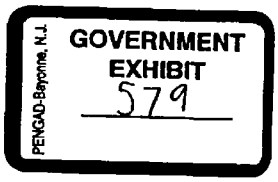

From: Ben Waldman
Sent: Tuesday, July 01, 1997 4:35 PM
To: Bill Gates
Cc: Jon DeVaan
Subject: RE: Apple discussion

Is finishing Office 97 contingent on reaching an agreement with Apple, i.e. will you definitely cancel the project if we don't reach an agreement? I ask because I don't really understand whether this is a bargaining position or something you are certain about.

Is there a deadline by which you feel that we need to make a decision one way or the other? I ask because our lack of certainty is causing increasing problems with press and customer communications. We have an interview scheduled with the Washington Post next week, which has already been delayed twice; WagEd feels that delaying again will cause suspicion and potenitally a negative speculative story. MacWorld is in four weeks, at which time we need to do some sort of communication (under NDA) with press, or else also arouse suspicion.

I will answer your Rhapsody questions in a separate piece of mail, with everyone on it.

By the way, Apple stock hit 13 1/8 today, its lowest in about 12 years. I wonder how bad their quarter will be.

Thx
Ben

—Original Message—
From: Bill Gates
Sent: Tuesday, July 01, 1997 11:46 AM
To: Paul Maritz
Cc: Jon DeVaan; Richard Fade; Steven Sinofsky; Ben Waldman; Greg Maffei; Don Bradford; David Stutz
Subject: Apple discussion

Our discussions with Apple have not been going well at all.

Originally we proposed to have a deal with the following elements:

a) Os cooperation. We would build some comment elements including DCOM (including parts of what we now call COR) and the virtual machine. Our browser would get a privileged position.

b) Applications. We would agree to finish Office for the Macintosh and to do some kind of Rhapsody version of Rhapsody sells well.

c) Patent exchange and perhaps some money from us to them.

Apple has taken each of these elements and made them totally beyond unreasonable. George Scalise managed the discussions with Greg until recently when he left and now Fred Anderson the CFO is in charge of the discussions.

Here is the status on each element:

a) Apple is offering nothing meaningful in this area. They will put our VM on their disks but it won't be the standard one. There is nothing about cooperating to make the Mac have more affinity to our strategy than Netscape or SUN. Apple endorsed IFC recently. Apple let us down on the browser by making Netscape the standard install. They used a lot of different excuses for this - the latest being that we didn't have a registration server but they never asked us for this.

b) Apple is asking for everything here. They want Office on Mac for 5 years. They want Office fully exploiting Rhapsody. They want feature and time parity. They don't want us to use a layer to get it done. They want all of IE defined bery broadly. Since we mentioned the win32 layer they want that as well including an Intel version for free with all the Windows APIs. They also want NTS to be a great server for Mac including all of the Backoffice, Security, dfs, ADSI and other capabilities. If we don't comply totally with all of this we lose the patent license.

c) Apple is beyond unreasonable on the financial terms I won't even outline it but the cost to us would be well over $100M. We have made it clear they have to include the Taligent patents in the deal (OTLC) and they are trying to charge extra for that. The apple patents are not at all impressive - not nearly as good as HP, Digital and others which we licensed for far far less than what they are asking. Also Apple needs the license for our patents as well.

Greg has thrown up his hands at being able to get this on track so I called Gil this morning. He is on vacation. I told him that it didn't look like we were going to converge so all I had was bad news. I asked how we should announce the cancellation of Mac Office - did he want to sue for patents first or should we announce with other Isvs that we are reducing out Mac support? I said that too much time had passed and the opportunity costs to us were high and things were not converging.

Gil said he still wants to do a deal. I told him that if the disagreement was one a few points I would call him and try and resolve that but that its so across the board we won't converge,and that Greg is burnt out on trying. He said he would draft a proposal from his vacation and send it sometime this week.

His fundamental goal is to get great applications support from us. I got him to clarify that means Office and IE. A key element for him is that we really support Rhapsody and that in the press conference to announce this it is clear we are going to take advantage of Rhapsody. I said that if he wants us to consider this proposal he had better focus solely on this and drop all the other technical requests including the long time period. I think we can limit any version after the first to only be done if there is a good business case. He also said he would moderate the financial element as well.

I told him I would respond to his letter within a few days of receiving it.

My key reason for sending this mail is for us to consider this whole issue of Rhapsody. What does Rhapsody office really mean? If we create this would we do it by starting with the Mac source code or would we start with the Windows source code and use the layer? How can we help Apple let people feel like we are exploiting the yellow box and still greatly minimize our work? Is a commitment of this kind worth it for us?

The other reason for sending this is to ask if we want to revive any of the OS technical cooperation points. Gil said he will leave those out of his proposal but that if there is something we really want there we can put it in. He said that the discussions haven't gone well because his technical people have to move ahead at full speed and the uncertainty about whether any deal with get done and what they can trust in have them proceeding right now without us. However he said he is willing to change that around if we have a sincere deal.

I am sure I will have to meet with Gil at some point if we want to put this deal together. Apple would have been better off to focus in on Office from the start instead of asking for the world on everything. Having a financial guy on their side do the negotiation made them push that element very hard.

Gil did sound more concerned about Apple that I have heard him before. I don't envy him being in his job.