

*When is tech eval  
Is Warren techly qual?  
Who controls performance - & status reports  
? product  
? system*

I. MANAGEMENT OVERVIEW

INTRODUCTION

*Warren reports where was this done?  
Is marketing committed*

The purpose of this section is to provide a management overview to the 1380 Product Program. The best perspective is provided by the formal presentation, "Communication Controller Program, An Executive Overview," presented to senior Memorex management on July 18, 1975.

As the Presentation is reviewed, starting on Section I, Page 4, it is recommended that the following additional points be noted.

Page 5 - Agenda -

The Financial Summary presentation has been kept to a minimum by including only the key summary charts. All the financial charts shown are included in the Financial section of the Product Plan, Section IX.

Page 6 - Business and Strategic Objectives

Point 5. Specifically, Memorex is analyzing the IBM CRT market place and the existence of a Communication Controller will greatly enhance Memorex's ability to penetrate that market as well as other operator-oriented terminals in the Data Processing and even in the Word Processing market places. Additionally, it is anticipated that other terminal vendors will want to work with Memorex to help them attach their products to IBM Data Processing Systems.

Additional Point. When the Communication Controller Program is placed in perspective of Memorex's overall revenue position and future revenue objectives, it is quite clear that this Program requires the entry of a Memorex programmable unit to

extend and maintain our position in the communications market. At the present time, communications products represent a small share of the Equipment Group's worldwide revenue, but it is planned to increase this share by the 1980 time period. At the same time, the communications market is growing rapidly and even with successful programs, Memorex's market share of the total market is projected to be quite small. These projections are summarized below:

IBM COMMUNICATIONS MARKET

ANNUAL REVENUES

(\$, M)

	<u>1975</u>	<u>1980</u>
Equipment Group Revenue Objective	137	310
Storage Product	115	202
Communications Products	22	108
Communications, % of Total	16%	35%
Domestic IBM Communications Market	612	1,644
Communications Controllers	126	390
Terminals	486	1,254
Memorex Market Share	3%	5%
Communications Controllers	10%	6%
Terminals	1%	5%

Page 8 - Rationale and Advantage of CCI Program -

Additional Point. There is an additional advantage of announcing and implementing this program now in that it will have a very positive impact on the Field Sales organization as opposed to waiting another year for the in-house 1370 program.

Additional Point. There is an additional advantage in the fact that the CCI product line should be attachable to non-IBM CPU's

and older IBM CPU's Such as 360's. Three to five years from now the program will have good residual value opportunities for utilization on IBM and non-IBM CPU's which may not be at the state-of-the-art in the 1980 time period.

**COMMUNICATION  
CONTROLLER  
PROGRAM**

-----  
**AN  
EXECUTIVE  
OVERVIEW**

**W. H. Warren  
Business & Product Planning  
July 18, 1975**

AGENDA

- BUSINESS AND STRATEGIC OBJECTIVE
- ALTERNATIVE IMPLEMENTATIONS
- RATIONALE AND ADVANTAGE OF CCI PROGRAM
- KEY ELEMENTS OF PROGRAM:
  - SUMMARY OF TERMS AND CONDITIONS
  - SUMMARY OF FINANCIAL STRUCTURE AND AGREEMENT TERMS
- FINANCIAL SUMMARY
- CONCLUSIONS AND RECOMMENDATIONS

## COMMUNICATIONS CONTROLLER PROGRAM

### BASIC BUSINESS OBJECTIVE

TO PROFITABLY PARTICIPATE WITH MINIMUM RISK IN THE RAPIDLY GROWING COMMUNICATIONS BUSINESS IN A MANNER THAT ENHANCES OUR TOTAL PRODUCT OFFERINGS.

### STRATEGIC CONSIDERATIONS

1. MEMOREX HAS A SIGNIFICANT WORLDWIDE INSTALLED BASE OF NON-PROGRAMMABLE CONTROLLERS (1270'S) AND ALSO A PRESENCE IN THE TERMINAL MARKET. MEMOREX ALSO HAS AN OUTSTANDING REPUTATION IN THIS MARKET SEGMENT AND OUR CUSTOMERS ANTICIPATE WE WILL COMPETE IN THE PROGRAMMABLE CONTROLLER MARKET.
2. THE INTRODUCTION BY IBM AND RECENTLY COMTEN OF PROGRAMMABLE DEVICES IF UNANSWERED BY MEMOREX WILL ERODE THE WORLDWIDE BASE OF 1270'S.
3. SINCE THE COMMUNICATIONS CONTROLLER AS PRESENTLY CONFIGURED COULD REPRESENT A STRATEGIC RISK TO IBM'S FUTURE COMMUNICATIONS STRATEGY GREATLY IN EXCESS OF ITS REVENUE VALUE -
  - THE EQUIPMENT WILL IN TIME BECOME INCREASINGLY VULNERABLE TO HEAVY COMPETITIVE PRESSURE FROM IBM
  - THEREFORE, MINIMIZING CASH RISK IN TERMS OF BOTH TOTAL AMOUNT AND TIMING IS IMPORTANT
4. THE TECHNICAL KNOW-HOW ASSOCIATED WITH PROGRAMMABLE CONTROLLERS IS DIRECTLY APPLICABLE TO DEVELOPING HARDWARE AND SOFTWARE FOR BROADER FUTURE COMMUNICATIONS NETWORKS.
5. THE ABILITY OF MEMOREX TO CONTINUE TO OFFER "STATE OF THE ART" COMMUNICATIONS CONTROLLERS ENHANCES OUR OTHER PRODUCT OFFERINGS AND PROVIDES OPPORTUNITY TO OFFER OTHER COMMUNICATION PRODUCTS IN THE FUTURE.
6. CURRENTLY, THE ONLY "FULL LINE" COMPETITION OFFERING PROGRAMMABLE CONTROLLERS IS IBM. THE STRATEGIC IMPLICATION OF A COMPETITOR SUCH AS STC ADDING THIS PRODUCT TO ITS LINE OF TAPES, DRIVES, MEMORIES, ETC., WOULD BE SIGNIFICANT.

ALTERNATIVE IMPLEMENTATION

1. WITHDRAW FROM BUSINESS AND ATTEMPT TO SELL THE BASE OF 1270'S.
2. REMAIN IN MARKET FOR NON-PROGRAMMABLE UNITS BY ENHANCING AND REMARKETING THE EXISTING 1270 BASE.
3. PROCEED WITH AN INTERNAL 1370 PROGRAMMABLE DEVELOPMENT PROGRAM, IN ADDITION TO (2) ABOVE. *how far along* PROGRAM HAS BEEN IN PLACE FOR TWO YEARS WITH FCS SCHEDULED FOR 3Q 76.
4. ACQUIRE A PROGRAMMABLE UNIT OUTSIDE, IN ADDITION TO (2) ABOVE. OUTSIDE SOURCES CONSIDERED HAVE BEEN:

<u>COMPANY</u>	<u>OFFERING</u>	<u>DISPOSITION</u>
COMTEN	PROGRAMMABLE TCU	CONTACT--NOT INTERESTED IN OEM ARRANGEMENT.
HARRIS	TCU USING MINI	REJECTED--EQUALS 1270, WANT TO SELL PRODUCT LINE.
COMPUTER COMMUNICATIONS INC. (CCI)	PROGRAMMABLE TCU	CONCLUDING DETAILED NEGOTIATIONS.
FUJITSU	PROGRAMMABLE TCU	BRIEF DISCUSSION--DO NOT APPEAR TO HAVE MUCH DEVELOPED. MAY BE OPPORTUNITY TO SELL CCI UNIT AND/OR 1370.
DEC	MINICOMPUTER NETWORKS	NO DISCUSSION, HAVE OWN SALES AND SERVICE STRUCTURE.
INTER-DATA	TCU USING MINI	NO DISCUSSION, NO SUBSTANTIAL SOFTWARE SKILLS OR PROGRAMS.
UNIVAC	PROGRAMMABLE TCU	NO DISCUSSIONS, HAVE OWN SALES AND SERVICE STRUCTURE AND LITTLE SOFTWARE SKILLS, NO IBM CHANNEL.
ACTION COMMUNICATIONS	TCU USING MINI	NO DISCUSSIONS, NO SOFTWARE CAPABILITIES AND LIMITED PERFORMANCE.

RATIONALE AND ADVANTAGE OF CCI PROGRAM

PRODUCT

MEETS (95/100%) OF THE PRODUCT REQUIREMENTS FOR THE 1370 PLUS HAS SUBSTANTIAL FUTURE ENHANCEMENTS

MEETS AND SURPASSES COMPETITION'S CAPABILITIES, I.E. IBM AND COMTEN

CONSISTENT WITH PRESENT AND FUTURE MEMOREX COMMUNICATIONS STRATEGY

TIMING

CCI IS CURRENTLY DELIVERING PRODUCT TO MARKET PLACE AND ALLOWS MRX THE OPPORTUNITY TO ENTER THE MARKET 1 YEAR EARLY

*at a buyout cost of 3.75 of 5.5MM*

COMBATS COMTEN'S DISPLACEMENT OF THE 1270 LEASE BASE TODAY

FIELD CREDIBILITY AS THE 1370 HAS BEEN RUMORED FOR OVER A YEAR

DELAYS STC FROM GETTING COMMUNICATION PRODUCT.

RISK

A BALANCED RISK BETWEEN LARGE CAPITAL EXPENDITURE AND HIGH DEGREE OF COMPETITIVE PRESSURE IS AVAILABLE WITH THE CCI APPROACH

*? what in addition to Eng? how much? Ser or MRX*

CCI/MRX GOOD MATCH

COMPLEMENTARY TECHNICAL SKILLS OF HARDWARE ON THE MRX SIDE AND SOFTWARE ON THE CCI SIDE

*defining how do they fit in who manages?*

MRX HAS POTENTIAL OF SERVICING THE CCI INSTALLED BASE

MRX OFFERS POTENTIAL MANUFACTURING EFFICIENCIES CCI COULD CAPITALIZE ON

POTENTIAL MRX PRODUCT USAGE INCREASE BY USING DISC AND MEMORY ON CCI UNIT

OPEN NEW MARKETS THROUGH SHARED MARKET INFORMATION

*? two examples for \$5 MM*

JOINT VENTURE FOR FUTURE SOFTWARE DEVELOPMENT FOR NCP/SDLC REDUCES BOTH RISK AND CAPITAL INVESTMENT.

*only if sold that way*

WHO IS CCI?

FOUNDED IN 1966

OUT OF CHAPTER XI FOR ONE YEAR

1975 BUSINESS APPROXIMATELY \$5 MILLION (CURRENTLY PROFITABLE)

85 WELL QUALIFIED PEOPLE

CUSTOMERS ARE LARGE COMMUNICATIONS USERS:

SHELL OIL, LOCKHEED, MIDWEST STOCK EXCHANGE, ETC.  
COMPETE WITH COLLINS

CLOSE-KNIT DEVELOPMENT GROUP - WORKED TOGETHER AT CDC BEFORE CCI

MORE INTERESTED IN DEALING WITH MRX THAN BEING ACQUIRED BY STC

SUMMARY OF TERMS AND CONDITIONS

- PURCHASE AGREEMENT COVERING A THREE YEAR PERIOD OR 150 UNITS, OF WHICH FIRST 52 UNITS ARE FIRM  
*L 15 this their current output*
- OPTION TO EXTEND AGREEMENT INDEFINITELY BEYOND THE PERIOD
- OPTION TO INCREASE UNITS TAKEN DURING THE ORIGINAL PERIOD
- OPTION TO INCREASE UNITS TAKEN DURING THE ORIGINAL PERIOD UP TO FOUR UNITS PER WEEK (600 UNITS) UPON 90 DAYS NOTICE AND ADDED CAPACITY USING MEMOREX/LIEGE
- KEY FACTORS -
  - WORLD-WIDE EXCLUSIVITY (EXCEPT FOR C. C. I.)
  - MANUFACTURING RIGHTS
  - - DOMESTIC AFTER 50 UNITS AND CONTINUING UP UNTIL AFTER 200 UNITS
  - INTERNATIONAL IMMEDIATELY
  - ALL CURRENT AND FUTURE SOFTWARE AND HARDWARE DEVELOPMENT (IN THE AREA OF COMMUNICATION PROCESSOR SYSTEMS)
  - TECHNICAL DOCUMENTATION FOR TRAINING AND ONGOING SALES AND SERVICE ACTIVITIES
  - INITIAL TRAINING OF SALES AND SERVICE AND MANUFACTURING PEOPLE
  - INITIAL 4 CUSTOMER INSTALLATION SUPPORT X
  - ENGINEERING CHANGE CONTROL RIGHTS
  - UPON DEFAULT ALL MANUFACTURING RIGHTS AND TECHNICAL DOCUMENTATION (HARDWARE AND SOFTWARE) REVERT TO MEMOREX
  - X - THE INTENT THAT AFTER 1 YEAR MEMOREX ABSORBS C. C. I. SALES AND SERVICE ORGANIZATION AND IS THE SOLE DISTRIBUTION ARM FOR ALL C. C. I. PRODUCTS

SUMMARY OF FINANCIAL STRUCTURE  
AND AGREEMENT TERMS

*What happens?*

1. MEMOREX EXECUTED AN AGREEMENT ON JUNE 23, 1975 AND PAID \$300,000 TO CCI TO BE APPLIED EITHER:
  - A. UNDER THE TERMS OF AN EQUIPMENT PURCHASE AGREEMENT (OEM) IN THE EVENT SUCH IS FINALIZED AND APPROVED BY JULY 25, 1975; OR
  - B. IN THE EVENT THE EQUIPMENT PURCHASE AGREEMENT IS NOT FINALIZED AND APPROVED BY JULY 25, 1975, TO THE PURCHASE OF FOUR MACHINES AND \$50,000 OF SPARE PARTS THEREFOR TO BE DELIVERED WITHIN THE FOLLOWING NINETY DAYS.

2. IN THE EVENT THE EQUIPMENT PURCHASE AGREEMENT IS APPROVED BY JULY 25, MEMOREX SHALL PAY TO CCI AN ADDITIONAL:

- A. \$450,000 CASH: *who are? Who makes the agreement - Who wrote the contract*
- B. \$100,000 IN FIVE \$20,000 INSTALLMENTS AS CONTRACT MILE-STONES ARE COMPLETED; AND
- C. \$100,000 TOGETHER WITH INTEREST THEREON AT THE RATE OF 8% WITHIN TWELVE MONTHS AFTER THE DATE OF EXECUTION.

AND MEMOREX SHALL RECEIVE IN RETURN:

- A. 300,000 SHARES OF THE COMMON STOCK OF CCI (\$1.50 PER SHARE); *12/23/75*
- B. THE RIGHT TO MANUFACTURE AND MARKET THE CC-80 PRODUCTS WITHOUT LIMITATION SUBJECT, ONLY TO:
  - (1) THE OBLIGATION TO PURCHASE UNITS FOR DOMESTIC SALE, FROM CCI, UNTIL MEMOREX HAS EITHER:
    - (a) PURCHASED, OR COMMITTED TO THE PURCHASE, OF \$10,000,000 OF EQUIPMENT; OR
    - (b) PURCHASED, OR COMMITTED TO THE PURCHASE, OF \$2,500,000 OF EQUIPMENT AND PAID A ONE-TIME FEE OF \$2,500,000, REDUCED BY 1/3 OF THE TOTAL PURCHASES OF EQUIPMENT IN EXCESS OF \$2,500,000.

*is this 1380? how many have we sold?*

*5MM + 5MM above*

SUMMARY OF FINANCIAL STRUCTURE  
AND AGREEMENT TERMS

1380 Product Plan  
Section I, Page 12  
July 18, 1975 - WHW

- PAGE 2 -

- (2) THE OBLIGATION TO PAY ROYALTIES IN AN AMOUNT EQUAL TO 4.5% OF THE OEM PRICE, UNTIL A TOTAL OF \$5,000,000 HAS BEEN PAID.
3. PAYMENT TERMS FOR EQUIPMENT ARE FOR THE FIRST YEAR ONLY ARE:
  - 50% DUE ON DELIVERY
  - 25% DUE 30 DAYS
  - 25% DUE 60 DAYSAFTER THE FIRST YEAR TERMS ARE NET 30
4. COST REDUCTIONS IN MEMORIES, OTHER PCB'S, OR OTHER COMPONENTS, DUE TO MEMOREX'S PURCHASING POWER AND/OR OTHER MANUFACTURING ECONOMIES, ACCRUE TO MEMOREX 100%.

SUMMARY OF RISKS AND EXPOSURES

- IF IBM TAKES AGGRESSIVE ACTION TO CONTROL PROGRAMMABLE TCU MARKET-PLACE:
  - MEMOREX CAN MAINTAIN LOW LEVEL PROFILE PROGRAM OF 52 UNITS PER YEAR AND MANAGE THE 1270/CC-80 LEASE BASE.
  
- COMPLEX SOFTWARE MODIFICATIONS BY IBM COULD MAKE INTERFACING TO IBM NCP AND 370'S VERY COMPLEX:
  - IN THIS CASE, PROGRAM CAN BE SCALED DOWN AND DIRECTED AT THE MARKET SEGMENT NOT GOING TO NCP NETWORKS.
  
- CCI MAY NOT BE ABLE TO PRODUCE HARDWARE AND SOFTWARE ON SCHEDULE OR TO MEMOREX STANDARDS OF QUALITY:
  - MEMOREX HAS ABILITY TO MANUFACTURE PRODUCT AND TAKE OVER SOFTWARE IN CASE OF CCI DEFAULTING ON TERMS AND CONDITIONS.

RECOMMENDATIONS

- APPROVE CONTRACT WITH C. C. I.
- ANNOUNCE C. C. I. PRODUCT AS PART OF MEMOREX PRODUCT LINE BY AUGUST.
- CONTROL MARKETING DURING 3Q AND 4Q 75 OUT OF MEMOREX HEADQUARTERS TO PROVIDE SELECTIVE AND SUCCESSFUL INSTALLATION IN KEY AND CRITICAL ACCOUNTS.
- MANAGE PROGRAM TO MAJOR PROGRAM OBJECTIVES AND BUDGETS AND REVIEW IN DECEMBER 1975 TO MEASURE INITIAL SUCCESS.

enhancements to the said product line as well as related product development and maintenance activities which improve the basic unit and extend the life of the related technology. Such enhancements and developments generated during the initial term of this Agreement shall be deemed to be the property of and inure to the benefit of each party in its individual capacity. Additionally, the parties shall explore and pursue the most cost effective alternatives for manufacturing and sourcing of current and future products for worldwide markets.

- B. MRX may affix or cause to be affixed to all products purchased from CCI or manufactured pursuant to rights acquired hereunder any identifying mark or logo incidental to the worldwide marketing thereof which does not infringe the rights of CCI.
- C. MRX shall not for the term of this Agreement use the subject software on equipment other than that described in this agreement nor disclose or convey said software to other parties for use except on such equipment.
- D. MRX shall have continued rights in data to all software and all documentation delivered hereunder in perpetuity.

### 3. CONSIDERATION

In consideration of the rights and privileges contained herein, including but not limited to manufacturing rights and product technology, MRX agrees to pay CCI an aggregate amount of \$950,000 in accordance with the following schedules, and subject to termination and default provisions set out herein:

- A. \$100,000 cash payment, upon execution, and
- B. \$450,000 cash in consideration of a private stock placement as described in a separate agreement, and
- C. \$100,000 due and payable within twelve (12) months of date of execution, together with interest thereon at the rate of 8% from date of execution.
- D. \$200,000 cash payment upon execution for consideration of the manufacturing rights, and
- E. \$100,000 cash upon completion of those certain milestones described in Section 15 as follows:
  - (1) \$20,000 upon completion of Milestones A, B, C, E, and F.
  - (2) \$20,000 upon completion of Milestone M, Beta Site Acceptance.
  - (3) \$20,000 upon completion of Milestone N, First Quarter Shipments.
  - (4) \$20,000 upon completion of Milestone Q, Delivery of CCS Level 2.
  - (5) \$20,000 upon completion of Milestone R, First Year Shipments.

1380 (CC-80) PROGRAM REVIEW  
JULY 18, 1975

AGENDA

- FINANCIAL OVERVIEW
- BASIC FINANCIAL AND OPERATING ASSUMPTIONS
- DETAIL FINANCIAL CASES:
  - BASE
  - IMPROVED
  - IBM RESPONSE
- SENSITIVITY:
  - MINIMUM PROGRAM INVESTMENT
  - MEMOREX MANUFACTURE
  - INCREASE IN A.U.P. 17
  - OTHER BENEFITS (NOT IN FINANCIALS)

7/17/75

Date

## PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Organization

1380

Program

(Amounts in Thousands of U. S. Dollars)

## FINANCIAL SUMMARY

	LOW CASE	PROPOSED PROGRAM	HIGH CASE
<b>VOLUME</b>			
Lease	376 60%	376 60%	308 50%
Sale	240 40%	240 40%	308 50%
Total	616 100%	616 100%	616 100%
<b>REVENUE</b>			
Lease	\$ 38507	\$ 48134	\$ 39313
Sale	\$ 18207	\$ 22760	\$ 29385
Total	\$ 56714	\$ 70894	\$ 68698
<b>PROFIT BEFORE TAXES</b>	\$ 9214	\$ 23394	\$ 21361
<b>MAXIMUM NET CASH OUTFLOW</b>			
Amount	\$ 6320	\$ 4974	\$ 3988
Occurs	1977	1976	1976
<b>POSITIVE CASH FLOW OCCURS</b>	1978	1977	1977
<b>CASH BREAKEVEN OCCURS</b>	QTR 4 1979	QTR 2 1978	QTR 1 1978
<b>R. O. I.</b>	22%	71%	86%

1380 (CC-80) PROGRAM REVIEW

(\$ 000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>TOTAL</u>
<u>REVENUE:</u>							
BASE	44	7,777	15,812	23,048	12,913	11,300	70,894
HIGH	44	9,061	17,727	22,536	10,724	8,546	68,698
LOW	35	6,221	12,650	18,438	10,330	9,040	56,714
MIN	44	4,433	-	-	-	-	4,477

1380 (CC-80) PROGRAM REVIEW  
(\$000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Total</u>
<u>Profit:</u>							
Base	(1,376)	845	5,125	10,514	4,235	4,051	23,394
High	(1,376)	1,481	6,341	9,859	2,910	2,146	21,361
Low	(1,385)	(711)	1,963	5,904	1,652	1,791	9,214
Min.	(1,388)	1,193	-	-	-	-	(195)

1380 (CC-80) PROGRAM REVIEW

(\$000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Cash (Cum):</u>						
Base	(1,980)	(4,974)	(3,029)	4,901	13,065	20,564
High	(1,980)	(3,988)	(853)	8,208	14,146	19,821
Low	(1,985)	(6,320)	(7,440)	(4,113)	1,377	6,616
Min.	(1,980)	(1,106)				

1380 (C.C-80) PROGRAM REVIEW  
JULY 18, 1975

	<u>PROGRAM QUANTITY</u>	<u>LEASE/PURCHASE RATIO</u>		<u>PRICING</u>			
		<u>LEASE</u>	<u>PURCHASE</u>	<u>LEASE</u>	<u>PURCHASE</u>	<u>FIN. LEASE</u>	<u>MAINT.</u>
• REVIEW CASES:							
• BASE (EXPECTED)	616	60%	40%	\$ 3,600	\$ 110,000	\$ 90,000	490
• IMPROVED (HIGH)	616	50%	50%	3,600	110,000	90,000	490
• IBM RESPONSE (LOW)	616	60%	40%	(20% PRICE REDUCTION)			390
• MINIMUM	52	25%	75%	3,600	110,000	90,000	490

1380 (CC-80) PROGRAM REVIEW  
JULY 18, 1975

BASIC ASSUMPTIONS:

● BASE CASE - REFLECTS RECENT IBM PURCHASE PRICE REDUCTION

- WAS - \$130,000
- IS - 110,000

● UNIT ASSUMPTIONS - BASE, HIGH, LOW

- 1975            13
- 1976            167
- 1977            208      $\div 12 = 17/mo$
- 1978            228      $\div 12 = 19/mo$
- TOTAL           616

● UNIT ASSUMPTIONS - MINIMUM

- 1975            13
- 1976            39

● SHIPMENT CYCLE TIME TO ON-RENT OF ACCEPTANCE:

- CCI SHIP TO SANTA CLARA, RECEIVE, CONFIGURE  
 TEST AND SHIP \_\_\_\_\_ 15 DAYS

● MEMOREX COST TO PERFORM FUNCTIONS

	UNIT COST	AVERAGE	TEST HRS
● 0- 50	2,750	2,750	115
● 51-100	1,500	2,100	51
● 101-616	1,250	1,400	40

- MRX SHIP TO ON-RENT/ACCEPTANCE \_\_\_ 45 DAYS

● LOGISTICS OBJECTIVES:

- |                                   |         |
|-----------------------------------|---------|
| 1. C.C.I. THROUGH SANTA CLARA     | 5 DAYS  |
| 2. SHIP TO ON-RENT/ACCEPTANCE     | 10 DAYS |
| 3. DIRECT SHIP C.C.I. TO CUSTOMER | 15 DAYS |
| 4. COMBINATION OF 1 AND 2         | 15 DAYS |
| 5. COMBINED OF 2 AND 3            | 25 DAYS |

MANUFACTURING & A.I.T. INVENTORY (\$MILLION)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
● <u>BASE CASE</u>	<u>.4</u>	<u>1.5</u>	<u>1.2</u>	<u>.4</u>
<u>IMPROVEMENTS</u>				
5 DAYS	-	(.1)	(.1)	-
10 DAYS	(.1)	(.2)	(.2)	(.1)
15 DAYS	(.1)	(.4)	(.3)	(.1)
25 DAYS	(.2)	(.6)	(.5)	(.2)

● SPARE PARTS:

SPARE PARTS INVENTORY (\$MILLION)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
● BASE CASE	.1	.4	.5	.4

● POTENTIAL IMPROVEMENTS:

- MRX MANUFACTURING
- LOWER LEVEL REPAIR IN FIELD
- MRX ASSUME TOTAL CCI SERVICE RESPONSIBILITY
- IMPROVE SPARES MANAGEMENT

● RECEIVABLES:

- APPROXIMATELY 35 DAYS FROM ON-RENT/ACCEPTANCE

● PAYABLES:

● CONTRACT TERMS:

● FIRST YEAR:

- ON DELIVERY 50%
- 30 DAYS 25%
- 60 DAYS 25%

- THEREAFTER - 30 DAYS NET

7/17/75

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

BASE CASE

1380

NET ASSETS EMPLOYED

(\$000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<b>Assets</b>						
Inventories	396	1,496	1,156	408	-	-
Spare Parts	92	443	450	354	260	188
Equipment for Lease Net of Deprec.	178	3,672	6,842	10,295	7,718	4,894
Accounts Receivable	21	1,093	1,580	1,611	1,154	1,154
<b>TOTAL ASSETS</b>	<u>687</u>	<u>3,610</u>	<u>7,376</u>	<u>12,668</u>	<u>9,132</u>	<u>6,236</u>
<b>Liabilities</b>						
Accounts Payable	286	1,547	1,326	1,360	-	-
<b>Net Assets Employed</b>	401	5,157	8,702	11,308	9,132	6,236
Interest at 10%	40	516	870	1,131	913	624

## SUMMARY OF INCOME STATEMENT COMPONENTS

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### ① REVENUE :

LEASE, SALE (INCLUDING FINANCE LEASES FROM UNITS)  
PLACED IN MARKETPLACE.

### ② COST OF LEASE :

- DEPRECIATION - FIVE YEAR STRAIGHT-LINE (NO RESIDUAL VALUE).
- MAINTENANCE - INCLUDES:
  - ① COST OF TRAINING FIELD SERVICE PERSONNEL
  - ① COST OF INITIAL SPARE PARTS KIT INVENTORY
  - ① ON-GOING COSTS OF MAINTAINING EQUIPMENT
  - ① PROPERTY TAXES PAYABLE BY MEMOREX

### ③ COST OF SALES/FINANCE LEASE :

- INCLUDES TOTAL UNIT COST OF PRODUCTS SOLD (CCI PRICE TO MEMOREX PLUS MEMOREX VALUE ADDED).
- WARRANTY COSTS FOR PURCHASE CUSTOMERS - 90 DAYS.
- PRODUCT START-UP COSTS OF \$50,000 TO COVER:
  - ① CONVERSION OF CCI TEST PROCEDURES AND PROGRAMS TO MEMOREX DOCUMENTATION (\$25K).
  - ① EXPENSES ASSOCIATED WITH CCI PERSONNEL DURING INITIAL TRAINING PHASE (\$25K).

SUMMARY OF INCOME STATEMENT  
COMPONENTS (CONTINUED)

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EXPENSES

① MARKETING:

INCLUDES ALL EXPENSES ASSOCIATED WITH:

- SALES AND SYSTEMS ENGINEERING TRAINING.
- CONVERSION OF CCI BROCHURES AND SALES AIDS TO MEMOREX FORMATS PLUS COMPLETION OF ADDITIONAL/APPROPRIATE SALES AIDS AND BROCHURES.
- SELLING AND SUPPORTING CUSTOMER INSTALLATIONS.

① ENGINEERING:

- INCLUDES EXPENSES ASSOCIATED WITH:

- ① CONVERSION OF ALL CCI TECHNICAL MATERIAL TO MEMOREX STANDARDS
  - FIELD MAINTENANCE MANUALS
  - CUSTOMER MANUALS
  - TECHNICAL SPECIFICATIONS
- ① SUPPORT OF FIELD ORGANIZATION IN RESOLVING HARDWARE/SOFTWARE PROBLEMS ENCOUNTERED AT CUSTOMER LOCATIONS (TECHNICAL SUPPORT).
- ① ENGINEERING CHANGE CONTROL.
- ① SOFTWARE ENHANCEMENT SUPPORT.

① GENERAL AND ADMINISTRATIVE:

- STANDARD REVENUE ALLOCATION - 5%

① INTEREST:

- 10% OF NET ASSETS EMPLOYED.

7/17/75

BASE

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

1380

(Amounts in Thousands of U. S. Dollars)

## INCOME STATEMENT

Program

	PERIOD						TOTAL		
	1975	1976	1977	1978	1979	1980			
<b>Volume</b>									
Lease	4	92	124	149	7	-	376		
Sale	-	50	84	101	5	-	240		
Total	4	142	208	250	12	-	616		
<b>Revenue</b>									
Lease	44	2373	7852	13965	12600	11300	48134		
Sale	-	5404	7960	9083	313	-	22760		
Total	44	7777	15812	23048	12913	11300	70894		
<b>Costs</b>									
Lease									
Depreciation	9	482	1197	1793	2824	2824	9129		
Service	103	532	1715	2028	2096	1595	8069		
Other	-	141	235	305	305	305	1291		
Total	112	1155	3147	4126	5225	4724	18489		
Sale	300	2602	3027	3384	177	-	9490		
Total	412	3757	6174	7510	5402	4724	27979		
<b>Margin</b>									
Lease	(68)	1218	4705	9839	7375	6576	29645		
Percent	-	51	60	70	59	58	62		
Sale	(300)	2802	4933	5699	136	-	13270		
Percent	-	52	62	63	43	-	58		
Total	(412)	4020	9638	15538	7511	6576	42915		
Percent	-	52	61	67	58	58	60		
<b>Expenses</b>									
Marketing	641	1043	2201	2424	1426	1044	8779		
Engineering	326	1268	656	292	292	292	3126		
Administration	1	348	786	1177	645	565	3522		
Total	968	2659	3643	3893	2363	1901	15427		
<b>Corporate Costs</b>									
Interest	40	516	870	1131	913	624	4094		
<b>Profit Before Taxes</b>	(1376)	845	5125	10514	4235	4051	23394		

7/17/75

Date

BASE

Case

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

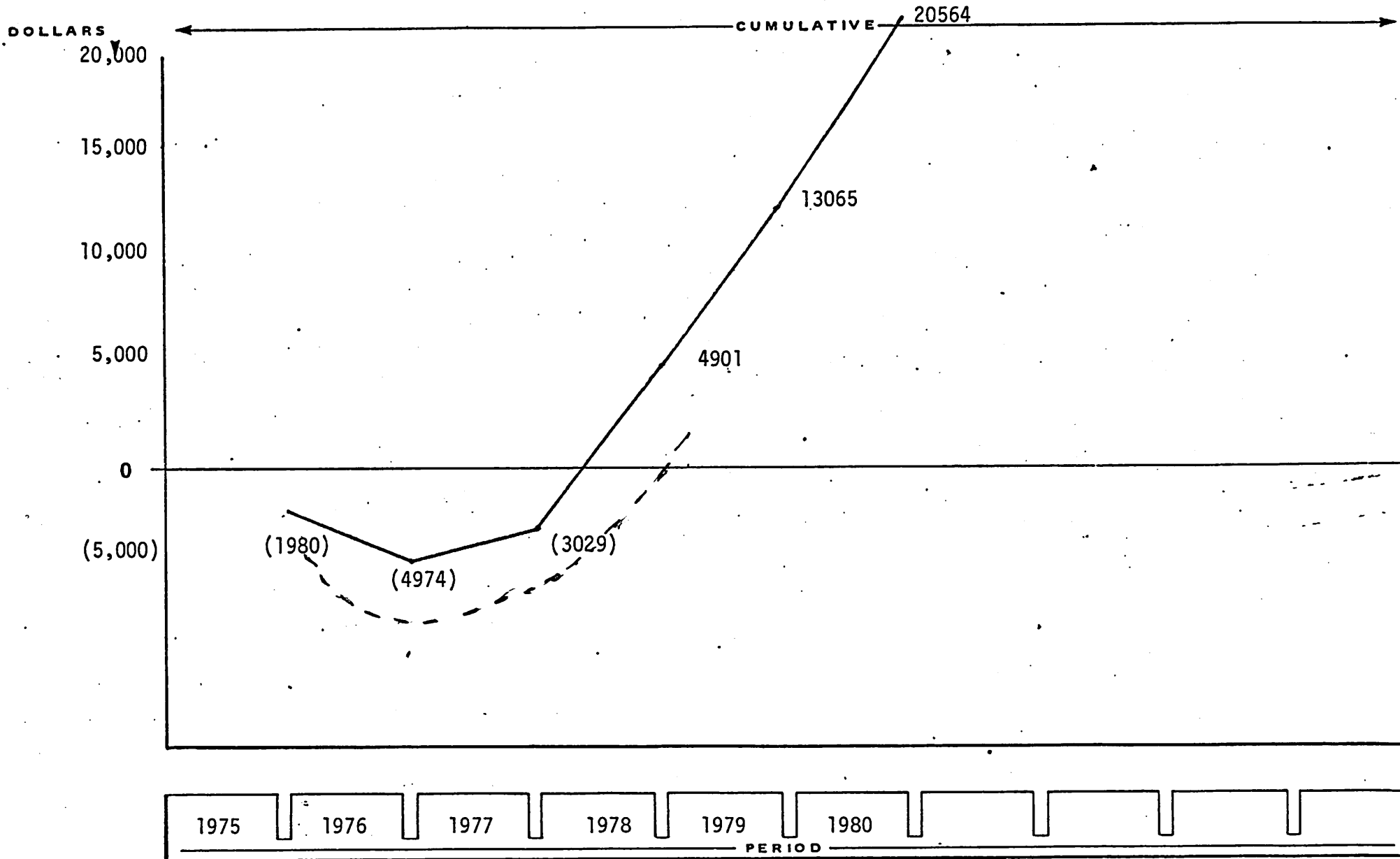
Organization

1380

Program

(Amounts in Thousands of U. S. Dollars)

CASH FLOW



7/17/75

BASE

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

CASH FLOW

1380

(Amounts in Thousands of U. S. Dollars)

Program

	PERIOD						TOTAL		
	1975	1976	1977	1978	1979	1980			
<b>Inflow</b>									
Lease	23	1965	7365	13427	12900	11300	46980		
Sale	-	4740	7960	9590	470	-	22760		
<b>TOTAL</b>	23	6705	15325	23017	13370	11300	69740		
<b>Outflow</b>									
CCI	1096	5871	7293	8636	442	-	23338		
Manufacturing Expenses	136	280	260	285	-	-	961		
Marketing	444	1791	4150	4452	3522	2639	16998		
Engineering	326	1268	656	292	292	292	3126		
Administration	1	489	1021	1422	950	870	4753		
Inc. Prop. Tax	2003	9699	13380	15087	5206	3801	49176		
Capital Equipment	-	-	-	-	-	-	-		
<b>TOTAL OUTFLOW</b>	2003	9699	13380	15087	5206	3801	49176		
<b>Net Cash Flow</b>									
Period	(1980)	(2994)	1945	7930	8164	7499			
Cumulative	(1980)	(4974)	(3029)	4901	13065	20564			

3537  
400  
8911

1380 (CC-80) PROGRAM REVIEW  
JULY 18, 1975

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IMPROVED (HIGH) CASE

0 ALL ASSUMPTIONS CONSISTENT WITH BASE CASE - - - EXCEPT :  
LEASE/PURCHASE RATIO CHANGES

	<u>FROM</u>	<u>TO</u>
0 LEASE :	60 %	50 %
0 PURCHASE :	40 %	50 %
0 - SALE	10 %	10 %
0 - FINAL LEASE :	30 %	40 %

7/17/75

HIGH

## PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

1380

## INCOME STATEMENT

Program

(Amounts in Thousands of U. S. Dollars)

	PERIOD							TOTAL		
	1975	1976	1977	1978	1979	1980				
<b>Volume Installs</b>										
Lease	4	78	100	120	6	-		308		
Sale	-	64	108	130	6	-		308		
Total	4	142	208	250	12			616		
<b>Revenue</b>										
Lease	44	2218	6821	11413	10271	8546		39313		
Sale	-	6843	10906	11123	513	-		29385		
Total	44	9061	17727	22536	10784	8546		68698		
<b>Costs</b>										
Lease										
Depreciation	9	410	977	1453	2316	2313		7478		
Service	103	532	1715	2028	2096	1595		8069		
Other	-	120	194	201	250	250		1015		
Total	112	1062	2886	3682	4662	4158		16562		
Sale	300	3332	3964	4195	212	-		12003		
Total	412	4394	6850	7877	4874	4158		28565		
<b>Margin</b>										
Lease	(68)	1156	3935	7731	5609	4388		22751		
Percent	-	52	58	68	55	51		58		
Sale	(300)	3511	6942	6928	301	-		17382		
Percent	-	51	64	62	59	-		59		
Total	(368)	4667	10877	14659	5910	4388		40133		
Percent	-	52	61	65	55	51		58		
<b>Expenses</b>										
Marketing	641	1043	2201	2424	1426	1044		8779		
Engineering	326	1268	656	292	292	292		3126		
Administration	1	385	826	1210	546	466		3434		
Total	968	2696	3683	3926	2264	1822		15359		
<b>Corporate Costs</b>										
Interest	40	490	853	874	736	420		3413		
<b>Profit Before Taxes</b>	(1376)	1481	6341	9859	2910	2146		21361		

7/17/75

Date

HIGH

Case

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

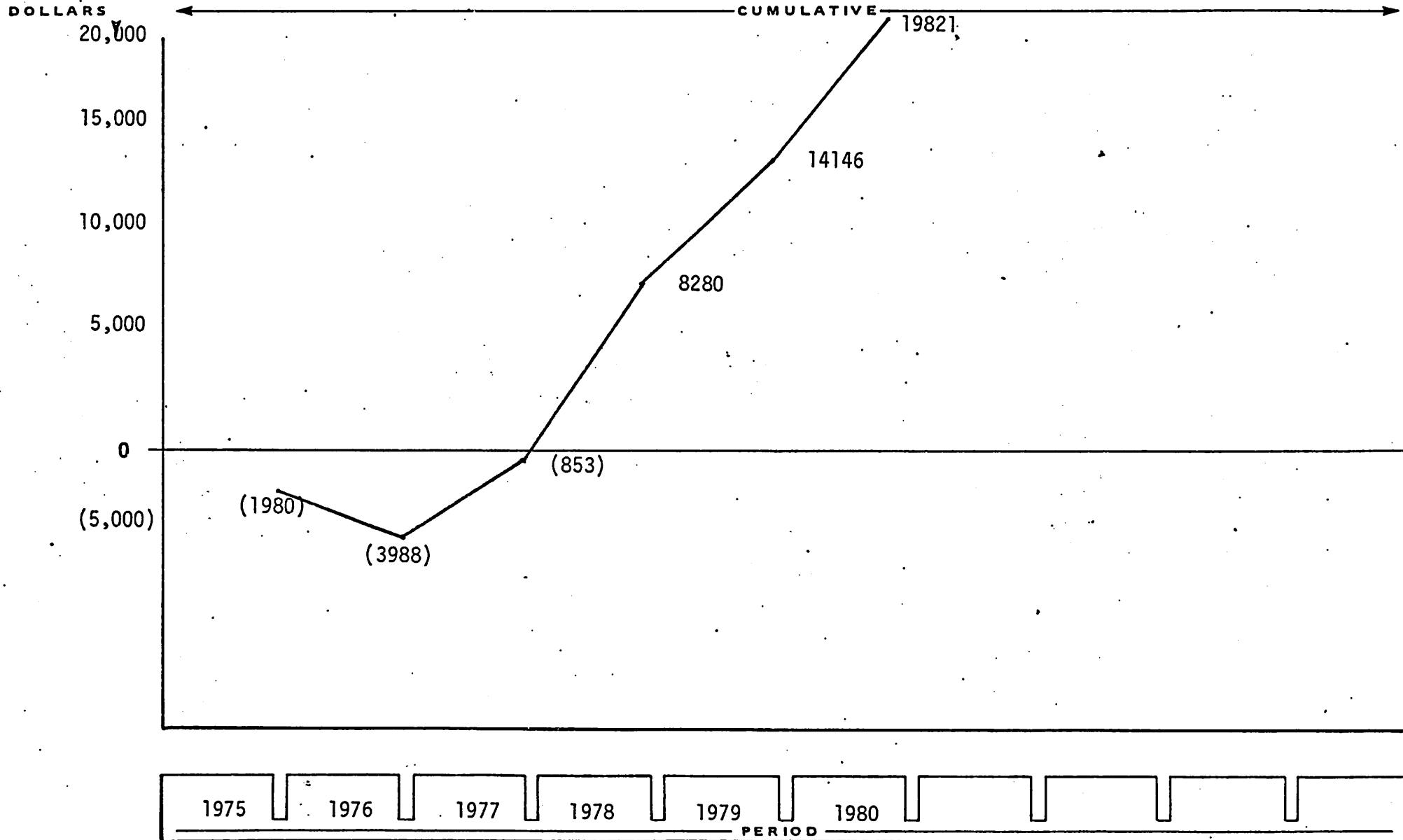
Organization

(Amounts in Thousands of U. S. Dollars)

CASH FLOW

1380

Program



7/17/75

Date

HIGH

Case

## PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Organization

## CASH FLOW

1380

(Amounts in Thousands of U. S. Dollars)

Program

	PERIOD						TOTAL		
	1975	1976	1977	1978	1979	1980			
<b>Inflow</b>									
Lease	23	1707	6394	11509	10358	9322	39313		
Sale	-	6000	10120	12700	560	-	29380		
<b>TOTAL</b>	23	7707	16514	24209	10918	9322	68693		
<b>Outflow</b>									
CCI	1096	5871	7293	8636	442	-	23338		
Manufacturing Expenses	136	280	260	285	-	-	961		
• Marketing	444	1791	4150	4452	3522	2639	16998		
Inc. Service	326	1268	656	292	292	292	3126		
• Engineering	1	505	1020	1411	796	716	4449		
• Administration	2003	9715	13379	15076	5052	3647	48872		
Inc. Prop. Tax	-	-	-	-	-	-	-		
• TOTAL	2003	9715	13379	15076	5052	3647	48872		
Capital Equipment	-	-	-	-	-	-	-		
<b>TOTAL OUTFLOW</b>	2003	9715	13379	15076	5052	3647	48872		
<b>Net Cash Flow</b>									
Period	(1980)	(2008)	3135	9133	5866	5675			
Cumulative	(1980)	(3988)	(853)	8280	14146	19821			

13.80 (CC-80) PROGRAM REVIEW  
JULY 18, 1975

IBM RESPONSE (LOW) CASE

- ALL ASSUMPTIONS CONSISTANT WITH BASE CASE - EXCEPT:
  - REVENUE (LEASE, PURCHASE AND MAINTENANCE) DROPS 20 % THROUGHOUT PROGRAM.

7/17/75

LOW

## PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

## INCOME STATEMENT

1380

(Amounts in Thousands of U. S. Dollars)

Program

	PERIOD						TOTAL		
	1975	1976	1977	1978	1979	1980			
<b>Volume</b>									
Lease	4	92	124	149	7	-	376		
Sale	-	50	84	101	5	-	240		
Total	4	142	208	250	12	-	616		
<b>Revenue</b>									
Lease	35	1898	6282	11172	10080	9040	38507		
Sale	-	4323	6368	7266	250	-	18207		
Total	35	6221	12650	18438	10330	9040	56714		
<b>Costs</b>									
Lease									
Depreciation	9	482	1197	1793	2824	2824	9129		
Service	103	532	1715	2028	2096	1595	8069		
Other	-	141	235	305	305	305	1291		
Total	112	1155	3147	4126	5225	4724	18489		
Sale	300	2602	3027	3384	177	-	9490		
Total	412	3757	6174	7510	5402	4724	27979		
<b>Margin</b>									
Lease	(77)	743	3135	7046	4855	4316	20018		
Percent	-	39	50	63	48	48	52		
Sale	(300)	1721	3341	3882	73	-	8717		
Percent	-	40	52	53	29	-	48		
Total	(377)	2464	6476	10928	4928	4316	28735		
Percent	-	40	51	59	48	48	51		
<b>Expenses</b>									
Marketing	641	1043	2201	2424	1426	1044	8779		
Engineering	326	1268	656	292	292	292	3126		
Administration	1	348	786	1177	645	565	3522		
Total	968	2659	3643	3893	2363	1901	15427		
<b>Corporate Costs</b>									
Interest	40	516	870	1131	913	624	4094		
<b>Profit Before Taxes</b>	(1385)	(711)	1963	5904	1652	1791	9194		

-532

1715

7/17/75

LOW

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

1380

(Amounts in Thousands of U. S. Dollars)

CASH FLOW

Program

DOLLARS

CUMULATIVE

20,000

15,000

10,000

5,000

0

(5,000)

(1985)

(6320)

(7440)

(4113)

1377

6616

1975

1976

1977

1978

1979

1980

PERIOD

7/17/78 -

LOW

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

CASH FLOW

1380

(Amounts in Thousands of U. S. Dollars)

Program

	PERIOD						TOTAL		
	1975	1976	1977	1978	1979	1980			
<b>Inflow</b>									
• Lease	18	1572	5892	10742	10320	9040		37584	
• Sale		3792	6368	7672	376	-		18208	
<b>TOTAL</b>	18	5364	12260	18414	10696	9040		55792	
<b>Outflow CCI</b>	1096	5871	7293	8636	442	-		23338	
• Manufacturing Expenses	136	280	260	285	-	-		961	
• Marketing	444	1791	4150	4452	3522	2639		16998	
• Engineering	326	1268	656	292	292	292		3126	
• Administration	1	489	1021	1422	950	870		4753	
• Inc. Prop. Tax									
• TOTAL	2003	9699	13380	15087	5206	3801		49176	
• Capital Equipment	-	-	-	-	-	-		-	
<b>TOTAL OUTFLOW</b>	2003	9699	13380	15087	5206	3801		49176	
<b>Net Cash Flow</b>									
• Period	(1985)	(4335)	(1120)	(332)	5490	5239			
• Cumulative	(1875)	(6320)	(7440)	(4113)	1377	6616			

1380 (CC-80) PROGRAM REVIEW  
JULY 18, 1975

MINIMUM CASE (52 UNITS)

● ASSUMES:

- IBM ANNOUNCEMENT AND/OR
- FAILURE IN MARKET PLACE
- BY FIRST OF 1976

● MRX REACTION:

- MINIMUM CCI QUANTITY - 52 UNITS  
(13 PER QUARTER THROUGH 3Q 1976)
- MINIMIZE OUR INVESTMENT AND SUPPORT
- FORCE MIX TO PURCHASE:

LEASE	13	(25%)
PURCHASE	<u>39</u>	(75%)
TOTAL	52	(100%)

7/17/75

52 UNITS

PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

1380

Program

(Amounts in Thousands of U. S. Dollars)

INCOME STATEMENT

	PERIOD									
	1975	1976		TOTAL						
<b>Volume</b>										
Lease	4	10		14						
Sale	-	38		38						
Total	4	48		52						
<b>Revenue</b>										
Lease	44	659		703						
Sale	-	3774		3774						
Total	44	4433		4477						
<b>Costs</b>										
Lease										
Depreciation	9	75		84						
Service	103	351		454						
Other	-	-		-						
Total	112	426		538						
Sale	300	1984		2284						
Total	412	2410		2822						
<b>Margin</b>										
Lease	(68)	233		165						
Percent	-	35		23						
Sale	(300)	1790		1490						
Percent	-	47		39						
Total	(368)	2023		1655						
Percent	-	46		37						
<b>Expenses</b>										
Marketing	641	352		993						
Engineering	326	195		521						
Administration	1	245		246						
Total	968	792		1760						
<b>Corporate Costs</b>										
Interest	52	38		90						
<b>Profit Before Taxes</b>	(1388)	1193		(195)						

7/17/75

52 UNITS

## PROGRAM REVIEW

EQUIPMENT PRODUCTS GROUP

Date

Case

Organization

## CASH FLOW

1380

(Amounts in Thousands of U. S. Dollars)

Program

	PERIOD									
	1975	1976	1977		TOTAL					
<b>Inflow</b>										
Lease	23	593	201		817					
Sale	-	3774			3774					
<b>TOTAL</b>	23	4337	201		4561					
<b>Outflow CCI</b>	1096	2007	143		3246					
Manufacturing Expenses	136	108	-		244					
• Marketing	444	921	-		1365					
• Inc. Service	326	195	-		521					
• Engineering	1	232	10		243					
• Administration	2003	3463	153		5619					
• TOTAL										
Capital Equipment	-	-	-		-					
<b>TOTAL OUTFLOW</b>	2003	3463	153		5619					
<b>Net Cash Flow</b>										
Period	(1980)	874	48							
Cumulative	(1980)	(1106)	(1058)							

1380 (CC-80) PROGRAM REVIEW

JULY 18, 1975

- SENSITIVITY -

I. ASSUME MRX COMMENCES MANUFACTURING 1380 IN JULY 1976 - TOTAL UNITS PRODUCED - 140

	<u>BASE CASE</u>			<u>IMPACT OF MRX. MFG.</u> <u>ON BASE CASE</u>		
	<u>REV.</u>	<u>PROFIT</u>	<u>CUM. CASH</u>	<u>REV.</u>	<u>PROFIT</u>	<u>CUM. CASH</u>
1975	44	(1,376)	(1,980)	-	-	-
1976	7,777	845	(4,974)	1,919	(134)	(1,744)
1977	15,812	5,125	(3,029)	4,090	1,510	(945)
1978	23,048	10,514	4,901	4,531	2,200	1,470
1979	12,913	4,236	13,065	3,543	1,480	3,935
1980	11,300	4,051	20,564	2,081	785	6,344

II. ASSUME LEASE A.U.P. GROWTH OVER LIFE OF SYSTEM INSTALLATION

FROM \$3,600  
TO 4,000\*

\* OCCURS AFTER 24 MONTHS - EFFECTIVE IMPACT ON:

- o LEASE REVENUE - 8%
- o PROFIT & CASH 6%  
OF LEASE REVENUE INCREASE

	BASE CASE			IMPACT OF LEASE A.U.P. INCREASE		
	REV.	PROFIT	CUM. CASH	REV.	PROFIT	CUM. CASH
1975	44	(1,376)	(1,980)	-	-	-
1976	7,777	845	(4,974)	190	140	140
1977	13,812	5,125	(3,029)	630	470	610
1978	23,048	10,514	4,901	1,100	830	1,440
1979	12,913	4,236	13,065	1,100	750	2,190
1980	11,300	4,051	20,564	900	680	2,870