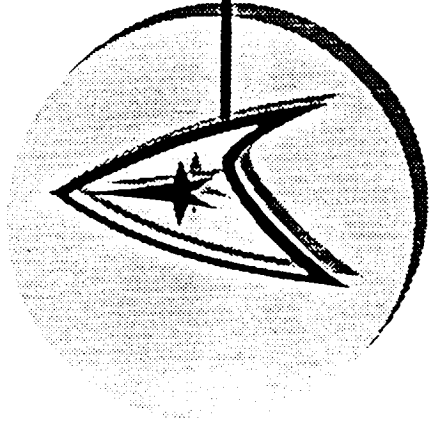


Microsoft Meeting Preparation

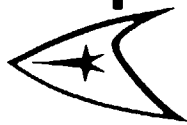


**Portable and Software Marketing
PC Division**

Compaq Confidential
Need to Know
1/13/93

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

COMPAQ008059



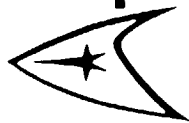
Overview

- Strategic alternatives
- What is at risk?
- How can Microsoft negatively impact our core business?
- Choosing Microsoft does not guarantee success
- What we believe Microsoft wants
- What we want from Microsoft
 - Our interests
 - PDA position
 - Relationship position
- Summary

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*

COMPAQ008060



Strategic Alternatives

Mid 1990s

H/W leadership +
S/W development +
Resources

Today

Compaq

Differentiated products
H/W and S/W
New software revenue stream
Market/Industry leadership

Differentiated products
H/W only
OEM leadership (vs. Industry)
S/W revenue upgrade business
potential

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*

COMPAQ008061



What is at risk?

- What really are the risks of using alternative operating systems in parts of our business?
- Where are we today?
 - Microsoft does not value or give credit for our software and testing efforts
 - Microsoft does not really want us developing software
 - Our field efforts are loosely coupled
 - We have had access to source code (DOS, OS/2, Windows)
 - We have had some early information on Microsoft direction
 - On average, we have not received advantageous pricing or time to market advantage

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*

COMPAQ008062

How can Microsoft negatively impact our core business?



Project/Area	Possible Impact
DOS, Windows, PenWindows	DOS 6 availability, price, timing
PDA OS	Impede desktop integration
Windows/NT	Price, timing, field sales
Windows for Workgroups vs. NetWare Lite	Price
Peripherals (printers)	Windows printer, driver certification
Ease of use	Timing, access to information, leadership position
Chicago	Access to information, timing, price
Mobile Windows	Access to information, timing, price

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*

COMPAQ008063



Potential Reactions to GO PDA Decision

- Sabotage our efforts to integrate PDA with the desktop (desktop integration)
- How?
 - Chicago would break our desktop integration design and implementation
 - Microsoft would withhold Chicago information and SDK
 - Industry compatibility demands should restrict extent of breakage
- Impact
 - We would have to fix our desktop integration functions
 - Existing example: Novell's DR DOS
- Risk is manageable

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*

COMPAQ008064



Potential Reaction for Ease of Use

- Ease of use (plug 'n' play) to be a major focus of Chicago in 1Q94
- Microsoft plan
 - Working on specification now
 - First mention to public at March hardware OEM briefing
 - Considered to be an IHV/OEM issue only
 - Limited number of companies involved until about June '93, then begin courting IHVs and OEMs
 - Draft of "rules of engagement" with Compaq being withheld until relationship issues are clarified (per Carl Stork on 1/11/93)
- Risks
 - Compaq ability to differentiate in this area
 - Access to relevant information and Chicago implementation
 - Our ideas flow into the industry at large

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*

COMPAQ008065



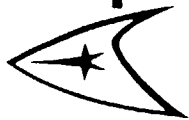
Judgment: How retaliatory would they get?

- Pricing advantage
- Revenue from updates
- Access to early SDKs
- Field sales activities (Microsoft has ~900 field sales people)
- Support and training
- Inclusion in advertising
- Tone toward Compaq in press and with customers
- Selection and elevation of other OEMs as leaders
- Make integration relations even more strained than they are today
- Access to source code, modification ownership
- Microsoft directional information and plans
- Customers

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*

COMPAQ008066



Selecting Microsoft is not a guarantee

- Cases where Microsoft has not been successful
 - OS/2
 - Lan Manager
 - PostScript printer business
- Cases where Microsoft has been successful despite starting late
 - Word
 - Excel
- Analysis: Microsoft has had great difficulty attacking entrenched competitors, except:
 - When they have been able to change the rules
 - Or, create a significant market discontinuity

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*

COMPAQ008067



What we think Microsoft wants from Compaq

- Compaq stops doing operating system software development
- Compaq stops doing operating system value add (testing, bug fixes, utilities that are OS enhancements)
- Microsoft is the sole operating system vendor for Compaq desktops and portables
- Compaq pushes all Microsoft systems products
 - Pre-installation
 - Marketing messages that Microsoft is the best choice
 - Use our volume to move the market in their direction

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*

COMPAQ008068



Compaq interests

- We want Microsoft to stop helping our competitors
 - Microsoft preferential treatment when we invest our resources
 - Intellectual property protection
- We want to be able to differentiate our products via software
- We want legitimate pricing, based on volume, with no minimum commitment
 - Consistent with industry trends (declining technology pricing)
 - More reward for volume
 - Less reward for absolute commitment
- We want a balanced relationship
 - We can't do everything Microsoft wants
 - We can't be monogamous unless they are willing to do so

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*

COMPAQ008069



Our recommended PDA position

Option 1

- Compaq and Microsoft jointly define and solely implement the new WinPad APIs to support Compaq's CDK on an ongoing basis
- Compaq receives the greater of 9 months or to the next release time in market exclusivity
- Compaq participates in the revenue stream when the CDK is distributed to the industry by Microsoft
- Microsoft sells WinPad only through OEMs
- Compaq's license fee to be 10% below any other OEM as long as its unit volume is in the "top two"

Option 2

- Create a new PDA company to share equally in the development of the PDA market

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*

COMPAQ008070



Our recommended relationship position

- Ready access to Microsoft executives by Doug, Gary and David**
- Licensing**
 - Terms and conditions similar to the recent proposal with a royalty of \$28 for DOS 6, Windows 3.1, Windows for Workgroups and Windows/NT
 - We will agree not to ship DR DOS pre-installed
- Fair treatment from MSKK, particularly with regard to NEC**
- Balanced relationship**
 - Recognition that Compaq CAN add value
 - Due credit for that value
 - Recognition that we can commit to do something, but it is very hard to accept exclusions (litmus test)
 - We reserve the right to maintain a relationship with Novell

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*

COMPAQ008071



Summary

- We have two strategic alternatives**
 - Differentiation through both hardware and software (requires resources).
 - Differentiation through hardware only
- How much we really have at stake is debatable**
 - There are opportunities for Microsoft to impact our core business
 - There are opportunities for Microsoft to sabotage our PDA efforts over time
- What we want from Microsoft**
 - Our interests
 - PDA position
 - Relationship position

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*

COMPAQ008072