Office of the General Manager, Power Personal Systems
Power Personal Systems Division

Route 100, P.O. Box 100, Somers, NY 10589

August 21, 1995

Mr. Joachim Kempin
Senior Vice President
OEM Sales
Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6339

Dear Joachim:

After our conversation last Friday, it is clear to me that the remaining encryption issue will take some more time to resolve with the other language issues associated with the proposed audit settlement. We will continue to keep maximum pressure on to resolve the audit issues. I will call you later today to discuss the encryption issue, and hopefully we will move the ball forward to our mutual satisfaction. We also need the lawyers to talk so that they can resolve the remaining language issues on the settlement agreement. Our objective remains to close this audit as soon as possible.

As I indicated during our discussion on Friday, each day that IBM has to wait for the Windows 95 code, IBM is at a competitive disadvantage. Since we have resolved all of the issues associated with the Windows 95 license, I do not understand your reasons for continuing to link delivery of the Windows 95 code to resolution of the audit. IBM will not distribute Windows 95 in encrypted form, and we have agreed to terms of payment that ensure that Microsoft will be paid on a timely basis.

In light of the progress we've made, I think we should unlink the audit settlement from the Windows 95 code delivery. Everyone now agrees that IBM is cooperating with the audit, and I believe it is in the best interests of IBM and Microsoft for the PC Company to ship Windows 95 as soon as possible. We continue to plan to participate at the Windows 95 launch event on August 24.

Sincerely,

Tony

A. E. Santelli

/bc

** TOTAL PAGE.002 **

GOVERNMENT EXHIBIT
2139