Compaq Computer Corporation – Archived 09/2002

Outlook

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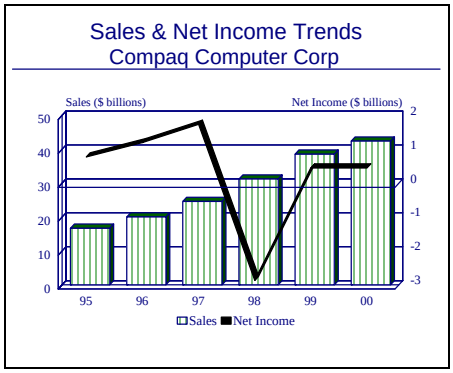
- In June 1998, Compaq Computer Corporation completed its merger with Digital Equipment Corporation
- Compaq is directing its efforts toward providing the engines that power the Internet-based "B^{2}B" networks



Headquarters

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Founded in 1982, Compaq Computer Corporation is a global information technology company. Compaq is a Fortune Global 100 company and the world's largest supplier of personal computer systems.

In June 1998, Compaq Computer Corp bought Digital Equipment Corporation (DEC) for $9.1 billion. Digital was an industry leader in implementing and supporting networked business solutions in multi-vendor environments based on high-performance platforms. It had also an established global service and support team. The deal was the largest acquisition in the history of the computer industry and turned Compaq into the second largest computing company in the world, behind IBM.

Compaq has approximately 70,100 employees. Its stock symbol is "CPQ," and shares are traded on most major US and international exchanges. The firm's independent auditors are Pricewaterhouse Coopers LLP.

Structure and Personnel

Michael D. Capellas
President & Chief Executive Officer
Peter Blackmore
Executive Vice President, Worldwide Sales and Services
Michael J. Winkler
Executive Vice President, General Manager, Global Business Units
Howard D. Elias
Senior Vice President and General Manager, Business Critical Server Group
Douglas B. Fox
Senior Vice President, Marketing And Strategy

Jesse J. Greene, Jr.
Senior Vice President, Finance & Administration and Chief Financial Officer
Yvonne R. Jackson
Senior Vice President, Human Resources, Organization And Environment
Michael J. Larson
Senior Vice President, General Manager, Consumer Group
Mary T. McDowell
Senior Vice President And General Manager, Industry Standard Server Group
Robert V. Napier
Senior Vice President, Global Business Solutions and Chief Information Officer
Shane V. Robison
Senior Vice President, Technology And Chief Technology Officer
Thomas C. Siekman
Senior Vice President and General Counsel

Product Areas

Compaq develops and markets hardware, software, solutions and services, networking and communication products, commercial desktop and portable products, and consumer PCs. Compaq markets its products and services primarily to customers from the business, home, government, and education sectors. The company delineates its business as follows:

1. Enterprise Computing Group
2. Compaq Global Services
2. Commercial PC Group
3. Consumer PC Group

Enterprise Computing Group. Enterprise Computing designs, develops, manufactures and markets mainframes, servers, workstations, advanced computing and telecommunication products.

Compaq Global Services delivers worldwide infrastructure and solution design implementation, management, and support services through Professional and Customer Services.

Commercial PC Group. The Commercial PC unit designs and develops commercial desktops, portables, options, and small- and medium-business solutions.

Consumer PC Group. The consumer PC unit designs and develops consumer products, including desktops, mini-towers, portables, printers, and options.

Facilities

Overall, Compaq does not have special facilities or locations specifically addressing opportunities in defense and aerospace. The company manufactures its products through a network of component, assembly and finished product plants. Proposals, support, purchases and other business matters are initially addressed to the local or regional office. That office is then responsible for ensuring the timely and correct processing of matters through the appropriate company organization.

However, one part of the company is dedicated to serving government clients. Compaq Federal is among the top information technology (IT) providers to the federal government. With a team of technical, contracting and administration, and sales and marketing professionals dedicated to the federal marketplace, Compaq offers federal organizations one source for planning, design, purchase, deployment and management of critical IT products and solutions. More details on this operation can be found at http://www.compaq.com/federal

Corporate Overview

Compaq does not produce militarized equipment, but it does license its technology to defense firms willing to design, manufacture, and sell the company's computer architecture.

The company's commercial equipment is widely used throughout the defense and aerospace industries by both prime contractors and the individual services. In 1991 the company (then Digital Equipment Corp) was selected by Lockheed Martin, the F-22 program prime contractor, to provide host computers and workstations for F-22 software development needs.

The company seems to have established a workable strategy for addressing the government's military and commercial computer market needs. The armed services can procure and utilize Compaq commercial equipment for software development program testing and modeling, for example. When a militarized need arises, that class of equipment can be procured through one of the company's licensees.

New Products and Services

"Q." In August 2000, the U.S. Department of Energy's (DOE) National Nuclear Security Administration (NNSA) selected Compaq to build the world's fastest and most powerful supercomputer, a 30+ TeraOPS system code-named "Q." The supercomputer is the latest advancement in the Accelerated Strategic Computing Initiative (ASCI) within NNSA's Stockpile Stewardship Program which uses an integrated program of surveillance, experiments, non-nuclear tests, archived data, modeling, and simulation to assess and certify the safety, security and reliability of nuclear weapons without underground nuclear testing. The contract is valued at more than $200 million, and the super-computer will be housed in the new Strategic Computing Complex at the NNSA's Los Alamos National Laboratory in Los Alamos, New Mexico. Initial deliveries will begin in September 2000, and the complete system is expected to be operational by 2002.

Plant Expansion/Organization Update

Segments Restructured. During 2000, Compaq realigned the operations of its Enterprise Solutions and Services segment, which resulted in the formation of two reportable segments: Enterprise Computing and Compaq Global Services. Compaq's other two reportable segments, Commercial Personal Computing and Consumer Personal Computing, were unaffected by the realignment.

Consolidation of High-End Systems Manufacturing. In May 1999, Compaq announced that it was consolidating its North American manufacturing operations for high-end, enterprise-class, Alpha processor-based systems. Compaq is transferring production of such systems from the company's Salem, New Hampshire, site to its existing manufacturing facilities in Fremont, California, and Houston, Texas.

AltaVista Company Formed. In January 1999, Compaq announced the formation of the AltaVista Company, a wholly owned subsidiary intended to function as a leading Internet site for search capabilities, localized information, e-commerce, and e-services. Compaq will contribute to the AltaVista Company, the AltaVista search site, and the associated intellectual property: Shopping.com, Zip2 Corporation, and certain additional cash and assets.

Mergers/Acquisitions/Divestitures

Inacom. In February 2000, Compaq acquired certain configuration and distribution assets of InaCom Corp, a provider of information technology services and products, for approximately $370 million in cash and the assumption of certain related liabilities. Compaq subsequently established Custom Edge Incorporated (also known as Compaq Direct) as a wholly owned subsidiary to operate the assets acquired from Inacom.

Zip2 Acquired. In April 1999, Compaq completed the acquisition of Zip2 Corporation, a provider of Internet platform solutions for media companies and local e-commerce merchants. Zip2 is now an operating division of AltaVista Company, a wholly owned subsidiary of Compaq.

Compaq Buys Shopping.com. In January 1999, Compaq announced a cash tender offer for all of the outstanding shares of common stock of Shopping.com, an on-line retailer that offers Internet shoppers an array of consumer products. In February the offer was successfully concluded, with 96 percent of the shares tendered. Compaq completed the merger in March 1999 for approximately $220 million.

Compaq Acquires Digital for $9.1 Billion. In June 1998, Compaq Computer Corporation completed its merger with Digital Equipment Corporation. The transaction is the largest acquisition in the history of the computer industry, valued at $9.1 billion. Under the terms of the transaction, shareholders of Digital received $30 in cash and approximately 0.945 shares of Compaq common stock for each share of Digital stock. Compaq issued approximately 150 million shares of Compaq common stock and $4.8 billion of cash. Under the terms of the agreement, Digital has become a wholly owned subsidiary of Compaq.

Teaming/Competition/Joint Ventures

Lockheed Martin. In June 2000, Compaq and Lockheed Martin formed a strategic business alliance to pursue new information technology business opportunities in both government and commercial markets. Under terms of the agreement, the two companies will work cooperatively to identify and pursue new business.

Lucent. In April 1999, Compaq and Lucent Technologies announced a business and technical alliance that will make it easy for users to take advantage of unified messaging capabilities. As part of the alliance, Lucent will integrate its Octel Unified Messenger for Microsoft Exchange Server on Compaq ProLiant and Compaq AlphaServer platforms. In addition, Compaq plans to resell Octel Unified Messenger. Lucent also will acquire technology from Compaq to provide future enhancements to Octel Unified Messenger, and Compaq will provide engineering support to help develop those enhancements.

Hughes. In April 1995, DEC and Hughes teamed to pursue the Air Force's $1 billion workstation program. Hughes Data Systems will lead the team and provide systems integration and support. DEC will provide workstations based on the Alpha technology. The team would split the award, which is expected to be made during FY96. Competitors include Hewlett Packard, SAIC, Harris, and Sun Microsystems.

Rational Software. In September 1994, DEC and Rational Software Corp formed an alliance to market and sell their Ada software-engineered solutions. Under the agreement, Rational will be DEC's preferred supplier of Ada software-development tools for Alpha AXP workstations and servers.

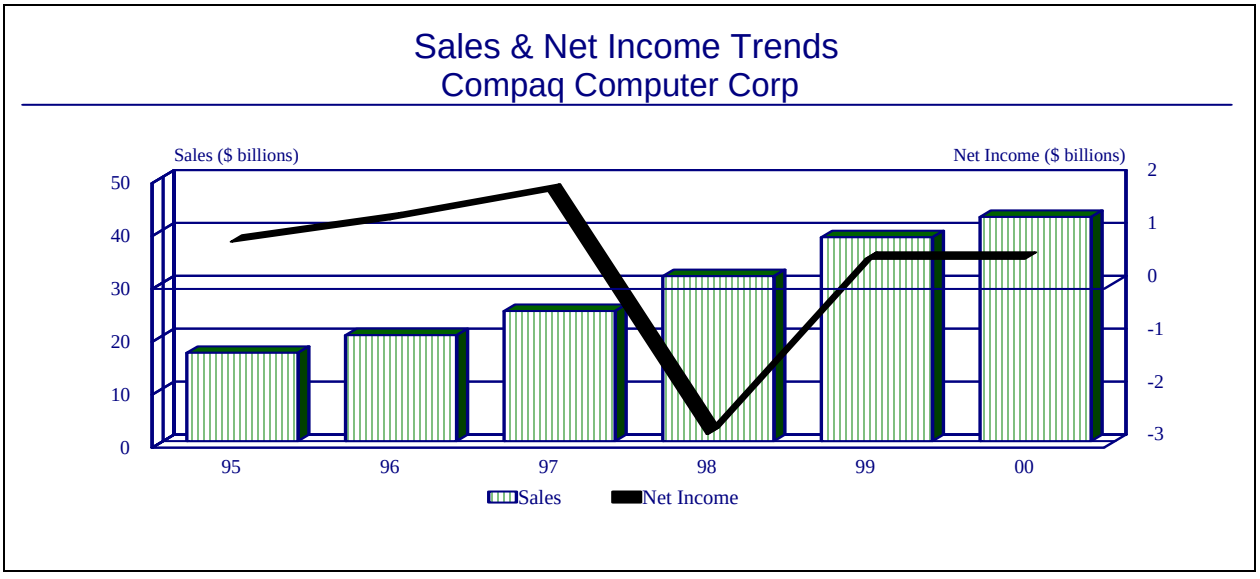
Raytheon. Digital and Raytheon signed an agreement for Raytheon to design, build and market militarized versions of the company's VAX computer systems and architecture.

Advanced Computing Environment. In 1991, DEC joined with 20 other companies in an industry initiative known as Advanced Computing Environment (ACE). The goal of the initiative was to produce specifications for new systems, based on the same industry-standard hardware used in DEC's line of reduced instruction set computing, (RISC)-based systems and Intel microprocessor-based systems, and to encourage significant industry investment in those systems.

Financial Results/Corporate Statistics

For 2000 Compaq reported $42.4 billion in revenue, an increase of almost 10 percent over 1999's $38.5 billion. Compaq recorded a net income of $569 million for both 1999 and 2000. The 1998 loss was attributed to the Digital acquisition and the closing of Compaq facilities. These charges accounted for approximately $3.2 billion for the write-off of purchased in-process technology and $393 million in restructuring charges related to employee termination and facility closures.

Y/E December 31	1995	1996	1997	1998	1999	2000
($ millions)						
Net Sales	16675	20009	24584	31169	38525	42383
Net Income	893	1318	1855	-2743	569	569
R&D Expenditures	552	695	817	1353	1660	1469

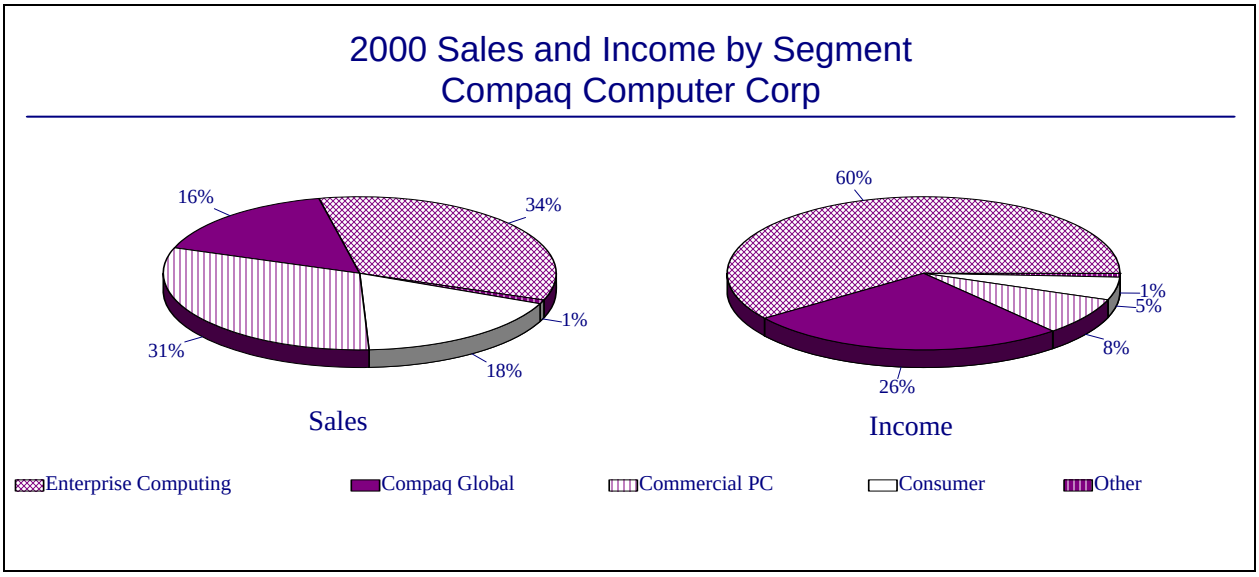


Industry Segments

Summary financial data by operating segment for the past three years are as follows:

SALES	1998	1999	2000
($ millions)			
Enterprise Computing	10498	12974	14316
Compaq Global Services	3990	7162	6993
Commercial PC	11846	12185	13136
Consumer	4932	5994	7586
Other	-97	210	352
TOTAL	**31169**	**38525**	**42383**

OPERATING INCOME	1998	1999	2000
($ millions)			
Enterprise Computing	948	1201	2140
Compaq Global Services	776	1148	944
Commercial PC	-46	-448	289
Consumer	183	262	170
Other	-115	-281	27
TOTAL	**1746**	**1882**	**3570**



Strategic Outlook

Compaq is directing its efforts toward providing the engines that power the Internet. Under this strategy, Compaq has initiated a process of transforming the company from its hardware roots into a more service-oriented operation.

At the present time, the company is set to begin providing the necessary infrastructure to meet the growing demand of Internet businesses. Specifically, the company plans to provide scaling systems that clients can rely upon to meet the sometimes unpredictable demand of the web.

In terms of defense and aerospace markets, these systems are expected to be adapted by the growing business-to-business networks that are developing between major manufacturers, suppliers, and customers. These "B^2B" networks will be a secure, electronic marketplace where buyers and sellers around the world

can conduct business. By using a single e-marketplace, all involved, manufacturers, suppliers, government customers, and service providers, can significantly lower transaction costs and improve profitability.

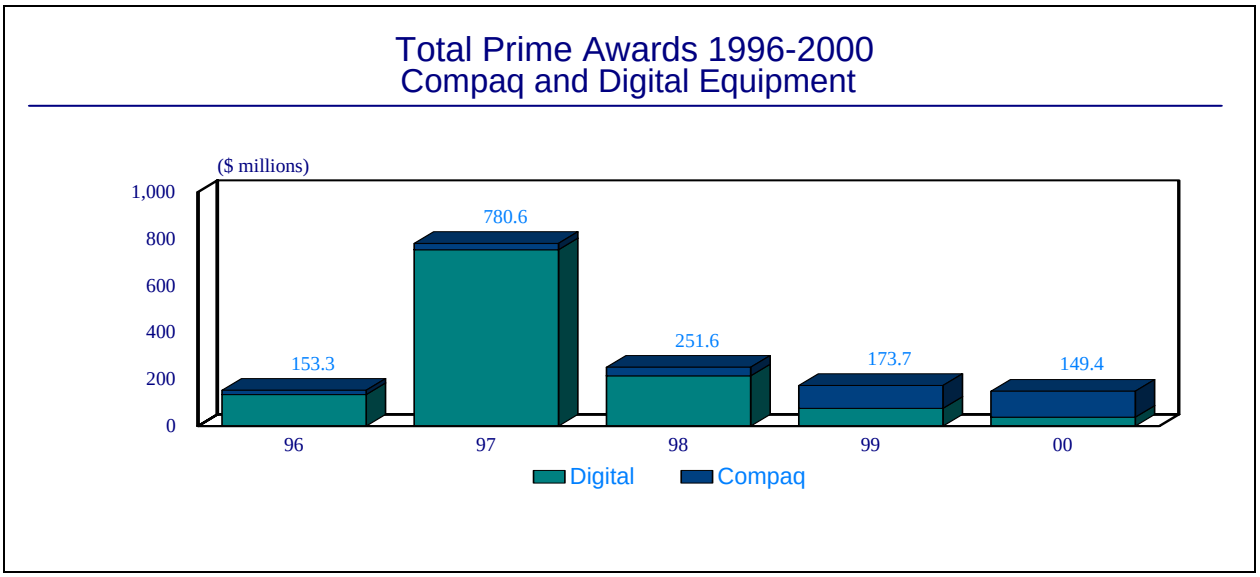
Prime Award Summary

DEC and Compaq's five-year prime award summary by government customer is shown in the following table. Dashes indicate that data are not available.

COMPAQ	1996	1997	1998	1999	2000
($ millions)					
AIR FORCE	2.1	3.2	3.4	7.8	6.8
ARMS CONTROL & DISARM	0.1	0.0	0.1	0.0	0.0
ARMY	2.4	5.1	7.7	8.4	8.6
ARMY CORPS OF ENGINEERS	1.2	0.3	1.6	0.6	1.6
DEFENSE AGENCIES	0.0	0.0	0.2	3.0	0.2
DEF COMM AGENCY	0.0	0.1	0.0	5.9	0.0
DEF LOGISTICS AGENCY	0.2	1.8	1.8	11.9	1.1
DEF MAPPING AGENCY	2.0	0.1	1.1	0.5	1.1
DEPT OF AGRICULTURE	0.0	0.0	0.0	0.0	0.6
DEPT OF COMMERCE	0.3	0.7	2.1	2.7	11.2
DEPT OF ENERGY	0.9	0.4	0.0	2.3	0.3
DEPT OF JUSTICE	0.3	9.0	0.1	0.4	0.3
DEPT OF LABOR	0.0	0.8	0.1	6.4	2.4
DEPT OF STATE	0.0	0.0	0.1	1.3	2.6
DEPT OF THE INTERIOR	0.1	0.1	0.1	0.1	1.7
DEPT OF TRANSPORTATION	0.3	0.3	0.6	0.4	1.1
DEPT OF TREASURY	0.3	1.0	0.0	0.1	0.9
FEMA	0.0	0.0	0.0	0.3	0.1
FED TRADE COMMISSION	0.0	0.0	0.3	0.0	0.2
GENERAL SERVICES ADMIN	3.0	1.3	8.0	17.2	9.3
HEALTH & HUMAN SERVICES	2.7	0.7	4.8	4.7	4.7
NASA	0.0	1.0	0.2	1.9	1.3
NAVY	1.9	1.2	2.4	8.8	19.6
SMITHSONIAN	0.0	0.0	0.0	0.0	0.5
VETERANS ADMINISTRATION	0.8	0.3	1.9	12.9	35.1
TVA	0.0	0.0	0.0	0.0	0.1
TOTAL	18.6	27.4	36.6	97.6	111.4

DIGITAL EQUIPMENT	1996	1997	1998	1999	2000
($ millions)					
AIR FORCE	17.5	14.1	12.6	4.7	2.7
ARMY	16.1	6.8	3.8	1.5	0.0
ARMY CORPS OF ENGINEERS	3.8	1.7	2.3	0.6	0.0
DEFENSE AGENCIES	0.1	0.3	0.1	0.0	0.0
DEF COMM AGENCY	0.1	0.1	0.1	0.0	0.0
DEF LOGISTICS AGENCY	1.1	0.1	1.8	0.2	0.1
DEF MAPPING AGENCY	2.5	0.2	0.3	0.0	0.0
DEPT OF AGRICULTURE	0.0	0.0	0.1	0.0	0.2
DEPT OF COMMERCE	1.5	5.0	14.3	8.0	4.7
DEPT OF EDUCATION	0.0	0.0	1.3	0.4	0.0
DEPT OF ENERGY	0.9	0.3	2.4	0.2	0.1
DEPT OF JUSTICE	0.1	0.1	12.9	8.1	7.4
DEPT OF LABOR	0.0	0.0	0.3	0.0	0.1
DEPT OF STATE	0.4	0.1	0.5	0.2	0.0
DIGITAL EQUIPMENT (Continued)	**1996**	**1997**	**1998**	**1999**	**2000**

DEPT OF THE INTERIOR	0.1	0.0	0.0	0.1	0.0
DEPT OF TRANSPORTATION	0.1	0.0	0.2	0.4	0.0
DEPT OF TREASURY	0.7	0.7	0.2	2.0	0.4
EPA	2.0	0.1	0.1	0.0	0.0
EXEC OFFICE OF PRESIDENT	0.9	0.8	0.2	0.2	0.0
FED ELECTION COMMISSION	0.2	0.0	0.0	0.0	0.0
FEMA	0.1	0.1	0.0	0.0	0.0
GENERAL SERVICES ADMIN	12.2	6.9	22.2	11.6	4.4
HEALTH & HUMAN SERVICES	2.8	0.0	6.8	4.6	0.0
NASA	10.3	6.2	5.4	2.6	1.7
NAVY	24.6	19.1	62.2	17.7	9.8
TN VALLEY AUTHORITY	0.0	0.0	0.0	0.0	0.0
US INFORMATION AGENCY	0.0	0.0	2.5	0.0	0.0
VETERANS ADMINISTRATION	36.6	690.5	62.4	13.0	6.4
TOTAL	134.7	753.2	215.0	76.1	38.0



Program Activity

Some important aerospace and government programs currently under way at Compaq are listed below. The briefs are intended to provide a listing of programs that are of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate Forecast International binder (for example, *Aircraft, Military Vehicles, Warships, Missiles, Electronic Systems*, and *Gas Turbines*). The following are the company's business interests:

- Computers
- Defense Electronics
- C^3I Systems
- Systems Integration

The majority of Compaq's defense-oriented programs are undertaken by the former Digital Equipment Corp which was acquired in 1998.

Aircraft Programs

F-22 ATF

The Air Force selected the team of Lockheed-Boeing-General Dynamics to develop the potential $90 billion F-22 Advanced Tactical Fighter (ATF) in April 1991, putting in place a cadre of leading-edge avionics subcontractors. Digital Equipment Corporation is the Lockheed ATF team member for workstations and host computers for software and design development. For DEC and other winners, big ATF production is still

more than half a decade away. Under the terms proposed for the Air Force's planned eight-year engineering and manufacturing development phase, winning companies will earn 4 percent on each dollar spent on ATF development based on a cost-plus-base-fee arrangement. In addition to being reimbursed for all allowable costs, winning companies stand to earn up to 9 percent in award fees for design work and performance that meets or exceeds Air Force specifications.

Electronic Programs

All Source Analysis System (ASAS)

The All Source Analysis System (ASAS) is a battlefield intelligence management system. ASAS will automate the fusion of intelligence and combat information on the type of enemy units, and process information on their locations, movements, projected capabilities, and intentions. ASAS will also automate data analysis and supply a coherent picture of the enemy situation, disseminating this information to commanders to allow them to make timely, well-informed decisions. Digital is working on the ASAS computers, providing the MicroVax II-based 32-bit central processor unit.

FPS-118 (OTH-B)

The FPS-118 is a very-long-range strategic surveillance radar designed for early warning of strategic bomber, air-to-surface missile, or cruise missile attacks on North America. Digital provides the VAX computers for the system.

CALS

Digital is one of the members of the Computer Sciences Corporation-led team that won the Joint Computer Aided Acquisitions and Logistic program contract in 1992. The effort is expected to run over 12 years and is valued at $744 million. Once developed, the CALS systems will computerize paperwork, manuals, and other documentation involved in procuring weapon systems. According to the Pentagon, CALS will reduce the cost of systems procurement by nearly a quarter and cut the cost of acquiring spare parts by half. The systems will link 245 military sites across the United States in a wide-area network and apply the latest imaging technology to parts procurement DoD-wide.

CASS

The Consolidated Automated Support System (CASS) is a family of automatic test equipment for the US Navy. This program is aimed at developing a modular, multifunctional automatic test system based on standard hardware and software elements for all US Navy electronic systems. Digital Equipment Corp is providing the MicroVax III computers that serve as CASS central processors. The company will customize the workstations to include a modified flat screen monitor, Digital disk drives, peripherals, and some third-party equipment to function with the CASS hardware. CASS was approved for low-rate production in August 1991.

Joint Service Image Processing System (JSIPS)

JSIPS is a ground-based common system for receiving and processing national and tactical imagery in near real time. The program is currently in full-scale development, with Digital providing the 8350 and MicroVax computers for the system.

NORAD Modernization

This program is a modernization of the various computer systems at the Cheyenne Mountain Complex (CMC), as well as the replacement of the Tactical Warning/Attack Assessment C^3 system centralized with the CMC. The program is also referred to as the Cheyenne Mountain Upgrade (CMU). Digital Equipment Corp is working on the Granite Sentry Development Hardware. This project funds the replacement of the modular display system and the air defense portion of the NORAD computer system. Included in the upgrade are the NORAD Command Center, the Air Defense Operations Center, the Weather Support Unit, the Battle Staff Support Center, air, missile and space warning displays, and interfaces to other Cheyenne Mountain subsystems.

US Contract Awards

No major contract awards have been awarded to Digital Equipment Corporation or Compaq from the United States government in the past two years.

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