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Jef Raskin Information

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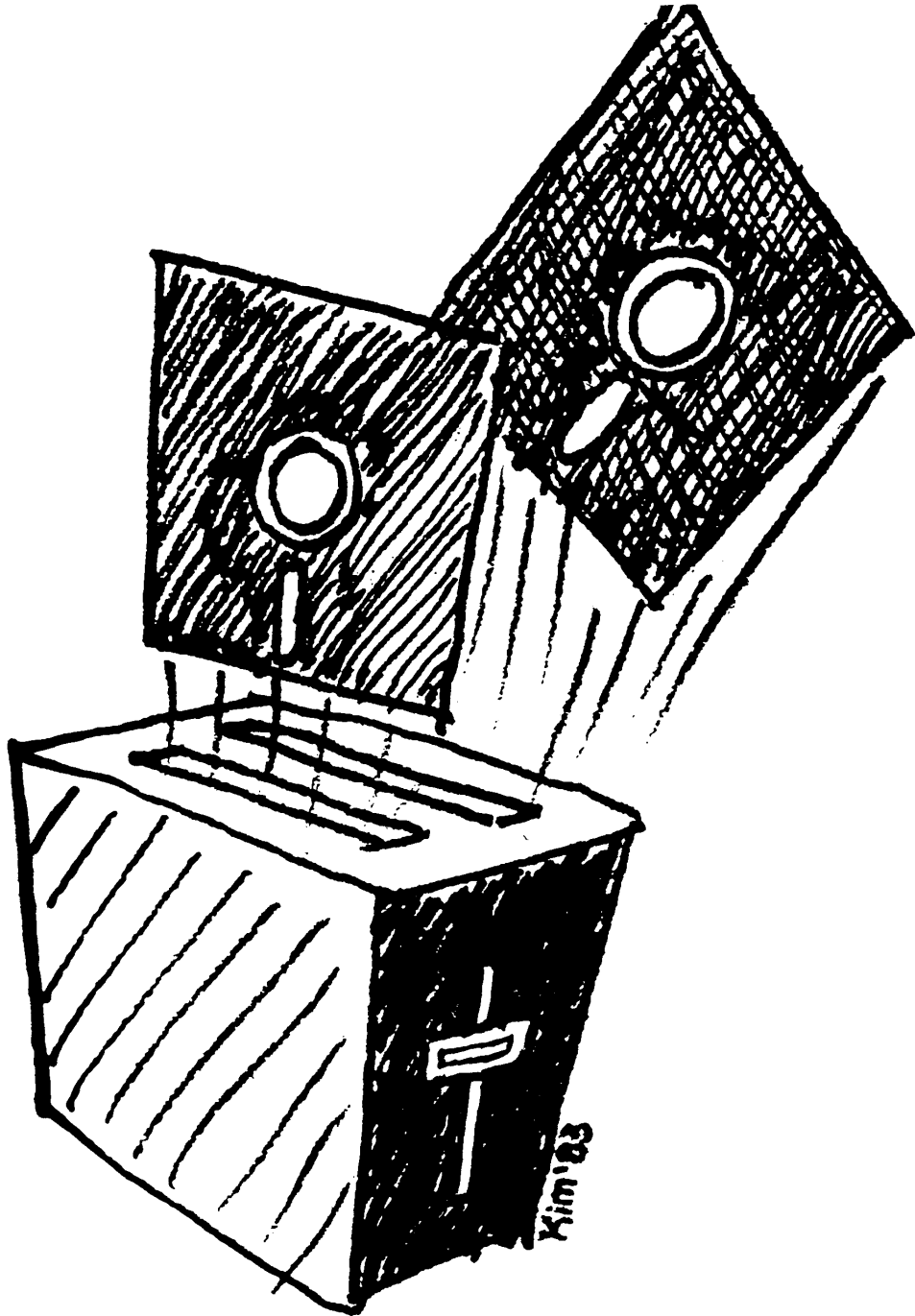


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Information Appliance

1 of 16

INVESTMENT MEMORANDUM

Information Appliance Inc.
530 University Avenue
Palo Alto, California 94301
(415) 328-5160

Issued To:

Copy Number:

Issue Date: *MAY 22, 1984*

THIS DOCUMENT IS CONFIDENTIAL AND INCLUDES TRADE SECRETS AND OTHER PROPRIETARY INFORMATION. ITS DISCLOSURE IS FOR LIMITED PURPOSES ONLY, WITHIN A RELATIONSHIP OF TRUST, AND ITS CONTENTS MAY NOT BE USED OR FURTHER DISCLOSED IN WHOLE OR IN PART WITHOUT THE EXPRESS WRITTEN PERMISSION OF INFORMATION APPLIANCE INC.

IT IS DELIVERED TO YOU ON THE UNDERSTANDING THAT SHOULD YOU DETERMINE THAT YOU DO NOT WISH TO PARTICIPATE IN THE INVESTMENT, YOU WILL RETURN THE REPORT TO US AT YOUR EARLIEST CONVENIENCE.

PREVIEW

This document contains the information you need in order to decide whether or not Information Appliance is an attractive investment for you. We can say here in a few words what will be spelled out in detail below. Personal computers and their programs are hard to understand, confusing to buy, and frustrating to use. As large as the personal computer market may seem to be, there is a far larger market for computer-based technology--a market that can be tapped only with a product which gives the purchaser the major benefits of personal computers, but is as easy to use as a microwave oven or a clock radio.

We are excited about our company and its prospects because Information Appliance has that product.

In the past year and a half, we have gone from a concept to working hardware and software prototypes, fulfilling the commitments we made for our first round financing. Facing the twin challenges of bringing our information appliance into production and into the marketplace, we seek the funding that will permit us to go from prototypes to the introduction of a successful product.

Seeing is believing: we invite the prospective investor to visit us, meet our staff, try our product, see it demonstrated, read the instruction pamphlet. It may take less time and will almost certainly be more fun than just reading a prospectus.

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NOTICE TO INVESTORS

This offering is private and limited to sophisticated investors with sufficient financial resources to justify an investment in a new company involving substantial risks. Each of the investors will be required to represent to the Company that the securities are being acquired for investment with no present intention of re-selling or further distributing them. Certificates representing the securities will bear legends referring to the fact that the securities have not been registered under the Securities Act of 1933, and that the Company will not permit transfer of the securities unless it receives adequate assurance that no violation of the securities laws would occur as a result of such transfer.

The sale of these securities has not been qualified with the California Commissioner of Corporations and the issuance of such securities or the payment or receipt of any part of the consideration therefor prior to qualification is unlawful. The rights of all persons to purchase or sell such securities are expressly conditioned upon such qualifications being obtained.

Information Appliance will make available for inspection on a confidential basis any material information which it possesses or can acquire without unreasonable effort or expense and will respond to any questions you may have.

The Company believes that it can successfully operate in its field. Because of dynamic market conditions an investment in the securities of the Company involves considerable risk and must be considered speculative.

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I COMPANY HISTORY

Information Appliance was founded by Jef Raskin in October, 1982, to develop and market a new product with the capability of a personal computer and the ease and immediacy of operation of a pocket calculator.

In 1975 it became apparent that the microcomputer chip was going to revolutionize the way computers were used. At that time Mr. Raskin formed Bannister & Crun, which pioneered styles of user interaction and documentation that have since permeated the industry. Bannister & Crun produced the first computer manuals for a number of companies, including Apple, Heath (now Zenith), and National Semiconductor. It also developed software for the University of Washington and the City of South San Francisco. The company was technically sound and financially successful.

In 1978 Bannister & Crun, with most of its roster of 8 employees, joined Apple Computer. Mr. Raskin worked with Apple initially as Manager of Publications, then as Manager of Applications Software, and finally as Manager of Advanced Systems, where he created the Macintosh project. He left Apple in March, 1982, travelled to Denmark to teach at the Dansk Datamatic Institut in August, and during his travels began to formulate the ideas that led to the creation of Information Appliance Inc.

Initial funding of about \$100,000 was obtained from a founding group of employees, leading to incorporation on December 2, 1982. Venture financing of approximately \$1,000,000 was obtained in March 1983, an amount calculated to last about one year, enough to take the Company through the initial research, design, and prototype phases. Investors include Venrock Associates, Asset Management Capital Company, Matrix Partners, Sutter Hill Ventures, and Warburg, Pincus Investment Inc.

In our first year we have met our milestones and have assembled a highly qualified design and development team. Employees have come to us from Apple, Xerox, Dysan, NASA, Lockheed, Rapicom, Qume, and other organizations. Software prototypes have been completed and are in daily use. This document was produced in its entirety, with the exception of the financial statements and exhibits, with Information Appliance software.

Jef Raskin was the first President of Information Appliance, and became Chairman and Chief Executive Officer when Stephen R. Bowling joined the Company as President and Chief Operating Officer in October 1983. Mr. Bowling had been Executive Vice President of Qume Corporation since 1981, having joined Qume seven years earlier.

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II MARKET ENVIRONMENT

MARKET SIZE AND COMPOSITION

There is never any accurate measure of a new marketplace. The best we can do is examine history for products that seem to be in similar categories, or which would seem to compete for the same portion of the consumer's income. Furthermore, we cannot put excessive trust in published projections. When reports from different reputable sources disagree widely on sales figures for a year already gone by, it is hard to trust their prognostications for a year yet to come. The evidence we do present will come as no surprise: the size of comparable markets is huge.

We note that the worldwide market for personal computers with a retail price under \$1,000 totalled approximately \$850 million in 1982 according to InfoCorp. (See Exhibits II - 1 and II - 2 in the Addenda.) They expect the market to grow to over \$10 billion in 1987, representing an annual compound growth of 65%. The unit volume is expected to grow from 2 million to 17 million in the same period. We are pleased that they forecast the \$500 - \$999 price range of personal computers as showing the most dramatic growth in 1985-87. Our product is squarely in that segment.

However, Information Appliance is not just entering an existing marketplace, but expanding that marketplace. Our product has capabilities that will make it more attractive to many users who would otherwise have to buy more expensive products, and its simplicity and ease of use will attract consumers who heretofore have been intimidated by computer technology. The product does not fall into the traditional classifications of Business, Science, Education, and the Home. It will be targeted to individuals rather than to job functions or locations.

COMPETITION

The competition is formidable and aggressive. It ranges in size from IBM to small, and as yet unknown, start-ups. A long list of Japanese computer and consumer electronics companies, including NEC, Fujitsu, Sharp, Sony, and Casio, are targeting the personal computer marketplace. AT&T, spurred by de-regulation, may quickly become a major factor with its extensive communications capability. Tandy, Apple, and Commodore are well established with excellent name recognition and thousands of dealers. Computers such as the Coleco Adam and the Commodore 264 are aimed at the same price point and share some features with our product.

At the very least, the abundance of competition makes entry into the marketplace expensive--and if we wanted to penetrate the traditional personal computer market--nearly impossible. However, the existing companies are aiming in a different direction. A major component of that direction is compatibility, either with IBM, Apple, or with their own earlier products. This forces most competitive products to be inherently more complex than ours.

The makers of personal computers have effectively identified an explosive market and have created strategies to meet the needs of that marketplace. Information Appliance's product represents a new direction, and one that may well be invisible to current and future competitors. A bit of history may put

this observation into perspective. It has been common for new market opportunities to be overlooked by industry leaders. The mainframe computer companies did not see the potential of the minicomputer because most of their customers' tasks were outside the capabilities of a minicomputer. They missed the wide range of applications that were not economically feasible on mainframes but which fit perfectly on minicomputers. The minicomputer manufacturers ignored the microcomputers and relegated them to toy status for the same reason. We expect that present microcomputer manufacturers will not be able to see that what at first seems to be a "weaker" product (small memory, inexpensive processor, no expansion slots, no programming language or operating system) is actually a much stronger one in terms of potential customer base.

Breakthroughs competitive with the Company's products would more likely emanate from software developers. While, to the best of our knowledge, no product is even close to ours with respect to ease of use and utility versus price, a number of recently announced software products exemplify a trend toward unifying and simplifying software packages. However, the unification approach (such as Visi-on) adds a layer to the existing software rather than achieving a true simplification. CP/M, UNIX, and similar operating systems are very computer-oriented, and are being supplemented by shielding programs that are more human-oriented, but which themselves operate the operating systems. The prevalence of such shields demonstrates the inadequacy of the original operating systems for today's market.

The current approach of offering a bewildering variety of software packages and a multiplicity of hardware options alienates many potential personal computer users. Our product is designed to appeal to a new and broader customer base, while avoiding head-to-head competition with conventional personal computer and game/home machine manufacturers.

HOW WE WILL SUCCEED

Although the market for microcomputer systems is expanding dramatically, the number and nature of the competitors require Information Appliance to do many things well to succeed:

- * We must achieve differentiation from traditional personal computers in the eyes of the consumer.
- * Our product must fulfill its promise of simplicity, reliability, and broad-based usefulness.
- * We must earn shelf-space and motivate retailers and mass merchandisers to sell our product.
- * We must achieve high volume, low cost manufacturing performance rapidly.
- * We must aggressively meet the future by continually evaluating evolving technology, and presenting a series of price-sensitive products to meet the needs of the marketplace.

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III OBJECTIVES AND STRATEGIES

DIFFERENTIATION FROM PERSONAL COMPUTERS

The most basic challenge confronting our marketing effort will be the differentiation of our product from personal computers on one hand, and the inexpensive "toy" computers on the other. Meeting this challenge is crucial to our ability both to target our product for an expanded market, and to minimize head-to-head competition with established manufacturers.

We cannot afford to re-educate our customer base. Therefore we will begin with the current public understanding of personal computers and proceed to

- a) position our product as the successor to the personal computer, and, at the same time we must
- b) reposition the personal computer as "old wave" technology.

We feel that there will continue to a major role for the personal computer in the future, but it will increasingly be seen as a specialized tool, overpowerful, too costly, and too difficult to use for the tasks our product does so easily and so well.

Our product incorporates the typical components of a personal computer, such as a display and a keyboard, so it will not seem strange. Yet it is different enough so that we can achieve the desired positioning. In particular, the consumer will not have to load and run operating systems and applications programs, or learn the modes and 50-100 commands which typically characterize their operation. Instead, fewer than 15 commands will be needed to accomplish most of the tasks for which personal computers are generally used. It is our belief that this radical simplification makes our product so approachable for the consumer that it will truly be perceived as an appliance, reliable and simple to use, rather than another of the myriad personal computers competing for attention and shelf space.

The final key to differentiating our product is substantial investment in innovative and bold advertising and publicity campaigns. We are confident that the inherent simplicity of our product gives it outstanding public relations appeal. Indeed, we should actually be able to teach a television viewer how to begin using the product in a sixty-second commercial. Top-flight advertising and public relations firms will assist us in developing a comprehensive program to exploit this basic consumer appeal.

PRODUCT PERFORMANCE: SIMPLICITY, RELIABILITY, UTILITY

While others are trying to integrate the major applications of personal computers into single programs (an approach which yields huge, expensive products such as 1-2-3) we have designed an appliance dedicated, from the design of the keyboard to the choice of the chips, to the tasks people do most with this technology. As a result, our programs operate faster than the much more expensive integrated packages--even when they run on expensive machines such as the IBM PC, Lisa, or Macintosh--take less space (for example 32K bytes instead of the nearly 200K bytes that 1-2-3 requires), and is far easier to learn to use.

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Our product is an exceptional text editor, a good information retrieval system, a handy calculator, has the ability to communicate with others of its kind and with external services and other brands of computers, provides automatic text formatting, and introduces the concept of calculations-in-context which is superior to spreadsheets for many applications.

Several factors will allow us to achieve the anticipated benefits of our integrated approach. Of key importance is the fact that all of our software has been based on psychological principles which allow us to design a uniquely consistent and superior human interface. Apart from the system's few commands and integrated environment, its unique feel is based upon the principle of modelessness: that the same actions will not produce different results depending on special aspects of the program. To our knowledge, no other computer system has achieved modelessness while integrating many applications as we have, and this breakthrough in design has not only produced a satisfying product to use, but one that will be recognized as an important influence in the industry.

Unlike personal computers, our products will arrive in a ready-to-use state. Consumers will not have to confront motherboards or slots, and will not have to choose between confusing peripheral options. The product will be ready to use just as soon as it is plugged in, and will require no start-up commands, and no disks or programs to load.

Extensive testing will be the key to insuring that the product achieves in practice our design goals of simplicity, reliability, and utility.

MASS MARKETING

Distribution patterns for personal computer products are expected to change significantly in the years ahead. A study by Best Products Co., appended as Exhibit III-1, concludes that sales through specialty computer stores will become less important, while sales through discount and drug stores, toy stores, department stores, and catalog outlets will increase dramatically. Our products, due to their simple, ready-to-use nature, are ideally suited for such distribution channels.

Not only will consumers feel comfortable buying the products without special training or advice, but sales people will be drawn to them as well, since demonstrations will be quick, easy, and effective.

To attract dealers, we will stress prompt deliveries, good margins, and timely marketing support. We intend to launch a major promotional effort for our product and will develop attractive arrangements for cooperative advertising. Moreover, we shall have separate "Consumer Care" toll-free numbers for dealer and user inquiries, which will emphasize to dealers that we are prepared to respond to after-sale support issues.

Service will be provided by a respected nation-wide service organization. For several reasons, servicing our machines will be a much easier and reliable process than with personal computers. In the first place, there will be only one version of our product, whereas a personal computer presents as many faces

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as the hardware and software options it supports. Additionally, our product has been specifically designed to reduce the number of connectors and separate circuit boards as much as possible, making it simpler and more reliable to begin with. While we therefore expect fewer service problems, those that do occur will also be easier to locate and remedy, since our product will incorporate a diagnostic port to allow automated testing.

Our emphasis will be on selling to mass market chains such as Sears and J.C. Penney and large discount organizations. We expect to attract the attention of such mass market retailers because our product will fit into their inventory without directly competing with their existing lines, and our product will offer exceptionally high customer satisfaction and an unusually low rate of complaint or return.

HIGH VOLUME, LOW COST MANUFACTURING

We plan to be able to quickly achieve high volume, low cost manufacturing primarily because our product design and component selection have been driven by the requirement that the product allow fully automated assembly and testing. We have been careful to incorporate parts for which several sources exist, and the product design is based on a single printed circuit board, containing the keyboard and all electronics.

Actual production will be accomplished by a contract manufacturer with demonstrated capability for quality, prompt delivery, and low cost. Candidates in the U.S. and the Far East will be evaluated. The parts count and cost has been minimized. Assuming U.S.-based manufacture with a 50,000 unit annual volume, the current bill of materials is estimated as follows:

PC board.....	\$ 5
Processor.....	4
Components.....	25
RAM (64K).....	48
ROM (32K).....	12
Power Supply.....	8
Keys and Keytops.....	12
Case.....	10
Modem parts.....	5
Display.....	20
Mass Storage.....	50
Shipping Package.....	5

TOTAL \$204

While the costing above would allow us to price our product under \$800, we expect to achieve lower costs and pricing through a manufacturing relationship.

MEETING THE FUTURE

Our success as a company depends on our ability to meet the rigorous demands of the marketplace, to evaluate rapidly evolving technology, and to protect and exploit the benefits of the novel paradigm we have developed.

Consumer recognition and a quality reputation are the cornerstones of permanence in the marketplace. Only quality, and a coherent series of products sharing the benefits of our original machine will secure the broad-based market penetration we seek. It is market penetration which we feel will protect our position when competitors seek to emulate our approach.

We naturally protect our innovations as trade secrets and will continue to do so. We are attempting to protect rights to our cursor-control technique, a key element in the unique interface of our product, under the patent laws. Nonetheless, we may expect emulation if we are successful, and must assure that our products continue to represent simple, reliable, and eminently useful solutions to information needs. An important key will be our price sensitivity, and the skill we exhibit in bringing the best of information technology to the general public in as affordable and coherent a fashion as possible.

Ultimately, our confidence in our ability to meet these challenges rests in our confidence in our staff.

IV PEOPLE

No company, however good the product and receptive the marketplace, can work without people of quality. At the present time, the company is moving from the R&D phase to a more marketing and production oriented phase. Skills representing this change are being added to the roster.

Jef Raskin, Chairman and Chief Executive Officer

Mr. Raskin is experienced both as an executive and as a computer scientist. At Apple Computer Inc., he held the title of Manager of Advanced Systems and created the Macintosh computer project. He was responsible for the initial marketing plan, computer architecture, and project staffing. He designed the Lisa product's screen architecture and many features of the user interface, introduced a number of software products to Apple, including Pascal, and, in the early days of the company, was Manager of Publications. He is a past chairman of the ACM's Special Interest Group in Personal Computing.

Before joining Apple he founded Bannister & Crun, a software and documentation firm; he was Third College Computer Center Director and a professor teaching computer science at the University of California at San Diego. He has a M. S. in Computer Science from Pennsylvania State University, a B.S. from the State University of New York at Stony Brook, holds a number of patents, and has held various elected and appointed positions in computer, civic, and charitable organizations.

Steve Bowling, President and Chief Operating Officer

Mr. Bowling is an experienced executive. He joined Qume Corporation in 1974 as Chief Financial Officer when the company had cumulative sales of \$10,000. During Qume's growth to a \$200 million per year company, he was also

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responsible for operations, including management of offshore facilities, marketing and sales, and new product management. His final position at Qume before joining Information Appliance in September, 1983, was Executive Vice President.

Prior to joining Qume, Mr. Bowling spent three years as the Treasurer of Buttes Gas and Oil in Oakland, California, and three years as a management consultant with Touche Ross in San Francisco. He received his B. A. from Williams College in 1964, and his M.B.A. from Stanford University in 1968. Mr. Bowling and three co-founders of Qume were the recipients of the Entrepreneur of the Year Award given by Harvard University School of Business Alumni Association in 1979.

James Winter, Consulting System Designer

Dr. Winter will work on software systems design on an expenses-only basis. He is presently Assistant Professor at the University of California, Los Angeles, specializing in medical computing and computer image processing. He has twenty years of experience in computer applications and computer systems design, concentrating in the computer tomography field since its inception eight years ago. He has published widely, and holds many honors and awards. Dr. Winter received his Ph.D. degree from the University of California, Los Angeles, for research on computer image processing. He is also a physician, holding an M.D. degree from Jefferson Medical College of Philadelphia.

James Lewis, Corporate Counsel

Mr. Lewis is in charge of corporate legal matters, a member of the California State Bar, with a B.A. from Yale College, and a J.D. from the University of Santa Clara Law School. His area of expertise is General Business Litigation and Corporate Law, in which capacity he has previously worked for the San Jose law firm of Anderson, Sprinkles & Maser. Mr. Lewis has a special interest in the legal aspects of computers and high technology companies.

John Bumgarner, Manager of Software Development

Mr. Bumgarner has over twenty five years experience in hardware, software, and manufacturing. While specializing in FORTH, he knows many programming languages; he is a member of the FORTH Standards team and teaches FORTH at both the elementary school and university levels. Mr. Bumgarner received his B.S. in Astronomy from San Diego State University. Before joining Information Appliance he was founder and manager for Forward Technology, Systems Engineer and programmer at FORTH, Inc., Senior Member of the Technical Staff at ESL, Inc., and a staff programmer for Dysan. He is also a co-author of the FORTH implementation and the manual for the Rockwell AIM-65 FORTH.

Ralph Voorhees, Manager of Fabrication

Mr. Voorhees will build all physical apparatus necessary during the prototype phase. He brings to the company over 20 years of experience working with precision sheet metal, plastics and composite materials. His previous employers have included Precision Metal Fabricators, Rohr Corporation, Northrop Corporation and Lockheed. He has worked on a number of NASA projects.

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Annette S. Scipio, Internal Services

Ms. Scipio has an M.B.A. from the College of Business Administration of the University of San Francisco. She has international business experience, and has worked in Marketing and Sales for the Xerox Corporation's copier division, as well as a credit analyst for Wells Fargo. Ms. Scipio is responsible for accounting, treasury, and administrative services.

Minoru Taoyama, Manager of Hardware Design

Mr. Taoyama is responsible for hardware design and supervises the electronic portion of prototype fabrication. He has several years experience in both digital and analog design, and is a proficient programmer. Prior to joining Information Appliance, Mr. Taoyama was an Engineering Technician at Rapicom and an independent consultant. Mr. Taoyama attends the University of Santa Clara.

Renwick E. Curry, Programming and Testing

Dr. Curry received his Ph.D. in engineering from Massachusetts Institute of Technology, where he subsequently acted as Associate Professor of Aeronautics & Astronautics, teaching man-machine systems and control estimation theory. From 1976 until his association with the company, he was leader of the Advanced Concepts Group at NASA Ames Research Center, conducting research and development on the interface between automation and people. He is expert in a number of programming languages, and applies his considerable human factors expertise to both the design and implementation the company's software development.

Terry L. Holmes, Software Development

Mr. Holmes received a B.S. in Computer Science from the University of San Francisco in 1978. Since that time, he has worked as a software consultant for a number of companies, and for 3 years as a mathematician and software designer at Stanford Linear Accelerator Center. Mr. Holmes is expert in several assembly and higher level programming languages, and has been the principal implementor of the company's present software designs.

Charles T. Springer, Systems Engineer

Mr. Springer graduated from the University of Puget Sound with honors in experimental physics in 1977. He has subsequently applied his broad-based knowledge of physics, software, and hardware to the design and construction of complete research systems, and varied instrumentation packages.

Deborah L. Clifford, Writer and Editor

Ms. Clifford received a B.S. in journalism from Boston University's School of Public Communications. From 1980 until joining Information Appliance in January of 1984, she worked as a news editor, and subsequently became national wire manager for a corporate financial and public relations-oriented wire service based in San Francisco. She has written and designed a number of publications.

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Scott Kim, Graphics Design

Mr. Kim, a part-time employee, is presently a doctoral candidate at Stanford University in computer science. He is a well-known calligrapher and graphic designer, author of the popular book *Inversions*, and is an expert in problems of digital font design and typography. Mr. Kim is responsible for the design and implementation of fonts for the company's products, and has a special interest in the company's marketing and advertising.

Marlena Witt, Executive Assistant

Ms. Witt has acted as Jef Raskin's executive assistant at Bannister & Crun, and at Apple Computer Inc. She continues to assist Mr. Raskin, Mr. Bowling, and Ms. Scipio in that capacity, and has also acted as company librarian, contributing as well to hardware purchasing efforts.

Richard Krause, Prototype Engineer

Mr. Krause graduated from Yale College in 1977, and since that time has acted as a management consultant for the Alexander Proudfoot Company. Mr. Krause has had extensive experience with machine tools, drafting, and mechanical design, particularly in the context of prototype development. He assists Mr. Voorhees in prototype design and fabrication.

Board of Directors

Members:

Jef Raskin
Steve Bowling (pending)
Linda Blum, Corporate Secretary
Craig Taylor, Asset Management
Glen McLaughlin, Matrix Partners
Phil Boyce, Pacific Valley Bank

Observers:

James Lewis, Corporate Counsel
Henry Smith, Venrock Associates
Bill Younger, Sutter Hill Ventures
Nissan Boury, Warburg, Pincus Investors
David Karetsky, Berkeley Associates
Lee Boysel

V PRODUCT

The Company's initial product offering is a blend of hardware and software, where both elements are designed from the beginning to work together. Most of our competitor's products were designed from the hardware point of view, and today's software was designed to fit existing hardware. The user has to deal with both hardware and software simultaneously. Our product makes a substantial contribution to the state of the art in terms of ease of use by creating a system where the two aspects are melded into one simple, unified, scheme--one which doesn't require the user to even know that the appliance has both hardware and software aspects. It just gets the job done.

Technically, the product is a single-board device with an outboard power supply. The major functional components are as follows:

6502A CPU operating at 2 MHz
64K bytes of dynamic random-access memory

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32K bytes of read-only memory containing all software
Bit-maped video generator and CRT driver with external video output
Transducer for audible signals
Auto-answer, auto-dial modem with software tone generation and control
Real-time clock
Disk drive interface
Power conditioning circuits
57 position keyboard and interface circuits
Power, video, phone, serial, printer, and diagnostic ports
Timing and "glue" circuits accomplished with programmable parts.

We use an external power supply which not only gives the perception of a smaller and lighter product, but it eliminates the need for safety agency approval for the product--only the remote transformer will require certification. In addition, the same system can operate internationally without modification except, in some cases, for a few key cap changes. The design allows vehicular and battery operation, and the physical package includes a handle, a 7" monochromatic CRT and a half-height 5 1/4" floppy disk drive.

FCC and foreign regulatory requirements that place limits on radio emissions will be met. Having a one-piece unit, with no user changeable elements inside, greatly eases our burdens in this respect when compared to our competition. Most of the expense of EMI protection is in shielding the connectors and ports that abound on other products. Appropriate consulting firms will be hired to assure compliance in these areas.

Software implementation is straightforward and is being done on existing computers, with available system development software. We require no breakthroughs in implementation techniques, even if the specific code developed will be itself as unique as the task it has to perform. We will avoid the slow assembly-language approach by using FORTH as our development language. FORTH also facilitates the design of a compact and responsive product.

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VI MILESTONES

Secure second round financing	April	1984
Commence user testing	April	1984
Conclude manufacturing negotiations	July	1984
Ship evaluation prototypes	September	1984
Release case tooling	September	1984
Test user manuals	October	1984
Production	January	1985
Delivery of product	February	1985

VII CORPORATE STYLE

It is no success to make money and alienate people; indeed, in the long term it may be impossible. Essential for achieving good relationships among the people involved in the company are: mutual respect, especially from supervisor toward supervisee; giving credit where due and public recognition of performance; good working conditions and excellent benefits; freedom of hours and flexible organization; sharing of profits among all who make the profits possible; allowing all employees to work to the best of their abilities; elimination of sexism, racism, and ageism as well as religious prejudice; and provisions for people with handicaps or other special needs, such as working parents.

Similarly we shall, by word and deed, attempt to achieve good and mutually beneficial relationships with our vendors, dealers, financiers, and especially with our valued customers. It is our belief that negotiations should lead to agreements that are maximally beneficial to both parties, and that adversary proceedings whether in negotiation or litigation are to be avoided if at all possible.

It is our belief that if you care for others, they will care for you, and that these principles are essential for long-term profitability of the company as well as the personal happiness of management, other employees, and our customers.

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VIII FINANCING

Information Appliance plans to issue by May 1984 an additional 2,000,000 shares of preferred stock at \$2.00 per share. The table below shows the ownership of the Company after this \$4,000,000 financing.

	Shares (000)	Investment (\$000)	Ownership %
<u>Preferred Stock</u>			
Asset Management Associates	200.0	\$ 200.0	4.57
Matrix Partners	200.0	200.0	4.57
Sutter Hill Ventures	200.0	200.0	4.57
Venrock Associates	200.0	200.0	4.57
Berkeley Associates	70.0	70.0	1.60
Warburg, Pincus Investors, Inc.	70.0	70.0	1.60
Other	95.0	95.0	2.17
New Preferred Issuance	2,000.0	4,000.0	45.73
Total Preferred	3,035.0	5,035.0	69.38
<u>Common Stock</u>			
Sales to Management and Employees	1,328.5	145.9	30.38
Approved and In Process	10.7	1.4	0.24
Total Common	1,339.2	147.3	30.62
Total Equity	4,374.2	5,182.3	100.00

In addition to the outstanding shares shown above, 660,800 shares of common stock have been reserved for purchase to attract key personnel.

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