

KAYPRO, THE COMPANY BEHIND THE COMPUTER

by Nat Weiner

Ever since the Osborne bankruptcy, many have wondered about possible parallels with Kaypro. There are major differences. Osborne never did go public or otherwise raise enough money for staying power. The Osborne I, with its 5-inch, 52 col. screen and SSD drives, was an interim product that got killed when better ones, notably the Kaypro II, came along. Even more crucial, it seems, was Adam Osborne's chaotic management style and giant ego.

In contrast, the Kay family have been in business a long time. They also have a product line which, if not at the leading edge of the market, is well-regarded by dealers, users and critics alike. Nevertheless, long-range success for Kaypro is far from assured.

As most of you know, Kaypro Corporation "went public" last August 25, selling 4 million shares of stock at \$10 a share. Becoming a public company simultaneously made the Kay family wealthy (to the tune of over \$9 million in cash) and gave Kaypro a major shot of capital (\$27.5 million). However, going public brings with it a requirement known as "full disclosure," providing a revealing look inside the company's financial past and present, and, to some extent, its future.

The company began in 1953 as Non-Linear Systems. For over two decades, it enjoyed a small but profitable business manufacturing electronic instruments, such as digital voltmeters and oscilloscopes, which it sold for aerospace, defense and industrial applications. By the late '70s, however, aerospace orders for Non-Linear's products had dried up. Sales fluctuated in the \$3 to \$4 million-a-year range, with losses instead of profits. By 1981, in fact, Non-Linear had NO net worth; while by August 31, 1982, the balance sheet showed a NEGATIVE net worth of \$468,000.

In 1981, in obvious need of a new product, Non-Linear began developing what would become the Kaypro II computer. The very limited resources available (Andy Kay had to borrow money using personal real estate holdings as collateral) restricted funds for product development and for tooling up. (Even in fiscal 1982, the year in which most of the work on the Kaypro II was done, R & D expenditures totalled only \$399,000, small industry standards.)

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The temporary poverty may have been a blessing, for it forced the company to be resourceful. Lacking the funds to create a new product from scratch, Kaypro assembled a group of proven components that were functional, economical and readily available, and packaged them in a format that had already been tested and proven by Osborne, whose computer was selling well despite design flaws. To this was added a readily available operating system, CP/M, and, taking another leaf from the Osborne notebook, a bundle of software good enough to get a first-time buyer started. The price for this package was extremely attractive. Moreover, Kaypro didn't even have to do any marketing; Osborne was doing it for them.

Non-Linear's timing was perfect. When Kaypro shipped its first product, in June, 1982, Osborne, unbeknownst to the rest of the world, was already on a self-destruct course. By the time the fiscal year ended, less than 3 months later, Non-Linear had shipped \$2,084,745 worth of II's (at wholesale value). The following year, about 50,000 Kaypros, worth \$73,487,566, were shipped, an incredible success story by any standards.

Fiscal 1983 also did wonders for Kaypro's (the company was now called that) financial picture. Profits of nearly \$13 million, plus proceeds of \$27.5 million from the stock sale, transformed the negative net worth of \$468,259 at the start of the year into a positive net worth of almost \$40 million at year's end. Pre-tax profit margins were an incredible 31.6% of sales: it took just \$8.1 of selling and general and administrative

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expenses to support total sales of over \$75 million.

The August 25, 1983 prospectus for the stock offering also suggested a bright future. A new desk-top portable was due in "late 1983," and a 10 megabyte hard-disk portable was under development that would be compatible with the IBM XT. Sales of the Kaypro 10 were not up to expectations, but this was attributed to a shortage of disk drives. Kaypro also indicated that it was having difficulty "predicting future results from the highly volatile personal and microcomputer market" -- another hint that caution might be appropriate.

In general, however, the picture seemed almost too good to be true. In retrospect, it probably was.

A number of factors suggest that the rosy picture was overstated and the outlook for Kaypro somewhat uncertain, with opportunities, but also problems. Some of the problems are external and largely beyond the control of Kaypro. Others are self-made.

The opportunities are obvious. We live in a computer world. A lot of machines are going to be sold. At least for a while, there should be rapid year-to-year growth. Growing markets create opportunities for those who can capitalize. Kaypro has some strengths.

Kaypro has succeeded in getting established, and that is very important. It has dealers, a sizable and growing body of users, some name recognition, the ability to actually ship products, proven products to ship, and it has a net worth that, while not great by IBM standards, does bring playing chips to the table. Moreover, Kaypro is now clearly the leader in the 8-bit business, i.e. non-games or graphics, low price field, for whatever that is worth.

However, a number of signs suggest that Kaypro is going in the wrong direction. The company appears to be out of control in terms of inventories, cost structure, product development and management judgment.

Kaypro is developing an IBM XT clone. This machine will have to compete with the Compaq Plus, Eagle, Columbia, Corona, Televideo and the like. Those guys got there first, don't show any sign of committing an Adam Osborne, and lots more are coming besides. Pricing is already getting nasty.

Kaypro recently announced that it is planning to manufacture the Drivetec, a high density, 2.6 megabyte disk drive, to be used on its new and long-overdue Robie desktop computer. The Drivetec is unproven, and compatible with nothing else. The computer industry is littered with the corpses of companies that used non-standard drives (Victor and Computer Devices come quickly to mind). It is difficult indeed to see why Kaypro needs the risk of start-up production of an untried, non-compatible disk drive that is bound to have birth problems.

Kaypro also recently announced that it is soon to be U.S. distributor for a high-priced, high-performance, IBM-compatible lap portable to

be produced in Japan by Mitsui, a Japanese trading company. Few details are available. So far, no-one has demonstrated a market for such a machine at a high price level.

The "Kaypro 16," the IBM XT workalike, is also considerably delayed. If it is just a clone in metal case at a price around the market, it faces a rocky road, as discussed above. If, however, it turns out to be both IBM compatible and also capable of running present Kaypro software and files, has quad drives made nearly universal through Uniform and a flexible controller chip, has terminal emulation software, and maybe just a little open architecture, it could be an outstanding step-up or growth machine for current Kaypro and other 8-bit owners who need IBM compatibility and want to keep using present files and software as well. Everything needed to make such a machine is readily available and economical. But will Kaypro produce it?

[To Be Continued Next Issue.]

USERS' CORNER

Longer Feet For Your Kaypro

From the Houston KUG Newsletter: How to put longer "feet" on the Kaypro computer case, so that it doesn't have to sit on the edge of the keyboard. The rubber feet that the case sits on when it rests on the keyboard are attached by screws. A Houston user removed the two feet and replaced them with two small hinges. He used the hinges to hold extensions about 2.5 inches long, then he installed the rubber feet on the other end of the extensions. These extensions were made from small lengths of steel channeling of the type normally use to support adjustable shelves. By using steel, he was able to solder the hinge to the channel for rigidity.

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BRACKET RACKET

"Not all Kaypros, Perfect Writers and printer combinations are created equal. If you try to turn off page numbering with '', and it doesn't work, try '@Pagefooting()' [with a space between the parentheses]."

[From the Capital (DC) KUG 4/84]

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BUFFER STUFFER

"At the start of a writing session you can load up all 7 of PW's buffers. At the menu prompt 'File to Edit?', simply type all 7 file names with a space between each pair. Or, you can start from CP/M by typing: 'PW FILE1 FILE2 FILE3, etc.'"

[From the Capital (DC) KUG 4/84]

KAYPRO, THE COMPANY (PART II)

by Nat Weiner

[Ed. Note: We offer this article and Part I in the previous Kugel in an effort to answer questions many BOSKUG owners have about the company that produced their computer. The thoughts and conclusions, even the statistics, expressed here are Nat Weiner's own and are not meant to be the last word on Kaypro Corporation or reflect the views of either BOSKUG or the Kugel.]

In the first part of this article, we looked at the history of the Kaypro Corporation and saw that the company, after many ups and downs, had suddenly come a long way in a very short time. In this second and last part, we will look at Kaypro's prospects for the future in a turbulent and increasingly competitive market.

Predictions about the future occasionally turn out to be correct but more often do not. With that caveat, let me say that, in my personal judgment, the outlook for the Kaypro Corporation is not very bright.

With the success of the Kaypro II and with the funds raised from going public, Kaypro created for itself a "window of opportunity" to develop into a viable competitor in the micro-computer field. This "window" was not very large; for Kaypro didn't start selling computers until 8-bit CP/M units were already past a short-lived period of market dominance, and the trend toward 16-bit PC and MS-DOS systems was established, along with continued viability for Apple.

Even the \$40 million that Kaypro generated by going public and from 1983 profits was not a very large stake with which to compete against the likes of IBM, Hewlett-Packard, Apple, Wang, DEC, Tandy, and emerging newcomers such as Compaq, Televideo, Columbia, Corona, Eagle, and others. A growing market creates opportunities, but this does not insure success, as demonstrated by failures that include Osborne, Victor, Computer Devices and more.

Nor is Kaypro showing that it has the abilities needed for long-term success in its fast-moving and already overcrowded industry.

Its product line is rapidly becoming less competitive. IBM-compatible machines are now readily available that are increasingly price competitive with the 4 and 10. For example, the Columbia portable, which comes with a bundle of software as extensive as Kaypro's, is highly compatible with the IBM and has two double-sided drives and an expansion slot; this machine can now be bought for as little as \$2,000. For some new purchasers, this may be a better buy than a Kaypro 4 because of its MS-DOS 16-bit capability and its software bundle.

Incidentally, the Kaypro 4 is symbolic of the company's present product weakness. In addition to being overpriced relative to outside competition, the 4 now sells for \$700 more than the II. This wide price gap leaves dealers without a logical Kaypro "step-up" for the customer who insists on double-sided drives but is price-conscious. Why doesn't Kaypro have a

\$1,595 machine -- on which it could make money -- for those who want double-sided drives but don't want an oddball 300 baud modem or a clock that is of limited use, for those who already have dBaseII or the equivalent?

The updated II is an excellent value and a fine starter machine. At \$1295, it should have a continuing market at the low end of the price scale. In time, however, the new Apple IIc, identically priced, is bound to make inroads, while the IBM PCjr will undoubtedly be upgraded into an effective competitor. It is doubtful that Kaypro can make decent profits for long from a machine that is not significantly cheaper to produce but that must be priced below competition.

Kaypro is not moving very well to improve the product line situation. The 4 + 88, a machine that costs like a true compatible but doesn't run like one, and as a practical matter isn't strongly supported, has not proven to be a winner. Now Kaypro seems to be wasting time, money and effort on the ROBIE, an 8-bit, CP/M office machine priced like an MS-DOS machine, but featuring a radically new, non-standard disk-drive manufactured by Kaypro. The company has never before manufactured disk-drives, or indeed any major computer components.

Meanwhile, the promised IBM-XT compatible which Kaypro enthusiasts have been awaiting is long overdue. When it arrives, it will have to compete in a crowded field in which a number of strong companies are already established and doing a fine job. This competition is not going to roll over and play dead as Osborne so nicely did when the Kaypro II was introduced. It is not going to be easy to sell "just another machine"; yet there is no indication Kaypro has the expertise or resources to design or build something more technologically innovative.

Some time ago, Kaypro announced plans to import and sell a mysterious and fancy-sounding MS-DOS "true" portable, a high-priced machine designed by Mitsui (the company that designed the RADIO SHACK and NEC portables) and produced by another Japanese company that has not previously been in computer manufacture. From the sketchy details available, this machine does sound innovative: a "lap" portable with considerable memory and programs in ROM which can be plugged into a "mother" desk-top unit back in the office to become a full-fledged computer. So far, however, high-priced portables simply have not sold well, and Kaypro will be forced to make its own market for this machine.

In short, Kaypro has a product line that is losing competitive viability, with little on the horizon that suggests a change for the better. Meanwhile, sales are still moving ahead, but costs are rising at an alarming rate, profit margins are declining, there are repeated reports of serious management turmoil, and Kaypro continues to have a substantial inventory problem.

In February of this year, when Kaypro's problems were already evident, Andrew Ka, Chairman and principal stockholder, told a group of New York security analysts that for fiscal 1984

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Kaypro would have sales of \$165.9 million and profits of \$22.7 million. Both of these figures, if realized, would be up sharply from the levels of a year ago. We would all like to see these predictions realized. However, an informal, personal survey of security analysts who follow Kaypro has revealed a lack of confidence that such figures are realistic. Wall Street's scepticism about Kaypro's goals is also reflected in its stock price, which has been drifting lower and is around 5 1/4 at the present writing -- roughly half the offering price of a year ago.

To sum up, Kaypro has sales, distribution and name recognition of considerable value. However, it appears to be lacking in sufficient management skills, cost and financial controls, and resources and products for the future. It seems to me doubtful whether a Kaypro Corporation, so structured, can grow and prosper for long. Barring dramatic change, Kaypro does not appear to be the next IBM or Apple or Compaq. One possible scenario is that, in time, it will merge with, or be absorbed by, one of the secondary IBM compatible producers to whom Kaypro's incremental product line, distribution and name recognition may appear to be an asset.

What, if anything does this outlook mean to anyone contemplating buying a Kaypro? In my judgment, very little. I bought my Kaypro II a little over a year ago for \$1,795, when Kaypro was in far worse shape than it is now. It has been an excellent investment. It has done far more for me than I dared hope, and with a minimum of trouble. Now, as I am in the process of outgrowing it, I feel truly regretful that Kaypro has not seen fit to offer me a viable alternative. If they did, I would buy it.

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LOST FILES... (Continued from p. 3)

of stuff the directory no longer points to. For the procedures to find it, see -BOSKUG.104.

My final piece of advice begins with a tragic tale out of the Disk Doctor's Casebook. We'll call the victim Albert (not his real name) so as to spare the feelings of his family.

Albert spent two weeks working on a long book chapter which he kept as a single Perfect Writer file, patiently abiding the long swapping delays caused by this dubious policy. He did save his work frequently, and kept a backup disk onto which each day's work was faithfully copied.

One day, some disaster whose nature I'm incapable of understanding suddenly caused this lengthy file to turn to mush, while leaving the Perfect Writer program, or at least part of it, intact. All Albert saw, when trying to write the file, was a message that there was a bad sector on A Drive disk (his editing disk).

First, Albert tried repeating the save command a couple of times. It produced the same message. Next, guessing that the bad sector might in fact be on the destination (B Drive) disk, he removed it and thereupon attempted to save the file onto another -- which just happened to be his backup

-- disk. Same message.

Finally, when he looked for his chapter on both disks, all he could find on either was the first couple of paragraphs. Albert was in pretty bad shape when they brought him and his ruptured disks to me.

I had high hopes that DUU would find most of his file intact, at least as it existed up to the last save. But no. Both disks, the original and the backup, contained a long file starting with the first two paragraphs of the original text and continuing for many a kilobyte thereafter with meaningless garbage and nothing else. "Oh, well," I said to the poor wretch, "we can probably find a lot of it in the swap file on your Perfect Writer disk."

This innocent suggestion was the final blow. It turned out that, in his high anxiety to do something that might improve the situation, Albert had decided to make a new copy of Perfect Writer from his distribution disk--and he made it right on top of the imperfect copy that had caused the problem. Therefore, whatever text might have been left in the swap file was now in Electron Heaven.

It was a sad case. Poor Albert, once a promising Hittitologist, is now night manager in a tanning center. But it does suggest some lessons for the rest of us:

1. If you're having disk-writing problems, leave your backup disk alone! Use a clean disk if you want to try writing to a different destination.

2. Don't mess with, or even use, your Perfect Writer or Perfect Calc disk, at least not until you've made and put aside a copy of the swap file.1

We can't blame Albert for not knowing about the "SAVE 255 JUNK" ploy. But there is one more lesson we can take from his experience, and it's perhaps the most important of all:

3. When disaster strikes, STAY CALM! Don't turn off the computer, but do go away and have a cup of tea, or a walk around the block, or whatever you usually do to restore the world's axis to its normal tilt. Don't come back and start doing things until you've thought carefully about what you're going to do and in what order you're going to do it. Saving the junk file is something you'll have to do fairly soon, since you can't shut off the computer until you've done it. But everything else I've mentioned -- copying the swap file, using DUU to explore that and the junk file and the original disk--can wait until you've had a night's sleep, or a good lunch, and you should let it wait if you can. Your worst enemy, at such times, is that panicky feeling that YOU HAVE TO GET EVERYTHING FIXED NOW!

If just a few readers learn these lessons and follow the precautions described in this article, I'll be able to feel that Albert's dismal fate wasn't suffered in vain -- although I doubt this will be much consolation to his mother.