

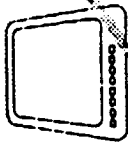
PDA Operating System Selection

Portable and Software Marketing
PC Division

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Need to Know

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Overview

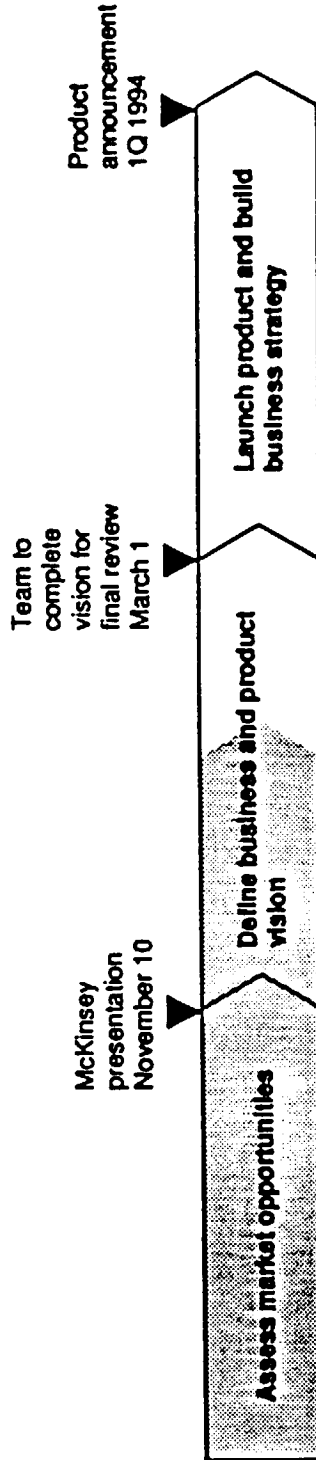
- Process for launching PDA business
- Chronology of events and future milestones
- Recommended PDA O/S vendor
- Executive Summary
 - Potential for market leadership, risks are acceptable, criteria for evaluation, evaluation of risk and return, outstanding issues
- Compaq commitment
- Summary
- Backup
 - Microsoft and GO Proposal summary
 - Summary of PDA market opportunity from 11/10 McKinsey presentation
 - PDA relative expected results
 - Market forecasts for PDA hardware and software
 - Technical assessment
 - Product functionality, early market entry, WinPad and Amstel architecture, resource assumptions
 - Microsoft and GO risks and rewards
 - Alternative Approaches

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PROCESS FOR LAUNCHING PDA BUSINESS

Today's focus



DELIVERABLES

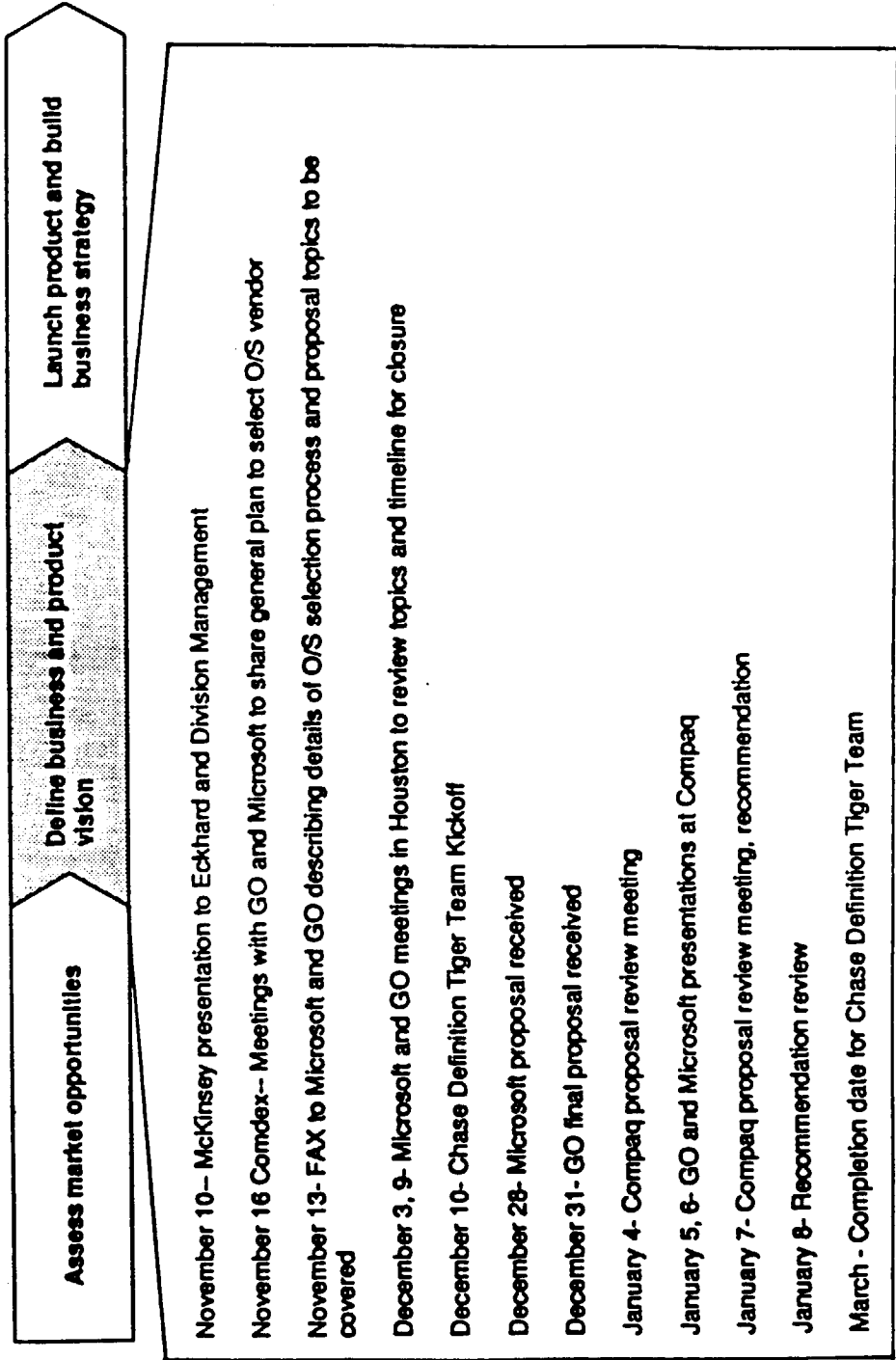
- Develop proposal process for selection of O/S vendor
- Choose O/S vendor
- Choose microprocessor

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**CHRONOLOGY OF EVENTS
AND FUTURE MILESTONES**



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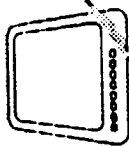
Recommended OS Vendor

- Industry News Flash
 - Compaq selects GO's PenPoint operating system for its Chase PDA
- Some months later...
- Industry Headline
 - Compaq announces its industry leading Personal Digital Assistant, the Chase PDA. Chase is the perfect companion for today's business professional. It is loaded with unique features that make Chase stand out from all of today's competitive products. Chase is based on GO's PenPoint, a state of the art, object oriented operating system.

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Executive Summary

- GO offers Compaq the best opportunity to dominate the PDA market at an acceptable level of risk
 - The potential for Compaq to take a position of sustained market leadership with GO far exceeds opportunities with Microsoft
 - Risks associated with a non-Microsoft decision while significant can be mitigated and should be more than compensated by the potential benefits
 - And as an emerging market with uncertainty, PDAs represent the most attractive opportunity over the new few years to expand Compaq's business beyond hardware and break-out of the Microsoft architectural prison
 - GO solution appears to better meet user needs as we can see them (MS not invincible)

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Potential for Market Leadership

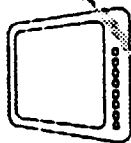
The potential for Compaq to take a position of market leadership with GO far exceeds opportunities with Microsoft

- A. GO would provide Compaq with significantly greater sustained differentiation potential that would translate into greater market share and higher margins
- B. With sufficient Compaq commitment, a GO/Compaq relationship would provide greater product functionality to the customer resulting in faster market adoption and greater market share
- C. Compaq could generate significantly potentially greater non-hardware business with GO than with Microsoft
- D. Finally, Compaq's ability to work better with GO on a daily basis should help Compaq achieve its goals more quickly and effectively

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Risks are Acceptable

Risks associated with a non-Microsoft decision while significant can be mitigated and should be more than compensated by the potential benefits

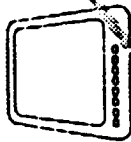
- A. Market acceptance of a GO/Compaq combination although less certain than Microsoft acceptance, could be ensured as a result of a number of factors
- Friction between ISVs and Microsoft
 - Zero applications for Microsoft migrate to the PDA
 - With significant investment, Compaq could help a critical mass of GO applications
- B. Although a GO decision might negatively impact Compaq's relationship with Microsoft in other areas, long term cost to Compaq should not be prohibitive
- Microsoft less focused on a PDA O/S
 - Alternate O/S provider could actually help our position with Microsoft
- C. Attempts by Microsoft to sabotage Compaq/GO integration to the desktop is likely
- D. Additional resources (investment and unit cost) are likely to be higher with GO but potential benefits from higher revenues and gross margins should outweigh these costs
- E. Although Microsoft could compete against Compaq/GO with other vendors (e.g., HP, AST, DEC, Dell) Compaq's greater product functionality and sustained differentiation should win in the long run
- F. GO has enough financial backing to survive for the next 2-3 years and with Compaq support should become self-sufficient by 1994
- G. Finally, a GO decision provides a "fall-back" option as long as X86 is the chosen microprocessor, while a Microsoft decision eliminates any near term options with GO

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Criteria Evaluation for PDA O/S Providers

CRITERIA	Weighting	Microsoft	GO
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RETURN

- Sustainable differentiation potential	10	2	4
- Early market entry	8	3	3
- Product functionality	7	3	4
- Non-hardware business potential	5	2	5
- Organizational fit	3	<u>2</u>	<u>4</u>
- Total		77	129

RISK

- Market acceptance	10	2	4
- Impact on relationship in core business	7	1	3
- Competitive threat	5	2	4
- Desktop Integration threat	4	1	3
- Investment/unit cost risk	3	2	3
- Hardware OEM	2	1	2
- Company viability	2	<u>1</u>	<u>3</u>
- Total		50	101

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GO Expected Business Scenarios

Preliminary

1997 Assumptions

	GO Realistic /Hardnosed	Aggressive/ Optimistic		GO Heroic
		GO	Microsoft	
PDA Hardware Market - \$Millions	\$2700	\$2700	\$2700	\$2700
PDA Software Market - \$Millions	\$2025	\$2025	\$2025	\$2025
Compaq HW Market Share	15%	25%	15%	30%
Compaq SW Market Share	1%	5%	0%	7%
Hardware Gross Margin	20%	23%	20%	25%
Software Gross Margin	50%	75%	75%	75%
Total '93-'97 Investment O/S Decision - \$Millions	\$43	\$23	\$10	\$23

1997 Results

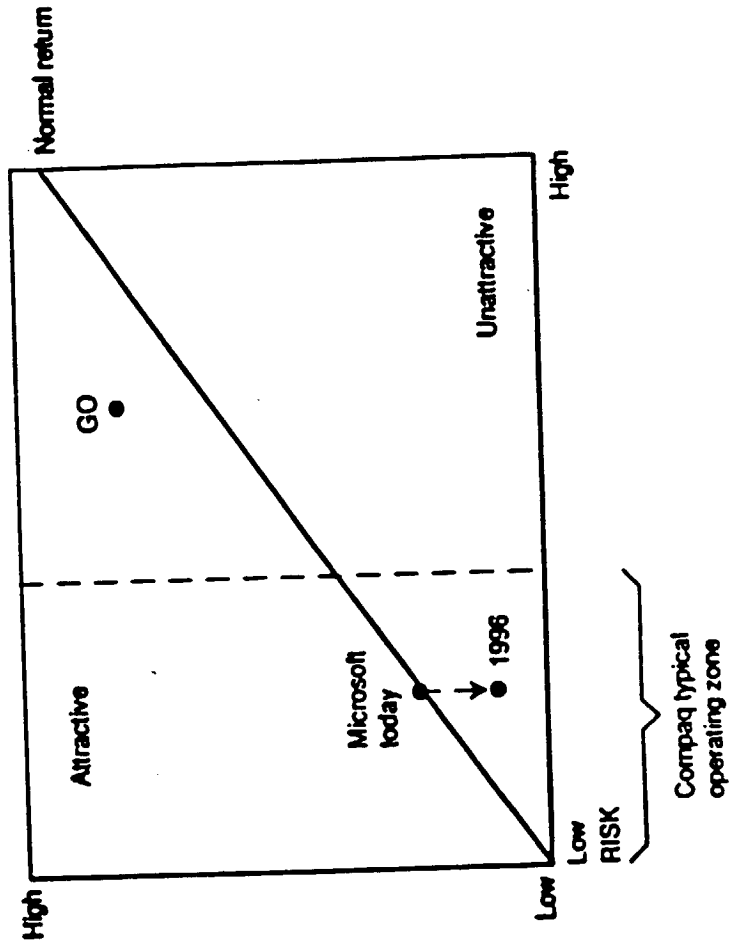
Compaq Total Revenue - \$Millions	\$385	\$709	\$365	\$871
Compaq SW Revenue - \$Millions	\$20	\$101	\$0	\$142
Compaq Total Gross Margin - \$Millions	\$94	\$216	\$73	\$289
1993 NPV - \$Millions	\$56	\$263	\$86	\$377

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EVALUATION OF RISK/RETURN TRADEOFF

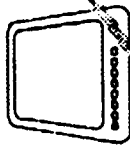


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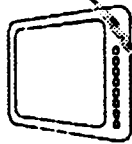


Outstanding Issues

- Do the benefits outweigh the risks?
 - Sustained Differentiation
 - Initial product functionality
 - Competition to Microsoft (customers and ISVs)
 - Opportunity for software revenue
 - Technical Leadership
- Can we execute?
 - Generate application support
 - Deliver on product vision
- How much additional non-hardware revenue is possible/realistic?
- Is this the best use of resources
 - Market adoption
 - Microsoft retaliation
 - Microsoft sabotage
 - ISV response

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Compaq Commitment

- Human resources
- Marketing funds to compete with MS and their WinPad OEMs
- GO/ISV Investment
- Geographic divisions mind share

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Summary

- Choice: GO's PenPoint
- High rewards merit risk
 - Key risks
 - Market acceptance and competition with MS and their OEMs
 - Investment level
 - Key rewards
 - Sustainable differentiation
 - Market leadership in new product segment
 - Software business entry
- We are at a unique point in time where the future rewards are worth the apparent risks

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