

R Alberto Colver



FAX COVER SHEET

DATE: 4/23/93

TO: RUSS GULLOTTI

Fax No. 264-0864

Phone/DTN: _____

Location: _____

Number of Pages to Follow: 3

Comments: Bob Burke + Eli Lipton
are working this -

FROM:

Max Mayer, Professional Services
Digital Equipment Corporation
3 Result Way
Marlboro, MA 01752
Fax No. 297-2171 / Outside (508) 467-2171

Phone: DTN 297-3957 / Outside (508) 467-3957
Location: MRO3-2/G4

*Emo to Max Mayer
cc Bob Burke
The Alberto Colver situation sounds
airful but I need to re-evaluate of the
obvious. Howard Barwell is looking for a July
start up of the new system. Do not
commit to it unless you can do it.
PM & are you one of our best
there? are this program?
could recommend
Palmer/Klein
will be all
over this
one.*

**ALBERTO CULVER
COMPANY**

2525 Armitage Avenue
Melrose Park, Illinois 60160
U.S.A.
(708) 450-3400

Howard B. Barnick
President
Chief Operating Officer

April 23, 1993

VIA TELEFAX: 508-493-6244

Mr. Robert Palmer
President and Chief Executive Officer
Digital Equipment Corporation
146 Main Street
ML010-2/A54
Maynard, MA 01754-2571

Dear Mr. Palmer:

As you recall, Alberto-Culver contracted with Digital in May 1992, to develop, provide, and implement, on a turnkey basis over a one year period, a multi-million dollar integrated customer service system, called ACCESS.

Three months ago, I wrote to you about my deep concern over delays in our ACCESS project and the serious problem that this was causing for both of our companies. The intent of that correspondence was to inform you of the great need to resolve the problems immediately, rapidly accelerate progress of the project, and avoid continuation of a totally unsatisfactory condition.

After you became aware of my letter, we conducted a telephone conversation during which you assured me that Digital would do whatever is necessary to get the project back on track and implement the system to our satisfaction. Other Digital executives have also communicated this message to me and Alberto-Culver's Vice President of Information Services.

Since that time, progress has been slow, while the negative effects of the problems and delays upon Alberto-Culver are rapidly escalating. As of this date, the revised target to begin implementing warehouse functions during July 1993, is in jeopardy. During the past three months, Digital has evaluated the system subcontractor causing the delays, Calidus U.S., and potential alternative suppliers. One month ago, Digital reached the conclusion that Calidus U.S.

Telefax
(708) 450-3110

Mr. Robert Palmer

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April 23, 1993

could not successfully complete their assignment and has severed their relationship. The wisdom of this decision has seemed evident to us since last December, when the enormous problems that Calidus U.S. was experiencing became visible.

At the same time that Digital informed us of their decision vis-a-vis Calidus U.S., they recommended two "low risk, best fit" replacements for Calidus that were ready, willing, and able to pick up the project. However, as of today, there is no replacement. The most desirable alternative warehouse management system vendor has not been able to spend the time to demonstrate their system to us. Clearly, they are either not in a position to move forward or are not willing to do so. The other warehouse management system vendor has demonstrated a willingness to be engaged, but their product has very limited use and significant shortcomings. Digital is currently pursuing Calidus U.K. to determine if they can be an effective alternative.

In summary, it has taken three months to disengage the failing subcontractor after they ground the project to a halt, with another month passing without a replacement being engaged.

I cannot stress enough the importance of immediately fixing the problems and successfully completing the project. Alberto-Culver has been patient while Digital has been resolving its problems, but our costs are mounting and the delay in the system implementation is causing us to be at a disadvantage to our competitors.

We believe that Digital stands behind its commitments, but time is of the essence. I want to move forward quickly and expect Digital to move forward with us to implement a system that meets our needs. We value Digital as a business partner, but we need to get going now!

Four action items are appropriate:

1. A competent project manager with a passion for success and a bias for action needs to be assigned by Digital.
2. Senior level ownership of this project within Digital should be made clear.

04. 23. 93 05:18 PM
04. 23. 93 03:52 PM
04/23/93 01:28 2709 460 3110

*US AREA
*ENGINEERING MGT.
ALBERTO CULVER

PO4
PO5
004

Mr. Robert Palmer

- 3 -

April 23, 1993

3. The warehouse management system must be installed by July, 1993.
4. Parallel activity toward completion of the order management system must begin in May, 1993.

I am leaving Chicago on Monday afternoon for 10 days overseas and I would like to speak with you before that time.

Sincerely,

Edward B. Bernick

Digital Equipment Corporation
3 Results Way
Marlboro, Massachusetts 01752-3082
508.467.5111

digital

May 12, 1993

*to Max Meye
This is well
written and
concise.
Rum J.*

F →

Mr. Howard Bernick
Alberto Culver Company
2525 Armitage Avenue
Melrose Park, Illinois 60160

Dear Mr. Bernick,

When you wrote to Bob Palmer you expressed a desire for assurances that senior Digital management would remain involved in and responsible for the project at Alberto Culver. This is the first in what I plan as a series of regular updates directly to you. By supplementing the daily communications of project team members, I will keep you personally informed of Digital efforts, positions and requests to insure success.

As I discussed with you when we met in your office, Digital has had a team evaluating alternative application providers to replace Calidus U.S. As we also discussed, that team has been working closely with Richard Paulsen and Larry Weiser of Alberto Culver to ensure a joint approach as much as possible.

Before beginning the evaluation, the project team, working with Rich and Larry, developed a set of criterion that were most important to Alberto Culver, including functionality; ability to meet the July 31, 1993 commitment date you have referenced; track record; vendor responsiveness.

Based on that evaluation, we selected and proposed GSI Transcomm to your team. Your team has rejected that selection. We are at a point where our inability to agree on a provider has virtually stopped progress. I want to offer three alternatives to you and am asking that you help us facilitate a rapid agreement and selection so that we can both move forward.

Mr. Howard Bernick

Page 2

From Digital's perspective, GSI Transcomm remains an alternative. They have the functionality, the responsiveness and the track record. They have been willing to commit to a firm date. At the time when we sent our recommendation to Alberto on April 28, GSI was willing to commit to a July 31 date but needed agreement from you by April 30. If you agree on GSI, we will go back and obtain the most aggressive commitment from GSI.

A second alternative is Calidus UK. They have the functionality, track record, and willingness. They have the advantage of fitting with the work that has been done previously in preparing for the implementation of the MIRACLE product. However, at the time of our evaluation, they would only commit to an end October date. Given the two week slip in approval, a new commitment date would have to be agreed upon.

The third alternative is McHugh Freeman. While your group likes their functionality, McHugh has been reluctant to form a partnership with Digital, unlike the other two application vendors, and has not given us a commitment for an implementation date. Additionally, if we use McHugh, the price for the warehouse application would increase to Alberto. There is incremental software license expense, customization expense, and extra expense to interface to the selected Sales Order Processing Application, all of which would be a change in scope to our contract and would therefore increase your expense. Certainly the meeting I had with you gave me the impression that you did not favor an approach which resulted in an increase in expense for the current application scope of the contract.

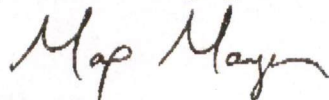
We need your help in reaching agreement on a warehouse application provider. I will call early next week to see if we can resolve this. As mentioned, I will start to send regular progress updates to you to ensure you feel comfortable with the progress and that we are raising and resolving any issues from our team quickly.

Mr. Howard Bernick

Page 3

Thank you very much on this.

Very sincerely yours,



Max Mayer
Vice President
US Professional Services/
Systems Integration

MM:jf

cc: Mr. Richard Paulsen, Alberto
Mr. Larry Weiser, Alberto
Mr. Robert Palmer, Digital
Mr. Gresh Brebach, Digital
Mr. John Klein, Digital
Mr. Russ Gullotti, Digital

Digital Equipment Corporation

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

Doc. No: 056080
Date: 18-May-1993 08:48am DST
From: RUSS GULLOTTI @MKO
GULLOTTI
Dept: U.S. AREA
Tel No: 264-6209

TO: Remote Addressee

(ED LUCENTE @MLO)

Subject: ALBERTO CULVER STATUS UPDATE

Yes, I'm involved.

This is a mess. It's an example of what used to happen when Sales booked business without listening to the concerns of Professional Services people. I doubt that this will occur very often these days given the company's model of operating.

Russ

5/11/93 ma

Russ

are you involved?

Q

Printed by Bob Palmer @MLO

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

Doc. No: 015538
Date: 07-May-1993 05:57pm EDT
From: ELI LIPCON @TTB
LIPCON.ELI AT A1 at NUTMEG at
Dept: Consumer Packaged Goods
Tel No: DTN 264-3651 / (603)884-3651

TTB

TO: JOHN KLEIN @CORE
TO: BOB PALMER @CORE
TO: GRESHAM BREBACH @CORE

?

CC: MAX MAYER @MRO
CC: MARC CHARDON @MLO

Subject: ALBERTO CULVER STATUS UPDATE

Two weeks have passed since the telephone conversation between Bob Palmer and Howard Bernick, President and Chief Operating Officer of Alberto Culver. Here is a quick synopsis of what has occurred since then.

- o On Wednesday, 04/28, we presented Alberto Culver with our recommended software vendor for warehouse management. We selected GSI Transcomm based on their financial strength, implementation track record, and willingness to begin work immediately in order to achieve a July 31 implementation date for a base product.
- o The two other software vendors we had been evaluating were not recommended for the following reasons:
 - McHugh Freeman was not willing to work with us as a subcontractor under the existing project circumstances. Calidus UK was not willing to commit to an implementation date prior to October 1993.
- o Alberto Culver rejected our selection and urged both us and McHugh Freeman to find a way to work together in a manner that would satisfy Alberto Culver's time schedule. Meetings were held on Monday, 05/03, and Tuesday, 05/04, with the customer and McHugh Freeman.
- o We now have a basis for proposing McHugh Freeman but the majority of the costs associated with this option are beyond the original contract with Alberto Culver. The out of scope

expenses which we will be presenting to the customer on Monday, 05/10, total \$2.75 million. \$500,000 of this amount is for the cost of RF equipment and represents an extra expense to the customer independent of software vendor.

- o This is likely to be very negatively received by Alberto Culver. However, two alternative options exist for them:
 - Accept our original GSI Transcomm recommendation (although at this point, more than one week has been lost and the July 31 implementation date is no longer possible).
 - Select Calidus UK. This option requires them to live with an October/November 1993 implementation date.

We need to present a unified front to the customer on these options. If you would like more detail on any of these options, please do not hesitate to call either Max Mayer or me.

EL:pg

DIGITAL EQUIPMENT CORPORATION

DIGITAL SERVICES

MERRIMACK, NEW HAMPSHIRE

MKO2-2/A14

FAX COVER SHEET

TO: Russ Gullotti

LOC/EXTENSION: 223-4373

FAX PHONE: 223-8154

FROM: Andrea Wilkins

EXTENSION: _____

FAX PHONE: 264-0864

COMMENTS: URGENT

INTEROFFICE MEMORANDUM

Doc. No: 052081
Date: 05-Feb-1993 05:26pm EST
From: Bob Burke @OHF
BURKE.BOB AT A1 @GLDOA @ACI
Dept: Discrete/Central PS/SI
Tel No: DTN-471-5551

TO: RUSS GULLOTTI @MKO

SUBJECT: U: ALBERTO CULVER UPDATE

USS -

I have attached two memos that have been sent up to Bob Palmer or his customer response group.

Obviously, we have some serious issues that need to be resolved around the software for their Warehouse Management System and Sales and Order Processing system. Currently, there are around 20 Digital people working to resolve Alberto's issues. Within two weeks, I intend to present Rich Paulsen, the CIO and VP of Information Technology with various options on how to move forward. These options will include information on:

- the impact of staying with the existing third party software provider and augmenting their delivery capability,
- whether or not the third party is more appropriate or feasible given their timeframes,
- how robust the third party package is. Currently a team of Digital people is analyzing it.

My manager in Chicago and her organization are deeply involved in this. Additionally, I have gotten help from the following groups:

- Eli Lipcon (who has had marketing responsibility for Sales and Distribution Systems)
- Ron Wolf (Process organization has the field based experts)
- Fred Traversi (who has done this in DEC and has consultant in his group)

We put a new program manager on this beginning in January 1993 and I have two other senior program managers providing additional support to him. Frank Bowden recently reassigned the Chicago Manufacturing AGM to only work on this issue until it is resolved.

One issue that Alberto may bring up is that we do not have the proper sense of urgency. I want to assure you that I certainly do and I know a lot of other people do too. Unfortunately, a lot of things have transpired, and until the last few weeks, when the analysis of user requirements were done, I don't think anyone realized the seriousness of the situation. When I first got directly involved with this just before Christmas, the main issue was the network. The network issues are getting fixed, but obviously the attention has shifted to the applications. Mark Stasik, the AGM now assigned to this will hopefully change the perception of lack of urgency while the rest of us try to fix the

tuation.

If you have any questions, please call me at home over the weekend at
3-349-2435. I'll be on the road Monday a.m.

Regards,

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

Date: 01-Feb-1993 02:23pm EST
From: Bob Burke @OHF
BURKE.BOB AT A1 @GLDOA @ACI
Dept: Discrete/Central PS/SI
Tel No: DTN-471-5551

Customer file
TO: See Below

Subject: U: ALBERTO CULVER CUSTOMER SITUATION

Don -

I tried to contact you today regarding Alberto Culver and talked to Paul Bailey in your absence. Based on what we've heard from customer management, Alberto Culver is upset with the MCI "form" message response. They believe that Bob should call or at least send what would have appeared to be a custom letter acknowledging his concern and interest. In response to Alberto's concerns, we would appreciate your follow-up to see that we get more than a "form letter" response from Bob's office. I also mentioned to Paul that both Frank Bowden and I would like to talk to you about this issue directly and appropriate responses to this type of situation in general.

I also mentioned to Paul Bailey that we and the customer have even more concerns after analyzing the user requirements versus what our third party application provider planned to provide or is capable of providing to get back with Alberto Culver management in the next 2-3 weeks to present options to hopefully resolve this. We will keep you informed as things proceed.

I understand that Paul was also going to alert Bob Palmer's office that the customer may call them. Please advise as to what kind of response we can expect.

Thanks for your help in this matter.

Regards,

Distribution:

TO: DON CANNEY @OGO

CC: CHARLES PAYNE @SCA

CC: LARRY TRICHEL @SCA

CC: PAUL BAILEY @OGO

CC: Sam Praul @ACI

CC: Lise Gorajski @ACI

(Sam Praul @ACI)

(Lise Gorajski @ACI)

Use the RDL option to see remainder of distribution lists.

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

Date: 19-Jan-1993 08:37am EST
From: Bob Burke @OHF
BURKE.BOB AT A1 @GLDOA @ACI
Dept: Discrete/Central PS/SI
Tel No: DTN-471-5551

O: BOB PALMER @MLO

Subject: I: ALBERTO CULVER

You have received a letter from Howard Bernick, President of Alberto Culver. His letter will ask you to contact him about the ACCESS program at Alberto Culver. Alberto's internal auditors, Booz Allen, have recommended that this letter be written as a result of a recent audit on this project. The purpose of this memo is to give you a brief background and current status of the account situation.

Alberto Culver has contracted with Digital to provide a \$3.9 million dollar warehouse management and order processing system. This system is critical to Alberto's core business, and is intended to give Alberto a favorable competitive position in their market.

This system requires the design and implementation of a complex, multi-vendor network, as well as the development of a warehouse, distribution, and order processing application based on a software foundation marketed by Calidus, Inc. Digital is the Prime Contractor. Calidus is the software applications contractor. Calidus is part of an England-based holding company, PI. Their main expertise is warehouse management; their product is Digital platform based. The U.S. company has approximately 30 employees.

The first phase of the project was undertaken in late FY92. This phase provides for the installation of a multi-branch network and warehouse management software. The implementation of the network has been plagued by installation, performance and design issues in network hardware and software provided by Digital and Proteon. The network today is operationally stable, and is in the process of final review and acceptance testing.

The major issues currently open at Alberto Culver are in the software applications area. The software application is based on a Calidus platform, and the customization is being done by Calidus. Phase I, Warehouse Management, is three months behind schedule due to unforeseen problems with their new software platform, and quality issues with the customized code. Digital, as the Prime, has worked with Calidus in correcting deficiencies in several areas such as quality assurance and design reviews.

We are currently doing an in-depth design review with Calidus and Alberto to assess the integrity of the software against requirements, and to develop realistic estimates of the work to be completed. By the end of next week, we should know the extent of the problem with Phase I and begin to develop a plan to resolve them.

The original schedule provided for a Phase II production cutover in April,

1993; Alberto has requested a slip in schedule no later than July to accommodate fiscal year-end. Further delays are unacceptable to Alberto's management.

The Digital management who are involved include:
Frank Bowden, Vice President, Central States
Bob Burke, Vice President, PS/SI Discrete Manufacturing, Central States
Local management

The current and next steps are:

- January 28th meeting with Bob Burke, and Rich Paulsen, Alberto's Vice President of MIS. Corrective action alternatives will be solidified. John Jewitt, the President of Calidus will also be available, if appropriate.
- Appropriate management in the Customer Business Unit have been notified and briefed.
- Calidus and Digital have both added incremental personnel on the project.

We are committed to resolving these issues. We will update your office after the January 28th meeting. If you need any more information, please do not hesitate to contact me.

Regards,

Bob Burke

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

Doc. No: 052050
Date: 05-Feb-1993 11:56am EST
From: Tom Grilk @MRO
GRILK.TOM AT A1 AT MCIS3 AT MR
Dept: Law
Tel No: DTN: 297-4443

TO: russ gullotti @mko
CC: al hall @cop
CC: martin hoffmann @core
CC: rich alpert @mso
Subject: ARINC

***** PRIVILEGED COMMUNICATION *****

Russ:

Win Hindle's office tells me that you are aware that on Monday morning at 9:30 there will be a meeting in the Mill concerning our response to ARINC's letter to Bob Palmer. Rich Alpert is sending you a status report and copies of proposed response letters.

The thrust of our startegy is to keep Bob out of it, to have you respond to the letter and to seek to have a meeting to move things forward. We are leaving the participants in that "move forward" meeting vague so as to not necessarily tie you to the entirety of the process.

If we get the chance, it might be helpful to talk this weekend.

My number at home is 617-334-2404, and since I am surrounded by little urchins, I am generally at home other than on Saturday morning (which is the official Freedom From Urchins period for my wife and me.

Tom.

Printed by Russ Gullotti @CORE

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

Doc. No: 010636
Date: 05-Feb-1993 05:38pm EST
From: Rich Alpert Corporate Law
alpert@AM_GAVEL@PKOMTSEMSO
Dept:
Tel No: 223-7559

TO: John Klein@core
TO: Roger Rose@aci
TO: Marty Hoffmann@core

CC: Al Hall@cop
CC: Russ Gullotti@core
CC: Tom Grilk@mro
CC: Max Mayer@mro
CC: Kevin Hartley@cop
CC: Bill O'Brien@mso

Subject: ARINC

INTEROFFICE MEMORANDUM

DATE: February 5, 1993
FROM: Rich Alpert

@MSO

DEPT: Law Department
DTN: 223-7559

TO: John Klein
Roger Rose
Marty Hoffmann

CC: Al Hall
Russ Gullotti
Max Mayer
Tom Grilk
Tom Siekman
Kevin Hartley
Bill O'Brien

Subject: ARINC

*****ATTORNEY - CLIENT PRIVILEGED COMMUNICATION*****

This memo will summarize for you and analyze Digital's current dispute with ARINC. ARINC is a consortium formed by and owned by the major domestic airlines. In July 1991, Digital entered into a fixed price contract with ARINC, total value of \$15M+, to design, develop and deliver the

ADNS II network for ARINC. On February 1, Digital terminated the project for ARINC's default and has ceased work.

BACKGROUND: ARINC needed to upgrade and expand its 20-year old network which carries reservation, baggage, weather and similar data. Its first RFP for a turnkey network garnered responses in the \$40M range. To save money, ARINC chose to purchase and supply many of the components itself, and issued a second RFP for design, development and some components. Digital won the bid in April 1991.

Digital's bid and the Contract were based largely on standards-compliant commercial off-the-shelf (COTS) technology from Digital, with some custom software (NCOTS). The first phase of the Contract, "Block Change 1", covered the development and documentation of program management and systems design. Digital expected, and based its pricing on the expectation, that the documentation would focus on the NCOTS products and the interfaces between COTS products, and not the underlying technology of the standards-compliant COTS products. The price for Block Change 1 was \$2.23M, payable only upon completion of that phase. ARINC had the option to issue purchase orders for Block Changes 2 through 5, but that option was not (yet) exercised.

CONTRACT PERFORMANCE: Digital started slowly. The Team was not in place at commencement, certain initial efforts were misdirected, and the Program Manager was replaced after four months. It appears that ARINC lost confidence in Digital's performance.

When Digital began to provide the documentation deliverables, ARINC repeatedly rejected them. Some rejections were justified and some were not. ARINC continually insisted upon more analyses, more backup data and more detail, all generally without exit criteria. In June, 1992, ARINC rejected several design documents that should have been accepted under the Contract.

The major change in the Contract occurred in July, after Digital had submitted many of the Block Change 1 deliverables. ARINC decided to eliminate the specified Time Division Multiplexors (TDMs) from the design, and also insisted that Digital's design address cost requirements (which were absent from the Specifications). These changes not only required major redesign of the system, but also materially increased Digital's risk of nonconformance with the stated Network Specifications Requirements (NSR) such as time delay. Digital submitted an engineering change proposal (ECP) three times to adjust the contract price (by \$1.1M) and modify the NSR. ARINC completely rejected the latest ECP on January 29, 1993. Digital had been working on the Contract, as changed by ARINC, since July.

As a result of the changes plus trying to satisfy ARINC's data demands, by December 31 Digital had expended \$3.5M (for a \$2.23M fixed price), was spending \$55K per week, and projected \$5M+ to complete Block Change 1, which was one year behind schedule.

Digital has consistently endeavored to resolve matters with ARINC. Al Hall several times visited with Andy Hospodor, ARINC's CEO, to reach an accommodation. Andy bluntly rebuffed Al's efforts, insisting that Digital must continue to perform increasingly to its fixed price contract. The February 1 termination letter was a last resort.

DIGITAL'S POSITION: As set out in Al Hall's February 1, 1993 termination letter to Andy Hospodor, ARINC's elimination of the TDMs, insertion of cost requirements, and repeated rejection of the ECP have materially increased Digital's risk, cost and obligation under the Contract. ARINC also improperly rejected key design documents which were foundational for future work. The validity of these last two sentences was confirmed by an outside networks consultant whom we retained specifically to aid our legal review.

It is apparent that ARINC wants to force Digital out, and is pushing for a replacement but at the original Contract price without compensation to Digital for the extra work ARINC has precipitated. Accordingly, the Team suspects that continuing the work, even accepting the risk of ARINC's changes, would never meet ARINC's satisfaction or secure payment to Digital.

ANALYSIS: ARINC's rejection of the ECP provides the most specific opportunity to assert that ARINC failed to "perform its material obligations under the Contract", which is the Contract trigger to terminate for default. ARINC's other deficiencies are more incremental and subjective. The "Change" provision of the Contract generally obligates Digital to continue performance as changed by ARINC and pursue arbitration. As some point, ARINC will claim that our termination itself constituted a breach. We have a 50-50 chance of persuading an arbitrator that our termination was valid.

ARINC's damages if Digital is found wrong: There is a low probability that ARINC would be awarded damages of \$5M+. The reasons are:

- o ARINC can readily procure substitute performance. Indeed, ARINC has said both its staff and CSC are ready to perform. The cost of substitute performance should not be much over the Contract price, and may be less as the TDM elimination simplifies the design.

o ARINC's change in design and in performance requirements obsoletes the work ARINC claims we should have performed. In essence, the Contract restarted in July.

o The Contractual limitation of liability clause very well may hold Digital's exposure to \$0 ("the lesser of \$5M or the purchase price paid to Digital"), despite some ambiguity in the Contract.

o "Lost profit" damages are unlikely for the nonprofit ARINC corporation which contracted with Digital and will use the network.

Thus, Digital's legal exposure is relatively low compared with the cost and risk of continued performance.

Digital's damages if we are found right: We could claim a maximum of \$3.5M expenses to date plus some projected profit, or \$3.3M for the original Contract price plus ECP cost. However, this is a fixed price contract (where expenses are not considered) and the law requires deducting future expenses saved due to not having to perform. Thus, we likely will be limited to under \$1M, representing the current value to ARINC of delivered work product or our expenses on work covered by the ECP.

STRATEGY: The business goals are:

- o Stop the open-ended but uncompensated expense
- o Maintain positive relations with the domestic airlines
- o Facilitate ARINC's completion of its ADNS II network without negative cost to Digital
- o Avoid large legal exposure.

To achieve these goals, we terminated the Contract as a last resort, focussing on ARINC's unreasonable, repeated rejection of the ECP. In addition, we should:

- o Avoid instituting legal action
- o Negotiate if necessary down to a \$0 - \$1M recovery based on value to ARINC of previous work and/or aiding ARINC's transition on a T&M basis
- o Work to convince Andy that he should favor completing ARINC's network over standing firm on the Contract
- o Maintain negotiations by Al and/or Russ, with Win in reserve if necessary in the role of uninvolved newcomer

to the problem

o Determine appropriate circumstances for discussion with the airline owners of ARINC.

Please let me know if you would like any further information.

Printed by Russ Gullotti @CORE

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

Doc. No: 010632
Date: 05-Feb-1993 03:37pm EST
From: Rich Alpert Corporate Law
alpert@AM_GAVEL@PKOMTS@MSO
Dept:
Tel No: 223-7559

TO: Russ Gullotti@core

CC: Win Hindle@core
CC: Al Hall@cop
CC: Marty Hoffmann@core
CC: Tom Grilk@mro
CC: Kevin Hartley@cop

Subject: ARINC Letters

In response to Andy Hospodor's Feb. 3 letter to Bob, here are the draft letters from Bob to Andy, and from you to Andy.

Regards.

Andrew T. Hospodor
Chairman and Chief Executive Officer
Aeronautical Radio Inc.
2551 Riva Road
Annapolis, MD 21401

Dear Andy:

I am responding to your February 3, 1993 letter to Bob Palmer, in which you invite discussion of how Digital can "cure its performance shortcomings".

As you know, I, as well as Al Hall and others at Digital, have always been happy to discuss how best to provide ARINC with its ADNS II network. You and I have had a number of amicable conversations in that regard. However, it is clear that we view very differently what went wrong with this project fully share the views expressed in Al Hall's letter to you of February 1. Nevertheless, I agree with you that we need to try to move forward.

While we could discuss at length either ARINC's fault or "Digital's perform shortcomings", that would not be constructive. I propose that we now focus the best way to achieve a mutually satisfactory resolution of the current situation.

Please let me know if you concur. If so, I will arrange for the appropriate conversations to occur without delay. I look forward to a positive resolution.

Sincerely,

Russ Gullotti
Vice President

Andrew T. Hospodor
Chairman and Chief Executive Officer
Aeronautical Radio Inc.
2551 Riva Road
Annapolis, MD 21401

Dear Mr. Hospodor:

Thank you for your letter of February 3, 1993.

Customer satisfaction is the highest priority for Digital. ARINC is a valuable Digital customer. I assure you we will take every appropriate step to maintain a proper relationship.

I have asked Russ Gullotti to respond to your letter and work toward a positive resolution. Russ is the senior Digital executive responsible for Digital's business in the United States. It is also clear from your letter that Russ is familiar with this project and you and he have a good working relationship.

Russ has my complete confidence.

Very truly yours,

Robert Palmer
President

FEB 3 '93 15:32 FROM CORP CUST ASSIS

PAGE.002

*Customer Issue #1
8 Pages total*

needed in "P".

Command:
Please enter a command or type HELP.

Command: p 4
2 characters or more are needed in "P".

Command: print 4

Date: Wed Jan 20, 1993 2:04 pm EST
From: Digital Equipment Corporation / MCI ID: 248-3742

TO: Mr. Howard B. Bernick (Paper)
President
Alberto Culver
2525 Armitage Avenue
Melrose Park, Illinois 60160

Handling: ONite
Message-Id: 05930120190450/0002483742PK3EM

Dear Mr. Bernick:

Thank you for contacting Digital and giving us an opportunity to respond to your situation. Your letter has been directed to Bob Burke, Vice President Professional Services and Systems Integration, Central States, to respond to your concerns.

Don Canney of our Corporate Customer Relations Department will keep my office informed until we have resolved your situation.

Thank you again for doing business with Digital.

Robert B. Palmer
President/CEO
Digital Equipment Corporation
146 Main Street
Maynard, Massachusetts 01754-2571

Correspondence Log #DC93019-001

Command:

*Recs.
This is the
letter that
customer
is upset
about.*

** TOTAL PAGE.002 **

Printed by BOB PALMER

INTEROFFICE MEMORANDUM

Doc. No: 013161
Date: 19-Jan-1993 08:37am EST
From: Bob Burke @OHF
BURKE.BOB AT A1 @GLDOA @ACI
Dept: Discrete/Central PS/SI
Tel No: DTN-471-5551

*Professional Services
& Systems
Integration -
Central States*

TO: BOB PALMER @MLO

Subject: I: ALBERTO CULVER

You have received a letter from Howard Bernick, President of Alberto Culver. This letter will ask you to contact him about the ACCESS program at Alberto Culver. Alberto's internal auditors, Booz Allen, have recommended that this letter be written as a result of a recent audit on this project. The purpose of this memo is to give you a brief background and current status of the account situation.

Alberto Culver has contracted with Digital to provide a \$3.9 million dollar warehouse management and order processing system. This system is critical to Alberto's core business, and is intended to give Alberto a favorable competitive position in their market.

This system requires the design and implementation of a complex, multi-vendor network, as well as the development of a warehouse, distribution, and order processing application based on a software foundation marketed by Calidus, Inc. Digital is the Prime Contractor. Calidus is the software applications contractor. Calidus is part of an England-based holding company, PI. Their main expertise is warehouse management; their product is Digital platform based. The U.S. company has approximately 30 employees.

The first phase of the project was undertaken in late FY92. This phase provides for the installation of a multi-branch network and warehouse management software. The implementation of the network has been plagued by installation, performance and design issues in network hardware and software provided by Digital and Proteon. The network today is operationally stable, and is in the process of final review and acceptance testing.

The major issues currently open at Alberto Culver are in the software applications area. The software application is based on a Calidus platform, and the customization is being done by Calidus. Phase I, Warehouse Management, is three months behind schedule due to unforeseen problems with their new software platform, and quality issues with the customized code. Digital, as the Prime, has worked with Calidus in correcting deficiencies in several areas such as quality assurance and design reviews.

We are currently doing an in-depth design review with Calidus and Alberto to assess the integrity of the software against requirements, and to develop realistic estimates of the work to be completed. By the end of next week, we should know the extent of the problem with Phase I and begin to develop a plan to resolve them.

The original schedule provided for a Phase II production cutover in April, 1993; Alberto has requested a slip in schedule no later than July to

accommodate fiscal year-end. Further delays are unacceptable to Alberto's management.

The Digital management who are involved include:

Frank Bowden, Vice President, Central States
Bob Burke, Vice President, PS/SI Discrete Manufacturing, Central States
Local management

The current and next steps are:

- January 28th meeting with Bob Burke, and Rich Paulsen, Alberto's Vice President of MIS. Corrective action alternatives will be solidified. John Jewitt, the President of Calidus will also be available, if appropriate.
- Appropriate management in the Customer Business Unit have been notified and briefed.
- Calidus and Digital have both added incremental personnel on the project.

We are committed to resolving these issues. We will update your office after the January 28th meeting. If you need any more information, please do not hesitate to contact me.

Regards,

Bob Burke

**ALBERTO CULVER
COMPANY**

2525 Armitage Avenue
Melrose Park, Illinois 60160
U.S.A.
(708) 450-3400

1/19/93 X 9107

001-708-

Howard B. Bernick
President
Chief Operating Officer

January 15, 1993

Mr. Robert Palmer
President and Chief Executive Officer
Digital Equipment Corporation
146 Main Street
ML010-2/A54
Maynard, MA 01754-2571

Dear Mr. Palmer:

As I hope you are aware, Alberto-Culver contracted with Digital in May, 1992 to develop, provide and implement a multi-million dollar integrated business system (ACCESS) on a turnkey basis.

I am writing to express my deep concern over delays in the ACCESS project and alert you to a serious problem that this is causing between your company and ours.

The ACCESS project is organized in two phases:

Phase One: Inventory Control and Warehouse Management was scheduled by Digital for conversion in late November 1992. The delivery of software has continued to slip from schedule because of significant program deficiencies and functional problems. It now appears that we will miss our second date of February which has forced us into a position that we must convert by May. However, at this time we can have no confidence that a May conversion is possible.

Phase Two: Sales Order Processing including the full range of pricing and promotion, credit and rebates and sales management has been delayed due to the problems of Phase One. Phase Two, which was originally scheduled by Digital for completion in May 1993, is much more complex than Phase One. At this point we cannot with any confidence forecast a completion date.

The impact of all of these problems and delays on Alberto-Culver is extremely serious.

Telefax
(708) 450-3110

Mr. Robert Palmer - 2 - January 15, 1993

Internally, we are losing traction in our organization and devoting substantial amounts of our corporate resources to functions for which Digital is contractually responsible.

Externally, we are suffering severe competitive disadvantage since our ability to work with a very demanding trade has been compromised.

This subject is a matter of very serious concern to the Alberto-Culver company.

When we began this project, at the suggestion of our Board of Directors we retained Booz Allen and Hamilton to help us monitor the implementation of ACCESS and we have been reviewing this situation with them. We all now believe that the situation urgently warrants review by senior management of Digital and Alberto-Culver and requires immediate corrective action.

Our intent is to resolve these problems amicably as soon as possible, get the project on track and avoid continuation of a totally unsatisfactory situation.

I look forward to hearing from you.

Sincerely,

H. B. Bernick

By: [Signature] [Title]

which was originally [unclear] completion [unclear]

3769C/5

Printed by Judy Wilcox

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

Doc. No: 000554
Date: 03-Feb-1993 10:22am EST
From: DON CANNEY
CANNEY.DON AT A1 at SONATA at
Dept: CORPORATE CUSTOMER RELATIONS
Tel No: 276-9107

OGO

TO: Judy Wilcox@MLO

CC: ELAINE NAVEDONSKY
OGO)

(NAVEDONSKY.ELAINE AT A1 at SONATA at

Subject: URGENT - Alberto Culver Briefing

Judy,

As requested, the briefing for Alberto Culver based upon data provided to us. If I can be of any further assistance, please call.

Regards,

Don

**ALBERTO CULVER - EXECUTIVE BRIEFING
3 FEBRUARY 93**

Customer Contacts: Howard Bernick, President/COO
Rich Poulsen, V.P. MIS

Opportunity Value: \$3.8M Total

\$1.2M (Third Party)
.8M (Products)
1.8M (Services)

CERTS FOR PAST 2.5 FISCAL YEARS:

FY93 - \$22K
FY92 - \$3.827K (SEE ABOVE)
FY91 - \$495K

DEC Management Involved: Bob Burke, VP Professional Services, Systems
Integration Central States (DTN: 471-5551)

Frank Bowden, Central States VP (DTN: 483-4040)

Mark Stasik, AGM, Chicago (DTN: 474-5107)
Rob Taite, AM (DTN: 474-5194)

ISSUE: Alverto Culver contracted with DEC for a complex multi-vendor \$3.9M Warehouse Management/Order Processing System to improve their competitive position. Based on Calidus software (DEC is prime contractor). Alberto Culver was advised to contact Digital's President and CEO by their on site consultants, Booze-Allen.

- PHASE I started Late FY92. Provides installation of multi-branch network warehouse management software. Plagued by many network H/W & S/W problems. Operationally stable today, ready for final acceptance Testing.
- Major issues currently open are in the software applications area. Calidus software is 3 months behind schedule due to unforeseen problems with platform and code customization. Digital is working as the prime to correct this.
- Plan to develop realistic action plan with completion estimates by 1/28.
- PHASE II scheduled to begin April 93. Customer requested a slip to no later than July 93 (to accomodate fiscal year-end).

**ALBERTO CULVER - EXECUTIVE BRIEFING
3 FEBRUARY 93**

CURRENT AND FUTURE PLAN:

Meet with Customer and President of Calidus on January 28th (a memo from Bob Burke on 2/1 revealed that at this meeting they discovered that the network problems were manageable, however, application problems may be more serious than originally anticipated). Customer also complained about the MCI "form letter" at this meeting.

A con-call on 2/2/93 between Corporate Customer Relations and Bob Burke, V.P. Professional Services revealed that there is a \$5m performance clause that could be levied against DEC for non-performance if this problem is not resolved. Bob stated that we will continue to work this issue diligently, however the application problems are quite complex.