Internet Client and Collaboration
3 Year Business Outlook

Tuesday, February 11, 1997

Agenda

- Objectives and Metrics
- Competition
- Key Levers/Strategies
- Product Plans
- Risk Factors
- Issues

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Objectives

- Build browser share
- Build email client share
- Rationalize IE, email and Office to deliver differentiated and profitable collaboration products

Metrics

- Be number 1 in IB browser share:
  - Grow IE IB share to 60% by FY00 (really)??
  - NSCP = 38%
- Be number 1 in IB email client share:
  - Grow Email client IB share to 30% by FY00
  - NSCP = 14%, IBM/Lotus = 15%
- Correctly position IE, Outlook and Office in the market:
  - Execute upsell strategy from IE to Outlook to Office
  - Generate revenues from Outlook standalone of $250MM by FY00
  - Assume leadership from Notes in groupware client space

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IE 4 Product Plan

- Delivering the Web PC to Your Desktop
  - True Web Integration
  - Personal Content Delivery, Default Content
  - Scaleable Collaboration and Communication (Suite)
  - Best Browser
  - Great Client for Corporations
  - Offline/Mobile use
- Risks
  - Late (After Communicator, miss OEM window)
  - Performance/compatibility
  - UI design (simpler, not more complex)
  - Cross platform late, support incomplete
  - roaming user, multi-login support

Outlook Web Release Major Goals

- Internet Standards support -- IMAP, LDAP, vCards, NNTP, S/MIME, HTML
- Great HTML client
- Performance, Size -- start to eliminate MAPI
- Ease of use
- IE4 UI rationalization
- New web features -- sharing folders, search results

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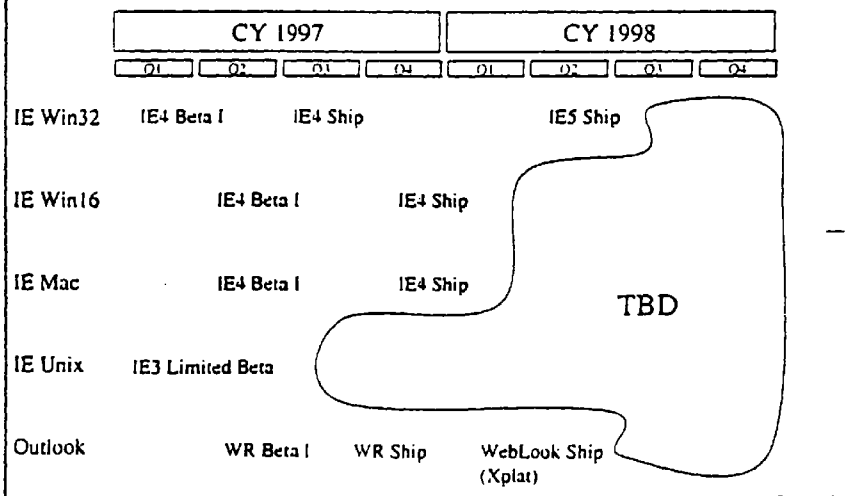
Early IE 5/6 Thinking

- Trident V2 -- better support for authoring, app development
- Better x-platform delivery
- Multimedia support
- Office 9 integration TBD
- Roaming user, multi-login support
- Outlook -- better x-platform, more size/perf/MAPI reduction, new protocols in sync with Exchange, Office 9 sync up, single code base for Outlook/Athena

Product Timeline



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Netscape Client Product line

Standard $49	Navigator	Browsing
	Composer	Basic HTML authoring
	Conference	Real-time audio/data
	Collabra	Discussion groups
	Messenger	HTML mail
Price TBD	Constellation	Desktop UI
Pro $79	Calendar	Calendar/scheduling
	AutoAdmin	Administration kit
	IBM Host	3270 emulation

Netscape Strategy

- Change the battleground from browsing to collaboration with Communicator
  - Attack the middle ground between Windows and Office
  - Neutralize IE momentum, relevance
  - Use browser as entrée into groupware space
  - Use email as the trojan horse to the authoring market
  - Co-exist and attack other productivity categories
- Neutralize the OS and own the desktop with Constellation
- Highlight open and cross-platform, anti-Microsoft sentiment
- Partnerships

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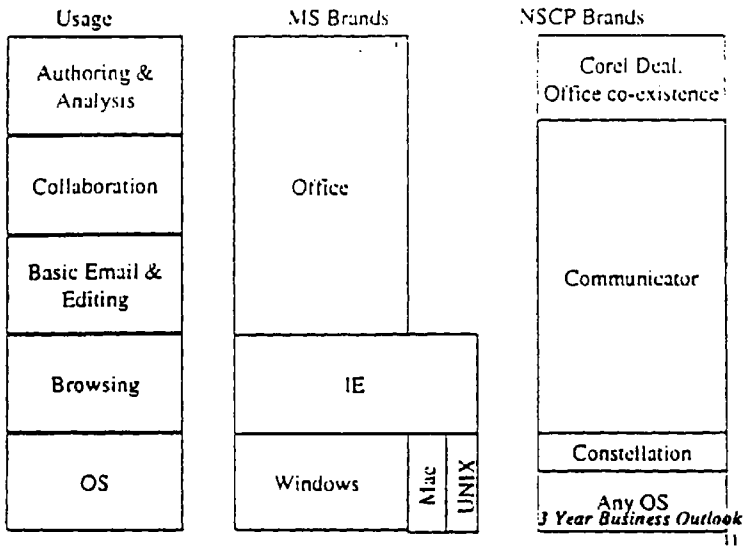
Netscape Strategy (cont'd)



IBM/Lotus

- Groupware, groupware, groupware
- Momentum
- Leverage selling infrastructure
  - IBM sales/support/consulting
  - Lotus Business Partners
  - Bottoms-up sell, breadth channel
- Confusing client story

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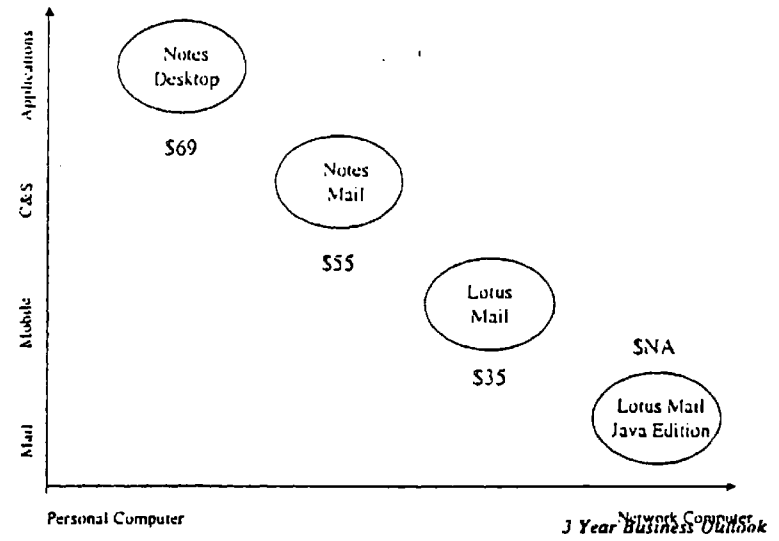
Lotus Messaging Clients



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IBM/Lotus Client Product Drill Down

Mail clients		Calendar clients	
Notes Designer	$99/275	Notes Designer	
Notes Desktop	$69	Notes Desktop	
NotesMail	$55	NotesMail	$79
cc:mail	$29	Organizer GS	$79
LotusMail	$35	Organizer 97	TBD
LotusMailJava	TBD	Calendar Java	TBD
Cc:mail Web	$29	PIM Java	
Weblicator	$29		

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Microsoft Strategy

- Force Communicator, Notes to compete against IE, Outlook and Office
- Bracket as inferior internet client and inferior collaboration client
  - Position IE as the free, superior browser and basic collaboration solution for the broadest market
  - Position Outlook as superior high-end collaboration client, best used and free with Office
  - Position Office as the complete, superior collaboration tool set
- Leverage IE momentum until Outlook Web Release and Web Look (x-platform) beta in late Summer
- Surround Communicator at retail
  - Drive retail share for IESK at $19.99 and Outlook at $99
  - Upsell to Office
- Make Outlook a cornerstone Office app moving forward

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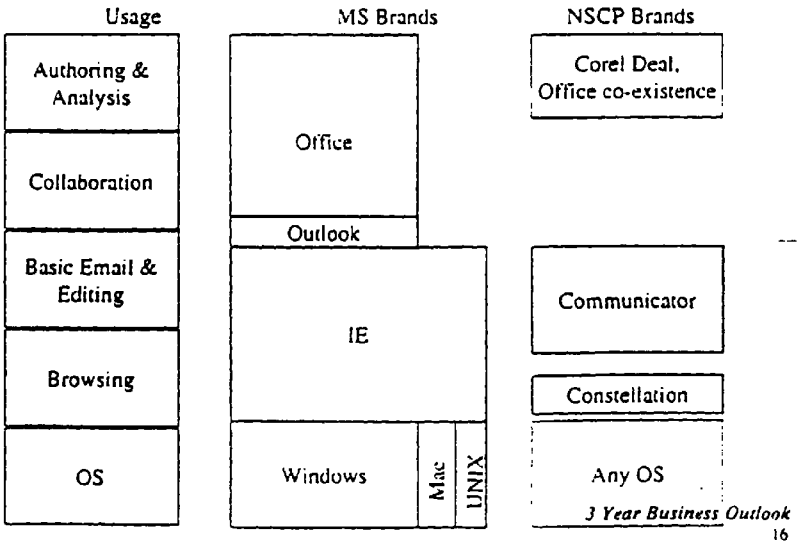
Microsoft Near-Term Strategy



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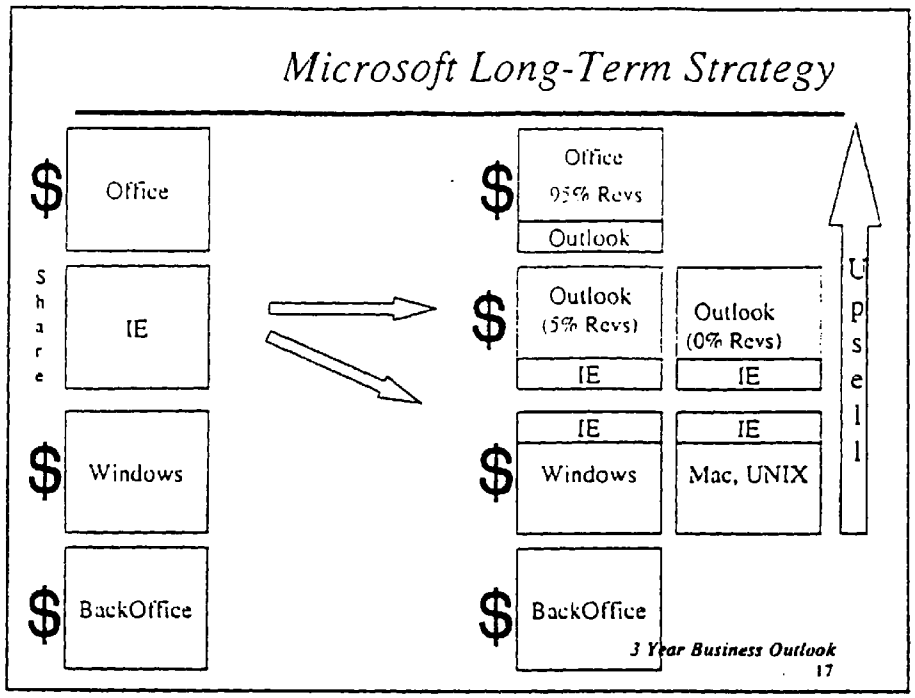
Microsoft Long-Term Strategy
Share
Office
IE
Windows
BackOffice
Office
95% Revs
Outlook
Outlook
(5% Revs)
IE
Outlook
(0% Revs)
IE
IE
Windows
IE
Mac, UNIX
BackOffice
Upsell
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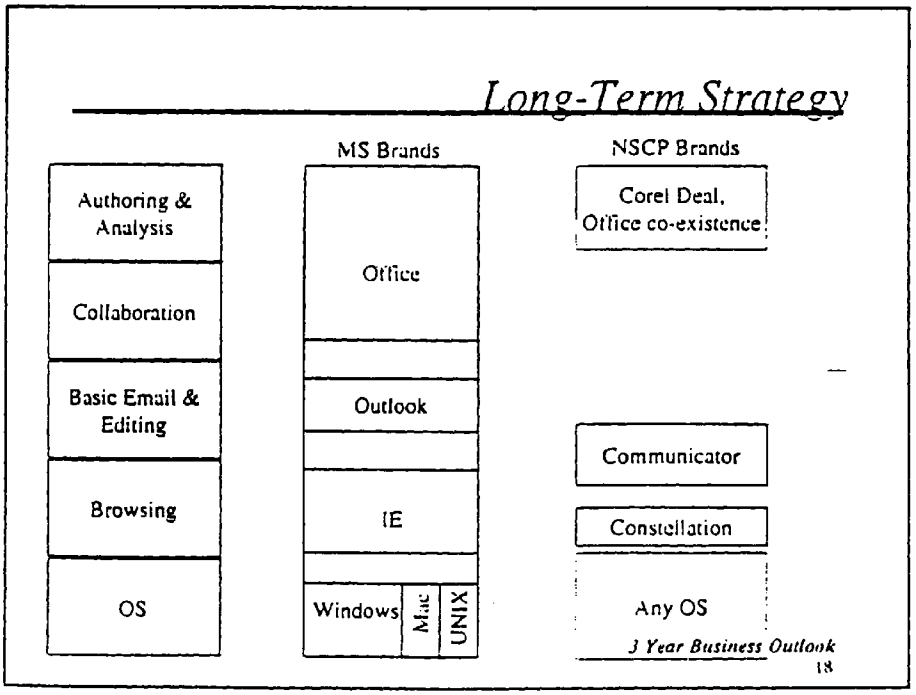
Long-Term Strategy
Authoring & Analysis
Collaboration
Basic Email & Editing
Browsing
OS
MS Brands
Office
Outlook
IE
Windows
Mac
UNIX
NSCP Brands
Corel Deal, Office co-existence
Communicator
Constellation
Any OS
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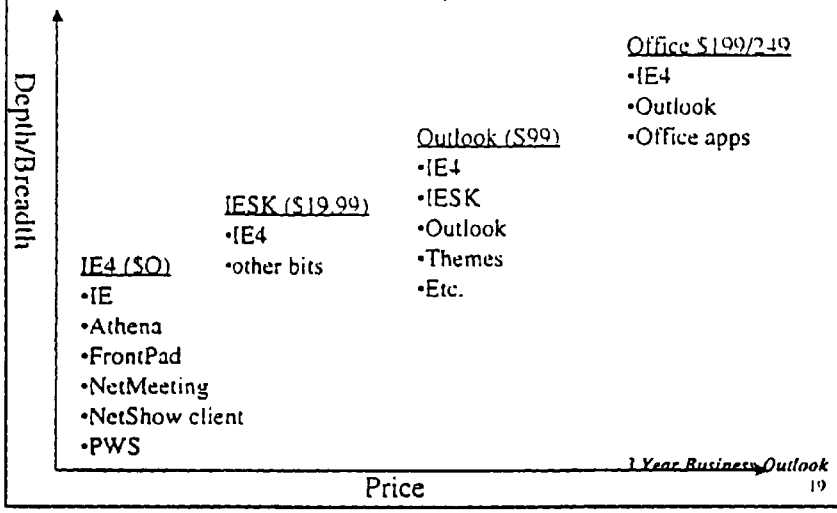
Branding, Packaging, Pricing Drill Down



Key Risks

- Confusion, difficult to communicate
- X-platform, esp. Outlook
- Timing - waiting for an x-platform solution
- Exchange dependency
- Potential to cannibalize Office

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Competitive Levers

- Integration with MS products
- Distribution and partnerships
- Developer/SP franchise
- HTML leadership
- Scale

Integration

- Integrate Windows and Web
  - Shell integration, autoupdate, distribution primary 1997 weapons
  - Discussing Java, Trident, MM
- Integrate Office and IE
  - Make Outlook the best internet mail client
  - Scaleable Athena to Outlook architecture -- UI, AB, Store (upgradeable)
  - Email/Outlook integration with Office apps
- Integration with BackOffice
  - Common forms, object model, scripting
  - Best workgroup/workflow with IIS/Exchange
  - Admin, config mgmt, proxy services

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Distribution and Partnerships

- Enhanced user experience with Windows and Office
- Trial approaches on OEM machines, msft.com
- Expand relationships with AOL and other OLS
- Gain browser and email share through ISP programs
- Get aggressive at retail

Developer and SP focus

- Integration into marquee tools
  - VB -- ActiveX, Trident (98)
  - Vegas -- Trident, AFC
  - Interdev -- Trident
- Pull Collab development into mainstream tools/platform effort
- Rally developers around the MS platform
  - PDC, events, SDKs, tools
  - SP education and mobilization
- Support and mobilize the field
  - Aggressive MCS approach
  - Sample apps, tools, training

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HTML Leadership

- Trident
  - 2.5D
  - Animation (Ihammer and AxA)
  - Data binding
  - Netscape compat -- layers, jsss
- But publishers are slowing down in adoption of new features
  - Specific deals with top sites
  - Position Active Desktop content as separate from mainstream website
  - Staff up xplat and netscape hosting work

Scale

- Win32 Development resources -- we are out investing netscape
- Global Coverage
  - Netscape in 11 languages, IE in 30 and growing
- Purchased Code expenses
  - Notably codecs
- Windows distribution -- for IE, and as draw for partners
- Look at subsidized internet usage -- free email, free usage
- Paid content deals
- MCS resources

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Response to Competitive Levers

- Communicator & Notes
  - Respond with Outlook/Office -- more features, better fit with existing environment
  - Get groupware development story straightened out with Exchange team
- X-platform
  - Evaluate trident plans -- get more focus
  - Pull Unix IE in house -- outsource has not worked
  - Continue Mac and Win3.1 investments
  - Eval and strengthen Outlook xplat plan

IE Marketing Review

Jan-June 1997 - Budget: $12.3 Mil

PLANS JAN - JUNE 1997

Program	Highlights	Investment	# of Users
AOL User Upgrade program	➢ Incentive upgrade by end of Q1/97	$2.1 Mil	4.5 Mil
Corporate Marketing	➢ Share Drive field incentive ➢ ROI Study, IS Advertising Unix browser, Auto proxy	$3.7 Mil	1.3 Mil
PR & Product Driven Downloads	➢ Re-launch Mac (w/68K) & Win 3.1 with Java ➢ IE 4 beta trial, win reviews	$1.7 Mil	2.0 Mil
On-Line Partner Promotions	➢ Download Performance Based Advertising ➢ Usage Promotions: ESPN SportsZone; Oscars/ABC & others	D/L Ads $750K Usage Promos: $1.3 Mil	D/L Ads 500K Usage Promos: 750K
ISP/OLS (non-AOL) user base upgrades	➢ Focus co-marketing programs on top 8 in OEM&ISP channels	$2 Mil	1.0 Mil
Retail	➢ Sell-thru rebate on IESK ➢ End cap: shout out promo ➢ Share drive	$0.75 Mil	0.4 Mil

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Near Term Email Client Share Plans

- Expand AOL User Upgrade Promo to include email
- Aggressive ISP/OEM promos
  - Idea: "Use Athena or Outlook, get free mail for one year" promo
- Eudora Switcher Campaign, or strategic relationship
- Major PR push starting with Web release/WebLook beta
- Corporate SWAT team in workgroup space
- Outlook retail SKU marketing

Share and Revenue Implications

- Current IE Share Status
- IE Share Goal Model
- Email Market Overview
- Email Share Goal Model

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IE Share (Popular Web Site Hits)

Site	PC Meter ranking	Share %: IE	Share %: Nav
YAHOO.COM	2	18.4	71.6
EXCITE.COM	6	18.3	62.0
INFOSEEK.COM	7	16.6	76.0
ZDNET.COM	16	23.6	72.9
PATHFINDER.COM	21	15.0	70.0
REALAUDIO.COM	23	23.0	74.0
FOUR11.COM	25	29.0	62.0
TRIPOD.COM	28	8.0	81.0
CNET.COM	29	25.9	57.8
SHAREWARE.COM	31	19.3	74.3
SEARCH.COM	48	28.9	60.7
WEATHER.COM	54	20.0	69.0
DOWNLOAD.COM	56	26.5	67.4
DEJANEWS.COM	61	16.5	64.8
SPORTSLINE.COM	65	14.2	78.9
WINDOWS95.COM	96	44.0	54.0
INFOSPACE.COM	148	19.4	75.0
HOTWIRED.COM	190	21.6	62.0
NEWS.COM	190	31.4	56.2
WARNERBROS.COM	218	22.0	71.0
NBA.COM	218	26.5	68.9

	PC Meter ranking	Share %: IE	Share %: Nav
TICKETMASTER.COM	247	20.8	74.7
100HOT.COM	338	18.0	72.0
CDNOW.COM	338	18.5	58.3
GAMESDOMAIN.COM	338	20.2	77.2
CMP.COM	338	21.6	52.0
BINGOZONE.COM	382	11.1	69.5
Average Share:		22.6	68.4

Other Sites	Share %: IE	Share %: Nav
Double Click (rep. 60+ sites)	21	78
Internet Link Exchange (rep. 70,000+ sites)	23	74
Interse Web Trends	31	57
Univ. of Illinois EWS	22	71
Zona Research Study	28	70

IE Share (Call Downs)

	Internet Explorer Jun-96	Internet Explorer Jan-97	Navigator Jun-96	Navigator Jan-97	AOL (Non-MS) Jun-96	AOL (Non-MS) Jan-97	All Other Jun-96	All Other Jan-97
U.S. Browser Share:								
U.S. Overall	6%	19%	52%	54%	20%	18%	22%	9%
U.S. Home	6%	23%	48%	50%	26%	22%	20%	5%
U.S. Workplace	4%	16%	60%	64%	10%	9%	25%	11%
U.S. Share by Platform:								
Win32	12%	21%	47%	51%	24%	23%	17%	5%
Win16	1%	2%	50%	53%	23%	39%	26%	6%
Mac	3%	16%	71%	56%	15%	25%	11%	3%

International Browser Share:	Dec-97
Europe	31%
Japan	25%
Australia	23%
Latin America	36%
Africa/Middle East	32%

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IE Share Goal Model

(Units in 000's)

	FY96	Jan-97	FY97	FY98	FY99	FY00
# US Installed Base of PC's on Web						
Home PC's	7 982		12,928	20 665	30 329	41 983
Workplace PC's	8 092		17 241	27 201	38 686	49 762
Total US Installed Base on web	15 954		30 067	47 986	69 015	91 645
# Users/PC						
Home	2.0		1.9	1.6	1.4	1.3
Workplace	0.8		0.8	0.7	0.6	0.6
# US users on Web:						
Home	15,724		23 956	32,703	43,635	54 232
Workplace	6 474		13 793	19 041	23 212	29 857
Adj for overlap of home/workplace	(3 560)		(7 568)	(10 472)	(12 768)	(16 421)
Total	18 638	25 000	30 063	41 272	54 080	67 668
MS Share Goal: U.S.						
%	6%	19%	30%	40%	50%	60%
# Users	1 118	4 750	9 019	16 509	27 040	40 601
Ratio of US to WW Users	57%	57%	57%	54%	[illegible]	[illegible]
MS Share Goal: Worldwide						
%	6%	19%	30%	40%	50%	60%
# Users	1 961	9 333	15 823	30 572	52,000	79 810
WW Share by Competitor:						
Netscape	52%	54%	52%	54%	47%	38%
Microsoft	8%	19%	30%	40%	50%	60%
AOL browser (Non-MS)	20%	16%	10%	5%	3%	2%
All Others	22%	9%	8%	1%	0%	0%

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E-mail Client Market Summary

Email Installed Base Y/E 1996

LAN Email	OLS/Browser Email	Mid/Mainfr.	UNIX	Total
64mm Clients	43mm Clients	17mm Clients	11mm	135mm
47%	32%	13%	8%	100%

LAN Share

IBM/Lotus	MS	Novell	Others
32%	20%	12%	35%

OLS/Browser Share

ISP Freeware	OLS	Browser	ISP
51%	35%	7%	4%

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Email Share Goal Model

LAN Client Installed Base Market Share

	FY97	FY98	FY99	FY00
Total MS (Mail, Exch, Outlook, Office Outlook)	14%	14%	16%	20%
Lotus (or Mail, Notes)	32%	30%	29%	29%
Novell (Groupwise)	12%	12%	11%	11%
Netscape (Communicator)	0%	1%	1%	3%
Others	41%	43%	42%	37%
	100.0%	100.0%	100.0%	100.0%

Installed Base

	FY97	FY98	FY99	FY00
Total MS (Mail, Exch, Outlook, Office Outlook)	10 971	14 449	20 656	30 436
Lotus (or Mail, Notes)	24 245	31 065	38 071	45 811
Novell (Groupwise)	9 323	12 100	14 933	17 794
Netscape (Communicator)	171	722	1 741	4 512
Others	31 608	44 906	55 593	56 952
	76 319	103 442	130 994	155 306

Internet/ISP/OLS Installed Base Market Share

	FY97	FY98	FY99	FY00
Total MS (IE, MSN, ISPs, Office Outlook)	8%	20%	30%	41%
Netscape (Navigator)	20%	24%	23%	28%
AOL	15%	12%	7%	5%
Compuserve	9%	6%	4%	2%
Qualcomm (or Freeware Leader)	21%	19%	19%	19%
Others	25%	20%	18%	7%
	100%	100%	100%	100%

Installed Base

	FY97	FY98	FY99	FY00
Total MS (IE, MSN, ISPs, Office Outlook)	4 573	15 059	32,331	63 273
Netscape (Navigator)	10 267	17 832	25 169	39 364
AOL	8 039	8 718	7 846	7 062
Compuserve	4 750	4 275	3,848	3 463
Qualcomm (or Freeware Leader)	10 982	14 093	20,175	29 858
Others	13 329	14 468	19 873	11 448
	51 818	74 445	109 342	154 467

Note: The Microsoft share above is the entire Office installed base which are candidates for Outlook upgrades.

Total LAN/Internet/ISP/Browser Installed Base Market Share

	FY97	FY98	FY99	FY00
Total Microsoft	12%	17%	22%	30%
Lotus	19%	17%	16%	15%
Novell	7%	7%	8%	6%
Total Netscape	8%	10%	11%	14%
AOL	6%	5%	3%	2%
Compuserve	4%	2%	2%	1%
Qualcomm (or Freeware Leader)	9%	9%	8%	10%
Others	35%	33%	31%	22%
	100%	100%	100%	100%

Installed Base

	FY97	FY98	FY99	FY00
Total Microsoft	15 544	29,708	52,988	93,731
Lotus	24 245	31 065	38 071	45 811
Novell	9,323	12,100	14 933	17 794
Total Netscape	10 438	18 354	26,910	44 378
AOL	8 039	8 718	7 846	7 062
Compuserve	4 750	4,275	3,848	3,463
Qualcomm (or Freeware Leader)	10 982	14 093	20,175	29 858
Others	44 936	59 578	75 266	68 398
	128 237	177 487	240 038	310 492

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Key Issues

- Cross Platform
  - NT 3.51, Win 3.1, UNIX, Mac
- Exchange dependency
- QFE needs staffing
- Under investing
  - Java
  - Unix
  - Multimedia
  - DRG

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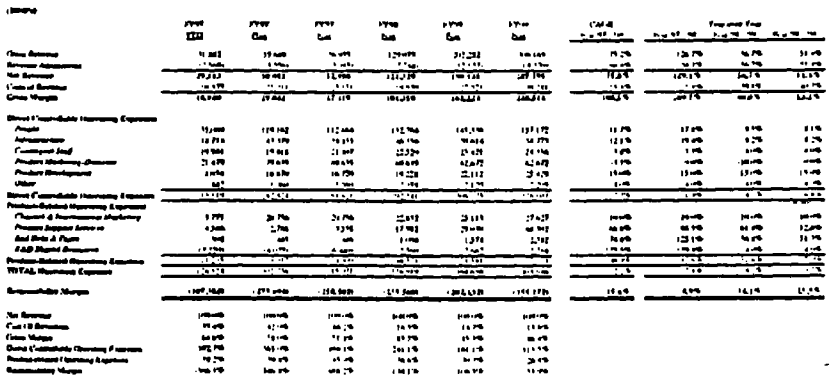
Appendix

- P&L
- Headcount
- Revenue/share models
- Dependencies

3 Year P&L



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P&L by Business

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Headcount and Cost Assumptions

- Regular headcount forecasted to be at Revised Budget total by 6/97.
- Growth guideline for headcount 4%/year, but we are reviewing. DRG growth FY98 is 30 heads or 25%.
- COGS in FY97 includes $9.7M of one-time IE royalties.
- Product development $ grows at 15% per year.
- $10 million of FY97 product marketing budget is unallocated. Projected decrease of 10% in FY99.
- PSS costs for MS Plus! and Outlook at 6% of revenue. PSS costs for IE assumes same incident rate/user as FY97.

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Headcount

	Dec FY97 Actuals	FY 97 Revised Plan	FY 97 Fcst	FY 98 Fcst	FY 99 Fcst	FY 00 Fcst	CAGR Fcst 97 - 00
ICC Development:							
Client	519	633	633	658	684	711	3.9%
Netshow	71	86	86	89	93	97	4.1%
Collaboration	235	245	245	255	265	276	4.1%
Total ICC Development	825	964	964	1,002	1,042	1,084	4.0%
ICC Mktg/Mgmt	92	114	114	119	124	129	4.2%
Dev Relations Group	115	118	118	148	154	160	10.7%
Total (Regular Heads)	1,032	1,196	1,196	1,269	1,320	1,373	4.7%
Onsite temps and consultants	340	296	340	340	340	340	0.0%
Total Division	1,372	1,492	1,536	1,609	1,660	1,713	3.7%

Note: Headcount based upon 4% growth guideline; projected needs being reviewed.

Headcount and Cost Assumptions

- Regular headcount forecasted to be at Revised Budget total by 6/97.
- Growth guideline for headcount 4%/year, but we are reviewing. DRG growth FY98 is 30 heads or 25%.
- COGS in FY97 includes $9.7M of one-time IE royalties.
- Product development $ grows at 15% per year.
- $10 million of FY97 product marketing budget is unallocated. Projected decrease of 10% in FY99.
- PSS costs for MS Plus! and Outlook at 6% of revenue. PSS costs for IE assumes same incident rate/user as FY97.

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Standalone Outlook Revenue - LAN

1) From New LAN Shipments	FY97	FY98	FY99	FY00
WW LAN Market PC Ships	37,107	41,743	44,494	46,779
WW LAN Email IB Net Adds ('000)	25,868	30,207	31,748	30,032
Exchange CALs	1,429	2,317	3,682	6,148
Office Purchasers with Mail	1,706	4,696	9,477	10,873
Outlook Standalone Candidates	22,731	23,191	18,381	13,011
Outlook Standalone Purchases	0.3%	2.0%	3.0%	4.0%
Standalone Outlook Licenses	68	464	551	520
Outlook Revenue Per License	$76.00	$76.00	$76.00	$76.00
Standalone Outlook Revenue ('000)	$5,183	$35,251	$41,906	$39,553

2) From Converting LAN Installed Base	FY97	FY98	FY99	FY00
Beginning LAN Installed Base Candidates	51,964			
New Non-Outlook Candidates (2 year lag)	0	0	11,331	15,898
Office 97/9 Upg Conversion Candidates	20,870			
Schedule of Upgrade	23.7%	22.4%	14.8%	7.1%
Office IB Upgraders	4,947	4,667	3,092	1,471
Outlook Upgrade Candidates	47,017	42,350	49,963	63,379
Outlook Upgrade Purchases	0.0%	1.5%	2.0%	2.5%
Outlook Upgrade Licenses	-	635	999	1,584
Outlook Revenue Per License		$76.00	$76.00	$76.00
Outlook Upgrade Revenue ('000)	$0	$48,278	$75,929	$120,420
Total LAN Revenue	$5,183	$83,529	$117,837	$159,973

3 Year Business Outlook

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Standalone Outlook Rev. - Athena Up-sell

	FY97	FY98	FY99	FY00
Total LAN Revenue	$5,183	$83,529	$117,837	$159,973
3) From Athena Upsell Strategy				
WW ISP Market PC Ships	32,654	38,506	46,347	54,387
New Active Athena Email Clients ('000)	1,800	11,705	14,548	24,499
Office 97/9 Purchasers with Athena	213	534	706	555
Athena Upgrade Candidates	1,587	11,171	13,843	23,934
Athena to Outlook Upgrades	0.0%	2.0%	5.0%	6.0%
Outlook Upgrade Licenses	-	223	692	1,436
Outlook Revenue Per License	$0.00	$83.00	$83.00	$83.00
Total Athena Up-sell Revenue ('000)	$0	$18,544	$57,446	$119,192
Total Forecast Revenue	$5,183	$102,073	$175,282	$279,165

3 Year Business Outlook

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Office Cannibalization Impact: LAN

FY00 Office Licensee 70,834

Total Cannibalization of Office by Collaboration Industry	Units Table (000s)	Outlook Market Share Collaboration Market 10%	20%	30%	40%	50%	Net Revenue Effect (MM) 10%	20%	30%	40%	50%
10%	Office Loss	(2,083)	(2,083)	(2,083)	(2,083)	(2,083)	$ (329)	$ (329)	$ (329)	$ (329)	$ (329)
	Outlook Recovery	208	417	625	833	1,042	$ 16	$ 32	$ 48	$ 63	$ 79
	Net Position						$ (313)	$ (298)	$ (282)	$ (266)	$ (250)
20%	Office Loss	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	$ (659)	$ (659)	$ (659)	$ (659)	$ (659)
	Outlook Recovery	417	833	1,250	1,667	2,083	$ 32	$ 63	$ 95	$ 127	$ 158
	Net Position						$ (627)	$ (595)	$ (564)	$ (532)	$ (500)
30%	Office Loss	(6,250)	(6,250)	(6,250)	(6,250)	(6,250)	$ (988)	$ (988)	$ (988)	$ (988)	$ (988)
	Outlook Recovery	625	1,250	1,875	2,500	3,125	$ 48	$ 95	$ 143	$ 190	$ 238
	Net Position						$ (940)	$ (893)	$ (845)	$ (798)	$ (750)
40%	Office Loss	(8,334)	(8,334)	(8,334)	(8,334)	(8,334)	$ (1,317)	$ (1,317)	$ (1,317)	$ (1,317)	$ (1,317)
	Outlook Recovery	833	1,667	2,500	3,333	4,167	$ 63	$ 127	$ 190	$ 253	$ 317
	Net Position						$ (1,254)	$ (1,191)	$ (1,127)	$ (1,064)	$ (1,000)
50%	Office Loss	(10,417)	(10,417)	(10,417)	(10,417)	(10,417)	$ (1,647)	$ (1,647)	$ (1,647)	$ (1,647)	$ (1,647)
	Outlook Recovery	1,042	2,083	3,125	4,167	5,208	$ 79	$ 158	$ 238	$ 317	$ 396
	Net Position						$ (1,567)	$ (1,488)	$ (1,409)	$ (1,330)	$ (1,251)

Average Office Rev/Lic $ 158

Average Outlook Rev/Lic $ 75

Against NSCP LAN forecast of 4.5, 50% of Communicator units cannibalize Office

Worst Case

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Office Cannibalization Impact: ISP/OLS

FY00 Office Licensee 5,215

Total Cannibalization of Office by Collaboration Industry	Units Table (000s)	Outlook Market Share Collaboration Market 10%	20%	30%	40%	50%	Net Revenue Effect (MM) 10%	20%	30%	40%	50%
10%	Office Loss	(521)	(521)	(521)	(521)	(521)	$ (130)	$ (130)	$ (130)	$ (130)	$ (130)
	Outlook Recovery	52	104	156	208	261	$ 4	$ 9	$ 13	$ 17	$ 22
	Net Position						$ (126)	$ (121)	$ (117)	$ (113)	$ (108)
20%	Office Loss	(1,043)	(1,043)	(1,043)	(1,043)	(1,043)	$ (260)	$ (260)	$ (260)	$ (260)	$ (260)
	Outlook Recovery	104	208	313	417	521	$ 9	$ 17	$ 26	$ 35	$ 43
	Net Position						$ (251)	$ (243)	$ (234)	$ (226)	$ (217)
30%	Office Loss	(1,564)	(1,564)	(1,564)	(1,564)	(1,564)	$ (390)	$ (390)	$ (390)	$ (390)	$ (390)
	Outlook Recovery	156	313	469	626	782	$ 13	$ 26	$ 39	$ 52	$ 65
	Net Position						$ (377)	$ (364)	$ (351)	$ (338)	$ (325)
40%	Office Loss	(2,086)	(2,086)	(2,086)	(2,086)	(2,086)	$ (520)	$ (520)	$ (520)	$ (520)	$ (520)
	Outlook Recovery	208	417	626	834	1,043	$ 17	$ 35	$ 52	$ 69	$ 87
	Net Position						$ (503)	$ (485)	$ (468)	$ (451)	$ (434)
50%	Office Loss	(2,607)	(2,607)	(2,607)	(2,607)	(2,607)	$ (650)	$ (650)	$ (650)	$ (650)	$ (650)
	Outlook Recovery	261	521	782	1,043	1,304	$ 22	$ 43	$ 65	$ 87	$ 108
	Net Position						$ (629)	$ (607)	$ (585)	$ (564)	$ (542)

Average Office Rev/Lic $ 249

Average Outlook Rev/Lic $ 83

Against NSCP LAN forecast of 40M, 5% of Communicator units cannibalize Office. Assumes 100% Nav installed base is Communicator

Worst Case

3 Year Business Outlook

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IE Dependencies

- Internet Security - SSL, CAPI, Secure store, Wallet (PBS)
- DCOM95(PBS) Win32 and x platform
- Internet Connection Wizard
- OLE automation (PBS)
- Task Scheduler
- VB and Java scripting (tools)
- Direct X (PBS)
- PWS (PBS)
- ISDN Accelerator Packs (PBS)
- TAPI (PBS)
- Web Post (PBS)

IE Dependencies

- IHammer Controls (tools, IMD)
- FrontPad
- Winsock 2
- PPTP
- Certificate server
- Server support for IMAP, LDAP, ULS, SMIME
- Tools:
  - Visual InterDev
  - Caesar
  - Vegas
  - Etc.

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Outlook Dependencies

- '97 Web Release
  - Trident -- viewing OK, editing support a concern
  - Exchange Server for Notes competitiveness
  - Office for TCO and .DLL factoring
  - Tools group for dev environment
- WebLook
  - Exchange's "Kluane" object model implementation

Backups

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IBM/Lotus client share

Lotus Notes. Software Business WW

	FY95	FY96	FY97
Revenue ($ millions)	$ 213	$ 350	$ 437
Y/Y Growth	49%	64%	25%
Seats added ('000)	1 325	4 100	5 100
Y/Y Growth	148%	209%	24%
Servers added	29 444	91 100	118 500
Y/Y Server Growth		209%	30%
$ Seat Added	$160 755	$ 85 366	$ 85 686
Installed Base ('000)	2,200	6 300	11 400

Lotus cc:mail. Software Business WW

	FY95	FY96	FY97
Revenue ($ millions)	$ 111	$ 80	$ 80
Y/Y Growth	7%	-28%	0%
Seats added ('000)	2,248	2,600	2,750
Y/Y Seat Growth	11%	16%	6%
Servers Added	51 400	60 440	61 000
Y/Y Servers Growth		18%	1%
$ Seat Added	$ 49 377	$ 30,769	$ 29,091
Installed Base ('000)	7 495	10,095	12,845
Total Mailboxes ('000)	9,695	16,395	24,245

Source: Estimates from MS Channel.

3 Year Business Outlook

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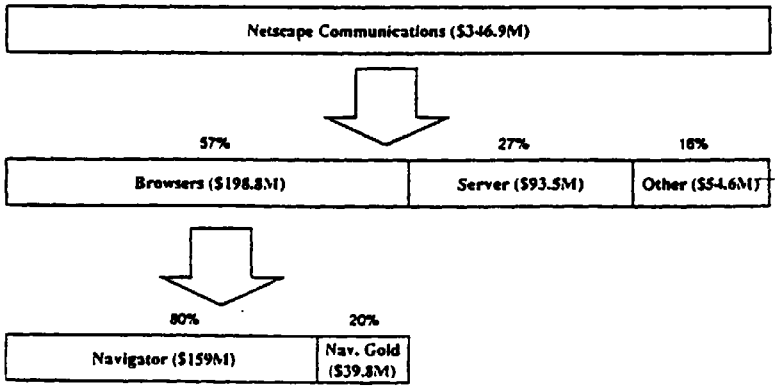
Netscape share and revenue projections

1996 Financial Performance



Source: Montgomery Securities report dated 1/29/97.

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