

*All follow up responses
to this memo from Ken
are attached.*

*H
3/31*

I N T E R O F F I C E M E M O R A N D U M
C O R M T S A L L - I N - 1 S Y S T E M

Date: 28-Mar-1989 11:37am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: LETTER TO EMPLOYEES

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I would like to send this letter out to all our employees. I am not sure if it should be sent as a letter or if it should be put in one of our publications, but it should go out immediately. I'd like everyone who should be involved to immediately drop everything they are doing to work on this letter to make sure the numbers are correct and get it out right away. We should assume it will find its way to the press, to the financial community and to competitors.

I don't want people to water it down so that it's blah and boring and says nothing and makes things seem worse. I'd like to tell the truth straightforwardly, but I am not afraid to make it exciting and to put things into the true perspective. I am terrified that, by the time it gets processed by everyone, it will be watered down to be dry as a stick.

TITLE: DIGITAL AND THE STOCK MARKET

In this last year, we have changed about 75 percent of our product line and have drastically increased the speed and capacity of our products. We have introduced many new, exciting products that we think will change the world of computing and also change our Company. The \$4.5 billion dollars we've invested in R&D and new product development in the last three years or so, we believe will show the world how computing will be done in the future.

There is a risk in this plan. I don't believe that any company our size has invested so heavily and changed their product line so dramatically. We've closed plants, shut down operations, and reallocated resources. The products that we planned two and three years ago are here today and better than we ever dreamed. We've told analysts, reporters, and customers that we might

introduce products and introduce the capability of our products faster than customers can grow their need for products and faster than they can train our sales people and our customers to use them.

We've been very careful not to predict our order rate or our profit rate during this time of great product excitement and enthusiasm. Today, the stock market wants stability and predictability and has little enthusiasm for the future or new technology, but we feel that it's clear that, in our business, when we have the technology and have the products we have to announce them and try to explain the short term risks to our stock holders. We believe it's very good business and it's good for the Company to jump at the opportunity to double the capacity of our products at a lower price.

We've also made significant improvements in efficiency in the organization. We now use a lot less inventory and still ship almost every order immediately upon receipt. We've dramatically increased our efficiency by use of technology and use of computers and by just being smarter. One of the results is that we do have surplus plants and people that we do not fully utilize, but we feel with the growth due to our new products (.....Tape went blank. Please complete.)

Last week we were accused of leaking information about profits for this quarter to an analyst. Just the opposite was true. A 2 percent change in the shipments for the quarter could make a 15 percent change in profit for the quarter. We usually make a pretty good profit, but this time with dramatic product improvements, we cannot, even for our own planning, predict the profit level for the quarter, and in no way would we make believe we could predict it.

For the last 32 years, it has been our goal to change the way the world does computing. The result has been, for most of the 32 years, severe criticism from those people who want stability and predictability.

It seems clear that, after a few years, there will only be two or three full line computer manufacturers in the world. We clearly plan to be one of these. We are willing to suffer the criticism for lack of stability. There have been a number of computer companies who put stability and predictability as the highest priority and stockholders can always invest in those, but most of them are not with us any more, and it's not clear that the rest of them will be with us much longer.

KHO:dao

KO:2808

Dictated on 3/27/89, but not read

Distribution:

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