Office of the IBM Senior Vice President and Group Executive

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

August 3, 1995

Mr. Joachim Kempin
Senior Vice President
OEM Sales
Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Dear Joachim:

Thanks for taking the time to explain your frustration with the audit process to date. As you might expect, our audit team has a somewhat different perspective. In any event, this audit has clearly taken too long. I am as interested as you are in expediting it and I believe that whatever the previous misunderstandings have been, both the Microsoft and Ernst & Young team are satisfied with IBM's current level of cooperation. Our audit team is scheduled to meet with your team and the Ernst & Young team next week in Seattle to resolve any open items on the Windows 3.0 and 3.1 audits.

I share your concern about the accuracy of IBM's reports and its cooperation in audits. It was for that reason that I agreed in the Windows 95 Agreement to pay penalties and interest if the audit disclosed underreporting by IBM. I believe the Windows 95 Agreement terms address your concerns, and I still do not understand why Microsoft would refuse to provide code under that Agreement.

IBM is very serious about pursuing a Windows 95 License Agreement. IBM has already announced that it will ship Windows 95 and put plans in place to do so. Those plans are being impacted by this delay in obtaining the code. I was not aware that your team had been calling to resolve the outstanding issues. I was under the impression that your team had said there would not be any further conversations, that IBM would not receive the code until the audits had been completed to Microsoft's satisfaction, and that all technical discussions had been stopped. I am very interested in closing the remaining issues, obtaining the code once the license agreement is signed, and resuming technical discussions. Since your letter indicates you share the same concerns, Tony Santelli will contact you to wrap up all the remaining audit and Windows 95 issues.

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I would hope IBM's intent is clear. The PC Company has already stated publicly that it will ship and support Windows 95. Our Personal Software Products people, however, will continue to compete with Windows 95. IBM has numerous partners with whom it also competes, as I assume Microsoft does. I discussed this in my conversation with Bill, and as he and I seemed to agree, as long as the software competition is fair and ethical, it should not be an issue on how you work together with the PC Company.

While I will continue to stay involved in these audits and the progress we are making to improve IBM's software royalty management system, I would like to get on to a more productive relationship with Microsoft.

G. Richard Thoman

GRT:lc

cc: Bill Gates, Chairman and CEO
Mike Brown, CFO
J. B. York