPBs, we asked Joachim Kempin, Vice President OEM Sales, to define categories of risk and categorize OEM customers as of June 30, 1991. The following chart represents the results of that inquiry:

Prepaid Balance  
Risk Distribution



(Note: Percentages in the chart are based on Gross PPB.)

Kempin defines the Negligible Risk category as those OEMs for which concessions have already been made, such as NCR and 3 COM, or for which no concessions are anticipated, the Low Risk category as having the potential of concessions affecting up to 20 percent of the PPB amount and the Greater Risk category as having potential of up to 50 percent. This assessment suggests a revenue exposure of \$27.2 million ( $\$29.8 \times 50\% + \$61.4 \times 20\%$ ) against a reserve of \$41.0 million. However, of the greater risk OEMs, Fujitsu is now seen as a significant risk because of the magnitude of its prepaid (\$18.9 million), which resulted from its aggressive OS/2 commitment. The \$41.0 million reserve continues to appear appropriate.

The reserve for future concessions relating to prepaid balances was increased by \$6.0 million this quarter, resulting in a net prepaid balance of \$129.4 million, down from \$130.8 million at the end of Q91-3 and \$150.1 million at the end of FY90.

Unspecified Product Billings (UPB) of \$11.0 million for Q91-4 reflect due on signing and minimum commitment billings in excess of recoupment by product-specific revenue. UPB billings associated with several new agreements or amendments in the International OEM channel caused the significant increase in non-product-specific billings over the prior quarter. Nevertheless, FY91 UPB billings of \$20.9 million were the lowest since 1987, and UPB billings as a percent of revenues (5.5%) hit a record low. This turnaround in UPB reflects the effort to bring minimum commitments in line with run rates.

Worldwide OEM

Significant Q91-4 UPB Billings for New Agreements

Epson	\$4.1 million	MS-DOS, OS/2
Datatech	\$2.3 million	MS-DOS
Vobis	\$1.9 million	MS-DOS, Works
Schmit	\$1.3 million	MS-DOS, Windows
Video Technology	\$1.3 million	MS-DOS, ROM DOS
Sanyo Electric	\$1.2 million	MS-DOS, OS/2

The quarter end GAAP accrual, decreased \$9.5 million, reflecting an increase in revenue that was deferred pending product acceptance (\$6.5 million) plus a decrease from Q91-3 in the accrual for earned but unreported royalties (\$3.0 million).

Operating Expenses and Allocations

FY91 payroll costs and B&O taxes were higher than planned causing a \$2.0 million unfavorable operating expense variance. Lower than planned R&D allocations (primarily for Systems, Networks and International R&D) resulted in a \$7.3 million favorable variance for allocated expenses.

Q91-4 operating expenses and allocations approximated plan.

Redmond Based Headcount \*

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Channels</u>
June 30, 1991	57	60	3	0.8%	1.5%
March 31, 1991	57	59	2	0.9	1.7
December 31, 1990	55	57	2	0.9	1.8
September 30, 1990	50	54	4	0.9	1.9
June 30, 1990	46	43	(3)	0.9	1.9

\* The headcount totals represent Redmond based headcount only. Subsidiary headcount dedicated to International OEM are imbedded in the IFG Channel.

Burdened Operating Income

FY91 burdened operating income was 5% above plan due to strong revenue performance. Higher than planned product costs, due to packaged product shipments in excess of plan, and operating expenses partially offset these variances.

For Q91-4, record revenue performance outpaced the higher than expected cost of revenues, producing burdened operating income significantly above the plan.

## Product Support Services (PSS)

### Comments

#### FY91

*The Win 3.0 release in May '90 resulted in sharp increases in call volume and call length, causing domestic call handling statistics to fall significantly. In the three months prior to the release, the average daily call volume was 7,000. Six months after the release, average daily call volume had risen to 8,500. Average time per handled call prior to the release was 7.6 minutes. Six months after the release, average call time had increased to 9.7 minutes.*

*PSS headcount grew 73% from FY90 to FY91. Staffing was boosted to keep pace with the rapid increase in call volume after the Win 3.0 release. FY91 was the first year of operation for the Charlotte, North Carolina PSS site which was launched in October, 1990 to provide support primarily for Windows and Windows applications.*

*PSS began returning busy signals to customers on Windows calls in late March. Phone queues were structured such that if the average wait exceeded a set length of time (approximately 10 minutes), new callers would receive a busy signal. Busy signals are also being used on the DOS RUP.*

#### Q91-4

*DOS RUP support began in June, precipitating another sharp increase in call volume. As of June 30, 1991, PSS is handling approximately 1,200 calls per day on DOS RUP, with the average call taking 16.5 minutes to resolve. Sixty-five technicians are dedicated to DOS RUP support at June 30, 1991, with 35 more coming on board in August.*

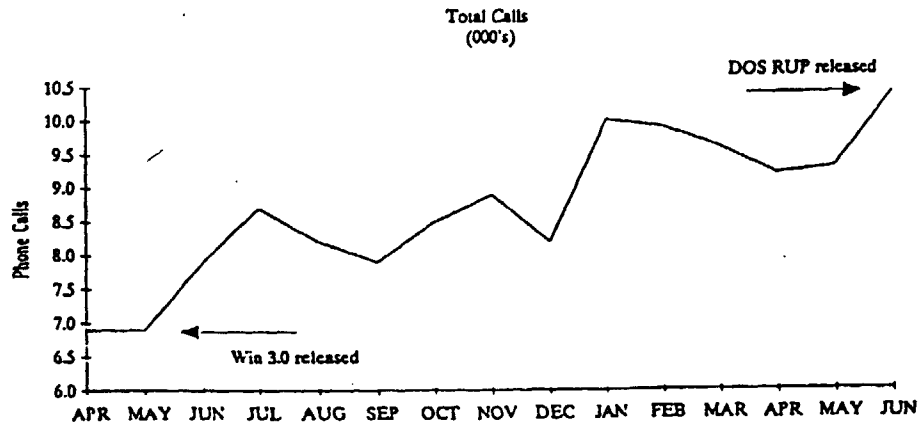
*PSS was restructured in preparation for the FY92 implementation of an activity-based costing system. This system is designed to provide motivation to contain and control product support costs by reporting actual, activity-based support cost in our financial reports on a Product Unit and Channel specific basis.*

*The third PSS site in Dallas was announced. This new site will open in October and is planned to follow the model of the North Carolina site. Dallas will provide primarily applications support and is expected to house 600 employees. Favorable facilities costs and availability of a qualified employee pool were the key factors in choosing Dallas.*

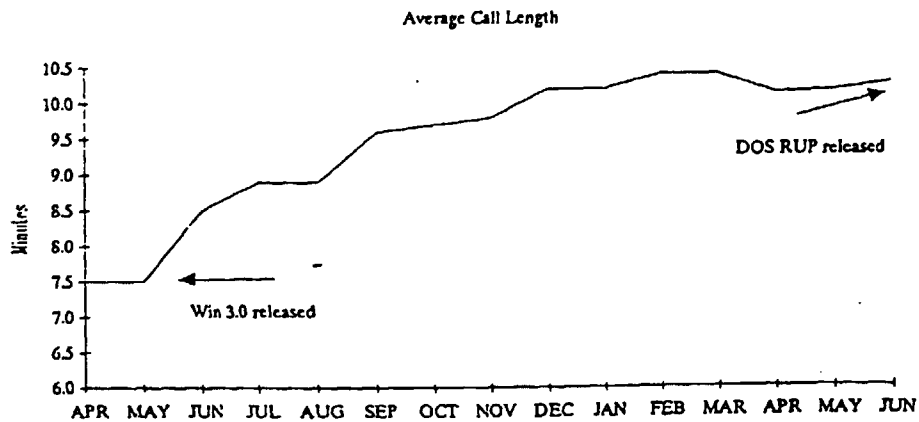
### Activity

*The impact of the release of Win 3.0 and DOS RUP on call volumes is illustrated in the following chart. Historically, each major systems product release has caused a step increase in call volume.*

PSS



The historical trend for average call length is depicted below. Average call length appears flat in the most recent quarter but is expected to show an increase in the next few months due to lengthier calls relating to DOS RUP. The June average is diluted due to the mid-month release of DOS RUP.



PSS

The table below summarizes Q91-4 domestic phone activity by business unit in comparison with Q91-3.

	Average Daily Calls									
	Offered			Handled			Handle Ratio		Avg. Call Time	
	Q91-4	Q91-3	Change	Q91-4	Q91-3	Change	Q91-4	Q91-3	Q91-4	Q91-3
ABU	1,904	1,710	11%	1,546	1,408	10%	81%	82%	9.45	9.51
OBU	2,478	2,599	(5)	1,926	2,074	(7)	78	80	9.92	9.74
EBU	745	879	(15)	689	762	(10)	92	87	6.36	7.62
GBU	136	160	(15)	120	137	(12)	88	85	8.24	8.59
DABU	272	243	12	240	215	12	88	89	7.19	6.74
Languages	443	487	(9)	407	461	(12)	92	95	7.98	7.92
Hardware	163	193	(16)	157	186	(16)	96	96	6.02	6.73
DOS	341	98	250	285	96	196	84	99	13.47	6.46
Windows	2,378	2,793	(15)	2,099	1,637	28	88	59	13.02	14.73
Other Systems	136	105	30	123	102	21	90	97	6.05	4.49
Escalation	134	90	49	129	88	47	97	97	7.03	7.15
AVS/Other *	494	517	(54)	409	453	(52)	83	88	3.32	2.79
	<u>9,626</u>	<u>9,874</u>		<u>8,131</u>	<u>7,618</u>					

\* AVS = Automated Voice System; a fully-recorded system that handles very basic support questions.

The two major activity shifts in Q91-4 involve DOS and Windows support. Offered call statistics on the DOS RUP do not include customers who receive busy signals. During the first few weeks of DOS RUP support, PSS was sending 20,000 - 30,000 busy signals per day (many customers placed repeated calls). Busy signals are now in the 6,000 per day range and declining.

While DOS RUP has significantly increased call volume, offered calls on Windows decreased 15% from Q91-3 to Q91-4. This reduction is due in part to the use of busy signals on Windows calls beginning in late March. However, offered calls on Windows exhibited a 7-8% reduction in Q91-3 prior to the use of the busy signal. Windows calls handled over this time frame increased 28% bringing the Windows call handle ratio in line with most other product groups. The average length of call on Windows has also decreased versus Q91-3. Trends on all other products are fairly flat.

#### Domestic Headcount

	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Channels
June 30, 1991	897	691	(206)	12.1%	22.1%
March 31, 1991	743	686	(57)	11.3	20.8
December 31, 1990	632	672	40	10.5	19.6
September 30, 1990	559	592	33	10.2	19.6
June 30, 1990	519	415	104	10.4	20.5

PSS costs are primarily headcount driven. At the end of FY91, PSS was 206 heads over budget. The timing of these heads, however, was delayed versus budget resulting in FY91 operating expenses being approximately on plan.



PSS

Operating Expenses (in millions)

FY91

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Payroll	\$21.0	\$0.1%	\$21.2	\$2.1%	\$ 0.2
General distribution	5.3	12.7	4.6	11.4	(0.7)
Depreciation & amort.	3.4	8.3	4.6	11.4	1.2
Rent & utilities	2.7	6.4	2.3	5.7	(0.4)
Supplies & equipment	2.6	6.3	1.7	4.1	(0.9)
Telecommunications	2.3	5.6	1.8	4.6	(0.5)
Other	4.5	10.6	4.4	10.7	(0.1)
	<u>\$41.8</u>	<u>100.0%</u>	<u>\$40.6</u>	<u>100.0%</u>	<u>\$(1.2)</u>

Q91-4

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Payroll	\$ 6.5	51.3%	\$5.7	\$4.4%	\$ (0.8)
General distribution	1.7	12.9	1.2	11.3	0.5
Depreciation & amort.	1.0	8.0	1.4	13.1	0.4
Supplies & equipment	0.7	5.5	0.2	1.9	(0.5)
Maintenance & repairs	0.5	4.0	0.2	1.4	(0.3)
Recruiting	0.3	2.4	0.1	1.2	(0.2)
Administrative services	0.3	2.3	0.1	1.2	(0.2)
Other	1.7	13.6	1.6	15.5	(0.1)
	<u>\$12.7</u>	<u>100.0%</u>	<u>\$10.5</u>	<u>100.0%</u>	<u>\$(1.2)</u>

The additional expense associated with providing facilities, supplies, and telecommunications equipment for unplanned heads is the reason for the unfavorable variances across these categories. The favorable depreciation variance results from capital spending being significantly below plan. PSS spent \$11.7 million in capital acquisitions versus a budget of \$16.3 million. The Q91-4 operating expenses reflect the significant over plan hiring done during the quarter.

Income from sales of the PSS Online program (Support Advantage) totalled \$3.7 million for FY91. Income from 900# calls and other miscellaneous support was \$500,000 for the year. After deducting the cost of OnLine connect time and data storage, net expense relief for PSS totalled \$2.6 million on an expense base of \$47.7 million (including allocations).

# Other Channels

FY91

	Net Revenues			Operating Income (Loss)		
	Actual	Plan	Variance	Actual	Plan	Variance
US Networks	\$ 6.6	\$30.3	\$(23.7)	\$(42.7)	\$(25.5)	\$(17.2)
Int'l Networks	8.1	13.6	(5.5)	(14.3)	(16.6)	2.3
Press	16.6	20.4	(3.8)	(1.4)	2.6	(4.0)
US PSS	-	5.0	(5.0)	(5.5)	(5.4)	(0.1)
Int'l PSS	1.6	1.9	(0.3)	(7.2)	(1.5)	(5.7)
US MSU	9.2	7.8	1.4	0.6	-	0.6
Int'l MSU	0.8	2.7	(1.9)	(0.5)	1.1	(1.6)
MSJ	1.6	2.3	(0.7)	(1.0)	(0.3)	(0.7)
US MCS	2.3	3.6	(1.3)	(2.3)	(1.7)	(0.6)
Int'l MCS	0.3	1.0	(0.7)	(0.8)	(0.7)	(0.1)
Elims	-	-	-	1.0	-	1.0
	<u>\$47.1</u>	<u>\$88.6</u>	<u>\$(41.5)</u>	<u>\$(74.1)</u>	<u>\$(48.0)</u>	<u>\$(26.1)</u>

Q91-4

	Net Revenues			Operating Income (Loss)		
	Actual	Plan	Variance	Actual	Plan	Variance
US Networks	\$ 1.8	\$13.6	\$(11.8)	\$(12.8)	\$(3.3)	\$(9.5)
Int'l Networks	2.9	7.0	(4.1)	(4.7)	(1.4)	(3.3)
Press	6.0	5.0	1.0	0.1	0.6	(0.5)
US PSS	(3.0)	2.1	(5.1)	(2.0)	(0.9)	(1.1)
Int'l PSS	0.2	0.7	(0.5)	(3.0)	(0.3)	(2.7)
US MSU	2.9	2.2	0.7	-	0.2	(0.2)
Int'l MSU	-	0.8	(0.8)	(0.4)	0.4	(0.8)
MSJ	0.4	0.7	(0.3)	(0.1)	0.1	(0.2)
US MCS	1.2	1.6	(0.4)	(0.6)	-	(0.6)
Int'l MCS	0.2	0.5	(0.3)	(0.4)	(0.1)	(0.3)
Elims	-	-	-	0.3	-	0.3
	<u>\$12.6</u>	<u>\$34.2</u>	<u>\$(21.6)</u>	<u>\$(23.6)</u>	<u>\$(4.7)</u>	<u>\$(18.9)</u>

				As a Percent of	
	Actual	Plan	Variance	Total Operating	Total Channels
Headcount				2.3%	4.5%
US Networks	173	193	20	0.3	0.6
Press	23	23	-	12.1	23.2
US PSS	897	691	(206)	1.5	2.9
US MSU	111	85	(26)	-	-
MSJ	1	3	2	0.7	1.3
US MCS	49	40	(9)		
	<u>1,254</u>	<u>1,035</u>	<u>(219)</u>		

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## Other Channels

US Networks: Revenues are below the level originally anticipated, resulting in a larger than planned operating loss. FY91 gross margin of 45.7%, versus a planned 84.1%, resulted from a shift toward lower margin 3COM and 1-5 User SKU's. Operating expenses and allocations were below planned levels.

Int'l Networks: The FY91 unfavorable revenue variance was due to slower than planned development of the International Networks business. Below plan operating expenses resulted in lower than planned loss. Higher than planned marketing expenses drove the unfavorable Q91-4 operating income variance.

Press: Heavy Q91-1 returns, coupled with the slippage of DOS 5.0, and therefore of DOS 5.0 titles as well, resulted in the FY91 revenue shortfall. The Q91-4 release of new titles for DOS 5.0 and Excel 3.0 resulted in a very strong quarter. May revenue of \$2.4 million set a new monthly record. In addition to the FY91 revenue shortfall, the unfavorable operating income variance was driven by a \$900,000 inventory write-off for overstocked and obsolete inventory.

US PSS: This sales channel will be eliminated in FY92. FY91 net revenues were reclassified as an offset to expense in Q91-4 to align with FY92 accounting methodology. The FY91 operating loss approximated plan. Although ending headcount was 206 over budget, the timing of headcount additions was delayed versus budget.

Int'l PSS: Lower than planned net revenues, combined with increased payroll related expenses contributed to the greater than planned operating loss.

US MSU: US MSU turned profitable in FY91. Net revenues were \$1.4 million above plan, fueled by higher than planned classroom and course licensing activity. Q91-4 profit margins were depressed due to supplies and equipment expenses related to the preparation of two new remote classroom sites.

Int'l MSU: Activity in this channel was below planned levels.

US MCS: Net revenue for FY91 came in at 63% of plan. Revenue generation in this channel is directly linked to headcount. While year-end headcount is above plan, the timing of headcount additions lagged plan for most of the year, resulting in revenue slippage. Committed projects going into FY92 total \$2.6 million.

Int'l MCS: International MCS activity is now beginning to ramp up. Q91-4 revenues represent greater than half of the FY91 total. Both the UK and Germany are currently in operation. The UK has \$259,000 in committed projects going into FY92. Germany is less developed, with \$28,000 in committed projects going into FY92.

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***Product Group / Business Unit Reporting***

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## Product Group Reporting

### FY91

	Actual		Plan		Variance
<u>Net Revenues</u>					
Applications	\$ 934.5	50.7%	\$ 743.0	49.0%	26 %
Systems	578.2	31.4	436.8	28.8	32
SPAG	213.0	11.6	149.8	9.9	42
Languages	55.4	3.0	62.6	4.1	(12)
Networks	44.1	2.4	57.6	3.8	(23)
Other	18.2	0.9	66.4	4.4	(73)
	<u>\$1,843.4</u>	<u>100.0%</u>	<u>\$1,516.2</u>	<u>100.0%</u>	<u>22</u>

	Actual			Plan			Variance
	Income	Percentage		Income	Percentage		
	(Loss)	Total	Revenue	(Loss)	Totals	Revenue	
<u>Operating Income (Loss)</u>	\$337.9	52.0%	36.1%	\$188.3	46.2%	25.3%	\$149.6
Applications	319.8	49.2	55.3	211.5	51.9	48.4	108.3
Systems	73.3	11.3	34.4	41.7	10.2	27.8	31.5
SPAG	1.1	0.2	2.0	8.8	2.2	14.1	(7.7)
Languages	(41.2)	(6.4)	-	(41.5)	(10.2)	-	0.3
Networks	(31.1)	(6.3)	-	(1.3)	(0.3)	-	(39.8)
Other	<u>\$49.8</u>	<u>100.0%</u>	<u>35.3</u>	<u>\$407.6</u>	<u>100.0%</u>	<u>26.9</u>	<u>\$242.2</u>

### Q91-4

	Actual		Plan		Variance
<u>Net Revenues</u>					
Applications	\$257.2	48.8%	\$212.2	48.1%	21 %
Systems	187.3	35.6	121.5	27.6	54
SPAG	47.4	9.0	40.1	9.1	18
Languages	11.1	2.1	20.1	4.6	(45)
Networks	18.6	3.5	24.2	5.5	(23)
Other	5.0	1.0	22.6	5.1	(78)
	<u>\$526.6</u>	<u>100.0%</u>	<u>\$440.9</u>	<u>100.0%</u>	<u>19</u>

	Actual			Plan			Variance
	Income	Percentage		Income	Percentage		
	(Loss)	Total	Revenue	(Loss)	Totals	Revenue	
<u>Operating Income (Loss)</u>	\$ 91.0	46.9%	35.4%	\$ 68.7	45.9%	32.4%	\$22.3
Applications	113.7	58.6	60.7	63.4	42.4	52.2	50.3
Systems	12.8	6.6	27.1	11.9	8.0	29.7	0.9
SPAG	(3.9)	(2.0)	-	5.8	3.9	29.0	(9.7)
Languages	(8.0)	(4.1)	-	(4.9)	(3.3)	-	(3.1)
Networks	(11.7)	(6.0)	-	4.4	3.1	20.7	(16.1)
Other	<u>\$194.1</u>	<u>100.0%</u>	<u>36.9</u>	<u>\$149.6</u>	<u>100.0%</u>	<u>33.9</u>	<u>\$44.5</u>

### Headcount

	June 30, 1991		March 31, 1991		December 31, 1990		September 30, 1990		June 30, 1990	
Applications	1,046	35.7%	891	34.2%	849	34.6%	806	35.0%	753	35.8%
Systems	529	18.0	460	17.7	452	18.4	453	19.7	436	20.7
SPAG	43	1.5	38	1.5	38	1.6	32	1.4	27	1.3
Languages	147	5.0	140	5.4	136	5.5	135	5.9	133	6.3
Networks	192	6.5	239	9.2	235	9.6	233	10.1	194	9.2
International R&D	825	28.1	698	26.8	604	24.6	518	22.5	445	21.1
Other *	151	5.2	139	5.2	137	5.7	128	5.4	117	5.6
Product Groups	<u>2,933</u>	<u>100.0%</u>	<u>2,605</u>	<u>100.0%</u>	<u>2,451</u>	<u>100.0%</u>	<u>2,305</u>	<u>100.0%</u>	<u>2,105</u>	<u>100.0%</u>

\* Includes Multimedia, Books, MSJ Development and Unix.

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# Product Group Reporting

## Quarterly Revenues (in millions)

	Q91-1		Q91-2		Q91-3		Q91-4 *		FY91 *	
Applications	\$177.9	48.2%	\$244.0	51.0%	\$255.6	52.5%	\$257.2	48.8%	\$ 934.7	50.7%
Systems	116.4	31.5	137.8	29.9	136.7	28.1	187.3	35.6	578.2	31.4
SPAG	49.2	13.3	59.1	12.8	57.3	11.8	47.4	9.0	213.0	11.6
Languages	14.7	4.0	15.2	3.3	14.4	3.0	11.1	2.1	55.4	3.0
Networks	4.8	1.3	8.7	1.9	11.9	2.4	18.6	3.5	44.0	2.4
Other	6.4	1.7	(4.3)	(0.9)	11.0	2.2	5.0	1.0	18.1	0.9
	<u>\$369.4</u>	<u>100.0%</u>	<u>\$460.5</u>	<u>100.0%</u>	<u>\$486.9</u>	<u>100.0%</u>	<u>\$526.6</u>	<u>100.0%</u>	<u>\$1,843.4</u>	<u>100.0%</u>

	Q90-1		Q90-2		Q90-3		Q90-4		FY90	
Applications	\$106.4	45.3%	\$153.2	51.0%	\$158.1	50.9%	\$145.2	43.1%	\$ 563.0	47.6%
Systems	75.2	32.0	79.3	26.4	87.4	28.1	123.0	36.5	365.0	30.8
SPAG	25.3	10.8	35.7	11.9	33.2	10.7	35.1	10.4	129.4	10.9
Languages	13.0	5.5	13.1	4.4	11.5	3.7	17.0	5.0	54.5	4.6
Networks	7.7	3.3	10.0	3.3	11.2	3.6	5.6	1.7	34.5	2.9
Other	7.6	3.2	9.1	3.0	9.4	3.0	11.1	3.3	37.2	3.1
	<u>\$235.2</u>	<u>100.0%</u>	<u>\$300.4</u>	<u>100.0%</u>	<u>\$310.9</u>	<u>100.0%</u>	<u>\$337.0</u>	<u>100.0%</u>	<u>\$1,183.4</u>	<u>100.0%</u>

	Q89-1		Q89-2		Q89-3		Q89-4		FY89	
Applications	\$ 72.1	40.8%	\$ 86.2	41.1%	\$ 77.3	39.2%	\$105.3	47.8%	\$340.9	42.4%
Systems	59.0	33.4	70.9	33.8	73.6	37.3	75.9	34.5	279.3	34.8
SPAG	20.5	11.6	30.1	14.3	22.0	11.2	19.0	8.6	91.5	11.4
Languages	16.0	9.1	13.6	6.5	10.1	5.1	8.7	4.0	48.5	6.0
Networks	1.1	0.6	1.6	0.7	3.6	1.8	3.4	1.5	9.6	1.2
Other	7.8	4.4	7.5	3.6	10.5	5.3	7.9	3.6	33.7	4.2
	<u>\$176.4</u>	<u>100.0%</u>	<u>\$209.9</u>	<u>100.0%</u>	<u>\$197.0</u>	<u>100.0%</u>	<u>\$220.2</u>	<u>100.0%</u>	<u>\$803.5</u>	<u>100.0%</u>

	Q88-1		Q88-2		Q88-3		Q88-4		FY88	
Applications	\$ 40.3	39.3%	\$ 61.4	39.4%	\$ 63.4	39.2%	\$ 71.2	41.8%	\$236.3	40.0%
Systems	37.3	36.3	56.0	35.9	55.8	34.5	56.3	33.0	205.4	34.8
SPAG	9.7	9.4	15.7	10.1	19.2	11.9	19.7	11.5	64.3	10.9
Languages	9.6	9.4	17.6	11.3	15.4	9.5	15.3	9.0	57.9	9.8
Networks	0.3	0.3	0.5	0.3	0.7	0.4	0.7	0.4	2.3	0.4
Other	5.4	5.2	4.8	3.1	7.3	4.5	7.2	4.2	24.7	4.2
	<u>\$102.6</u>	<u>100.0%</u>	<u>\$155.9</u>	<u>100.0%</u>	<u>\$161.8</u>	<u>100.0%</u>	<u>\$170.5</u>	<u>100.0%</u>	<u>\$590.8</u>	<u>100.0%</u>

\* See the following Business Unit sections for analysis.

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## Applications

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$934.5	100.0%	\$743.0	100.0%	\$191.5
Cost of revenues	158.8	17.0	140.0	18.9	(18.8)
Operating expense	177.2	19.0	175.4	23.6	(1.8)
Allocations	260.6	27.9	239.3	32.2	(21.3)
Burdened operating income	\$337.9	36.1%	\$188.3	25.3%	\$149.6

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$257.2	100.0%	\$212.2	100.0%	\$45.0
Cost of revenues	41.4	16.1	38.5	18.1	(2.9)
Operating expense	49.9	19.4	41.1	19.4	(8.8)
Allocations	74.9	29.1	63.9	30.1	(11.0)
Burdened operating income	\$91.0	35.4%	\$68.7	32.4%	\$22.3

### Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$573.7	\$448.5	\$125.2	\$151.2	\$128.5	\$22.7
USSMD	383.6	301.2	82.4	116.4	85.7	30.7
Domestic OEM	9.3	11.8	(2.5)	3.2	3.4	(0.2)
International OEM	4.4	2.2	2.2	1.6	0.5	1.1
Adjustments	(36.5)	(20.7)	(15.8)	(15.2)	(5.9)	(9.3)
Net revenues	\$934.5	\$743.0	\$191.5	\$257.2	\$212.2	\$45.0

### Lending Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	620	\$184.9	\$298	529	\$135.5	\$256	91	\$49.4	\$42
Win Word	562	153.5	273	408	106.8	261	154	46.7	12
PC Word	422	122.5	290	504	125.7	250	(82)	(3.2)	40
PC Works	991	64.6	65	1,538	65.7	43	(547)	(1.1)	22
Mac Word	298	56.5	189	301	60.4	201	(3)	(3.9)	(12)
Mac Excel	232	53.4	231	251	54.1	216	(19)	(0.7)	15
Win Project	88	33.4	378	35	14.1	401	53	19.3	(23)
Win Office	56	26.2	468	9	4.4	513	47	21.8	(45)
Win Excel Upg	218	23.9	110	—	—	—	218	23.9	110
Win PowerPoint	92	21.9	237	80	18.8	235	12	3.1	2
		\$740.8			\$585.5			\$155.3	
Percent of net revenues		79%			79%				

# Applications

## Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	194	\$ 54.6	\$281	146	\$ 37.0	\$253	48	\$17.6	\$28
Win Word	147	36.6	248	115	30.2	261	32	6.4	(13)
PC Word	96	26.3	273	130	32.9	254	(34)	(6.6)	19
Mac Excel	77	18.0	234	65	14.5	224	12	3.5	10
Win Office	32	14.1	439	3	1.7	513	29	12.4	(74)
Mac Word	73	13.5	185	80	18.0	225	(7)	(4.5)	(40)
PC Works	239	13.2	55	417	17.8	43	(178)	(4.6)	12
Mac Excel Upd	100	11.2	112	15	1.4	96	85	9.8	16
Win Excel Upg	99	10.9	110	-	-	-	99	10.9	110
Win Word Upg	69	8.7	125	11	1.7	164	58	7.0	(39)
		<u>\$207.1</u>			<u>\$155.2</u>			<u>\$51.9</u>	
Percent of net revenues		81%			73%				

## Environment Revenues (in millions)

	Q91-4		Plan	Q91-3		Q91-2		Q91-1	
Windows	\$154.1	56.6%	38.7%	\$149.3	56.7%	\$119.3	47.4%	\$ 80.3	43.8%
Mac	57.2	21.0	24.5	42.2	16.0	44.0	17.4	38.7	21.1
DOS	56.5	20.7	32.7	68.1	25.9	87.3	34.7	62.7	34.2
Other	4.6	1.7	4.1	3.7	1.4	1.3	0.5	1.7	0.9
	<u>272.4</u>	<u>100.0%</u>	<u>100.0%</u>	<u>263.3</u>	<u>100.0%</u>	<u>251.9</u>	<u>100.0%</u>	<u>183.4</u>	<u>100.0%</u>
Adjustments	(15.2)			(7.7)		(7.9)		(5.5)	
Net revenues	<u>\$257.2</u>			<u>\$255.6</u>		<u>\$244.0</u>		<u>\$177.9</u>	

## Business Unit Results (in millions)

### FY91

	Actual		Plan		Variance
Net Revenues					
Office	\$404.2	43.2%	\$334.6	45.0%	20.8%
Analysis	366.3	39.2	251.0	33.8	45.9
Entry	111.9	12.0	105.8	14.2	5.9
Graphics	33.5	3.6	30.2	4.1	10.9
Data Access	18.6	2.0	21.5	2.9	(13.5)
	<u>\$934.5</u>	<u>100.0%</u>	<u>\$743.0</u>	<u>100.0%</u>	25.8

Operating Income (Loss)	Actual			Plan			Variance
	Income (Loss)	Percentage		Income (Loss)	Percentage		
		Total	Revenue		Total	Revenue	
Analysis	\$174.4	51.6%	47.6%	\$ 77.1	40.9%	30.7%	\$ 97.3
Office	156.7	46.4	38.8	109.4	58.1	32.7	47.3
Entry	22.1	6.5	19.7	17.1	9.1	16.2	5.0
Graphics	1.1	0.4	3.4	(1.7)	(0.9)	8.0	2.8
Data Access	(16.4)	(4.9)	-	(13.5)	(7.2)	-	(2.9)
	<u>\$337.9</u>	<u>100.0%</u>	36.1	<u>\$188.3</u>	<u>100.0%</u>	25.3	<u>\$149.6</u>



# Applications

## Q91-4

	Actual		Plan		Variance
Net Revenues	\$121.4	47.2%	\$ 71.6	33.7%	69.6%
Analysis	100.3	39.0	96.5	45.4	4.0
Office	21.0	8.2	28.5	13.4	(26.1)
Entry	9.0	3.5	9.1	4.3	(1.1)
Graphics	5.5	2.1	6.6	3.2	(17.9)
Data Access	<u>527.2</u>	<u>100.0%</u>	<u>521.2</u>	<u>100.0%</u>	21.2

Operating Income (Loss)	Actual			Plan			Variance
	Income (Loss)	Percentage		Income (Loss)	Percentage		
		Total	Revenue		Total	Revenue	
	\$66.4	72.9%	54.6%	\$26.5	38.6%	37.1%	\$39.8
Analysis	32.4	35.6	32.3	38.9	56.6	40.3	(6.5)
Office	(2.3)	(2.5)	—	5.8	8.4	20.4	(8.1)
Entry	—	(0.1)	—	0.2	0.3	1.9	(0.2)
Graphics	(5.4)	(5.9)	—	(2.7)	(3.9)	—	(2.7)
Data Access	\$91.0	100.0%	35.4	\$68.7	100.0%	32.4	\$22.3

	Q88-1		Q88-2		Q88-3		Q88-4		FY'88	
Applications	\$ 40.3	39.3%	\$ 61.4	39.4%	\$ 63.4	39.2%	\$ 71.2	41.8%	\$236.3	40.0%
Systems	37.3	36.3	56.0	35.9	55.8	34.5	56.3	33.0	205.4	34.8
SPAG	9.7	9.4	15.7	10.1	19.2	11.9	19.7	11.5	64.3	10.9
Languages	9.6	9.4	17.6	11.3	15.4	9.5	15.3	9.0	57.9	9.8
Networks	0.3	0.3	0.5	0.3	0.7	0.4	0.7	0.4	2.3	0.4
Other	5.4	5.2	4.8	3.1	7.3	4.5	7.2	4.2	24.7	4.2
	<u>\$102.6</u>	<u>100.0%</u>	<u>\$155.9</u>	<u>100.0%</u>	<u>\$161.8</u>	<u>100.0%</u>	<u>\$170.5</u>	<u>100.0%</u>	<u>\$590.8</u>	<u>100.0%</u>

## Headcount (percent is of Product Groups' total)

	June 30, 1991		March 31, 1991		December 31, 1990		September 30, 1990		June 30, 1990	
Analysis -	175	6.0%	158	6.1%	159	6.5%	154	6.7%	143	6.8%
Office -	366	12.5	272	10.4	250	10.2	233	10.0	217	10.3
Entry	159	5.4	142	5.5	143	5.8	136	5.9	128	6.1
Graphics	47	1.6	46	1.8	43	1.8	40	1.7	34	1.6
Data Access	139	4.7	127	4.9	123	5.0	118	5.1	126	6.0
Support *	160	5.5	146	5.5	131	5.3	125	5.5	105	5.0
Total Applications	<u>1,046</u>	<u>35.7%</u>	<u>891</u>	<u>34.2%</u>	<u>849</u>	<u>34.6%</u>	<u>806</u>	<u>35.0%</u>	<u>753</u>	<u>35.8%</u>

\* Includes Division Management, Marketing and Strategy Management.

For additional information, see the following analysis for each Business Unit.

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## Office Business Unit

### Comments

#### FY91

The \$129 competitive upgrade program helped generate total Win Word upgrade/update shipments of 93,000 units and \$11.3 million in USSMD revenues from January 1, to June 30, 1991. Product marketing officially ended Phase I of the program on May 15, 1991 and estimated Win Word upgrades included in total shipments during the period to be 79,500 units. Phase II of this program kicked off on July 8, 1991 and is expected to last until December 31, 1991.

Consumer Software, Inc.(CSI) was acquired for \$13.5 million. The price included \$13.4 million of intellectual property rights which will be charged to operations over three years at approximately \$4.8 million a year. Microsoft Workgroup Canada Inc., a subsidiary formed to make the acquisition, will be a development center for mail products and gateways.

The Office Business Unit was reorganized into three new Product Units in November 1990: Word, Workgroup and Pen Windows.

#### Product Ship Dates

Win Word 1.1.....7/90  
PC Word 5.5 .....10/90  
PM Word 1.1 .....11/90  
OS/2 Word.....11/90

Mac Mail 3.0 .....3/91  
Mac Schedule.....4/91  
PC Mail 2.1 .....5/91

#### Q91-4

Mac Word 5.0, originally scheduled to ship in May, slipped. The release is currently planned for September 1991.

The \$129 competitive upgrade program helped generate total Win Word update and upgrade shipments of 53,000 units and \$6.5 million in USSMD revenues from April 1, to June 30, 1991.

PC Mail achieved the highest overall evaluation rating in a recent Software Digest Rating Report.

Workgroup Canada added 60 unplanned headcount for the Workgroup Product Unit. OBU operating expenses were adversely affected, resulting in negative variances throughout Q91-4.

Spitfire moved to OBU from Networks. Spitfire is the X.400 mail server project.

### Results of Operations (in millions)

#### FY91

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	\$404.1	100.0%	\$334.6	100.0%	\$69.5
Cost of revenues	68.0	16.8	58.1	17.4	(9.9)
Operating expenses	56.7	14.0	54.5	16.3	(2.2)
Allocations	122.7	30.4	112.6	33.6	(10.1)
Burdened operating income	\$156.7	38.8%	\$109.4	32.7%	\$47.3

Office Business Unit

Q91-4

	Actual		Plan		Variance
	\$100.3	100.0%	\$96.5	100.0%	\$ 3.8
Net revenues	16.6	16.5	15.9	16.5	(0.7)
Cost of revenues	16.1	16.1	11.5	12.0	(4.6)
Operating expenses	35.2	35.1	30.2	31.2	(5.0)
Allocations	\$ 32.4	32.3%	\$38.9	40.3%	\$(6.5)
Burdened operating income					

Leading Products (units in thousands, revenues in millions)

FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Word	562	\$153.5	\$273	408	\$106.8	\$261	154	\$46.7	\$12
PC Word	422	122.5	290	504	125.7	250	(82)	(3.2)	40
Mac Word	298	56.5	189	301	60.4	201	(3)	(3.9)	(12)
Win Word Upg	156	20.5	131	42	6.7	161	114	13.8	(30)
PC Word Upd	150	13.8	92	107	11.4	107	43	2.4	(15)
		\$366.8			\$311.0			\$55.8	

Percentage of net revenues 91% 93%

The favorable Win Word unit and revenue variances are due to exceptional Win 3.0 sales, which are pulling Windows applications through the sales channels. The positive Win and PC Word price variances are due to sales mix within the retail channel. Both products are experiencing higher than planned International Finished Goods sales. Average unit prices for both products (Win-\$382 versus \$344 and PC-\$338 versus \$289) are also better than were planned in the International Finished Goods channel. The unfavorable PC Word unit variance is the result of strong demand for Windows applications and of the USSMD channel being heavily stocked with PC Word. Mac Word sales are below plan due to version 5.0 slipping. All three upgrade variances are due to the success of the \$129 competitive upgrade program.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Word	147	\$36.6	\$248	115	\$30.2	\$261	32	\$6.4	\$(13)
PC Word	96	26.3	273	130	32.9	254	(34)	(6.6)	19
Mac Word	73	13.5	185	80	18.0	225	(7)	(4.5)	(40)
Win Word Upg	69	8.7	125	11	1.7	164	58	7.0	(39)
PC Word Upd	37	3.0	81	26	2.9	115	11	0.1	(34)
		\$88.1			\$85.7			\$2.4	

Percentage of net revenues 88% 89%

Q91-4 Win and PC Word unit and revenue variances are largely attributable to the same factors identified for FY91. The 5% unfavorable Win Word price variance is due to the USSMD sales channel average price being 18% less than plan (\$182 versus \$221) as a result of higher than planned Education revenue. In Q91-4 International Finished Goods also lost the favorable FX effect (compared to planned rates) that it enjoyed in the first three quarters of FY91. The favorable PC Word price variance is due to International Finished Goods sales mix being greater than plan (88% versus 85%), coupled with a higher average price than plan (\$306 versus \$291).

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# Office Business Unit

The unfavorable Mac Word unit variance is primarily due to slippage of Mac Word 5.0 which was originally scheduled to ship in May. Claris has been running aggressive channel promotions which appear to have resulted in some displacement of Mac Word.

## Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$264.1	\$209.8	\$54.3	\$63.4	\$59.3	\$4.1
USSMD	130.9	119.7	11.2	32.6	35.8	(3.2)
Domestic OEM	1.9	2.1	(0.2)	0.7	0.7	-
Adjustments	7.2	2.9	4.3	3.6	0.7	2.9
Net revenues	\$404.1	\$334.5	\$69.6	\$100.3	\$96.5	\$3.8

FY91 sales through the International Finished Goods channel were 26% greater than plan. A portion of the variance results from favorable FX rates during the first three quarters. Win Word (\$37.2 million) and PC Word updates (\$800,000) exceeded plan in the International Finished Goods channel, whereas, Mac Word (\$1.8 million) and PM Word (\$1.2 million) fell short of plan. USSMD's revenues were close to plan. Strong Win Word upgrade sales (\$11.2 million) were offset by below planned revenues for PC Word (\$3.2 million) and Mac Word (\$2.2 million). Strong sales of the Office product produced the favorable adjustment variance via inter business unit royalties. Office revenue is originally recorded in the Applications Business Unit and is reclassified to the BUs of the component products, in accordance with predetermined allocation rules.

Q91-4 International Finished Goods sales were slightly above plan. The favorable variance was primarily due to Win Word exceeding plan by \$6.8 million. Falling below plan were: PC Word (\$4.7 million), Mac Word (\$1.5 million) and PM Word (\$742,000). The strengthening of the dollar eliminated any significant Q91-4 FX variance. USSMD's revenues were slightly below plan. Strong Win Word upgrade sales (\$6.1 million versus \$427,000) were offset by below planned revenues for PC Word (\$2.0 million versus \$4.5 million) and Mac Word (\$7.6 million versus \$10.5 million).

## Cost of Revenues

As a percentage of net revenues, FY91 COGS were better than plan, primarily due to lower than expected manufacturing and distribution allocations. Product costs as a percentage of net revenues were approximately as planned.

Q91-4 COGS at 16.5% of net revenues approximated plan.

## Operating Expenses (in millions)

### FY91

	Actual	Plan	Variance
Marketing	\$28.5	\$27.2	\$(1.3)
Payroll & payroll taxes	12.8	11.7	(1.1)
Marketing fund & incentive programs	0.5	1.4	0.9
Other	14.9	14.2	(0.7)
	\$56.7	\$54.5	\$(2.2)

## Office Business Unit

The unfavorable marketing variance was attributable to significant unfavorable variances in Germany (\$1.7 million) and Spain (\$1.3 million). These variances were partially offset by favorable variances in the Nordic Region (\$939,000) and Singapore (\$585,000). Domestic marketing mirrored plan at \$15.6 million. The unfavorable payroll variance is the result of the CSI acquisition and unplanned staffing of Pen Windows development. Marketing fund incentive programs were less than plan due to underspending in our subsidiaries.

### Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$10.6	\$4.3	\$(6.3)
Marketing accrual	(4.0)	-	4.0
Product development	1.7	0.6	(1.1)
Payroll & payroll taxes	4.0	3.2	(0.8)
Other	<u>3.8</u>	<u>3.3</u>	<u>(0.5)</u>
	<u>\$16.1</u>	<u>\$11.5</u>	<u>\$(4.6)</u>

Domestic marketing expenditures were \$4.3 million over plan. This was due to slippage of expenses planned for earlier in the year. Subsidiaries with significant unfavorable variances were Germany (\$770,000) and Spain (\$486,000). The unfavorable payroll and development expenses were the result of the CSI acquisition. Amortization of intellectual property rights relating to the purchase of CSI will be approximately \$1.2 million per quarter for the next two fiscal years.

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Product Groups</u>
Headcount				4.9%	12.5%
June 30, 1991	366	261	(105)	4.1	10.4
March 31, 1991	272	256	(16)	4.1	10.2
December 31, 1990	250	240	(10)	4.3	10.1
September 30, 1990	233	232	(1)	4.4	10.3
June 30, 1990	217	187	(30)		

Headcount was over budget primarily because of the unplanned addition to the Pen Product Unit of 36 people and to Workgroup Canada of 60 people.

### Allocations

FY91 allocated expenses exceeded plan. The largest unfavorable variances occurred in International Finished Goods (\$6.6 million) and PSS (\$1.9 million). The IFG variance is due to recruiting and administrative services which exceeded plan. PSS costs are a function of support demands.

Q91-4 allocated expenses exceeded plan. The largest unfavorable variances occurred in International Finished Goods (\$1.5 million), PSS (\$1.3 million) and USSMD (\$1.1 million). The IFG variance resulted from higher than planned payroll and recruiting costs. Higher than anticipated headcount was responsible for the PSS variance while the USSMD variance was due to generally higher than planned spending across cost categories.

### Burdened Operating Income

FY91 burdened operating income reflected higher than planned performances for Win Word products (full products, upgrades and updates) in both the USSMD and International Finished Goods channels. COGS approximated plan, while operating expenses were only slightly over plan due to the CSI acquisition and increase in Pen Windows headcount.

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— Office Business Unit

The Q91-4 burdened operating income variance was the result of lackluster performance of PC and Mac Word in both the USSMD and International Finished Goods channels, combined with an unfavorable marketing variance and costs of the CSI (Workgroup Canada) acquisition.

## Analysis Business Unit

### Comments

#### FY91

The \$129 competitive upgrade program helped generate total Win Excel update/upgrade shipments of 210,000 units and \$23.0 million in USSMD revenues from January 1, to June 30, 1991. Product marketing officially ended Phase I of the program on May 15, 1991 and estimated Win Excel upgrades included in total shipments during this period to be 94,865 units. Phase II of this program kicked off on July 8, 1991 and is expected to last until December 31, 1991.

MS Win Project generated \$33.4 million in revenues compared to a plan of \$14.1 million.

The Analysis Business Unit was reorganized into two new product units for FY92: Excel and Project.

#### Product Ship Dates

Q+E 2.5.....8/90	PM Excel 3.0.....5/91
Win Excel 3.0.....12/90	Mac Project.....7/91
Mac Excel 3.0.....3/91	

#### Q91-4

Win Excel market share triples! According to SPA, Win Excel's worldwide market share during the period March to May 1991 is 37% for units and 33% for revenues.

The \$129 competitive upgrade program helped generate total Win Excel update/upgrade shipments of 91,000 units and \$10.0 million in USSMD revenues from April 1, to June 30, 1991.

Mac Project was released to manufacturing on June 24th.

PM Excel 3.0 shipped in May.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$366.3	100.0%	\$251.0	100.0%	\$115.3
Cost of revenues	53.9	14.7	45.3	18.0	(8.6)
Operating expenses	50.8	13.9	48.0	19.1	(2.8)
Allocations	87.2	23.8	80.6	32.2	(6.6)
Burdened operating income	\$174.4	47.6%	\$77.1	30.7%	\$97.3

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$121.4	100.0%	\$71.6	100.0%	\$49.8
Cost of revenues	16.5	13.6	12.6	17.7	(3.9)
Operating expenses	13.6	11.2	10.8	15.0	(2.8)
Allocations	25.0	20.6	21.7	30.2	(3.3)
Burdened operating income	\$66.3	54.6%	\$26.5	37.1%	\$39.8

# Analysis Business Unit

## Leading Products (units in thousands, revenues in millions)

FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	620	\$184.9	\$298	529	\$135.5	\$256	91	\$49.4	\$42
Mac Excel	232	53.4	231	251	54.1	216	(19)	(0.7)	15
Win Project	88	33.4	378	35	14.1	401	53	19.3	(23)
Win Excel Upg	218	23.9	110	-	-	-	218	23.9	110
PC Multiplan	120	18.1	152	76	14.1	187	44	4.0	(35)
		\$313.7			\$217.8			\$95.9	
Percentage of net revenues		86%			87%				

Favorable Win Excel unit and revenue variances are due to exceptional Win 3.0 sales which are pulling Windows applications through the sales channels. The positive Win Excel price variance is due to higher than planned average unit prices in all channels (USSMD - \$231 versus \$223, IFG - \$362 versus \$312, and DOEM - \$65 versus \$58). Even though unit sales for Mac Excel were less than plan (IFG was short 13,000 units), average unit price in both retail channels exceeded plan, which minimized the revenue shortfall. Win Project has had strong demand since its introduction. The price per unit variance was lower than planned in both International Finished Goods (\$428 versus \$470) and USSMD (\$349 versus \$361). The IFG Win Project per unit variance occurred in Q91-4. The success of the Win Excel upgrade product is attributed to the unplanned \$129 competitive upgrade program. PC Multiplan continues to contribute, with 95% of it's sales coming from IFG. WW OEM reduced PC Multiplan's average unit price by unplanned selling of 31% of total PC Multiplan unit shipments for an average price of only \$17.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win Excel	194	\$ 54.6	\$281	146	\$37.0	\$253	48	\$17.6	\$28
Mac Excel	77	18.0	234	65	14.5	224	12	3.5	10
Mac Excel Upd	100	11.2	112	15	1.4	96	85	9.8	16
Win Excel Upg	99	10.9	110	-	-	-	99	10.9	110
Win Project	24	8.0	327	10	4.0	413	14	4.0	(86)
		\$102.7			\$56.9			\$45.8	
Percentage of net revenues		85%			79%				

Q91-4 Win Excel variances are largely attributable to the same factors identified above for all of FY91. In Q91-4, International Finished Goods also lost the favorable FX effect (compared to planned rates) that it enjoyed in the first three quarters of FY91. Mac Excel full product and updates are up due to the March 1991 release of version 3.0. Win Project continues to sell much better than plan. The 21% drop in Win Project's average unit price is due to 4,600 units being sold for only \$47 to the Australian Tax Office which has committed to a minimum of 14,500 units over three years.

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# Analysis Business Unit

## Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$210.6	\$153.9	\$ 56.7	\$ 66.1	\$44.1	\$22.0
USSMD	145.7	90.9	\$4.8	51.1	25.7	25.4
Domestic OEM	1.7	2.4	(0.7)	0.6	0.8	(0.2)
International OEM	0.5	—	0.5	0.1	—	0.1
Adjustments	7.8	3.8	4.0	3.5	1.0	2.5
Net revenues	<u>\$366.3</u>	<u>\$251.0</u>	<u>\$115.3</u>	<u>\$121.4</u>	<u>\$71.6</u>	<u>\$49.8</u>

FY91 International Finished Goods sales were 37% greater than plan mostly because of Win Excel revenues which exceeded plan by \$40.0 million. Other IFG variances were Win Excel Updates (\$8.9 million), Win Project (\$8.1 million) and PC Multiplan (\$3.3 million). PM Excel and Mac Excel fell short of plan by \$7.4 million and \$2.5 million, respectively. USSMD revenues were 60% greater than plan. Key products for USSMD which exceeded plan were Win Excel Upgrades (\$23.0 million), Win Project (\$11.3 million) and Win Excel (\$10.5 million). Exceptional sales of the Office product produced the favorable adjustment variance via inter business unit royalties. Office revenue is originally recorded in the Applications Business Unit and is reclassified to the BU's of the component products, in accordance with predetermined allocation rules.

More than 33% of FY91 net revenues occurred in Q91-4, thanks to recent updates of Win and Mac Excel and the \$129 competitive upgrade program. International Finished Goods were 50% greater than plan due to Win Excel (\$15.9 million), Win Project (\$1.7 million) and Win Excel Updates (\$6.4 million) exceeding plan. PM Excel (\$2.0 million), Mac Excel (\$1.3 million) and PC Multiplan (\$394,000) fell short of plan. USSMD revenues were 98% greater than plan and comprised 43% of gross revenues, compared to a plan of 36%. Window products lead the way, exceeding plan by \$13.0 million. Significant favorable variances were Win Excel upgrades (\$10.0 million), Win Project (\$2.3 million), and Win Excel (\$1.7 million).

## Cost of Revenues

The FY91 and Q91-4 favorable variance as a percentage of net revenues resulted from below planned manufacturing costs for Win Excel 3.0, Mac Excel 3.0 and Win Project. Another key factor was that high margin Win Project sold a lot better than expected. The non-product cost component of COGS, as a percent of net revenues, was also better than plan for both periods.

## Operating Expenses (in millions)

### FY91

	Actual	Plan	Variance
Marketing	\$28.8	\$24.6	\$(4.2)
Product development	4.8	6.1	1.3
Other	17.2	17.4	0.2
	<u>\$50.8</u>	<u>\$48.1</u>	<u>\$(2.7)</u>

The FY91 unfavorable marketing variance consists of an unfavorable domestic marketing variance of \$2.6 million and an unfavorable subsidiary variance of \$1.6 million. The unfavorable domestic variance was due to incremental funding for the Win Excel 3.0 launch and the \$129 upgrade offer. Subsidiaries with the largest unfavorable variances were France (\$1.0 million) and the Nordic Region (\$809,000). The favorable product development variance occurred primarily because of purchased code being less than plan.

— Analysis Business Unit

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$10.7	\$ 5.0	\$ (5.7)
Marketing accrual	(3.5)	—	3.5
Other	<u>6.4</u>	<u>5.8</u>	<u>(0.6)</u>
	<u>\$13.6</u>	<u>\$10.8</u>	<u>\$ (2.8)</u>

The Q91-4 unfavorable marketing variance was due to incremental funding for Excel 3.0, the \$129 upgrade offer, and an unfavorable (\$1.3 million) subsidiary marketing variance. Subsidiaries with the largest unfavorable variances were the Nordic Region (\$610,000) and Germany (\$541,000).

Headcount	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Product Groups</u>
June 30, 1991	175	179	4	2.4%	6.0%
March 31, 1991	158	177	19	2.4	6.1
December 31, 1990	159	173	14	2.6	6.5
September 30, 1990	154	165	11	2.8	6.7
June 30, 1990	143	147	4	2.9	6.8

Allocations

The largest FY91 unfavorable variances occurred in International Finished Goods (\$4.8 million) and PSS (\$668,000). The IFG variance is due to higher than planned subsidiary administrative services, recruiting, and facilities costs while the PSS variance reflects unplanned call volume.

International Finished Goods (\$1.1 million) and USSMD (\$835,000) had the largest Q91-4 unfavorable variances. The IFG overspending occurred in payroll, recruiting, and facilities. The USSMD variance was due to overspending in a variety of accounts with travel and entertainment being the largest single variance.

Burdened Operating Income

ABU significantly exceeded their FY91 burdened operating income plan. Updates of Excel 3.0 (Win and Mac), the \$129 competitive upgrade program and Win Project exceeded expectations. At the same time COGS were below plan and operating expenses were within 6% of plan.

Q91-4 contributed 38% of FY91's burdened operating income. The release of Mac Excel 3.0 and Win Project together with the \$129 competitive upgrade program were catalysts for the quarter.

## Entry Business Unit

### Comments

#### FY91

"Solution series" is on schedule to roll out in the Fall. This Windows line includes: Works, Publisher (Voodoo), and Money (Barney).

Win Entertainment Pak generated \$3.2 million in unplanned revenues.

#### Q91-4

The Mac Works SRP was lowered to \$249 to stimulate demand.

PFS Windows Works hit the market. Bundling agreements were signed with Acer America, Eltech Research, Emerson Computer, Goldstar Technologies and Leading Technology. Development of KanjiWorks delayed development of Microsoft Works for Windows, which will ship in the fall.

PC and Mac Works did not sell well in the retail channels.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$111.9	100.0%	\$105.8	100.0%	\$6.1
Cost of revenues	25.5	22.7	25.4	24.0	(0.1)
Operating expenses	27.2	24.3	28.8	27.2	1.6
Allocations	37.1	33.3	34.5	32.7	(2.6)
Burdened operating income	\$ 22.1	19.7%	\$ 17.1	16.2%	\$5.0

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$21.0	100.0%	\$28.5	100.0%	\$(7.5)
Cost of revenues	5.2	24.8	6.7	23.7	1.5
Operating expenses	7.1	34.0	6.6	23.3	(0.5)
Allocations	11.0	52.1	9.4	32.6	(1.6)
Burdened operating income	\$(2.3)	(10.9)%	\$ 5.8	20.4%	\$(8.1)

### Leading Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
PC Works	991	\$ 64.6	\$ 65	1,538	\$ 65.7	\$ 43	(547)	\$(1.1)	\$22
Mac Works	132	17.8	135	134	18.6	138	(2)	(0.8)	(3)
PC Flight Sim	278	8.7	31	336	11.0	33	(58)	(2.3)	(2)
PC Works Upd	70	5.9	83	12	1.3	109	58	4.6	(26)
PC Chart	26	4.6	175	21	4.4	206	5	0.2	(31)
		\$101.6			\$101.0			\$ 0.6	
Percent of net revenues		91%			95%				

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### Entry Business Unit

Increased competition in Q91-4 resulted in FY91's unfavorable PC Works variances. The negative unit variance was slightly mitigated by a 51% favorable average price variance. The unit price variance was due to sales mix. Specifically, WW retail unit sales were 50% of total shipments compared to a plan of 38%, while WW OEM represented 50% compared to plan of 62%. The average unit prices for USSMD, International Finished Goods and WW OEM were \$83, \$135 and \$12, respectively. PC Flight Simulator sales were less than expected in both retail channels during the second half of FY91. PC Flight Simulator unit sales were an impressive 60% greater than FY90 (174,000 units in FY90), but unfortunately, the PC Flight Simulator's average unit price dropped 22% (\$40 in FY90). PC Works updates sold better than expected internationally. The average price variance was due to 11,600 unplanned units sold through the USSMD channel at an average price of \$40. The PC Chart price variance was due to International OEM sales of 6,500 units at an average price of \$26 a unit.

### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
PC Works	239	\$13.2	\$ 55	417	\$17.8	\$ 43	(178)	\$(4.6)	\$12
Mac Works	33	3.7	114	35	4.8	138	(2)	(1.1)	(24)
PC Flight Sim	39	1.2	30	89	2.9	33	(50)	(1.7)	(3)
Learning DOS	40	1.0	26	32	0.9	28	8	0.1	(2)
PC Works Upd	11	1.0	89	3	0.3	113	8	0.7	(24)
		<u>\$20.1</u>			<u>\$26.7</u>			<u>\$(6.6)</u>	
Percent of net revenue		<u>96%</u>			<u>94%</u>				

The recent release of PFS Window Works and its aggressive marketing programs had a negative impact on PC Works during Q91-4. The favorable PC Works price variance was due to WW OEM sales having a higher average unit price than expected (\$16 versus \$7). Mac Works unit shipments were close to plan, however both retail channels average unit prices were much less than expected. Learning DOS had a new release during Q91-4 which stimulated sales.

### Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$ 72.6	\$ 61.4	\$11.2	\$13.1	\$17.3	\$(4.2)
USSMD	38.1	40.1	(2.0)	7.8	10.1	(2.3)
Domestic OEM	3.4	5.0	(1.6)	1.1	1.3	(0.2)
International OEM	3.0	2.1	0.9	1.3	0.5	0.8
Adjustments	<u>(5.2)</u>	<u>(2.8)</u>	<u>(2.4)</u>	<u>(2.3)</u>	<u>(0.7)</u>	<u>(1.6)</u>
Net revenues	<u>\$111.9</u>	<u>\$105.8</u>	<u>\$ 6.1</u>	<u>\$21.0</u>	<u>\$28.5</u>	<u>\$(7.5)</u>

FY91 was highlighted by the good performance of PC Works in the International Finished Goods channel. IFG PC Works revenue exceeded plan by 15%. PC Works in the International OEM channel was also strong (\$661,000 favorable variance). The success of PC Works through the International Finished Goods and OEM channels more than offset lackluster performance in the USSMD channel. Products with shortfalls in USSMD included: PC Works (\$2.6 million), PC Flight Simulator (\$1.5 million), and Mac Flight Simulator (\$1.0 million). Win Entertainment Pak produced \$2.3 million in unplanned revenue for the USSMD channel.

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## Entry Business Unit

Q91-4 sales through the retail channels were weak, whereas International OEM was slightly above plan. The unfavorable variances in the retail channels can be attributed to below plan revenues for PC Works (\$5.0 million), PC Flight Simulator (\$1.7 million) and Mac Works (\$1.1 million). The favorable International OEM variance was attributed to PC Works (\$655,000).

## Cost of Revenues

Absolute FY91 COGS were surprisingly close to plan, whereas COGS as a percent of net revenues was slightly lower than plan. This favorable variance was due to International Finished Goods product costs being lower than plan (14.9% compared to 17.9%).

Q91-4 non-product costs, as a percent of net revenues, were greater than plan, causing an overall unfavorable COGS variance.

## Operating Expenses (in millions)

### FY91

	Actual	Plan	Variance
Marketing	\$ 9.8	\$10.8	\$1.0
Marketing fund & incentive programs	0.1	0.6	0.5
Other	17.3	17.4	0.1
	\$27.2	\$28.8	\$1.6

The favorable marketing, and marketing fund variance was the result of underspending in our subsidiaries. Japan spent \$1.2 million more in marketing than planned, primarily for *KanjiWorks*, whereas all other subsidiaries were at or below plan.

### Q91-4

	Actual	Plan	Variance
Marketing	\$2.7	\$1.8	\$(0.9)
Marketing accrual	(0.5)	—	0.5
Other	4.9	4.8	(0.1)
	\$7.1	\$6.6	\$(0.5)

The marketing variance was due to delaying expenditures budgeted for earlier in the year to Q91-4. Q91-4 variances were recorded for the Entertainment Pak (\$170,000) and Mac Works (\$135,000). Japan was also over plan (\$176,000).

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Product Groups
June 30, 1991	159	152	(7)	2.1%	5.4%
March 31, 1991	142	150	8	2.2	5.5
December 31, 1990	143	145	2	2.4	5.8
September 30, 1990	136	139	3	2.5	5.9
June 30, 1990	128	123	(5)	2.6	6.1

## Allocations

FY91 allocated expenses exceeded plan. The largest unfavorable variances occurred in International Finished Goods (\$1.5 million) and PSS (\$498,000).

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Entry Business Unit

Q91-4 allocated expenses exceeded plan by 18%. The largest unfavorable variances occurred in International Finished Goods (\$504,000) and USSMD (\$331,000).

Burdened Operating Income

FY91 burdened operating income was the result of strong performance in the retail channels for the first three quarters. In addition, COGS was slightly below plan, and operating expenses were well managed.

Q91-4 burdened operating income was below plan as a result of poor performances by PC Works, Flight Simulator and Mac Works in both retail channels.

## Data Access Business Unit

### Comments

#### FY91

Pro and PC Quick BASIC net revenues were \$4.8 million below the plan of \$16.3 million. This was primarily due to aggressive budget expectations.

Quick BASIC/Gameshop was released in October 1990.

#### Q91-4

Visual BASIC was released in May 1991 generating \$1.9 million in combined finished goods and upgrade revenue.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$18.6	100.0%	\$21.5	100.0%	\$(2.9)
Cost of revenues	5.1	27.3	5.4	25.1	0.3
Operating expense	15.3	82.0	16.1	75.0	0.8
Allocations	14.6	79.0	13.5	62.9	(1.1)
Burdened operating income	\$(16.4)	(88.3)%	\$(13.5)	(63.0)%	\$(2.9)

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$5.5	100.0%	\$6.6	100.0%	\$(1.1)
Cost of revenues	1.4	25.8	1.5	23.2	0.1
Operating expense	5.2	93.6	4.2	63.1	(1.0)
Allocations	4.3	77.8	3.6	54.6	(0.7)
Burdened operating income	\$(5.4)	(97.2)%	\$(2.7)	(40.9)%	\$(2.7)

### Leading Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
PC Quick BASIC	100	\$6.5	\$ 65	141	\$9.1	\$ 65	(41)	\$(2.6)	\$ -
Pro BASIC	19	5.0	260	27	7.2	269	(8)	(2.2)	(9)
Visual BASIC	11	1.3	110	27	2.0	73	(16)	(0.7)	37
Pro BASIC Upd	13	1.2	97	2	0.2	88	11	1.0	9
Amiga BASIC	829	0.9	1	850	0.9	1	(21)	-	-
		\$14.9			\$19.4			\$(4.5)	
Percentage of net revenues		80%			90%				

#### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
PC Quick BASIC	21	\$1.4	\$ 66	37	\$2.4	\$ 65	(16)	\$(1.0)	\$ 1
Pro BASIC	5	1.4	308	9	2.5	280	(4)	(1.1)	28
Visual BASIC	11	1.3	110	12	0.9	74	(1)	0.4	36
Visual BASIC Upg	6	0.6	99	-	-	-	6	0.6	99
MS Database	5	0.3	54	5	0.3	53	-	-	1
		\$5.0			\$6.1			\$(1.1)	
Percentage of net revenues		91%			92%				

Data Access Business Unit

Channel Revenues (in millions)

	FY91			Q91-4		
	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
International FG	\$ 9.6	\$11.2	\$(1.6)	\$2.6	\$3.8	\$(1.2)
USSMD	7.5	9.1	(1.6)	2.7	2.5	0.2
Domestic OEM	1.7	1.7	-	0.5	0.5	-
International OEM	0.9	-	0.9	0.2	-	0.2
Adjustments	(1.1)	(0.5)	(0.6)	(0.5)	(0.2)	(0.3)
Net revenues	<u>\$18.6</u>	<u>\$21.5</u>	<u>\$(2.9)</u>	<u>\$5.5</u>	<u>\$6.6</u>	<u>\$(1.1)</u>

DABU's FY91 revenue variance was attributable to lower than planned revenues in both the International Finished Goods and USSMD channels. This shortfall was partially offset by a favorable variance of \$867,000 in the International OEM channel. The International Finished Goods variance was attributable to PC Quick BASIC (\$2.3 million below plan), partially offset by a favorable variance for unbudgeted Pro BASIC Updates (\$638,000). The unfavorable USSMD variance was result of a revenue shortfall for Pro BASIC (\$1.8 million versus a \$3.7 million plan) and slippage of Visual BASIC (\$982,000 versus a \$1.8 million plan). Visual BASIC, budgeted to ship in January, slipped to April, resulting in the FY91 variance.

The Q91-4 International Finished Goods revenue shortfall was the result of continued lower than planned sales of both Pro and PC Quick BASIC.

Cost of Revenues

The FY91 COGS variance was primarily due to higher than planned non-product costs. Product costs were slightly below budget.

Q91-4's variance was due to recording royalty expense that related to prior period MS Database revenue (Desktop III) and higher than planned M&D costs.

Operating Expenses (in millions)

FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Buildings & grounds distribution	\$ 1.3	\$ 1.7	\$0.4
Marketing fund & incentive programs	-	0.2	0.2
Other	<u>14.0</u>	<u>14.2</u>	<u>0.2</u>
	<u>\$15.3</u>	<u>\$16.1</u>	<u>\$0.8</u>

The FY91 Buildings and grounds variance was due to lower than planned headcount for most of the year. The marketing fund variance was due to lower than planned subsidiary activity.

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$1.5	\$0.6	\$(0.9)
Product development	0.5	0.3	(0.2)
Other	<u>3.2</u>	<u>3.3</u>	<u>0.1</u>
	<u>\$5.2</u>	<u>\$4.2</u>	<u>\$(1.0)</u>

The Q91-4 marketing variance was primarily due to higher than planned expenditures for Visual BASIC. The Product Development variance was primarily due to an unbudgeted expense for Cirrus of (\$110,000).



Data Access Business Unit

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total</u> <u>Operating</u>	<u>Total</u> <u>Product Groups</u>
Headcount				1.9%	4.7%
June 30, 1991	139	134	(5)	1.9	4.9
March 31, 1991	127	134	7	2.0	5.0
December 31, 1990	123	133	10	2.2	5.1
September 30, 1990	118	128	10	2.5	6.0
June 30, 1990	126	155	29		

Allocations

The FY91 and Q91-4 unfavorable variances were primarily due to higher than planned allocations from International Finished Goods and PSS.

Burdened Operating Income

The FY91 and Q91-4 burdened operating losses were due to lower than planned Pro and Quick BASIC net revenues throughout all channels, partially offset in Q91-4 by the release of Visual BASIC.

## Graphics Business Unit

### Comments

#### FY91

FY91 was the first profitable year since Microsoft acquired Forethought three years ago.

Windows PowerPoint shipped seven localized versions within 90 days of US release: PowerPoint International English, German, French, Dutch, Italian, Swedish, and French Canadian.

#### Q91-4

The Upgrade for Win PowerPoint shipped with a free translator program to convert Harvard Graphics to PowerPoint.

### Results of Operations (in millions)

#### FY91

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	\$33.5	100.0%	\$30.2	100.0%	\$ 3.3
Cost of revenues	6.4	19.0	5.9	19.7	(0.5)
Operating expenses	13.4	39.9	14.0	46.3	0.6
Allocations	12.6	37.7	12.0	39.8	(0.6)
Burdened operating income	\$ 1.1	3.4%	\$ (1.7)	(5.8)%	\$ 2.8

#### Q91-4

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	\$9.0	100.0%	\$9.1	100.0%	\$(0.1)
Cost of revenues	1.6	17.9	1.6	17.5	—
Operating expenses	3.7	41.6	4.1	45.0	0.4
Allocations	3.7	41.4	3.2	35.6	(0.5)
Burdened operating income	\$0.0	(0.9)%	\$0.2	1.9%	\$(0.2)

### Leading Products (units in thousands, revenues in millions)

#### FY91

	<u>Actual</u>			<u>Plan</u>			<u>Variance</u>		
	<u>Units</u>	<u>Revs</u>	<u>\$/Unit</u>	<u>Units</u>	<u>Revs</u>	<u>\$/Unit</u>	<u>Units</u>	<u>Revs</u>	<u>\$/Unit</u>
Win PowerPoint	92	\$21.9	\$237	80	\$18.8	\$235	12	\$3.1	\$ 2
Mac PowerPoint	32	6.6	205	37	7.9	216	(5)	(1.3)	(11)
Win PowerPoint Promos	34	0.6	16	—	—	—	34	0.6	16
Win PowerPoint Upd	1	0.2	173	—	—	—	1	0.2	173
Mac PowerPoint Upd	2	0.1	45	17	0.5	28	(15)	(0.4)	17
		\$29.4			\$27.2			\$2.2	
Percent of net revenue		88%			90%				

The favorable Win PowerPoint unit and revenue variances are due to exceptional Win 3.0 sales, which are pulling Windows applications through the sales channels. The unfavorable Mac PowerPoint price variance is due to lower than planned average unit prices in USSMD (\$194 versus \$200) and IFG (\$247 versus \$253).

## Graphics Business Unit

### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win PowerPoint	29	\$5.3	\$184	24	\$5.5	\$235	5	\$(0.2)	\$(51)
Mac PowerPoint	8	1.6	195	9	2.0	217	(1)	(0.4)	(22)
		\$6.9			\$7.5			\$(0.6)	
Percent of net revenue		77%			82%				

Win PowerPoint variances are largely attributable to the same factors identified for FY91 above. However, USSMD average prices (\$237 versus \$251) and IFG's average prices (\$201 versus \$342) were less than planned. The 22% drop in the Win PowerPoint average unit price is primarily due to 4,600 units being sold for \$47 to the Australian Tax Office which has committed to a minimum of 14,500 units over three years. The unfavorable Mac PowerPoint price variance is due to lower than planned average unit prices in USSMD and IFG. The USSMD variance was the result of above plan sales of lower priced MLP's.

### Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
USSMD	\$17.8	\$17.1	\$0.7	\$4.1	\$4.9	\$(0.8)
International FG	10.9	10.9	-	2.8	3.6	(0.8)
Domestic OEM	0.6	0.6	-	0.3	0.2	0.1
Adjustments	4.2	1.6	2.6	1.8	0.4	1.4
Net revenues	\$33.5	\$30.2	\$3.3	\$9.0	\$9.1	\$(0.1)

USSMD FY91 sales of Win PowerPoint were \$2.0 million above plan, whereas Mac PowerPoint sales were \$700,000 below plan. International Finished Goods sales were at plan with Win PowerPoint \$1.1 million above plan, while Mac PowerPoint sales were \$1.1 million below plan. Exceptional sales of the Office product produced the favorable adjustment variance via inter business unit royalties.

USSMD's Q91-4 sales of Win PowerPoint and Mac PowerPoint mirrored plan. PM PowerPoint 2.0 was originally budgeted to ship in Q91-4. Development of this version was dropped, however, and this is the primary reason USSMD sales were below plan. International Finished Goods sales of Win PowerPoint were \$300,000 below plan, whereas Mac PowerPoint sales were \$350,000 below plan.

### Cost of Revenues

FY91 and Q91-4 cost of revenues approximated plan. The only point worth noting is that USSMD product costs for Mac and Win PowerPoint were slightly less than plan, while International Finished Goods were slightly above plan.

### Operating Expenses (in millions)

#### FY91

	Actual	Plan	Variance
Marketing	\$5.9	\$4.7	\$(1.2)
Payroll & payroll taxes	3.1	3.9	0.8
Other	4.4	5.4	1.0
	\$13.4	\$14.0	\$0.6

## Graphics Business Unit

The unfavorable marketing variance was primarily the result of approved additional marketing for Win PowerPoint. The favorable payroll variance occurred as a result of headcount being under plan for most the year.

### Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$1.9	\$1.5	\$ (0.4)
Payroll & payroll taxes	0.8	1.2	0.4
Marketing accrual	(0.3)	-	0.3
Other	1.3	1.4	0.1
	<u>\$3.7</u>	<u>\$4.1</u>	<u>\$ 0.4</u>

The Q91-4 marketing variance is due to overspending by our subsidiaries. The favorable payroll variance occurred as a result of headcount being under plan.

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	As a Percent of	
				<u>Total Operating</u>	<u>Total Product Groups</u>
Headcount				0.6%	1.6%
June 30, 1991	47	62	15	0.7	1.8
March 31, 1991	46	59	13	0.7	1.8
December 31, 1990	43	52	9	0.7	1.7
September 30, 1990	40	44	4	0.7	1.6
June 30, 1990	34	47	13		

### Allocations

FY91 allocated expenses exceeded plan, the largest unfavorable variances occurred in International Finished Goods (\$344,000) and USSMD (\$109,000).

Q91-4 allocated expenses exceeded plan, the largest unfavorable variances occurred in USSMD (\$504,000) and International R&D (\$163,000).

### Burdened Operating Income

FY91 revenues were three times larger than FY90, which equated to GBU's first profitable fiscal year! The success was due to higher than expected revenues for Win PowerPoint, reducing COGS, and maintaining operating expenses.

Q91-4 approximated plan, with lower than planned operating expenses being offset by unfavorable allocations.

## Systems

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$578.2	100.0%	\$436.8	100.0%	\$141.4
Cost of revenues	79.5	13.7	49.7	11.4	(29.8)
Operating expense	97.7	16.9	102.8	23.5	5.1
Allocations	81.2	14.1	72.8	16.7	(8.4)
Burdened operating income	\$319.8	55.3%	\$211.5	48.4%	\$108.3

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$187.3	100.0%	\$121.5	100.0%	\$65.8
Cost of revenues	24.3	13.0	13.9	11.4	(10.4)
Operating expense	27.1	14.4	24.9	20.5	(2.2)
Allocations	22.2	11.9	19.3	15.9	(2.9)
Burdened operating income	\$113.7	60.7%	\$63.4	52.2%	\$50.3

### Leading Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
DOS/GW Basic	16,466	\$267.2	\$ 16	15,485	\$250.9	\$ 16	981	\$ 16.3	\$ -
Win 3.0	3,234	170.1	53	993	88.2	89	2,241	81.9	(36)
DOS RUP	927	50.7	55	254	11.2	44	673	39.5	11
Win 3.0 Upd	513	28.4	55	433	16.7	39	80	11.7	16
OS/2	427	14.8	35	238	18.3	77	189	(3.5)	(42)
Win SDK	43	12.9	301	23	5.8	256	20	7.1	45
Win 286	538	5.7	11	215	21.5	10	(1,588)	(15.8)	1
		\$549.8			\$412.6			\$137.2	
Percent of net revenues		95%			94%				

#### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
DOS/GW Basic	4,295	\$ 66.5	\$15	3,415	\$ 62.9	\$18	880	\$ 3.6	\$ (3)
DOS RUP	927	50.7	55	104	4.7	45	823	46.0	10
Win 3.0	1,199	49.5	41	332	29.2	88	867	20.3	(47)
OS/2	286	7.1	25	77	6.0	78	209	1.1	(53)
Win 3.0 Upd	50	3.1	62	128	3.6	28	(78)	(0.5)	34
Win SDK	8	2.5	325	8	1.9	250	0	0.6	75
		\$179.4			\$108.3			\$71.1	
Percent of net revenues		96%			89%				

# Systems

## Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$186.3	\$100.2	\$ 86.1	\$ 45.1	\$28.0	\$17.1
International OEM	145.2	152.7	(7.5)	40.4	38.8	1.6
Domestic OEM	137.9	118.4	19.5	45.4	31.8	13.6
USSMD	106.5	68.5	38.0	56.5	23.9	32.6
Adjustments	2.3	(3.0)	5.3	0.0	(0.9)	0.9
Net Revenues	<u>\$578.2</u>	<u>\$436.8</u>	<u>\$141.4</u>	<u>\$187.3</u>	<u>\$121.5</u>	<u>\$65.8</u>

## Business Unit Results (in millions)

FY91	Actual		Plan		Variance
Net Revenues					
DOS	\$322.2	55.7%	\$262.4	60.0%	22.8 %
Windows	233.0	40.3	149.0	34.1	56.4
OS/2	21.3	3.7	22.1	5.1	(3.6)
Printer	1.7	0.3	3.3	0.8	(48.5)
	<u>\$578.2</u>	<u>100.0%</u>	<u>\$436.8</u>	<u>100.0%</u>	<u>32.4</u>

	Actual			Plan			Variance
	Income (Loss)	Percentage Total	Revenue	Income (Loss)	Percentage Total	Revenue	
Operating Income (Loss)	\$237.5	74.3%	73.7%	\$199.5	94.3%	76.0%	\$ 38.0
DOS	116.1	36.3	49.8	56.8	26.9	38.1	59.3
Windows	(26.3)	(8.2)	(123.5)	(37.3)	(17.7)	(168.8)	11.0
OS/2	(7.5)	(2.4)	(441.2)	(7.5)	(3.5)	(227.3)	0.0
Printer	\$319.8	100.0%	55.3	\$211.5	100.0%	48.4	\$108.3

Q91-4	Actual		Plan		Variance
Net Revenues					
DOS	\$118.7	63.4%	\$ 67.7	55.7%	75.3 %
Windows	59.3	31.7	45.5	37.5	30.3
OS/2	9.2	4.9	6.7	5.5	37.3
Printer	0.1	0.0	1.6	1.3	(93.8)
	<u>\$187.3</u>	<u>100.0%</u>	<u>\$121.5</u>	<u>100.0%</u>	<u>54.2</u>

	Actual			Plan			Variance
	Income (Loss)	Percentage Total	Revenue	Income (Loss)	Percentage Total	Revenue	
Operating Income (Loss)	\$ 88.6	77.9%	74.6%	\$51.1	80.6%	75.5%	\$37.5
DOS	30.4	26.7	51.3	21.9	34.5	48.2	8.5
Windows	(3.1)	(2.7)	(33.7)	(8.5)	(13.4)	(126.9)	5.4
OS/2	(2.2)	(1.9)	(2200.0)	(1.1)	(1.7)	(68.8)	(1.1)
Printer	\$113.7	100.0%	60.7	\$63.4	100.0%	52.2	\$50.3

# Systems

## Headcount (percent is of Product Groups' total)

	<u>June 30, 1991</u>		<u>March 31, 1991</u>		<u>December 31, 1990</u>		<u>September 30, 1990</u>		<u>June 30, 1990</u>	
DOS	52	1.8%	48	1.8%	48	2.0%	45	2.0%	15	0.7%
Windows	172	5.9	133	5.1	132	5.4	124	5.4	76	3.6
OS/2	204	7.0	184	7.1	185	7.5	205	8.9	300	14.3
Printer	22	0.8	24	0.9	21	0.9	16	0.7	20	1.0
Support	<u>79</u>	<u>2.5</u>	<u>71</u>	<u>2.8</u>	<u>66</u>	<u>2.6</u>	<u>63</u>	<u>2.7</u>	<u>25</u>	<u>1.2</u>
	<u>529</u>	<u>18.8%</u>	<u>460</u>	<u>17.7%</u>	<u>452</u>	<u>18.4%</u>	<u>453</u>	<u>19.7%</u>	<u>436</u>	<u>20.7%</u>

\* Includes Division Management, Marketing, Developer Relations, UE Production and Advanced Technical & Business Development.

See the following Business Unit sections for analysis of the significant Business Units.

## DOS Business Unit

### Comments

FY91

*DOS RUP became available through the retail channels. During Q91-4, 927,000 units of were shipped.*

*Virtually all major OEMs have licensed MS-DOS 5.0.*

### Results Of Operations (in millions)

FY91

	Actual		Plan		Variance
Net revenues	\$322.2	100.0%	\$262.4	100.0%	\$59.8
Cost of revenues	33.2	10.3	18.3	7.0	(14.9)
Operating expense	18.0	5.6	14.5	5.5	(3.5)
Allocations	33.5	10.4	30.1	11.5	(3.4)
Burdened operating income	\$237.5	73.7%	\$199.5	76.0%	\$38.0

Q91-4

	Actual		Plan		Variance
Net revenues	\$118.7	100.0%	\$67.7	100.0%	\$51.0
Cost of revenues	14.6	12.4	5.1	7.6	(9.5)
Operating expense	6.8	5.7	3.5	5.1	(3.3)
Allocations	8.7	7.3	8.0	11.8	(0.7)
Burdened operating income	\$ 88.6	74.6%	\$51.1	75.5%	\$37.5

### Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International OEM	\$122.5	\$118.7	\$ 3.8	\$ 30.5	\$28.2	\$ 2.3
Domestic OEM	95.8	95.0	0.8	24.7	24.5	0.2
International FG	62.8	40.8	22.0	21.5	12.0	9.5
USSMD	42.5	8.7	33.8	42.5	3.3	39.2
Adjustments	(1.4)	(0.8)	(0.6)	(0.5)	(0.3)	(0.2)
Net revenues	\$322.2	\$262.4	\$59.8	\$118.7	\$67.7	\$51.0

The majority of the FY91 revenue and burdened operating income variance was due to Q91-4's introduction of the DOS RUP. The immediate demand for the DOS RUP generated \$42.5 million in USSMD revenue in Q91-4 compared to plan of \$3.3 million. IFG benefitted from the RUP as well as shipments of packaged MS DOS 5.0. WW OEM revenue were only slightly above plan.



## DOS Business Unit

### Significant Worldwide OEM Customers (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
Compaq	\$15.2	\$13.1	\$2.1	\$4.1	\$3.7	\$0.4
Toshiba	14.4	9.9	4.5	2.9	2.7	0.2
NEC	10.8	11.0	(0.2)	4.6	2.0	2.6
Olivetti	7.9	4.6	3.3	2.7	1.1	1.6
Tatung	5.6	2.5	3.1	0.9	0.5	0.4
AST Research	5.2	4.1	1.1	1.4	1.1	0.3
Acer	4.7	5.5	(0.8)	1.4	1.3	0.1
Zenith Data	4.7	5.5	(0.8)	1.0	1.4	(0.4)
Datatech	4.5	1.9	2.6	1.3	0.5	0.8
Tandy	4.4	5.1	(0.7)	0.9	1.4	(0.5)
Other	140.9	150.5	(9.6)	34.0	37.0	(3.0)
Gross revenue	\$218.3	\$213.7	\$4.6	\$55.2	\$52.7	\$2.5

Worldwide OEM gross revenues for the year were slightly above plan. Customers with significant variances were:

Compaq - Ramping shipments of 386SX units more than offset the decline in shipments for their other desktop models.

Toshiba - Unit shipments jumped from 348,000 (FY90) to 882,000 (FY91) due to strong laptop sales.

Olivetti - Higher royalty rates attributed to the MS-DOS/Windows bundle was the primary reason for the positive variance. Actual unit shipments were 11% above plan.

Datatech - The shift of this Taiwanese company from motherboards to low-end PCs produced ramping royalties (244,000 units versus 86,000 planned).

Tatung - Shipments in FY91 were bolstered by their agreement to supply hardware and MS-DOS to Packard-Bell. Packard Bell has now contracted directly with Microsoft for MS-DOS, which will result in lower Tatung royalties in FY92.

Epson - A continued shortfall in shipments as Epson repositions itself in the marketplace led to a negative variance of \$4.7 million (206,000 units versus 786,000 planned).

FY91 revenues exceeded plan due to the Q91-4 introduction of the DOS RUP to the retail channels. RUP revenues were \$50.7 million versus a plan of \$11.2 million. The surprising volume of the DOS RUP was also responsible for the higher than planned product costs. The FY91 operating expense variance was primarily due to the Q91-4 marketing variance of \$1.9 million and \$596,000 in the retail and OEM channels, respectively.

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Product Groups
June 30, 1991	52	40	(12)	0.7%	1.8%
March 31, 1991	48	36	(12)	0.7	1.8
December 31, 1990	48	35	(13)	0.8	2.0
September 30, 1990	45	33	(12)	0.8	2.0
June 30, 1990	15	13	(2)	0.3	0.7

### Burdened Operating Income

The FY91 burdened operating income was above plan as a result of the release of the DOS RUP in Q91-4, which also created the Q91-4 variance.

## Windows Business Unit

### Comments

#### FY91

*Win 3.0 shipped 3.2 million units, generating \$170.1 million in worldwide revenue. Including the Mouse and DOS bundles, almost 5 million units have shipped since the May 22, 1990 release.*

*Systems reorganized July 1, 1991, consolidating virtually all activities relating to the development, testing and marketing of Windows into the Windows business unit. Major groups that are now part of this "Super" Windows Business Unit include: NT (formerly in OS/2), Advanced Windows Services (formerly in Networks) and Win Printing.*

*Windows reorganized at the end of Q91-1, absorbing a large number of unplanned headcount from the OS/2 development team. This resulted in unfavorable variances for operating expenses through Q91-4.*

#### Q91-4

*Win 3.0 shipped 1.2 million units, generating \$49.5 million in revenue worldwide.*

*Win 3.1 shipped. Shipment was planned for Q91-4, but has been rescheduled for Q92-2.*

*IBM paid Microsoft \$7.5 million for development of NT (\$5.0 million) and Windows (\$2.5 million), which was credited to Windows Domestic OEM revenues.*

### Results of Operations (in millions)

#### FY91

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	<u>\$233.0</u>	<u>100.0%</u>	<u>\$149.0</u>	<u>100.0%</u>	<u>\$84.0</u>
Cost of revenues	<u>42.3</u>	<u>18.1</u>	<u>26.9</u>	<u>18.1</u>	<u>(15.3)</u>
Operating expense	<u>35.7</u>	<u>15.3</u>	<u>30.7</u>	<u>20.6</u>	<u>(5.0)</u>
Allocations	<u>38.9</u>	<u>16.7</u>	<u>34.6</u>	<u>23.2</u>	<u>(4.4)</u>
Burdened operating income	<u>\$116.1</u>	<u>49.8%</u>	<u>\$56.8</u>	<u>38.1%</u>	<u>\$59.3</u>

#### Q91-4

	<u>Actual</u>		<u>Plan</u>		<u>Variance</u>
Net revenues	<u>\$59.3</u>	<u>100.0%</u>	<u>\$45.5</u>	<u>100.0%</u>	<u>\$13.8</u>
Cost of revenues	<u>9.1</u>	<u>15.3</u>	<u>7.6</u>	<u>16.7</u>	<u>(1.5)</u>
Operating expense	<u>8.6</u>	<u>14.5</u>	<u>6.8</u>	<u>14.9</u>	<u>(1.8)</u>
Allocations	<u>11.2</u>	<u>18.9</u>	<u>9.2</u>	<u>20.2</u>	<u>(2.0)</u>
Burdened operating income	<u>\$30.4</u>	<u>51.3%</u>	<u>\$21.9</u>	<u>48.2%</u>	<u>\$8.5</u>

# Windows Business Unit

## Leading Products (units in thousands, revenues in millions)

FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win 3.0	3,234	\$170.1	\$ 53	993	\$88.2	\$ 89	2,241	\$81.9	\$(36)
Win 3.0 Update	513	28.4	55	433	16.7	39	80	11.7	16
Win SDK	43	12.9	301	23	5.8	256	20	7.1	45
Win 286	538	5.7	11	2,126	21.5	10	(1,588)	(15.8)	1
Win SDK Update	16	2.7	173	22	1.7	81	(6)	1.0	92
		<u>\$219.8</u>			<u>\$133.9</u>			<u>\$85.9</u>	
Percent of net revenues		<u>94%</u>			<u>90%</u>				

Stronger than planned sales levels together with sales mix were the primary reasons for the Win 3.0 unit, revenue and price variances. Win 3.0 units exceeded plan by 1.8 million in the WW OEM sales channels and by 368,000 in the International Finished Goods channel. The Win 3.0 unit price variance is due to 55% of the units being sold through the WW OEM channels compared to virtually none in the plan. The average unit price for USSMD, International Finished Goods and WW OEM has been \$72, \$108 and \$21, respectively. The Win 286 short-fall from plan is offset by Win 3.0 sales. The per unit revenue variance for the SDK SKU's is primarily due to a higher than anticipated percentage of sales being direct to the end user, rather than through the channel, and unplanned IFG revenue with higher per unit revenue than the USSMD plan.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Win 3.0	1,199	\$49.5	\$ 41	332	\$29.2	\$ 88	867	\$20.3	\$(47)
Win 3.0 Update	50	3.1	62	128	3.6	28	(78)	(0.5)	34
Win SDK	8	2.5	325	6	1.9	250	0	0.6	75
Other Windows	136	2.1	15	17	0.5	29	119	1.6	(14)
Win 286	58	1.2	21	520	5.7	11	(462)	(4.5)	10
		<u>\$58.4</u>			<u>\$40.9</u>			<u>\$17.5</u>	
Percent of net revenues		<u>98%</u>			<u>90%</u>				

Of the 1.2 million Win 3.0 units sold during the quarter, 864,000 were through our WW OEM channels, generating \$21.7 million in revenue. There were virtually no revenues budgeted through those channels, which explains the overall unit price variance of \$47. Since the release of Win 3.0 a year ago there has been a steady shift of Win 3.0 sales from retail to OEM channels.

## Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$119.3	\$ 55.6	\$63.7	\$22.6	\$15.4	\$ 7.2
USSMD	63.9	59.7	4.2	13.9	20.6	(6.7)
Domestic OEM	28.0	13.8	14.2	14.3	4.0	10.3
International OEM	18.1	22.0	(3.9)	8.0	6.2	1.8
Adjustments	3.7	(2.1)	5.8	0.5	(0.7)	1.2
Net revenues	<u>\$233.0</u>	<u>\$149.0</u>	<u>\$84.0</u>	<u>\$59.3</u>	<u>\$45.5</u>	<u>\$13.8</u>

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## Windows Business Unit

FY91 was highlighted by the better than anticipated performance of Windows in the International Finished Goods channel, with sales exceeding plan by 114%.

Domestic OEM accounted for most of the favorable variance in Q91-4 net revenues. It is noteworthy that the \$5.0 million received from IBM for Microsoft development of OS/2 was in Windows revenues, however. International Finished Goods also remained strong due to the continued acceptance of Win 3.0. USSMD was under plan due to the slippage of version 3.1, which was budgeted to ship in April.

### Cost of Revenues

As a percentage of net revenues, FY91 COGS were very close to plan. However, there are a few interesting issues worth noting. Relative to plan, the primary sales mix factors (retail versus OEM) effected the composite product cost percentage. Specifically, WW retail was 82% of gross revenues compared with a plan of 80%. In addition, International Finished Goods product cost, as a percent of gross revenues, was higher than plan (18.8% compared to 16.2%). These variances were offset by lower than planned non-product costs together with lower than planned USSMD product costs.

The Q91-4 favorable variance was due to a shift in the sales mix to OEM. Specifically, WW OEM was 38% of gross revenues compared with a plan of 22%. Part of the OEM increase was due to the \$7.5 million payment from IBM for which there were no costs. COGS also benefited from the slippage of lower margin USSMD updates.

### Operating Expenses (in millions)

#### FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$19.4	\$17.0	\$(2.4)
Payroll & payroll taxes	6.4	4.3	(2.1)
Product development	1.1	2.3	1.2
Other	<u>8.8</u>	<u>7.1</u>	<u>(1.7)</u>
	<u>\$35.7</u>	<u>\$30.7</u>	<u>\$(5.0)</u>

The unfavorable variance for marketing was due to overspending by subsidiaries, particularly Germany (\$900,000), England (\$400,000) and Japan (\$400,000). Payroll and other headcount expenses exceeded plan due to the Q91-1 reorganization and the continued buildup of resources dedicated to Windows. Product development was significantly below plan due to planned purchases of Windows fonts that did not materialize.

#### Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$5.9	\$3.0	\$(2.9)
Marketing accrual	(2.8)	0.0	2.8
Payroll & payroll taxes	2.0	1.1	(0.9)
Product development	0.2	0.7	0.5
Bad debt	0.8	0.4	(0.4)
Other	<u>2.5</u>	<u>1.6</u>	<u>(0.9)</u>
	<u>\$8.6</u>	<u>\$6.8</u>	<u>\$(1.8)</u>

## Windows Business Unit

The marketing variance consisted of \$1.9 million in USSMD and \$1.0 million in IFG, primarily England (\$500,000), Germany (\$200,000) and Japan (\$200,000). The payroll variance was due to the Q91-1 reorganization, which increased Windows headcount. The bad debt variance resulted from higher than planned revenues. Product development was below plan due to underspending for Windows fonts.

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Product Groups
June 30, 1991	172	89	(83)	23%	5.9%
March 31, 1991	133	89	(44)	2.0	5.1
December 31, 1990	132	85	(47)	2.2	5.4
September 30, 1990	124	81	(43)	2.3	5.4
June 30, 1990	76	69	(7)	1.5	3.6

## Allocations

FY91's largest unfavorable allocation variances occurred in International Finished Goods (\$1.4 million) and Legal (\$1.3 million).

Q91-4 allocated expenses continued the trend for all of FY91, where PSS (\$600,000) and International Finished Goods (\$500,000) had the largest unfavorable variances.

## Burdened Operating Income

The FY91 burdened operating income for Windows was the result of strong performances in the Domestic OEM and International Finished Goods channels, which overshadowed expenses in excess of plan due to the Q91-1 reorganization.

The Q91-4 burdened operating income for Windows was the result of strong performance in the Domestic OEM and International Finished Goods channels.

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# SPAG

## Comments

### FY91

Market shift from Bus Mice to Serial Mice occurred faster than expected. SPAG marketing credits the shift to the fact that more customers were purchasing Mice at the same time as they purchased their computers. New PC's are likely to have Serial/PS2 ports.

Ballpoint Mouse slipped from October to March, but shipments (72,000 units) still exceeded FY91's plan (29,000 units).

### Q91-4

Ballpoint Mouse shipped 66,000 units, generating \$4.4 million in revenues. Of those, 47,000 were unplanned OEM units sold to Compaq.

The Windows/Mouse bundle nearly tripled the plan, shipping over 120,000 units and generating \$15.9 million in revenues.

## Results of Operations (in millions)

### FY91

	Actual		Plan		Variance
Net revenues	\$213.0	100.0%	\$149.8	100.0%	\$63.2
Cost of revenues	95.0	44.6	67.7	45.2	(27.3)
Operating expense	13.9	6.5	12.5	8.4	(1.4)
Allocations	30.8	14.5	27.9	18.6	(2.9)
Burdened operating income	\$ 73.3	34.4%	\$ 41.7	27.8%	\$31.5

### Q91-4

	Actual		Plan		Variance
Net revenues	\$47.4	100.0%	\$40.1	100.0%	\$7.3
Cost of revenues	23.4	49.3	17.9	44.6	(5.5)
Operating expense	2.4	5.0	2.8	6.9	0.4
Allocations	8.8	18.6	7.5	18.8	(1.3)
Burdened operating income	\$12.8	27.1%	\$11.9	29.7%	\$0.9

## Leading Products (units in thousands, revenues in millions)

### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Serial/PS2 Mouse	1,581	\$156.6	\$99	1,230	\$106.1	\$ 86	351	\$50.5	\$13
Bus Mouse	330	31.2	94	515	34.3	67	(185)	(3.1)	27
OEM Mouse	1,169	25.7	22	248	6.9	28	921	18.8	(6)
Ballpoint Mouse	72	4.8	66	29	2.9	102	43	1.9	(36)
Mouse Driver	772	1.3	2	298	0.2	1	474	1.1	1
		\$219.6			\$150.4			\$69.2	
Percent of net revenues		103%			100%				

SPAG

The Serial/PS2 Mouse business was buoyed by the success of Win 3.0. Bus Mice unit sales suffered from the trend toward Serial Mice, although lower than planned OEM revenues resulted in a favorable per unit price variance. On the other hand, OEM Mice were significantly over plan because of \$15.4 million in unplanned revenues through the Domestic OEM channel. Demand for the Ballpoint Mouse was higher than planned, which resulted in a significant backlog. The majority of the units available were used for the unplanned OEM arrangement with Compaq which resulted in \$2.7 million in revenues. Revenues associated with the agreement averaged \$52 per unit, resulting in the unfavorable Ballpoint per unit price variance.

Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Serial Mouse	350	\$34.0	\$97	330	\$28.6	\$86	20	\$5.4	\$11
OEM Mouse	313	7.0	22	69	1.9	28	244	5.1	(6)
Bus Mouse	55	5.0	92	124	8.4	68	(69)	(3.4)	24
Ballpoint Mouse	66	4.4	67	11	1.1	102	55	3.3	(35)
Mouse Driver	244	0.6	2	60	—	1	184	0.6	1
		<u>\$51.0</u>			<u>\$40.0</u>			<u>\$11.0</u>	
Percent of net revenues		<u>108%</u>			<u>100%</u>				

Serial Mouse revenues continued to be strong, although closer to plan than in prior quarters. The OEM Mouse revenues outpaced the Q91-4 plan due to unanticipated Domestic OEM channel revenues of \$4.5 million. The Ballpoint Mouse was the star performer during the quarter, surpassing plan by 300%. The OEM agreement with Compaq contributed \$2.5 million to the favorable variance, and Ballpoint also outpaced plan in both of our retail channels. The unfavorable price per unit variance for the Ballpoint Mouse was the result of the Compaq OEM deal.

Channel Revenues (in millions)

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$104.5	\$ 74.5	\$30.0	\$22.9	\$21.3	\$1.6
USSMD	97.0	78.0	19.0	20.6	19.7	0.9
Domestic OEM	20.3	2.3	18.0	7.7	0.6	7.1
Adjustments	(8.8)	(5.0)	(3.8)	(3.8)	(1.5)	(2.3)
Net revenues	<u>\$213.0</u>	<u>\$149.8</u>	<u>\$63.2</u>	<u>\$47.4</u>	<u>\$40.1</u>	<u>\$7.3</u>

For FY91, the retail channels were strong due to the performance of the Serial Mouse/Paintbrush (\$37.8 million over plan) and Serial Mouse/Windows (\$35.2 million over plan) bundles. The Naked Serial Mouse partially offset their success (\$30.7 million under plan). The favorable variance in the Domestic OEM channel was, again, the result of \$15.4 million in unplanned OEM Mouse revenues plus the \$2.7 million in unplanned Ballpoint Mouse revenues from Compaq. The unfavorable adjustment variance was due to revenue driven rebates and an unplanned increase in the returns reserve.

For Q91-4, the Serial Mouse bundles, which ship exclusively through the retail channels, remained strong. Serial Mouse/Windows (\$9.4 million favorable variance) and Serial Mouse/Paintbrush (\$1.6 million favorable variance), were partially offset by the Naked Serial Mouse (\$7.0 unfavorable variance). The Domestic OEM channel benefited from unbudgeted OEM Mouse (\$4.5 million) and Ballpoint (\$2.5 million) revenues. The unfavorable variance in "adjustments" results from an unplanned provision for returns (\$1.5 million) and higher than planned rebates (\$900,000) due to a shift in the sales mix to direct accounts which receive rebates.

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Cost of Revenues

The favorable FY91 COGS percentage was attributable to lower than planned product costs for Serial Mouse/Paintbrush and Serial Mouse/Win 3.0, and product mix which favored the higher margin Mouse/software SKU's over the Naked Mouse.

The unfavorable Q91-4 COGS variance as a percentage of net revenues, was caused by a lower than planned average price per unit through the USSMD channel, the effects of the higher than planned revenue adjustments, and unbudgeted tooling costs. In addition, inter business unit royalties for the Win/Mouse bundle were \$1.5 million higher than plan.

Operating Expenses (in millions)

FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Bad debt expense	\$ 1.5	\$ 0.8	\$(0.7)
Product development	1.1	1.5	0.4
Other	<u>11.3</u>	<u>10.2</u>	<u>(1.1)</u>
	<u>\$13.9</u>	<u>\$12.5</u>	<u>\$(1.4)</u>

The unfavorable variance in bad debt expense resulted from higher than planned revenues. The favorable variance in product development arose largely from planned expenses for font technology which did not occur.

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$ 3.0	\$1.2	\$(1.8)
Marketing accrual	(2.9)	-	2.9
Other	<u>2.3</u>	<u>1.6</u>	<u>(0.7)</u>
	<u>\$ 2.4</u>	<u>\$2.8</u>	<u>\$ 0.4</u>

In Q91-4 the \$2.9 million marketing accrual was reversed. The unfavorable marketing variance represented slippage of planned expenditures from prior quarters.

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Product Groups</u>
Headcount					
June 30, 1991	43	41	(2)	0.6%	1.5%
March 31, 1991	38	35	(3)	0.6	1.5
December 31, 1990	38	34	(4)	0.6	1.6
September 30, 1990	32	32	0	0.6	1.4
June 30, 1990	27	28	1	0.5	1.3

Allocations

The largest FY91 unfavorable variances occurred in International Finished Goods (\$1.9 million) and Legal (\$428,000).



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Q91-4 allocated expenses exceeded plan. The largest unfavorable variances occurred in International Finished Goods (\$612,000) and USSMD (\$322,000).

Burdened Operating Income

The significant FY91 favorable variance of 76% was the result of strong demand for Mice, lower than expected materials prices for Serial Mouse products and operating expenses which were relatively close to plan.

The Q91-4 favorable variance was due to higher than planned revenues through WW retail and Domestic OEM channels, and lower than planned operating expenses.

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## Languages

### Comments

#### FY91

Net revenues were \$7.2 million below plan due to a weak Q91-4.

Pro C revenues were ahead of plan for the year despite slippage of version 7.

New versions of MASM and Pro FORTRAN shipped during the year, although standard product and update revenues fell short of plan by \$3.3 million each.

#### Q91-4

Character based versions of Pro C and Pro FORTRAN slipped during the quarter, resulting in negative revenue variances of \$3.9 and \$2.1 million, respectively. Windows versions of Pro C and Pro FORTRAN also slipped contributing \$772,000 and \$386,000 to the negative revenue variance, respectively.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$55.4	100.0%	\$62.6	100.0%	\$(7.2)
Cost of revenues	16.1	29.1	16.4	26.1	0.3
Operating expense	19.0	34.2	20.4	32.7	1.4
Allocations	19.2	34.7	17.0	27.1	(2.2)
Burdened operating income	\$1.1	2.0%	\$8.8	14.1%	\$(7.7)

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$11.7	100.0%	\$20.1	100.0%	\$(9.0)
Cost of revenues	4.0	36.3	4.9	24.5	0.9
Operating expense	5.4	48.6	4.8	24.0	(0.6)
Allocations	5.6	50.2	4.6	22.5	(1.0)
Burdened operating income	\$(3.9)	(35.1)%	\$5.8	29.0%	\$(9.7)

### Leading Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Pro C	141	\$24.9	\$177	89	\$22.5	\$253	52	\$ 2.4	\$(76)
Pro C Updates	82	5.4	66	39	5.0	130	43	0.4	(64)
Pro FORTRAN	20	5.3	262	53	8.0	152	(33)	(2.7)	110
Quick C	60	3.8	63	81	5.0	62	(21)	(1.2)	1
MASM	36	3.6	100	47	5.2	111	(11)	(1.6)	(11)
		\$43.0			\$45.7			\$(2.7)	
Percent of net revenues		78%			73%				

## Languages

Pro C and Pro C update revenues showed strong results despite the slippage of both character and graphic based versions of Pro C 7. Excluding C Runtime, which represented 51,000 unplanned Domestic OEM units at less than \$2 per unit, actual per unit revenues for C were above plan.

### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
Pro C	38	\$5.4	\$143	24	\$ 6.2	\$257	14	\$(0.8)	\$(114)
Pro FORTRAN	5	1.1	234	15	2.5	170	(10)	(1.4)	64
MASM	11	1.1	98	12	1.4	114	(1)	(0.3)	(16)
MASM Updates	10	0.7	71	7	0.5	71	3	0.2	—
Quick C	10	0.6	61	20	1.3	66	(10)	(0.7)	(5)
		<u>\$8.9</u>			<u>\$11.9</u>			<u>\$(3.0)</u>	
Percent of net revenues		<u>80%</u>			<u>59%</u>				

Pro C includes both C and C Runtime versions having planned unit revenues of \$265 and \$150, respectively. Pro C experienced a significant negative unit volume variance and a slightly positive per unit revenue variance. Pro C Runtime recorded a large positive unit volume variance and a negative per unit revenue variance, again due to Domestic OEM licensed units (17,000). The Pro FORTRAN variance is due to the product's release slipping from March to June.

### Channel Revenues (in millions)

#### FY91

	FY91			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
International FG	\$35.5	\$32.6	\$ 2.9	\$ 6.9	\$ 8.8	\$(1.9)
USSMD	23.0	31.7	(8.7)	5.6	11.8	(6.2)
Domestic OEM	0.5	0.3	0.2	0.1	—	0.1
Adjustments	<u>(3.6)</u>	<u>(2.0)</u>	<u>(1.6)</u>	<u>(1.5)</u>	<u>(0.5)</u>	<u>(1.0)</u>
Net revenues	<u>\$55.4</u>	<u>\$62.6</u>	<u>\$(7.2)</u>	<u>\$11.1</u>	<u>\$20.1</u>	<u>\$(9.0)</u>

FY91 revenues were strong in the International Finished Goods channel due principally to above plan Pro C revenues. The USSMD variance was due to slippage of Pro FORTRAN, MASM, and Pro C. The adjustments variance is due to higher than planned rebates and an unplanned increase in the domestic returns reserve. Q91-4 USSMD revenues were under plan due to the slippage of both Pro C 7 and Pro FORTRAN.

### Cost of Revenues

The FY91 COGS variance is the combined result of higher than planned USSMD product costs, unplanned manufacturing and carrying cost variances and higher than planned revenue adjustments.

The Q91-4 COGS variance is due to unplanned increases in the returns reserve and the allowance for obsolete inventory. Actual product costs were just slightly above plan due to an unfavorable IFG variance.

## Languages

### Operating Expenses (in millions)

#### FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Payroll & payroll taxes	\$ 7.2	\$ 7.7	\$0.5
Marketing	5.6	6.1	0.5
Other	<u>6.2</u>	<u>6.6</u>	<u>0.4</u>
	<u>\$19.0</u>	<u>\$20.4</u>	<u>\$1.4</u>

FY91's favorable payroll variance resulted from headcount running below plan for the majority of the year. The favorable marketing variance resulted from deferring marketing campaigns for products which missed their scheduled ship date.

#### Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Marketing	\$1.6	\$1.3	\$(0.3)
Product development	0.4	0.2	(0.2)
Other	<u>3.4</u>	<u>3.3</u>	<u>(0.1)</u>
	<u>\$5.4</u>	<u>\$4.8</u>	<u>\$(0.6)</u>

Q91-4 marketing expenses exceeded plan due to the slippage of Pro FORTRAN and MASM product release dates from prior quarters into Q91-4. Product development expense exceeded plan due to the write-off of \$300,000 of obsolete Quick Pascal Firefox code.

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Product Groups</u>
Headcount				2.0%	5.0%
June 30, 1991	147	142	(5)	2.1	5.4
March 31, 1991	140	143	3	2.3	5.5
December 31, 1990	136	143	7	2.5	5.9
September 30, 1990	135	143	8	2.7	6.3
June 30, 1990	133	135	2		

### Allocations

FY91 allocated expenses exceeded plan due to unfavorable variances in IFG (\$814,000) and PSS Operations (\$374,000). The IFG variance was due to higher than planned marketing and bad debt expenses. Unplanned PSS headcount, required to handle the volume of support requests, was responsible for the unfavorable PSS variance.

Q91-4 allocated expense variances occurred in IFG (\$268,000), PSS Operations (\$185,000), and USSMD (\$131,000).

### Burdened Operating Income

Slippage of Pro C 7 and other Language products during FY91, along with unfavorable variances in allocations, resulted in below plan results for the year.

Slippage of Pro FORTRAN, MASM, Pro C 7, and Windows versions of Pro C and Pro FORTRAN, were responsible for the large revenue shortfall for Q91-4. Negative variances in allocations also contributed to the unfavorable results.

## Networks

### Comments

#### FY91

The soft market for LAN Man, due partially to OS/2 and Mac compatibility issues, contributed to a 23% negative revenue variance.

NBU Europe built up a channel comprising 25 distributors and 650 Network Specialists. In addition, the business unit achieved European account wins in the pharmaceutical, banking, and retail industries. However, revenues still fell short of plan.

#### Q91-4

Shipment of 3COM SKU's for LAN Manager occurred during the quarter providing \$495,000, or 27% of total US Networks revenue.

IBM reported out of period LAN Manager sales during the quarter, increasing revenues by \$6.3 million.

### Results of Operations (in millions)

#### FY91

	Actual		Plan		Variance
Net revenues	\$ 44.1	100.0%	\$ 57.6	100.0%	\$(13.5)
Cost of revenues	5.8	13.1	7.7	13.4	1.9
Operating expense	42.0	95.3	46.6	80.9	4.6
Allocations	37.5	85.1	44.8	77.7	7.3
Burdened operating loss	\$(41.2)	(93.5)%	\$(41.5)	(72.0)%	\$ 0.3

#### Q91-4

	Actual		Plan		Variance
Net revenues	\$18.6	100.0%	\$24.2	100.0%	\$(5.6)
Cost of revenues	1.9	10.1	3.3	13.7	1.4
Operating expense	12.2	65.6	12.8	52.7	0.6
Allocations	12.5	67.2	13.0	53.9	0.5
Burdened operating loss	\$(8.0)	(42.9)%	\$(4.9)	(20.3)%	\$(3.1)

### Leading Products (units in thousands, revenues in millions)

#### FY91

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
LAN Manager Server	66	\$15.7	\$ 237	31	\$8.5	\$ 275	35	\$ 7.2	\$ (38)
LAN Manager Client	145	5.8	40	121	3.6	30	24	2.2	10
LAN Manager 1-5 User	8	4.1	550	27	15.3	562	(20)	(11.2)	(12)
LAN Man Unlimited	1	4.0	3,442	6	13.6	2,151	(5)	(9.6)	1,291
MS Networks	140	3.9	28	29	0.7	24	111	3.2	4
		<u>\$33.5</u>			<u>\$41.7</u>			<u>\$(8.2)</u>	
Percent of net revenues		<u>76%</u>			<u>72%</u>				

## Networks

Due to strong Domestic OEM shipments, LAN Manager Server exceed its revenue plan by 85%. The unit revenue variance is due to high IBM volume together with a relatively lower royalty rate. The strong client revenues are primarily due to strong DEC shipments. The LAN Man 1-5 and unlimited revenue variance reflect over optimistic plans for the retail channels. LAN Man Unlimited's favorable unit revenue variance reflects the favorable price uplift earned on international sales. MS Networks continues to be a popular OEM product in Japan.

### Q91-4

	Actual			Plan			Variance		
	Units	Revs	\$/Unit	Units	Revs	\$/Unit	Units	Revs	\$/Unit
LAN Manager Server	44	\$8.7	\$198	8	\$2.1	\$278	36	\$6.6	\$(80)
LAN Man Unlimited	44	2.2	51	33	1.0	30	11	1.2	21
LAN Manager 1-5 User	1	1.6	3,408	3	6.4	2,200	(2)	(4.8)	1,208
LAN Man 3COM Unitid	3	1.5	528	13	7.2	567	(10)	(5.7)	(39)
LAN Manager Client	2	1.2	555	-	-	-	2	1.2	555
		<u>\$15.2</u>			<u>\$16.7</u>			<u>\$(1.5)</u>	
Percent of net revenues		<u>82%</u>			<u>69%</u>				

LAN Manager Server revenue and unit variances result from IBM's out of period OEM reporting. On average, IBM receives a lower per unit cost for all royalty units reported. The LAN Manager 3COM Unlimited variance results from unplanned 3COM SKU's that were shipped during the quarter. A large portion of the 3COM units shipped in Q91-4 fulfilled obligations 3COM made with customers prior to their exit from the LAN Man business.

### Channel Revenues (in millions)

	YTD			Q91-4		
	Actual	Plan	Variance	Actual	Plan	Variance
Domestic OEM	\$23.1	\$10.9	\$ 12.2	\$11.5	\$ 2.8	\$ 8.7
International	8.1	13.6	(5.5)	2.9	7.1	(4.2)
Networks						
US Networks	6.8	32.5	(25.7)	1.9	14.6	(12.7)
International OEM	3.9	2.8	1.1	1.4	0.8	0.6
International FG	2.4	-	2.4	1.0	-	1.0
Adjustments	(0.2)	(2.2)	2.0	(0.1)	(1.1)	1.0
Net revenues	<u>\$44.1</u>	<u>\$57.6</u>	<u>\$(13.5)</u>	<u>\$18.6</u>	<u>\$24.2</u>	<u>\$(5.6)</u>

Factors contributing to the large negative variance experienced by the US and International Networks channels in both FY91 and Q91-4 included an extremely aggressive budget, longer than expected sales cycle times, and OS/2 and Mac compatibility issues. Domestic OEM benefited from the successful DEC license agreement and strong IBM shipments.

### Cost of Revenues

COGS were below plan for both FY91 and Q91-4. The variance was due to sales mix, which favored OEM over retail revenue. Backing out the unplanned \$6.3 million IBM revenue, COGS would have been over plan due to the lower than anticipated run rates and sales mix which had forecasted a higher percentage of revenue from the high margin Unlimited SKU.

## Networks

### Operating Expenses (in millions)

FY91

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Product development	\$ 2.4	\$ 4.9	\$2.5
Payroll and payroll tax	11.4	12.5	1.1
Other	<u>28.2</u>	<u>29.2</u>	<u>1.0</u>
	<u>\$42.0</u>	<u>\$46.6</u>	<u>\$4.6</u>

Product development expenses for the year were under plan due to delayed spending for NetWare connectivity and lower than planned use of third-party technical consultants on Com Server and Mail Server. The payroll variance was due to divisional realignment and lower than planned Q91-3 headcount.

Q91-4

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
Payroll and payroll tax	\$ 2.8	\$ 3.4	\$ 0.6
Supplies and equipment	0.2	0.5	0.3
Other	<u>9.2</u>	<u>8.9</u>	<u>(0.3)</u>
	<u>\$12.2</u>	<u>\$12.8</u>	<u>\$ 0.6</u>

The Q91-4 payroll variance reflects the realignment of the Advanced Windows Group (Jim Allchin) into the Windows BU. Supplies and equipment are a natural fall out of lower headcount.

Headcount	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>As a Percent of</u>	
				<u>Total Operating</u>	<u>Total Product Groups</u>
June 30, 1991	192	252	60	2.6%	6.5%
March 31, 1991	239	252	13	3.6	9.2
December 31, 1990	235	231	(4)	3.9	9.6
September 30, 1990	233	214	(19)	4.3	10.1
June 30, 1990	194	193	(1)	3.9	9.2

### Allocations

FY91 allocations were below plan due to cost controls put into place in the US and International Networks channels as a result of lower than projected revenues. In addition, allocations from MSU were below plan due to a slower than anticipated start of the training programs.

Q91-4's favorable allocation variance was due to lower than planned US and International Networks channel costs.

### Burdened Operating Income

FY91's burdened operating loss approximated plan. Lower than planned retail revenues were offset by favorable variances in COGS, operating expenses and allocations.

Q91-4's loss was 163% higher than planned. The variance was due to an overly optimistic retail plan. The budget assumed a very steep increase in revenues for US Networks which failed to materialize.

## International R&D

The mission of our international product development groups (IPG) is to translate a variety of Microsoft products into approximately 21 languages. This includes converting the software product into the foreign language, as well as the accompanying help functions, computer-based training and documentation. In some instances, the product must also be re-engineered so that it is compatible with varying hardware configurations in these countries. IPG is currently working on approximately 240 projects.

The Redmond and Ireland product development groups primarily localize European and South American products. Far East Product Development (FEPD) localizes Middle Eastern and Chinese products. The Japan and Korea product development groups localize products for their respective countries.

### Localization Costs (in millions)

#### Development Group

	FY91			FY90			FY Change	
	Actual	Plan	Variance	Actual	Plan	Variance		
Redmond IPG	\$24.4	\$28.7	15%	\$15.3	\$17.2	11%	\$ 9.1	60%
Japan	14.6	14.1	(4)	9.4	9.6	2	5.2	55
Ireland IPG	7.7	8.9	14	2.7	2.8	4	5.0	185
FEPD	3.2	2.0	(60)	0.8	1.1	27	2.4	300
Korea	1.1	1.4	21	0.8	1.0	20	0.3	38
	<u>\$51.0</u>	<u>\$55.1</u>	7%	<u>\$29.0</u>	<u>\$31.7</u>	9%	<u>\$22.0</u>	76

#### Region

	FY91			FY90			FY Change	
	Actual	Plan	Variance	Actual	Plan	Variance		
Europe/South America	\$32.1	\$37.6	15%	\$18.0	\$20.0	10%	\$14.1	78%
Far East/Middle East	18.9	17.5	(8)	11.0	11.7	6	7.9	72
	<u>\$51.0</u>	<u>\$55.1</u>	7%	<u>\$29.0</u>	<u>\$31.7</u>	9%	<u>\$22.0</u>	76

In the current year, expenditures for European and South American languages were under plan due to a combination of factors. The primary cause of the variance is the fact that the number of projects decreased from a planned 400 to 200. This project variance was partially offset by the complexity and size of the projects which grew markedly over budgeted assumptions. Approximately 36% of expenditures went towards spreadsheet and project management software. The most notable was the release of Excel 3.0. Word processing software accounted for approximately 29% of expenditures. In the Far East and Middle East, actual expenditures exceeded plan primarily due to the development costs of Chinese Windows.

Headcount	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Product Groups
June 30, 1991	825	863	38	11.1%	28.1%
March 31, 1991	698	848	150	10.6	26.8
December 31, 1990	604	769	165	10.0	24.6
September 30, 1990	518	653	135	9.5	22.5
June 30, 1990	445	337	(108)	8.9	21.1



## Other Product Groups

FY91 (in millions)

	Net Revenues			Operating Income (Loss)		
	Actual	Plan	Variance	Actual	Plan	Variance
Books	\$16.9	\$20.4	\$ (3.5)	\$ (1.2)	\$ 2.6	\$ (3.8)
Services	17.0	22.4	(5.4)	(14.5)	(8.3)	(6.2)
Multimedia	2.0	0.8	1.2	(11.1)	(12.3)	1.2
Unix	10.9	9.3	1.6	6.0	4.1	1.9
MSJ	1.6	2.2	(0.6)	(1.0)	(0.3)	(0.7)
UPB	(20.0)	12.9	(32.9)	(20.3)	12.9	(33.2)
Elims	(10.2)	(1.7)	(8.5)	1.0	—	1.0
	<u>\$18.2</u>	<u>\$66.3</u>	<u>\$ (48.1)</u>	<u>\$ (41.1)</u>	<u>\$ (1.3)</u>	<u>\$ (39.8)</u>

Q91-4 (in millions)

	Net Revenues			Operating Income (Loss)		
	Actual	Plan	Variance	Actual	Plan	Variance
Books	\$6.1	\$5.0	\$ 1.1	\$ 0.1	\$ 0.6	\$ (0.5)
Services	2.8	7.9	(5.1)	(5.5)	(0.8)	(4.7)
Multimedia	0.8	0.6	0.2	(3.5)	(2.9)	(0.6)
Unix	2.8	2.3	0.5	1.6	1.0	0.6
MSJ	0.4	0.6	(0.2)	(0.1)	(0.1)	—
UPB	(4.5)	6.6	(11.1)	(4.6)	6.6	(11.2)
Elims	(3.4)	(0.4)	(3.0)	0.3	—	0.3
	<u>\$5.0</u>	<u>\$22.6</u>	<u>\$ (17.6)</u>	<u>\$ (11.7)</u>	<u>\$ (4.4)</u>	<u>\$ (16.1)</u>

	Actual	Plan	Variance	As a Percent of	
				Total Operating	Total Product Groups
Headcount as of June 30, 1991	42	44	2	0.6%	1.4%
Books	102	100	(2)	1.4	3.5
Multimedia	2	2	—	—	—
Unix	5	8	3	—	0.2
MSJ	<u>151</u>	<u>154</u>	<u>3</u>		

Note: Service headcount is included in the Other Channel section.

Books: See comments under Press in the Other Channel section.

Services: Q91-4 revenues were below plan due to the reclass of FY91 US PSS revenues (\$4.2 million) to a contra expense account. This reclassification represents a change in accounting policy whereby all amounts received for support are used to offset the actual costs of delivering such support. This allows us to clearly track our net delivery costs. Without this reclassification, Services revenue would be \$1.2 million below plan for FY91 and \$900,000 below plan in Q91-4. The unfavorable burdened operating income variance was driven primarily by headcount-related expenses in the US PSS and International PSS channels.

Multimedia: FY91 revenues exceeded plan due to increased shipments to Headstart and Software Toolwork customers. In Q91-3 Microsoft purchased 26% of Dorling Kindersley, a UK publisher. This ownership interest will result in the conversion of some of DK's highly illustrated reference books to Multimedia titles during FY92 and in future joint DK/MS development of new titles in both printed and multimedia versions.

Other Product Groups

OS/2: FY91 revenues were bolstered by IBM's \$5.2 million revised royalty report in Q91-4. The shift of headcount resources to Windows resulted in a favorable FY91 operating expense variance of \$14.1 million.

Unix: FY91 revenues were above plan due to the unbudgeted royalties for Siemens (\$1.4 million) and American Telephone and Telegraph (\$691,000). These favorable variances were partially offset by an \$841,000 shortfall by SCO. Q91-4 revenues were above plan due to the unbudgeted royalties for Siemens (\$496,000). A \$220,000 shortfall by SCO was offset by favorable variances by all other budgeted OEMs.

UPB: See comments in the Worldwide OEM section.

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*Finance*  
***FY92 Plan***

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## FY92 PLAN

The FY92 plan reflects our basic planning principles of hopefully conservative revenue forecasting and more accurate expense forecasting. The FY92 plan is our first plan since FY88 to show 20% profitability. Still, the plan remains attainable with planned revenue growth of 31% in revenues and with 20.4% profitability.

The plan for Q92-1 once again reflects financial performance substantially below historical patterns. The Q92-1 plan includes net revenues of \$462 million, net income of \$56 million and EPS of only \$0.29. The Q92-1 plan is conservative, in both revenues and operating expenses. July results are strong, and it currently appears more probable that Q92-1 will include at least net revenues of \$565 million, net income of \$135 million and EPS of \$0.71 or better. In comparison, Q91-1 had net revenues of \$369 million, net income of \$88 million and EPS of \$0.47.

### Revenues:

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
FY92		\$2,409	
FY91	\$1,843	1,516	21.6%
FY90	1,183	1,046	13.1

FY92 revenues are planned to grow 31% to \$2.4 billion, down from 56% growth in FY91. The revenue forecast is conservative for DOS RUP, with USSMD having shipped half the entire FY92 forecast in July. Other products may also be conservative. For example, because of unanticipated strong performance in Q91-4, the USSMD Excel gross revenue forecast for FY92 is \$10 million less than FY91 actual. The channel FY92 planned revenue growth is 32% for USSMD, 34% for International Finished Goods, and 14% for WW OEM, compared with 59%, 84% and 27% respectively for FY91. From a business unit perspective, Applications is planned to grow 27%, down from 66% growth in FY91, and Systems is planned to grow 28%, down from FY91's 58%.

### Cost of revenues as a percent of sales:

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
FY92		18.0%	
FY91	19.7%	19.6	(0.1)%
FY90	21.4	23.7	2.3

FY92 cost of revenues is projected to continue to fall, but at a slower rate. The planned cost of revenues percentage of 18% is product mix dependant, both as to the business unit mix and the mix of full product versus MLP's. SPAG products, with higher product costs, are planned to grow approximately half as fast as the overall company.

### Operating expenses:

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
FY92		\$1,279	
FY91	\$831	811	\$(2.4)
FY90	538	541	0.6

FY92 sales and marketing expenses are projected to increase to 34% of net revenues, up from a FY91 actual of 29% and plan of 34%. As in FY91, improvement in the actual sales and marketing as a percentage of net revenues over the budget will be due to positive revenue variances. In addition to the formula driven marketing pool, the plan includes an incremental \$2.7 million for Applications marketing, \$2.7 million for Systems marketing, and \$1.5 million for Multimedia marketing.

### Net income as a percent of sales:

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>
FY92		20.4%	
FY91	25.1%	19.7	5.4%
FY90	23.6	18.5	5.1

The planned combination of lower revenue growth and higher operating expenses generates an FY92 plan with net income of 20.4% of net revenue, a 19% decrease from FY91's record 25.1% profitability. A favorable revenue variance to plan will have a direct impact on FY92 actual profitability.

MICROSOFT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME  
For The Years Ending June 30, 1992, 1991, and 1990  
(in thousands, except net income per share)

	<u>Planned</u> <u>1992</u>		<u>Actual</u> <u>1991</u>		<u>Actual</u> <u>1990</u>		<u>Growth</u> <u>Percentage</u> <u>'92/'91</u>	<u>Growth</u> <u>Percentage</u> <u>'91/'90</u>
Net revenues	\$2,409,001	100.0%	\$1,843,432	100.0%	\$1,183,446	100.0%	30.7%	55.8%
Cost of revenues	<u>433,536</u>	<u>18.0%</u>	<u>362,589</u>	<u>19.7%</u>	<u>252,667</u>	<u>21.4%</u>	19.6%	43.5%
Gross profit	<u>1,975,465</u>	<u>82.0%</u>	<u>1,480,843</u>	<u>80.3%</u>	<u>930,779</u>	<u>78.6%</u>	33.4%	59.1%
Operating expenses								
Research and development	369,579	15.3%	235,386	12.8%	180,615	15.3%	57.0%	30.3%
Sales and marketing	823,781	34.2%	533,619	28.9%	317,593	26.8%	54.4%	68.0%
General and administrative	<u>85,671</u>	<u>3.6%</u>	<u>61,996</u>	<u>3.4%</u>	<u>39,332</u>	<u>3.3%</u>	38.2%	57.6%
Total operating expenses	<u>1,279,031</u>	<u>53.1%</u>	<u>831,001</u>	<u>45.1%</u>	<u>537,540</u>	<u>45.4%</u>	53.9%	54.6%
Operating income	696,433	28.9%	649,842	35.3%	393,238	33.2%	7.2%	65.3%
Non-operating income	26,215	1.1%	23,802	1.3%	23,326	2.0%	10.1%	2.0%
Stock option program expense	<u>0</u>	<u>.0%</u>	<u>-3,000</u>	<u>-.2%</u>	<u>-6,000</u>	<u>-.5%</u>	-100.0%	-50.0%
Income before income taxes	722,648	30.0%	670,644	36.4%	410,564	34.7%	7.8%	63.3%
Provision for income taxes	<u>231,247</u>	<u>9.6%</u>	<u>207,901</u>	<u>11.3%</u>	<u>131,378</u>	<u>11.1%</u>	11.2%	58.2%
NET INCOME	<u>\$491,401</u>	<u>20.4%</u>	<u>\$462,743</u>	<u>25.1%</u>	<u>\$279,186</u>	<u>23.6%</u>	6.2%	65.7%
Average shares outstanding	<u>194,738</u>		<u>187,659</u>		<u>179,118</u>			
NET INCOME PER SHARE	<u>\$2.52</u>		<u>\$2.47</u>		<u>\$1.56</u>		2.3%	58.2%

MICROSOFT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME  
For Fiscal Year Ending June 30, 1992  
(in thousands)

	<u>Q92-1</u>	<u>Q92-2</u>	<u>Q92-3</u>	<u>Q92-4</u>	<u>Total FY92</u>
Net revenues	\$462,025 100.0%	\$627,063 100.0%	\$641,313 100.0%	\$678,600 100.0%	\$2,409,001 100.0%
Cost of revenues	<u>83,097</u> 18.0%	<u>111,516</u> 17.8%	<u>118,011</u> 18.4%	<u>120,913</u> 17.8%	<u>433,536</u> 18.0%
Gross profit	<u>378,929</u> 82.0%	<u>515,548</u> 82.2%	<u>523,302</u> 81.6%	<u>557,686</u> 82.2%	<u>1,975,465</u> 82.0%
Operating expenses					
Research and development	88,296 19.1%	92,527 14.8%	92,542 14.4%	96,214 14.2%	369,579 15.3%
Sales and marketing	191,526 41.5%	211,359 33.7%	216,485 33.8%	204,410 30.1%	823,781 34.2%
General and administrative	<u>20,926</u> 4.5%	<u>21,734</u> 3.5%	<u>21,481</u> 3.3%	<u>21,530</u> 3.2%	<u>85,671</u> 3.6%
Total operating expenses	<u>300,749</u> 65.1%	<u>325,621</u> 51.9%	<u>330,508</u> 51.5%	<u>322,154</u> 47.5%	<u>1,279,031</u> 53.1%
Operating income	78,180 16.9%	189,927 30.3%	192,794 30.1%	235,532 34.7%	696,433 28.9%
Non-operating income	<u>4,054</u> 0.9%	<u>5,192</u> 0.8%	<u>7,115</u> 1.1%	<u>9,854</u> 1.5%	<u>26,215</u> 1.1%
Income before income taxes	82,234 17.8%	195,119 31.1%	199,909 31.2%	245,386 36.2%	722,648 30.0%
Provision for income taxes	<u>26,315</u> 5.7%	<u>62,438</u> 10.0%	<u>63,971</u> 10.0%	<u>78,524</u> 11.6%	<u>231,247</u> 9.6%
NET INCOME	<u>\$55,919</u> 12.1%	<u>\$132,681</u> 21.2%	<u>\$135,938</u> 21.2%	<u>\$166,863</u> 24.6%	<u>\$491,401</u> 20.4%
Average shares outstanding	<u>191,700</u>	<u>192,000</u>	<u>196,500</u>	<u>198,750</u>	<u>194,738</u>
NET INCOME PER SHARE	<u>\$0.29</u>	<u>\$0.69</u>	<u>\$0.69</u>	<u>\$0.84</u>	<u>\$2.52</u>

MICROSOFT CORPORATION

STATEMENTS OF INCOME - BY CHANNEL  
For The Year Ending June 30, 1992  
(in thousands)

FY 92	RETAIL			OEM			Other	Total
	Domestic	Int'l ROW	Int'l Europe	Domestic	Int'l ROW	Int'l Europe		
Net revenues	\$749,661	\$294,440	\$918,165	\$208,672	\$112,736	\$63,500	\$61,827	\$2,409,001
Cost of revenues	158,646	81,477	162,687	17,946	13	734	12,033	\$433,536
Operating expenses	322,653	81,980	248,149	30,290	14,131	6,466	44,370	\$748,039
Allocated expenses	157,665	77,871	165,910	55,058	36,453	31,701	6,334	\$530,992
Operating income	\$110,697	\$53,111	\$341,419	\$105,378	\$62,139	\$24,599	(\$909)	\$696,433
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	21.2%	27.7%	17.7%	8.6%	0.0%	1.2%	19.5%	18.0%
Operating expenses	43.0%	27.8%	27.0%	14.5%	12.5%	10.2%	71.8%	31.1%
Allocated expenses	21.0%	26.4%	18.1%	26.4%	32.3%	49.9%	10.2%	22.0%
Operating income	14.8%	18.0%	37.2%	50.5%	55.1%	38.7%	(1.5%)	28.9%
FY91	Domestic	Int'l		Domestic	Int'l		Other	Total
Net Revenues	\$569,912	\$903,696		\$187,019	\$150,350		\$32,454	\$1,843,432
Growth %	31.5%	34.2%		11.6%	17.2%		90.5%	30.7%
Operating Income	\$114,355	\$356,955		\$109,454	\$86,217		(\$17,139)	\$649,842
Operating Income %	20.1%	39.5%		58.5%	57.3%		(52.8%)	35.3%

MICROSOFT CORPORATION

STATEMENTS OF INCOME - OTHER CHANNELS  
For The Year Ending June 30, 1992  
(in thousands)

FY 92	OTHER							Total
	Press	US MSU	INTL MSU ROW	INTL MSU EUR	US MCS	INTL MCS ROW	INTL MCS EUR	
Net revenues	\$21,691	\$15,508	\$2,364	\$1,978	\$14,660	\$1,806	\$3,819	\$61,827
Cost of revenues	10,288	1,520	225	0	0	0	0	12,033
Operating expenses	5,076	15,735	2,293	523	13,803	1,971	4,970	44,370
Allocated expenses	6,024	-1,705	81	356	1,060	227	291	6,334
Operating income	\$303	(\$41)	(\$235)	\$1,099	(\$203)	(\$391)	(\$1,441)	(\$909)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	47.4%	9.8%	9.5%	0.0%	0.0%	0.0%	0.0%	19.5%
Operating expenses	23.4%	101.5%	97.0%	26.4%	94.2%	109.1%	130.1%	71.8%
Allocated expenses	27.8%	-11.0%	3.4%	18.0%	7.2%	12.5%	7.6%	10.2%
Operating income	1.4%	(0.3%)	(9.9%)	55.5%	(1.4%)	(21.7%)	(37.7%)	(1.5%)
FY91	Press	US MSU	INTL MSU		US MCS	INTL MCS	Other PSS/JRL	Total
Net Revenues	\$16,557	\$9,224	\$822		\$2,277	\$292	\$3,282	\$32,454
Growth %	31.0%	68.1%	528.2%		543.8%	1926.5%		90.5%
Operating income	(\$1,364)	\$551	(\$473)		(\$2,287)	(\$834)	(\$12,732)	(\$17,139)
Operating income %	(8.2%)	6.0%	(57.5%)		(100.4%)	(285.6%)	(387.9%)	(52.8%)



MICROSOFT CORPORATION

STATEMENTS OF INCOME - BY PRODUCT GROUP

For The Year Ending June 30, 1992

(in thousands)

<u>FY 92</u>	<u>Applications</u>	<u>DOS &amp; Win</u>	<u>SPAG</u>	<u>Languages</u>	<u>Networks</u>	<u>Other</u>	<u>Total</u>
Net revenues	\$1,189,601	\$742,615	\$248,423	\$71,416	\$83,382	\$73,565	\$2,409,001
Cost of revenues	188,884	93,898	113,116	18,223	15,887	3,529	\$433,536
Operating expenses	323,161	203,512	22,245	29,664	63,054	71,942	\$713,577
Allocated expenses	<u>323,678</u>	<u>124,038</u>	<u>32,573</u>	<u>16,768</u>	<u>63,426</u>	<u>4,972</u>	<u>\$565,454</u>
Operating income	\$353,878	\$321,167	\$80,489	\$6,763	(\$58,985)	(\$6,878)	\$696,433
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	15.9%	12.6%	45.5%	25.5%	19.1%	4.8%	18.0%
Operating expenses	27.2%	27.4%	9.0%	41.5%	75.6%	97.8%	29.6%
Allocated expenses	27.2%	16.7%	13.1%	23.5%	76.1%	6.8%	23.5%
Operating income	29.7%	43.2%	32.4%	9.5%	(70.7%)	(9.3%)	26.9%

<u>FY91</u>	<u>Applications</u>	<u>DOS &amp; Win</u>	<u>SPAG</u>	<u>Languages</u>	<u>Networks</u>	<u>Other</u>	<u>Total</u>
Net Revenues	\$934,539	\$556,839	\$213,029	\$55,429	\$65,404	\$18,192	\$1,843,432
Growth %	27.3%	33.4%	16.6%	28.8%	27.5%	304.4%	30.7%
Operating Income	\$337,908	\$348,134	\$73,255	\$1,123	(\$67,556)	(\$41,022)	\$649,842
Operating Income %	36.2%	62.2%	34.4%	2.0%	(103.3%)	(225.5%)	35.3%

MICROSOFT CORPORATION

STATEMENTS OF INCOME - APPLICATIONS BUSINESS UNITS  
For The Year Ending June 30, 1992  
(in thousands)

FY 92	APPLICATIONS						Total
	Analysis	Data Access	Entry	Graphics	Office	App Mgmt	
Net revenues	\$431,229	\$33,534	\$139,325	\$53,654	\$531,859	\$0	\$1,189,601
Cost of revenues	60,366	7,518	31,922	10,353	78,724	0	\$188,884
Operating expenses	88,468	26,560	42,631	21,534	124,321	19,646	\$323,161
Allocated expenses	118,711	17,922	34,490	14,215	157,987	-19,646	\$323,678
Operating income	\$163,685	(\$18,466)	\$30,282	\$7,551	\$170,827	\$0	\$353,878
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%
Cost of revenues	14.0%	22.4%	22.9%	19.3%	14.8%	0.0%	15.9%
Operating expenses	20.5%	79.2%	30.6%	40.1%	23.4%	0.0%	27.2%
Allocated expenses	27.5%	53.4%	24.8%	26.5%	29.7%	0.0%	27.2%
Operating income	38.0%	(55.1%)	21.7%	14.1%	32.1%	0.0%	29.7%
FY91	Analysis	Data Access	Entry	Graphics	Office	App Mgmt	Total
Net Revenues	\$366,349	\$18,637	\$111,906	\$33,515	\$404,132	0	\$934,539
Growth %	17.7%	79.9%	24.5%	60.1%	31.6%	na	27.3%
Operating Income	\$174,434	(\$16,451)	\$22,096	\$1,144	\$156,685	0	\$337,908
Operating Income %	47.6%	(88.3%)	19.7%	3.4%	38.8%	na	36.2%

MICROSOFT CORPORATION

STATEMENTS OF INCOME - DOS & WINDOWS BUSINESS UNITS  
For The Year Ending June 30, 1992  
(in thousands)

FY 92	DOS & WINDOWS				
	<u>Windows</u>	<u>DOS</u>	<u>Printer</u>	<u>Sys Mgmt</u>	<u>Total</u>
Net revenues	\$347,786	\$393,778	\$1,052	\$0	\$742,615
Cost of revenues	53,334	40,561	3	0	\$93,898
Operating expenses	144,267	37,669	6,706	14,871	\$203,512
Allocated expenses	<u>93,006</u>	<u>45,809</u>	<u>92</u>	<u>-14,871</u>	<u>\$124,038</u>
Operating income	<u>\$57,177</u>	<u>\$269,738</u>	<u>(\$5,749)</u>	<u>\$0</u>	<u>\$321,167</u>
Net revenues	100.0%	100.0%	100.0%	0.0%	100.0%
Cost of revenues	15.3%	10.3%	0.3%	0.0%	12.6%
Operating expenses	41.5%	9.6%	637.6%	0.0%	27.4%
Allocated expenses	26.7%	11.6%	8.7%	0.0%	16.7%
Operating income	16.4%	68.5%	(546.6%)	0.0%	43.2%
FY91	<u>Windows</u>	<u>DOS</u>	<u>Printer</u>	<u>Sys Mgmt</u>	<u>Total</u>
Net Revenues	\$233,001	\$322,210	\$1,628	\$0	\$556,839
Growth %	49.3%	22.2%	(35.4%)	na	33.4%
Operating Income	\$116,114	\$237,504	(\$7,485)	\$0	\$346,134
Operating Income %	49.8%	73.7%	(459.8%)	na	62.2%

MICROSOFT CORPORATION

STATEMENTS OF INCOME - NETWORKS BUSINESS UNITS  
For The Year Ending June 30, 1992  
(in thousands)

<u>FY 92</u>	<u>NETWORKS</u>					<u>Total</u>
	<u>LM2</u>	<u>CSA</u>	<u>LMU</u>	<u>OS/2</u>	<u>Net Mgmt</u>	
Net revenues	\$53,163	\$20,493	\$941	\$8,784	\$0	\$83,382
Cost of revenues	6,810	7,949	0	1,128	0	\$15,887
Operating expenses	33,121	17,255	2,024	6,214	4,439	\$63,054
Allocated expenses	<u>39,523</u>	<u>19,871</u>	<u>252</u>	<u>8,218</u>	<u>-4,439</u>	<u>\$63,426</u>
Operating income	<u>(\$26,291)</u>	<u>(\$24,583)</u>	<u>(\$1,335)</u>	<u>(\$6,776)</u>	<u>\$0</u>	<u>(\$58,985)</u>
Net revenues	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%
Cost of revenues	12.8%	38.8%	0.0%	12.8%	0.0%	19.1%
Operating expenses	62.3%	84.2%	215.1%	70.7%	0.0%	75.6%
Allocated expenses	74.3%	97.0%	26.8%	93.6%	0.0%	76.1%
Operating income	(49.5%)	(120.0%)	(141.9%)	(77.1%)	0.0%	(70.7%)
<u>FY91</u>				<u>OS/2</u>	<u>NET</u>	<u>Total</u>
Net Revenues				\$21,338	\$44,066	\$65,404
Growth %				(58.8%)	69.3%	27.5%
Operating Income				(\$26,344)	(\$41,212)	(\$67,556)
Operating Income %				(123.5%)	(93.5%)	(103.3%)

MICROSOFT CORPORATION

STATEMENTS OF INCOME - OTHER PRODUCT GROUPS  
For The Year Ending June 30, 1992  
(in thousands)

	OTHER							
<u>FY 92</u>	<u>Books</u>	<u>Services</u>	<u>Multi-Media</u>	<u>Unix</u>	<u>UPB</u>	<u>Inter-Business Unit</u>	<u>TOTAL</u>	
Net revenues	\$21,691	\$43,778	\$4,973	\$8,667	\$6,079	(\$11,623)	\$73,565	
Cost of revenues	10,288	3,090	1,143	3,477	0	(14,469)	3,529	
Operating expenses	9,025	40,711	21,735	285	185	0	71,942	
Allocated expenses	<u>2,075</u>	<u>309</u>	<u>1,758</u>	<u>819</u>	<u>0</u>	<u>0</u>	<u>4,972</u>	
Operating income	<u>\$303</u>	<u>(\$333)</u>	<u>(\$19,674)</u>	<u>\$4,086</u>	<u>\$5,893</u>	<u>\$2,846</u>	<u>(\$6,878)</u>	
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of revenues	47.4%	7.1%	23.0%	40.1%	0.0%	124.5%	4.8%	
Operating expenses	41.6%	93.0%	437.1%	3.3%	3.1%	0.0%	97.8%	
Allocated expenses	9.6%	0.7%	35.6%	9.4%	0.0%	0.0%	6.8%	
Operating Income	1.4%	(0.8%)	(395.6%)	47.1%	96.9%	(24.5%)	(9.3%)	
<u>FY91</u>	<u>Books</u>	<u>Services</u>	<u>Multi-Media</u>	<u>Unix</u>	<u>UPB</u>	<u>Inter-Business Unit</u>	<u>Other</u>	<u>TOTAL</u>
Net Revenues	\$16,929	\$17,005	\$2,002	\$10,856	(\$20,013)	(\$10,223)	\$1,635	\$18,192
Growth %	28.1%	157.4%	148.4%	(20.2%)	(130.4%)	13.7%	na	304.4%
Operating Income	(\$1,154)	(\$14,514)	(\$11,110)	\$6,011	(\$20,262)	\$961	(\$953)	(\$41,022)
Operating Income %	(6.8%)	(85.4%)	(554.8%)	55.4%	101.2%	(9.4%)	(58.3%)	(225.5%)

MICROSOFT CORPORATION

HEADCOUNT SUMMARY

For The Years Ending June 30, 1992, 1991, and 1990

DIVISION/SUBSIDIARY	Planned	Actual	Actual	Growth	Growth
	June 30, 1992	June 30, 1991	June 30, 1990	Percentage 92/91	Percentage 91/90
USSMD	1392	1009	697	38.0%	44.8%
US PSS	1363	897	523	52.0%	71.5%
US MSU	150	111	49	35.1%	126.5%
US MCS	128	49	3	161.2%	1533.3%
CORPCOM, MKTG MAT, PR/CORP EVENTS	192	152	111	26.3%	36.9%
US OEM & OEM MANAGEMENT	66	57	43	15.8%	32.6%
INTL MANAGEMENT	46	42	46	9.5%	-8.7%
PRESS/BOOKS	65	65	58	0.0%	12.1%
MULTIMEDIA	145	102	70	42.2%	45.7%
APPLICATIONS	1313	1046	753	25.5%	38.9%
SPAG	54	43	27	25.6%	59.3%
SYSTEMS	867	542	451	60.0%	20.2%
LANGUAGES	128	147	133	-12.9%	10.5%
NETWORKS	206	194	194	6.2%	0.0%
INTL R&D	704	489	286	44.0%	71.0%
EXECUTIVE	6	5	5	20.0%	0.0%
ADMINISTRATION	756	583	418	29.7%	39.5%
LAW & CORPORATE AFFAIRS	66	42	29	57.1%	44.8%
DOMESTIC OPERATING EXPENSE HEADCOUNT	7647	5575	3896	37.2%	43.1%
UK-MS LTD	233	154	89	51.3%	73.0%
NORDIC REGION-MS AB	178	105	56	69.5%	87.5%
GERMANY-MS GMBH	509	343	173	48.4%	98.3%
AUSTRIA-MS AGMBH	11	2	0	450.0%	na
SWITZERLAND-MS AG	33	14	6	135.7%	133.3%
FRANCE-MS SARL	401	241	163	66.4%	47.9%
IBERICA-MS SRL/MS LDA	61	36	13	69.4%	176.9%
BENELUX-MS BV/MS NV	113	65	35	73.8%	85.7%
ITALY-MS SPA	113	68	46	66.2%	47.8%
EUROPEAN HEADQUARTERS	47	16	6	193.8%	166.7%
CANADA-MS INC	183	115	83	59.1%	38.6%
AUSTRALIA-MS PTY	191	123	89	55.3%	38.2%
MEXICO	29	16	10	81.3%	60.0%
SOUTH AMERICA	26	23	13	13.0%	76.9%
ISRAEL	3	3	2	0.0%	50.0%
SINGAPORE	11	6	1	83.3%	na
JAPAN-MS KK	362	240	161	50.8%	49.1%
KOREA-MS CH	57	48	38	18.8%	26.3%
TAIWAN-MS TC	49	40	33	22.5%	na
EUROPEAN MCS	2	0	0	na	na
IRELAND IPG	369	194	59	90.2%	228.8%
SUBSIDIARIES OPERATING HEADCOUNT	2981	1852	1076	61.0%	72.1%
TOTAL OPERATING HEADCOUNT	10628	7427	4972	43.1%	49.4%
MANUFACTURING	1035	799	663	29.5%	20.5%
TOTAL CORPORATE HEADCOUNT	11663	8226	5635	41.8%	46.0%

MICROSOFT CORPORATION  
FISCAL YEAR 1992 PLAN  
REVENUE LEADERS

1-Aug-91

(In Thousands)

CHANNEL OF DISTRIBUTION

TOP 15 PRODUCT FAMILIES	CHANNEL OF DISTRIBUTION							TOTAL	% of Gross Revenues
	USSMD	Intl FG Europe	Intl FG ROW	US OEM	Intl OEM Europe	Intl OEM ROW	Other		
1 WORD	\$163,101	\$258,743	\$43,069	\$3,111	\$95	\$0	\$0	\$468,118	19.0%
2 DOS / DOS RUP	32,546	98,217	35,941	109,419	37,723	83,771	0	397,618	16.1%
3 WINDOWS	90,299	135,253	31,471	46,163	18,690	21,664	0	343,541	13.9%
4 EXCEL	113,075	170,879	54,971	2,353	95	0	0	341,372	13.8%
5 MICE	124,525	87,142	34,075	11,467	0	0	0	257,210	10.4%
6 WORKS	32,490	44,833	27,041	4,378	2,464	600	0	111,806	4.5%
7 MS OFFICE	53,499	12,970	20,557	0	0	0	0	87,026	3.5%
8 PROJECT	32,362	18,668	6,256	0	0	0	0	57,286	2.3%
9 LAN MANAGER	11,699	24,064	6,362	8,741	2,208	1,373	0	54,447	2.2%
10 POWERPOINT	25,400	13,921	4,887	1,084	0	0	0	45,292	1.8%
11 MAIL	23,244	9,585	6,143	0	0	0	0	38,972	1.6%
12 C COMPILER	17,281	11,127	8,826	86	0	60	0	37,379	1.5%
13 SQL SERVER	10,523	6,837	1,725	80	550	65	0	19,780	0.8%
14 FLIGHT SIMULATOR	7,643	2,885	1,153	0	0	0	0	11,681	0.5%
15 VISUAL BASIC	6,434	4,133	1,103	0	0	0	0	11,670	0.5%
OTHER	48,769	28,573	20,262	21,789	1,675	5,202	61,827	188,096	7.6%
GROSS REVENUES	<u>\$792,889</u>	<u>\$927,831</u>	<u>\$303,842</u>	<u>\$208,672</u>	<u>\$63,500</u>	<u>\$112,736</u>	<u>\$61,827</u>	<u>\$2,471,296</u>	100.0%

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*Finance*  
*Tax Matters*

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## TAX MATTERS

### DOMESTIC

IRS Examination: As reported in Q91-3, the IRS has raised three industry issues: 1) whether stock option compensation constitutes wages eligible for the research and development credit; 2) transfer pricing in Ireland; and 3) whether our operations in Ireland constitute "manufacturing". The IRS is continuing its examination with principal focus in these areas. They have also expanded their scrutiny of our research and development credits. No adjustments have yet been proposed in these or other areas.

Proposed Legislation: Dan Rostenkowski, Chairman of the House & Ways Committee, has just introduced a tax bill that would require purchased software to be amortized over 14 years. We are working with industry associations (AEA, SPA, etc.) to oppose this ill conceived legislation.

Tax Rate: Taxes were provided at 31% for FY91. The rate may increase but should not exceed 32% for FY92. Any increase will be due primarily to the size of the stock option "spread" (see below). As a result of this sizeable reduction in taxable income, it has become increasingly difficult to fully utilize research and development credits.

"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)

	FY91		FY90	
	Spread	Tax Benefit	Spread	Tax Benefit
Q1	\$ 21.9	\$ 7.4	\$ 12.9	\$ 4.4
Q2	115.4	39.2	28.1	9.6
Q3	90.3	30.7	38.8	13.2
Q4	73.3	24.9	69.7	23.7
Total	<u>\$300.9</u>	<u>\$102.2</u>	<u>\$149.6</u>	<u>\$50.9</u>

State Income Tax Exams: MS settled a FY86-89 Minnesota audit for \$14,500. Ohio has assessed MS \$55,000 for FY87-88. An appeal has been filed. Florida has proposed an adjustment of \$26,000 for FY86-90. Georgia is scheduled to begin an audit during Q92-1. MS is currently under exam by the Washington State Employment Security Department for calendar years 1988-89. No adjustments have been proposed yet.

Anticipated Liquidity Needs: As of June 30, 1991, Microsoft's estimated working capital and forecasted liquidity needs are summarized in the table below (in thousands)

Working Capital at June 30, 1991	\$736,000
Less: Estimated working capital to sustain the company through FY92	<u>(570,000)</u>
Total before other anticipated needs	166,000
Other anticipated needs	<u>(510,000)</u>
Potential borrowing requirements	<u>\$(344,000)</u>

A detailed analysis of the Anticipated Liquidity Needs follows this report.

Sales and Use Tax: Currently returns are filed in 37 states. New York is scheduled to audit FY89-91 in September. Pennsylvania is scheduled to audit in October. MS registered for Pennsylvania use tax in February 1991, but the auditor will look for tax liabilities prior to registration. In addition, Missouri and Texas have notified us of their intention to audit. During Q91-4, we concluded a \$56,700 settlement with Wisconsin for taxes back to FY90.

— Tax Matters

B&O Litigation: The Washington State Department of Revenue filed its first interrogatories and request for production of documents in May. Responses have been prepared. An agreement is expected soon on a protective order assuring confidentiality of records.

Taxation of Computer Software: The Washington legislature passed the personal property tax legislation recommended by the Washington Software Study Committee. The legislation exempts custom software and golden masters from personal property tax.

INTERNATIONAL

Transfer Pricing: A new automated transfer pricing system is nearing completion of Phase I. This system will eliminate a significant amount of manual processing and be expanded to Microsoft Ireland after installation in Redmond is complete.

A number of revisions in Microsoft policies governing transfer pricing were implemented at the start of FY92. These revisions make transfer prices more consistent: 1) Pricing for all "white box" versions was standardized at cost plus 25%. The calculation includes royalties paid by Ireland in the cost base, and also applies to products shipped from Canyon Park. 2) Transfer prices on OEM hardware (Mouse and Ballpoint) were reduced approximately 15% to reflect lower intercompany royalty rates more typical of hardware products. 3) Far East subsidiaries will now be reimbursed directly for R&D. Costs of localization into double-byte languages will be recovered through an increase in the intercompany royalty. 4) Pricing on academic products was revised and clarified. Royalties on subsidiary-built academic 10-packs are now required.

Dividend Repatriation: A total of \$150 million dollars was repatriated from Microsoft subsidiaries in France, Germany, Netherlands, Sweden and Switzerland. Repatriated amounts generated approximately \$58.3 million in foreign tax credits which we expect to fully utilize in filing the FY91 tax return. The dividend also allows the utilization of \$7.4 million in foreign tax credits available for carry forward from FY90.

New Subsidiaries: Austria, Argentina, Mexico, and New Zealand became operational during Q91-4. Workgroup Canada Inc. was created to acquire the operations of Consumers Software, Inc. acquired during Q91-3. Consulting Services Ltd was formed to allow the expansion of the MCS group into Europe.

New Products: DOS 5.0 Retail Upgrade and Extended License Agreements programs were reviewed to minimize adverse tax consequences. Research determined the tax consequences of MLP's in Hong Kong, Indonesia, Malaysia, Thailand and Eastern Europe.

Tax Audits: Audits of International BV and BV were initiated during Q91-4 by the Dutch tax inspectors. Audits are in a preliminary stage and no material issues have been raised to date. We do not anticipate any material adjustments to either company. Canada is undergoing an Ontario Provincial audit which should be completed during Q92-1. Again, no material adjustments are anticipated.

Subsidiary Operations: Tax planning and compliance continued during the quarter. Issues included:

- Germany - Structure of Microsoft Press Germany.
- Ireland - Potential use of Ireland warehouse by England.
- Israel - Structure of Israeli R&D center including potential tax or investment incentives available.
- Korea - Impact of proposed changes in treatment of software, including OEM licenses, by the Korean Customs Office.
- Spain - Impact of proposed financing alternatives for Spain.
- Taiwan - Use of standard intercompany royalty rates on transactions between Taiwan and Corporate. Standard royalty rates adopted and implemented.

Tax Matters

**Anticipated Liquidity Needs**  
Year Ending June 30, 1991 (in thousands-rounded)

Working Capital Available		
Working Capital at June 30, 1991	\$736,000	
Less: Estimated working capital to sustain the company through FY92	<u>570,000</u>	
Total before other anticipated needs		\$166,000

**Anticipated Needs**

Scheduled Expenditures:		
Facilities:	Computers	40,000
	Land and Buildings	260,000
Foreign Operations:	Irish Facility/IPG	?
	Foreign Subs. - New Locations	200,000
	Capital Contributions	?
Acquisitions:		<u>?</u>
		<u>500,000</u>
Other:		?
Insurance, including self-insurance		?
Litigation and Contingencies: Litigation		10,000
	Litigation (Apple)	?
	FTC investigation	?
		<u>10,000</u>

510,000

Total Anticipated Needs

\$ (344,000)

Potential Borrowing Requirements

Potential borrowing requirements could substantially exceed the amount shown above if material amounts are required for those items for which estimates are not available above (denoted "?").

**Modified Bardahl Formula\***

Estimated Working Capital Needs Worldwide for the Year Ending June 30, 1992 (in thousands)

Step 1. Determine FY91 Operating Cycle		
A. Inventory turnover percentage		
1.) Peak Inventory (1/91)	\$ 68,968	
2.) COGS for the year ending 6/91	362,589	
3.) Determine Inventory turnover percentage		19.02%
B. Accounts receivable turnover percentage		
1.) Peak accounts receivable (6/91)	243,304	
2.) Sales for the Year ending 6/91	1,843,432	
3.) Accounts receivable turnover percentage		<u>13.20</u>
C. Operating cycle percentage		32.22%

Step 2. Determine FY92 Working Capital	
1.) COGS (1)	434,000
2.) Other operating expenses (1)	1,280,000
3.) Income taxes - worldwide basis (2)	<u>135,000</u>
	1,849,000
4.) Less: depreciation (1)	<u>(80,000)</u>
5.) Estimate of FY92 total operating expenses	1,769,000

Necessary Working Capital for FY92 (\$1,769,000 x 32.22%) \$ 570,000

Note: (1) Based on FY92 budget	
(2) Calculation of Worldwide Tax Liability:	
Budgeted net income before tax	\$723,363
FY92 stock bonus program deduction	<u>(300,000)</u>
	423,363
Effective tax rate	32%
TOTAL TAX	<u>\$135,457</u>

\* The Modified Bardahl Formula is a composite methodology that has evolved through the efforts for assessing the amount of working capital that a company requires.

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*Finance*  
***Insurance & Risk Management***

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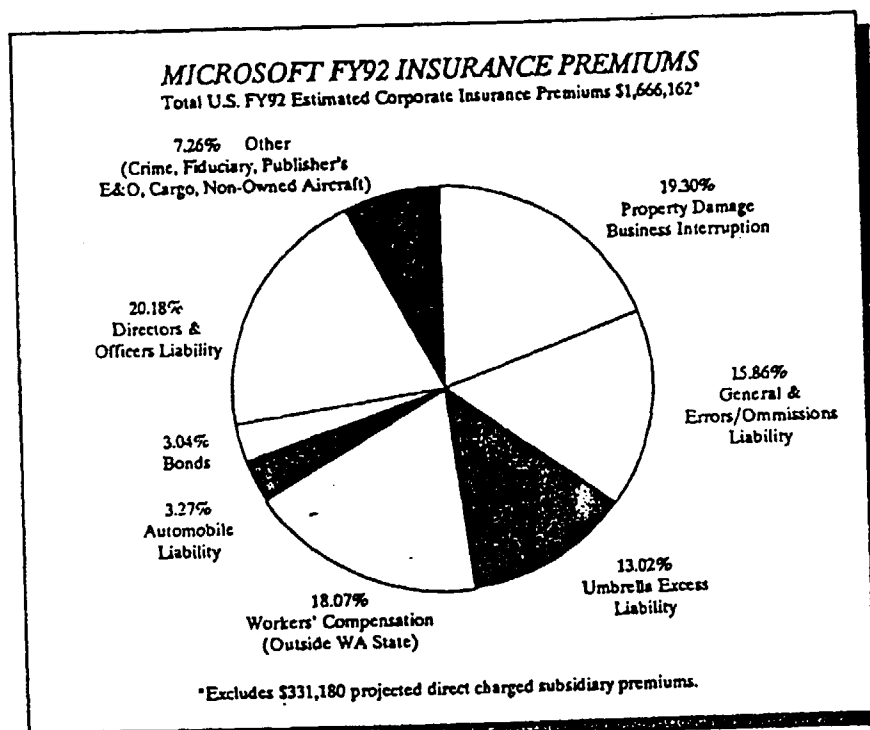
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## INSURANCE AND RISK MANAGEMENT

Insurance Renewals - The majority of Microsoft's property and casualty insurances were renewed on July 1. Generally, coverage terms and insurers remain unchanged. Two new coverages were added on July 1, business interruption and an additional \$25 million in excess liability coverage. These new coverages will reduce Microsoft's susceptibility to a major property loss or liability claim. In addition, deductibles were increased for three coverages (\$10,000 to \$100,000 on property/business interruption; \$10,000 to \$25,000 on publisher's errors and omissions liability, and \$5,000 to \$10,000 on international property/business interruption), and coverage for automobile physical damage was discontinued.

On a comparable coverage basis, renewal premiums for FY92 were approximately 15% higher than for FY91 (\$1,527,188 vs \$1,331,404), despite ratable exposure increases of approximately 30% for liability, 43% for property, and 100% for workers compensation. Current low premium rates enjoyed by Microsoft reflect the "bottomed out" status of a currently "soft" commercial insurance market. As the commercial insurance market progresses into a "hard" cycle, an increase in premium rates is likely to be sought by Microsoft's insurers.



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RENEWAL SUMMARY BY COVERAGE

Domestic General & Software Errors & Omissions Liability - Coverage was renewed with Chubb Insurance. Premiums are compositely rated for the several coverages included in this package and are based on total U.S. and Canadian sales, with a rate of \$.30 per \$1,000 sales for the first \$500 million in sales, \$.25 per \$1,000 for the next \$500 million, and \$.20 per \$1,000 for sales in excess of \$1 billion. Total projected premium for FY92 is \$286,141. This compares with a FY91 rate of \$.35 per \$1,000 for the first \$500 million in sales, and a rate of \$.278 per \$1,000 for all sales excess of \$500 million, and an FY91 premium of \$260,963.

Automobile Liability - Coverage was renewed as expiring with one exception - coverage for physical damage (comprehensive & collision) was dropped to reflect Microsoft's general policy of self assuming non-material property losses. The FY92 composite rate per vehicle is \$940 versus a rate of \$1,389 per vehicle (full coverage) in FY91. Total premium projected for 55 vehicles for FY92 is \$54,446 compared to \$47,148 for 34 vehicles in FY91.

Umbrella/Excess Liability - The primary \$25 million umbrella liability policy was renewed for at a premium rate of \$.08 per \$1,000 total net sales, compared to the expiring rate of \$.10 per \$1,000 total net sales. Projected premium for FY92 is \$192,000 compared to an FY91 premium of \$184,300. On July 1, 1991, an additional \$25 million in excess liability was purchased, raising the total "catastrophe" liability limit available to Microsoft to \$50 million each claim and annual aggregate (however, the additional \$25 million does not provide coverage for errors & omissions losses). The cost of the additional \$25 million in coverage was \$25,000.

Publisher's Errors & Omissions Liability - Coverage was renewed on expiring terms with the exception of an increase in deductible from \$10,000 to \$25,000 each claim. The renewal premium at the expiring \$10,000 deductible would have been \$43,398 compared to renewal with a \$25,000 deductible for \$29,646. This compares to a FY91 premium of \$43,384 with a \$10,000 deductible.

Foreign General & Software Errors & Omissions Liability - Coverage was renewed as expiring. The FY92 premium rate for general liability is \$.045 per \$1000 international sales (excluding OEM); software errors & omissions is \$.08 per \$1,000 for the first \$500 million total international sales, \$.07 for the next \$500 million total international sales, and \$.06 for total international sales exceeding \$1 billion; and the employer's liability rate is \$.0125 per \$100 international payroll. Total expected FY92 premium is \$156,447. This compares to FY91 rates for general liability at \$.05 per \$1,000 international sales (except \$.01 per \$1,000 on foreign OEM sales); software errors & omissions liability at \$.08 per \$1,000 for the first \$500 million in total international sales, and \$.07 per \$1,000 total international sales exceeding \$500 million; and an employer's liability rate of \$.0175 per \$100 international payroll.

Non-Owned Aircraft Liability - Coverage was renewed for a flat premium of \$2,275 - same as in FY91.

Domestic "All Risk" Property - Coverage was renewed as expiring with the exception of an increase in deductible from \$10,000 each loss to \$100,000 (except transit, road show, and fine arts losses, where the deductible remains at \$10,000). The premium rate for FY92 is \$.0246 per \$100 replacement value of property insured, compared to a FY91 rate of \$.0345 per \$100 value. Total insured property for FY92 is approximately \$643 million, generating a premium of \$158,079. This compares to FY91 values of approximately \$389 million and a premium of \$145,335. A policy sublimit of \$100 million applies to losses caused by the perils of earthquake & flood.

#### Insurance and Risk Management

Domestic Direct and Contingent Business Interruption - This coverage was added to the insurance program on July 1, 1991. Business interruption insurance covers the lost net profits and continuing expenses of a corporation that is unable to produce and sell product as a result of a physical damage loss at an owned facility or at the facility of a critical supplier. This coverage is written by Allendale Insurance, the same insurer that writes the domestic "all risk" physical damage policy. The applicable \$100,000 deductible applies on a combined basis with loss under the "all risk" policy. Premium rates are \$.0179 per \$100 of declared business interruption exposure, generating a FY92 premium of \$171,252 for approximately \$1 billion in coverage. In addition to direct coverage for losses involving Microsoft facilities, the policy also provides \$10 million coverage each loss for "contingent" business interruption resulting from loss at a supplier facility.

International Cargo - Coverage was renewed as expiring. Rates increased for FY92 to \$.057 per \$100 value shipped compared to \$.05 per \$100 value shipped for FY91. The rate increase was prompted by adverse cargo loss experience over the past two years. The FY92 rate is still considerably better, however, than the FY90 rate of \$.10 per \$100 value shipped. Total projected premium for FY92 is \$31,350.

Foreign "All Risk" Property & Business Interruption - Coverage remained for foreign property exposures, with the exception of 1) the addition of direct and contingent business interruption coverage to the policy, and 2) an increase in the deductible from \$5,000 each loss to \$10,000 each loss. The FY92 premium rate is \$.045 per \$100 replacement and business interruption value, which will generate a FY92 premium of \$145,071. The foreign property rate for FY91 was \$.055 per \$100 replacement value.

Interstate Worker's Compensation - Coverage conforming to individual state statutory requirements for all non-Washington State based U.S. employees was renewed. Premium rates applicable to out of state payrolls are as promulgated by the individual state rating bureaus. Expected premiums for FY92 are \$301,085 based on estimated out of state payroll of \$64 million, compared to FY91 premiums of \$206,852 based on total payroll of approximately \$32 million. An improved dividend rating plan was negotiated which will provide for a significant return premium to Microsoft (up to \$150,000) if loss experience continues to be favorable in FY92.

Insurance and Risk Management

SUMMARY OF INSURANCE COVERAGE IN PLACE 7/1/91

COVERAGE	COVERAGE AND LIMITS*	DEDUCTIBLE
Domestic General / E & O Liability	General Liability - \$1,000,000 ea. occ./\$2,000,000 aggregate Software E & O Liability - \$2,000,000 ea. claim / aggregate Employee Benefits Liability - \$1,000,000 each claim/ \$3,000,000 aggregate	\$0 \$500,000 each claim \$1,000 each claim
Automobile Liability	\$1,000,000 each occurrence	\$0
Umbrella Liability	\$25 million each occurrence and aggregate	\$0
Excess Liability	\$25 million each occurrence and aggregate	\$0
Publisher's E & O Liability	\$5 million each claim and aggregate	\$25,000 each claim
Fiduciary Liability	\$10 million each claim and aggregate	\$0
Directors & Officers Liability	\$25 million each claim and aggregate	D & O \$0 Corp. Re. \$300,000
Foreign General & E & O Liability	General, E & O, Benefits, Automobile, Employers Liability - \$1,000,000 each occurrence and aggregate.	\$25,000 ea. claim E & O
Non-Owned Aircraft Liability	\$5 million each occurrence and aggregate	\$0
Domestic "All Risk" Property	\$643 million replacement value - \$100 million sublimit for perils of earthquake and flood. Sublimit is combined physical damage and business interruption.	\$100,000 ea. loss - physical damage and business interruption combined
Business Interruption	\$959 million business interruption value - \$100 million sublimit for earthquake and flood. Sublimit is combined physical damage and business interruption.	\$100,000 ea. loss - physical damage and business interruption combined
International Cargo	\$2.5 million maximum shipment valued at cost to produce	\$0
Foreign "All Risk" Property	\$100 million each occurrence of loss combined physical damage & business interruption - \$5 million sublimit for earthquake in Japan.	\$10,000 ea. loss \$25,000 Japan earthquake
Interstate Worker's Compensation	Statutory Benefit Requirements by State.	\$0
Blanket Crime	\$10 million each claim and aggregate.	\$50,000 each claim
Special Indemnity	\$15 million each claim and aggregate.	\$0

\*Occurrence Limit - maximum coverage limit applicable to a single covered accident or event.

Aggregate Limit - maximum coverage limit applicable for all covered losses occurring during policy period.

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*Administration  
Manufacturing*

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## MANUFACTURING

### Throughput

#### Campus North Component Pieces (in thousands)

	<u>Q91-4</u>		<u>Q91-3</u>	
	<u>Total CP</u>	<u>CP/Build Day</u>	<u>Total CP</u>	<u>CP/Build Day</u>
In-house	66,958	1,046	51,655	820
Off site	<u>5,809</u>	<u>91</u>	<u>4,048</u>	<u>64</u>
	<u>72,767</u>	<u>1,137</u>	<u>55,703</u>	<u>884</u>

The number of component pieces produced each build day (CP/build day) increased 28% from Q91-3. The increase is the result of the large production volume for DOS RUP, which reduced setup time and improved production efficiency due to increased familiarity with the product. Off-site vendors are contracted to duplicate and assemble product when forecasted demand exceeds plant capacity. The number of off-site vendors utilized has increased from two in Q91-3 to three in Q91-4 due to the increased demand caused by DOS RUP and other releases.

Microsoft Ireland, which provides most of the package products sold by our European sales subsidiaries, measures production in terms of the gross number of packages built. Total units produced in Dublin for Q91-4 (921,000) decreased over units produced for Q91-3 (1,074,000). The drop is due to decreased quarterly revenues in Europe.

### Backlog

Domestic manufacturing plans production based on Product Marketing's forecast of demand and rate based demand received directly from customers. Buildable backlogs occur when customer sales orders exceed Product Marketing's forecasted demand or when the plant fails to build to forecasted demand. Non-buildable backlog occurs when orders have been placed for software or other component parts that have not yet been released to manufacturing.

Domestic backlog of \$10.8 million, a 13% increase over Q91-3, was comprised entirely of buildable backlog. The increase in buildable backlog in Q91-4 was primarily due to DOS RUP (\$8.0 million) and the Ballpoint Mouse (\$1.1 million). The DOS RUP backlog is due to an unanticipated high order volume subsequent to the initial launch shipment. The Ballpoint Mouse stockout is due to availability problems from our component vendor.

#### MS Ireland

	<u>June 30, 1991</u>	<u>March 31, 1991</u>
Buildable backlog	10,000	14,000
Non-buildable backlog	<u>58,000</u>	<u>44,000</u>
	<u>68,000</u>	<u>58,000</u>

Irish manufacturing demand is created by firm orders placed on the plant by the European sales 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. Ireland's buildable backlog is mainly due to Dutch and Swedish DOS RUP products. The non-buildable backlog is due to software delays for French DOS RUP and Mac Excel.

## Manufacturing

### Domestic Manufacturing

Domestic Manufacturing and Distribution's most significant accomplishment this quarter was the successful production and distribution of 500,000 units of DOS RUP in time for launch. This was accomplished through the efforts and coordination of Manufacturing, Distribution, Product Management, Finance, Order Entry, and Sales. This cross functional cooperation produced an effective production strategy which satisfied our customers' desire to have significant inventory on hand at the announcement date. Manufacturing is dedicated to improve their processes to better meet customer needs. Recently, they have begun to concentrate their efforts to structure a focused manufacturing organization to support the unique requirements of SPAG.

### International Focus Factory

The IFF's objective for Q91-4 was to understand their customers' needs and to develop changes to their processes and systems to meet and exceed those needs. Recently, they have begun to concentrate their efforts to reduce raw material procurement lead times, which provides the subsidiaries the opportunity to order weekly instead of monthly. In addition, IFF has also reduced cycle time and simplified inventory management by consolidating all the finished goods inventory into one storeroom while reducing the levels of excess and obsolete inventory. All of these steps build towards improvement in delivery, reduction in operating expenses, lower inventory costs, and high customer satisfaction for all international products. Currently, efforts are focused on improving scheduling by categorizing product builds to determine the priority improving procurement through a ship-to-stock program and converting to a round table production method within a cellular plant layout.

### Ireland Manufacturing

A major focus for Ireland in Q91-4 is moving to a JIT finished goods delivery system. In Q91-4, Ireland began shipping directly to MS Ltd's three major UK distributors, and plans to be shipping to all of MS Ltd's distributors by September 1st. The advantages of such a distribution plan include: reduced finished goods inventory carrying costs, warehouse space savings at MS Ireland, which can be redirected to manufacturing use, elimination of warehouse needs at MS Ltd, and labor cost reduction.

### Puerto Rico

Microsoft Puerto Rico produces and ships collated disk sets to Campus North on a 48 hour turn-around time frame. During Q91-4, 6.6 million disks were duplicated, this is a 144% increase over Q91-3, and represents 46% of the total Campus North duplication requirement. In FY91, Puerto Rico produced 15.5 million disks, 32% of Campus North duplication requirements. Current headcount totals 115 employees, an 89% growth over Q91-3's total of 61 employees. See comments in the Tax section for total tax savings from MS Puerto Rico operations.

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*Administration  
Facilities Report*

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## FACILITIES

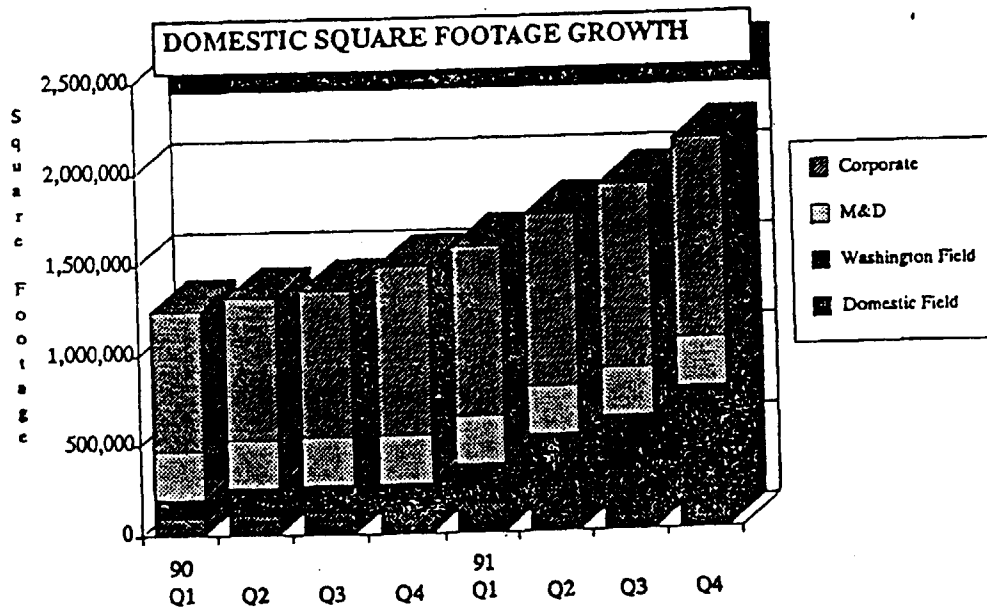
At the end of FY91, Microsoft owned or leased approximately 2,858,000 square feet of office, warehouse and manufacturing space around the world. The distribution of this space is as follows:

Location	Square Feet	% of Total
Washington State	1,614,000	56%
International	900,000	32
Other Domestic	344,000	12
Total	2,858,000	100%

### DOMESTIC FACILITIES

Microsoft occupied nearly 2,000,000 square feet of building space in the United States at the end of FY91 (see chart below). This is 52,000 square feet more than at the end of Q91-3, a 3% increase. As of June 30, 1992, Microsoft is projected to occupy approximately 2,900,000 square feet nationwide, a 47% increase over June 30, 1991. The majority of this growth will result from increases in USSMD, MCS and MSU field locations, the expansion of PSS Charlotte, and the addition of PSS Dallas, SpaceLabs (Building 23) and Campus Buildings 16, 17 and 21.

Of the total space occupied by Microsoft domestically, approximately 1,000,000 square feet comprise Corporate Campus and 920,000 square feet are occupied by other Washington State and Domestic Field locations. By June 30, 1992 Corporate Campus is projected to be more than 1,500,000 square feet, a 47% increase over June 30, 1991. During FY92, Washington and Field square footage is expected to grow to 1,344,000 square feet, an increase of 46% over FY91.



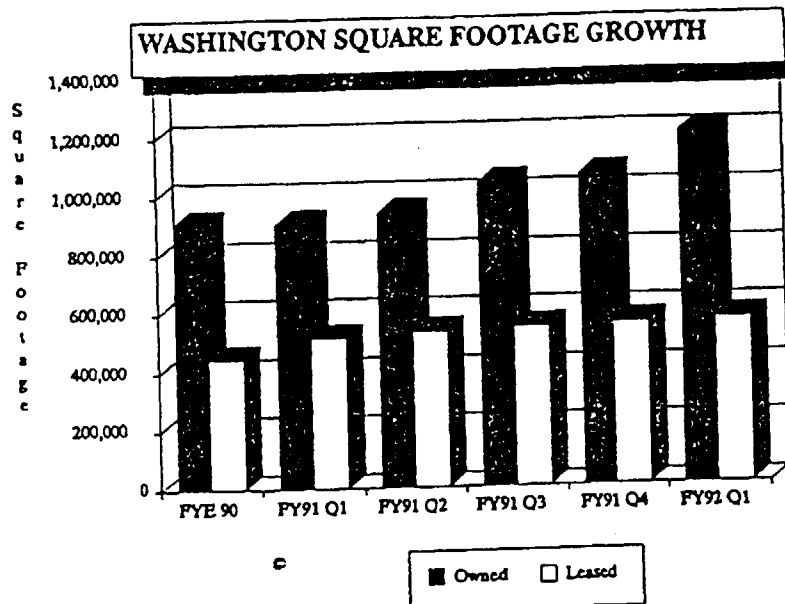
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## Domestic Facilities

### Washington State

At the end of Q91-4, Microsoft owned and occupied 1,062,000 square feet (exclusive of 70,000 square feet owned by Microsoft, but occupied by other firms), and leased an additional 552,000 square feet in the state of Washington (see chart below). 1,600,000 square feet is an increase of 2% over Q91-3. Occupancy of an additional 185,000 square feet of owned and leased space is planned during Q92-1. By the end of FY92, it is projected that Microsoft will occupy 2,249,000 square feet of space in Washington, a 39% increase over FY91, of this, 69% will be owned, and 31% leased.



### Campus

Buildings 16, 17 and 18. Building enclosure is nearly 75% complete on Building 16, and is scheduled for completion in November, 1991. Building 17 is scheduled to top out in July, 1991, with completion scheduled for January, 1992. Building 18 is scheduled to top out in December, 1991 and to be completed in July, 1992.

LID/Road Work. Street and utility improvements for LID 88-ST-51 (Bel-Red) are complete; construction costs are currently estimated at \$1,233,000.

Three other activities are currently underway pertaining to the future organization of Campus. First, the City of Redmond is reviewing a proposal to relocate the connector between Bel Red and 156th Avenue to the southern edge of Campus. Second, Microsoft is assembling a petition to purchase the existing public streets within Campus. Third, a proposal to revise certain lot lines within Campus has been submitted to the City of Redmond.

## Domestic Facilities

Land and Building Acquisitions. During Q91-4, Microsoft purchased four acres of land, with improvements (SpaceLabs, Building 23), increasing the amount of land controlled at Campus to 257 acres. In addition to Campus, Microsoft owns 23 acres of land at Canyon Park.

Two additional future acquisitions are planned (see map). Contingencies to the purchase of the nine acre Simpson Timber parcel (Phase 14) were removed in May, 1991, and the transaction is expected to close 6 to 18 months after the removal of contingencies. The acquisition of the Faust/Marshall land (Phase 10b) is expected to close during Q92-1; this parcel comprises one acre.

In addition to the Simpson Timber and Faust/Marshall parcels, there are 11 other tracts of land which Microsoft is monitoring as potential purchases. These parcels total 142 acres.

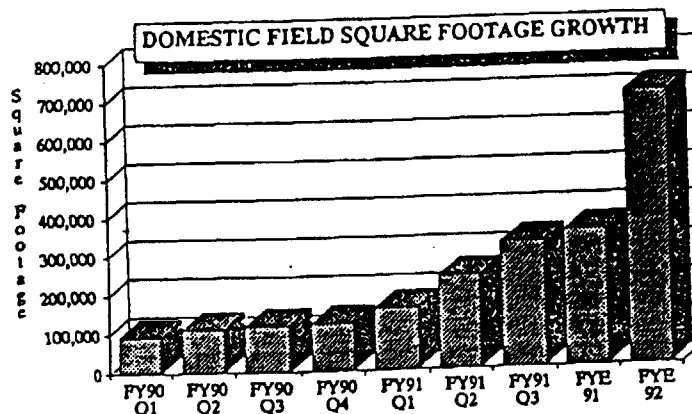
## Other Washington

Owned Facilities. Construction of Buildings 20 and 21 was completed during Q91-4, and both buildings are expected to be fully occupied during Q92-1. Additionally, the Recycle Center has been a focus of activity for Microsoft's recycling program. In less than two months, Microsoft recycled 71 tons of paper, metal and glass products. It is estimated that Microsoft has reduced the amount of trash sent to landfills by 75%.

Leased Facilities. During Q91-4, an additional 28,000 square feet of space in three buildings was let in Washington. The majority of this space will be used by MSU. Preliminary approval for the leasing of an additional 109,000 square feet during Q92-1 has been granted; this space will accommodate PSS, and will be divided between two locations. Additional space in the local area is currently under evaluation for leasing during Q92-1 to meet the needs of various support services.

## Domestic Field Locations

Microsoft's domestic field locations outside Washington State have increased significantly during FY91. Microsoft currently occupies 344,000 square feet, a 7% increase over Q91-3. Major activity during Q91-4 included moving the Santa Clara (California) SMSD office to new space in San Mateo, and the opening of a new MSU remote site in Dallas. It is projected that an additional 81,000 square feet will come on line during Q92-1, an increase of 24% over Q91-4. Domestic field occupancy is expected to reach 642,000 square feet of office space by June 1992, 87% more than the current 344,000 square feet.



#### Domestic/International Facilities

During FY91, 19 leasing/construction projects were completed, of which 13 were new offices or moves of existing offices, and six were expansions of existing locations. For the coming fiscal year, 20 leasing/construction projects are scheduled, of which nine are expected to be completed during Q92-1. A summary of recent and projected activity is presented below.

#### SMSD/MCS/MSU Domestic Locations

During Q91-4, occupancy of new space was effected in Dallas, Portland (Oregon) and San Mateo. The selection and occupancy of space in the following cities are in various stages of completion, and are expected to be completed during FY92: Atlanta, Bellevue, Boston, Hartford (Connecticut), Irvine (California), Los Angeles, New York, Philadelphia, Phoenix, Portland (Oregon) and Washington, D.C.

#### PSS Domestic Locations

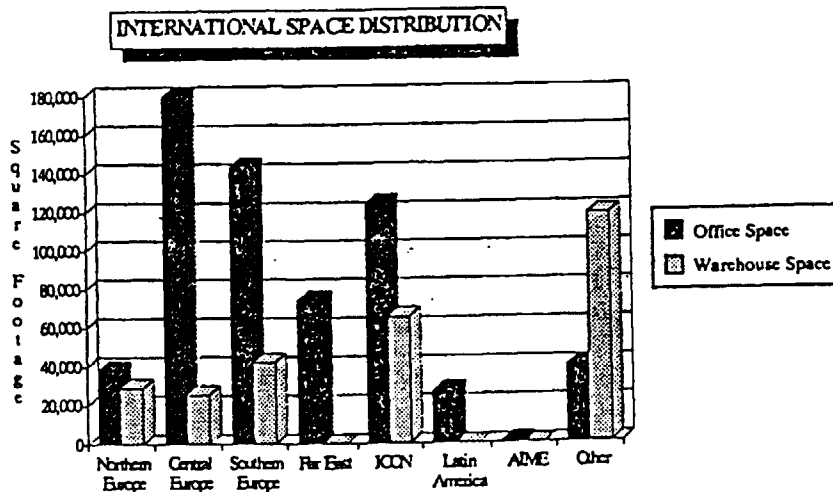
The buildout of the remaining space in the Charlotte (N.C.) facility was completed during Q91-4. Microsoft is to occupy an additional 60,000 square feet in a subsequent phase of the project from November, 1991, to January, 1992. Final lease negotiations are underway for 88,000 square feet of space in Dallas, which was selected as the third domestic PSS site. Occupancy of 46,000 square feet is scheduled for October, 1991, with the remaining space to be occupied by October, 1993.

#### Move and Remodel Activity

During Q91-4, 1,039 individual people were moved, for a total of 5,500 moves during FY91 (a 62% increase over FY90). It is anticipated that 7,000 moves will occur during FY92, primarily because of the occupancy of Buildings 16, 17 and 23 on the Campus, PSS expansions in Bellevue, Charlotte (N.C.) and Dallas, and other domestic MSU and SMSD expansions.

#### INTERNATIONAL FACILITIES

International space continued to expand rapidly during Q91-4. There is a total of 625,000 square feet of office space and 275,000 square feet of warehouse/industrial space occupied by Microsoft outside the United States (see chart below - "Other" includes European headquarters, Ireland and Puerto Rico). In order to keep pace with anticipated growth in headcount, international office space will increase by approximately 50% during FY92. Except for Ireland and the new offices in the United Kingdom, all facilities are leased by Microsoft.





#### International Facilities

Microsoft is evaluating purchase opportunities internationally. As subsidiaries reach larger sizes in terms of headcount, a certain "critical mass" is achieved, and the ownership of Microsoft facilities becomes more attractive. Additionally, market conditions in certain areas are depressed, encouraging current investment for the long-term. For example, land values in most English-speaking countries where Microsoft has subsidiaries are currently depressed. Particularly, the purchase of land in Sydney, Australia, appears to be a unique opportunity, and may allow MS Australia to achieve a long-term (10 to 20 year) solution to its facility requirements.

Investment in other areas remains expensive. Although growth in rental rates in Tokyo has slowed, land is still extremely expensive. As a result, Microsoft is evaluating the lease of a large block of contiguous office space in Tokyo.

The discussion below presents changes that either have occurred during Q91-4, or are imminent for Q92-1. Those offices which have not undergone change are not discussed. Purchase opportunities are discussed in the appropriate sections below.

#### Europe

##### Northern Europe

In Sweden, new office and warehouse facilities are under construction. Approximately 45,000 square feet of new office space will be occupied in September, 1991. The current depressed state of the Swedish real estate market has encouraged Microsoft to investigate the potential purchase of a new offices, instead of the current lease arrangement. A new warehouse, designed to accommodate distribution to all Nordic countries, will be completed in December, 1991.

New offices for the growing sales office in Oslo, Norway, were recently approved, and will be occupied in September.

Construction of a 65,000 square foot office building in England, which Microsoft owns, should be completed by December, 1991. Plans are currently underway for the second phase of this project.

##### Central Europe

During the past quarter, there has been considerable activity for MS Germany: expanded sales offices in Dusseldorf were approved, a new sales office in Vienna, Austria, was approved and will be occupied in the coming quarter, and in Munich, Microsoft occupied 75,000 square feet of new office space.

As MS Germany's rapid growth continues, Microsoft is evaluating potential sites for purchase and the establishment of a "Campus." It is believed that land prices in Munich may decline during FY92, presenting attractive opportunities.

Negotiation for a lease of over 60,000 square feet of office space in Amsterdam continues; the project has gained approval, and is expected to be ready for occupancy near the end of FY92.

##### Southern Europe

Microsoft France occupied a new office and warehouse complex in June. The facility comprises 110,000 square feet of office space, and 30,000 square feet of warehouse space. The new offices allowed MS France to consolidate their PSS operations, which had been located separately from the rest of MS France, with the main body of the subsidiary.

#### International Facilities

In Paris, European Headquarters negotiated a lease for new office space of nearly 25,000 square feet. The offices are located in a building in La Defence which is expected to be completed in November, 1991.

MS Italy has reached nearly 100% capacity in their current headquarters office. A proposal for larger offices in Milan, Italy, is expected during the coming quarter. The proposal may be for either a lease or purchase, although the nature of the Italian property markets may encourage a lease.

#### Ireland

As IPG in Ireland continues to expand, so does their demand for office accommodations. It is expected that a solution for additional office area for IPG will be agreed upon during Q92-1.

#### Far East

A proposal for the lease of a new office building in Tokyo will be presented in the coming quarter. This lease of over 85,000 square feet will allow the current two Tokyo offices to be consolidated under a single roof. The new facility is not expected to be completed until December, 1992. As mentioned previously, a purchase of property in Tokyo was not seriously considered due to the high cost of land relative to rental rates.

#### ICON

In Canada, there are five cities with Microsoft sales offices in addition to our Toronto headquarters. During the past quarter, additional space was let in Vancouver.

Like Canada, Microsoft Australia also has offices in five cities in addition to the headquarters location, including a new sales office in Auckland, New Zealand. In Sydney, Microsoft successfully completed a major move to a new location with over 60,000 square feet of office space. The adjacent warehouse is 35,000 square feet. Microsoft is currently evaluating land purchase opportunities for a long-term facility solution because of currently low land values in Sydney.

Larger offices in Singapore were occupied during Q91-4. The new office will allow for anticipated growth, and comprises approximately 3,500 square feet.

#### Latin America

In Mexico, Microsoft completed the transition to new offices of approximately 13,000 square feet. The new offices are a significant improvement over the old facilities in Mexico City.

A new sales office is being established in Buenos Aires, Argentina, and an office of 3,500 square feet was let in the city.

Microsoft Brazil initiated a buildout of additional office space in their current office building. This space will accommodate training and technical support operations.

#### Africa, India, Middle East (AIME)

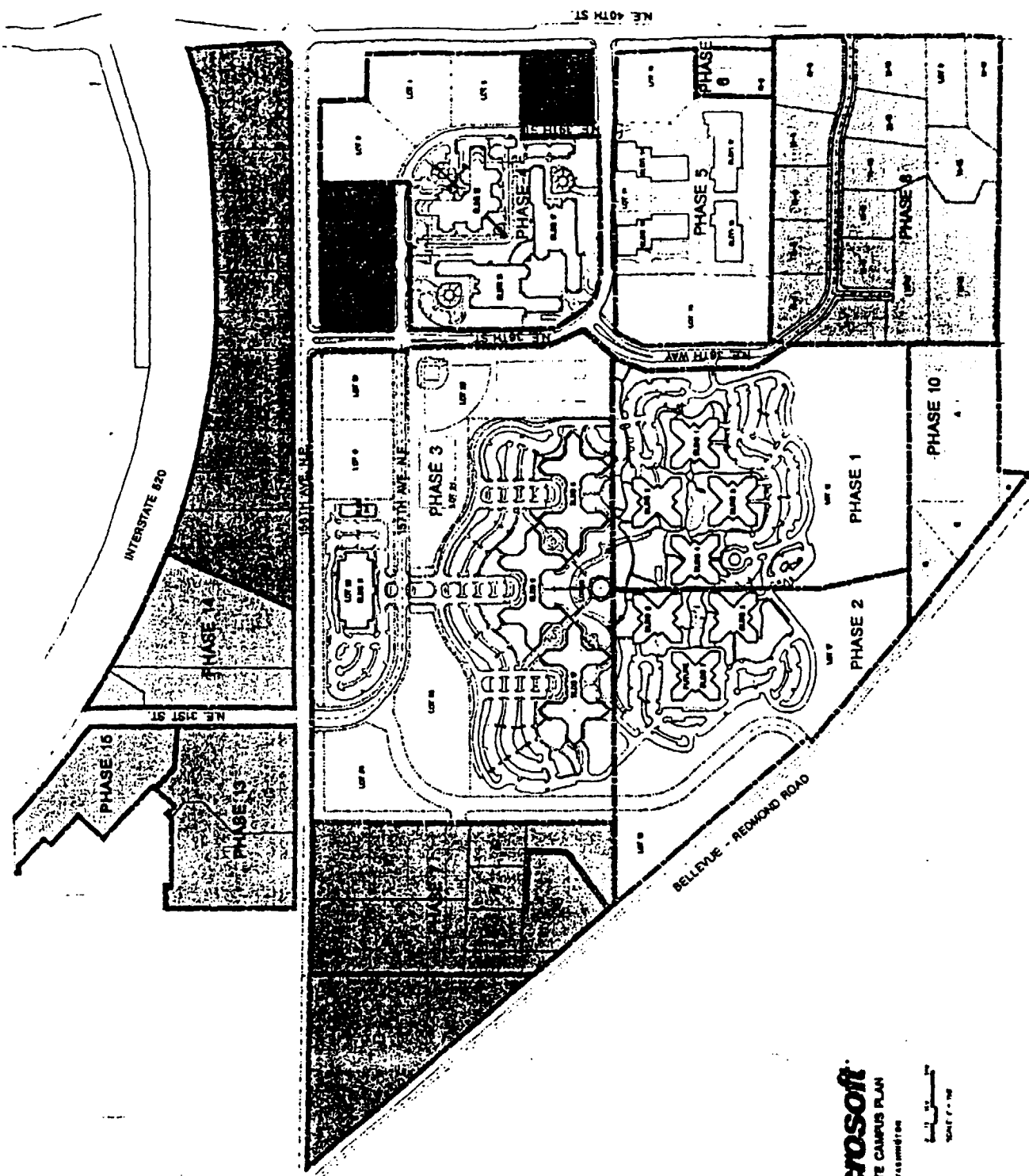
Negotiations are currently underway for office space in Haifa, Israel. Microsoft plans to establish a software development office there during the coming months.

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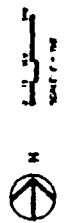
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**MICROSOFT DOMESTIC SQUARE FOOTAGE**  
(AS OF THE END OF JUNE 1991)

	OCCUPIED MANAGED	DEVELOPMENT
<b>CORPORATE</b>		
buildings 1-4	240,000	
buildings 5-6	120,000	
buildings 8-9	233,000	
building 10	117,500	
building 11/11a	83,563	
buildings 16-17		326,773
building 18		137,352
buildings 12-15	89,495	31,093
building 19	44,396	
building 20	13,980	3,503
building 21		45,972
building 22	93,522	14,241
building 23		38,730
department of ecology		33,876
-corporate subtotal-	1,017,458	671,548
<b>WASHINGTON FIELD</b>		
canyon park	264,136	
lincoln plaza	105,300	11,287
ridgewood	124,348	5,768
pas bellevue		100,000
corp com warehouse	33,221	
ms university	38,387	5,441
offsite storage	9,459	
trade show storage	1,437	
-washington field-	576,288	122,496
<b>FIELD</b>		
atlanta	7,869	25,391
boston	25,217	30,394
charlotte	54,632	74,178
rockester		6,672
hartford		8,162
new york	32,701	18,128
philadelphia	10,493	3,528
washington dc	24,228	8,675
-eastern subtotal-	155,140	175,128
chicago	23,042	6,814
dallas pas		40,000
dallas	21,625	10,246
detroit	12,968	3,164
minneapolis	11,500	2,547
st louis	6,630	15,934
-central subtotal-	75,765	78,705
denver	9,494	2,673
phoenix	1,137	11,579
los angeles	15,763	29,842
menlo park	33,143	
orange county	14,550	4,271
sacramento	637	
san francisco	2,392	12,442
san jose	20,324	
bellevue	15,474	2,832
-western subtotal-	112,934	63,639
<b>FIELD subtotal</b>	343,839	317,472
<b>TOTAL SQUARE FOOTAGE</b>	1,957,585	1,111,508
<b>GRAND TOTAL SQUARE FOOTAGE</b>		3,069,093



**Microsoft**  
 CORPORATE CAMPUS PLAN  
 REDMOND, WASHINGTON



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*Administration*  
*Investor Relations / Stock Activity*

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## INVESTOR RELATIONS / STOCK ACTIVITY

Q91-4 Earnings Release: On Wednesday, July 24, 1991, financial results for the fourth quarter were released. The annual meeting with financial analysts and selected press was held on Thursday, July 25, 1991.

### Selected Earnings Estimates for MSFT for FY91

Analyst	Q1E	Q2E	Q3E	Q4E	FY91E	FY92Q-1E	FY92E
Alex Brown	.47	.54	.61	.68	2.42	.67	3.30
CJ Lawrence	.47	.55	.61	.70	2.42	.75	3.35
Cowen & Co.	.48	.61	.60	.69	2.42	--	3.35
Dean Witter	.47	.55	.65	.70	2.43	.70	3.40
DLJ Securities	.40	.54	.54	.66	2.40	.65	3.20
Goldman Sachs	.47	.57	.63	.70	2.43	.75	3.20
Kidder Peabody	.47	.55	.62	.66	2.40	.70	3.35
Merrill Lynch	.48	.59	.62	.70	2.45	.70	3.20-3.35
Montgomery	.47	.57	.63	.70	2.45	.73	3.20
Piper Jaffray	.44	.58	.62	.67	2.40	.70	3.17
Shearson Lehman	.47	.57	.61	.68	2.41	.71	3.18
Smith Barney	--	.59	.64	.74	2.48	.76	3.50

Net income per share was \$.47 for Q91-1, \$.61 for Q91-2, \$.65 for Q91-3, \$.73 for Q91-4 and \$2.47 for FY91.

Stock Options/Cashless Exercises: A quarter-to-quarter decline in Microsoft's stock price slowed stock option exercise activity during Q91-4. During the quarter, Alex Brown handled stock trades for 97% of the optionees.

### Summary of Shares Exercised (adjusted for 3-for-2 stock split)

	Q91-1	Q91-2	Q91-3	Q91-4	FY91
Shares exercised	742,337	2,686,181	2,298,302	1,488,521	7,215,341
Number of optionees	458	977	1,606	964	4005
Price: High	52.87	50.50	74.37	75.88	75.88
Low	34.50	36.37	49.00	65.12	34.50

### Shares Outstanding:

	Number of Shares	Percent
Officer, Directors and 10% Shareholders		
William H. Gates	58,200,930	33.4%
Paul Allen	26,220,000	15.1
Sieve Ballmer	9,987,762	5.7
	94,408,692	54.2
Other Officers & Directors	2,142,161	1.2
Total Officers & Directors	96,550,853	55.4
Other holders (float)	77,683,124	44.6
Total shares outstanding	174,233,977	100.0%

— Investor Relations / Stock Activity

Fifteen Largest Institutional Holdings

Name	March 31, 1991		December 31, 1990		Change
	Held (thousands)	% Outsid	Held (thousands)	% Outsid	
Alliance Capital	3,406	1.96%	3,018	1.75%	388
Fidelity Mgmt	3,145	1.81	1,644	0.96	1,501
Investors Research	2,559	1.47	2,559	1.49	0
Provident Inv't Counsel	2,361	1.36	1,961	1.14	400
Wells Fargo	2,031	1.17	2,102	1.22	(71)
Jennison Assoc. Capital	1,957	1.12	1,857	1.08	400
Bankers Trust NY Corp.	1,597	0.92	1,553	0.90	44
Hellman Jordan Mgmt	1,524	0.88	1,698	0.99	(174)
Thomson Advisory	1,516	0.87	1,067	0.62	449
Jundt Associates	1,166	0.67	1,228	0.71	(62)
Lynch & Mayer	1,153	0.66	—	—	—
California Public	977	0.56	977	0.57	—
RCM Capital	958	0.55	1,097	0.64	(139)
Mellon Bank	958	0.55	—	—	—
Kemper Financial Ser.	958	0.55	—	—	—
	<u>26,266</u>	15.08	<u>20,761</u>	11.95	

Employee Stock Purchase Plan: The first period of the 1991 Employee Stock Purchase Plan concluded on June 30, 1991. The purchase price for the period ending June 30, 1991 was \$42.36 based on the closing fair market value of \$49.83 on January 2, 1991. The rate of return (\$68.13 on June 28th) was 61% based on the price on the last trading day of the period.

Domestic: A total of 3,592 domestic employees participated and 150,537 shares were issued the second week of July.

Of the 3,592 employees participating in this period, only 24 withdrew from the next period. A total of 4,719 employees are enrolled in the next period (a 31% increase from the period ending June 30, 1991).

International: Twenty of our twenty-four subsidiaries participated in the first offering of Microsoft's 1991 Employee Stock Purchase Plan. A total of 828 participants were issued 31,068 shares. New enrollment continued on an upward trend shown by the 59% increase over the previous ESPP period ending December 1990.

Three-for-Two Stock Split: On May 7, 1991, Microsoft announced a 3-for-2 stock split effective June 26, 1991 for shareholders of record on June 18, 1991.

Overhang Analysis: The percentage of stock option shares outstanding to common shares outstanding (overhang) was unchanged from the prior year. The 1991 overhang of 22% was just slightly more than forecasted (21.87%). Both grants and exercises were lower than forecasted by about one million shares.

The grant rate is trending down because of the effect of stock splits. Guidelines for stock option grants remain unchanged on absolute numbers of pre-split shares. This trend will continue in 1992, since the August options were granted after the stock split.

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**MICROSOFT CORPORATION**  
**SUMMARY OF STOCK OPTION PLAN ACTIVITY**  
**AS OF JUNE 30, 1991**

**Shares Available For Grant**

Available Beginning Of Period		Additions		Reductions		Available End Of Period
		New Approvals	Forfeited Shares	Net Shares Granted (1)		
Fiscal 1982	0	18,120,000	0	(5,142,000)		12,978,000
Fiscal 1983	12,978,000	0	629,400	(5,576,400)		8,031,000
Fiscal 1984	8,031,000	0	2,342,106	(4,548,690)		5,824,416
Fiscal 1985	5,824,416	0	1,407,258	(3,940,290)		3,291,384
Fiscal 1986	3,291,384	8,400,000	1,253,217	(7,407,474)		5,537,127
Fiscal 1987	5,537,127	12,000,000	1,173,063	(7,218,600)		11,491,590
Fiscal 1988	11,491,590		1,432,356	(11,658,060)		1,265,886
Fiscal 1989	1,265,886	15,000,000	1,762,769	(15,156,990)		2,871,665
Fiscal 1990	2,871,665	18,750,000	1,461,063	(12,843,330)		10,239,398
Fiscal 1991						
Q91-1	10,239,398		300,990	(6,599,703)		3,940,685
Q91-2	3,940,685	7,500,000	281,936	(895,538)		10,827,083
Q91-3	10,827,083		246,482	(744,390)		10,329,175
Q91-4	10,329,175		338,761	(544,710)		10,123,226
Since Inception	0	79,770,000	12,629,401	(82,276,175)		10,123,226

**Outstanding Stock Options**

	Outstanding Beginning Of Period	Additions Net Shares Granted (1)	Reductions		Outstanding End Of Period
			Shares Exercised	Forfeited Shares	
Fiscal 1982	0	5,142,000	0	0	5,142,000
Fiscal 1983	5,142,000	5,576,400	(11,400)	(629,400)	10,077,600
Fiscal 1984	10,077,600	4,548,690	(430,752)	(2,342,106)	11,853,432
Fiscal 1985	11,853,432	3,940,290	(1,289,418)	(1,407,258)	13,097,046
Fiscal 1986	13,097,046	7,407,474	(3,624,096)	(1,253,217)	15,627,207
Fiscal 1987	15,627,207	7,218,600	(5,048,496)	(1,173,063)	16,624,248
Fiscal 1988	16,624,248	11,658,060	(2,778,633)	(1,432,356)	24,071,319
Fiscal 1989	24,071,319	15,156,990	(3,070,647)	(1,762,769)	34,394,893
Fiscal 1990	34,394,893	12,843,330	(7,845,159)	(1,461,063)	37,932,001
Fiscal 1991					
Q91-1	37,932,001	6,599,703	(742,337)	(300,990)	43,488,378
Q91-2	43,488,378	895,538	(2,686,181)	(281,936)	41,415,799
Q91-3	41,415,799	744,390	(2,298,302)	(246,482)	39,615,405 (2)
Q91-4	39,615,405	544,710	(1,483,521)	(338,761)	38,332,833
Since Inception	0	82,276,175	(31,313,941)	(12,629,401)	38,332,833

**Footnotes:**

- (1) Net shares granted is equal to gross shares less ISOs converted to NQSOs.
- (2) Due to activity in Q91-4 which affects prior quarters, the number of stock options outstanding as of the end of Q91-3 (39,412,104) has increased by 203,301.

# COMPETITIVE OVERHANG RATE COMPARISON

	Common Shares Outstanding	Option Shares Granted - net	Option Shares Outstanding	Grant Rate	Overhang
<b>MICROSOFT</b>					
6/30/91	174,234,000	8,002,422	38,332,833	4.59%	22.00%
6/30/90	170,548,500	11,757,554	37,545,752	6.89%	22.01%
6/30/89	163,758,000	13,960,221	33,633,357	8.52%	20.54%
6/30/88	160,989,000	9,708,000	22,743,783	6.03%	14.13%
<b>APPLE</b>					
9/30/90	115,359,000	1,702,000	19,065,000	1.48%	16.53%
9/30/89	126,270,216	3,222,000	20,248,000	2.55%	16.04%
9/30/88	122,768,000	3,110,000	20,104,000	2.53%	16.38%
<b>COMPAQ</b>					
12/31/90	86,089,647	2,523,095	12,893,326	2.93%	14.98%
12/31/89	78,545,808	2,690,724	11,763,844	3.43%	14.98%
12/31/88	77,098,442	3,388,988	10,498,892	4.40%	13.62%
<b>SUN</b>					
6/30/90	92,613,035	2,019,000	12,299,000	2.18%	13.28%
6/30/89	83,963,402	4,900,000	11,933,000	5.84%	14.21%
6/30/88	72,392,916	2,054,000	8,178,000	2.84%	11.30%
<b>LOTUS</b>					
12/31/90	42,217,526	5,987,000	8,204,000	14.18%	19.43%
12/31/89	41,607,816	5,785,000	6,517,000	13.90%	15.66%
12/31/88	45,443,445	3,239,000	6,064,000	7.13%	13.34%
<b>NOVELL</b>					
10/27/90	140,822,000	5,830,048	12,640,096	4.14%	8.98%
10/28/89	132,248,000	1,324,844	9,296,586	1.00%	7.03%
10/29/88	129,180,000	2,568,182	11,035,518	1.99%	8.54%
<b>BORLAND</b>					
3/31/90	13,397,000	282,000	1,589,000	2.10%	11.86%
3/31/89	11,769,000	5,000	1,625,000	0.04%	13.81%
3/31/88	11,667,000	392,000	1,724,000	3.36%	14.78%

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# Summary of Activity Microsoft Corporation Symbol: MSFT

June 1991

Date	High	Low	Last	Net Change	Total Trades	Total Volume	Block Trades	Block Volume
6/3	112 1/4	109	112	+2 1/4	636	653,894	8	104,500
6/4	113 1/2	110 1/2	113	+1	648	487,875	3	30,000
6/5	114 1/4	112	112	-1	593	576,360	7	75,000
6/6	113	110 1/2	111 1/8	-7/8	475	454,826	3	30,000
6/7	110 1/4	108 3/4	110 1/4	-7/8	618	723,013	4	47,000
6/10	111	109 3/4	110 1/2	+1/4	437	410,815	5	59,200
6/11	113	110 1/2	110 5/8	+1/8	599	582,651	3	30,000
6/12	112 1/4	110 1/4	111 1/8	+1/2	623	710,359	8	125,000
6/13	112 1/4	110 1/2	111	-1/8	456	531,457	4	64,000
6/14	113 3/4	111	113 1/2	+2 1/2	660	645,414	3	35,000
6/17	114 3/4	112 1/2	113 1/2	0	499	409,932	4	40,500
6/18	113 1/2	109 3/4	111 1/2	-2	695	651,329	7	73,300
6/19	109 3/4	103	103 3/8	-8 1/8	1,849	2,183,690	38	444,200
6/20	101 3/4	99	100 3/4	-2 5/8	2,017	2,627,372	59	994,270
6/21	103	101 1/4	102 1/4	+1 1/2	878	941,634	23	306,600
6/24	101 1/2	97 1/2	98 1/8	-4 1/8	1,218	1,108,394	8	104,250
6/25	100 1/4	98	98 3/4	+5/8	994	1,352,217	36	498,500
6/26	101 1/2	98 1/4	100 3/4	+2	866	1,343,580	37	455,000
6/27 XS	68 1/4	66 3/4	68	A + 3/4	1,118	1,183,159	21	267,000
6/28	68 3/4	65 1/2	68 1/8	+1/8	991	1,284,477	23	389,900

Daily  
Average

72.567 70.679

71.610 -0.256

844

943,122

15

208,661

## Explanatory Notes:

1. Price and Volume Data: The price and volume shown in this official data are subject to change. The data on this report may differ from figures which appear in newspaper's listings of 40 trading centers of weekly of real time such as the NASDAQ and NYSE, as they are not subject to the same level of review as the data on this report.
2. Market Summary: Includes the general summary of the market and the volume of trading in the market. The volume of trading is shown in the market summary.
3. Dividend Dates: The dates on which the company pays dividends are shown in the market summary.
4. Dividend Amount: The amount of the dividend is shown in the market summary.
5. Dividend Yield: The yield of the dividend is shown in the market summary.
6. Dividend Payout Ratio: The payout ratio of the dividend is shown in the market summary.
7. Dividend Coverage: The coverage of the dividend is shown in the market summary.
8. Dividend History: The history of the dividend is shown in the market summary.
9. Dividend Frequency: The frequency of the dividend is shown in the market summary.
10. Dividend Growth: The growth of the dividend is shown in the market summary.

\*A\* - Approximate to each price which has been adjusted.

SUMMARY OF ACTIVITY THE NASDAQ STOCK MARKET 1015 K STREET, NW WASHINGTON, DC 20006-1006

1. Price and Volume Data: The price and volume shown in this official data are subject to change. The data on this report may differ from figures which appear in newspaper's listings of 40 trading centers of weekly of real time such as the NASDAQ and NYSE, as they are not subject to the same level of review as the data on this report.
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\*A\* - Approximate to each price which has been adjusted.

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\*A\* - Approximate to each price which has been adjusted.

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# NASDAQ NATIONAL MARKET SYSTEM STATISTICAL REPORT

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST, WASHINGTON, D.C. 20006

**NASDAQ**

FOR MONTH ENDING 31 MAY 91

## NASDAQ/NMS SYSTEM STATISTICS

### COMPOSITE INDEX: ASSIGNED INDEX (INDUSTRIAL)

HIGH 506.16  
LOW 476.53  
CLOSE 506.11  
PREVIOUS CLOSE 484.72  
% CHANGE +4.41  
+5.11

TOTAL NASDAQ VOLUME: 3,377,720,400  
TOTAL NMS VOLUME: 2,485,070,804  
TOTAL NASDAQ/NMS VOLUME: 5,862,791,204  
TOTAL NMS SECURITIES: 1,223,363  
TOTAL NASDAQ SECURITIES: 2,558

### SUMMARY FOR THIS SECURITY

1. PRICE RANGE: HIGH 112 1/2 LOW 96 5/8  
2. LAST PRICE: (APR) 99 PERCENT CHANGE: +10.86  
(MAY) 109 3/4

3. VOLUME FOR MONTH: 20,415,445

4. TOTAL TRADES 16,866

5. BLOCKS: NUMBER OF BLOCKS 317 NUMBER OF SHARES 4,234,375

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JUN 17 1991

NASDAQ SYMBOL: MSFT  
SECURITY DESCRIPTION: Common Stock (\$0.001 Per Value)  
TOTAL SHARES OUTSTANDING: 116,446,417

SHORT INTEREST REPORTED: 1,247,511 AS OF 05/15/91  
PLEASE NOTIFY NASDAQ OF ANY CHANGE IN COMPANY CONTACT OR ADDRESS

Microsoft Corporation  
Mr. Raymond B. Ferguson  
Director of Investor Relations  
One Microsoft Way  
Redmond WA 98052-6399

DATE	HIGH	LOW	LAST	NET CHANGE	SHARE VOLUME	TRADES	NMS VOLUME	NASDAQ COMPOSITE CLOSE
WED 1	100 3/4	97 1/4	100 3/4	+ 1 3/4	1,552,152	979	156,475,018	185,185,300
THU 2	101 1/2	100 3/4	100 1/2	+ 1 1/4	930,210	658	135,839,433	174,793,300
FRI 3	102 1/2	101 1/4	101 1/4	+ 2 1/4	2,821,254	1,988	399,608,339	503,091,300
MON 6	103 1/4	100 1/4	102 3/4	+ 1 1/2	622,745	507	91,013,786	119,584,800
TUE 7	103 3/4	101 1/4	101 1/4	+ 1 3/4	801,934	550	122,784,721	156,932,300
WED 8	103 1/4	100 3/4	103 3/4	+ 2 3/4	1,062,131	876	142,494,351	158,507,500
THU 9	106 1/2	102 3/4	105 3/4	+ 3 1/4	1,062,131	791	142,494,351	179,618,700
FRI 10	107 1/2	102 3/4	102 3/4	+ 1 1/2	3,918,775	3,635	588,928,885	258,353,100
MON 13	103 3/4	101 1/4	101 1/4	+ 3/8	956,081	775	90,629,031	135,001,500
TUE 14	103 1/2	102 1/4	101 1/4	+ 1 1/8	868,192	770	101,432,518	155,034,700
WED 15	103 1/2	102 1/4	101 1/4	+ 1 1/8	1,545,671	1,291	143,790,848	186,738,600
THU 16	100 1/2	98 1/2	98 3/8	+ 1 3/8	2,715,655	800	107,928,493	154,268,700
FRI 17	103 3/4	96 5/8	99 1/4	+ 3 1/2	4,968,678	585	59,018,407	146,139,600
MON 20	100 1/4	97 3/4	99 1/8	+ 2 1/8	916,986	618	80,731,599	125,321,700
TUE 21	103 1/4	99 1/2	102 1/2	+ 4 3/4	1,162,361	863	119,755,266	166,751,500
WED 22	106 3/4	102 1/4	106 3/4	+ 2 3/4	1,233,062	1,101	107,332,855	170,617,300
THU 23	109 3/4	107 1/2	109 1/2	+ 2 3/4	1,942,899	949	118,570,442	170,617,300
FRI 24	112 1/2	109 1/2	110	+ 10 3/4	5,203,735	946	512,400,365	252,939,300
MON 27	HOLIDAY							
TUE 28	110 3/4	109 3/4	110 3/4	+ 3/4	612,112	620	96,393,184	126,320,800
WED 29	112 3/4	109 3/4	110 1/4	+ 0 1/2	899,207	576	119,795,100	147,628,100
THU 30	111 3/4	108 1/2	109 3/4	+ 1 1/2	860,194	671	121,023,507	150,806,800
FRI 31	111 1/2	108 1/2	109 3/4	+ 1 1/2	1,302,125	678	126,073,427	157,375,300
WEEK					2,502,725	2,543	453,264,218	581,940,800

### NASDAQ MARKET MAKERS IN THIS SECURITY

AS OF 05/31/91

Goldman, Sachs & Co.  
Herrill, Lynch, Pierce, Fenn  
Morgan Stanley & Co., Inc.  
Nasdaq Securities Inc.  
PaineWebber Inc.  
Salomon Brothers Inc.  
Smith Barney, Harris Upham  
Westlake Investments Inc.  
2,891,770 Montgomery Securities Inc.  
1,767,333 Coven & Co.  
1,354,640 Morgan Stanley & Co., Inc.  
1,175,400 Midwest Stock Exchange  
1,125,039 Dean Witter Reynolds, Inc.  
1,064,569 Paine & Whittier Inc.  
1,030,368 Donaldson & Lutz  
843,423 Shearwood & Co.  
603,157 Shearwood & Co.  
651,862 Westlake Investments Inc.

607,936 Wedbush Morgan Securities Inc.  
585,445 Kidder, Peabody & Co.  
559,885 Nash Vets 701 of Shaik Inv  
508,600 UBS Securities Inc.  
447,210 Dain, Bosworth, Inc.  
441,383 Jefferies & Company, Inc.  
428,262 Old Discout Corporation  
327,152 Wessels, Arnold & Henderson  
321,420 Soundview Financial Group  
291,992  
140,712  
137,200  
103,856  
93,950  
90,350  
89,338  
31,600  
41,200

MS 0164586  
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# NASDAQ NATIONAL MARKET SYSTEM STATISTICAL REPORT

FOR MONTH ENDING 30 APR 91

**NASDAQ**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST, WASHINGTON, D.C. 20006

## NASDAQ/NMS SYSTEM STATISTICS

### COMPOSITE INDEX ASSIGNED INDEX (INDUSTRIAL)

HIGH 512.75  
CLOSE 512.00  
PREVIOUS CLOSE 482.30  
% CHANGE +0.50  
-1.19

TOTAL NASDAQ VOLUME: 4,114,003,800  
TOTAL NMS VOLUME: 3,043,398,580  
TOTAL NMS TRADES: 1,575,956  
TOTAL NMS SECURITIES: 2,562

### SUMMARY FOR THIS SECURITY

1. PRICE RANGE: HIGH 117 1/2 LOW 96  
2. LAST PRICE: (MAR) 106 1/8 (APR) 99  
3. VOLUME FOR MONTH: 27,664,898  
4. TOTAL TRADES: 25,442  
5. BLOCKS: NUMBER OF BLOCKS 334 NUMBER OF SHARES 4,676,869

PERCENT CHANGE: -6.71

Microsoft Corporation  
Mr. Raymond B. Ferguson  
Director of Investor Relations  
One Microsoft Way  
Redmond WA 980526399

NASDAQ SYMBOL: MSFT  
SECURITY DESCRIPTION: Common Stock (\$0.001 Per Value)  
TOTAL SHARES OUTSTANDING: 114,700,000

SHORT INTEREST REPORTED: 1,662,243 AS OF 04/13/91  
PLEASE NOTIFY NASDAQ OF ANY CHANGE IN COMPANY CONTACT OR ADDRESS

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MAY 17 1991

DATE	HIGH	LOW	LAST	NET CHANGE	SHARE VOLUME	TRADES	NMS VOLUME	NASDAQ VOLUME	COMPOSITE CLOSE
MON 1	107 3/4	104 1/2	106 3/4	+ 5 1/8	823,508	849	95,850,631	126,193,100	480.86
TUE 2	112 1/2	106 3/4	112 1/4	+ 5 1/2	1,335,928	1,401	151,654,575	198,626,300	491.20
WED 3	116 3/4	112 3/4	113 3/4	+ 3 1/2	1,277,524	1,444	178,349,927	239,807,100	495.05
THU 4	116 3/4	112 3/4	113 3/4	0	1,021,814	1,052	168,378,921	216,112,600	491.57
FRI 5	114 3/4	109 1/2	110	+ 3 3/4	1,513,818	1,422	190,856,885	200,263,900	489.79
WEEK	116 3/4	104 1/2	110	+ 3 3/4	5,984,592	6,168	745,052,939	972,003,600	489.79
MON 8	112 1/4	108 1/2	111 3/8	+ 1 3/8	667,949	727	112,348,028	148,939,700	495.63
TUE 9	112 1/4	108 3/4	110 1/2	+ 2 1/8	841,805	825	126,217,892	170,656,900	492.76
WED 10	110 1/2	108 1/2	107 1/2	+ 2 3/4	1,037,374	1,781	138,741,576	191,973,300	493.71
THU 11	111 1/2	108 3/4	111	+ 3 1/2	1,665,178	1,921	173,255,125	218,014,100	501.19
FRI 12	113 1/4	103 3/4	107 1/4	+ 2 3/4	2,461,178	5,402	633,758,107	875,881,600	501.62
WEEK	113 1/4	103 3/4	107 1/4	+ 2 3/4	5,671,092	1,234	124,836,266	167,795,400	500.84
MON 15	114 1/4	105	113 3/4	+ 6 1/2	1,233,487	1,167	160,656,467	222,449,400	506.75
TUE 16	114 1/2	110 1/2	112 1/4	+ 1 1/2	1,132,006	1,170	188,943,060	267,555,100	511.31
WED 17	117 1/2	111 1/8	111 1/2	+ 3 1/4	1,788,043	1,148	184,059,498	252,531,300	506.82
THU 18	112	108	110 1/4	+ 2 1/2	1,223,860	1,033	143,514,373	218,014,100	501.19
FRI 19	109 1/2	105	107 1/4	- 2 3/4	1,723,443	6,332	803,005,666	1,132,345,300	501.19
WEEK	117 1/2	105	107 1/4	- 2 3/4	6,723,539	1,568	111,139,870	157,439,100	494.28
MON 22	106 1/4	101 3/4	102 1/8	- 5 1/8	1,943,631	1,211	115,715,435	151,548,200	486.08
TUE 23	103	100 1/2	101 5/8	+ 1 3/8	1,464,713	964	121,161,656	158,229,800	498.45
WED 24	104 3/4	100 1/2	103	+ 2 1/4	1,141,853	749	128,187,800	165,514,800	498.02
THU 25	103 3/4	100 1/2	100 3/4	0	915,266	917	113,086,866	145,157,100	494.64
FRI 26	102 1/4	98 3/4	100 3/4	+ 6 1/2	1,223,779	5,409	6,694,242	791,998,700	494.64
WEEK	106 1/4	98 3/4	100 3/4	+ 6 1/2	6,694,242	852	110,232,530	140,303,800	487.74
MON 29	101 1/2	97 3/4	97 3/4	+ 3 1/4	990,867	1,279	160,973,621	201,470,700	484.72
TUE 30	99 1/4	96	99	+ 1 1/4	1,601,566	2,131	271,266,151	341,774,600	484.72
WEEK	101 1/2	96	99	+ 1 1/4	2,592,433				

## NASDAQ MARKET MAKERS IN THIS SECURITY

AS OF 04/30/91

Goldman, Sachs & Co., Inc.  
Herrzog, Helne, Geduld, Inc.  
Herrzog, Helne, Geduld, Inc.  
Merrill Lynch, Pierce, Fenner  
Troster Singer Corp.  
Morgan Stanley & Co., Inc.  
The First Boston Corporation  
Shearson Lehman Brothers Inc.  
Salomon Brothers Inc.  
PaineWebber Inc.  
Alex. Brown & Sons Incorp.  
Wheeler and Co. Inc.

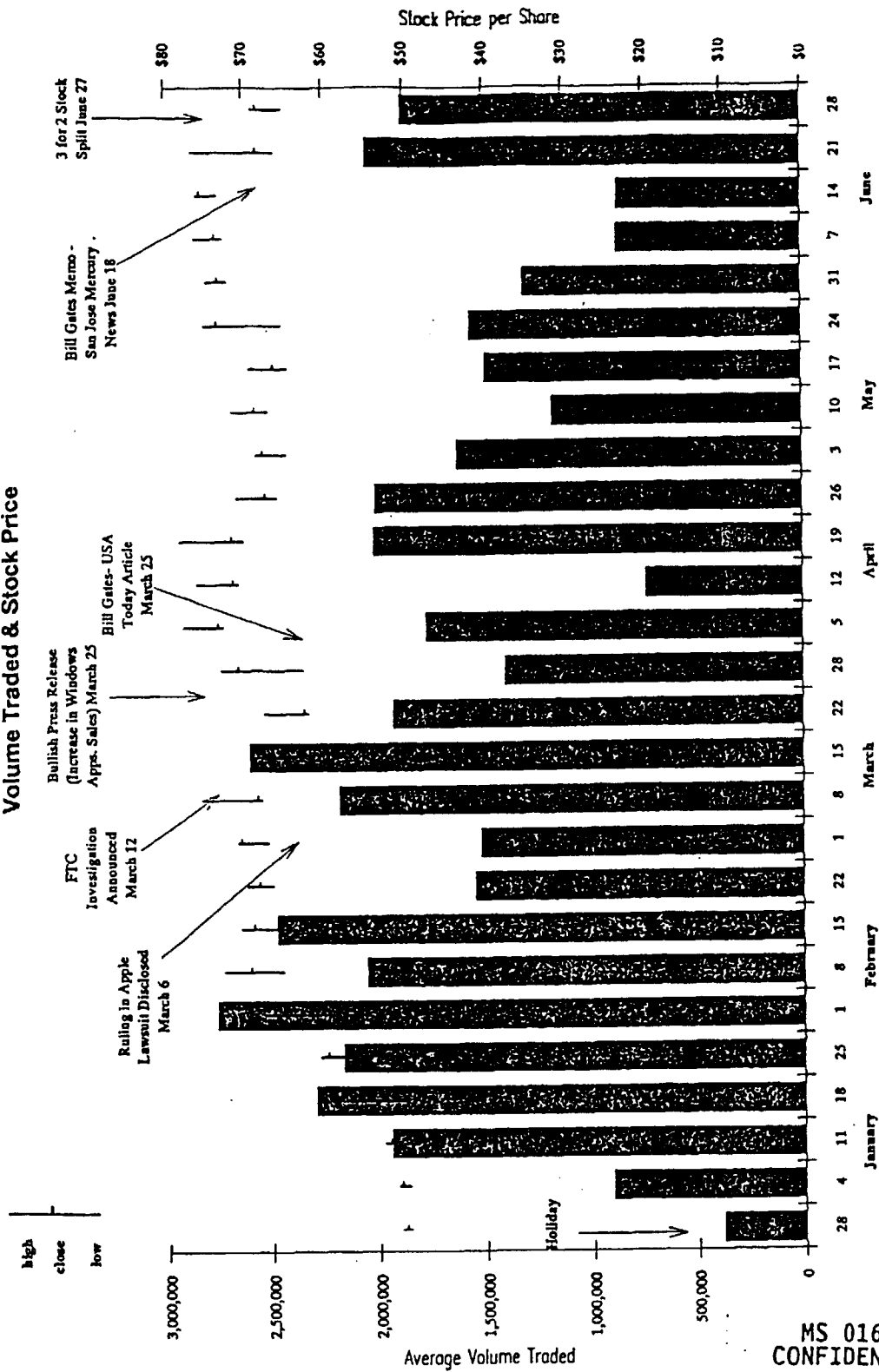
4,471,395 Prudential-Bache Securities  
2,190,162 Smith Barney, Harris Upham  
1,551,269 Donaldson, Lufkin & Jenrette  
1,478,009 Midwest Stock Exchange  
1,285,355 Mayer & Schweitzer Inc  
1,275,227 Montgomery Securities Inc  
1,231,962 Wedbush Morgan Securities Inc  
1,228,032 Westralia Investments Inc.  
994,900 Cowen Co.  
894,900 Alex. Brown & Sons  
805,792 UBS Securities Inc.

801,923 Sherwood Securities Corp.  
794,363 Nash Weiss Div of Shaktin Inv  
769,443 Dean Witter Reynolds, Inc.  
753,543 Kidder Peabody & Co., Inc.  
618,575 Soundview Financial Group  
559,743 Dain, Bosworth, Inc.  
546,528 Ressler, Arnold & Henderson  
534,780 Cyrus J. Lent Corporation  
433,605 Ragen McKenzie Inc.

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# Volume Traded & Stock Price



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*Administration*  
*Human Resources*

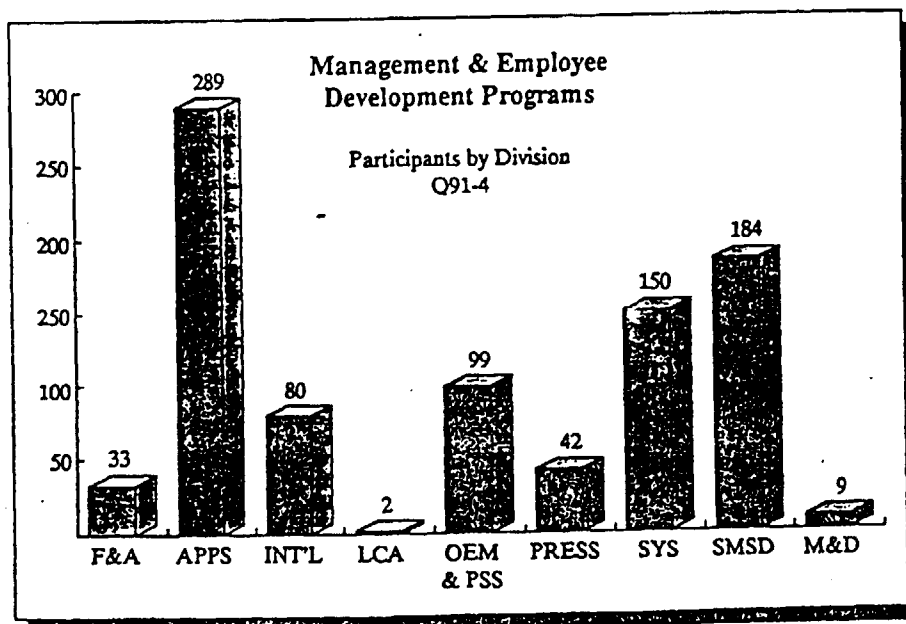
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## HUMAN RESOURCES

### Management and Employee Development Courses Conducted During Q91-4

Course Title	Number of Sessions	Number of Participants
<b>MANAGEMENT COURSES</b>		
Effective Management Skills	4	63
Interpersonal Review Skills	6	77
Effective Interviewing Skills	2	26
Time/Business Organization Workshop	1	24
Selling Your Ideas	3	41
Effective Business Writing	1	14
Conducting Effective Meetings	4	55
Microsoft Management Styles Seminar	1	13
Presentation Skills	2	27
Managing Interpersonal Relationships	2	38
Creative Problem Solving	2	32
<b>TECHNICAL LEADERSHIP PROGRAM</b>		
Software Quality Dynamics	1	14
Workshop - Modular I & II	1	12
Modular III	1	12
Modular IV	1	12
Modular V	1	10
<b>EMPLOYEE COURSES</b>		
Interpersonal Review Skills	6	88
Time/Business Organization Workshops	3	128
Selling Your Ideas	3	37
Effective Business Writing	3	50
Managing Interpersonal Relationships	6	115
<b>TOTALS</b>	<b>54</b>	<b>888</b>





## Human Resources

Management and employee development programs continue to be popular. Worldwide demand is increasing for new and existing programs.

### United States Employee Relations:

A total of 499 counseling sessions were conducted during Q91-4, a 28% increase over last quarter. Of these, 61% were performance related, resulting in 41 performance improvement plans, 11 probations and 37 terminations. Of the remaining, 6% were related to disability issues, 22% to career counseling, 2% to harassment and 9% to personal issues. Exit interviews totalled 44. The most common concern cited during exit interviews continues to be poor management skills/style. New manager orientation sessions are being scheduled to improve this.

Applications Software Training: From April through June 1991, Applications Training taught 186 regularly scheduled classes, a 25% increase from last quarter. In addition, over a dozen special presentations were made each month during the quarter.

Windows products continue to dominate the curriculum, 74% of classes were devoted to the Windows environment, 22% were PC classes and Macintosh classes accounted for 4% of class time.

HR Division Operations: The HR functions dedicated to supporting the SMSD field sales organization continues to be effective. Generalist support including recruitment, employee relations, compensation and benefits are provided. A similar function was created for PSS during Q91-4.

Affirmative Action: Our overall female and minority representation was stable over the last quarter. The female population is at 40% and the minority population is 11%. We continue to be short of females in senior management and executive positions, minorities in mid and entry level management, and both females and minorities in technical and professional positions.

Employee Communications: *Micronews* is now averaging 24 pages in length and has a circulation of over 7,500 copies each week. This includes the field edition sent to all US field locations.

*Micronews North* is published for the Campus North staff every other week and inserted in the *Micronews International Micronews* now has a circulation of 1,000 copies. It is sent to all Microsoft subsidiaries every other week.

A new column, "Window On Fitness," continues to appear each week with exploration of health and recreation topics including cancer prevention and AIDS awareness. Interviews with Mike Hallman on the first anniversary of his joining the company, and Jeremy Butler during his last week at Microsoft, gave *Micronews* readers an in-depth insight into top management's views of company achievements, goals and vision. In response to the recent negative media publicity, *Micronews* ran a half column statement from Mike Hallman about Microsoft's open communication policy.

## Human Resources

Compensation: A management briefing covering compensation basics was developed for presentation to Microsoft managers. The program discusses compensation guidelines at Microsoft and how to link performance to pay.

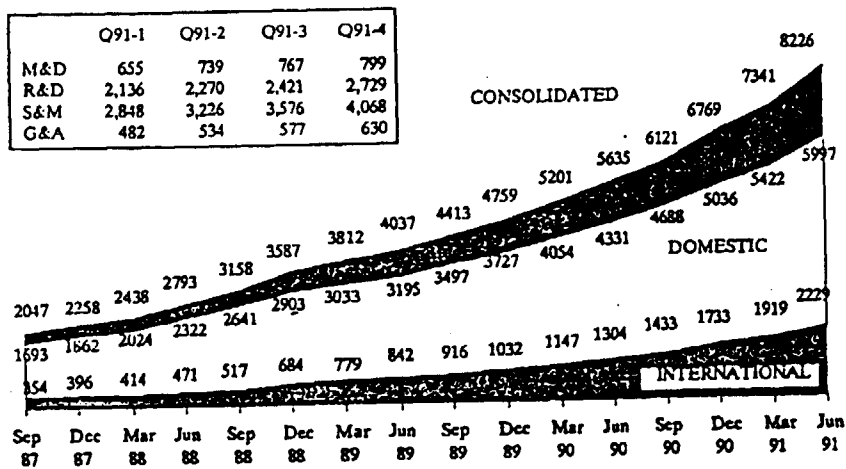
Work is underway developing the ECS career development brochure. This will be rolled out July 24th during the annual ECS meeting in Redmond.

International Compensation and Benefits: The business travel and accident insurance program was approved and became effective July 1, 1991. The program consists of life insurance up to \$100,000 while travelling on company business. It also has a program for emergency assistance services such as medical and legal while in a foreign location.

Twelve HR managers from the international subsidiaries attended the first International HR Conference on April 29, 30 and May 1 in Redmond. The three day conference covered topics such as compensation and benefits issues for the future, multi-national pooling of benefit plans, recruiting, International transfers, applications and employee development training and HR management systems.

Personnel Systems: As of June 30th, the total headcount was 8,226 (5,997 domestic and 2,229 subsidiary), an increase of 46% from one year ago.

Number of Employees

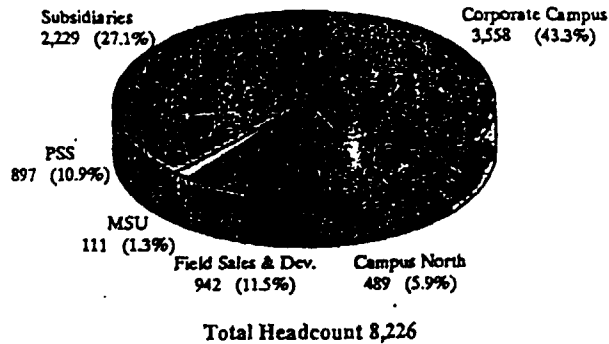


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Human Resources

Headcount by Location  
Q91-4



Our annual domestic turnover rate is 7.5%. Employees between the ages of 20 and 29 account for 44% of the domestic work force, 42% are between 30 and 39 and 13% are 40 years of age or older. Less than 1% of the work force is younger than 20. The work force is 40% female and 60% male. The minority population is 11%. The average age of a domestic employee is 31 years and the average length of service is 2.3 years.

The International subsidiary turnover rate is 9.2%. The average length of service for a subsidiary employee is 1.7 years.

Preparation of the August review cycle began in April with information meetings conducted the last two weeks of May for approximately 1,200 managers, supervisors and leads.

During Q91-4, our new HR database system *PeopleSoft HRMS* went live. *PeopleSoft* is a client-server application which utilizes a Windows graphical user interface and a SQL Server database engine which runs on an OS/2 Lan Manager server.

The breadth of functionality of the *PeopleSoft HRMS* and its compatibility with Microsoft applications such as Excel and Q + E enabling easy access and extraction of data. Additionally, there is the ability to integrate many functions. The flexible structure of *PeopleSoft HRMS* allows for improved recording and reporting of employee job, salary, performance and service history.

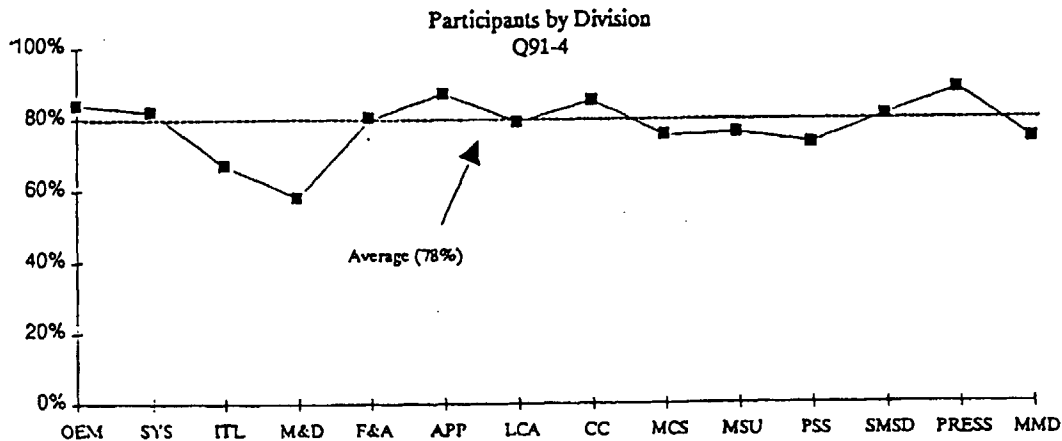
The first live *PeopleSoft HRMS* payroll was successfully transmitted during Q91-4.

## Human Resources

Employee Benefits: During Q91-4, 401(k) participation increased to a record high of 78%. The conversion to Fidelity Investments from IDS Trust was completed during this period as well. The new plan with Fidelity features seven investment options and six Fidelity mutual funds plus the Microsoft Stock Fund. A telephone inquiry feature of the Fidelity plan is popular at Microsoft.

This feature will reduce paperwork. With Fidelity, future contributions can be redirected and existing 401-K balances exchanged by telephone. During their first week of operation, Fidelity received 374 calls from Microsoft 401-K participants of which 237 were inquiry only, 83 were to exchange existing balances and 61 were to redirect future contributions.

### Savings Plus 401(k) Plan



Regional Preferred Health Benefit Plans were established in 10 states during Q91-4 for field employees of SMSD, PSS, MSU and MCS. These plans are cost effective to Microsoft and provide a significantly higher level of benefits to the employee and their eligible family members.

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*Administration*  
***Management Information Systems***

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## MANAGEMENT INFORMATION SYSTEMS

Q91-4 activities include:

### Corporate MIS

Implementation of the Ross Fixed Asset system including a physical inventory and reconciliation was completed.

Implementation of MacPac for our ICON business was completed including an International Focused Factory for manufacturing and shipping products to Microsoft subsidiaries from Campus North.

Development of "WinSales," a Windows-based telemarketing system to assist with direct marketing efforts in SMSD, was implemented.

"US Daily Order Status Query," a Windows-based tool to allow direct access to order and stock status information by product was released, including the ability to drill up/down through Microsoft's product families.

Electronic Data Interchange (EDI) was implemented with JWP-Businessland for purchasing personal computers and peripherals.

### Corporate Networks

T1/256KB USSMD WAN upgrade were begun at Menlo Park, Dallas, Chicago and New York City.

Upgrades of the Dublin circuit to 256KB and the Puerto Rico circuit to 128KB were completed. A Switzerland 64KB private line was added to England while the WAN was extended to Vancouver, BC, Australia and Korea. Email was added in Brazil and New Zealand.

Implementation of Voicemail across Campus was completed. This fall a new InteCom PBX will be installed on Campus.

### International MIS

Work on MacPac AS/400 installations is underway in Tokyo and Amsterdam. Australia went live in April. England and Redmond ICON were upgraded with the newest release of MacPac.

Improvement of Windows and AS/400 networking was accomplished. Each subsidiary is now able to conduct normal network functions while also working on the AS/400, all under Windows.

Bob Caldwell was hired as Director of International MIS. Bob's previous experience with Andersen Consulting will prove a tremendous benefit to our team.

Delivery of major enhancements to MacPac was accomplished for Registration Database, Sundry Order Processing and Pricing. A cooperative processing application for Transfer Pricing was also implemented.

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*Administration*  
*Corporate Audit*

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## **CORPORATE AUDIT**

During Q91-4, Corporate Audit reported on audits of England and France. Field work for audits of Spain, Canada and Italy was also completed.

The MS LTD audit report includes observations in the areas of international facilities strategy, purchasing authorization limits, fixed assets and the Microsoft Consulting Services (Europe) work-in-process system. The MS SARL report dealt with compliance with purchasing policies, automated purchasing systems, marketing expense control, fixed assets and employee expense reimbursement.

The audits of Spain, Italy and Canada dealt with purchasing, marketing expenses, fixed assets and employee expense reimbursement and reports will be issued shortly.

A summary report of common problems observed in audits of subsidiaries has been issued to senior finance management and communication to subsidiary Controllers/Directors of Finance and Administration.

Audits of PSS Revenue Accounting, Microsoft AB (Sweden) and Microsoft BV (Netherlands) are also scheduled for Q92-1.

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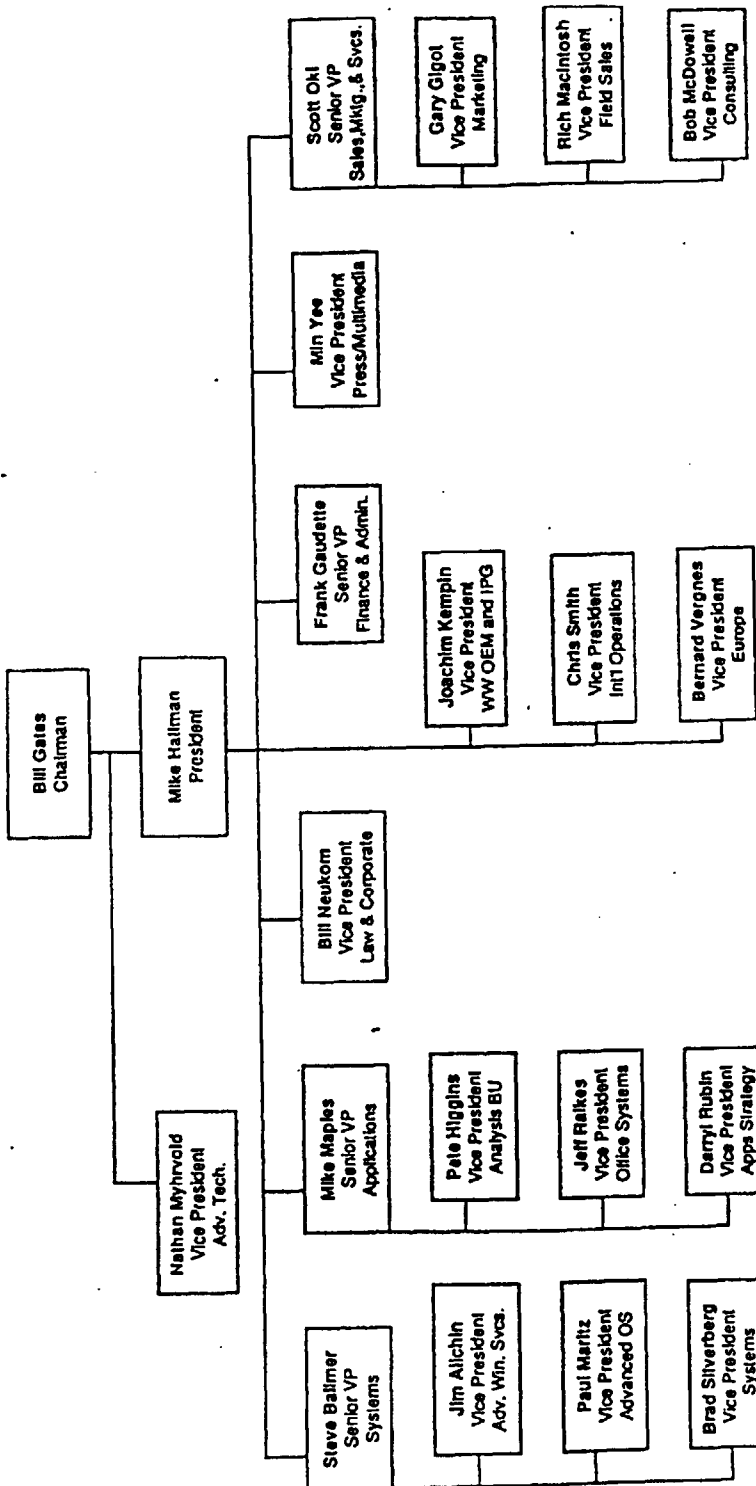
*Administration  
Organizational Chart*

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## *Acronyms*

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-ACRONYMS

ABC	Activity Based Costing	LMU	Lan Man Unix
ABU	Analysis Business Unit	LOI	Letter of Intent
ACE	Advanced Computing Environment	LVR	Large Volume Resellers
ACIS	IBM academic pricing program using bundles	Mac	Macintosh
AED	Authorized Education Dealer	MCS	Microsoft Consulting Services
AIME	Includes Africa, Israel & Middle East	MET	Management Expense Tracking
Apps	Applications	MLP	Microsoft License Pak
CN	Campus North	MS	Microsoft
CSA	Client Server Applications	MSJ	Microsoft Systems Journal
CSI	Consumer Software, Inc.	MSU	Microsoft University
CP	Component Piece	NPI	Nonperforming Investments
DABU	Data Access Business Unit	NQSO	Nonqualified Stock Option
DK	Dorling Kindersley	OBU	Office Business Unit
DOEM	Domestic Original Equipment Manufacturer	OEM	Original Equipment Manufacturer
Domestic	Includes Redmond, Campus North, Puerto Rico and Workgroup Canada	OS	Operating System
DOS	Disk Operating System	PC	Personal Computer
DOS RUP	MS-DOS 5.0 Retail Upgrade	PPB	Prepaid Balance
DSO	Days Sales Outstanding	PSS	Product Support Services
EBU	Entry Business Unit	R&D	Research and Development
ECU	European Currency Unit	Revs	Revenues
EPS	Earnings Per Share	RM	Raw Materials
ERJSA	Employee Retirement Income Security Act	ROW	Rest of World
ESPP	Employee Stock Purchase Plan	RUP	Retail Upgrade for DOS 5.0
FU	Equivalent Units	S&M	Sales and Marketing
F&A	Finance and Administration	SCO	Santa Cruz Operation
FG	Finished Goods	SEC	Securities and Exchange Commission
FX	Foreign Exchange	SKU	Stock Keeping Unit (part number)
GAAP	Generally Accepted Accounting Principles	SMSD	Sales, Marketing and Service Division
G&A	General and Administration	SPAG	Systems, Peripherals and Accessories Group (hardware)
GBU	Graphics Business Unit	SRP	Suggested Retail Price
GUI	Graphical User Interface	Sys	Systems
ICON	Intercontinental - Includes Canada, Australia and Singapore	TCN	Third Country National
IFF	International Focus Factory	UPB	Unspecified Product Billing
IFG	International Finished Goods	Upd	Updates
IOEM	International Original Equipment Manufacturer	Upg	Upgrade
IPG	International Product Group	USSMD	United States Sales, Marketing and Distribution
IPO	Initial Public Offering	Var	Variance
IPR	Intellectual Property Rights	VEBA	Voluntary Employees' Beneficiary Assn.
IRN	Increasing Rate Notes	WCM	World Class Manufacturing
ISV	Independent Software Vendor	WGA	Workgroup Applications
JIT	Just-In-Time Manufacturing	WGC	Microsoft Workgroup Canada
LM2	Lan Man 2.0	Win	Windows
		WW	Worldwide