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June 15, 1979

Mr. Kristian Mogensen
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PERSONAL AND CONFIDENTIAL

Dear Mr. Mogensen:

As agreed, this letter contains some additional thoughts and comments not appropriate to the main body of the accompanying report. Fortunately, we were able to complete the reports on your required time schedule and there is no need to forward revisions or supplements.

Recommendation

Our recommendation is for continuation under tight financial control, interim management and interim plan until a top management team can be put in place and a more comprehensive and viable plan can be developed. Fundamentally, if given disciplined financial direction, we believe that the present product line, operating plan and staff will produce results that can sustain a valuable asset without much financial risk for a six to perhaps twelve month period.

In making this recommendation for such a course of action, we are assuming that there is no successful, independent entity in data processing with which the RC Computer operation could be merged. We stress the importance of maintaining and growing a strong national data processing capability and make our recommendation not as the best alternative among many, but more nearly as the only reasonable, though risky, alternative to destroying a valuable asset.

Management

As we discussed during our private meeting, obtaining adequate top management appears to be the key problem in continuing the company. My initial impression is that none of the management personnel that I met would be qualified to fill the top position or even to act in a number two position. This is despite the fact that I found the individuals to be outstanding in attitude, intelligence and understanding. It is a matter of experience limitation versus the demands of the top management task. It will definitely require someone who "has been there." Due to the limits of the Danish computer industry, it may be necessary to conduct quite an extended search. The executive you seek should be from the data processing industry and should be European or have extensive operating experience in Europe.

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Regnecentralen has a very high technical orientation with a tendency to seek and meet technical challenges. The highly intelligent, hard working staff is directed towards technology, not toward the less glamorous discipline of making money. It will take a skillful manager indeed to bring this talent under control.

The Plan

Based on very sketchy information that I was shown, I believe that the existing plan developed for RC Computers can be characterized as a marketing and organizational plan supported by budgets and financial projections. It does not appear to address questions of long-term goals, financial constraints, product line rationalization, competitive analysis, or to contain detailed objectives and milestones except in a general way. In particular, the plan apparently does not address correction of the inherent weaknesses of the company. Nor does it seem to address the need for simplification of organization, product line and markets. My impression is that it is based on the assumption that elimination of problems and losses associated with the service bureaus, foreign subsidiaries and past over-rapid expansion will allow the RC Computer operation to operate successfully. This may well be true in the short run but is doubtful in the long term.

I am also bothered by somewhat negative feelings on two potentially serious points. First, the basis for the projected turnover seems a bit soft. Since this was beyond the scope of our assignment, I certainly didn't give a fair hearing or analysis to this subject. Ratios of marketing expense to projected turnover for various sectors are very uneven. It appears that many compromises were necessary to obtain agreement on a plan in the time available.

Second, I was unable to reconcile conflicting impressions on manufacturing costs. From the structure of the product line, the scale of operations and the nature of the competition, I would expect higher costs relative to selling prices than are reflected in the standard cost analysis which I received. The summary budget seems to reflect an operating margin more in line, or perhaps worse, than I would expect but inconsistent with the standard costs. Since many auditing groups have worked on these analyses and projections, I assume there exists a straightforward explanation.

Quality of Information

The report and my impressions are based on the information largely supplied by Regnecentralen staff and on interviews with customers selected by RC. This group, even with the best will to be objective, is biased toward a positive result. Information may be similarly biased. Generally, the information is self consistent which is a good indicator of basic quality. RC staff were open and outstandingly cooperative throughout and were able to respond quickly to requests for added

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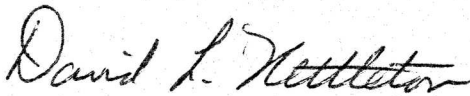
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information or analysis. However, it is good practice to obtain independent checks with customers and competitors, which in this instance time and scope did not allow. In the one case of independent checking (Lockheed), I definitely did not verify the understanding of order position and outlook which I received from RC staff. Time has not permitted reconciliation of this conflict, which in any event would not alter the basic recommendations.

Should you wish any further discussion on these or other points, please feel free to call upon me. In the event that you wish to call me outside of normal business hours, I can be reached at 609 235 6725.

The Regnecentralen situation is interesting and challenging and I wish you all success in its resolution.

Very truly yours,



David L. Nettleton

cc: Isaac L. Auerbach