

To: Steve Ballmer
From: Russ Werner (RW)
Re: October/November Monthly Status Report
Date: 12/18/88

I. Overview

This was a period of intense activity for the DOS/Win Business Unit which I don't expect to subside for several months.

- a. Short-term business, product and competitive pressures for both Windows and DOS are presenting a real challenge to continuing to focus on the ambitious development projects underway and but now also providing the appropriate level of responsiveness to the short-term business/marketing requirements.

This coincides with a period of transition in the marketing side of the business unit with Joe Rehfeld leaving, a new Windows marketing team transitioning in and the second DOS marketing position not yet filled (now identified, but not yet here). In addition, program management for Windows is pretty tied down with issues on Windows 3.0, making it difficult to really bear down on the short-term needs.

Also, development is bringing in lots of new SDE's and we are still undermanned on the DOS development team.

Everyone is scrambling to pull it all off. We will.

- b. A number of reasonably thorny issues have sprung up recently, e.g. DOS Extenders. We need to react/move very quickly in these areas without compromising our schedules.
- c. The issues are tending to obscure the real progress being made in virtually all areas. Phil Barrett, Chris Dour, Pascal Martin, Rick Hargrove and Jody Sandgrass go into more detail in their attached monthly reports. On balance, my judgement is that we are making excellent progress, especially when considering the staffing/project status only two months ago. An extraordinary amount of progress has been made.

II. Summary Status

A. Windows

1. Current Business/Product Status

- a. Windows short-term business continues to follow the same pattern of extremely strong Win/286 business and extremely weak Win/386 business. We have just completed a re-forecast of the fiscal year which indicates we still expect to come in at 95% to forecast for USSMD business. Strong Win/286 business, SDK and exceptional (but low-margin) IBM volume will offset lost Win/386 and upgrade revenues.

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Attached is a summary of Oct/Nov and Y-T-D results.

- b. There has been a significant increase in negative feedback coming from field SE's in USSMD regarding Windows' product performance when running 3270 programs or on networks.

Celeste Boyer and Judy Snodgrass are driving a project to do whatever we can to resolve/address these issues by Feb. 1. In the process of addressing this issue, we believe that some process issues related to how PSS, field SE's and HQ program mgr. and -- development all work together also need to be addressed--and that will be a challenge. In addition, there are clearly issues related to expertise and training underlying this problem. We will try to articulate these issues.

- c. In general, there appears to be a consensus emerging that Win/386 2.1 has competitive problems vs. some alternative solutions for either multitasking DOS apps or running Windows apps for performance. We have initiated a short-term sales plan to drive USSMD sales for the January-March period and our goal is to keep the business moving until Win/386 version 3.0, which provides superior benefits to the existing competitors.
- d. There has been a noticeable increase in concern on the part of the major OEMs regarding incursions/encroachments by the Macintosh. Zenith and Compaq are enthusiastic about Win 3.0 plans. IBM and Zenith are also focusing on Windows 2.1 as the competitive answer to the Mac. Dale Christensen wrote an excellent summary of the range of IBM activities based on Windows, including some major success stories and we had good meetings with Zenith and IBM education marketing groups.
- e. COGS: We presented a COGS plan for the USSMD business to Sarah, Soomo and Joan and have established the COGS targets for the balance of FY '89 and FY '90. This plan indicates that Windows product line Gross Margin will go from FY '88 actual of 68% to a projected 79% in FY '90.
- f. Windows Market Research: Griggs and Anderson presented the results of a comprehensive research study of Windows Users on 12/15. We are reviewing this research in terms of its implications for all aspects of the Windows business.
- g. The revised Windows ad campaign started in December, along with the new SDK ad campaign. Also, the brand campaign is now running. Hopefully we will see the impact of the designed-in synergy of these campaigns and see a boost in short-term pull through.
- h. Windows ISV activity continues to be very positive. We had meetings with a number of ISVs, including Xerox, Software Ventures and Asymetrix, which will form the basis of an excellent product set coming to market in 1Q/2Q CY '89. Sherry Richardson has updated the Windows data base which currently shows 45 new Windows applications in 4Q CY '89 and an additional 13 scheduled for 1Q CY '89. (see complete report attached).

Notable ships include Samna Azi (12/5) and Xerox Present (12/12).

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2 Windows 3.0

- a. We completed major project reviews with Steve and Bill. Key issues that surfaced are: Default Ruby desktops; 286 protect mode Windows; status of Write and of Asymetrix. In addition we are revisiting our plans for Win286 (non-protect mode) given the existing concerns about memory on networks.
 - b. Windows 3.0 SDK plans were finalized during the period. An issue remains regarding Codeview-W.
 - c. ISV deliverables for the February period were finalized, and planning for ISV distribution has begun.
 - d. Final Specification for all components of Windows 3.0 were completed and copies distributed to the Field SE's, internal groups and OEM account mgmt. on 12/19.
- B. DOS
1. DOS 4.01: This release has continued to be plagued by very minor issues. We believe the situation is now stable.
 - a. IBM denying they have a problem with EMS support has caused continued press coverage. I persuaded IBM to call PC Week and clarify things, which they did and a favorable article followed. I think this should end this PR annoyance.
 - b. BAK and Packaged Product confusion over 4.01: This is an annoying issue that has had no business impact. On 10/25, final 4.01 BAK and Packaged Product were shipped. However, these releases displayed 4.0 as the version number. This caused some confusion. Effective 12/15, the version displayed will say 4.01, but applications will still pick up 4.0 when they query DOS. This approach resolves the requirements of version-bound apps to detect 4.0 with the market requirement to see 4.01 displayed. This fix will go out to OEMs in the final BAK on 12/19 and be shipped in OEM packaged product effective 12/25. Ted Hannan is working through the account mgmt. side and Melvin on the packaged product side.
 2. DRJ competitive situation: All key OEMs have signed up for DOS 4.0 and the Shell (except AST which is a special case situation). DRJ continues to be very active and presents a revenue concern among the low-end clone vendors. Melvin is tracking down accounts that we are aware of that potentially are going to DRJ. We are having some good success here.
 - a. We developed and shipped (11/9) an 8061/8066-specific version of DOS for the instructional market. Unfortunately as of 12/15, very little marketing of this release has gone on. Jeremy is aware of this and is addressing the issue.

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- b. We made a decision to proceed on an ASAP basis to implement a version of DOS that executes out of ROM, while retaining compatibility with Win386 and networks. MS-J is also working on a similar project in Japan (although based on 3.3) and we will try to coordinate efforts here.
- c. We reviewed some other options with Bill.
- d. We need to figure out a way to get better PR visibility for DOS's compatibility weaknesses.
- e. Steve Ballmer had a promising discussion with DRI re: them licensing MS-DOS vs. competing with us. Steve will follow-up with Joachim.
3. Retail Upgrade: We have made good progress here in terms of evaluating the technical feasibility of the project. So far it looks feasible. We are now expanding the scope of the investigation from the initial 5 OEMs to also include a broader base of international OEMs and more domestic OEMs.
- We really need to begin the process of developing the retail marketing and support requirements for this product. This includes making sure that our OEM customers are comfortable. Compaq expressed some concerns that we need to follow-up on.
- We also need to make a final determination on which DOS 4 shell gets included (IBM or DOS Manager derivative). Final resolution of the DOS Extender situation may also have an impact.
4. DOS Extenders: The development team has come up with DOS extender technology that we are evaluating for commercialization. We reviewed this plan with Steve and Bill. Recent information that Lotus is planning to use both 286 and 386 DOS Extenders is creating some real-time activity to determine our final course of action.
- There are several technical issues related to 286 DOS extenders (not 386 DOS extenders) that also need to be resolved.
5. DOS 4.1: We reviewed these plans with Steve and Bill. Basically, the plan is to have DOS go into Hincan (extra 64k of conventional memory) if no other app is using it. There are some tricky issues related to extended attribute support in DOS that need to be resolved. We are finalizing these issues and a few others and finalizing the process document and the contract with IBM.
6. DOS Shell: We are working with MS-J to provide a DOS 4.0 Shell based on the CW technology vs. the IBM Shell for reasons of double-byte support and screen drivers etc. We will probably use this same shell for the DOS 4.0 retail upgrade.

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C. Multimedia Systems

1. During this period, the multimedia tools group was established and given its mission to develop and deliver windows-based multimedia authoring tools to ISVs in time to support (a) a select group of ISVs for initial machine ship and (b) a broad base of ISVs in 4Q CY '89.
2. Preliminary specifications for a scripting language and the Audio API specifications were delivered to NDA ISVs on 12/9.
3. We had a major project review with Servco and Billg which ran out of time. We need to complete the review of this project. Servco will help drive closure on the contract issues with our strategic partner.
4. Rick Hargrove's Status report (attached) covers the balance of issues/status (attached to limited distribution list only).

D. Other

1. Corporate Customers: I met with Price Warehouse, 10/21; 12/1 GE (progress on moving them to consider Windows); 12/1 Manufacturers Hanover (love Windows 3.0); 12/1 B'land Corp. consulting/marketing; 12/3 Arthur Anderson (they love Windows 3.0 and Ruby). Also met with MS SDE's in Redmond.
2. OEM Meetings: 11/10 Tandy (OPC); 11/13 did video for HP; Phoenix Exec. review; 11/16 Zenith Exec. Rev.; 11/16 Research Machines (OPC); 11/18 Sony (OPC-Hik); 12/8 Zenith Marketing/Ed; 12/9 IBM ACU; 12/14 Compaq.
3. Presentations: 11/8 PC Prof. Assoc (LA); 11/14 AMD 286 panel at Comdex; 11/15 DOS panel at Comdex; 11/21 OEM customer briefing; 11/28 OmbH Customer Briefing - Frankfurt.

E. Staffing (DOS/WIN Business Unit organization chart attached)

	12/9 Actual	Conf. Hires	Offers _Out	Total	FY89 Plan	FY89 Rev.
s30s Group	3	0	0	3	3	3
s32s Development	35	1	0	36	34	38
s34s User Ed.	7	0	0	7	8	8
s36s Test	11	0	0	11	11	13
s38s Marketing	12	0	0	12	12	14
TOTAL	68	1	0	69	68	76

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Notes: Revised Plan shows addition of multimedia tools group (per billg: +7 - 4 SDEs; 2 Test; 1 prog. mgt.), plus 1 DOS Product Manager per moveb or +8 total. Since 12/9 the following hires are also known: DOS Product Manager (Mark Chestnut); Windows Group Product Manager (Rich Abel, effective 2/15); final Sr. Technical Writer for User Ed.

Also, Doug Rosenkrans decided to move back to PSS so we are short a Test Manager since 12/9. We are now fully staffed in Marketing and User Ed. Group and Production.

	12/9 Actual	Conf. Hires	Offers Out	Total	FY89 Plan	FY89 Rev.
s60s Production	5	0	0	5	5	5

F. Objectives

For Last Month (Oct)

1. Significant Progress on DOS Retail Upgrade: Yes/on-going
2. Do Reviews: Done
3. Resolve MM authoring tools strategy/XA: Done
4. Do Comdex Panels/PR participations: Done
5. Push Company: Done
6. Complete Business Unit Financials/COGS: Done

For This Month

1. Resolve Ruby/Win286 3.0 concerns
2. Get 1270/Net project to field
3. Finalize Lotus/Dos Extender strategy; DOS Shell; resolve DOS development priorities/staffing
4. Get DOS Retail Upgrade Business Plan/OEM Issues resolved; Complete technical assessment
5. Finalize February Windows 3.0 plans/implementation
6. Get more in-depth on Multimedia tools; closure on OEM h/w.
7. Complete Win Marketing transition; get Chevoni on board.

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