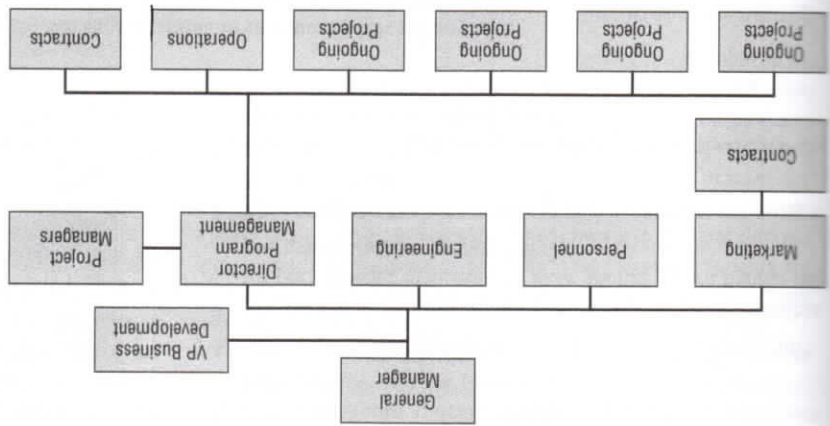


EXHIBIT III 1998 Organizational Structure (10/1/1998)



the most experienced individual. Smaller contracts would be assigned to whoever was available.

Interaction with Functional Departments

Due to the relative newness of project management, little data was available to the company to fully assess whether operations were successful. The project managers were required to negotiate with the functional departments for talent. This aspect has presented some problems due to the long-term cycle of most government contracts. Young talent within the organization saw involvement with projects as an opportunity to move up within the organization. Functional managers, on the other hand, apparently did not want to let go of young talent and were extremely reluctant to lose any form of autonomy.

Performance of individuals assigned to projects was mutually discussed between the project manager and the functional manager. Problems arose, however, due to the length of projects. In some instances, if an individual had been assigned longer to the project manager than to the functional manager, the final evaluation of performance was rated high in order to maintain an individual within the project scheme. According to some project managers, this aspect was a reality that must be faced, due to the shortage of abundant talent.

Current Status

In early 1998, Acorn began to realize that an orders shortage relative to government contracts would possibly occur in late 2001 or early 2003. Acorn initiated a three-pronged attack to fill the apparent void:

1. Do what you do best.
2. Look for similar product lines.
3. Look for products that do not require extensive R&D.

To facilitate these objectives, each division within the corporation established its own separate marketing department. The prime objective was to seek more federal funds through successful

program office, interface between the marketing department and the program office began to increase.

Responsibilities of the Project Manager

In 1997, Acorn, for the first time, identified a director of program management. This individual reported directly to the general manager and had under his control:

1. The project managers
2. The operations group
3. The contracts group

Under this reorganization, the director of program management, along with the project managers, possessed greater responsibility relative to contract proposals. These new responsibilities included:

1. Research and development
2. Preparation of contract proposals
3. Interaction with marketing on submittal of proposals
4. Responsibility for all government contracts
- a. Trade-off analysis
- b. Cost analysis
5. Interface with engineering department to insure satisfaction of funder's desires

Due to the expansion of government contracts, Acorn was now faced with the problem of bringing in new talent to direct ongoing projects. The previous program manager had considerable power over operations and maintained a singular philosophy. Under his tenure, many bright individuals left Acorn because future growth and career patterns were questionable. Now that the company is diversifying into other product lines, the need for young talent is crucial. Project management is still in the infancy stage.

Acorn's approach to selecting a project manager was dependent upon the size of the contract. If the particular contract was between \$2 and \$3 billion, the company would go with

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