CHAIRMAN'S COMMENTS
BOARD OF DIRECTORS MEETING
March 27, 1987

I. OPERATIONS HIGHLIGHTS

As John has noted we are off to a good start relative to plan, and the forecast for the quarter is now a profit rather than the budgeted loss. And isn't it great to look at numbers without those infernal brackets?!

If things turn out that way it will be a great tribute to Larry, John B., and Norb here, and to the others in the top management team who have truly done an outstanding job through all the trials and tribulations of the past 18 months. I know that you share my pride in what they are doing.

Beyond that it is a great tribute to the employees of Control Data. If all goes as forecasted I'll be sending each of them a note of thanks in April to tell them what a great bunch they are. (and to remind them that "we've only begun")
The cash flow situation also deserves a few comments. First of all our forecasting and budgeting process still is not giving us an accurate look at the future. Now the results of the first two months are positive rather than negative as budgeted, and that's good. On the other hand we can't effectively manage cash without knowing in advance how much there will be. Right now on the basis of the forecasts, we still can only anticipate a total negative cash flow for the year. That may be conservative, but in any event we clearly have a tough job ahead. As Russ said last evening, we've learned the hard way that cash is truly more important than P&L to the health of the business. We will continue to work the problem hard.

In that regard I should mention one indicator of progress. As you all know [coop. of vendors in '86 catch up at year end]. As a result of the attention this area has received, Hank White just informed me yesterday that [read stats. from HJW note].

The outside world continues to improve its opinion of Control Data. The financial analysts are by and large favorable. The latest is the report by the Mabon, Nugent Co. [read excerpts from report].
What's most troubling is that Charles Frumberg and Al Tobia are not analysts all that familiar with Control Data. If even "casual" observers engage in this kind of exercise then that gives you some idea of the company's continuing vulnerability. I have copies of the report which we'll pass out in a moment.

II. STRATEGIC ISSUES
Recall that we passed out a list of the major strategic issues at the last Board meeting. [show paper] I'd like to make a few comments with regard to some of those issues. [read 1st three issues]

1) Computer Systems/ETA remains that greatest challenge.
Earlier this week we had a very successful introduction of the Cyber 930 and the new 910 workstation. [reference to video/film clip].

I pointed out in February that 1987 would be the toughest imaginable for ETA. They are bringing the machine to market. They are doing so with competition and international interest focused on them like nobody ever had before. The extent of that interest is illustrated by the fact that a 301 action re super computers is under serious consideration in Washington. [Read WP excerpts]
Financially for ETA there is the exposure of rapid inventory build up to produce the first systems without the assurance of market acceptance.

You'll get a full report on ETA, of course, very shortly. I know you'll be proud of what the team has accomplished technologically. I hope you will remember that it'll take all that and more to achieve marketplace success.

With the Cyber 930 and 910 and the ETA 10 we have beginnings of a new set of products which will help us maintain a strong position in the scientific engineering market. The strategic challenge is to further segment that market and refine our marketing approach as well as product strategies so as to achieve sustainable profitability.

2) Data Storage Products must become a true global enterprise. That means integrated operations in the Far East, Europe and the United States.
There is a significant difference in this and the "run away plant" question of 5 or 10 years ago. It's not a matter of chasing low cost labor -- it's a matter of being close to the customer and having more than just sales offices in the economic area. This will evolve over time but all in all relatively quickly. Control Data is actually well positioned already in Europe with plants at Heppenheim, Germany and Portugal.

The first steps will be taken in the Far East yet this year. But again this is not a "plant location" problem of one location versus another. The whole business must be conceptualized and structured to operate in a geographic fashion. Larry and his people have a good grasp on the situation. I will pass out in a moment a memo Larry has written to his top management. As time goes on we will have discussion of various elements of it in these Board meetings.

3) The third major strategy is how to achieve more rapid growth of Business Services. The dilemma is that at the moment the profits and profitability of Business Services are very precious to us. On the other hand even though it has the potential for more rapid growth either through accelerated internal growth or through acquisition,
either way would involve some P&L sacrifice. With acquisition, goodwill becomes a serious consideration; internal growth means accelerated marketing and other period expenditures.

There are other business issues as indicated in the handout we gave you last month and others will no doubt arise in the next few months as we get further along with the progress of the business and deeper into the strategic planning process. But those are the three top items of attention.

III. QUALITY

Several of you have commented to me on the TQMP concept, process and presentations that we saw last evening. It is so rewarding to see what this is doing for Control Data. You know we've worked at finding the right formula for a long time. For a while we thought that an intense emphasis on training would do the job. We introduced techniques and programs such as Process Flow Analysis, Involvement Teams, Statistical Quality Control, etc.
Nothing quite jelled. TQMP is the concept that has allowed all those things to fit within a natural structure and become effective. As mentioned last evening the emphasis is on management of process. We still have a long way to go, but today belief in TQMP is probably pervasive enough throughout senior management that it will carry on. "What I think and do matters." Sandy

IV. HUMAN RESOURCES

Control Data's people are on the rebound, and as I said earlier they deserve to feel good.

They are no fools, however -- they know that technology change, competitiveness issues, process improvement and other such issues mean not much if any headcount growth even in good times; they know it means they must learn new skills; they know they must be flexible psychologically and probably geographically.

Knowing all those things is one thing, accepting them emotionally is quite another. Addressing that problem involves many things.
Not the least of these is the requirement for a greater than ever effort in employee communications -- not newsletters -- real communication. TQMP techniques, fewer levels of management are part of the answer to better communications. We don't, of course, have the whole answer -- nobody ever did. But executive involvement is one important part as well.

I'm glad to say I see an increased level.

N.C. meeting. What are my aspirations for CDC? Financial. Product/ETA, etc. Quality. A place where it's fun to come to work.

V. OTHER ACTIVITIES

Since the last Board meeting -- 100% Club. Europe. High-Speed Computing Conference. I want to comment principally on my trip to Europe which entailed visits to the U.K., Germany and France, as well as the conference on South Africa held by Reverend Leon Sullivan at Leeds Castle in England.

1) The effect that Tom Roberts has brought about in 18 months on our European operations is to say the least striking. Tom has a way of making goals and direction very clear. Simple, direct and consistent. The management you meet in Europe know what they're about and what the goals are. They have good market grasp and a dedication to consistent improvement. Truly good stuff.
2) Overall the outlook for this year is good. Ahead of plan for the first quarter and confidence in meeting plan for the year.

3) Systems/ETA. Germany a traditional bastion of strength. Dinner '88-'89 questions. France 18 systems installed in 1986 -- a record. UK developing CRAY tactics.

4) OEM -- commented already. A real asset in Heppenheim. We talked TQMP. Plant tours are so much more fun when you can look at a control chart.

5) South Africa. [Pass out the report now]. Some of you have concerns. You have expressed those to me.

Summary:

a) The economic and morally correct thing for Control Data is to maintain its presence in South Africa.

b) The economics may change for us due to state/local procurement practice. If so we must withdraw. In short at this point we are guided by simple economics. Even tho' it is wrong for So. Africa we'll leave when the economics dictate that we do so.
c) The 205 for the Weather Service is something we will work to have happen. State Dept./Iran/RR timeframe. I don't care about negative publicity. Important to understand it could exacerbate state/local procurement problem.

d) Sullivan says he may ask we/others to visit George Schultz. I will do so if he asks -- could be April/May timeframe.

e) We are playing this out day-to-day. The question isn't what is right. The question is what is feasible.