In August, for the first time in 17 months, the computer business was profitable. I like that change. I know you like that. The enormity of the trial and dislocation through which Control Data has suffered in those months is almost impossible for anyone who was not involved to comprehend. Just the task of setting aright the derailed peripherals business has been Herculean. And by no means has that been the only task. To some I know the whole thing has seemed overwhelming.

However, Control Data's underlying corporate strengths are very, very great. We have technology, products and people that have assured, and will continue to assure, we can overcome any difficulties that beset us, and they should be a source of pride, a source of determination for each of us as we build a corporation of excellence.

During this time of trial Government Systems Group has not been subjected to the strategic and financial dislocation that other business units have experienced.
In fact, you've been a rock -- a reminder to everybody that the world wasn't necessarily falling apart after all. Your contributions have been both financial and non-financial. In the later category is your leadership in TQMP -- I'll come back to that. In the financial contribution area we have fought, as you all know, a truly tough cash situation for the past year. The positive cash flow in 1985 and $42M so far in '86 may well have been the most important dollars you ever contributed.

It is just at this point, however, when organizations like Gov't. Systems must do some serious soul-searching. For nobody ever said success was guaranteed.

That's certainly clear enough from any serious reflection of the state of things this time last year versus where we had been only a short time before. But success, size, technology -- none is any guarantee of survival much less success; continued survival and success is a matter of management -- quality management.

It is management that empowers and enables people to achieve their full potential -- that makes it possible for them to feel the glow of pride in individual and collective achievement. Its the MP -- management process -- that assures the TQ -- total quality -- of TQMP. It is management and management
process that assure we know and feel our markets, the competition, product and the specifications which yield customer satisfaction.

Recently an analyst from one of our large institutional holders asked me if the problems in our 5 1/4" disk drive business arose because we were not in touch with changing market needs or if we just didn't spend the technical dollars. What I told him, of course, was the truth. It was a failure of execution. [WREN I NCC announcement date. Quantity production/delivery]

Any one of us can think of similar stories. Why do such things happen? Complacency? Arrogance? Ignorance and ineptness? Well, those are certainly common enough human frailties. Furthermore, they will undermine any business. To prevent that there is only one answer: continuous and rigorously demanded accountability -- accountability for quality (and the processes which assure it), for marketing (and responsiveness to market requirements), and for the degree to which each manager adheres to Control Data's basic principles of managing people.

What accountability in these three things comes down to is integrity: to make a solid connection between what we say...and what we actually do. As a group Control Data management hasn't made that connection very well over the past
few years and as a result our credibility has suffered in the marketplace...among customers, competitors, among ourselves. The corporate financial results have been the telling measure of that failure.

It's necessary to be accountable, but that is not enough either. It's equally important to act in time to demand accountability when things are O.K., but a bit off the mark. In that regard I know you're working hard at this year's profit budget. The forecast is still some $800K below your budget. That's an improvement of last month which was $1.6M. That may not be the biggest deviation ever, but each one of you should clearly understand that I expect it to be zero deviation from that budget when the books are closed in December.

You are certainly being held accountable for other objectives, too, but the achievement of consistent profitability is absolutely paramount. Consistent profitability is the best measure of success and the greatest guarantee of the future. That is so fundamental to the operation of a business that it hardly seems to need repeating.

The question is: How do we go about achieving consistent profitability?
First of all, let me speak to that from a corporate strategic perspective. It was clear to me that we had to have fewer businesses if we were to do any of them well. We've learned the hard way that we cannot spread financial and management resources too thin without exposing ourselves to unacceptable risks.

So in the broadest sense, the strategy is to do less of what we've done in the past and to do it a lot better than anyone else.

Over the past year or so we've been steadily and methodically narrowing down to the point where today we are fairly well positioned in a strategic sense. But strategic positioning is not enough. Execution must follow.

We are already making valuable of changes in many parts of the company, some of the changes have been initiated as a result of the emphasis on quality embodied in TQMP. I've already mentioned your leading role in that regard. And I know that after the initial burst of enthusiasm and achievement it becomes harder to maintain the pressure and aggressiveness necessary to a program like TQMP. But you absolutely must, for without it sustained execution yielding consistent profitability is just wishful thinking.
One exciting challenge for TQMP is creative processes such as product development — say software development. Next time we get together or at the monthly quality review, I expect to hear a Gov't. Systems success story in that department.

So strategic positioning — both in terms of business strategy and financial strategy — i.e. balance sheet structure — we've been working away at that.

Execution has lots of dimensions. TQMP is absolutely one of the most basic. Much more mundane is organization structure. But it is important as well. Perhaps in that regard I might just say a word or two about the recent change.

Computer Systems and Services

Natural grouping

International more than 60%

Domestic strategy for a world-wide business

Decentralization

Rationale -- de facto or ad hoc decentralization

Corporate Staff size

Let me go back to achieving consistent profits and talk now about marketing.
Perhaps the most profound and far-reaching change, however, is my determination to make Control Data into one that is market-driven. This is a fundamental change that has caused a measure of uncertainty, confusion and concern.

I have no illusions about the scope of this change, nor of how difficult it will be to accomplish, and that just as with the commitment to total quality, it must be continuous, and it must be managed.

Fortunately you in Gov't. Systems have a six year head start on most of the other organizations in Control Data. Your planning process, your product development process, your selling process in that time period have become truly program -- i.e. market -- driven.

But once again you are in danger because you are faced with change. Let me just recall for you briefly another organization faced with change [story]. Real change did not occur until management changed. That does not have to be, but it is all too often the case.
Old: Gov't. funded marketing, R&D
New: Pressure to use internal funds

Question: How will you respond. One response will lead to slow strangulation, the other to growth and excitement.

Well, I've talked long enough. I'm proud of what you've done -- five/six years of excellent progress, the financial results you've shown, TQMP, marketing, and underneath it all technology [ex. Gale Allen(sp?) - parallel processing].

You have great challenge -- the clouds are gathering -- now is the time to react. Move it.