FROM: J. A. CANNAVINO   DATE: _10/23/89_
          ENTRY SYSTEMS DIVISION   DUE DATE: _____
          P.O. BOX 100, ROUTE 100   LOG NUMBER: _____
          SOMERS, NY 10589
          8/826-3400   9/766-3400
          NEFAX: 8/826-3793

TO: ____ L. D. ANDREW   ACTION: ____ PLEASE HANDLE
          ____ R. L. CARBERRY
          ____ R. L. DAUGHERTY   ____ PLEASE SEE ME
          ____ M. C. DUFFY
          ____ R. A. GUARINO   ____ LET'S DISCUSS
          __✓_ R. B. HANRAHAN
          ____ A. F. MAYADAS   _✓_ FOR YOUR INFORMATION
          ____ P. C. MUGGE
          ____ A. E. SANTELLI   ____ FOR YOUR INFORMATION
          ____ W. M. SPALLER   AND APPROPRIATE
          ____ B. G. UTLEY   ACTION
          ____ M. K. VIETH
                                               ____ PLEASE PREPARE REPLY
                                                    FOR MY SIGNATURE

          ____ D. E. COPELAND   ____ CALENDAR ITEM
          ____ J. A. DALY
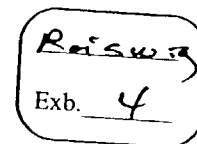   ____ L. N. KRASNOW
          ____ W. H. MCCAHAN
          ____ D. NESS
          ____ M. A. POWERS
          ____ M. J. QUINLAN
          _✓_ L. R. REISWIG
          ____ J. A. SOYRING
          ____ T. D. STEELE
          ____ R. L. SWANN
          ____ D. M. THOMAS
          ____ C. N. TULLER

COMMENTS: _____
          _____
          _____

IBM CONFIDENTIAL   _299/0252_

                                        Reiswig
                                        Exb. _4_

                IBM 04   0000001607

Action ,

Copy: hand deliver tc
Hanrahan, Rasuiq
Return

Microsoft

October 16, 1989

Mr. James Cannavino
IBM Vice President and General Manager
 of Personal Systems
Route 100, Building 3
Somers, New York 10589

Dear Jim:

Thanks for agreeing to see me on Friday. Since my last
letter we announced and shipped Excel for Presentation
Manager. We made the announcement an OS/2 event with
hundreds of boxes of shipping applications like PageMaker
and Describe. We demonstrated products like Autocad and
OfficeVision working with Excel using unique OS/2 features.
We showed videotapes from the announcements made in Paris
and Munich with IBM concerning promotional bundling of Excel
with OS/2. Tony Mondello came and talked about or work
together. It's great to have an OS/2 spreadsheet in
distribution today.

Although there has been very little communication we get the
sense that IBM is coming up with an operating system
strategy with the following components:

1) DOS
2) DOS with an extender
3) DOS extended with a subset of Presentation Manager
4) 16 bit OS/2 without Windows mapping
5) 32 bit OS/2 without Windows mapping
6) an incompatible operating system for notebook computers

> Despite the fact that Office Vision has its own
> shell, memory management, windowing and other APIs
> I will leave it out of the discussion. It is also
> logical to leave out Extended Edition since its
> unique functions don't overlap the other products.

Microsoft's strategy is to have

1) DOS with Windows
2) 32 bit OS/2 superceded by portable OS/2 in the first
     half of 1991

> DOS and WINDOWS apps will run on 2.

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We would prefer to have an even simpler strategy but given the realities of the market we believe our approach is the best one to capitalize on the market demand for improved usability and build momentum for graphical applications. It is unfortunate that we have two graphical APIs. GDDM was important to IBM for SAA but it provided no short term help in getting the kinds of apps we need to make OS/2 successful. Instead it provided delay and an increase in size and cost. WINDOWS, although not welcomed nor promoted by IBM, has succeeded over GEM and Topview, and has been extremely successful in exploiting the graphics capabilities of IBM PCs and providing ease of use.

WINDOWS is a reality and an asset. Lets figure out a way to exploit it. The result will be a lot more users running a lot more applications and this will create the needs for which we built OS/2 in the first place, ie. multitasking and communications.

Please accept my comments on our two strategies given above in the hope that we can come up with a single strategy that we can work together on. I think points in favor of the MS strategy are:

a). It is based on the realistic assumption that very few people will upgrade Model 50s to get the new hard disk and memory required to run applications like OfficeVision. Our resources are focused on 386 machines with 4 meg where OS/2 will be percieved to be better DOS than DOS and better WINDOWS than WINDOWS. We believe our plan will generate as many OS/2 sales as IBM's more fragmented approach.

b). It allows for a significant cost savings compared to the current rate of spending and frees critical resource for important improvements.

c). It allows for an aggressive 860 ship date and the possibility of OS/2 on the RIOS machines.

d). It allows IBM to get into multimedia on a timely basis-- before Apple gets all the developer activity or CDI is established.

e). It allows notebook competers to run the same software as desktop computers.

I am confused by the IBM strategy. I don't understand who will write apps for the PM subset on DOS. If they need the functionality of OS/2 they will write to OS/2. If not they will write to DOS or WINDOWS and their apps will still run on OS/2. WINDOWS already outsells IBM's own forecast for OS/2 for the next four years. Which delevopers would put their work into a PM subset instead of WINDOWS--Office

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Vision? LOTUS Notes? I don't think the existance of a PM subset will have any effect on the number of developers writing to WINDOWS. I also can see no merit in promoting DOS extenders that will create incompatible apps that will not run on OS/2.

Microsoft is glad to discuss exactly how we should position Windows to provide benefit to the IBM Corporation. On the one hand IBM could choose to not endorse or get involved in WINDOWS. It could be used for special purposes only—multimidia for example. On the other hand if IBM were to endorse WINDOWS there may be ways Microsoft could help IBM use WINDOWS to meet objective beyond OS/2. We could do a WINDOWS client that can be networked to Office Vision on OS/2 and AS/400 that could dramatically increase the justification for OfficeVision for example. The announcement and ship schedule for WINDOWS 3.0 can be altered so that positioning is made more clear.

I look forward to discussing this and other topics when we meet on Friday.

Best Regards,

Bill

William H. Gates
Chairman

WHG/sav

Enclosures

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