



400 W. 15th Street, Suite 1200
Austin, TX 78701

August 20, 2010

Karen Robinson
Executive Director
State of Texas Department of Information Resources
300 W. 15th Street, Suite 1300
Austin, TX 78701

Re: Master Services Agreement between the State of Texas, acting by and through the Texas Department of Information Resources (DIR), and International Business Machines Corporation (IBM)

Dear Karen:

I write to address several inaccuracies in your August 16, 2010 letter. To begin with, and as previously communicated, IBM respectfully disagrees with DIR's contention that IBM has breached or otherwise failed to live up to its obligations under the Master Services Agreement (MSA) and thus disagrees that DIR may terminate the MSA for cause. In fact, IBM has repeatedly and consistently gone above and beyond its contractual responsibilities in an effort to overcome DIR's failures to perform its own obligations under the MSA. It is those DIR failures that underlie the alleged breaches you attribute to IBM and are not issues that IBM can "cure."

Similarly, your statement that IBM has somehow left DIR "no course but to pursue procurement" is not accurate. DIR has a number of alternatives, including re-procurement, to move the Data Center Services project forward for the benefit of the State and its citizens. However, fundamental changes in DIR's approach to the project, its commitment to improve its governance of the project and its management of the other agencies involved is critical to yield improved results. These DIR failures and the failure of the agencies to remediate their applications continue to undermine the progress of consolidation and transformation. Moreover, the State has rejected without meaningful discussion every attempt by IBM to discuss viable options to advance service delivery to the State.

Ultimately, should DIR decide to move forward with re-procurement of all or a portion of the services, IBM remains willing to assist DIR in that process. We look forward to continuing the dialogue with DIR on how best to advance this project and maximize the benefits to the citizens of the State.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Cynthia McLean'.

Cynthia McLean
Vice President and Global Project Executive
International Business Machines Corporation

cc: Elizabeth Haltom, Attorney (DIR)