Microsoft

June 1, 1990

Mr. Lee Reiswig
IBM Corporation
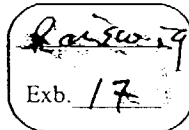Route 100 Building 3
Somers, NY 10589

Dear Lee:

It is unfortunate that the May 22 deadline was not
sufficient to force a conclusion for our global business
negotiations. I hope you are not correct in your prediction
that we will not finish until September, but given that as a
possibility I am worried that our day to day dealings will
get impossibly complex and confusing over the next four
months--both for ourselves and our customers.

Our development organizations are each working on
substantially different 16 bit versions of OS/2 to put into
the marketplace in the next six months. Your goal is to
provide some size and speed improvements and introduce ATM.
Our goal is to provide a single stable 1.2 release so that
we can support Lan Man 2.0. It is our view that shipping a
competitive networking product is the most important factor
in the success of OS/2.

We are also pursuing different 32 bit versions. The primary
goal of your product is to meet a commitment to ship in
1990. It is our view that when 32 bit OS/2 ships it must be
the best product we know how to make because this is the
version which the marketplace will critically evaluate. If
this version is not widely accepted OS/2 will be dead. We
feel the need to provide a convincing family strategy
between Windows and OS/2 so we will provide the ability to
run Windows binaries via Porthole. We will also make the
usability and installability competitive with Windows. So
our product will be richer although a few months later.

If we had distinctly different markets this divergence might
not be disastrous. But there are many areas where our
products will conflict. We have the same ISVs. We are
reviewed by the same press. Users of our OS/2 may want to
run Extended Services. Users of your OS/2 may need our
networking product. The multiplicity of OS/2 versions will
result in mass customer confusion.

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Our developers will also suffer from the confusion. The efficiency of each organization will be reduced to the degree we attempt to help with creation, testing and support of each others products. On a purely practical matter developers are uncertain what code they have rights to ship. The most current definitive contract describing what code is licensed is the Phase II for 1.2. Anything beyond that are derivative works for which we are not cross licensed. We are still exchanging source codes but without a licensing agreement.

I do not disagree that an extended time may be required to get the new business relationship right. But we should not overlook the chaos that we will be living with the next few months. Things were difficult when we were both working on one and the same product. We are now working on four. It is important that we have a plan to contain the damage.

We should reconvene the negotiations as soon as possible. If a Jim/Bill meeting is required we should start making arrangements given their tight schedules.

Sincerely,

Steve Ballmer
Senior Vice President

cc: Jim Cannavino