

PLAINTIFF'S EXHIBIT
1557
 Comes v. Microsoft



Facsimile Transmittal

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Total number of pages (including this cover sheet):

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URGENT FOR YOUR REVIEW REPLY ASAP PLEASE COMMENT

NEW MFN LANGUAGE. UPDATED PROPOSAL WITH DISCUSSED CHANGES TO FOLLOW.

MARK

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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

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COMPAQ008932

Compaq Proposal - January 19, 1993

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

	MS	COMPAQ
• Offer all licensed systems products for internal use at no charge.	Yes	-
• Voice Pilot is included in the above license with royalties at MS 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 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 and their related follow-ons.	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 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. MOST FAVORED NATIONS PRICING

NEW LANGUAGE

1 Aggregate royalties charged Compaq for any given number of units for MS-DOS, Enhanced Tools,
2 Windows and Windows for Workgroups and successor/replacement products ("Core Products") will be at
3 least 20% less than aggregate royalties for Core Products charged any non-Strategic OEM under any
4 agreement entered into after the execution date of the new MS/Compaq Master Agreement. Any
5 adjustment to Compaq's royalties based on the foregoing shall be made at the time of first shipment of all
6 Core Products by such non-Strategic OEM. Such adjustments shall continue only for as long as such non-
7 strategic OEM distributes all Core Products.

8
9 Aggregate royalties charged Compaq for any given number of units of Core Products will be at least as
10 favorable as aggregate royalties for Core Products charged to any Strategic OEM which licenses Core
11 Products under the same material terms and conditions as those contained in the new MS/Compaq Master
12 Agreement (including without limitation absence of minimum commitments; same royalties for future

NEW LANGUAGE

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. Any adjustment to Compaq's royalties
- 3 based on the foregoing shall be made at the time of first shipment of all Core Products by such Strategic
- 4 OEM. Such adjustments shall continue only for as long as such strategic OEM distributes all Core
- 5 Products.
- 6

7. 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.

8. 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	\$27.00* per system
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- This additional \$1.00 interim royalty credit is conditional upon Compaq actively shipping MS-DOS 6.0 with Enhanced Utilities on at least 50% of Compaq's desktop PC's beginning in April 1993.
- 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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COMPAQ008934

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 23% 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 internal use at no charge.	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 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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Compaq Proposal - January 19, 1993

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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

*DOS 6.0
Release to Manu
in March
+ WFW fix*

* 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 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.

Expected Results:

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

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