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MS Strategic Partner Agreement

Key Issues:

1. On going business relationship and how to get it on track
2. Strategic Partnership agreement - pricing, sell cycle reduction, source code rights, upgrades, value for our contributions
3. Working together on Ease of Use (Plug and Play) which they will first deliver in Chicago (1Q94)
4. Client networking (bundling of Windows for Workgroups vs. NetWare Lite) *S. J. S. Ferrer*
5. PDA OS (MS WinPad or GO)
6. Windows 3.1J availability for our customers at same time as NEC customers

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WHAT DO WE WANT?

In general:

1. Mutually commit to more executive time availability *when*
2. Agree that we are going to disagree on some things, and that each item is not a relationship breaker *when*
3. Pricing (and other terms and conditions) consistent with the industry trends

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Telcon 1/18 with Joachim Kempin

- Confirmed scope of agreement
 - DOS, Windows, Windows NT, Plug & Play, Chicago
 - Not PDA
- Provided input on each portion of agreement
- Specifically discussed pricing
 - Asked for \$21 for DOS, Windows, WFW, Windows NT
 - Rationale:
 - 25% below today's best prices
 - Covers our development and marketing efforts
 - Consistent with component cost trends
 - Appropriate for higher volumes

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MS Strategic Partner Agreement

Windows 3.1 DOS 5 and 6	Windows 3.1 DOS 5 and 6 WFW and Win/NT (client)
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Today's price 31 Not Applicable

Current written offer 35 35

Verbal 29.50 31

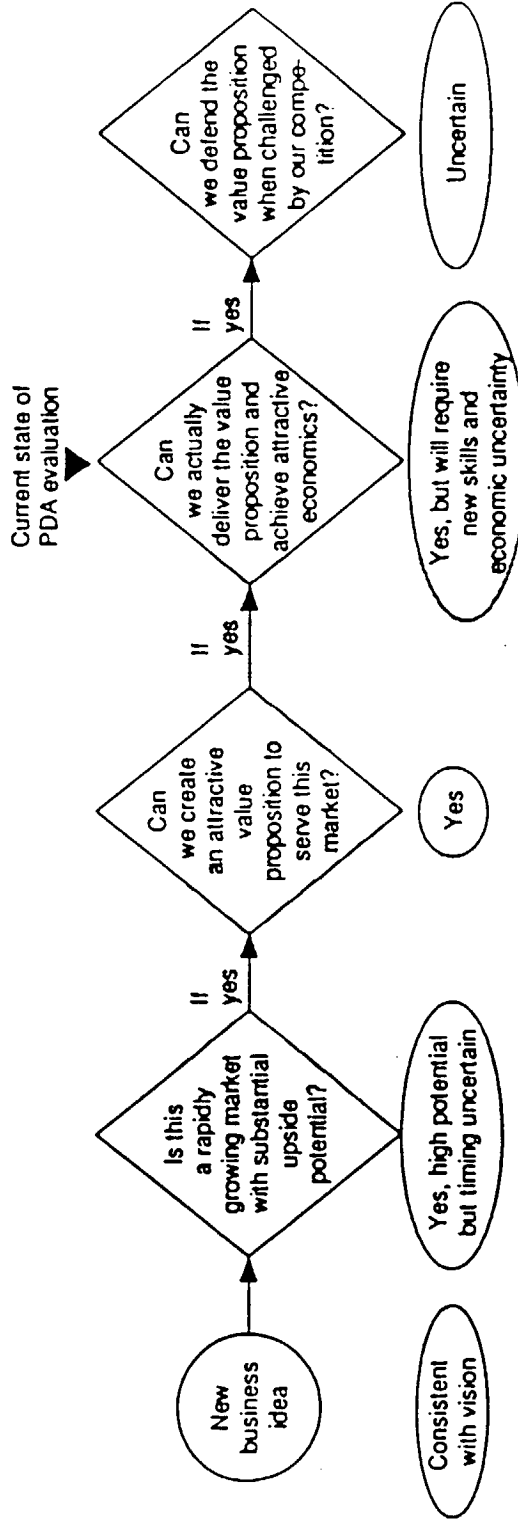
Compaq goal 21 21

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SUMMARY OF PDA MARKET OPPORTUNITY



Leverage Compaq's market power and technological expertise in portable PCs to take advantage of a fundamental change in industry structure- the merging of PC, telecom, and consumer electronics

- Form partnerships that leverage strong players and avoid being overly leveraged by others
- Price the unit aggressively to achieve high volume and maximum capacity utilization

PDA's will become a sizeable market in the 1995-96 timeframe, provided technology and standards barriers continue to fall

- Fulfills a strong unmet need among mobile information workers
- Technologies/standards are not yet at a state that will enable rapid market penetration
- Barriers are easing and will continue to fall, enabling a potential worldwide market of \$2.1 billion by 1996

The target market of traveling executives, managers, and professionals has a clear, unmet need. A Compaq PDA could meet this need by providing convenient superior access to, and synchronization of, information while away from the office

- The Compaq PDA could provide a differentiated kernel of resident functionality
- Electronic cache manager (pack, unpack, synchronize)
- Image CVI engine (lead to Inkmail "killer AP")
- PC remote control (virtual desktop)

Delivering the proposed value proposition successfully will require many new skills and removal of several key supply barriers

- To achieve the value proposition, Compaq must form a strong network of PDA alliances and manage that network effectively

Several strong competitors are already vying to take a leadership position in the emerging PDA market - many with a significant leadtime jump over Compaq

INITIAL SCREENING RECOMMENDATION

Sound concept and attractive value proposition. Proceed with evaluation, focusing on:

- Skill acquisition strategy
- Preliminary economic assessment
- Business plan vis-a-vis competitors

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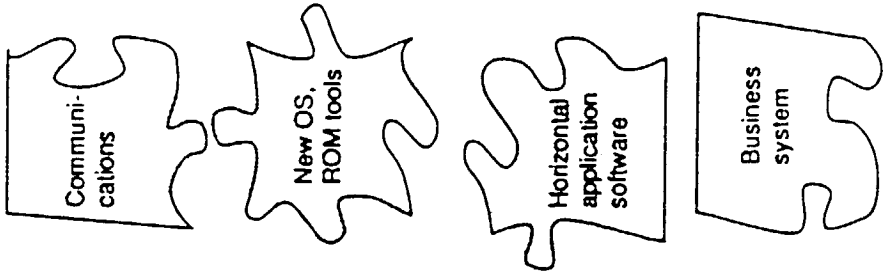
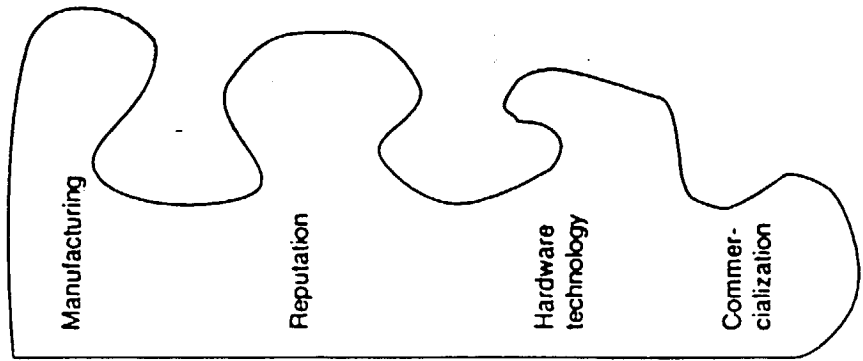
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In fact, to deliver the proposed value proposition, Compaq will need many new skills that are currently not available inhouse.

REQUIRED PDA SKILLS CURRENTLY NOT AVAILABLE AT COMPAQ

COMPAQ TODAY



MISSING SKILLS/RESOURCES

- E-mail systems and Gateway Development expertise
- Network server asynchronous access architectures
- Desktop remote access software systems
- Voicemail, digital PBX expertise

- Groupware/data base engines for cache manager
- Handwriting recognition engines
- ROM-based OS, apps architecture
- User interface modification/development

- Windows API development expertise
- Pen-centric applications development
- Image capture/processing systems
- Windows/DOS apps import/export expertise

- Advanced packaging, integration, minaturization techniques
- Test methods for high-volume, non-DOS, preloaded devices
- Application software development project management
- Software partnership/coalition management

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Source: PC Division (portable and software marketing); New Business Team

cpm002nov229 rm

Summary

The Chase Definition Team has been established with the charter of delivering a complete Chase product definition within the next 90 days. As Chase represents a variety of new challenges vis a vis "business as usual" this document will specify the team mission statement, action plan and expected deliverables during this definition phase. Absolute "drop-dead" completion date for this team is March 1, 1993.

Mission Statement

Our mission is to deliver by March 1, 1993, comprehensive marketing, software, electrical, mechanical, communications and business plans suitable for completing the development and shipment of the first Chase product by 1Q94.

Team Action Plan

The Chase Definition Team will be divided into four sub-teams with specific responsibilities for the above deliverables. The four sub teams are: Hardware (HW), Software (SW), Marketing (MKT), and Skills Aquisition and Business Relationships (SABR). These four sub-teams will meet as often as necessary to provide the deliverables described in the following sections. In addition, a core team will meet each week on Mondays 10-12 to insure that all sub-teams are on track.

Sub-Team Members

HW	SW	MKT	SABR
Larry Crochet *	Caldwell Crosswy *	Ted Clark *	Steve Malisewski * +
Rob Nixon *	Tim Eckerman	Eric Shuster	Scott Johnson *
Randy Cooper *	Jeff Galloway		Dave Cabello *
James Edwards	Mark Luna		Steve Flannigan
Paul Nagel	Loren Dunn		Bob Jackson
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Steve Goodrich	Jeri Gerber	Jann Kishbaugh	McKinsey
	Dave Hocker	Peter Adams	Gary Craze
		Annette Mosgovoy	
		Andrew Clark	

- * Core Team
- + Chase Team Leader

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Deliverables

The output of the Chase Definition Team will provide all necessary details for a Compaq development team, as well as any designated business partners, to complete the Chase program for product shipment in 1Q94. The team has identified a need to provide documentation and information in the following eighteen areas. Ownership of each deliverable is also indicated.

- ASSUMPTIONS, DECISIONS, AND RATIONALE ALL
- PRODUCT DEFINITION MKT
- PROJECT PLAN MKT
- COMPAQ RESOURCE REQUIREMENTS ALL
- DEVELOPMENT SCHEDULE / MILESTONES ALL
- FINANCIAL ANALYSIS MKT
- TECHNOLOGY REQUIREMENTS AND EVALUATIONS HW, SW
- SKILLS ASSESSMENT SABR
- BUSINESS RELATIONSHIPS SABR, MKT
- MARKET RESEARCH PLAN MKT
- HUMAN FACTORS PLAN MKT
- INTERNATIONALIZATION PLAN MKT
- ID AND CONCEPT MODELS HW, MKT
- SOFTWARE SPECIFICATION SW, MKT
- ELECTRICAL SPECIFICATION HW
- COMMUNICATIONS SPECIFICATION HW, MKT
- MECHANICAL SPECIFICATION HW
- RISK AND AREAS OF CONCERN ALL
- *Service + Support* ALL

Each deliverable is described in more detail in the sub-sections which follow. Refer to the flow diagram on page 9 for a view of how these pieces fit together.

ASSUMPTIONS, DECISIONS AND RATIONALE

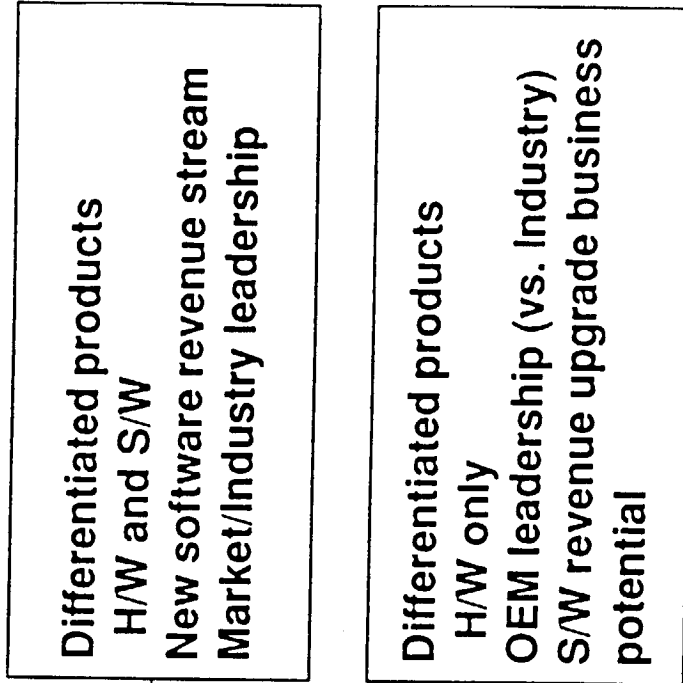
Deliverable: ALL

Each team should continually update a List of Assumptions, Decisions and Rationale (LADR). The LADR should be provided to each core team representative for review every week at the core team meeting. It is imperative that any and every assumption and decision made by sub-teams be captured and reviewed. Rationale should be concise and to the point. Supporting documentation, if required, should be available from each team. Updating this list should be the first and last action of all team meetings. Our goal is such that, when complete, we will have constructed a LADR of decisions upon which any interested party could climb to reach the same conclusions.



Strategic Alternatives

Mid 1990s



Today

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**Alternative Approach
Minimum Software Investment
Maximum Hardware Differentiation
And Marketing**

Hardware Differentiation

- Convenient, easy-to-use design
- Appealing style and ergonomics
- Size, weight, ruggedness
- Performance
- Very useable and viewable display
- Comfortable ink capture
- Storage capacity
- Expansion base

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Software Leveraging Strategy

MS WinPad or GO Pen Point

- Plan to work with ISV's
- Will have a set of basic applications

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PDA OS Requirements from MS

1. Jointly define WinPad API's to support Compaq CDK
(CDK = Compaq Differentiation Kit)
 - Time to market: Market exclusivity for six months in the U.S., Canada and Europe from the time of their finished software release
 - We want: We want six real months in the market
3. Pricing
 - Current proposal: MS guarantee Compaq best price (\$30), for two years, with substantial volume commit, 5% below any other OEM
 - We want: Pricing in competitive range with GO and in line with our cost goal
Best price 20% below other OEM's in first year, 10% following year

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PDA OS Requirements from MS (cont)

4. Revenue from after-market sales

Current proposal: Compaq license price the lower of:

- A) 20% of the upgrade SRP, or
- B) 40% of the original Compaq license fee

Plus, for upgrades MS sells:

- A) 20% of the end-user license fee, based on receipt of the registration card

We want: A) License price to us as above

Only OEM's sell upgrades

- or B) If MS sells upgrades, 20% of the end-user license fee based on owner registration cards %, projected to their entire volume

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PDA OS Requirements from MS (cont)

5. Compaq and Microsoft to jointly define and Microsoft to solely implement new WinPad API's to support Compaq's CDK on an ongoing basis

Ownership of patents:

1. Inventions conceived in connection with Compaq's and Microsoft's joint definition, Microsoft and Compaq to joint own invention
2. Inventions conceived in connection with Microsoft's IMPLEMENTATION of new WinPad API's, Microsoft to own inventions irrespective of where conception arises
3. Inventions conceived in connection with Microsoft's IMPLEMENTATION of Compaq's CDK , Compaq to own inventions irrespective of where conception arises

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PDA OS Requirements from MS (cont)

6. Differentiation:

Current proposal: MS has proposed several areas where they would help support our differentiation (e.g., communications, docking station)

We want: Need to better define, but should be a plus

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