Cory Van Arsdale (LCA)

From: Eric Engstrom
Sent: Monday, July 06, 1998 12:33 PM
To: Bill Gates; Eric Rudder; Ben Waldman
Cc: Greg Maffei
Subject: RE: Steve Jobs meeting regarding QT this last Monday

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I would agree there is a big disconnect here. We have sent numerous pieces of email to Tim Schaaf asking for anything resembling a response. I am very surprised that Steve was incensed by what we offered, the DirectX media team wasn't happy with how much I was giving away either. I tried to tell Steve in as many different ways as I could that he should make a counter proposal. I told him my only two non-negotiable points and left it at that.

I will call him today and see if I can get him to yell at me directly. I think it is a fairly ineffective tactic to complain indirectly about an offer.

Bill, what I think would really help me here is a short piece of email or 30 second conversation from you to Steve... something like "Why didn't you respond to our QT/DX proposal? We made, what we thought was a fairly big conciliatory step, and we never heard anything back. It probably wasn't far enough but without dialog we won't make any more progress."

I am sure there are alot better ways of saying that but I don't know how to communicate with someone who want talk.

From: Ben Waldman
Sent: Monday, July 06, 1998 2:05 AM
To: Bill Gates; Eric Rudder
Cc: Greg Maffei; Eric Engstrom
Subject: RE: Steve Jobs meeting regarding QT this last Monday

I think that there's a big disconnect here.

Steve has told me twice (and I believe mentioned to gregma also) that he is furious with the netshow team, believes that eric's presentation was essentially "Apple should give up QT and use our stuff," that he was not impressed with the chrome stuff that eric showed him, and can't see any reason why they'd want to work with us, given eric's presentation. He mentioned the possibility of legal action against us for use of the QT format, but when I pressed him on this ("so are you going to sue us?"), he said no, but they'd be telling us that we cannot play back QuickTime movies with our media player, netshow, etc., because we don't have a license to the format. Essentially, both of us want to be the universal player, and he is going to take whatever steps he needs to to thwart us.

I am gone all this week at MacWorld (I'm speaking at the keynote), and we're doing a bunch of PR with Apple (working with greg shaw and corporate PR on this), around the 1 yr anniv of the Apple/MS agreement, talking about what we've accomplished and what's coming up next. Apple's big push at the show is the iMac, and we're doing a lot around this. We're announcing a $100 rebate for people who buy the iMac and Office, and I am actually going to spend most of my time talking up IE, since that's what I think needs the most attention.

I should fill you on some of my recent discussions with Steve(we've been emailing/talking on the phone/meeting quite a bit recently), and some stuff has been tense, as I have really been pushing them on a few issues, and I am forcing Apple to do a lot of stuff they'd rather not do (using Office as leverage). This is just a brief summary -- there's a lot more detail if you want it.

Note that Steve may not be at the conf -- his wife is due to have a baby any day (their fourth), so he may be at macworld, and may not (it's in NY in July this yr).

- IE -- getting them to say nice things about it publicly (instead of "you can always switch to Nav"), and talk about it more in the context of the iMac. The iMac will be the first Mac with IE 4.01, and will be the only browser on the HD. We had a bunch of discussions around their use of our referral server, and they are breaking our agreement from last summer, but I'm letting them do it. A lot of issues came up regarding Apple's ownership of the start page and other customizations (vs. our ISPs), and we spent a lot of time working with ISPs to do special stuff for Apple, and then Apple dropped our internet connection wizard and referrral server. But, this is ok -- no need to bring it up with him.
- Office -- they are putting ClarisWorks on every iMac, saying that they need to in order to compete with PC manufacturers. Yet they insisted that they didn't want to hurt Office, so I got them to promise to stick our office rebate in the box, and also stick an office upsell video on every machine. They tried to backtrack on this, and I called them on it. The coupon is in, but they're not doing the video. What Steve is really trying to do here is force us to lower the price of office, and I've told him we won't do it, and that's it.
- Future -- I've told steve that Encarta and bookshelf are dead unless I pick them up (he was concerned that I'd be "distracted"), and that additional investment in the Mac (i.e. new apps) will depend on our business results, and how

supportive Apple is of us. I've told him that I am emphasizing end-user/consumer features in Office over LORG ones, and that that's the market we're targeting with the next version of Office because their LORG sales are dying. And so I've told Apple that they need to support us here. I told them that you and PaulMa questioned my headcount at the budget review (to scare him). Truth is we are doing a ne mail/calendar/PIM app using the Mac Outlook Express code base (but I only told him we're considering/researching it)

There are some other issues regarding use of OEM credits from Europe, USB hardware, announcing that we will port apps to Mac OS X(I said really, really nice stuff about it at the dev. conf. in May, but won't commit to do Office for it, because it's vaporware right now, and we don't have enough details).

Though I've talked about the negative/tense stuff above, I've also spent a bunch of time with steve telling him what our partnership means to me, and how we are determined to do greate stuff in IE and Office to support their goals, and help them sell machines.

I suspect that they are starting to get a bit uncomfortable with me running all the Mac stuff, because now they can't play off different parts of MS against each other, and I am holding them to their commitments (they care a lot about Office, and I'm using that to get them to be more supportive of IE).

I am not very optimistic about Apple's future -- I think that the iMac may well fail -- it's not clear to me that it will add to their units -- it either won't sell ($1299 price is still too high), or will just cannibalize their existing units (they have an almost identical machine for $1699). I tried to talk to them about this months ago, talking to them about declining avg price/PC in the industry, and I guess they thought they were immune.

I suspect their quarter won't be good -- they had to do a promotion (with Virtual PC) because their G3 units were below plan.

Steve is the most s portive person we have at Apple, and I often escalate stuff to him to get stuff done.

So stuff I'd ask you to emphasize with Steve:

- Thanks for all his support of us so far
- BenW really cares about doing great software, and working closely together will get Apple great stuff from MS
- We're concerned about the Office business, given Apple's decline in LORG and consumer market is critical for us. Additional investment in the Mac will be determined by our business results with office, so it's in Apple's interest to work with us.
- The ClarisWorks stuff is really worrisome, and was a source of problems in the past, and if we can't get iMac customers to buy Office, then that will be really bad for Apple.
- We're going to do great stuff in Office and IE that will make Apple happy.

This is some (really long) mail I sent to Steve a few weeks ago. Some stuff is outdated (we are working together on Macworld and the iMac, and came up with an OEM credit proposal for them that helps cannibalization).
<<Message: Apple-Microsoft relationship>>

Ben

—Original Message—
From: Bill Gates
Sent: Sunday, July 05, 1998 7:33 PM
To: Eric Rudder
Cc: Greg Maffei; Eric Engstrom; Ben Waldman
Subject: RE: Steve Jobs meeting regarding QT this last Monday

Is there anything new on this? Please check with Ben or Eric and see if they think I should do something on this.

I see Steve at a conference that Greg and I are at this week.

—Original Message—
From: Eric Engstrom
Sent: Tuesday, June 16, 1998 5:52 PM
To: Bill Gates; Paul Maritz; Jim Allchin (Exchange); David Cole
Cc: Cristiano Pierry; Chris Phillips; Greg Maffei; Eric Rudder
Subject: Steve Jobs meeting regarding QT this last Monday

Chris Phillips, Cristiano and myself met with Steve Jobs, a couple of VPs (I wasn't clear on their role), and Tim Schaaf (the Director of QT) yesterday for one hour at Apple's hq.

First thing we told them was our bug they were complaining about was fixed. We stopped short of telling them they had a worse one.

Chrome.

We proposed the following:
1) We adopt .MOV files for playback and streaming (with Guids which would make it essentially ASF in everything but name) (Cristiano Pierry's key insight)
2) They adopt .AAF for authoring interchange (this is the format we are building with Avid, we have 100+ partners for it now)
3) We agree to cross license codecs
4) They agree to stream NetShow bits by default on the Mac
5) We do a ton of PR and show the QT icon everytime a MOV file plays on Windows (in the corner of the player)
6) We work with them on Internet mm standards

Things Steve said:
1) Apple would like to protect our Player Plus revenue on Windows (I don't have a problem with this, it is just a challenge to canonize), Steve claims they have a $20m biz there
2) Why are you here? (he asked 3 times, i think because we weren't asking for very much in return).
    a) We told him better end-user experience, stop fighting over the non-innovative portions of the market, etc
    b) Sr. Management at Microsoft would like us to stop squabbling in this space.
3) Why don't you just throw out DirectShow and adopt QT, we are ahead of you... (I don't agree and I pointed out that DirectShow was all over Windows now, DVD, BPC, WDM, call control servers, TAPI 3, etc) we could maintain it for you for a flat development fee every year.

I said there were two completely non-negotiable points.
    a) DirectShow going away
    b) AAF going away.
I also said we could possibly ship the QT API if it was re-implemented on top of DirectX media (for various an assundry reasons this is not dangerous for us, I can explain in detail if need be). Other than that he should feel free to be creative. Once he mentioned the Player Plus revenue Chris Phillips threw out a couple of other possibilities like video and audio editing plug-ins for Liquid Motion that try to drive up sales to their for fee editing solution, etc.

Tim Schaaf said he had never seen Steve sit through an entire slide presentation before. Not sure if it was flattery or we just caught Steve so completely off guard.

<< File: apple - steve jobs >>

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