

**Paul Maritz**  
From: Joachim Kempin  
Sent: Thursday, November 06, 1997 9:24 AM  
To: Jim Allchin (Exchange)  
Cc: Paul Maritz  
Subject: FW: IBM

Pls comment on the technology part-I need to give them an answer.

—Original Message—

**From: Bill Gates**  
Sent: Thursday, October 30, 1997 7:35 AM  
To: Joachim Kempin  
Cc: Steve Ballmer, Christine Turner, Paul Maritz; Jim Allchin (Exchange)  
Subject: RE: IBM

I apologize for being slow to answer this.

When Gary Stimac came up for the National/Cyrix meeting on Tuesday we had 15 minutes with just the 2 of us talking at the end.

He said that Gerstner wants to move Palmasino "up" and hire someone to run the IBM PC company. Gary is being offered the job. He has decided to consult to IBM with Mike Swavely between now and the end of the year. He is intrigued by the job but wants to make sure that he would be empowered to succeed. He would view it as a 5 year assignment and maybe the last big job he would take. He is worried about the quality of the team and whether IBM's relationship with Microsoft would be a problem. I told him the JAVA religion coming out of the software group is a big problem. I said IBM refused to big anything related to Backoffice. I said they continue to use their PCs to distribute things against us. I said they are dabbing in NCs in a way we don't like. I was fairly encouraging to him though because I am sure it would help us work with IBM PC company A LOT for him to be there.

Overall we will never have the same relationship with IBM that we have with Compaq, Dell and even HP because of their software ambitions. I could deal with this just fine if they weren't such rabid JAVA backers. We are told they have funded Netscape to do the browser without email and they are proposing to fund Netscape to give their browser away. They have also funded a lot of SUN stuff. To make the relationship with the PC guys work some of this rehetoric would have to be toned down. We can't do pulbic things with them when the whole IBM message seems to be "JAVA will save the world. Do what SUN tells you and get rid of mainframes and everything else including Microsoft using JAVA".

I am willing to take some risk in improving the relationship and think you should approach them on steps for improvement. You should not position it as "overnight we will treat you like Compaq". We should position it as lets do some things that are good for both of us but which require some of the rhetoric to be lowered on both sides. On their side I mean JAVA and NC.

See answers below.

—Original Message—

**From: Joachim Kempin**  
Sent: Wednesday, October 29, 1997 12:16 PM  
To: Bill Gates  
Cc: Christine Turner  
Subject: FW: IBM

Bill, I owe them some answers can I get your opinion pls.

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—Original Message—

From: Joachim Kempin  
Sent: Sunday, October 19, 1997 12:07 PM  
To: Bill Gates  
Cc: Joachim Kempin  
Subject: IBM

Bengt and I met with Sam Palmesano during our NT blitz and his strategy guy Mike Jackman. This was a follow up to the phone call. Some info and then to the real stuff.

1. \$1000 PCs, IBM cannot make money on these and they have been slow in introducing them. Sam told us that Gerstner would fire him if he sells 1M of them and brings his profit to zero. IBM he said does not need the revenue like Compaq does to show growth. They will introduce one in NOV and limit production. They are laying off 300 people because in the old org. the consumer division was allowed to do their own eng. and manufacturing. The article in WSJ is overblown. But he admitted their shipments are not healthy in consumer area.

The key to making these things and making money is to use the CyrixGX chips or equivalent. Intel may decide to make chips like this.

2. Buy out plan, they are reducing people in the AS 400 and RS 6000 divisions. RS 6000 is being hit by SUN and AS 400 sales is slowing down, life cycle issue. This has sparked some internal discussion where to invest next. More of that below.

Finally the AS400 is starting to slow down. Its amazing to me how long this took to happen. In 5 years I think that business will be a lot smaller than it is today.

3. relationship with us,

- a) He agreed that they are in the PC biz and they they should be more supportive of that in public. So I am thinking of having him in your Comdex speech- If he says the right stuff could you agree?

My speech no longer has any PC companies involved. I have someone from boeing, a small business using small business server and a "star" who is starting to live a "web lifestyle". There may be other opportunities to do something like this.

- b) Their version of an NC, the net terminal is being marketed as a terminal replacement product. They sold 50-60k so far out of a total 100k NC market. They believe there is a market and they are interested in building a win terminal and they believe Jupiter would make a great on the road e-mail companion.

I think its worth a LOT to us to have their NC strategy be very modest and not based on the same OS as SUN or Oracle. When they see how cheap NetPCs can be made with the Cyrix type approaches I think they will realize that anything that runs a browser should use PC technology. I would be glad to give them a big incentive to align with us here.

- c) I touched on their Java support next and how they get to closely positioned with SUN. He admitted this is a political football, but after our meeting with them they have done more homework and produced a paper which shows where they should and should not base development on java. I asked if we could see and if we could together publish or do PR around it even if we might not 100% agree, but it could show the world how limited this Java employment might be. (like :get the facts out about Java by MSFT and IBM) He seemed positive about it- but knowing that Thomson is part of it this it might only get done if we do it in a appealinga package deal.

I wish we could get Loucks fired away from IBM as well as other rabid java lovers and get some more sense in this group. It would be nice if the PC group could stand up to them on distribution issues.

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- d) He said he would like us to go after SUN with them- it did not surprise me. He had a strategy meeting where he got beaten up pretty badly. Other people in IBM believe that we have a lousy relationship and that this means an uneven playing field when it comes to pricing. Compaq CFO and Michel Dell have been bragging to analysts about our good relationship with them and that they have good deals with us. In addition they have put some consultants/investigators on to this and they came back with some weird findings- which make me believe nobody really knows but the speculation is not in our favor. The way this could work is to pick 3-5 accounts in a geo and let us work with them to kick SUNs server and WS out. Unclear what this means to Notes and Exchange conflict. He told us we are kicking their butt with Exchange and Steveb seems to be everywhere when we win these deals.- this is what the sales force is telling the execs. Compares with what I hear about Mc Nealy and Java. We will need Steve for this to happen, the reason why I like it : It will piss Mc Nealy off and drive a wedge. Sam believed he can get Gerstner to O.K. for this if we are not too restrictive on Notes.

I would love to pick a few SUN accounts to go after with them. It would be nice if they were accounts where the Notes or Exchange decision was already made. Some of the pharma companies or telcos who still buy lots of UNIX workstations from SUN are very IBM influenced

- e) They would like to have a FLP equiv. This not being in the card we could invent an NT partner program and focuss it more on technology. This would fit into the investment discussion they are having at the moment. He told us that they have some mainframe switching/clustering/memory-compression technology which they want to bring into the RS or AS or NT enviroment. Merced time frame or beyond. Goal is to have very scalable servers which can rival todays mainframes. They estimate this might take 1-2 years to develop, so NT 6.0 project. They would trade this for some royalty relief and some alliance announcement and access to source code/development resources.

I told them it can't be proprietary- they might have time to market or own some extensions but we do want this to be used by all developpers on all NTS. The server person told us later they do not see this a proprietary direction- this would be key to explore. Basically we could say: IBM is investing to make NT better and we honor that and are entering into a closer tech cooperation. HP has not offered this and who knows if they can , same is prob. true for DEC and Compaq/Tandem. This was the best I have heard so far. They claim this is urgent and will be decided within 6 weeks.

If they are serious about working with us on scalable hardware we could say we have a partnership with them aimed at taking their high end system expertise and bringing it to the PC platform. They do have some real expertise here.

- e) Net PC, we can get them back into the camp. They are proposing to disable the ISA slot which they have designed into their NETPC version through a BIOS change. This allows them to deliver PCs and NETPCs with the same mother boards. I think this is O.K. and is done based on their customer feedback- the customers demanding that they can change if needed to a full PC. This might never be done in reality as we all agreed. They are willing to do some joint PR how much they are promoting the managable PC and so on... we should do this with them.

It would be nice to get them to announce that they have decided to do one.

- g) Last but not least an odd one. Ned Lauterbach would like to meet with Steveb and he is the guy who is targeting small biz. I have no comment on that one.

Steve - I think this is worth doing.

Bill I like to get your thoughts on this before I involve other people.

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