



DISCOPYLABS

The Complete Software Manufacturing Solution

Perfect Original Quarterly

WINTER 1998

Another DisCopyLabs Advantage

Supporting Our Customers Via Internet

By Norman Tu, Chairman & CEO

We are pleased to offer to our customers access to our Internet Customer Support System (ICSS), an information tool that can help them manage their software manufacturing needs more effectively.

ICSS provides customers with convenient Internet access to their accounts regarding (1) fulfillment status, (2) material status, and (3) production status.



Our customers told us that if they could obtain current information on these three important areas – on-line, 24 hours a day – they could manage

their manufacturing requirements more efficiently and thus be more responsive to their customers. We listened and responded.

Accordingly, we spent a year developing the ICSS, which utilizes the growing capabilities of the Internet. It is now available at **no charge** to our clients in Northern California. We plan to extend it to customers of our Southern California facilities in the first half of next year.

ICSS enables customers to get various on-line reports, such as what is being built on the factory floor, on-hand inventory, inventory shortages, inventory over 90-days, and inventory activities for the past 30 days.

Customers can use the ICSS to send sales orders, which will be acknowledged, and get confirmation of shipping orders, tracking

numbers, and related data, such as ship weight, cost of shipping, and back-order data.

Besides developing a very user-friendly graphical interface for our ICSS, we invested in and installed a separate, state-of-the-art hardware infrastructure, including T-1 communications line. We designed our web site to be secure, with the most proven firewalls and passwords protecting the confidentiality of account information.

ICSS also allows us to be more efficient in getting fresh information to you. Our staff will no longer have to take the time collecting and compiling your project status, and then sending it on. Now, this information is conveniently available to you, when you want it, and at your desktop.

If you are not yet taking advantage of ICSS, we invite you to explore its possibilities and how it can help manage your manufacturing requirements. Accessible through MS Explorer or Netscape Navigator, our internet address is www.discopylabs.com, and then click on the ICSS button.

We believe DCL is the only software manufacturer in California, perhaps in the country, offering this advanced electronic commerce service to customers. And we are investigating the possibility of adding other services in the near future.

ICSS is just another way DCL demonstrates that we intend to be a valued partner in your business.

A good report card: 90 plus for 4 quarters:

Novell Honors DisCopyLabs With Certified Supplier Status

DCL has earned the distinction of becoming the only turnkey supplier in the history of Novell, Inc., to receive the software developer's Certified Supplier Status after only four quarters of providing support to Novell.

According to Jim Trimble, DCL's Business Unit Manager for the Novell account, Novell rates its suppliers on a quarterly basis in such quantitative categories as inventory accuracy, on-time delivery, corrective action closure, defects in parts per million, and first customer ship times.

Qualitative ratings of supplier performance by Novell include communication, flexibility, problem solving, technical knowledge, and how well commitments are met.

Only those suppliers who maintain a rating of 90 points or higher, out of a possible 100 points, per evaluation period for four consecutive quarters receive this recognition, which is symbolized by a plaque.

DCL began turnkey support for Novell this past February, and since that time has merited ratings of 90 or better for each quarterly evaluation period.

"We are pleased that our performance has been acknowledged by Novell, and that we have made an important contribution to their operations in a relatively short period of time. We intend to continue delivering the high quality services to Novell that will extend our Certified Supplier Status with the company into the long-term future," Jim said.

Operations, and Systems & Distribution, Now Separate Groups to Better Respond to Customer Requirements

A reorganization of departmental functions is improving DisCopyLabs' ability to deliver high-quality distribution services to customers, said Bill Jacobson, company President.

He announced that Doug Laidlaw has been appointed Vice President-Operations and Shahid Masood has been named Vice President of Systems and Distribution. Previously, these functions were



Doug Laidlaw

in one group. "The separation of Operations, and Systems and Distribution, each with an experienced senior manager to lead them, demonstrates the increasing importance of

fulfillment and distribution services to our customers and to our organization," Bill said. "Both groups will report to me to assure a single high-level focus and maximum coordination within our organization."

Doug, who is new to DCL, brings more than 15 years of industry experience to this new position. He will be responsible for all manufacturing in Fremont. During his career, he has been the president of a printing company, directed turnkey manufacturing operations, and managed ISO-related quality programs.

Shahid, who has been with DCL since 1995, was previously in charge of Operations, Distribution and Information Systems. All functions have grown significantly over the years as DCL has expanded, and now demand their own dedicated management focus, Bill noted.

"As the industry has grown and evolved, distribution and fulfillment have become more important," Bill said. "The place of manufacture is the optimum place to ship from. From here, you can get a total perspective of making and shipping products, and all the various components, such as production schedules and capacity, raw materials, finished goods, and inventory. You're able to view a bigger picture of the entire distribution pipeline from the production site and

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Pricing Practices Leads to Troubled Times For Some Software Manufacturers

We have witnessed some turmoil in the software manufacturing industry in 1997 as no less than ten companies shut down completely, merged or were consolidated into other organizations. This past year has seen more change in our industry than any other.

These changes are likely the result of three to four years of excess capacity, as many players jumped into the market without the expertise needed to succeed over the long-term. The main card they played was serious price-cutting to attract customers, pricing often lower than their actual cost of doing business. Many of those shops are no longer around. They just didn't

have the resources to survive two or three years of loss-leader pricing strategy.

One fall-out from the closings and consolidations is that some software companies may have had to move from software manufacturer to software manufacturer, unhappy with the results they were getting. Because of the turmoil many companies have learned to base their evaluations of software manufacturers on a number of important considerations, rather than price only. These factors include:

- commitment to the software industry
- financial strength

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Proclamation

City and County of San Francisco

WHEREAS, DisCopyLabs, is the largest independent turnkey software manufacturer in California, serving over 200 clients ranging from major software developers to start-up companies; and

WHEREAS, Norman Tu, Chairman & CEO; Antonia Tu, EVP and David Tu, EVP have supported Self-Help for the Elderly since 1988, raising funds for the start-up and annual operation of Self-Help's Santa Clara Chapter; and


WHEREAS, in 1993, Norman Tu spearheaded the capital campaign to raise money for a MIS Project for Self-Help for the Elderly and its satellite offices, resulting in acquisition and installation of a major MIS computer program for the agency; and

WHEREAS, in 1997, DisCopyLabs provided a Challenge Grant to raise \$80,000 towards the acquisition of Sunrise Residential Care Home, which serves 34 frail seniors in Santa Clara; and

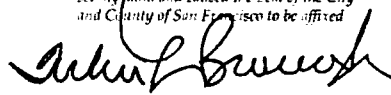
WHEREAS, DisCopyLabs has provided exemplary community services and promoted public/private partnerships, bringing in valuable resources to the non-profit sector, especially to Self-Help for the Elderly and its 25,000 Seniors; now

THEREFORE BE IT RESOLVED, that I, Willie L. Brown, Jr., Mayor of the City and County of San Francisco, recognize and honor the efforts made by DisCopyLabs, and do hereby declare December 9, 1997 as...

**DISCOPYLABS DAY
in San Francisco!**



IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City and County of San Francisco to be affixed



Willie Lewis Brown, Jr.
Mayor

System Enhancements and Additional Resources Leads to Expanded and Improved Customer Support

The introduction of DisCopyLabs' new Internet Customer Support System (ICSS) is one of several new capabilities to enhance the company's support of clients, said Shahid Masood, Vice President of Systems and Distribution.

ICSS enables customers in Northern California to send fulfillment orders via Internet, as well as to obtain reports on actual fulfillment, orders, and manufacturing status. All reports are as of the close of the previous business day.

The next phase of ICSS development will allow customers to get real-time status on fulfillment orders directly from DCLs' new manifest system, according to Shahid.

The new manifest system is based on Tandata's Prologistics and Microsoft's SQL Server, and will be a key element of the company's future offerings of electronic commerce services, Shahid explained.

"ICSS gives customers a clear view into our operations as they affect their accounts, and clients will quickly be able to see how we perform for them. Our expanding information services in support of customers will make it possible for them to obtain the increasingly fresh data they need in order to make more timely and better business decisions," Shahid stated.

Another very important benefit of ICSS is that any authorized customer employee can access his/her company's account information at DCL. ICSS allows them to obtain this information directly, whenever they choose.

Still another improvement is the implementation of the new Microsoft Exchange Server which handles all formats of E-mail between the company and its customers. Customers and DCL will be able to communicate via E-mail more quickly than was possible before, no matter what format each uses, or the location of the customer.

In addition, this will provide the platform for future forms flow and groupware applications development.

These enlarged capabilities enable the company to ship 10,000 fulfillment packages a day, a volume that can be boosted to handle special

Ready for January Operations

New 75,000 Sq. Ft. Facility In Fremont Enables Company to Ship 140,000 Packages Daily

Another large DisCopyLabs production and distribution center facility is finishing construction and will be in operations at the beginning of the year.

The new 75,000 sq. ft. building, located a short distance from DCLs' Fremont headquarters, enables the company to increase its packaging capacity by 66 percent, or 40,000 packages per day, according to David Tu, Executive Vice President, who manages construction projects for the company.

The new building's four packaging lines will be run two shifts a day, five days a week, to start. It has space for 5000 pallets for inventory use.

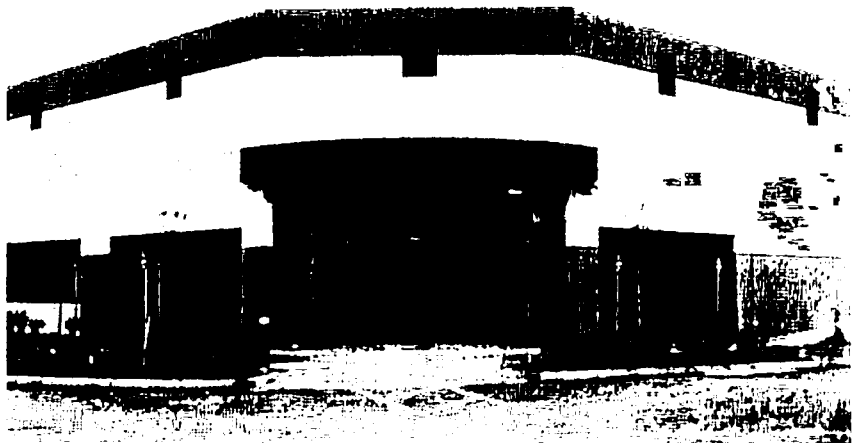
"Along with our main headquarters building, the two plants in Southern California, and this new facility, we will have a total of 270,000 sq. ft. of space, capable of turning out 120,000 product packages daily for customers," said David. "And we can increase our manufacturing run to handle spikes of orders by working extended hours or weekends."

"We decided to undertake this expansion to achieve increased flexibility in meeting current customer demands, as well as to be prepared for the expanded future requirements we anticipate as the software industry continues to grow," he said.

The new structure will enable greater operating efficiency as manufacturing assembly for DCLs' Northern California customers will be centralized at the company's new facility, and distribution and fulfillment will take place at the existing headquarters facility.

In addition, the headquarters plant will do short run production, that is, product runs of 250 units or less. This frees the new location to specialize in large production runs.

This newest building, whose address is 48819 Kato Road, Fremont - near the corner of Kato and Milmont - will have access to same advanced systems and communications capabilities as the headquarters plant.



situations by adding weekend work or a third shift.

Warehouse operations are also becoming more automated. A new state-of-the-art carousel system, for electronically picking product components from the stacked shelves in the company's warehouse, was installed. It greatly

speeds up the process of gathering the many individual pieces of a product.

"Along with these improvements, we plan others throughout the new year which will permit us to deliver more quality services of increasing value for the growing needs of customers," Shahid said.

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To Better Respond to Customer Requirements

can be better equipped to make timely decisions."

Moreover, the industry is shipping to an increasing number of locations around the world, so distribution is much more complicated than in earlier years, requiring more specialization and resources. For most software companies, trying to handle distribution in-house can be an expensive and time-consuming distraction from their primary goal of developing competitive software.

The Tu family continues to have an active role in the company they founded. Norman is an active Chairman and CEO, David Tu continues as Executive Vice President in charge of DCL in Southern California, and Antonia Tu, also an Executive Vice President, is in charge of Human Resources and Special Projects.

"We now have in place all the key elements to consistently deliver excellent customer services, including the right production equipment and

systems, tested shipping and fulfillment services, state-of-the-art information tools, well-trained staffs, and experienced managers to coordinate them," Bill concluded.

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Troubled Times

- profitability
- ability to service needs
- quality support

DisCopyLabs has emerged from this troublesome period stronger than ever, and one of the largest independent software manufacturers in the country. We have avoided competing with unrealistic pricing. Though it sometimes may have lost us opportunities, we have maintained prices we thought fair for the services rendered. We wanted to stay financially healthy so we could continually improve and expand services to customers. As expected, this was good strategy and good business.

I think that customers who remained with us through the years appreciate the value we provide, as we appreciate the chance to deliver that value. They have been insulated from the turmoil in our industry. So have we.

Moreover, as we head into 1998, we will continue to be selective about new clients. We will not pursue new business that could affect our ability to deliver the high level of service existing customers receive. You are our top priority, and our top ambition is to be recognized as the most preferred software manufacturer on the West Coast.

We're also optimistic about the new year. We're in the final construction stages of our fourth facility, a 75,000 square foot plant near our Fremont headquarters. It will add another 25 percent capacity to handle growth from existing clients and work from selective new customers.

However market conditions may change, DCL is positioning itself to deliver the greatest total value to our customers.



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