IBM Confidential

## Santelli Microsoft Briefing 6/24/96

Santelli/Norris/Osborne/Dubinsky to call Kempin/Baber/Struss/Ackerland at 6:30PM EST

Joachim,
Your team has made clear MS's desire to move all OEMs to the same terms and conditions for MS products. We understand the importance of the Windows Desktop Family Agreement to MS and IBM. We believe it's in IBM's interest to move to the WDF and would like to do so as soon as possible.

As we discussed on our prior call, we need your help in two areas in order to reach agreement:

1. Reducing the unplanned profit impact to IBM

2. Reducing the operational impact to IBM of the new terms and conditions

IBM disappointed in MS's position as expressed in the meetings last week.

IBM's proposal met the spirit of our prior discussions: we asked MS to reduce the Windows 95 price in order to offset the price increase in Windows 3.11 under the WDF agreement.

**Joachim what's your general position on this?**

My team was hit with a few things last week:
1. MS will not consider any Windows 95 or Windows NT royalty reduction
2. MS not willing to consider IBM's profit neutrality
3. MS not very flexible on our operational concerns

## -Profit impact

-MS is forcing IBM to give up its Windows 3.11 investment return by withdrawing the MDA from Windows 95/Windows NT: either take Win 3.11 at $40 or no MDA for Window 95.
-No MDA today for Windows 3.11 and MDA 96 Milestone Activities not aimed at Windows 3.11.

**Joachim, why are you tying Windows 3.11 to our ability to get the MDA?**
**Is MS placing Compaq in a similar position?**
**Is MS stopping the Compaq Front-line Partnership?**

## -Operational Impact

-IBM needs greater flexibility than the MS statements of policy allow.

IBM has drop in the box requirements
Customers don't want documentation
IBM needs distribution through encryption
IBM needs better upgrade rights

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PENGAD Bayonne, N.J.
GOVERNMENT EXHIBIT
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## What IBM wants:

1. Reduced price for Windows 95 in order to offset the increase in Windows 3.11 ($47.36 pre MDA)
2. Reduced price for Windows NT in recognition of IBM's $85M+ investment in NT ($90 pre MDA)[middleware (DB2/CICS/VisualAge for C++) porting , PowerPC, and field education]
3. Increased flexibility in operational issues

## Joachim, what is your position on this?

If MS agrees with what we want we will send team back out to MS to finalize agreements.

If MS disagrees, some options are available:

Windows 95
1. MS to exclude Windows 3.11 from WDF agreement and IBM to accept Windows 95 price (with meaningful MDA) as is.
2. IBM willing to do separate agreements but need an MDA for Windows 95 effective October 1996.

Win NT
1. In return for Windows NT reduced royalty ($90), IBM willing to also:
   - participate in Windows NT 4.0 Launch
   - create a Windows NT 4.0 marketing campaign
2. IBM willing to do separate agreements but need a meaningful MDA for Windows NT effective immediately.

## Does MS have any additional options they want to explore?

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