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C.A. NO. H-94-4034

CQ 364920

Compaq/Microsoft Strategic Partnership Proposal

Revised February 2, 1993 ~~January 19, 1993~~

The intent of this proposal is to establish the criteria for recognizing Compaq as a "Strategic OEM" for Microsoft and Microsoft as a "Strategic Software Provider" for Compaq in order to exploit mutual opportunities for our customers and the PC industry. Compaq and Microsoft will work together to define the requirements and capabilities that Compaq customers require and mutually agree on where it is appropriate to build these capabilities into Microsoft systems products in a timely fashion. This proposal is based on a five year agreement that would allow Compaq consistent terms and conditions, secured royalty rates and sustained market advantage for the next five years. Additionally this proposal will describe mutual goals, implementation and expected results for each of the following areas: 1) Sales Cycle Reduction; 2) Cooperative Development Projects; 3) End User Support; 4) Compaq Ownership of Code; 5) Pricing; 6) Update Revenues; and 7) Interim Royalty Incentive.

The position of "Strategic OEM" status within Microsoft will be limited to ~~13 to 15~~ Personal Computer manufacturers. In the spirit of the Compaq/Microsoft relationship, Microsoft is proposing that wherever possible, Microsoft will offer Compaq the first opportunity to participate in potential projects that Microsoft is entertaining and that Compaq will wherever possible, offer Microsoft the first opportunity to participate in potential projects that Compaq is entertaining. Potential projects shall be defined as projects that advance the state of the PC industry, while also meeting the business requirements of Compaq and Microsoft.

The proposed criteria for a the "Strategic OEM" relationship with Microsoft is the following:

- OEM will offer significant joint development projects to MS from time to time (e.g. case of use).
- OEM will provide a significant level of systems software input to MS during new MS product alpha and beta testing.
- OEM must apply resources well beyond the industry norm to the activities and projects contemplated in this proposal.
- OEM will issue a press statement announcing the relationship and will include points on the relationship in press statements from time to time.
- OEM will do active compatibility testing of OEM's products using current Microsoft system products and their enhancements using significantly more tests than the MS HCT's.
- OEM must have dedicated development personnel and at least one dedicated marketing person to work with Microsoft on joint technical and marketing projects respectively.
- OEM must offer Desktop, Server and Portables products.
- OEM must be focused on, committed to, and primarily promote Microsoft software platforms, i.e. MS-DOS, Windows for WorkGroups, Windows, Windows NT, and Pen Extensions, while also meeting the business requirements of OEM.
- OEM should have presence in all major channels of distribution i.e. Direct, Reseller and Mass Market.
- OEM must be a world wide supplier.
- OEM must offer world wide Support and Customer Facilities.
- OEM must ship a significant volume of PCs and Servers on an annual basis.
- OEM must be a committed market maker with brand name recognition.

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CQ 364921

Compaq Proposal - January 19, 1993

The proposed criteria for the "Strategic Software Provider" relationship with Compaq is the following:

- Company must provide both Desktop and Server Software.
- Company must have world wide market locations for distribution and product support.
- Company must have designated development personnel to coordinate OEM's MS related development activities, and at least one dedicated U.S. marketing person to work with Compaq on joint technical and marketing projects respectively.
- Company must have significant brand name recognition and channel strength in both Retail and OEM.
- Company must use OEM's products in development on a periodic basis so as to the press.
- Company must make OEM's products available in its regional and worldwide data center for customer briefings, demonstrations and testing of customer applications.
- Company will issue a press statement announcing the relationship and will include points on the relationship in press statements from time to time.

1. SALES CYCLE REDUCTION

Common Goal:

Reduce the selling cycle for customer hardware/software purchases.

Implementation Commitments:

- Cross train Sales Organizations on each company's products, systems strategies and large account sales strategy, e.g. presentations at each company's national, regional and local sales meetings, where appropriate and disseminate dissemination of sales aids and tools to each other's sales forces on an ongoing basis.
- Cross train Development Teams on an ongoing basis.
- Encourage joint executive sales calls to target strategic accounts and exchange large account sales leads.
- Participation in Solution Provider Event.
- Compaq Solutions at MS Technical Briefing Centers.
- Assign designated Technical and Marketing Program Managers.
- Recognize MS Corporate Account Managers for Compaq NT sales.
- Joint customized customer seminar and marketing events.
- Public Statement re: MS/Compaq relationship to Press.
- Plan utilization of dedicated joint marketing funds to programs.

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	MS	COMPAQ
	Yes	Yes
	Yes	Yes
	Yes	Yes
	Yes	Yes
	Yes	Yes
	Yes	-
	Yes	Yes
	Yes	Yes
	Yes	Yes

Expected Results:

Increased visibility of the MS/Compaq relationship and a clear positioning of the MS/Compaq hardware/software platform as a proven, viable solution fully endorsed, promoted and supported by both companies. The increased sales and marketing cooperation described above is expected to make purchase decisions easier for customers and shorten the time frame for such decisions.

2. COOPERATIVE DEVELOPMENT PROJECTS

Common Goal:

Optimize Microsoft and Compaq technology to deliver innovative solutions to customers and advance the state of the industry.

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Compaq Proposal - January 19, 1993

Implementation:

	<u>MS</u>	<u>COMPAQ</u>
• Formal quarterly review of current and future projects by senior management teams from both companies.	Yes	Yes
• Develop new business model for unique projects.	Yes	Yes
• Wherever possible give each other the first opportunity to engage in potential projects.	Yes	Yes
• Define budget and resources required for project success.	Yes	Yes
• Projects agreed to by highest level responsible company executives.	Yes	Yes
• Establish Compaq as the lead OEM for the Chicago Product. Compaq and Microsoft will be the primary providers of Plug and Play features, elegant client networking solutions and other system optimizations.	Yes	Yes
• Train Compaq's engineers so that they can better design products to efficiently run MS products.	Yes	-
• Public recognition for Compaq and Microsoft contributions.	Yes	Yes

Expected Results:

Increased sales of Compaq hardware and Microsoft software, and increased opportunities for both companies to demonstrate industry leadership. Improved Microsoft and Compaq products.

3. END USER SUPPORT

Common Goal:

Reduce costs associated with supporting end users of MS software/Compaq hardware platforms.

Implementation:

	<u>MS</u>	<u>COMPAQ</u>
• Provide backup support to each other's end user support personnel.	Yes	Yes
• Share relevant support databases and technical support information.	Yes	Yes
• Establish joint escalation procedures for large accounts / significant issues.	Yes	Yes
• Implement ongoing "train the trainer" type product training.	Yes	-
• Extend the MS / Compaq TSA to include Windows / NT	Yes	Yes
• Train and Certify Compaq at no charge as an authorized self-training organization for Windows, Windows for Work Groups, Windows / NT, LAN Manager and SQL Server and their licensed follow-ons to the basic and MCP level.	Yes	Yes
• Provide MCP certification testing on Windows NT for Compaq at no charge. Yes		

Expected Results:

Improved quality and timeliness of end user support to joint customers, and reduced support costs to both Microsoft and Compaq.

4. SOURCE CODE RIGHTS

Common Goal:

Enhance Compaq's ability to create value-add products by providing access to Microsoft source code, while also preserving Compaq's proprietary interest in source code modifications for maintenance and support (i.e., bug fixes that correct errors in existing functionality included in the MS source code provided to Compaq).

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CQ 364923

Compaq Proposal - January 19, 1993

Implementation:

	MS	COMPAQ
• Continue to license Source Code at non-nominal charge.	Yes	-
• Compaq will assign any and all of their bug fixes to MS to include in the next release at no charge; Compaq will have a full license to these bug fixes.	-	Yes
• Compaq will use DLL for product enhancements, and offer that code to MS on a first right of refusal basis.	-	Yes
• MS will protect source code assigned or licensed by Compaq to MS from disclosure to third parties in the same manner as MS protects its own source code.	Yes	-

Expected Results:

Access to Microsoft source code will enable Compaq to develop ancillary value-add products. It will also allow Compaq to develop the custom fixes that its customers require. Maintaining ownership of these enhancements will insure that Compaq has the opportunity for remuneration, should such enhancements be of value to Microsoft. This process should improve subsequent Microsoft product releases.

5. PRICING

Common Goal:

Provide pricing that offers incentives to Compaq to market Windows for WorkGroups and Windows NT (client and application server only) as preferred operating system platforms for Compaq customers.

Implementation of Pricing Model:

Microsoft offers Compaq a per system pricing model. "Per system" means that royalties are due for all Intel based systems shipped by Compaq, excluding specific systems such as diskless workstations, tower systems, LVO's which are a minimum of 1000 new Compaq systems per LVO, government bides and build to order situations (not to exceed 5% of total build to order shipments) where MS products are not in the specifications, load and go systems for configurations purpose only, systems that are not traditional PC architecture and ~~CPUs~~ ~~non-based systems~~. These exclusions will be specified in detail in the final contract. This pricing model offers a single royalty rate encompassing all of the following MS products: MS-DOS v.6.0 with Enhanced Tools, Windows 3.X, Windows for WorkGroups, Pen Windows, Multimedia Extensions to Windows, MSCDEX, Business Audio and Windows NT (client and application server only) and their related follow-ons. ~~Features / applets such as Business Audio are considered to be included in the license and royalties.~~ There will be no minimum quarterly royalty commitment.

Systems or Units Reported per Quarter	Per System * Royalty
375,000 - 625,000	\$32.50
625,000 - 750,000	\$31.75
over 750,000	\$31.00

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* This royalty reduction from the November 20, 1992 Proposal is in consideration of Compaq's engineering contributions.

	MS	COMPAQ
• MS will waive the \$2.50 royalty for MSCDEX on all Compaq systems shipped with a CD-ROM Drive.	Yes	Yes
• Offer all licensed systems products for internal use at no charge.	Yes	Yes

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CQ 364924

Compaq Proposal - January 19, 1993

1 releases of Core Products during term of Master Agreement, etc.) under any agreement entered into after
 2 the execution date of the new MS/Compaq Master Agreement

The Royalty-charged Compaq will be at least 33% less than the royalties charged any non-Strategic OEM at any point in time for a given number of units for MS-DOS with extensions plus Windows, or for Chicago and its follow-ons.

Notes: 1. MS may change the royalty grid offered non-Strategic OEM's at any time. In the event a decrease is offered to a non-Strategic OEM(s) which will impact the above provision, Compaq's royalty will decrease accordingly at the time of the offer.
 2. MS may offer better royalties to any Strategic OEM at any time. In the event that a royalty is offered to a Strategic OEM which is lower than Compaq's royalty, Compaq's royalty obligation will decrease accordingly at the time of the offer.

	MS	COMPAQ
• MS will waive the \$2.50 royalty for MSCDEX on all Compaq systems shipped with a CD-ROM Drive.	Yes	—
• Offer all licensed systems products for Internet use at no charge.	Yes	—
• VoicePilot is included in the above license with royalties at cost.	Yes	—
• All software will either be pre-installed, included in system box, or sold as a complete package with a system.	—	Yes
• MS Reg. Card will be included with all MS products shipped.	—	Yes
• MS will make its best effort to give Compaq all of its Reg. Card data relative to Compaq machines.	Yes	—
• 60 cents from each Compaq system royalty will be put aside for the funding of joint marketing activities. Such activities might include joint seminars, large account marketing, joint product announcements.	Yes	—
• The dedicated Marketing Program Managers for each company will be funded from the royalties which are set aside.	Yes	Yes
• Contract will be in effect from October 1, 1992 until March 31, 1998. Compaq can terminate the agreement on March 31, 1995, March 31, 1996 and March 31, 1997 by giving 180 days prior written notice to Microsoft.	Yes	Yes
• The terms and conditions and royalty rates will be in effect for all future products within the term of this contract e.g. MS-DOS v. X04, Windows v. X04, Windows for Work Groups v. X04 and Windows NT v. X04 and their related follow-ons.	Yes	—
• Compaq will pay royalties to Microsoft monthly. In return for the monthly payments and prompt payment within 45 days of each month end, Compaq will receive a 2% prompt payment discount.	Yes	Yes
• The parties agree to expeditiously negotiate a license agreement for NT, LAN Manager and SQL which provides for keyed licensing from a CD-ROM. The royalty rates will take Compaq's deep and broad commitment to product and market development for Windows NT into consideration, and will have other conditions which are consistent with the spirit of this document.	Yes	Yes

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Expected Results

Compaq will receive very attractive pricing over a long term for current and future system products. The aggressive pricing and joint marketing funding will empower Compaq to aggressively market these products to its customer base.

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CQ 364925

Compaq Proposal - January 19, 1993

- ~~Voice Pilot is included in the above license with royalties at cost.~~ Yes -
- ~~Voice Pilot is included in the above license with royalties at cost.~~ Yes
- All software will either be pre-installed, included in system box, or sold as a complete package with a system. Yes
- MS Reg. Card will be included with all MS products shipped. Yes
- MS will make its best effort to give Compaq all of its Reg. Card data relative to Compaq machines. Yes
- 50 cents from each Compaq system royalty will be put aside for the funding of joint marketing activities. Such activities might include joint seminars, large account marketing, joint product announcements. Yes -
- The dedicated Marketing Program Managers for each company will be funded from the royalties which are set aside. Yes Yes
- Contract will be in effect from October 1, 1992 until March 31, 1998. Compaq can terminate the agreement on March 31, 1995, March 31, 1996 and March 31, 1997 by giving 180 days prior written notice to Microsoft. Yes Yes
- The terms and conditions and royalty rates will be in effect for all future products within the term of this contract e.g. MS-DOS v.XX, Windows v.XX, Windows for WorkGroups v.XX and Windows NT v. XX and their related follow-ons. Yes -
- Compaq will pay royalties to Microsoft monthly. In return for the monthly payments and prompt payment within 15 days of each month end, Compaq will receive a 3% prompt payment discount. Yes Yes
- The parties agree to expeditiously negotiate a license agreement for NT, LAN Manager and SOL which provides for keyed licensing from a CD ROM. The royalty rates will take Compaq's deep and broad commitment to product and market development for Windows NT into consideration, and will have other conditions which are consistent with the spirit of this document. Yes Yes

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Expected Results:

Compaq will receive very attractive pricing over a long term for current and future MS system products. The aggressive pricing and joint marketing funding will empower Compaq to aggressively market these products to its customer base.

6. Most Favored Nations Pricing

- 1 Aggregate royalties charged Compaq for any given number of units for MS-DOS, Enhanced Tools,
- 2 Windows, Windows for Workgroups, Pcn Extensions, Windows NT (client only) and
- 3 successor/replacement products ("Core Products") will be at least 23% less than aggregate royalties for
- 4 Core Products charged any non-Strategic OEM under any agreement with the same terms and conditions
- 5 as described in section 5 of this proposal and entered into after the execution date of the new MS/Compaq
- 6 Master Agreement. Any adjustment to Compaq's royalties based on the foregoing shall be made at the
- 7 time of first shipment of any Core Product by such non-Strategic OEM.
- 8
- 9
- 10 Aggregate royalties charged Compaq for any given number of units of Core Products will be at least as
- 11 favorable as aggregate royalties for Core Products charged to any Strategic OEM which licenses Core
- 12 Products under the same material terms and conditions as those contained in the new MS/Compaq Master
- 13 Agreement (including without limitation absence of minimum commitments, same royalties for future

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CQ 364926

Compaq Proposal - January 19, 1993

76. UPDATE REVENUES**Common Goal:**

Provide an ongoing revenue stream to Compaq for upgrades to the Compaq installed base.

Implementation:

Compaq will have the rights to upgrade Compaq customer systems with upgrade versions of MS Products based on a royalty equal to 20% of the SRP of the Microsoft Upgrade packaged Product

Expected Results:

The above pricing should allow Compaq to establish a strong upgrade business and serve the needs of its customers.

77. INTERIM ROYALTY INCENTIVE**Common Goal:**

Provide incentives to Compaq to aggressively promote and ship Windows for WorkGroups, and reward Compaq for participation in past Microsoft product launches.

Implementation:

Microsoft proposes to replace Agreement #1107-2139 and Agreement #1107-4092 with the new agreement and interim pricing as follows:

October 1, 1992 through December 31, 1992:

Systems with only MS-DOS v.5.0	\$15.00 per system
Systems with MS-DOS v.5.0, Windows v.3.1 or WFW	\$28.00 per system

January 1, 1993 through March 31, 1993:

Systems with MS-DOS v.5.0, Windows v.3.1 or WFW	\$26.00* per system
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* * This additional \$2.00 interim royalty credit is conditional upon Compaq actively shipping MS-DOS 6.0 with Enhanced Utilities and Windows for Workgroups on at least 20% of Compaq's desktop PCs beginning in April 1993.

- The above royalty rates will apply until Compaq could reasonably be expected to be preinstalling both MS-DOS 6.0 and the preinstall kit for Windows for WorkGroups.
- If the new contract is signed on or before March 1, 1993 it will be effective back to October 1, 1992.

Expected Results:

Increased shipments of Windows for WorkGroups and significant savings to Compaq.

PROPOSAL SUMMARY

Microsoft submits this proposal for your consideration for a new Master Contract, Amendments to your existing MS-DOS and Windows Agreements and a new Strategic Partnership Agreement. We are confident that moving forward on these issues will be mutually beneficial to both companies and we look forward to any comments or suggestions you may offer.

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