INTRODUCTION

In August, for the first time in 16 months, the computer business was profitable. I like that. 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 can 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. But there are no "automatics."
That should certainly be 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. Size, past success, technology -- none of those 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.

And that's why I'm here talking to you tonight. I also had some prepared remarks. But in looking over the questions many of you submitted, I realized that the time would be better spent if I just answered questions. So that's what I'm going to do.
Credibility

Q - Two years ago you told the Mgmt. Club that CDC was in the 33800 business to say -- yet within a month we pulled out. Last year you stated that there was no financial crisis -- yet within a month, all U.S. employees were given a 10% pay cut. On the face of it, it appears your remarks were not an accurate reflection of the times. Why? I agree with most of the actions of the past year and am optimistic about the future, but am unsure we are getting the full story.

Q - Are you aware of how bad morale is? Last year you stated we did not have a cash problem. Every cash forecast shows disbursements far exceed receipts. Do you still believe we don't have a cash problem?

Q - With at least a $70M reduction in expenses required by the CS&S Group in order for them to just reach a 1987 breakeven position, how can you honestly make a press statement that CDC hopes to avoid any layoffs?
A - 33800 - Quote 2 years ago -- "We have always viewed the plug business as incremental strategically to the basic OEM business. As such, it brought additional manufacturing volume at modest incremental expense. It also provided a base and an entree' into a profitable, third party maintenance business. Without going into a lot of technical detail, with the 33800, it wasn't really possible to maintain an incremental approach. For example, the technical expense alone of the current 33800 program is $45M. The market risk is also high with IBM having been out with their product so far ahead of others. Events of the past two months have not helped the situation. In July and August we began to experience problems with our installed units that resulted in head crashes at an increasing rate. The severity of this problem has led us to sharply curtail production and customer deliveries for a short time while we sort out the problems."

That's certainly a far cry from saying "we're in the business to stay."
It clearly does not say we are going to announce next month we are terminating the business, but it certainly does lay out the problem.

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A - "Financial Crisis" "No Cash Problem" "Cash Forecast" -- Quotes '85 -- Now, when any company incurs significant operating loses, its basic financial structure is of much concern. And new financing is likewise more difficult to obtain. That's us! For sure. But let me give you the situation straight. To begin with, we are not in a dire financial situation. As of June 30 CDC had equity of $1.7B and debt of $750M. With our equity some 2 1/2 times larger than debt its obvious there is no fundamental problem. What we do have is the need -- for several reasons -- to restructure our capitalization away from short term bank debt toward longer term debt and equity. Mechanisms to achieve CCC, financing, new plan. But while liquidity was tight, we had, and still have for that matter, unused funds under our revolving credits -- as of mid year -- some $100M.
I am painfully aware of the cash forecasts. There is some comfort in knowing at least one of you is also aware of it. We have had and do have a cash problem. Why? Because we have a profit problem! For a year each forecast has shown we would be out of business (because of liquidity) in 2 months. We have managed the business day by day, week by week. Our current forecast for 3Q and 4Q 1986 is that cash flow from operations will be negative and by large numbers. The trend line based on the last thirteen months is strikingly negative. We must reverse this trend and everyone can help. If it were your household checkbook, and on the average disbursements exceeded receipts, wouldn't you take action to reduce expenditures?
Now operational cash flow is proportional to the return on invested capital. ROIC in turn is proportional to the return on revenues (or profits) and inversely proportional to the net asset turn (or invested capital.) Obviously, we can improve cash flow by increasing profits and reducing our net assets or invested capital. Operating profits are negative but improving. Thus, if we have a deteriorating cash flow, it must be that our net asset turn is eroding. We simply must improve our A/R turn, our inventory turn and our fixed asset turn.

As we continue to cut expenses and improve the P/L, you must begin to focus on asset utilization even more intensely: collect A/R more aggressively, be stingy with inventories and ration capital expenditures. In short, we must make ROIC the key measure of success in Control Data.
$70M in expenses required by CS&S Group for 1987 breakeven -- clearly CS&S has an expense problem and solving it is going to mean fewer people -- more on that in a few minutes. I've never suggested differently, however. The $70M number is not my number or even a planning number. Don't deny the person asking the question thinks it is real, but it's typical of a problem of having to do with access to partial "inside" information which I'll also discuss after a bit.
Technology

Q - What action is CDC taking to keep up with the rapid growth in artificial intelligence (e.g. Expert Systems) Technology? Given the importance of this technology, shouldn't we be taking it more seriously? How do we get budgets to accelerate use of new technologies while they are still new?

Q - How successful do you feel the MCC has been for CDC and what do you expect over the next three years. Things looked like a turnaround in June -- what happened and now when can we expect a turnaround? What are our technologies of the future? More of the same can only get us back to par.

Q - Is CDC on the verge of any major technological breakthroughs? This may help rumors.

Q - What are we going to do to regain a leadership position in computer technology?
A - AI is extremely important in all products & services.

Notified all SBU chiefs in June that final '87, '88, '89 strategic plans are to address. Their ans. and approach to this issue. R. M. White group. EMS project with NSP.

A - We have a lot of things going for us now.

ETA

SCANAMERICA

LMSI

We need to better communicate our technological strengths.

A - The key word for us is "value-added".

- Single greatest profit opportunity is in Services defined as: turnkey systems, software, consulting, inf. services and processing svcs.

- **Technologies** - (1) Micro-electronics in both basic technologies and realted CAD, (2) For DSP - mfg. technology, (3) Also for DSP - Media technology

- Proprietary workstation products
We're already receiving payoffs from MCC, TAB, Proteus, Music.

Even more important, I want to emphasize that MCC is a long-range investment. We expect MCC to provide a continuous flow of new technologies into CDC which will be incorporated into future products. To make sure that happens, we're establishing a technology transfer group within Bob White's Corporate Research & Engr. organization to work with our operating units in integrating MCC technologies in technology development.
Organization/Work Force Reduction/Organization Change

Q - What can we do about all the rumors, i.e. more headcount cuts, more divisions for sale, more management changes.

Q - A nagging rumor has it that we are on the verge of implementing a work force adjustment. Since rumors that persist are generally true, this rumor is having a severe adverse impact on employee morale. Can you address this question in terms of current actual headcount compared to 1/1/87 budget?

Q - Constant reorganizing has become the norm at CDC. What are the goals we hope to reach with the most recent personnel reorganization?

Q - Why was there no "official" announcement of the change in the company's upper organizational structure such as Mr. Roberts' new position? Will there be significant layoffs in the next four months? Is there a plan in action to decentralize the organizational structure of CDC, especially staff functions?

Q - What is the status of the announced sale of Ticketron? What words can you give mgmt. to help them work thru all the rumors regarding workforce adjustments and organizational changes? Speeding up the announcement process may be the only answer.

Q - There have been several organizational changes in the past 18 months -- are there more coming in the 4th Q?

Q - "Rumor" says an additional 8-10% reduction in headcount will occur before 1/1/87. Are we on schedule in our recovery or are there still major cuts ahead?

Q - What is the future for part-time employees? Will there be more part-timers in the mgmt. ranks? Is career growth a possibility?

Q - Why were the 2 new org. changes (Robert Thomas, J. Moe & J. Stathopoulos) communicated so poorly -- just word of mouth?

Q - What is the rationale behind the Tom Roberts' appointment?
Q - When will a serious look be given to the number of people at higher grade levels doing work below their level? We have not been matching the grades with the level of work. Worst problem I think is in grade 40 and above.

Q - When we have finished restructuring, what will constitute the core CDC businesses?

Q - Why don't we get rid of the extra dead weight rather than adding more!
A - Reorganization/Work Force Reductions

The best antidote I know of for rumors of the kind we're deluged with is profits. And by the way, it's amazing what profits can do for morale also. The sooner you get there the better you'll feel.

I. Employment

Employment 12/31/85: 38,856

Expectation 12/31/86: 34,250 (comp. bus. world-wide)

Reduction has been continuing all through 1986.

Two factors are and will continue to affect corporate overhead;

(a) Reduction in diversity of the business

(b) Decentralization
RMP/Corp. not dictating anything. Emphasize the budgets. Been thru budgets. it is clear will be fewer. Some org.'s doing well, some not. Those not are going to be more affected.

**Employment**

In a more general vein we have been saying for several years that as technology changes and we become more effective in all our administrative and other work processes that employment will decline. To the degree that this occurs gradually it can be accommodated thru retirement, attrition, retraining and redeployment of people. When it happens quickly due to competitive change, market slowdown, reduction becomes involuntary. That has clearly been the case for the
last year. And I want to emphasize that it is change in technology and competitive pressure -- not reduction in demand that has been the main driving force [EMPHASIZE]

As we gather here this evening there is an uneven situation across the company. Some units profitable and making excellent progress, others not. There is no blanket corporate dictum other than a demand for profitability and improved cash flow. In broad terms, though, it is clear that **we have more people than we need.** Each of your org's. has goals and guidelines for '86 and '87. You don't need me to tell you whether you have a cost problem or not. It is there for you more plainly than any words of mine could possibly convey. And it is the responsibility of each business unit to **manage** the number and kinds of people it needs, and how to meet its goals. If that means some involuntary separation, that must be managed as carefully and thoughtfully as you can.
So I'm not going to give you a total corp. employment level on this or that future date. For one thing it doesn't mean anything to you as an individual or to your organization. Moreover even if I had a precise add-up of individual numbers, it is the kind of thing that the rumor mill and the media would pick up and are totally incapable of interpreting correctly. Almost invariably they interpret it as a sign that CDC's business is declining. That's not true. (WREN/SMD example, more megabytes less labor).

That's a dramatic example, but it is just as true on different scales in corp. administrative process, and elsewhere across the corp.

As indicated by an earlier question one area of particular concern is computer systems. Basically the action needed is not caused by a response to slow down in computer business, altho there has been some in the U.S. (Comp. Sys. revenue 1985-639M, 1986-640M). Wht is needed is to make
that business more focused, leaner and better positioned for the market of today and the future. We have damn good products, we have better ones on the way. What we don't have is a structure and the costs and expenses that make for a reasonable business.

The future for Systems can be exciting. The 50 will be introduced in the next few months. It's a terrific system. More price competitive than DEC 8650. It sells for $200-300K. Now we need to set our sights on a system with that power -- or even more -- that sells for $20-30K. That's right, a factor of 10. And we should go for it with all the energy and enthusiasm we have.

We are close to hiring what was only a dream three short years ago -- the ETA 10. But we are looking ahead to the ETA 30.

To realize our dreams we must manage through the transition of today. That means some tough and unpleasant work -- costs, expenses and fewer people.
But bodycount speculation is debilitating. That's media and rumor stuff. To hell with it. TQMP, process, a budget and results let you look the world square in the eye with pride.

The question of matching grade level to work requirements is a very real issue. That perception may exist, but it presupposes that a serious look hasn't been given to the matter. The downsizing of the organization has magnified the situation regarding over-graded people. It involves many factors of fairness, capability, past contribution and so on. The heads of the SBU's and of the corporate function groups have the responsibility to assure that grade levels match the work being performed. If you feel it is not being adequately addressed in your work unit I urge you to have a serious discussion with your boss.
There was a comment about dead wood. I wouldn't normally comment on such a superficial remark. But since person is so obviously _____ maybe I could offer some helpful advice. It reflects a cop-out, finger-pointing attitude of the worst sort. Find a straw man and have at him. You'll be much happier if you spend your energies and your thoughts on "Why aren't I doing my job better?"

II. Organizational Changes

Org. change at CDC is overplayed. We have engendered a fixation on it. One reason is corp. announcements that have given minor changes an undeserved importance. Some basic thoughts with regard to the org. and how it reflects CD's business strategy:
1. The basic SBU structure is sound. It reflects the core businesses that were asked about. If you will the SBU's represent a somewhat more detailed description of the three basic businesses -- Comp. Sys. and related servcies, Data Stg. Prods., and Comp. Svcs. for business.

- Bus. Svcs. - 2 major types of services; financial & com'l, and of those 2 types we have current 5 different markets.
  - Comp. Sys. -- mainframes/supercomp.
  - TSS -- consulting, training, maintenance.
    These businesses are closely related to Comp. Sys. but not exclusively so.
  - SIS
  - DSP -- small, large, components & optical (or LMS as now known)
  - K-12 education

2. To the degree possible org. is aligned with SBU structure. Not perfect and never will be.
3. A word about Bus. Dev.: hopefully will grow to where they fit with existing SBU -- perhaps a brand new SBU. Examples: JCS, Agri, USSA. Also, we intend to always have new things starting.

Right now make work what we have already started. New things should be at a high level of corp. other.

4. Announcement. With apologies to TCR, LEJ, TWM, EJO, GW, ETA. Change was a non-event. Did not change the strategic direction of CDC in general, or those SBU's in particular and their critical importance to CDC's success.

Obviously the change was important to the people involved. Because of that just as obviously I talked to them individually about it. That's what I would want. That's what you would want. I also informed the Mgmt.Comm. both as to the change and why. Those executives are expected to handle communication in their own organizations as appropriate.
Rationale of the Change.

When something affects the corp. as a whole, it's basic strategy and structure, we will make corp. announcements, e.g. CCC.

III Decentralization

The rationale and thoughts with regard to decentralization were discussed at the last Exec. Briefing. For sake of time I won't repeat that here. Briefly the goal is to achieve the greater flexibility required by our diverse businesses [explain briefly]. Will affect how we do many things.
Other General Comments

People in hdqrs. are in a sense somewhat unfortunate. That's because although given the nature of their jobs they are privy to some aspects of "inside" information, they are actually far removed from where the action is -- in the field sales offices, in the mfg. plants and development groups. The information also tends to be very narrow in scope and perspective. There's a tendency then to feel more authoritative than is justified and, when things turn out "wrong," to feel "betrayed." Those are strong words, but I think you can see what I mean.

That's one of the hazards of the job and you have to develop a sense of balance to keep things in perspective.

One of the best antidotes I know of is total concentration on improving the output of yourself and your work group. A good dose of the new TQMP project can do wonders for morale. Talk to your boss and/or your own work group and try it. You'll like it.
Industry Environment, Business Outlook, Finance, and Other Broad Strategic Concerns

Q - As in the airline business, do you see additional mergers (e.g. Burroughs-Sperry) happening in the computer industry? Hypothetically, if CDC were to pursue a merger, what characteristics would such a partner have? Would it be an established computer vendor with a product line that complements our own (say DEC), or would it be a large firm in a different industry that needs computer expertise to fulfill a market need (say Chrysler or AT&T)? Knowing that there would be a serious negative issue to be overcome to make a merger possible, please comment on the possible advantages to CDC of a merger at this time.

Q - The airline industry is in the process of consolidating into a few major carriers. This process appears to be starting in the computer industry. Do you agree? Would CDC seriously consider either acquiring or being acquired by another major company?

Q - With the proceeds from the recent debt offering of $400M and the proceeds from expected sales of Ticketron & CCC holdings, CDC may have over $500M of excess cash. Do we have a plan to employ this cash and to deal with takeover bids which may arise due to its existence?

Q - During the last 52 weeks CDC stock has fluctuated between $15 & $26/share, and is now near the top of that range. Should we expect the value of the stock to appreciate further during '87, and where do you think it will be at the end of the year?

Q - What will CDC show as a profit when we end '86? What will we set as a profit goal in '87?

Q - The sale of CCC is to provide for more investment in CDC's computer business. What programs will be positively impacted the most by this add'n. capital in '87? over the next 5 yrs? Another way of asking the question is, what would not be done if we did not sell most of CCC?

Q - What part does Central Sys. PLATO play in CDC's future strategy.

Q - How important is Data Svcs. to the "new" CDC?

Q - Please comment on CDC's strategy and plan for the Data Svcs. business. Was the shutdown of the Cybernet Svcs. operations and marketing in the rest of the world reflective of a diminishing commitment to Data Svcs. in general or in the U.S.?
Q - I understand the each unit of CDC will be evaluated for potential and market share. Where is Data Svcs. in this evaluation, and how important is it in the "new CDC"?

Q - What is "the plan" regarding the Bus. Development Group? Will it (the function) continue to exist as a distinct entity? Where will it or pieces of it reside? Do we still view training education as a viable market?

Q - PLATO WICAT has cancelled their sales recognition event for both '85/86 & '86/87 because of a lack of new order activity. Can we ever expect to get even a small portion of our PLATO investment back?
A - Industry environment, business outlook, financing and other

broad strategic concerns.

1. Consolidation, deconsolidation goes in waves. Maturing

industries, clearly the mainframe industry is

consolidating. IBM, Fuj, NEC, Hitachi.

2. CDC, its stockholders, customers & employees will all be

best served by our remaining an independent company.

3. CDC's role. More than 20 yrs. ago WCN decided that CDC

could not succeed as a broad line mainframe supplier.

"Value added". "Services." WE have been and will continue
to be a narrowly focused company. We build some of our own
hardware. We have in the past & will continue to pick the
best shots we have. We are not IBM. We are not DEC. I
not only concurred in that strategy, I helped fashion the
details of it.
4. We have the financial wherewithal to be successful. We need profitable execution and that is the sale focus of top mgmt.'s attn.

5. Data Svcs. Define terms. SIS and remote processing.


Training & Educ. Distinguish between training & K-12 education. PLATO -- 3 levels of delivery. "Central" or mainframe, clusters, individual micros.

PLATO/WICAT - sales recognition. Some misinformation implicit in the question.

6. CCC sale. Improve debt/equity. Excess cash. Takeover threat. Safety is a high multiple. Stock price -- I've long ago given up trying to speculate about what will or won't happen in the stock market. We do know, however, that investors value stocks based on performance. The best way we can influence the value placed on CDC stock is to
make this a consistently profitable company...consistently profitable. It will take more than a good quarter or two. When we have achieved that level of performance, investor doubts will gradually ease and we will more likely have that high multiple that helps ease the takeover threat.


8. Profitability. One of the questioners asked: things looked so good in June, what happened? Well, a lot of things have happened and I think all of them are positive signs. We've repaid the bank debts and are no longer in the default condition. In August the computer business was profitable for the first time in 17 months. We've begun the process of taking CCC public and we're completing the strategic analysis that will shape the CDC of the future.
Because of that recent announcement regarding CCC, we are in what is called a "quiet period" where we are limited as to what we can say publicly, and those limitations are enforced by the Securities & Exchange Commission. This meeting is considered a public forum and so my comments here fall within the limitations. But even without those limits, it would be wholly inappropriate to forecast year end profits or earnings. What is appropriate for me to say is that the simple act of repaying the bank debt doesn't mean that all the problems of profitability and cash flow disappeared. We have said and continue to expect Qtr. by Qtr. improvement; to go out of '86 profitable on an operating basis. That does not mean CB profitable for the year. Next year CB will stand on its own. We have tough goals to meet. One more time -- we are going to do what's necessary to meet them.
**Marketing**

Q - The thrust is to become a market-driven company, not an easy transition from in-grained technology driven of the past. What is the plan to accomplish this?

Q - How is CDC planning to change its corp. culture to become a more market-driven company?

Q - Is the realignment of Corp. Marketing permanent or an interim, temporary arrangement?

Q - If we are to be a Mkt. Co. when will there be a senior "14th" floor executive assigned to this overall corporate task? When will there be a senior "14th" floor exec. responsible for corp. sales? You need them just as much as you need the opers./financial & personnel types!!

Q - In your recent videotape there was an implied commitment on transforming CDC into a market oriented, customer need driven org. From what is apparent from '87 preliminary budgets this message has not been accepted by oper. executives. Those areas directed toward achieving marketing/customer knowledge are those areas most severely impacted by budget cuts. How do you reconcile the action with the promise?

Q - RWD recently resigned his position of Senior VP of Corp. Marketing & Strategic Development. Are there plans to locate a replacement? If not, how do you plan to provide strategic marketing direction & support?

Q - What are the key actions we must take to move from a "product driven" company to a "market-driven" company?
A - Marketing

Mktg. - intense concentration on customer needs, market change, competition.

RWD - combined several fcns., mktg., commun., broad tech strategy. FJR & RMW. We will have a corp. mktg. exec.

Explain LP dual role.

Mktg. & Sales - What we don't need is a corp. sales organ.

Concentration on developing mktg. as well as sales capability in operating. One of the main duties of the corp. mktg. exec.
HRD

Q - How about removing the 40-hr. mgmt. education requirement the corp. has had for many years. I believe in education, but our return on investment for the vast majority of classes managers & consultants are taking is not keeping us competitive and costs a bundle. I'd like to see some follow-up on the value of mgmt. education. We should not use the shotgun approach & shoot in the bushes & hope we hit something.

Q - What ever happened to Fair Exchange?
A - that will be done. Will vary from org. to org. With regard to FX, let me first make some background comments.

I believe that every one of us deeply and sincerely wants Control Data to be a respected and successful company.

Moreover, recent surveys have shown that 99 percent of Control Data's employees feel a personal responsibility to help the company succeed.

So, how do we, as managers, release the enormous potential of that support?

There are several aspects to the answer to that question, but clearly one of the most important is the work environment, the "culture," as it most frequently is called these days, that we as managers build and maintain. A work environment in which people feel accountable, in which creativity and initiative are
supported, in which there is pride because the products and services we provide are market proven and known for quality.

It is summed up for me in the phrase I have used for many years: the work environment we seek is one in which each person truly feels "what I think and do really matters." And if people feel that, they also feel responsible and accountable for what they do.

So it's a two-way street. The company and each manager are responsible for process and environment to foster initiative, pride and responsibility; and in turn each subordinate knows he/she will be held accountable and is expected to aggressively pursue individual self-development.

Some years ago we distilled the myriad policies, actions, and processes involved in building such a work environment into a statement of five principles. Recognizing the mutual responsibility between manager and subordinate, we labeled those principles a "Fair Exchange."
Those principles are the foundation of my personal management beliefs and the culture I expect in our company.

These are the five principles:

 o Place a high value on reward for performance...

 o Create an environment for continued self-growth and achievement...

 o Foster management practices that ensure fair and just treatment of all employees...
- Provide corporate benefits and services which recognize that personal quality of life affects performance on the job...

- And provide an increasing level of job security for the greatest number of employees.

As to what "what happened" it has been that we forgot the respo/acctab. part of the equation.

Now those principles can only work if the responsibility/accountability dimension implicit in them is aggressively enforced. Thus we should indeed expect and give reward for performance, but also understand the consequences of non-performance. We have the right to expect that our boss and the company create an environment for self-growth and achievement, AND we have the responsibility to stretch ourselves to the limit of our full potential. We should expect fair and just treatment, AND we have the responsibility to act with personal integrity. Everyone clearly wants benefits and
services that improve individual quality of life, but we have
the equal responsibility to work as individuals for the benefit
of our co-workers, the team spirit of our organizations and for
that matter to foster the quality of life in our families and
the communities in which we live. It is reassuring to know
that the company has job security as a goal, but we must also
work each day knowing there are no guarantees in life -- only
opportunity. Economic success of the company, in the final
analysis, is the means by which economic security of the
individual is attained.

Of those five principles this last one is the one most
misconstrued in its interpretation. The general feeling became
that Fair Exchange was synonymous with the single principle of
enhanced job security, which was in turn became synonymous with
"a guaranteed job." With the large layoffs of 1985 and
1986 --i.e. with no guaranteed job -- the feeling was that Fair
Exchange died. It did not. Let me read you the full policy
statement with regard to job security policy. It was written
in 1981.
"Control Data is committed to pursue means that will reduce the necessity of layoffs or terminations caused by economic conditions.

If economic conditions become so extreme that layoffs or terminations can no longer be avoided, the company is equally committed to reduce the impact on individual employees.

A corporate-wide strategy will be maintained as part of the company's business planning process."

That policy was never more vigorously enforced than in the last two years. We have gone to extraordinary lengths to reduce the impact of the extreme conditions we have encountered.

Moreover, in these terrible times of the past year, our adherence to this policy of enhanced job security and concern with regard to mitigating the impact of adverse conditions, has
served us well. It has meant exercising the "rings of defense," more retraining and redeployment, and far fewer layoffs and termination than would otherwise have been the case -- some 36% internal placements from Jan.-June, '86.

As I said earlier, however, it is not just "economic" conditions with which we must cope, but likewise the impact on employment of technological change. So the policy really needs to be restated to include a specific reference to technological change. Clearly this has been the dominant factor in Data Storage Products.

It is our plan to grow Control Data in revenue and profit. But I want to stress one more time that that does not mean growth in employee population. Indeed it almost certainly means further reductions. For one thing we have not finished the job of fitting the organization to the new size and scope of the business. For another as we pursue the concept of
decentralization there will be redeployment of people. That will mean some reduction. That is neither callous nor hypocritical treatment of the job security principle; it is simply fact.

We intend to continue to do everything we can to provide an enhanced measure of job security for the most number of people possible. That will require flexibility and willingness to invest in training and retraining people on the part of the company. It will likewise require flexibility and a commitment to self development on the part of the employee.

James Joyner, one of the nation's leading quality experts and an associate of Phil Crosby, put it this way in a recent article: "A quality-minded organization is one where everyone understands exactly what they are to do, has the resources and knowledge necessary to do it and then has management's help [in doing] it right."
What that says in different words is that our five people management principles are the definition of a quality minded organization. Quality then is not just a product characteristic. It isn't a task force, or a program. It is a total way of doing business...a way of daily existence for each individual. It is the mindset that holds true quality as "standard operating procedure." A way of management.

Obviously, we've got a long way to go.
**General/Personal**

**Q -** Sometimes it's difficult to see where progress is being made. Do you have any successful techniques for continuing to make progress both professionally and personally?

**Q -** Is this challenge the toughest of your career? How is this challenge different from others you have faced?

**Q -** As I write out my check for the Mgmt. Club, I wonder if I'll be here next month. Rumors and tension are intense. People worried about their jobs and the direction of the Company are not very productive. I know that this is one of your most important concerns. Do you have any personal advice for how each person can deal with these difficult times without becoming alienated?
General/Personal

A - More times than it seems it should have been in my life, I've been faced with a situation where it seemed several things had to be done simultaneously or the whole situation would turn into a disaster -- and each thing was dependent on the other. The past year has been just such a time. Bank agreement, cash flow receivables agreement D&O insurance, asset sales, perf. bonds. Tent analogy.

Concentrate on one task. Tie one end down no matter how -- may have to be redone but get one down, then two, then three, etc. do the task given to do -- don't try to "steer the ball." Some people try to "program" their career on their business. Choose a directive and act decisively, opportunistically, deliberately. Be alert to opportunity (CCC)
Manager -- the reward to management is seeing others succeed.

Toughest challenge -- Did not know the inside of a "work out" situation. (Livermore experience. "Inventory" problem.)

Underestimated/"not quite understood the scope of the problem."

Past nine months have been fun -- not easy -- but fun.


Finally, an inspiration. We got into this because of profitability. Because we tolerated those who didn't pull their own weight. It's not fair to the "collective" us.
Closing Comment

The difficulties CDC has experienced stem primarily from a failure of execution. Being spread too thin strategically gave rise to a situation which exacerbated that failure. Market conditions of the past couple years certainly haven't helped. Any one of us can think of stories. That involves a failure in execution. Why do such things happen? Complacency? Arrogance? Ignorance and ineptness? Well, those are certainly common enough human frailties. They exist and we must fact that. Furthermore, if they are not to undermine our business 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 and sadly lacking credibility.

The events of the past year, however, are a clear indication that management can respond and change. It is being summoned to the task. We are proving that we can move from a half-billion dollar loss to profitability and we will prove that we can go on to profits as big as those losses. But no matter where we are on that scale of improving profitability, management's task and its accountability remain constant -- for quality, marketing and people.