Redmond 6-26-95

Jim Vanhelle also in attendance.

Ballmer discussion items

Primary topics MS expects to discuss:

- The Windows Experience for end users
- The internal Intranet decision to use Netscape technologies at the browser and Server. We are using MS Exchange as the mail/communication backbone components
- MS Office Agreement and re-negotiations
- Discussion on the LAR opportunity and potential purchase of an existing reseller to fill this opportunity. MS believes this would be a very good move to enhance opportunities with major accounts and as a way to improve our field relationship with MS. They have an extremely close relationship with Stream.
- Update on the ALR purchase - plans and directions with ALR and server business

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GW 026420.

1. The Windows Experience for end users

Current Relationship	Our Position	Microsoft Position
MS requires that the Windows system boots up to the "MS Pristine Windows" environment.	We want flexibility to enhance our Windows systems with "greeters" and define a Gateway appearance/experience.	No flexibility is allowed here.
They are extending this concept to IE 4.0. They have defined that the IE 4.0 default appearance will have MS defined channel partners (12 total with 1 reserved for Gateway)	We want to take advantage of our direct model and "configure" specific content that is applicable to the user purchasing our system. We want flexibility to define our partners and arrange direct business relationships with them <Segmentation strategy.>	No flexibility allowed on the selection of channels. MS will allow for flexibility to define a Gateway wallpaper background with a Gateway active ticker and one OEM channel on the primary browser interface. We can have sub-channels below our OEM channel.

Gateway desired outcome:

Gateway believes that our direct relationship with our customers will be jeopardized if we are not able to maintain a differentiation that is a specific Gateway experience. MS will be defining a "one size fits all" content structure that will not apply to the different types of users buying our products. This limits choice for the majority of end users. Most users will not change the default channels that MS defines.

We want the flexibility to define a specific and usable experience based on our direct knowledge of our customers. This will be a key factor for Gateway to differentiate our systems and will let us go deeper in establishing a long term relationship with our customers.

We also believe that the business models in the future will result in profitable revenue from the sale of the premium desktop real estate. We do not want to be excluded from this revenue stream. MS proposes to define the default systems and if they are successful, no content providers will be interested in direct business relationships with Gateway. They will be bidding to become part of the Microsoft defined experience.

We need to have the flexibility to negotiate directly with content providers and make the most favorable decisions on behalf of Gateway and our customers.

GW 026421.

2. The internal Intranet

Current Relationship	Our Position	Microsoft Position
Internal decision to use Netscape technologies at the browser and Server. We are using MS Exchange as the mail and communication backbone components.		

GW 026422.

3. MS Office Agreement and re-negotiations.
4. Discussion on the LAR opportunity and potential purchase of an existing reseller to fill this opportunity. MS believes this would be a very good move to enhance opportunities with major accounts and as a way to improve our field relationship with MS. They have an extremely close relationship with Stream.

Current Relationship
Relationship is defined by the Office deal. MS is proposing that we restructure the existing agreement to meet concerns driven by our competitors as well as an investigation that the European DG4 has started.

MS wants to bring our agreement in line with the other MS contracts. MS proposals have not offered much value in return to Gateway.

MS Office has a corporate penetration of 85-90%. They have been very successful with the MS Select program which is a direct commitment the customer makes to MS. Fulfillment is done via LAR' (Large Account Resellers)

Our Position
We just completed a 2 year agreement in late 1996 and has threatened to cancel this after 6 months.

We feel the MS proposal will result in $200+ million in lost competitiveness versus existing agreement pricing.

There is much risk to Gateway business with existing customers buying MS products in our systems. The result will be a change in pricing and purchase behavior for our customers.

The original deal was structured so GW benefited by getting OEM pricing for the MA market and MS benefited by having GW bundle to small customers. We are left with a position where we can only offer OEM product to markets where MS is not dominant.

Microsoft Position
MS wants GW to discontinue shipments for Office 95.

MS proposes that the price for SBE in Europe is raised from $75 to $150 UK and $180 continental Europe. We also discontinue the Office 97 Pro distribution in Europe.

MS proposes that we do not offer the OEM product on the E-Series. We will offer Office 97 SBE and Pro on G-Series (every unit shipment).

MS wants Gateway to become a LAR as a way to fulfill major account demand for MS applications.

Gateway desired outcome:

We are sympathetic to MS issues with the DG4 and have proposed that we can structure an agreement as follows.

Overall relationship background:

Gateway - MS relationship has gone downward for the past years

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- Obvious negative treatment since we are at odds over Office
    - non responsiveness on addressing / resolving other issues
- Poor treatment, little respect from MS at working levels (and up to Rob in Europe)
- Little Trust - general belief at Gateway that any ideas shared with MS are quickly passed on to the industry. This has resulted in a reluctance to share detailed product plans. We have shared broader plans.

Limits on Gateway Flexibility (related to the Windows Experience)

- MS terms forcing GW into a situation where we can not differentiate our value and identity with our end users.
- Pushing Gateway into an "operationally efficient" model that forces GW to into off-the-shelf programs.
- Minimal tolerance for differences in our model as compared to OEM community.
    - MS trying to apply their Dell relationship model to Gateway
    - MS not trying to understand differences in Gateway
    - Treated as a distributor, not a partner
- Decisions made that impact Customer satisfaction and/or push issues to Gateway resulting in increase to GW costs
    - NetPC spec
    - Service Pack releases not integrated into OPK (NT costing GW $160K per week in operations costs due to complicated downloads)

IE 4.0 Issues

- IE heading in same direction as Windows
    - limiting flexibility for GW to define a user experience for our customers

GW 026424.