

# KAYPRO PARTS MYSTERY

*Chaotic company maintains steady sales*

BY KATHY CHIN

Reporter

**P**ending an outside audit, the status of millions of dollars in missing inventory at Kaypro remains a mystery. Kaypro, maker of low cost computers, is investigating the possibility that the parts, which were stored in a circus tent and rented trailers on the Solana Beach, California, company's premises, were stolen. "Until the audit's done, we really don't know about the parts," says company spokesperson Winn Schwartz.

Dave Kane of Peat, Marwick, Mitchell & Co., in Newport Beach, California, is auditing Kaypro, but refused to comment on the case. Sources close to Kaypro say they are not surprised by the latest discovery and that the incident indicates the firm's lack of control over its record keeping methods.

Earlier this year Kaypro told its investors it would be introducing a lap-size portable by Mitsui in November, but the deal appears to be stalled. Although Kaypro officials say a machine continues to be under development, no one will give even an estimated completion date. According to Schwartz, three parallel projects were going on with different manufacturers. "There will be a lap-size computer," he maintains.

Kaypro, known as a company run under the ironclad rule of the Kay family, is notorious for chaotic management. "Last October when I was there, I saw a guy riding a bike with a Walkman on his head and someone told me he was the materials expeditor," says John Dunham, managing analyst at Gnostic Concepts in Menlo Park, California. "I couldn't believe it. The three long, narrow structures that are there make communication impossible."

Disarray in the company extends to operations in the public relations department. Last month Kaypro sent a flood of press releases concerning a joint promotion with AT&T. According to the press release, AT&T customers using the long-distance service would be eligible for discounts on Kaypro computers. Calls to AT&T at the time showed that no such agreement was ever made.

Days later, Kaypro called publications and told them to ignore the release. Another statement sent out said to halt publication of any of the material.

Last year when Kaypro announced a journalists' discount for its Kaypro com-

puters, "dozens of free-lancers never got billed," according to a source close to Kaypro. One writer, Berhardt Harwood of New York, confirmed that he knew of at least six writers who received computers but never were contacted for payment.

The internal events at Kaypro are funny, if not bizarre. According to Ezra Shapiro, a former director of communications, last year the firm offered a promotional holiday trip to Hawaii to dealers who sold the most machines. To entice dealers, small packets of sand were sent to them marked as authentic Hawaiian sand.

"The mailroom staff was all sent out one day to collect bags of sand on the



*Despite administrative confusion at the home office, Kaypros continue to sell.*

beach," he recalls. "When they came back, they were told that it was the wrong type of sand. So they had to go to another beach the next day."

But the confusion at Kaypro also has more serious aspects. The company is based in a community flanked by four schools. In April neighbors charged that the multimillion-dollar company mishandled toxic wastes. A 55-gallon drum of cupric chloride, an acid used in a circuit-board-etching process, had ruptured. It was situated on a hill above the plant, bordering a junior high school. Larry Aker, program manager at the San Diego County Hazardous Waste Materials Management Unit, said the acid could be dangerous if it contacted water. Although it was not a major spill and was cleaned up two days later, residents were alarmed.

Michael A. Otavka, a member of the Environmental Health Coalition in nearby Del Mar, California, has a son who attends the school. His son often comes home from school nauseated because of the strong fumes emitted by the plant, Otavka says. "I'm going to have my son analyzed by the doctor for acetic acid in his bloodstream."

Last year the county Air Pollution Control District ordered Kaypro to stop its

printed circuit board manufacturing for one day because of complaints of foul odors. The odors come from a solder-leveling process during which circuit boards are cleaned in a hot oil bath. According to Otavka, although Kaypro has installed filters to absorb the emissions, "the whole place reeks of acetic acid."

During a recent visit by the county Department of Health Services, officials did not find any hazardous emissions. They did find, however, 36 drums of chemical waste on the premises. According to Dr. Donald G. Ramras, health officer for the county, the chemicals were standard waste products used by the electronics industry. Kaypro was given a notice to remove the barrels. "It's not uncommon to have barrels on company grounds," Ramras says. "This situation is no different at other sites."

Kaypro is still one of the industry's most prosperous microcomputer companies. Its current product line features a full range of transportable computers that come with free software. The Kaypro 2, an 8-bit CP/M machine, sells for \$1,295 and continues to be the firms' best seller. This summer Kaypro offered the Kaypro 2X Business Pak, which includes a Kaypro 2, printer, and software, for \$1,900.

In May, Kaypro reported \$32.5 million in sales and \$3.25 million in net profits. These figures are up from last year's \$19.6 million in sales and \$3 million in net profit, according to Schwartz. The company's success is no real surprise to Kaypro watchers. Kaypro's key strength is its relationship with 1,100 independent dealers, according to Dunham of Gnostic Concepts. "But how they can survive is hard to imagine," he says. "The place is running on mayhem."

Dealers remain positive about their relationship with Kaypro. Gerald Right, owner of Digital Deli in Mountain View, California, says he has been a Kaypro dealer for more than two years. "We carry all Kaypro's products," Right says. "They are selling very well, and we've had no real mechanical problems with them."

Salespeople at Trinity Associates in San Jose, California, say their Kaypro computers are selling well. "The Robie is a disappointment because users don't want to buy the special 2.6-megabyte disks," says dealer Henry Chin. "But we are enthusiastic about the rest of the Kaypro line. It's providing customers with a lot of satisfaction."

"Kaypro is a remarkably successful company," says former Kaypro communications director Shapiro. "It came out with a sturdy product at the right time. But that's not because of its marketing or advertising. The question is whether Kaypro can continue to develop products that sell themselves." □