

WORDPERFECT CORPORATION**QUARTERLY PRODUCT REVIEW - WORDPERFECT FOR WINDOWS****MARCH 31, 1994****I. Key Objectives and Strategies****A. Summary of Key Objectives and Strategies from 1994 Business Plan**

Microsoft Windows is currently the fastest growing operating system in the world today. To date, Microsoft Word for Windows has outsold WordPerfect for Windows 2 to 1. In order to reverse this trend, we must focus our marketing efforts and dollars on our biggest asset; our WordPerfect for DOS users base. However, we must also continue to strengthen our growing WPWin user base, increase our share of new users in the ever-expanding Windows market, and gain the attention of competitive word processing users. To this end, the WordPerfect for Windows marketing team has highlighted the following four key target markets for 1994:

1. WordPerfect for DOS customers moving to Windows
2. WPWin users wanting the latest Windows technology
3. New users of Windows word processing software
4. Competitive word processing users

All strategies outlined in our 1994 business plan center around impacting these target markets. With this as our main focus, we have established four main objectives to accomplish in 1994. They are:

1. Maintain our WPDOS users as they transition to Windows
2. Ensure the timely release and successful positioning and promotion of:
 - a) WPWin 6.0a
 - b) WPWin 6.1
 - c) WPWin 6.1 32-bit (Chicago and NT)
3. Achieve 1994 North American revenues of \$206 million
4. Achieve 1994 North American market share of 50 percent

B. Results Against Key Objectives and Strategies for the Quarter Ended March 31, 1994

In 1Q, 1994, we focused on laying the foundation for achieving the goals and objectives outlined above. Key objectives met in this quarter included:

1. Maintain our WPDOS users as they move to Windows
 - a. Launched new Document Processing advertising campaign
 1. Positioned WPWin as the world's first document processor
 2. Highlighted the transitional tools that make the move from DOS to Windows easy and worry-free
 3. Promoted the Easy Move Program

2. Ensure the timely release and successful launch of WPWin 6.0a
 - a. Prepared the press and public for the upcoming WPWin 6.0a interim release
 - b. Sent Beta software to over 80 large accounts for testing and feedback

C. Expected Results Against Key Objectives and Strategies for the Quarter Ending June 30, 1994

The key objectives outlined in our 1994 business plan will be met in 2Q, 1994, as we:

1. Maintain our WPDOS users as they move to Windows
 - a. The Perfect Upgrade summer promotion and ad campaign
 1. \$99 upgrade price to WPDOS users
 2. May 2nd - August 31st , 1994
 3. Provides strong incentive to upgrade now
 - b. Direct Mail - over 725,000 mailers to targeted user base
 - c. Random House Dictionary BRC - placed in current WPWin 6.0 ads highlighting \$99 upgrade price to WPDOS users and discount on RHD
 - d. Press Releases highlighting interim release, transitional tools and OS/2 Integration Tools disk
2. Ensure the timely release and successful launch of WPWin 6.0a
 - a. WPWin 6.0a masters to manufacturing on April 22, 1994
 1. Interim free to registered WPWin 6.0 users
3. Achieve North American revenue totals and market share outlined in business plan
 - a. Channel push - Buy 3 Get 1 Free deal
 - b. Direct Mail - over 725,000 mailers to targeted user base
 - c. Point-of-Purchase materials - endcaps (150 outlets), laminated brochures and pocket rocket to 1750 resellers
 - d. Random House Dictionary BRC - placed in current WPWin 6.0 ads highlighting \$99 upgrade price to WPDOS users and discount on RHD
 - e. Press Releases highlighting interim release, transitional tools and OS/2 Integration Tools disk
 - f. FAX attack to channel and large accounts

D. Proposed Changes to Key Objectives and Strategies

The objectives listed in the 1994 business plan have not changed since its original writing. If anything, given the current market situation and increased competitive pressures, we have been reminded of the great importance and competitive advantage we hold in our WPDOS user base. It is vital to our continued success that we do not lose these customers to our competition. The only strategic adjustments to the business plan was the addition of the new summer promotion, new advertising campaign and FAX blitz, all of which were introduced to:

1. Build upon our strategy of keeping our customer base loyal
2. Provide a strong incentive for WP users to upgrade now
3. Promote positive messages such as:
 - a. brand equity
 - b. best-selling word processor of all time
 - c. best support in the industry
 - d. best new upgrades
4. Counter Microsoft's misleading advertising campaign

II. Sales Results for the Quarter Ended March 31, 1994

A. Sales Results for the Quarter Ended March 31, 1994

Although the quarter began slowly, both February and March totals were above forecast.

	January	
Budget	Actual	%
\$14,411,000	\$8,898,984	62%

	March	
Budget	Actual	%
\$15,895,000	\$16,920,245	106%

	February	
Budget	Actual	%
\$13,955,500	\$14,522,785	104%

	1Q 1994	
Budget	Actual	%
\$44,261,000	\$40,342,014	91%

The revenue figures above represent forecast vs. actuals for WordPerfect for Windows in 1Q, 1994. The most relevant sales trend observed in the first quarter was:

1. Low overall unit volume, high ASP (see chart below)
 - a. Lack of WPWin Upgrades sold (see chart below)
 - b. Majority of packages sold were retail SKU

	1Q, 1994 Units	
Forecast	Actual	ASP
421,000	296,000	136.00

Historical Upgrade Percentages*		
	1 Quarter	2 Quarter
WPWin 5.1 - 5.2	16.00%	33.00%
WPWin 5.2 - 6.0	15.70%	4.00%

*Historical and industry data indicates that the second quarter after a version release (WPWin 6.0 was released in October, making Jan-March, 1994 the second quarter after shipping) is when the majority of Upgrade sales take place. On average, approximately 30% of a product's user base upgrades in the second quarter. To date, only 4% of our current user base has upgraded.

B. Internal Issues Affecting Sales for the Quarter Ended March 31, 1994

The biggest internal factor affecting sales in 1Q, 1994, was the delay in shipping the interim release of WPWin 6.0. The interim was first scheduled to ship in February of 1994. Other internal factors affecting sales in 1Q, 1994 were:

1. Channel told to manage inventory of WPWin 6.0
2. Perception of WPWin 6.0
 - a. Size, speed, reliability
 - b. Issues/problems

- c. Hardware requirements
- 3. Release date of WPWin 6.0a slips
- 4. WPCorp announcement of fee-based customer support

C. External Issues Affecting Sales for the Quarter Ended March 31, 1994

The marketplace continues to become more and more aggressive in persuading our DOS user base that now is the best time to make the switch to a new Windows word processor. Some important external factors that affected sales in the first quarter of 1994 were:

- 1. Release of MS Office, version 4.0 (claiming 2 million copies sold)
- 2. Microsoft channel push (Buy 3 get 1 free)
- 3. Hardware requirements
- 4. Continued suite growth 1Q, 1994
- 5. Perception of ".0" release

D. Internal Issues Affecting Sales for the Quarter Ending June 30, 1994

As the interim was delayed until 2Q, 1994, the majority of our internal marketing efforts were also moved to coincide with the release. The main internal issues that will affect sales in the second quarter are:

- 1. WPWin 6.0a ships in early May
- 2. Channel push - Buy 3 Get 1 Free deal (over \$21 million in sales since taking orders from the channel)
- 3. The Perfect Upgrade promotion and advertising campaign kicks-off in May in print, newspaper and radio
- 4. Direct mail piece to over 725,000 users offering upgrade price
- 5. Windows Direct mailing to over 500,000 registered Windows users
- 6. Point-of-Purchase materials - endcaps (150 outlets), laminated brochure and pocket rocket to 1750 resellers
- 7. Random House Dictionary BRC - placed in current WPWin 6.0 ads highlighting \$99 upgrade price to WPDOS users and discount on Random House Dictionary
- 8. Press Releases and upcoming trade shows
- 9. Restarting free, 180-days customer support
- 10. Potential OEM contracts
- 11. Announcement of Novell merger
- 12. Announcement of new Perfect Office suite
- 13. Stock swapping and product returns
- 14. Overstocked channel as a result of heavy May buy-in

E. External Issues Affecting Sales for the Quarter Ending June 30, 1994

External trends seen in the first quarter of 1994 continue to affect overall sales, as does:

- 1. New Microsoft ad campaign begins heavily in USA Today and Wall Street Journal, offering Word for \$99
- 2. Announcement of Novell merger
- 3. Continued suite growth
- 4. Slow summer months for sales

III. Operating Expense Results for the Quarter Ended March 31, 1994

A. Operating Expenses Compared to Budget for the Quarter Ended March 31, 1994

As the majority of our marketing efforts for 1994 were pushed back into the second quarter, 1Q operating expenses were well below the original budget (see table below).

1Q, 1994 Budget			
	Budget	Actual	+/- variance
Total Overhead	\$1,494,608	\$747,445	-50.0
Total Expenses	\$1,619,732	\$906,865	-44.0

B. Reasons for Budget Variances for the Quarter Ended March 31, 1994

Through 1Q, 1994, marketing expenses for WPWin were 44% of budgeted figures. Top reasons why we were under budget include:

1. Moved advertising dollars to coincide with interim release
2. Bumped direct mailings, POP and BRC into 2Q
3. Held reprint requests for WPWin 6.0 brochure until 6.0a was printed in April
4. Less travel than originally planned

Since these efforts were rescheduled, we will be re-allocating the monies that were not spent in the first quarter to 2Q, 1994.

C. Issues Affecting Operating Expense Budget for the Quarter Ending June 30, 1994

While the majority of our marketing efforts haven't changed, we will be reallocating various funds to the 2nd quarter of 1994, specifically to include monies for:

1. Funds for the new Perfect Upgrade promotion and ad campaign
2. Additional travel
4. Channel push
3. New channel and trade show events (Solutions '94, Software Spectrum Seminar)
4. Increased COGS due to Buy 3 Get 1 Free deal
5. Increased COGS due to returns of WPWin 6.0
6. Increased COGS due to shipping 6.0a free-of-charge to registered users
7. Compensate for 180-day free support
8. New marketing promotions (Buntings' Windows, Legal vertical ad)
9. Reduced COGS due to lower package parts in all WPWin SKU's (savings of approximately \$3.62/SKU; monthly savings = 100,000 * \$3.62 = \$362,000/month)
10. Reduced COGS due to shipping reduced span set of 7 disks to registered users (savings of approximately \$4.50/disk-only package)

IV. Summarize Changes to the 1994 Calendar of Events

The only changes in our 1994 calendar of events include:

1. Eliot 16-bit is scheduled for a late 3rd quarter release as opposed to August
2. The 32-bit version of Windows (Chicago) questionable for 1994 release

QPPR / Business Applications Group		
Product	Marketing	Development
WP DOS	Rich Running	Bruce Brereton John Gay Gary Gibb (WP Engine)
WP WIN	Todd Titensor	Steve Weitzel
Macintosh	Roger Bell	Tom Sanders
UNIX/VAX	Brent McKinley	Ken Lawrence (UNIX) Ken Klinger (VAX)
Presentations	Shirley Chu	Shawn Reid
Suites	Scott Nelson	
Tapestry		Alan Brown Eric Meyers

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WORDPERFECT CORPORATION
QUARTERLY PRODUCT REVIEW
MARCH 1994
BUSINESS APPLICATIONS
(IN THOUSANDS, EXCEPT ASP)

	WP WINDOWS		WP DOS		WP MAC		WP UNIX	
	DOLLARS	UNITS	DOLLARS	UNITS	DOLLARS	UNITS	DOLLARS	UNITS
SALES - NORTH AMERICA								
Q1 1993 ACTUAL	\$43,785	401	\$37,449	223	\$2,031	16	\$4,092	49
Q1 1994 BUDGET	\$44,261	421	\$17,545	166	\$3,115	41	\$4,509	45
Q1 1994 ACTUAL (without cap)	\$40,342	296	\$20,556	129	\$2,226	26	\$2,230	17
COSTS & EXPENSES - NORTH AMERICA								
Q1 1994 ACTUAL - COST OF SALES	(\$9,711)	manufacturing	(\$4,809)		(\$537)		(\$501)	
Q1 1994 ACTUAL - PROD MARKET DIRECT	(\$907)	PM teams + overhead	(\$103)		(\$490)		(\$167)	
Q1 1994 ACTUAL - PROD MARKET ALLOC	(\$100)	research % → B	(\$11)		(\$54)		(\$18)	
Q1 1994 ACTUAL - DEVEL & TEST DIRECT	(\$2,031)		(\$147)		(\$941)		(\$952)	
Q1 1994 ACTUAL - DEVEL & TEST ALLOC	(\$1,543)		(\$112)		(\$715)		(\$723)	
Q1 1994 ACTUAL - SUPPORT	(\$4,130)		(\$3,123)		(\$309)		(\$371)	
Q1 1994 ACTUAL - TOTAL COSTS & EXPENSE	(\$18,422)		(\$8,305)		(\$3,046)		(\$2,733)	
PRODUCT CONTRIBUTION - NORTH AMERICA	\$21,920		\$12,251		(\$820)		(\$503)	

more sales on S.I. + forecast 2nd Q

40.0 60
13.2 S.I. +
53

(+ potential 20 million) on a year basis

power Mac march whole mac market down

12.5
11.1

- Hard bundle
- Perfect Pack
- Open doc
- More products
- Quattro Pro Mac.

year \$206

WORDPERFECT CORPORATION
 QUARTERLY PRODUCT REVIEW
 MARCH 1994
 BUSINESS APPLICATIONS
 (IN THOUSANDS, EXCEPT ASP)

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Initial shipment 40,000 Dollars

	WP VMS		WP OTHER		PRES DOSIWIN		SUITES	
	DOLLARS	UNITS	DOLLARS	UNITS	DOLLARS	UNITS	DOLLARS	UNITS
SALES - NORTH AMERICA								
Q1 1993 ACTUAL	\$541	4	\$7,093	32	\$1,706	13	\$0	0
Q1 1994 BUDGET	\$2,500	25	\$4,221	26	\$2,865	26	7.50	0
Q1 1994 ACTUAL	\$248	2	\$459	7	\$1,134	11	\$3,711	16
COSTS & EXPENSES - NORTH AMERICA								
Q1 1994 ACTUAL - COST OF SALES	(\$54)		(\$107)		(\$268)		(\$1,856)	
Q1 1994 ACTUAL - PROD MARKET DIRECT	(\$1)		\$0		(\$219)		(\$896)	
Q1 1994 ACTUAL - PROD MARKET ALLOC	(\$0)		\$0		(\$24)		(\$99)	
Q1 1994 ACTUAL - DEVEL & TEST DIRECT	(\$685)		\$0		(\$995)		(\$230)	
Q1 1994 ACTUAL - DEVEL & TEST ALLOC	(\$520)		\$0		(\$756)		(\$175)	
Q1 1994 ACTUAL - SUPPORT	(\$203)		\$0		(\$535)		\$0	
Q1 1994 ACTUAL - TOTAL COSTS & EXPENSE	(\$1,464)		(\$107)		(\$2,797)		(\$3,256)	
PRODUCT CONTRIBUTION - NORTH AMERICA								
	(\$1,218)		\$352		(\$1,663)		\$455	

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**WORDPERFECT CORPORATON
QUARTERLY PRODUCT REVIEW
MARCH 1994
BUSINESS APPLCATIONS
(IN THOUSANDS, EXCEPT ASP)**

	OTHER		TOTAL BUSINESS APPS		
	DOLLARS	UNITS	DOLLARS	UNITS	ASP
SALES - NORTH AMERICA					
Q1 1993 ACTUAL	\$678	8	\$97,375	746	\$131
Q1 1994 BUDGET	\$0	0	\$79,016	750	\$105
Q1 1994 ACTUAL	\$189	2	\$71,093	506	\$141

COSTS & EXPENSES - NORTH AMERICA	
Q1 1994 ACTUAL - COST OF SALES	(\$47)
Q1 1994 ACTUAL - PROD MARKET DIRECT	\$0
Q1 1994 ACTUAL - PROD MARKET ALLOC	\$0
Q1 1994 ACTUAL - DEVEL & TEST DIRECT	\$0
Q1 1994 ACTUAL - DEVEL & TEST ALLOC	\$0
Q1 1994 ACTUAL - SUPPORT	\$0
Q1 1994 ACTUAL - TOTAL COSTS & EXPENSE	(\$47)

PRODUCT CONTRIBUTION - NORTH AMERICA	\$142
	\$30,917