**From**: Jack Horner. VP Product Development LegacyCo

**To**: ExCom LegacyCo

**Subject: Product Development Projects**

Please find attached a list of the product development projects currently under development.

From a product development viewpoint there are two scenarios:

1. That the Pear intervention does not catch on with our core B2B customers. Pear may expand the overall market, particularly in the B2C, perhaps dramatically. However, our segment, the B2B and subsidized B2C remains loyal. In this case, we propose 2 projects aimed at reacting to Pear from a base functionality and design perspective. These are Pheasant and Racoon. Ostrich and Tiger are almost completed and cannot be usefully stopped at this late date.
2. That Pear so influences the B2C market through its design and platform capability that pressure is put on the B2B segment. If Pear then moves into our space by improved or 'good enough' security and integration with corporate systems, without huge investment we will be totally disrupted. Project Wolf shows the costs of 'catch-up'. We have no guidance of where Pear is going next.
3. That Pear's rewriting of the market is complete and we are destined to be squeezed out. In this case, I recommend that we immediately cancel all new functionality in the legacy offerings and dramatically downsize this function.

The above said there is some hope. In Period 2, we discussed Project Vole. This project is aimed at B2C augmented reality.

**B2C AR: Project Vole**

We have been working with partners and significant breakthroughs have been made. The original idea of a headset has been dramatically expanded. Based on the work done in NewCo looking at integrated commercial systems (cameras, software, and headsets as a commercial system) we have scoped out a domestic system that allows consumers to create domestic augmented reality programs for a reasonable price (currently estimated at $700 for our bit for a first generation working system). This market is, in Development's opinion enormous and we stand where digital cameras stood 20 years ago.

**STRATEGIC IMPLICATIONS**

This represents are pivotal point for the company. Do we:

1. Stay with today's offerings and hope the market survives and our place in it?
2. Accept the loss of the current markets and place all our eggs in the NewCo basket including any cash we can wring out of the legacy offerings as we run a rearguard action?
3. Accept a gradual or precipitate collapse of the old offerings, run them for cash, and transfer all our LegacyCo efforts to Project Vole? This would have dramatic implications for LegacyCo involving downsizing, reskilling, retooling, re-orienting the vision and entering a potentially enormous brand new market from scratch. Note: our obligations to NewCo would be over so some dollars can be recovered.

Once the decision on Vole is taken (continue or not) I will have the projects list reworked to reflect our entry into B2C AR and it will be presented next period.

By next period NewCo will have launched into the B2B AR space. This again raises the issue of cannibalization. The spaces are different – B2B and B2C – from a customer point of view with none of the cross subsidization embedded in the current markets; though domestic and commercial are akin to home video and wide-screen cinema.

Regards

Jack

## PERIOD 4: DATA ON CURRENT AND PROPOSED LegacyCo PROJECTS

| Working Project Name | Strategic Logic | Market | Impact on CoS % | Competence** | Risk of Dev. Failure | Period 4 Current | Period 5 | Period 6 | Period 7 | Period 8 | Headcount Required |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Effects if successful | | Cost to Product Development Budget | | | | | |
| | | | | | | These costs are charged to Prod Devel budget in the period, if the project is NOT cancelled | | | | | |
| Ostrich | NF | B2B | 0.25 | Positive x1 | Medium | $200,000 | | | | | 7 |
| Grizzlie | M | B2B | | Positive x 3 | Medium | $400,000 | | | | | 10 |
| Pheasant | NC | B2C | | Positive x1 | Low | $700,000 | $600,000 | | | | 3 |
| Racoon | NC | B2C | | Positive x1 | Low | $500,000 | $600,000 | | | | 5 |
| Tiger | M | B2B | | Positive x 3 | Medium | $300,000 | | | | | 10 |
| Wolf | NF | B2B/B2C | | Positive x3 | High | $20,000,000 | $20,000,000 | $15,000,000 | $10,000,000 | $10,000,000 | 35 |
| Vole | B | New | N/A | Positive x 10 | Moderate | $25,000,000 | $10,000,000 | $10,000,000 | $2,000,000 | $2,000,000 | 15 |
| Platypus | IS | Open | Unknown | Positive x 1 | Minimal | $4,000,000 | $4,000,000 | $4,000,000 | $4,000,000 | $4,000,000 | |
| | | | | | | 51,100,000 | 35,200,000 | 29,000,000 | 16,000,000 | 16,000,000 | 85 |

Key: NC=Neutralize Competition; NF=New Functionality; M=Maintenance; B=Potential Blockbuster; IS=Innovation Stimulation

# From the desk of Jack Horner

Mary

Another thought: as you are aware I have been concerned for some time about the time consuming nature of the Compliance Officer work. Although I appreciate the risks involved, there is absolutely no doubt it has drastically slowed our development process. If we decide to exit the current LegacyCo business, I would suggest the need for 'compliance' disappears and that role can be eliminated.

Jack