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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

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Subject: PLAN FOR PROFIT

We are, of course, doing the Plan for Profit mainly to return to profitability and we are using the Board of Directors as a vehicle to help us.

I am now suggesting we make the plan for the last four quarters, ending in Quarter Three of 1992, and for the next four quarters starting Quarter Four of 1992. Each group will make a different presentation depending on the problems in each of the businesses. I think workstations is an interesting example. For the last twelve months, they should report on the list of projects on which they worked--how much was spent in engineering, tooling, inventory, and the other costs of starting production. Then, the same should be done for the next twelve months.

We should point out what projects we have canceled, what products we have introduced and what we are doing to save money.

Some of the things we are doing to save money in the workstation business we will not be able to do until there is a next go around of products. I think the modular approach will save an enormous amount of money in engineering, tooling and inventory, and also make it much more profitable because the time to market will be very short. However, we will not be able to show much of this during the next twelve months, yet it should be pointed out.

One of the questions which came up during Bill Strecker's presentation at the last Board meeting was the amount of money we have invested in ULTRIX and ULTRIX products, how little we have sold and how unprofitable they have been. We might take time to explain how much we spent on ULTRIX software and hardware and why we did not sell enough to be profitable. This might come under workstations or under operating systems. My guess is that we did not have a stable plan during that period nor was there a plan to

ensure all commitments were kept. Whatever the case, I think it will take some explanation, somewhere, because of the large amounts of money lost.

In each grouping, the money made and lost on each product should be pointed out and a specific comment made as to what we are doing to make them profitable. A good portion of the Company has pointed out that the major problem is Fault Tolerant, and they feel if we solve that everything will be fine. It would be good to identify what we lost on Fault Tolerant last year, what we will lose next year and what the promise is.

The numbers should approximately add up so the Board feels we are not hiding anything and so that we understand all the details. I have yet to find out, after asking for years, how much the overhead is in product development. We should also know what the overhead is in getting things into production. However, we are not going to review Manufacturing at this meeting except when it bears on the cost of products. How large is the staff that takes things from Engineering and into production?

The whole world is driving hard for speed and getting products into the Field. We should show a great interest in this and point out what we have been doing and what we plan to do to speed this up. Modular computing is a key part of this because we do not have to reinvent everything and test everything every time. Another major cost has been the difficulty in designing systems in the Field. The cost of sales has been very large because we have not been systems engineering our products so they fit together readily, and we have not worked hard to make sure we have all the odds and ends and little pieces of software and hardware which make them go together. It might be very worthwhile to figure out, for our sake and then to tell the Board, why the cost of sales is so high. How much is due to the fact that it is impossible for our sales people to understand the myriad of products we have, design systems from them and go outside to buy the missing pieces? How much of the loss is due to the fact that the Sales department is incompetent and there is too much overhead. My guess is that a big part of the problem is in the products themselves.

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