

Compaq Proposal - January 19, 1993; updates - January 28, 1993

Compaq/Microsoft Strategic Partnership Proposal

January 19, 1993
Revisions January 28, 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 3 to 5 Personal Computer manufacturers. In the spirit of the Compaq/Microsoft relationship, Microsoft is proposing that wherever possible (*Comments, please, Scott*), 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 must offer both-Desktop, Server and Portables products.
- OEM must be focused and committed to Microsoft software platforms ~~and primarily promote and establish industry software standards with Microsoft on the desktop, e.g., i.e. MS-DOS, Windows for Workgroups, Windows, Windows NT, and Pen Extensions, Multimedia Extensions, Video for Windows, etc.,~~ while also meeting the business requirements of Compaq and Microsoft.
- 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 have dedicated designated development personnel and at least one dedicated marketing personnel to work with Microsoft on joint technical and marketing projects respectively.
- OEM must ship a significant volume of PC's and Servers on an annual basis.
- OEM must be a committed market maker with brand name recognition.
- OEM will do active compatibility testing of OEM's products for nonrunning Microsoft system products and their its enhancements using significantly more tests than the MS HCT's.

OEM must develop significant NT specific software.

OEM will issue a press statement announcing the relationship and will include points on the relationship in press statements from time to time.

HIGHLY CONFIDENTIAL

Subject to Protective Orders in *Coordinated Proceedings*
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and *In re Microsoft Corp. Antitrust Litigation*

Compaq Proposal - January 19, 1993; updates - January 28, 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. and marketing personnel 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 i development and periodically state so to the press.
- Company must make OEM's products available in its regional and worldwide data centers 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.

HIGHLY CONFIDENTIAL

Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation

Microsoft/Compaq - Confidential

COMPAQ008896

1. SALES CYCLE REDUCTION

Common Goal:

Reduce the selling cycle for customer hardware/software purchases.

Implementation Commitments:

	<u>MS</u>	<u>COMPAQ</u>
• Cross train Sales Organizations on each company's products, systems strategies and large account sales strategy, e.g. presentations at each company's <u>national, regional and local</u> sales meetings on an ongoing basis.	Yes	Yes
• Cross train Development Teams on an ongoing basis	Yes	Yes
• Encourage joint executive sales calls to target strategic accounts and exchange large account sales leads.	Yes	Yes
• Participation in selected Solution Provider Events.	Yes	Yes
• Compaq Solutions at MS Technical Briefing Centers.	Yes	Yes
• Assign designated Technical and Marketing Program Managers.	Yes	Yes
• Recognize MS Corporate Account Managers for Compaq NT sales.	Yes	-
• Joint customized customer seminar and marketing events.	Yes	Yes
• Public Statement reg. MS/Compaq relationship to Press, etc.	Yes	Yes
• <u>Allocate</u> Dedicated marketing funds to programs.	Yes	<u>Yes</u>

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.

HIGHLY CONFIDENTIAL

Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation

2. COOPERATIVE DEVELOPMENT PROJECTS

Common Goal:

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

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. [Please explain.]	Yes	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.

HIGHLY CONFIDENTIAL

*Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation*

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 <u>relevant</u> support databases and other technical support information.	Yes	Yes
• Establish joint escalation procedures for large accounts / <u>major issues</u> .	Yes	Yes
• Implement ongoing "train the trainer" type product training.	Yes	-
• <u>Extend the MS / Compaq TSA to include Windows / NT</u>	Yes	Yes
• <u>Train and Certify OEM 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</u>	Yes	-
• <u>Provide MCP certification testing for OEM at no charge.</u>	Yes	-
• Train OEM's engineers so that they can better design products to efficiently run MS products.	Yes	-

Expected Results:

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

HIGHLY CONFIDENTIAL

*Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation*

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).

Implementation:

	<u>MS</u>	<u>COMPAQ</u>
• Continue to license MS Source Code at a nominal charge.	Yes	-
• Compaq will <u>assign</u> give any and all of their bug fixes to MS to include in the <u>next</u> release at no charge; <u>Compaq will have a full license.</u>	-	Yes
• Compaq will use DLL for product enhancements, support and maintenance, and offer that code to MS on a first right of refusal basis.	-	Yes
• <u>MS will protect source code assigned or licensed by Compaq to MS from disclosure to third parties as MS protects its own code it chooses to protect from disclosure.</u>	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 fixes will insure that Compaq has the opportunity for remuneration, should such fixes be of value to Microsoft. (7)

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, government bides and build to order situations where MS products are not in the specifications, load and go systems for configurations purpose only, systems that are not traditional PC architecture and Pen 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, and Windows NT (client and application server only), and their respective follow-ons. Features/applets such as Business Audio and Multimedia Extensions for Windows 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

HIGHLY CONFIDENTIAL

Subject to Protective Orders in Coordinated Proceedings Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.) and In re Microsoft Corp. Antitrust Litigation

- * The Per System Royalty charged Strategic OEM's will be at least 23% less than the royalties charged any other 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 will decrease accordingly at the time of the offer.

	<u>MS</u>	<u>COMPAQ</u>
• 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 <u>Compaq internal and employee</u> use at no charge.	Yes	-
• <u>Voice Pilot is included in the above license with royalties at cost.</u>	Yes	-
• All software will either be pre-installed, or included in system box, <u>or sold as a complete package with a system</u> <i>(Lorie, Richard, Dave: Does this obviate the need for a "plain brown wrapper version?)</i>	-	Yes
• MS Reg. Card will be included with all MS products shipped.	-	Yes
• <u>MS will give Compaq all of its Reg Card data relative to Compaq machines</u>	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 and joint product announcements.	Yes	-
• Contract will be in effect for a period of five years. <u>Compaq can terminate the agreement on the second, third and fourth anniversary by giving 90 days prior written notice to Microsoft.</u>	Yes	Yes

Compaq Proposal - January 19, 1993; updates - January 28, 1993

- The terms and conditions and royalty rates will be in effects 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 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. Because of Compaq's deep and broad commitment to product and market development for Windows NT, the agreement will have royalty rates at least as attractive as those in this document and will have terms and conditions which are consistent with the spirit of this document. Yes Yes
- This royalty reduction from the November 20, 1992 Proposal is in consideration of Compaq's engineering contributions.

Expected Result:

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.

HIGHLY CONFIDENTIAL

*Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation*

Microsoft/Compaq - Confidential

COMPAQ008901

6. 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.

7. 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 amend Agreement #1107-2139 and Agreement #1107-4092 as follows:

Phase 1: Contract Effective Date until Compaq is able to ship MS DOS 6 and Windows for WorkGroups

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

- The above royalty rates will apply until Compaq could reasonably be expected to be preinstalling the release of MS-DOS 6.0 and the pre-install fix 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 — and the incentive royalty reduction will expire at the time MS-DOS v.6.0 with Enhanced Tools and a specified interim release of Windows for Workgroups are shipped by Microsoft.

Phase 2. End of Phase 1 until the release of Windows 4.0 (Chicago)

Systems with only MS-DOS v.5.0 \$15.00 per system

Systems with only MS-DOS v.6.0 \$17.00 per system

Systems with MS-DOS v.5.0 and Windows v.3.1 \$28.00 per system

Systems with MS-DOS v.6.0 and WFW and/or NT \$30.00 per system#

This price will be the lesser of \$30.00 and 77% of the best price enjoyed by a non-preferred OEM for rights to MS DOS 6 and Windows 3.X.

Phase 3: End of Phase 2 until expiration of the agreement

The provisions of Section 5. Pricing prevail.

HIGHLY CONFIDENTIAL
Subject to Protective Orders in Coordinated Proceedings
Microsoft I. V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation

Expected Results:

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

Compaq Proposal - January 19, 1993; updates - January 28, 1993

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.

HIGHLY CONFIDENTIAL
Subject to Protective Orders in Coordinated Proceedings
Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation

Microsoft/Compaq - Confidential

COMPAQ008903
