



DIGITAL EQUIPMENT CORPORATION

Russell A. Gullotti
Vice President

Merrimack, New Hampshire
03050-4303

February 12, 1993

Mr. Bob Puette
President,
Apple USA
900 E. Hamilton Avenue, MS:73BP
Campbell, CA 95008

Dear Bob:

I very much enjoyed meeting you and Mike Yam. There is real opportunity for both of us as we move the reseller agreement forward. I will be involved in monitoring the progress of the program and communicating with you on our perspective of the program results.

As a first checkpoint on the program, I would like to review the program with you in the May/June 1993 timeframe. As appropriate, we may also use that meeting to connect our 2 staffs on Apple/Digital industry collaboration. My staff will be fully in place then, and we should have a better idea of where our joint market opportunities exist.

In addition, I will be following up on your comments regarding our customers' reactions to the evolution of the Pathworks for Macintosh product.

Thank you for taking the time to meet with me. I enjoyed my visit with you and, to say the least, I was pleased to see my old friend Ken Ratcliffe again.

Sincerely,

Russ Gullotti
Vice President, U.S. Area

cc: Mike Yam
Ed Hanford

pl
Digital - Apple Reseller Summary

digital

From: Tom W Austin
2 Feb 93

Digital's goals in reselling Apple products are:

- Meet customer requirements for products related to systems solutions;
- Increase revenue and profit for the corporation at minimal cost;
- Ability to quote, sell and invoice Apple products as easily as other Digital products.

Our overall goal is to accommodate customer needs, not to actively promote and generate demand for Apple products.

Apple's goals in reselling products through Digital are:

- Respond to customer demand;
- Capture opportunities for incremental sales.

Targeted customers are Digital's top 200 accounts. We see two major reasons why customers will buy Apple products from Digital:

- Single vendor solution and,
- Extensive corporate support available worldwide.

Digital will not market nor actively sell to education and government accounts. Sales to our targeted customers will be achieved through direct sales representatives. Order validation and fulfillment for Apple products will be managed similarly to other Digital products.

Fulfillment of customer orders will be through an authorized Apple reseller. Digital's sourcing of product through an Apple reseller is based upon Apple's channel strategy and Digital's need to control costs and minimize any additional overhead investment.

Computerland has been selected by Digital as **the supplier and integrator** of Apple and Apple related third party products throughout the United States Area. The use of a reseller will be transparent to Digital customers. **Digital will not inventory nor manage any products**, but rely upon Computerland for this function.

Computerland will be primarily responsible for supplying, configuring and delivering Apple products to Digital customers. Digital will be responsible for determining customer requirements, providing appropriate services and for the resolution of any issues upon delivery of product.

Term of the Apple agreement is six months, renewable, which will allow both Digital and Apple to review and propose any recommended changes. Both Digital and Apple reserve the right to terminate the agreement with sixty days notice. **There are no liabilities or commitments.**

Digital sales reps will be directed to **focus their selling efforts** to customers who are looking for a single source supplier of hardware, software and services and who require a total systems integration solution that includes Apple products. As part of the reseller agreement, sales to Digital resellers, government and education will not be included at this time.

Digital - Apple Reseller Summary

digital

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Rules of engagement for joint selling have been developed to provide sales with guidelines for cooperating with Apple sales executives. Current sales performance recognition policy provides for sales reps to receive full credit for the selling of Apple products as they do for Digital products.

Sales support for Apple products has been integrated into Digital's current infrastructure. Digital Remote Support Services (RSS) and Services Sales Support (SSS) will be primarily responsible for providing Digital sales with telephone assistance in product configuration, order validation and acceptance, and technical backup support for Apple and related third party products offered.

Apple products offered for resale through Digital will be **priced for the added value** of providing single vendor solutions and global support. Digital will not be the lowest priced provider of Apple products. Select field sales feedback indicates that most customers would be willing to pay up to an additional 5% for Apple products through Digital.

Orders for **Apple products will be handled similarly to all other Digital products**. All products offered for sale will be placed in the US Automated Price and Quote System and will be published quarterly in the Digital US Sales Price Book.

Summary of other Apple - Digital Agreements

European Distributor Agreement

Allows Digital and Apple to resell each others products as part of integrated solutions.

Software Engineering - PATHWORKS for Macintosh

Provides for Digital's right to distribute Apple components as part of PATHWORKS for Macintosh. Also covers binary and documentation rights, source rights and maintenance.

Service and Stock Agreement

For Digital to purchase and/or license service stock, training and business support, diagnostics and tools, Apple Support and participation in the Apple Media Exchange Program to service Digital customers in the United States area.

Systems Manufacturer Reseller

Appoints Digital as a limited, non-exclusive, authorized reseller of Apple products in the US.

Teaming Agreement for Systems Integration

Establishes the intent of Digital and Apple to join their complementary skills in working with various customers to provide integrated solutions . Applies only to projects mutually specified.

Worldwide OEM Manufacturing Agreement of Apple Products

Digital selected as one of three preferred contract manufacturing suppliers. Active projects in Kanata, Canada and India valued at \$7M with others currently pending valued at \$13M.

Direct Resale into Special Government Accounts

Provides for special sales into Federal Intelligence Agencies through high security processes.

Synopsis of Apple IBM relationship

Alliance consists of five distinct technology initiatives. Three expand the companies' current technologies. Two focus on the creation of new foundation technologies.

Expansion of current technologies

- **Macintosh and IBM systems networking:** Through new development of technology and software licensing, Apple and IBM will add to the range of customer options for integration of Macintosh personal computers into IBM networks.
- **RISC microprocessors:** Derived from IBM's single-chip implementation of its POWER RISC architecture, the new PowerPC chips are being designed in Austin, Texas by Motorola and IBM engineers. The PowerPC chips, to be used in some future Macintosh and IBM products, will be manufactured and made available for sale to the industry by Motorola.
- **Open-systems platform - PowerOpen.** A new open-systems environment through licensing agreements. PowerOpen derives from AIX, IBM's industry-standard version of UNIX; the Macintosh interface; and the POWER architecture. The environment enables a system to run both Macintosh and AIX applications on RISC-based hardware from both companies. Examples of PowerOpen systems will include some future RISC System/6000's and RISC-based Macintosh systems.

New Foundation Technologies

- **Kaleida** Joint venture of Apple and IBM that will create and license multimedia technologies for a wide range of companies and industries. Products resulting from the joint venture will be available in the mid-1990s.
- **Taligent** Object-oriented software joint venture to develop a next-generation operating environment based entirely on object-oriented technology. Taligent will license the technology and both parent companies will use it in future products. Apple will integrate aspects of this object-oriented technology into Macintosh. IBM will integrate aspects of object-oriented technology into OS/2 and AIX. Expected to be available in the mid-1990s.

Apple Financials

(From Wall Street Journal, 15 Jan 93)

The escalating PC price wars have been putting a squeeze on Apple's margins for several quarters. Despite record revenue for fiscal first quarter, Apple saw profit margins depress earning 2.8%.

Profits went from \$166M (\$1.36 a share) a year earlier to \$161M (\$1.33 a share). Gross margins declined to 41% of net sales in the period ended Dec 25th from 44%. Strict cost controls forced operating expenses down to a seven year low of 29% of net sales.

Revenue for last 12 months \$7B / stock price of \$61.25 on Feb 1st.

Meeting Logistics

Objective: Establish a working relationship between Apple and Digital at the US area senior Executive level.

Location: Bob Puette's office, Campbell, CA

Time: 4:00-5:30 pm

Attendees: Russ Gullotti
Ed Hanford, Digital Account Manager
Bob Puette
Ned Gaffney, Large Business Ops

Apple Briefing for 2/4/93 Meeting

Agenda

February 4, 1993

4:00 pm

Introduction
Handshake on the Reseller Agreement

Review Respective Roles within:
-Digital's New 9 Business Unit Structure
-Apple's Current Organization

Facilitating the success of "OUR" Customers:
-Digital as an Enterprise Solutions Provider
 -Industry specific solutions
 -Value-added procurement
 -Cross-Industry applications
-Apple's Large Business Thrust
 -Solution "Franchise" areas
 -Industry focus

Conclusions and Next Steps

5:30

Adjourn

Apple Briefing for 2/4/93 Meeting

Apple is to Digital

\$12-15M Worldwide Customer

Betting their business on Digital hardware, software

Large VAX/VMS Shop

Subscribe to Digital Technical architectures

Contracted for some Application Project work

Apple is a good, modern example of effective use of Digital architectures (technical and product) internally

Joint Marketing Partner

-Desktop Transaction Processing

-Technical Architecture (VITAL)

Systems Integration Partner

Using Digital Contract Manufacturing Service-current run rate approx \$10M/year

Apple Briefing for 2/4/93 Meeting

Digital is to Apple

A recognizable culture

Still an industry force

Apple/Digital business relationship off and on

- Pathworks product engineering**
- Apple use of Alpha (squelched by Ken) instead of IBM PowerPC**
- Resale agreements in other geographies**
- Other Joint product work hit and miss**

Apple never had a good executive relationship with DEC

Don't believe Digital has ever extended itself to Apple as Industry player/partner

Apple has ongoing executive interaction with EDS, Peat Marwick, Andersen Consulting, IBM, etc. Result is successful market activity and internal use of those companies products/services

Apple Briefing for 2/4/93 Meeting

Wins

Digital's biggest Customers are Apple's biggest customers

Apple: Needs help from us to reaffirm DEC as Source
Wants better sourcing into the Enterprise customer
Has significant customer loyalty, certain customers
Has technology differentiation

Digital: Needs capability to supply components to solution
Needs market perception of openness
Needs corroborators of commitment/capability to SI
Has Enterprise capabilities
Has access to Large Business Market

Apple Briefing for 2/4/93 Meeting

Risks

Apple has high expectations regarding unit resale volume

Apple expecting close working relationship w/DEC sales

Digital expectation regarding profitability with each component of solution, impact to pricing. Biggest unknown is value/price within this market.

Digital field readiness risk, resale, and more important, as component of sophisticated, industry solution

Large business market acceptability of Macintosh, even with improved, value-added solution/procurement

Desired Effect of this Meeting

Establish an ongoing dialogue with key executives:

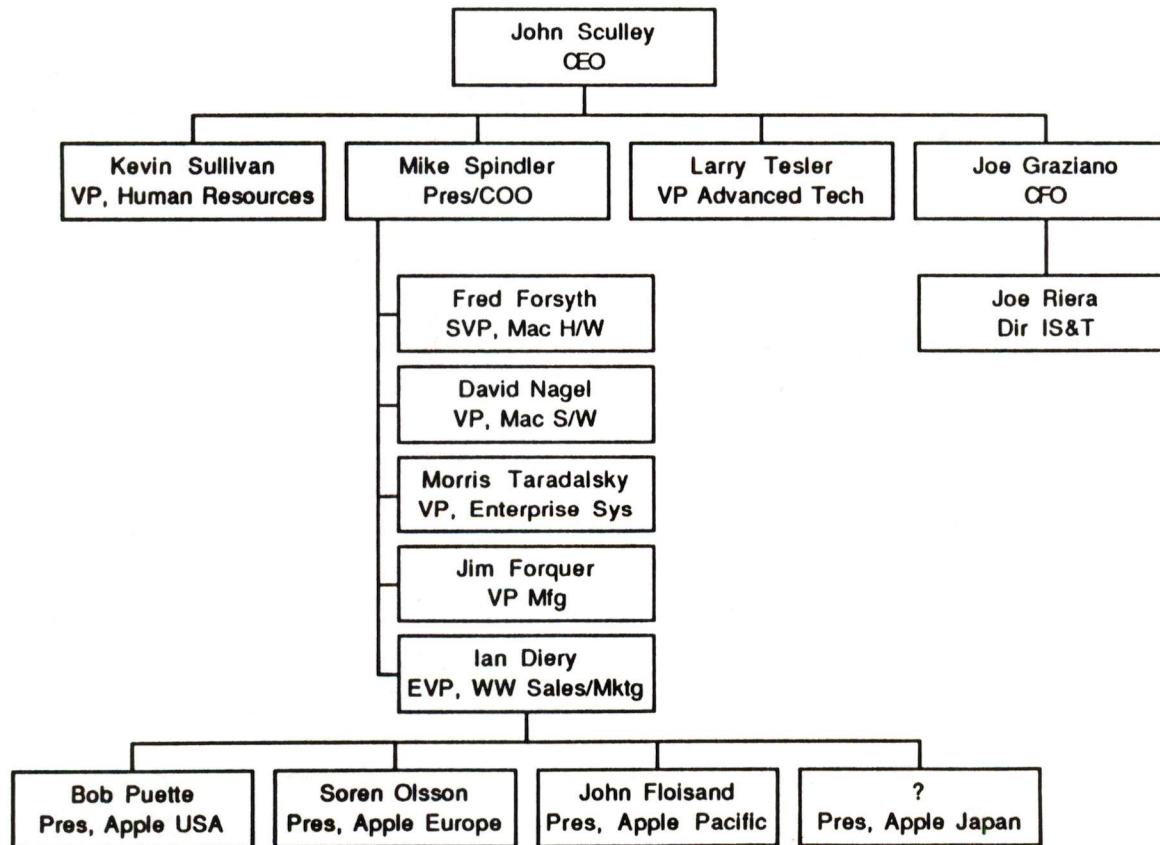
- Service our interests in the market**
- Service our interests as an internal supplier of product/svcs**
- Together they are self-fulfilling**

Build respect for Digital as a provider of Enterprise Solutions

Open the door to other opportunities in the future

Apple Briefing for 2/4/93 Meeting

Apple Organization



Apple Briefing for 2/4/93 Meeting

Apple/Digital Exec Exchanges

Ian Diery/Dick Poulsen-May 1992. Diery was then Pres of Apple Pacific, Dick of GIA. Diery promoted July, no contact since then. Diery also head of IS&T exec team. Former Wang executive.

Puette/Zereski-2 meetings in fall of 1991, started resale agreement. Seemed good rapport, pilots, golfers, etc.

Spindler/Zereski-12/91 in Florida. Spindler references exec relations with EDS, IBM. Working deal at the time, eventually won by small software firm.

Spindler/Palmer-Apparently will be talking during an industry exchange in Geneva later February 93.

Apple Briefing for 2/4/93 Meeting

Former DEC execs at Apple

Kevin Sullivan-SVP Human Resources

Fred Forsyth-SVP Mac Hardware

Ken Ratcliffe-VP USA Finance/Admin (right hand to Puette)

Apple Briefing for 2/4/93 Meeting

Recommendations w/in DEC

Rebuild Perception of DEC as industry leader w/Apple

Consistent Executive Interaction

**Develop program office w/in DEC for all Apple
Sales/Service/Marketing/Product programs**

**Utilize Apple's internal use of DEC, Market presence to build
DEC credibility**

Apple Briefing for 2/4/93 Meeting

Apple as Customer (of DEC)

Major Commitment to Digital

Process of Migrating from other Hosts to OpenVMS

Having some trouble completing Migration

- Weak Systems/Networks Infrastructure**
- Implementing applications on centralized VAX/VMS**
- Skill deficiencies in many areas**
- Under-Investing in Migration**
- No formal accountability**

Result has been Digital unable to protect Apple from all ills

- Some Digital product and support problems too**

New Sr. Director of IS, Search for CIO underway

Executive partner (Infante)-has helped as much as possible

Apple Briefing for 2/4/93 Meeting