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I N T E R O F F I C E M E M O R A N D U M

Doc. No: 027402
Date: 09-Mar-1992 11:51am EST
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

TO: *Win & others*
See Below

Subject: ENGINEERING BUDGET PRESENTATION - 26 MARCH 1992 BOARD MTG.

We have promised the Board of Directors a presentation of our Engineering budget for the March meeting. We have been working on this for several months. This budget is an update of the yearly budget upon which we have been operating since last June. It is unimportant that we have precise numbers, but it is important that we have numbers for all parts of the budget.

For those parts which we have not updated, or have not made decisions, we will budget for the last quarter of this year what we budgeted last June, and we will promise that for the June meeting we will have a five quarter updated budget.

Following is a letter I plan to immediately send to the Board of Directors. If you have any corrections, please give them to me right away:

We promised to give an overview of our Engineering budget and the quarterly five quarter update for the quarter starting April 1. If possible, I would like to make this an extra long meeting so we can spend time giving a detailed overview. We will not have time to go into the strategy or the logic behind it all, but we can explain, in some detail, how the budget breaks down and how it has fit together the last few years.

Each of the presentations will explain how much we have spent in the last few years in different categories. We will present the budget as it was on the first of this fiscal year, and will explain what we have done and what changes we have made since then. Thirdly, we will propose our budget as we see it now for the next five quarters. In some areas our plans are not clear for the next five quarters, in which case, we will state it as such and restate the original budget for the next

quarter.

I would like to start our meeting at 9:00 a.m., and complete the formal business as quickly as possible so we can spend time reviewing our Engineering budgets.

The schedule I propose is as follows:

9:00 - 9:30 Formal Business

9:30 - 10:30 Bill Strecker will give an overview of our Engineering budget, not by strategy, but by product category. He will itemize all the laboratories around the world. He will present the budget for each one, identify who they report to and where the budget fits in the scheme of things, with a few words as to what they are working on.

Bill will itemize all the overhead structure: how much each one costs; who they work for and who controls them. Bill will make a very brief outline of our R&D budget and the location of the laboratories. He will say a few words about university research and what it is expected to contribute to the Corporation.

Bill will then outline the various product development groups: who they work for; what products they develop; and the overhead structure and costs.

Bill will present what we spent in each of the last three years, what we have spent for fiscal '92, and what we expect to spend for the next five quarters.

10:30 - 11:30

Bob Palmer will review our semiconductor budget and, in particular, outline the cost and the success of the major chip development such as nVAX and ALPHA, and the varieties of MicroVAX. He will also tell of our policies and how we make decisions on ASIC and other specialized semiconductors.

Bob will also tell what we are doing and the success so far in designing and manufacturing our own PCs. I would also like Bob to present the U.S. Catalogue sales model for PCs--how much of the cost per unit is advertising, catalogue costs, overhead, order processing, etc.

In the future, we will report to the Board at every meeting the unit cost and the other costs involved with PCs. We will also track this information every month.

11:30 - 12:00

Charlie Christ will review our budget for disks, tapes and memories for the last three years: what it was at the beginning of this year; what we have accomplished; and the budget for the next five quarters.

Charlie will also list all the people doing database platforms; the budget for the last three years; the budget this last year for each of the groups; and the budget for the next five quarters for database platforms.

12:00 - 1:00

Lunch

1:00 - 2:00

Bill Strecker will review the budget for the last three years, this last year, and the next five quarters for each of our computer groups and for each of the computers within each group. For those computers built this last year and those we are planning to finish or start in the next five quarters, Bill will present the total cost of a new computer, of which only a small part is the actual electronic design of the computer. The major part is the design and production of special ASIC, the industrial design, sheet metal, plastic molds, cables, connectors and all the things that go into inventory before a computer can be manufactured; the things that have to go into the Field inventory to service the units, and all the

things that get thrown away when production ceases. Then, all the training courses, literature, marketing and documentation will be presented for the machines we built in the last three years and what we expect to build in the next five quarters.

2:00 - 3:00 Bill Strecker and Dave Stone will present a review of our operating systems including those that are Intel based, MIPS based, VAX based and ALPHA based.

3:00 - 3:15 Dave Stone will review our budgets for Office and LANs.

If we have time, I would like Charlie Christ to discuss the general plans for Office, departmental and small business computing, and to outline the quick products being generated in order to fill a gap in our product line. I would also like Frank McCabe to outline the engineering projects he does and does not need to fill the Global Information Systems product line.

Bill Johnson is running our ever growing number of Industry Marketing groups. We are encouraging them to finish those engineering projects and products that, although specialized for an industry, will be key to success in that industry. We might discuss BJ's plans during lunch.

This is a lot to cover, but we will put it on paper and will present it to you in an overview form, thereby allowing us to discuss freely with you our problems and the solutions we are working toward.

KO:6735
(DICTATED 3/9/92)

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