GOVERNMENT EXHIBIT 278
PENGAD Bayonne N.J.

From: Bill Gates [ITG/OXYGEN/billg]
Sent: Friday, July 07, 1995 9 43 AM
To: Brad Silverberg, Carl Stork (carls), Paul Maritz (paulma)
Cc: Richard Tong, Craig Mundie (craigmu), Jim Allchin (jimall), John Ludwig (johnlu), Jonathan Lazarus (jonl), Laura Jennings (lauraj), Roger Heinen (rogerh)
Subject: FW Our dinner

I spent 3 hours in San Jose Wednesday night having dinner with Andy Grove

Fundamentally Intel and Microsoft have not been doing a very good job of working with each other in most areas There are a few exceptions like some NT related marketing or Plug and Play or TAPI

I started out by explaining to Andy that for us Windows 95 is job #1 I talked about how we spend over $500M taking calls from end users and use that data to drive our development I explained how successful we expect Windows 95 to be I went through how serious we are about testing software

The main problem between us right now is NSP We are trying to convince them to basically not ship NSP

Andy said he did feel bad about a few things First he felt bad that the software was focused on Windows 3 1 and not Windows 95 or NT He says that was a mistake Second he feels like the bad feelings between all the software groups at Intel and Microsoft makes them reluctant to work with us and even makes them hide what they are doing since they think we will crush it We both agreed we have to start over on attitudes and try and get communication going Andy thinks his IAL people are smart and hard working and he won't believe there isn't some way for us to work to get a benefit from what they do

On the other hand Intel feels we are virtually impossible to work with They feel like if they offered something to use free we would say it is too expensive - they still have bad feelings over being called up and told we were doing Picturetel and paying for it when they feel like they offered to do anything to work together

I went thru the DCI episode and how that was a step backwards I went through the problems we have with Intellectual property issues I told Andy that I think he should cut down the number of software people that Intel has I got the feeling he doesn't plan on doing that

Intel has software in 2 groups - the Frank Gill platform group and the Craig Kinnie IAL group The Kinnie group is a little over 600 people Andy says that 200 of the IAL people are the compiler type people who work for Wirt Andy feels like we asked them to have these people to do hard core compiler tuning to compete with MIPS and he thinks they are complimentary to our work I didn't disagree since I think there is some kind of relationship with Roger's group that works He says 200 of the people are doing communications related work like NSP. I wasn't clear what the other 200 are doing Under Gill there is a communications group run by Gelsinger, a networking group run by Mertz and an Internet groups was just started with 100 people run by Mcgeady Since Intel is just getting started on Internet Andy and I agreed that that is an area we should try and have a very complimentary relationship We agreed that there should be a high level meeting with Gill to get this kicked off - Paul or Jim Allchin will have to get involved in this I tried explaining to Andy that our Internet strategy needed to involved getting Windows specific code (in our case) and x86 instructions (in his case) on the Internet

I told Andy that he shouldn't be concerned about software not eating up his cycles. I said that MPEG2, object orientation social interface, 3-d realistic rendering, natural language and speech were all things we are making great progress on that will be popular and use lots of cycles I said they should stop resisting MPEG2 and they should stop fighting with Rockwell over NSP I said we are doing amazing graphics work because we have hired the best people in that area Andy asked if NSP doesn't do some interesting things that we don't handle I said we hadn't even seen all of what is sometimes called NSP but that the audio related stuff did very little of value Andy said Intel will not "pay" people to ship NSP by using marketing dollars and they won't force it onto Intel motherboards He said he is the one who asked them to get a game show off NSP and he said retailers and others he has shown the game to have "gasped" Although Andy is super smart in software related areas and in some aspects of the PC market it is amazing what he doesn't know Andy is going to keep his 600 people and he wants us to give them something to do that is constructive In a spirit of openness he asked who besides Paul was very calm and open minded about technical work with Intel I wasn't sure who to say but I mentioned John Ludwig as someone who I totally trusted to let me know if Intel was offering to do things that were constructive or destructive Andy said he had heard good things about John

One point kept pushing to Andy is that we are the software company here and we will not have any kind of equal relationship with Intel on software It is in his interest to have us making the hard decisions and doing world class industrial strength work I kept asking how he would feel if we should up with a bunch of microcode to throw into the P6 at the last minute I said equality cannot be the basis of how we work together on software Andy understood this but he said that Intel has to push the "platform" forward and they see things we weren't doing I said we have to discuss those in advance because their "rabbit" approaches are just destructive I said I thought it was humorous that it took his 600 people to alienate us so much and cause such poor communication that no one seemed to be talking about how poorly the P6 runs Windows 95 applications Andy said a second step P6 would run 16 bit operations better - however when he checked on

that Thursday he found out that the P6 second step will still not look good on Windows 95

On chip relationships Andy asked why were being slow to close the P7 framework I said we were being slow because a) they didn't want to use the corporate NDA which simply said they would never sue us over software b) they didn't want to use the P6 framework and c) they had been super slow getting a proposal to us and d) we were distracted the by NSP crisis - making sure no one ships that pile of problems I promised we would get back to them within 10 days on their proposal but that if it would expose us to 338 type garbage we weren't going to be able to do anything with it Andy said he recently decided to hire 1000 extra engineers so they can do parallel design work on pure x86 chips and P7 type chips with 2 teams eachs for leapfrog development They like the P7 but they want to be hardcore about both approaches

On marketing I said it was awful they weren't helping us in education or with Windows 95 Andy said he is giving a speech at Sun Valley and to a cable and TV event (CTAM?) and at Siggraph and he needs support from us to do his softimage demo and he feels he isn't getting what he wants Laura - please call Andy's office and find out how we can help here This is urgent Andy said he wants to focus on solving the software development relationship before we spend our time trying to solve the marketing relationship He agreed Dennis Carter is stubborn The one area they want to work together and I agree is to pair NT and P6 as a major phenomena to change computing Dave House is involved in this Dave feels we haven't taken full advantage of his willingness to work with us Rich Tong should form a strong relationship with Dave and really push it to get as much as we can out of it

Andy and I talked about their relationship with Compaq and everyone's fear that Intel is going to take over everything by making all the boards and not letting anyone add value Andy thinks these fears are overblown

I personally think we need to try and construct a new approach with Intel where they take on some of the hard problems like speech with us I think we should figure out some way for Intel to help make Windows 97 more P6 friendly I think we should get them involved in NT performance

I believe we will see somewhat less pressure from Intel to ship NSP broadly this year but they want to ship in h1 96 It will take a major effort for us to convince them to back off from this Andy wants me to talk to him more regularly so I am going to get involved more deeply to find ways for us to work together

I will see Andy again next week in Sun Valley and so I can talk about specific problems or opportunities with him then I am asking people to have a positive open minded view of how we can leverage Intel's work

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From Andy Grove[SMTP Andy_Grove@ccm sc intel com]
Sent Thursday, July 06 1995 12 10 PM
To billg
Subject Our dinner

Bill,

thank you very much for taking the initiative and the trouble to come down and have dinner with me I am very happy to have had the chance of a relaxed and in depth discussion with you -- in fact I slept fitfully after that, sort of continuing the dialogue in my sleep Of course, you had it worse, having to fly home

This morning I talked with Ron Whittier and Carl Everett about some of the things we discussed Ron will follow up modifying the Internet sessions to include Frank Gill, and of course will pursue the NSP saga with Paul

Carl is meeting with Carl Stork this Friday I hope they can energize our work on the P6 On that subject, Carl (Everett) was unhappy with me telling you that it's OK to leave the 16 bit code in Win 95 It seems I was overly optimistic on the improvements the next version of the P6 will bring So let me retract this comment -- and pls pass on to Carl Stork that we need all the 32 bit support in Win 95 that we can get

Again, many thanks for your visit I hope the casette tape you were presented with during dinner will turn out to be a worthy investment for you -)

Regards,

Andy