

GO Corporation Confidential

Mar 5, 1994

January 21, 1990

From: Jerry Kaplan

Subject: Hamilton Trip/Status Report

I met with Mike Quinlan and several of his reports January 18, 19 in Boca. He has been assigned as the new negotiator with us.

Mike is a VP and corporate officer reporting to Jim Cannavino at ESD. He is on a special 6-month assignment to develop the multi-media end of their business, and help Cannavino out who is generally short handed right now. I understand that they are chums. Mike is becoming a public figure - speaking at conferences, communicating strategic directions, etc. John Kalb reports to him.

Mike is a very action oriented, senior manager. He expressed and demonstrated great interest in this project. I got the impression it is his top priority right now.

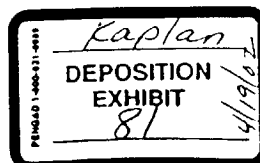
He demonstrated the ability to get his phone calls returned instantly, and cut through red tape. He seemed sharp, and well prepared, but not necessarily that astute or experienced about new technology and its introduction to the market. He comes from the "marketing" end of the business, which was a help in our discussions - we talked at some length about how to incent the Hamilton sales force regarding our product, and how to deal with VARs.

As with each new negotiator, his agenda and understanding of the reasons to work with us are at some angle to the previous negotiators. His goals, as I see them:

1. Show that Ham can work effectively with young, aggressive, talented small companies like us. He is really jazzed about talking us up as an example. (He kept "rehearsing" what he was going to say about this.)
2. Shorten the development cycle and time to market for them. He sees this as one of their key challenges in the future. A part of this is that our design will let them get their own HWX research into the field quicker.
3. Send a message to Microsoft that although they are a valued business partner, they are not the only partners that Ham wants to have. Mike was quite explicit about making us the Microsoft of pen-based computing.

He understands the competitive environment quite well, and seemed to concur in the following goals for us mutually:

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1. Establish a standard pen-based environment around the GO architecture. He agrees that this means licensing widely, and doing so quickly to head off competition, mainly from Microsoft.
2. Make sure that GO is an independent prosperous business. He wants influence, not control. Both so that we can continue as a healthy, non-bureaucratic source of technology and cooperation, and as a neutral outsider for licensing purposes.
3. Serve as our banker, providing our cash needs.

In terms of business arrangements, though by no means final, he:

* prefers loans to equity. He would rather not hold stock if he can avoid it.

* doesn't care where we get our stuff made. In contrast to the last negotiator, we don't have to manufacture with them. In fact, I think a quiet hope was that we would halt making/selling our own box completely.

* wants our hardware strategy to complement theirs (see below).

BUSINESS RELATIONSHIP

He/they have developed the following model of the relationship and our business:

They will provide us with the capital we need. We will stand up together - soon - and try to create a standard environment. They will encourage us to license quickly and widely to lots of other companies. Even before announcement, he wants to help us lobby other hw and sw companies.

During 1990 and possibly early 1991, we will engage in some cooperative, "joint" marketing like the State Farm arrangement, with 5-10 accounts. He will make sure that their marketing organization cooperates, or at least tolerates our working with their large accounts. The purpose is to shake down our system, figure out if this idea really will fly, gain some experience, and prime the pump for some large sales in 1991.

During this time, we will sell directly to the customers. Ham won't get directly involved in the sale, considering this a test market phase. "Pinpoint marketing" or "early ship program (ESP)" in their terminology.

Meanwhile, they will be developing their own "notebook" product, that is derivative of a 386 laptop design they are working on, which they believe they can finish and release by mid-1991. This will be physically similar to our current product, but will share

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some engineering parts and synergy with their other efforts. This is the box that they expect to sell in volume to "their" customers and channels. Code name: Aloha' (Aloha prime).

(Some details: It's a 386SX; it may contain a floppy (big mistake); it may also have a keyboard you can attach and run DOS (I doubt it by the time they get done, this is not a requirement from their standpoint); it is intended primarily to run our software, but is very PC-like in its architecture. Since we are currently running our OS on desktops, I presume this means relatively little in the way of software reengineering on our part.)

In short, they don't intend to sell our product, and will design their own.

We can continue to design, build, and sell our machines, though they seemed to hope that we wouldn't. If we do, they were quite concerned that our machines not compete with theirs directly. (In fact, we have to have a technical review to set some direction in place in coordination with them next week - separate message.)

Longer term, they will want us to port onto OS/2. In order to make their working with us fly internally, they had to position our operating system kernel as a short-term, stopgap measure until OS/2 can be run on miniature machines. They see some serious problems with running our stuff on OS/2. Apparently, they believe that there are facilities in their Extended Edition that are wound up with PM, and that we cannot access if we port on top of OS/2. They see this as a real strategic problem, that we have to solve before they will talk about our stuff "running on desktops". Consistent with this, they were very curious and concerned about our NOT enhancing our OS with advanced capabilities, like sending SQL queries to a server, and god knows what else.

They see our long-term business as centering around system's software, OEMs, applications, components, whatever.

THE MEETING

Present were Mike Quinlan; Tim Dusto, his financial wizard; Ann Riley, John Kalb's assistant (for continuity); Sherry Mead (Sue King's right hand person and liaison for Boca with us). On the second day, Sue King joined us for the afternoon.

I started with an impassioned 2 hour summary of what pen-based computing and notebook computing is all about. This was news to Mike. He had only heard this filtered through their people, and it was the first time he understood why someone might consider buying a machine that wasn't an OS/2 box as well. He seemed impressed, kept talking about how he hadn't understood before this.

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We talked about the competition, particularly Microsoft. We compared notes. Mike made it clear that they didn't want to work with Microsoft on this, partially because we are the "right" choice, and part to send them (and the world) a message.

They (HAM) are also evaluating the Linus patent, and may consider buying it.

We talked about the history of our relationship with them.

We talked about potential customers, where we stood.

We talked about software houses. I gave him a review of our status. The ESD people were very distressed to hear that we thought that sw houses should start development now. (What did they think we were doing!)

I pointed out the need for disclosure to both of these groups.

Mike drafted a brief statement of what we might want to tell people at this point. He was surprised to learn that we weren't telling people even about our current relationship with them. During the 2 days, he checked with Len Andrew, chief ESD counsel, who approved the statement. After our meetings next week (see below), I expect we can start using it.

Mike wanted to go public as soon as possible, like before our announcement. This took me by surprise, and I discouraged him. I thought that back room disclosure was adequate at this time. ~~He thinks that Cannavino plans to tell Bill Gates about this at a meeting taking place around 2/15. I cautioned Mike on Bill's reaction.~~

We reviewed portions of their (ESD's) product plans, at Mike's insistence and to the great discomfort of the ESD folks. There is clearly a major internal war taking place with the OS/2 group. The result is that ESD Boca will tolerate an agreement with us only if (a) they believe we will ultimately migrate to OS/2 and (b) we aren't planning to build any "high end" versions of our product that will compete with theirs.

Mike wants ESD to show us their plans in technical detail, and get basic agreement that (a) and (b) are met, before he will close a deal with us. (Just another ridiculous hoop to jump through.)

There was a long discussion about cost and pricing. I explained that Lexington was less than forthcoming with their assumptions. Tim is assigned to ferreting out the truth early next week, figuring out whether ours (and/or their future) box can be made at a reasonable price, and proposing a basic business model for them (and us!) during 1990, and 1991.

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We talked at length about pricing. They were very impressed with the Helene Curtis situation, where they accepted premium pricing. We did a lot of calculations about discounts to VARs, etc. They offered to advise us on this, and I learned a lot about their distribution strategy.

Tim was put in charge of figuring out how much cash we are likely to need in 1990.

We spent a considerable time updating them on the due diligence materials in preparation for financing. (I had brought a pile of stuff with, including a pro-forma financial 90-91 (attached).)

The last several hours were spent beating me up about how we have to provide State Farm with support (separate memo), how we will never make our schedules, how we don't have an adequate test plan, how we should never release our product to developers until we are sure about everything, how we don't have enough meetings, schedules, checkpoints, and product reviews. They generously offered to take up lots of our time on these points, and I resisted.

A tension throughout this was their "go slow, be sure you have the right product, work only with a few customers, leave a lot of test time" attitude, vs the typical startup action-oriented approach that we are following. I finally pointed this out explicitly, which Mike accepted. I said that their approach only makes sense if you have enough time and money, and that we had neither. In fact, that it was just this attitude that they were trying to buy into, that gets products into the marketplace fast. Their heartburn is what they are signing up to in working with us.

TIMETABLE and WORKPLAN

Mike recognizes the urgency at this point, both as an anticompetitive tool, to allow us to do internal planning, and to allow us to survive financially.

The time table is for them to hopefully make a specific financial proposal to us at the Dyson conference. I have meetings set up with Mike there Sat and Sun.

There is some kind of a meeting with "financial guys" mid this week, where Tim's results are to be discussed and blessed.

He wants to commit financing by the end of the month, and have a comprehensive agreement by the end of Feb. I think this is OK, particularly if we can start using their clout before then.

He wants to keep the agreements simple.

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OTHER DETAILS:

They don't think they can sell our box even if they wanted to. It would take them 18 months to get it through their QA. It will take them less time to get their own product designed and out.

For those who remember him, Jim Claggett is no longer assigned to this project.

Mike said that they could likely deliver Toshiba to us, and the way is through IBM Japan. He spent 2 years there recently, and as soon as he is comfortable, he will make a call with us.

Mike is contacting the Helene Curtis account team, to alert them that he is going to call them this week at our request (to get the business away from Grid.)

I want to flag a problem for discussion: If they aren't selling our product, and are announcing or hinting at theirs, we may never be able to sell enough of ours to stay in business. Should we continue on our current path, making the transition from a product seller to a licensing company will be difficult. There is likely to be some inefficiency and lack of focus here. Perhaps another partner can help us out with this???

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