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To Garry Norris	From T. Santelli
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Dear Tony,

Thank you for the Comdex meeting and the follow up letter. As you know, I am a long term proponent of an improved MS-IBM relationship and as it should be, a great relationship always means a lot of "give and take" on both sides. Please allow me to comment on all items in your letter.

a. *IBM PC Company/Open System Provider/Focus on NT:* This is an encouraging move in the right direction, but I would like to better understand what specific steps, actions and time frame that you propose.

b. *Middleware port to Windows NT:* We always appreciate when Independent Software Vendors (ISVs) add value to our platforms by porting their applications and we should ensure that our Developer Relations Group will take good care of you in the future. Therefore, I would propose that Steve Mills from IBM and Mark Baber immediately engage in discussion so we can better understand what can be accomplished and what issues might lie before us.

c/d. *Technical Support Plan/MCP Training:* We will ensure that the right train the trainer plan gets developed and executed. We will assess the charges related to this training once we have a better understanding of the specifics and magnitude of training that you are wanting to implement. Please let Mark know who the right contact is in your organization.

e. *Support and Leadership for MS Products:* While this sounds super nice, I want to understand the actions that you intend to take. From this, I can better judge what this means and what actions and support you require from Microsoft. But to a degree, I believe this contradicts your next statement:

f. *"IBM cannot be a Frontline partner today"*: I firmly believe that the best solutions to customers around the world will get delivered by partners who closely cooperate and share common goals. As long as IBM is working first on their competitive offerings and prefers to fiercely compete with us in critical areas, we should just be honest with each other and admit that such priorities will not lead us to a most exciting relationship and might not even make IBM feel good when selling solutions based on Microsoft's products. On the other hand, I believe that with the PC Company there should be ways to cooperate. I am therefore asking you to move aggressively with a pragmatic proposal and consider areas such as (beyond the obvious development areas):

(i) A sales plan for Microsoft Products
(ii) Training of your sales force on Microsoft Products in particular BackOffice
(iii) Demonstrate solutions based on Windows NT and Windows 95 to IBM customers in key marketing events

GOVERNMENT EXHIBIT
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1. ***Access to MS Development and Marketing:*** We will continue our work with you to ensure technically compatible products to avoid mutual embarrassment as we did with Windows 95. We will share plans and make Beta Code available as appropriate to ensure MS products are exploited on IBM Platforms. We need to improve the essential technical communications between our companies and act accordingly.

2. ***Strategic Initiatives:*** I recognize that you have put considerable effort into identifying product differentiation on Microsoft operating systems, but I feel they fall short of an "industry" initiative. I appreciate that it may be difficult to come up with one easily, but I am willing to extend the date for agreement to this effort until February 15th, 1996. We should work together on identifying candidates. A possible proposal could be that we establish a common object modeling technology widely based on OLE and drive that as an industry standard.

3. ***Joint Marketing Events:*** I have discussed this with some people in MS and there is more doubt than belief that we can pull something meaningful off. There is also the fear of how our closer OEM partners would judge this. As much as I would personally like to try the right things, I have to agree that this will be tough to explain but I recognize at the same time that there could be events where we could jointly participate. Therefore, I would like to understand what specific activities you propose before concluding my position. We will work with you to help define these from a Microsoft perspective.

4. ***Reduction in Windows NT Royalties:*** I will leave this discussion to Mark and his team.

5. ***Win 32 APIs:*** I have discussed your request inside MS and cannot find much support for letting IBM have this. Knowing that the OS area is one area of our fiercest competition, I believe we should be careful from getting to close together on this and ask you for participation in the architecture definition. Mark Baber should talk to Steve Mills to understand his proposal and engage the product groups if needed to fully understand this potential opportunity.

6. ***MCP Training for IBM:*** Please see my comments under d).
In addition, we will be pleased to get the information to you to qualify for an Authorized Support and Training Center.

7. ***IBM Resellers/Windows Installation:*** We are willing to let your resellers replicate our software provided that IBM assumes and demonstrates the protection of Microsoft's IP as described in our Windows 95 agreement. I would expect you to share your plan with us and demonstrate before and on an ongoing basis that our IP requirements will be enforced.

8. ***Field Engagement:*** I recognize your intent to support the customer and we should ensure effective channels exists on a mutually agreed basis.

9. ***Windows 95 Royalty Reduction:*** I will leave this discussion to Mark and his team.

10. ***Solutions Provider Organization:*** I will ensure that Mark will get the right person in your organization educated on how to qualify.

11. ***Improved OEM Position:*** You are a valued OEM customer of MS with whom we will cooperate as much as your self imposed restraints allows us to do. Please understand this is neither my choice or preferred way of doing business with an important company like IBM. In addition, we would like to see the IBM PC company being more actively involved in assisting MS to bring key products to market, this means active Beta testing, early SCT engagement, cooperative marketing actions, bug testing, ongoing feedback etc.. To date the IBM PC Company has not always been

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an active participant in these areas - understandable given your own internal product priorities I hope you can help me to change this

12. ***Additional MS Resources:*** We review resource assignments on an ongoing basis and will ensure sufficient coverage of all activities we are going to be engaged in with you. As I mentioned before, we are in the process of adding an OEM Technical Account Manager (OTM) to the Account Team specific to your Commercial Division. We are prepared to add an additional OTM to the IBM Consumer Division as soon as contract negotiations have been completed. I am more then happy to address the needs of the server division in the same way as well.

When I do an analysis of the Microsoft business model and the products that generate our revenue, it becomes very clear that Microsoft and IBM are direct competitors in at least 85% of Microsoft's total business. I do understand Tony, that you want to sell more hardware but also understand that I'm trying to sell more software and gain more mind share. For sure you will say, "I will help you in doing so by selling your software with my system" and I will be thankful whenever you do so. But, I have to note at the same time that Microsoft might have done the demand creation by winning against IBM. You get measured in selling more hardware and I firmly believe if you had less conflict with IBM's software directions you actually could sell more of it.

In summary, I recognize there has been movements from IBM in the right direction and the signs are more positive then they were 6-9 months ago, but I must understand the specific actions you are prepared to take before we can engage deeper. I would therefore ask you to respond to my points and suggest that we meet as soon as possible and map out a time table to conclude our positions.

Sincerely,

Joachim Kempin
Sr. Vice President
OEM Sales

P.S. Let's see if Bill is right in saying, "You and I know IBM and Microsoft can work together".

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