



**From:** Brad Chase [bradc@microsoft.com]  
**Sent:** Friday, March 19, 1993 12:33 PM  
**To:** billp; joachimk  
**Cc:** bradc; bradsi  
**Subject:** RE: IBM PS/1 agreement

the fuzz is b/c i sent the final code and was told this was done when it wasn't. i specifically reviewed the contractual restrictions on source code with billp awhile back and bill satisfied me what you say below is not allowed under the contract.

If they have no problems with your changes then i am happy but if the deal is having problems pls let me know right away. can you tell me when you expect it signed?

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**From:** Joachim Kempin  
**To:** Bill Pope; Brad Chase; Kelly Wood  
**Cc:** Brad Silverberg  
**Subject:** RE: IBM PS/1 agreement  
**Date:** Thursday, March 18, 1993 7:09PM

I am the hold up. The agreement included a questionable distribution agreement which would have allowed IBM to distribute upgrades through the channels. This clause had restrictions but understanding that we will never take IBM to court over it I asked that this gets changed to disallow them to do this, or would You like to see upgrades in the shelf from IBM?

In addition I questioned their source code rights, yes this was restrictive but it could have allowed IBM to assign PSP personal even working on PC-DOS to look at Your hooks. that is all. I am confident they are going to give in and sign a modified agreement, if You believe we are untrustworthy and disorganised be my guest- we have clearly expressed to them in a follow up phone call that we have no intent to change our mind. So why the fuzz?

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**From:** Brad Chase  
**To:** Bill Pope; Joachim Kempin; Kelly Wood  
**Cc:** Brad Chase; Brad Silverberg  
**Subject:** IBM PS/1 agreement  
**Date:** Thursday, March 18, 1993 12:26PM

What is going on? I just heard from jonk that this is not signed and that WE are the hold up. I sent them golden code b/c I was told that IBM had signed. I assumed we sent them an agreement that we were comfortable with. If not this makes us look very disorganized and untrustworthy since it would appear to them that we sent them a contract to hook them in, get them to dupe on machines and then changed our minds.

Please tell me what is going on, and if there are issues what they are (pls tell me they are very very important if we are changing our mind)

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**HIGHLY  
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## IBM DEAL

### General Overview

- o New contracts/amendments signed covering DOS, Windows, OS/2 and NT
- o 3 year deal covering all of the products with royalties continuing for 3 1/2 yrs after term in most cases
- o MS takes primary development responsibility for DOS, Windows and NT
- o IBM takes primary development responsibility for OS/2
- o Most of OS/2 has been redeployed

## IBM DEAL

### DOS License

- o **\$1.1M for DOS 5.0 English version plus certain translations; no royalties**
  
- o **Future releases - \$500k for English version and \$75k/translation for each major release**
  - **Minor releases free**
  
  - **No royalties**
  
- o **IBM has full source rights to DOS (excluding the RUP)**

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IBM DEAL

Acad - \$39.50 → 37.50

Windows License

— derivation windows rights

- o IBM has rights to English and foreign translations
- o IBM development fee: \$5M paid quarterly; first year only
- o No royalties for IBM internal use

o Royalties - IBM's end users

\$ 5.25

- 3.5% of MS local SRP for education
- 6% of MS local SRP per system on the systems, if any, specified annually by

if design \$ 9.00

IBM

- 9% of MS local SRP for "soft bundles"
- 13.33% of MS local SRP for all other IBM end users
- Quarterly payments similar to existing Windows license

hw dependent { purchase of software of multi- per unit \$ 20.00 + 20% for sub. also other iron

o Royalties - non-IBM end users

- Additional royalty of 20% of MS local SRP
- Calculated and paid annually
- Default methodology: reg cards and IBM survey
- Optional methodology: independent end user survey

o Local MS SRP = lesser of published SRP or 225% of avg wholesale price offered to three distributors with lowest prices (determined at time of initial GA)

## IBM DEAL

### Windows Package Product

- o 25% of MS local SRP for education
- o 30% of MS local SRP for sales in direct channel and through IBM authorized dealers
- o 100% of MS local wholesale for sales through all other dealers
  - "MS local wholesale" means most favorable price offered by MS to any wholesale distributor at time of initial GA
- o Upgrades = greater of usual price or COGS + 15%
- o Solved return problem when new versions released
  - IBM can return only the product received during the 2 months prior to its request

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IBM DEAL

OS/2

o Both IBM and MS have right equivalent to ownership in the products developed

o IBM royalties

- Currently \$35 for base and \$11 for PM

- New deal:

OS/2 1.X and 2.X prior to delivery of Windows Application Binary  
Compatibility Capability(WABCC):

\$5 for the base and \$4 for PM for licenses to non-IBM end users

\$0 for the base and \$0 for PM for licenses to ~~IBM~~ IBM end users

Determined annually by reg cards and IBM survey

OS/2 2.x after delivery of WABCC:

\$5 for the base and \$4 for PM for licenses to all end users

- Upgrades at 50% of the usual royalty

- Effective date: 10/1/90

o MS royalties

- Currently \$12.50 for base and \$3 for PM for both IBM and MS licenses

- New deal:

OS/2 1.X and 2.X for OEMs whose license does not permit initial use of the  
product on IBM systems -\$0 for the base and \$0 for PM

For all other sales or sublicenses of the product - \$5 for the base and \$4 for  
PM *if we did MS PP.*

- Upgrades at 50% of usual royalty

- Effective date: 10/1/90

## IBM DEAL

### NT

- o Both IBM and MS have rights equivalent to ownership
  
- o IBM development fee: \$10M first yr and \$15M for subsequent yrs; paid quarterly
  - Stops if we don't deliver initial version within 24 months
  
- o IBM royalties
  - 4% of MS local SRP for all end users paid quarterly (product and SDKs)
  
  - Additional 8% of MS local SRP for non-IBM end users paid annually (product only)
    - Based on reg cards and IBM survey
    - Independent audit optional
  
  - Upgrades at 50% of usual royalty if no upgrade price offered (product and SDKs)
  
- o MS royalties
  - No royalty for copies sold or sublicensed by OEMs whose license does not permit the use by end users on IBM systems (product and SDK)
    - Subject to challenge by independent audit
  
  - 8% of MS local SRP for IBM end users paid annually
    - Based on reg cards
    - Independent audit optional
  
- o MS local SRP =  $\min(\text{MS SRP}, (\max(\text{IBM SRP}, \$300)))$  for English version  
=  $\min(\text{MS SRP}, (\max(\text{IBM SRP}, \$360)))$  for translations
  - always determined at time of initial GA