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**PLAINTIFF'S
EXHIBIT**

1536

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JAN 22 1993

PC MARKETING

January 21, 1993

Ms. Lorie Strong
Vice President, PC Division, Portables and Software Marketing
Compaq Computer Corporation
20555 SH 249
Houston, Texas 77070-2698


Dear Lorie;

Attached is the Strategic Partnership Proposal submitted for your consideration. We are confident that this proposal reflects the cooperative spirit and strategic positioning of Compaq and Microsoft.

Please be aware that should Compaq change key elements of this proposal, Microsoft reserves the right to respond by changing key elements as well.

We are ready to move forward as soon as possible, with a new Master Contract and we thank you in advance for your attention regarding this proposal.

Sincerely,



Joachim Kempin
Vice President, OEM Sales

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Microsoft I-V Cases, J.C.C.P. No. 4106 (S.F. Super. Ct.)
and In re Microsoft Corp. Antitrust Litigation*

COMPAQ008939

Microsoft Corporation is an equal opportunity employer.

Compaq/Microsoft Strategic Partnership Proposal

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 3 to 5 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 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. MS-DOS, Windows for Workgroups, Windows, Windows NT, Pen Extensions, Multimedia Extensions, Video for Windows, etc.
- 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 designated development and marketing personnel to work with Microsoft on joint technical and marketing projects.
- 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 testing for new Microsoft system products and its enhancements.

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 and marketing personnel to work with Compaq on joint technical and marketing projects.
- Company must have significant brand name recognition and channel strength in both Retail and OEM.

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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 companies products, systems strategies and large account sales strategy, e.g presentations at each companies sales meetings.	Yes	Yes
• Encourage joint executive sales calls to target strategic accounts and exchange large account sales leads.	Yes	Yes
• Participation in Solution Provider Event.	Yes	Yes
• Compaq Solutions at MS Technical Briefing Centers.	Yes	Yes
• Assign designated Technical and Marketing Program Managers.	Yes	Yes
• Recognize 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
• Dedicated marketing funds.	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.

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
• Public recognition for Compaqs contributions.	Yes	Yes

Expected Results:

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

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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 support databases and other technical support information.	Yes	Yes
• Establish joint escalation procedures for large accounts.	Yes	Yes
• Implement ongoing "train the trainer" type product training.	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).

Implementation:

	<u>MS</u>	<u>COMPAQ</u>
• Continue to license Source Code at a nominal charge.	Yes	-
• Compaq will give any and all of their bug fixes to MS to include in the release at no charge.	-	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

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.

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5. PRICING

Common Goal:

Provide pricing that offers incentives to Compaq to market Windows for Workgroups and Windows NT (client 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 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 for Workgroups and Windows NT (client only). There will be no minimum quarterly royalty commitment.

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

	<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 internal use at no charge.	Yes	-
• All software will either be pre-installed or included in system box.	-	Yes
• MS Reg. Card will be included with all MS products shipped.	-	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.	Yes	Yes
• 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 and Windows NT v. XX.	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.

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 Result:

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:

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 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.

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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