

Flagg, Tracy

From: Swidarski, Thomas W.
Sent: Thursday, June 03, 2004 10:13 PM
To: Urosevich, Robert (Bob); Moreland, Steven; Byrd, Dave A.; Herron, Barry; Radke, Mark; Green, Pat; Edgette, Patricia; Gantt, Karen
Subject: FW: Board meeting update

Importance: High
Sensitivity: Confidential

The last two days I actively participated in the June board meeting which lasted about 6 hours and an audit committee meeting which lasted an additional hour. As you might imagine it was not a pleasant two days in discussing the election business issues. The rest of the corporation is overachieving making up for our poor performance.

I explained our deteriorating financial position. **We now show a \$3+ million loss for the year.** Key indicators for the year are as follows:

<u>2004 Plan</u>	<u>June Board Forecast</u>
\$140 million (revenue).....	\$60 million
\$14 million operating profit.....	(\$3.1) million

The swing of 17 cents in operating profit from plan is devastating, but you are part of a major entity that is very profitable in other lines of business and we are making up for this in our core businesses of ATMs and security. We posted solid operating profits the last two years and will again next year in the election business..

The board understands, as best anyone can, the volatile nature of the business/media and that politics are involved. **However, the board can not understand how the SOS of CA indicates that we have lied, misled and withheld information.** Only time will tell as the AG and we jointly investigate this serious situation. The consequences will be severe.

In the meantime, the board is giving us a chance to clean up our messes, get the organization in order, act/ behave like we are part \$2.4 billion entity, not a \$10 million start-up, and above all act ethically. That is not a lot to ask given the situation we have put the corporation in. However, the culture of this company is not changing fast enough. Diebold corporate is not going to bail DESI out. Example: I just reviewed airline travel and saw several of your names on there for not using the most economical travel. This policy we mailed out to DESI is not an option. Those simple issues cost several thousand dollars which add up every single day on both small and large issues. You need to manage and lead now!!

I am not proud to have to present this type of financial condition to the board or the rest of Diebold, however I am proud of the group of people that are helping to solve the existing problems at DESI. I need your continue commitment as we work together to address systemic issues and your leadership to keep folks focused on running excellent elections in November. We are moving forward.

My immediate priorities are as follows:

- Comply with the AG and SOS office in CA
- Find solutions for the CA counties
- Hire a compliance officer
- Certified software documented for every jurisdiction
- Preparation to run error free elections in November
 - solid project plans
- **Specific plans by sales representatives to get the \$60 million in revenue**
- Sell the printer lite solution to "Ohio and CA" and complete a development/manufacturing plan
- **NO FURTHER DETERIORATION IN THE OPERATING PROFIT NUMBERS**

I am pleased that Karen, Pat E. and recently Dave B. have joined this team and are considerable assets in changing culture and improving our business operations. Steve has added professional training a help desk and quality project

management to address some of the shortcomings we have had in our recent past. The work that Marvin and Rob have done from PSI has been extremely valuable and we need to use all other external resources as effectively. I know we can not work harder, it is time to work smarter and do the right things correctly the first time. If I did not believe we could overcome all the current issues in the marketplace I would not be sending e-mails at 11pm at night. I have confidence that we have learned some very painful lessons and are currently applying our learning's.

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