

IBM - Microsoft Relationship Overview

- IBM requested par with Compaq in 1994
- MS Proposed Front-line Partnership
- IBM and MS to join in Sales, Marketing, Development, and Field support
- In exchange IBM to obtain MS products at lowest rates in the Industry
- IBM and MS meet Chicago - August 1994
 - IBM: Claffin, Santelli and Microsoft: Kempin
 - IBM and MS created framework document
- Framework reviewed with IBM Executive Management
 - IBM starts the process to rethink strategic relationships
 - Review process took over three months
 - No news to MS during the review process
 - Next meeting with Microsoft at Comdex fall 94

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IBM First Initiative

- **IBM and Microsoft meet at Fall Comdex 1994**
- **IBM: Thoman, Santelli, Claflin vs. Microsoft: Gates, Kempin**
 - No Alliance-IBM would not promote Microsoft products
 - Only dev/support to ensure good end user experience
 - IBM PC Co to preload OS/2 Warp on all systems
- **Microsoft**
 - Reduce IBM account team from three to one manager
 - Notify IBM & treat as any other OEM
 - Win95 royalty started at \$75
 - Market Development Agreement (MDA) activities to reduce Win95 royalties
 - Provide IBM with the standard Win95 OEM agreement
- **IBM PC Company in 1995**
 - Focus on Dual Boot Preload-DOS, Win 3.11 and Warp
 - IBM removes activities from the MDA not in line with IBM First
- **Other OEMs work closely with Microsoft on Win95**
 - IBM left out
 - Consumer Products Impacted first / Channel Resistance to Warp Only

Resultant Relationship

- **IBM**
 - Focus on OS/2 Warp and Dual boot, slow to go Win95
 - Win95 compliance issues on BIOS, MWAVE, 701, parallel port, et.al.
 - Cost for Win95 = \$46
 - Microsoft linked Audit to Contract for Win95
 - Settled Audit issue by paying \$14.2M; IBM to receive \$5 M for mutually agreed to Industry initiative
 - MDA: IBM suggested cooperative work- MS declined
 - Mwave, PCMCIA, IR, Advanced Power management, et.al.
 - Loss of MS support of Power PC initiatives Stringfellow and Phantom
 - IBM OS/2 first / Windows NT last (internal directive)
- **Microsoft**
 - Access to Microsoft limited by Account Manager bandwidth and skill level
- **Limit or delay access to information**
 - Win95 Beta, Upgrade Coupon Program, Direct Draw Beta
 - IBM uninvited to OEM events and executive access denied
- **Win95 Contract negotiations moved slowly; signed on day of announce**

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Impacts to Personal Systems

- Customers who choose WinNT or Win95, question IBM support of these platforms on it's hardware
 - Merrill Lynch, Dow Chemical, Westinghouse, Duke Power, et.al.
- Microsoft receives calls from IBM customers questioning support
- Microsoft tells customers IBM has no visible plan of support for NT
- IBM support of MPEG on Aptiva, Microsoft refused to provide SDK
- IBM minimizes Win95, while competition openly markets with MS in exchange for royalty reductions
- Late to market with Win95 upgrade coupon-all competitors announced early
- Microsoft not sharing information in advance on their products and offerings, e.g. Cairo
- IBM desktop and mobile compatibility issues on WinNT
- Compatibility issues discovered by customers (CD Drives, High Res monitors, Power Management APM Support, Fax, Modem, Sound and Video Broken)

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- **Business shows**
 - WinHEC:
 - 8 Pedestal Booth, reception Sponsor, 25 Systems
 - Teched:
 - 8 Pedestal Booth, Universal Studios, 25 Systems
 - Games conference
 - 8 Pedestal Booth, Co-Sponsor, 40 Systems, Windows Seminar
 - Windows NT Reviewers Workshop
 - **720 Server, 700 Desktop... Windows NT and Back Office**
 - **Hardware**
 - 25 Aptivas to Harp, 133MHZ, 1 GB, 32 MB Sound/speakers
 - 25 CDT's to Harp, 133 MHz, 1GB, 32MB, Sound /Speakers
 - 14 Servers to Development
 - 760 CD to Struss
 - PC 360 Pentium Pro to Baber
 - PC 750 Pentium 166 to Tom Davis

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- **Development**

- Kirkland Staffing - 25 of 50 hired for x86 Platform
- Oam Technical Manager - Aptiva/CDT executed,
- NT on Crossfire, Serverguide, RS/6000 and AS/400

- **Shipping:**

- Aptiva: Only Win95 and Encarta, Creative Writer, Plus Pak
- Mobile: Shipping only Win95 , effective this Quarter
- Server: Win NT with every Server, ServerGuide
- CDT: Executing Plan to include NT 3.51 with crossfire

- **Other Areas**

- Lou Bifano: met w/ Paul Maritz, discussed IBM commitment to Power
- Steve Mills Middleware port to NT(DB/2, CICS, Visualage) , db2 and cics now shipping for nt
- Irvin Wladwsky burger and Brad silverburg, discussing security on the net

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■ Communications

- Memo from Lautenbach with web posting
- Memo to field from Norris
- IBM and win95/win NT better together
- CRN article IBM in talks with ms to be solution provider 4/1/96
- IBM turns up volume on nt initiative crn 3/4/96
- lbn courts windows Infoworld 3/18/96
- Job ads in seattle Paper 4/96
- PC week 4/29/96 reporting secure electronic transaction for credit card security
- IBM gave Microsoft permission to use the IBM name in a plus pak ad

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Royalty Crossover

- MS DOS/Windows 3.11
 - IBM co-developed DOS/Windows with Microsoft
 - As a result IBM enjoys the best T's & C's and the lowest royalties in the industry for these products
 - IBM pays \$11.00 for MS DOS/Windows 3.11; vs \$30 for competition
 - Royalty benefits realized after market acceptance of the products and continue today

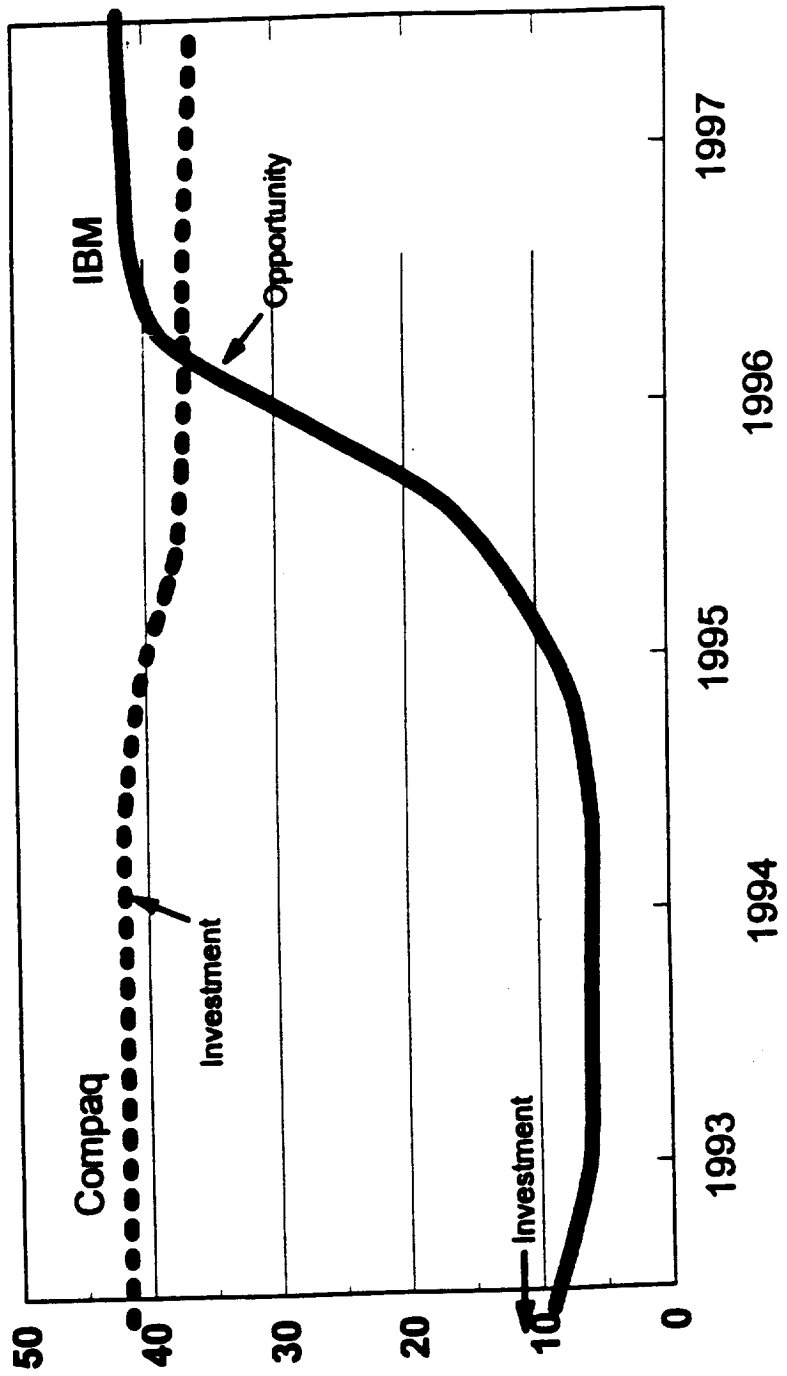
- Windows 95
 - Compaq co-developed Windows 95 with Microsoft
 - As a result Compaq enjoys the best T's & C's and the lowest royalties in the industry
 - IBM pays \$47 for Windows 95; vs. \$36 for competition
 - Royalty benefits realized after market acceptance of product, and continue today

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MSFT Royalty vs. Investment



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Cooperative Development Opportunities

- **Enhanced Windows 95 as corporate client**
 - Tivoli and NetView full client support
 - Object Database Client (ODBC) support for DB/2 and CICS
 - Nashville support for Notes data (including Active-X)
 - Nashville support for SmartSuite objects

- **Enhance NT as corporate client**
 - Eagle integration with NT
 - Internet server
 - Nashville support for Notes data (including Active-X)
 - Nashville support for SmartSuite objects
 - NT scalability for enterprise servers
 - NT clustering on enterprise servers (SP2)

- **Product coupling**
 - Ultimate Gamer
 - Personal Workstation
 - Support for corporate Mobile use of NT

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