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SYSTEMS DIVISION QUARTERLY REPORT
PAUL MARITZ
May-July'1992

To: BRADOR
FR: BRADSI

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INTRODUCTION:

This report consists of quarterly summaries of accomplishments, issues, and objectives for myself and my staff in the Systems Division. This report and future ones, will be published mid-quarter to allow for timely OEM royalty data to be included.

SYSTEMS DIVISION INDICATORS:

The Systems Division has come off a record fiscal year. Revenues and BOI (Burdened Operating Income) benefitted from two huge retail successes - Win 3.1 and DOS 5.0 Upgrade, while the underlying OEM business remained strong. Below are the "P&L" statements for the Systems dvision - actual for FY'92, forecast for FY'93. (Note that the product roll-ups for FY'93 are changed - principally MS-DOS is now reported separately).

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FY'92:

	MS-DOS&WIN	SPAG	NETWKS	UNIX	MMS	TOTALS
Net Revenues	921,511	254,223	81,491	9,473	3,111	1,269,809
Gross Profit	781,330	131,193	68,145	7,706	3,006	991,380
Operating Expense	213,183	18,299	50,295	196	10,121	292,094
Contribution before Allocations	568,147	112,894	17,850	7,510	-7,115	699,286
Allocations	132,722	33,599	62,810	926	1,185	231,242
Burdened Operating Income	435,425	79,296	-44,960	6,584	-8,300	468,045

FY93:

	MS-DOS	WINDOWS	LM/OS2&U	UNIX	SPAG	TOTALS
Net Revenues	467,345	590,464	99,701	8,000	253,300	1,418,810
%Growth over FY'92						12%
Gross Profit	420,671	489,362	84,292	4,800	136,615	1,135,740
%Growth over FY'92						15%
Operating Expense	65,278	304,061	28,906	244	29,566	428,055
%Growth over FY'92						47%
Contribution before Allocations	355,393	185,301	55,386	4,556	107,049	707,685
%Growth over FY'92						1%
Allocations	82,037	184,012	27,655	592	33,507	327,803
%Growth over FY'92						42%
Burdened Operating Income	273,357	1,289	27,731	3,964	73,542	379,883
%Growth over FY'92						-19%

Attached to this report is a more detailed break out of our Windows unit sales.

The outlook for FY'93 is more challenging. We are not forecasting the same level of retail upgrade business, and are seeing ASP's on Windows and the Mouse decline as business moves to the OEM channel. Furthermore, we have an excess of Win3.1 inventory in the US channel, we are going to depress sell-in during the first quarter of FY'93. We are behind revenue plan on Windows in the US for first 2 months of the FY. Thus major challenge for FY'93 is to focus on the upsides for Systems revenue, which are:

- Win 3.1 upgrades
- Windows for Workgroups
- The European Market

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ACCOMPLISHMENTS:

Major Products:

Windows for Workgroups is now in its 3rd beta release, and is on track for October shipment, with sim ship in major languages.

Windows NT was widely released to developers at the July PDC - over 10,000 copies have now been shipped, and feedback on quality is good. The next milestone is a complete and high quality beta release in October, and final shipment in Q1'CY93. This is a slip. Performance and size are now the major concerns. The NT related server components (SQL, Comm, etc.) are on schedule for Q4 beta and release in same timeframe as NT. We have also released an early release of Win NTJ in Japan, and are moving the MSKK resources temporarily to Redmond to help get a Japanese release of NT done as early as possible.

The Cairo group met milestone 3 of their plan (which demonstrated several of the "network" related features of Cairo). In addition they held an extensive ("open process") design review in May, where we got lots of feedback from ISVs on UI, and relationship between Chicago/Cairo.

We completed contracts on MS-DOS 6.0 for compression and utilities. MS-DOS 6 is in aplha release to OEMs, and will go into full beta in October, with a Q1'CY93 ship goal.

The kernel functions of "Chicago" (next major version of Windows & MS-DOS) are now functional, and the team is looking at a first developers release in late Q1'CY93.

Other product news:

- Win32s released to key ISVs.
- Shipped 3+Open/3Server upgrade kit for LM2.1
- LM2.1a & LMU 2.1 in final release cycle.
- Windows Sound System (Foghorn) - in first beta, shipment in Oct.
- Video for Windows (AVI) - about to enter beta.
- Haiku ("Modular Windows" - as used in Tandy VIS player) - in beta.
- Windows Printing (Jumbo) - delayed to Dec'92.
- New Font Packs - contracts signed but release delayed to Q1'CY93.
- MSDN - CD information service for developers - alpha release.

Marketing:

Since introduction of Windows 3.1, we have been focussed on follow up and defense/offense against OS/2 2.0. The Windows marketing and PR team ensured that we received positive and reasonably accurate reviews from Infoworld and NSTL. It is fair to say that OS/2 2.0 has not made major ground, but we have not eliminated it either. IBM continues to spend massively. In fact, the fact that OS/2 has survived is

giving it some credibility. We have to continue to use Windows for Workgroups and Windows NT to bracket OS/2 2.0.

Our basic marketing strategy is to "sell the Windows Family" - convince customers that we will introduce new versions of Windows which will cover all their needs. The two major thrusts are (i) with Windows for Workgroups to begin the process of positioning Windows as providing value in the workgroup, and (ii) Windows NT as the "mission critical" version of Windows. To improve leverage, and put out a simpler "Windows" message, we have synchomized marketing and launch plans in the US around several common Windows programs, or "buses". There will be fall/winter/spring "buses" anchor'd around ad's and large mailings (which proved to be very effective in carrying the Win3.1 upgrade and Font pack offerings).

The Win32 PDC, held in July, was a great success with 5000 developers in attendance. We followed with a scaled down event for 800 developers in Brussels, a device driver writers seminar in August, and are planning a large device driver writers event in LA for October. The DRG has continued to do an excellent job of ISV recruitment for Win32, and we plan to have large ISV presence at Comdex.

Organization:

Major organization change was the transfer of several engineers from the previous "Pen Windows" group to form the core of a "CIA" project ("Communicating Intelligent Appliance" - our term for PDA) under Rob Glaser. The previous "Pen Windows" group is now the "Mobile Windows Group" (working for Pradeeps under Bradsl) and is focussing not just on Pen technology, but all aspects of using Windows on mobile systems. The major difference between the focii of the two groups is:
- Mobile Windows - notebook PC's that have standard Windows UI, and run Windows productivity apps (Excel, etc.), but which are often used away from the office.
- CIA - hand-held devices, very small form-factors, low-power, hence non-standard UI, do not necessarily run full suite of Windows high-end productivity apps.

MAJOR ISSUES:

We have made several tacks along the road to getting the right relationship between Chicago and Cairo. We are not 100% there yet, and this continues to be a focus. We need a "New Windows" to help keep us ahead in the systems software business vs. Novell, NeXT, Talligent, Notes, but also to create a platform on which to create a new generation of Windows applications and help prevent "commoditization" (price decline) of the applications business. We have decided that (i) Cairo will be the full implementation of the "New Windows", based on NT with new distributed and object oriented file system capability, and with an OO based programming model, and user interface, (ii) Chicago will be "MS-DOS" based, and will implement as much of Cairo UI and OO programming model as is consistent with remaining a 4MB system, and maintaining a low risk schedule. We have to close the details, and get critical positions staffed.

Beyond that our issues remain that of execution:

- Windows NT schedule has moved into 1993, and needs to improve further wrt. size and performance.
- The relationship and combinations of our networking products (Windows for Workgroups, current LM, LM for Win NT, client pricing) needs to be nailed down, and gaps filled in for the field.
- Windows Printing System is not healthy - it is late, and performance gains are not as compelling as once thought. We need to get it healthy.
- We need to define and execute on Mobile Windows, Windows for hand-held devices, and define relations and dependencies (eg. PIM software).
- Windows 3.1J has slipped into 1993. To help we have sent a few key personnel to MSKK, and are dedicating staff here to help.

KEY OBJECTIVES FOR COMING SIX MONTHS:

1. LAUNCH WINDOWS FOR WORKGROUPS
   - Ship in major US and European markets in October
   - Hold succesful launch event and associated PR
   - Exceed revenue forecast for first quarter by 30%

2. MAKE REVENUE TARGETS
   Define "recovery" plan, and be on or beyond budget by 12/31/92, focussing on:
   - Windows for Workgroups
   - Windows 3.1 upgrades
   - European business

3. MAINTAIN WINDOWS FAMILY MOMENTUM:
   - Maintain interest and momentum behind Windows NT with:
     - make milestones on NT and related components (beta 1 in Oct, beta 2 in Dec), hit size/performance goals.
     - successful beta launch,
     - move effective use of Windows NT and System Management
     - holding line vs OS/2 in corporate accounts, and defining new opportunities thru solution providers.
   - Succesfully launch companion Windows products worldwide, specifically:
     - Windows Sound Systems
     - Video for Windows

4. HAVE CHICAGO/CAIRO FRAMEWWORK IN PLACE:
   - Have reasonably firm Chicago spec/schedule in place by 10/30, and be on track for first developers release by 3/30/93.
   - Make Milestone 4 on Cairo by 10/92, and have reasonably firm shipment spec/plan for Cairo by 12/31/92.
   - Staff key Cairo positions
   - Arcticulate Chicago/Cairo plan clearly to rest of MS.

5. WINDOWS IN NEW MARKETS:
   - Define and start executing effective CD Titles ISV plan, and resolve plans for Help/Viewer.
   - Define and start executing plan for Windows hand-held devices

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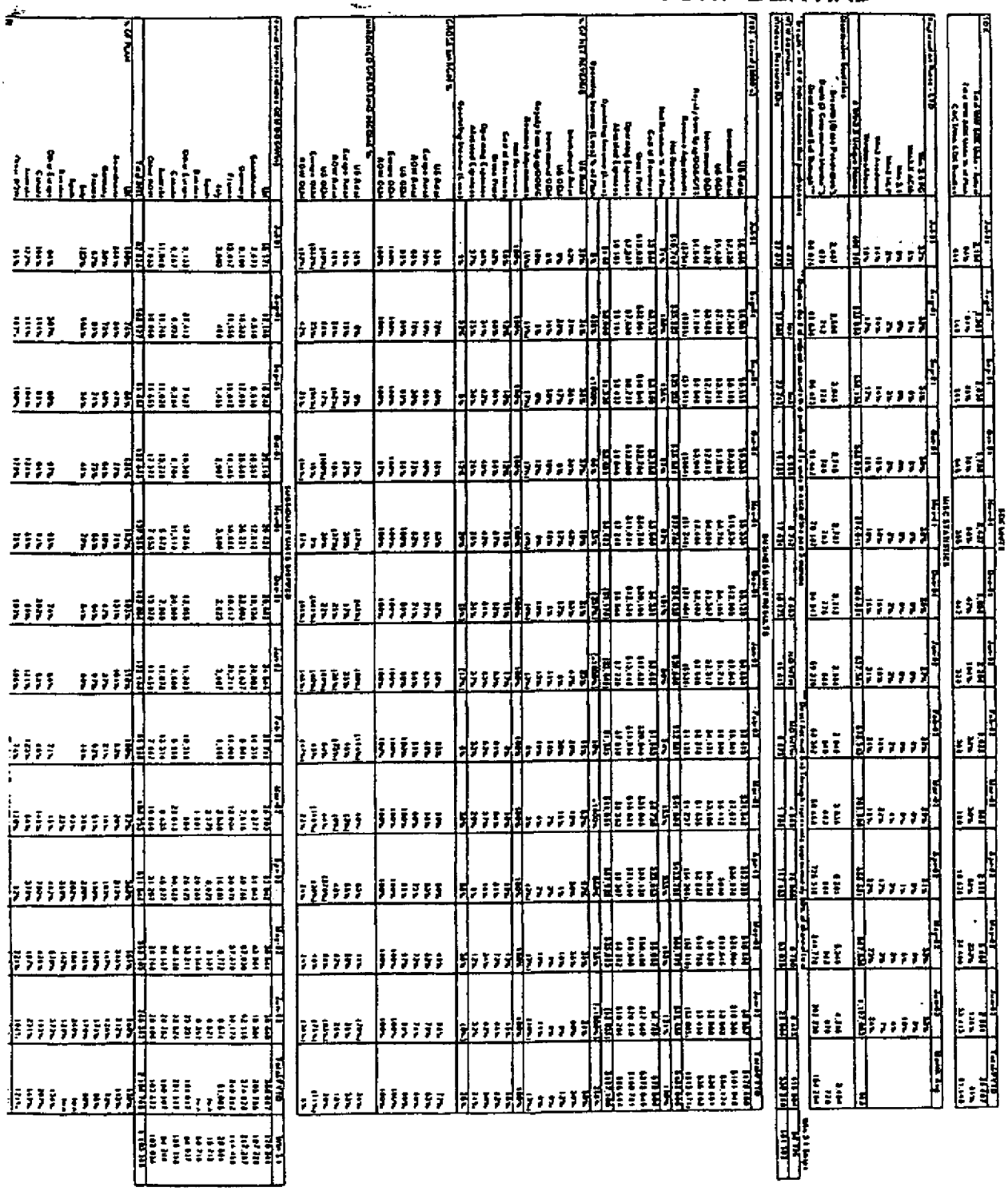

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