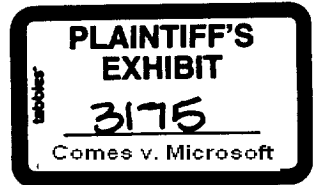


NOTES-04
4/05 MS TASK FORCE MEETING
ATTENDEES:
Lee Reiswig
Dick Seymour

Dick Guarino

Ralph DaFoe

SECTION WITHHELD ON THE
BASIS OF ATTORNEY-CLIENT
OR WORK PRODUCT PRIVILEGE



LRR Need to cover:
Objectives for 4/16-19 Meeting with Microsoft.
Status for Jim today.
Objectives for Jim's meeting with Gates on 4/11.
Status on response to Gates letter for Jim today.
Cruiser/Cutter Plan disagreements.

RAG We have to start the activities required for a 5/22 announce the day
after the Gates/Cannavino meeting (4/12) in order to make it...Greengrass+, PS/2
Re-pricing.

--- Believes we will lose 200K+ PS/2 CA's this year if we don't announce a
PS/2+Windows deal 5/22.

DICK GUARINO: 5/22 ANNOUNCEMENT ALTERNATIVES

CALENDAR OVERVIEW
05/22 Windows announce/(ship?)
06/05 Re-price PS/2 product line
 Announce Greengrass
 Move to 5/22?
06/19 Ascot announce
09-10 Cutter/Cruiser Announce?
 Aruba/Biscayne Announce
11/90 COMDEX
02/91 Hydroplane Announce?

LRR My bias is to low-key (This just confirms our COMDEX '89 S.O.D.) the
Windows announcement 5/22, watch the reaction from OEM's, ISV's and press, then
drop a bomb sometime in June.

4/05 JAC REVIEW OF MICROSOFT STATUS
ATTENDEES:
Jim Cannavino
Susan Fairity
Lee Reiswig
Dick Seymour

Dick Guarino
Ralph DaFoe
Mike Quinlan

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SECTION V. HELD ON THE
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DS The current JDA is basically a release-by-release agreement; the proposed DLA contains the fundamental concepts of 1) Joint management, 2) Long-term rights to technology (source, extensions, derivatives) and 3) Long-term business arrangements.

JAC Need two or three silver bullets to slip to Bill that will fuzz up the audit issue and keep Bill from going public with it.

--- We will have to figure out how to terminate the ASCOT/Works contract with Microsoft if these negotiations don't work out.

LEE REISWIG: CUTTER/CRUISER ALTERNATIVES

JAC You need to show me the complete printer support story...when is it "good". LRR to get back.

LRR Need to get a list of large accounts that need Cruiser to Jim for the 4/11 meeting with Gates.

DICK GUARINO: 5/22 AND GREENGRASS+

JAC The 286 ValuePac ought to include some DOS apps-like Quattro Pro and 1-2-3.

--- Use the ValuePac's to help the key ISV's who have supported OS/2 & PM...we include their DOS apps with Windows Value Pac if they don't charge us...keep them going while we jump start OS/2.

--- The OS/2 Value Pac ought to include...

OS/2
2MB Memory
Choice of...
1-2-3/G
WordPerfect
SPC Draw Program

JAC Strategy...

Summary of topics for Gates meeting...

1. One-on-one
2. DLA vs JDA
3. Derivative rights
4. Windows deal
5. OS/2 deal
6. 1990 Plan Issues

5/22 Contain Windows...It's great in its place.
6/19 Home/Notebook Announcement
Jul/Aug Slow period in the PC industry
Sep/Oct Cutter, Cruiser;
ValuePac's

Lee should call Frank King, Allen Ashton and Fred Gibbons and test these scenarios.

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4/09 REISWIG/MARITZ PHONE CALL
WITH: Lee Reiswig
Ralph DaFoe
Marty Voss

Paul Maritz
John Sabol
Tony Audino

PROPOSED AGEND FOR 4/11 CANNAVINO/GATE MEETING

Microsoft attendees:
Bill Gates
John Sabol
Paul Maritz
Tony Audino

12:30-2:00 JAC/WEG ONE-ON-ONE

2:00-3:30 1990-91 PLAN ISSUES

- 1) OS/2 1.2
 - Microsoft release schedule for 1.2
 - Microsoft summary of printer problem fix plan
- 2) CUTTER ISSUES
 - 1.2 Plus Print Subsystem support, vs.
 - Above + Size Reduction, vs.
 - Above + other general enhancements.
- 3) CRUISER/HYDROPLANE ISSUES
 - Schedule for SE vs. SE + LAN + ES
 - Content...trimmed to increase confidence in 2/91 target
 - Plan to transfer module from Boca to Redmond
 - ESP/Expanded Beta...ESP Goals; Test criteria req'd to achieve goals; MS test proposal.
 - IBM 1991 req'ts beyond Hydroplane; MS proposal to address; Can some of the work be done by IBM?

3:30-4:30 WINDOWS BUSINESS AGREEMENT
-- MS to summarize current offer(s)
-- IBM to outline requirements

4:30-5:30 OTHER TOPICS
-- IBM-Microsoft Multimedia Plan mismatch
-- Microsoft handwriting demo
-- ...

4/10 JAC PREP FOR GATES MEETING
WITH: Lee Reiswig
Ralph DaFoe
Dick Guarino
Dick Seymour

Tommy Steele
Roy Clauson
Arnie Sanders

SECTION WITHHELD ON THE
BASIS OF ATTORNEY-CLIENT
OR WORK PRODUCT PRIVILEGE

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Jack Boyce
Ed Lassetre

ED LASSITRE: OS/2 AUDIT

RHD Ed reviewed the results of the audit with Jim; Roy Clauson and Jack Boyce reviewed the results of the subsequent self-assessment. The net is we produced some pretty bad code...more than Microsoft, though they produce some too...a significant part of the bad stuff is from Hursley.

JAC We've got to fix this...the first step is a crash training program for Boca and Austin programmers...C, tools, techniques, etc...then get a set of tools in place so that quality can be managed.

--- How long would it take to fix this code?

EL About a year with no constraints...would do it without Microsoft because you can't make progress with somebody that goes their own way no matter what.

RHD Summary:

We need to maintain the best working relationship we can with Microsoft.

We have to build an independent capability to deliver world-class software in order to deal from strength in the future; take whatever steps are necessary to accomplish this.

Product line strategy alternatives:

	1990	1991	1992
1) ----->	V1.3 ----->		
	V2.0 ----->	V2.1 ----->	V2.2 ---->
			V3.0 ---->
2) DOS ->	WIN3 ----->	W3.1 ----->	W3.2 ---->
	V1.2 ----->	V2.0 ----->	
		V3.0 ----->	
3) DOS ->	WIN3 ----->	W3.1 ----->	W3.2 ---->
	V1.3 ----->		
	V2.0 ----->		
			-----> OS2/X ---->

4/11 JAC PREP FOR GATES MEETING
BASE O/S AGREEMENT

-- WORLD-WIDE AGREEMENT COVERING DOS, WINDOWS, OS/2 AND NT INCLUDING FUTURE
RELEASES & SUCCESSOR PRODUCTS

-- BOTH PARTIES HAVE UNRESTRICTED RIGHTS TO SOURCE CODE, INCLUDING
DISTRIBUTION

-- BOTH PARTIES HAVE UNRESTRICTED RIGHTS TO OBJECT CODE, INCLUDING
DISTRIBUTION

-- BOTH PARTIES HAVE UNRESTRICTED RIGHTS TO CREATE AND DISTRIBUTE DERIVATIVE

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WORKS

- BOTH PARTIES HAVE RIGHTS TO THE PRODUCTS WITH NO PER-COPY OR PER-SYSTEM ROYALTY
- IBM HAS MOST-FAVORED-NATION CLAUSE
- PRODUCTS TO BE MANAGED UNDER DLA INCLUDING AGREED JOINT MANAGEMENT PROCESS
- AGREEMENT ON RETAIL UPGRADE PRODUCTS TO BE INCLUDED

NOTES TO JAC:

- THESE TERMS REMOVE THE DOS CONTRACT RESTRICTION THAT BASIC MUST BE DELIVERED IN ROM
- IF REQUIRED BY MICROSOFT, IBM WILLING TO CONSIDER A NOMINAL (\$350-500K) ONE-TIME FEE PER RELEASE OF DOS/WINDOWS
- IF REQUIRED BY MICROSOFT, IBM WILLING TO CONSIDER A ONE-TIME FEE (STBD) FOR PRIOR WINDOWS INVESTMENT; TO BE PAID IN ANNUAL INSTALLMENTS TO INCENT PERFORMANCE
- IBM WILL CONTINUE TO INVEST ABOUT 100 PEOPLE +/- IN JOINT DEVELOPMENT IN AGREED FUNCTIONAL AREAS (KERNEL, SHELL, ETC. vs. SKUNKWORKS?)
4/11 JAC DEBRIEFING FROM GATES MEETING
WITH: Lee Reiswig
Ralph DaFoe
Dick Guarino
Dick Seymour

Tommy Steele
Arnie Sanders

SECTION WITHHELD ON THE
BASIS OF ATTORNEY-CLIENT
OR WORK PRODUCT PRIVILEGE

JAC Public meeting::

Agreed to Thursday 4/19 checkpoint to close on OS/2 1.2 and 2.0 plan content and schedules. IBM and Microsoft to evaluate:

V1.2.1 instead of V1.3.
V2.0 ESP w/severity 1 & 2 PTR's closed by 8/30...impact on Hydroplane 2/91 Golden Diskette schedule.

Boca to maintain Cutter and Cruiser capability until 4/19 and Microsoft has agreed to help (work PTR's, etc.).

- Microsoft agreed to 6/90 hard checkpoint on Hydroplane:
- Content
- Is it better than Windows
- Code quality
- Schedule risk

--- Need to think through the scenarios for 5/22 Windows

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announcement...it's going to be just Bill and Paul Allen on the stage, should Jim really be there...Bill wants Jim's support in re-positioning Windows from the COMDEX "less than 2MB machines" to "great desktop environment"...should there be A#1 Cutter and Cruiser demos for comparison to Windows?

JAC Private meeting with Gates at the end:

Windows deal like the current DOS deal...nominal one-time charge per release.

OS/2 royalty free.

Rights to derivative works.

Divorce clause that will be painful to both parties: Both have unrestricted right to distribute source & object.

--- Alternatives/Backup Plans

Boca team to polish/prototype O/S stuff...100 people.

Austin AIX/OS2 team.

Alliances with other partners?

Take any and all steps required to build a world-class development team...train,

buy...

--- The negotiating team needs to spell out a divorce clause with real teeth...

--- Lee should identify a "war time consiglieri"...others should suggest candidates to Lee.

--- Lee needs to call Nick Donofrio to get started on Austin joint AIX/OS2 team.

RHD Hand wringing: how do we live with a partner whom we believe has no integrity?

4/26 JAC PREP FOR GATES MEETING

WITH: Jim Cannavino

Susan Fairty

Ralph DaFoe

Dick Guarino

Dick Seymour

SECTION WITHHELD ON THE
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Tommy Steele Phone
Larry Loucks Phone

RHD Jim is looking for a simple, broad agreement that covers all Microsoft operating system software.

He's willing to give Microsoft a large part of the control over technical directions in return for not having to focus on this "commodity" area...\$30-40 million annual total investment would be a good trade for this.

He believes that the keys to a durable working agreement are:

- IBM rights to all MS O/S products, work-in-process
- IBM changes, additions licensed back at IBM option
- The right derivative rights clause

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-- The right divorce clause
-- The right breach clause

LKL The key O/S functions to be kept outside any license-back obligations to Microsoft are 3D graphics, Distributed systems, multimedia (interfaces, realtime support, deadline scheduling in: application function out), handwriting.

Also, Microsoft must define, implement and publish interfaces to key subsystems such that these subsystems can be replaced or distributed, e.g. file systems, font drivers, shells, PM,

JAC These proposed terms from Microsoft allow them to deliver an immature version of some key new technology in the operating system, forcing us to respond by replacing it with our much better version; then we're obligated to license our version back to Microsoft as a derivative work...we just gave away the store.

NET NET...
-- We have to have rights to all Microsoft's operating system code
-- We have to have the option NOT to license our O/S code back to Microsoft
-- We have to have the option to ship or not ship anything they put in the O/S

TDS We need to include the C compiler used for development in the agreement...LKL doesn't think including language compilers makes sense.---

LKL We need to hold firm on having the right to distribute source code: to give us options with OEM's, open systems issues, etc; besides we already have

that right under the JDA.
4/26 JAC/WHG MEETING
WITH: Jim Cannavino
Susan Fairty
Ralph DaFoe
Dick Guarino
Dick Seymour

SECTION WITHHELD ON THE
BASIS OF ATTORNEY-CLIENT
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Bill Gates
Steve Ballmer
Tony Audino
Bill Pope

WHG Clearly, IBM has the right to source code, along with a license to it, prior to Bell Ringing; Lee and Steve will decide how often and what mechanisms should be used.

The omission of the right to distribute development tools is a carryover from the JDA.

SB There's a priori reason to preclude IBM access to a shared build system as we do today.

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JAC Generally agrees that the terms for Termination w/o Cause should be no fault.

JAC 1) Need to be able to sell this agreement to the IBM company: that it's a good deal; that IBM can trust some key strategies to dependencies on Microsoft.

2) Need a streamlined process to define IBM's requirements, agree with Microsoft on a plan to satisfy them, then deliver good quality software on time...in order to build credibility within IBM.

3) Need to protect against future changes.

KEY ISSUES

IBM IBM must have the right to create derivative works between the Effective Date of Agreement and Bell Ringing.

We have to define IBM's obligations to license these derivative works back to Microsoft.

IBM has the right to work on any Operating Systems functions at any time...WHG doesn't disagree.

MS Start working on the (expedited) process to grant a general patent cross license.

IBM Paying Excess License Fees in perpetuity is not acceptable. Need to name the number of years.--

IBM Define terms for Termination w/Cause.

IBM In the Joint Management Process, the agreed Plan Of Record cannot be changed unilaterally...WHG suggested that 20% of the development expense be at risk if LRR/JAC decide Microsoft has changed to plan unilaterally.

MS Unilateral change to the plan of record cannot constitute breach of contract.

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