Board of Directors - July 14, 1972

R. M. Price

GENERAL

Our second quarter profit was $312K giving a first half profit of 3.4 mil. As I indicated in May, second quarter profit was down from the first quarter, but we do expect it to rise again in the third quarter. In 1971 the Services Group had a first half profit of $458 thousand dollars. In 1970 we had a loss of 5 1/2 million dollars in the first half.

Operating Statement -- First half highlights

REVENUE

Revenue continues to be favorable to plan. Data Services revenues are continuing to grow stronger -- June yielding 2.3 million in the U.S. Cybernet Services alone. Time sharing revenues are now building nicely. Over the first six months they have grown from 120 thousand to 200 thousand per month which is 10% per month. I mentioned to you before that we had experienced some difficulties with the communications network supporting the time sharing computers. These difficulties have largely been overcome although we did fall behind our original goals for the year due to the difficult start, and we are still experiencing some problems in the East and Southeast.

In Education Services the FTC Complaint has had some negative impact on Career Entry enrollments. Revenues in June of this year are 1.5 million compared to 1.6 million for 1971.

In total for the group -- taking into account these pluses and minuses, we are still forecasting revenue of a little over $170 million for the year.
GROSS PROFIT
Gross profit levels continue to exceed plan though at a slower rate than shown at the end of the first quarter. This is a direct result of the lower Career Entry enrollments. Gross profit, expressed as a % of revenue is also favorable and will continue as such for the total year.

EXPENSES
Our expense levels are within $5K of plan {Unfavorable}. Marketing expenses have generated this unfavorable condition. For the year we are forecasting to be within 1% of plan.

NET PROFIT
We are favorable to plan for the first half. Our financial plan calls for $1.5 million dollars in profit for the year and we are forecasting to be at about $8 million dollars for the year. This means that for the second half we will be on budget. As I mentioned earlier, net profit will rise in the third quarter and fall off again in the fourth.

CLOSING COMMENTS
The areas causing the most trouble at this point are airlines services and career entry education. Since we are currently putting a lot of effort on these two areas, I would like to try to summarize the situation for you briefly. First, Airlines............................
Out plan this year called for one million, six-hundred fifty thousand \(1,650,000\) of revenue and a net loss of one million, five-hundred ten thousand \(1,510,000\). We are currently forecasting revenues of \$600,000\ and a net loss of \$2.5\ million. This deterioration in our position is caused by several factors. The principal one is the slippage in the dates when we expected to be able to offer a reliable passenger name reservation service. Simply put, we didn't come through on time. We believe that as of June 1, we have been offering this service at an acceptable level of performance. However, this was too late for at least one customer -- Southern Airways. We have received a letter of cancellation from Southern and, in spite of our best efforts, have been unable to convince them that cancellation is inappropriate since the system now works. Southern cancellation is unfortunate from two standpoints. First, they were the largest of our current customers and had a revenue potential of about \$35,000 \text{ per month.} Second, our other customers and prospects, as well as the industry in general, are aware of our problem with Southern and this will possibly delay our ability to bring on more airlines.

But, all is not bleak. People who have evaluated our specifications for a reservation system say that it has the most advanced features of any in the world. Our other customers (i.e., SAS, Varig, and Icelandic) have recognized and commented on the significantly improved performance of our system and have indicated their willingness to stay with us. Austrian Airlines in Europe has indicated its intent to join us and we have other good prospects in Canada as well as two major U.S. military-related prospects.

In short, and as we told our employees in Atlanta, while the loss of Southern Airways is not insignificant; the fact that we have lost one relatively minor airline as a customer need not cause us to abandon the entire industry as potential customers for Control Data Services.
EDUCATION SERVICES

Although, as I said, our revenues have been below plan, we have discovered that we don't truly have a revenue problem. I guess it's another case of requiring adversity to be able to dig in and spotlight fundamental operating problems. At any rate, that's what has happened in Education. Basically, we have a management problem at the individual institute level.

There are a large number of different cost factors involved in the management of a school and some of them such as scheduling class starts, instructor loading, and class hours per day are very subtle and yet have tremendous profit impact. In the past, control of all of these factors were pretty much at the discretion of the individual institute director and he really had no standards or guidelines. This is not to be critical of the past or even to say the past could really have been different -- it is only a matter of learning better management as the business matures. And we have learned that most of our problem institutes are due to poor management. Bob Bartizal, V.P., Educ. Serv., Data States, and my Assoc. Group Exec., G. Smith, have embarked on a vigorous campaign to correct this situation.

On a different aspect of education, I believe we have mentioned before the Credit Specialist Career Entry Course which we started earlier this year. The development of this course was done in conjunction with Commercial Credit and is an unique offering. The pilot course of 9 students was held in Atlanta and was completed last month. We placed the 6 graduates who needed placement service from us. Courses are now starting in San Francisco and Detroit and, by the end of the year, 7 schools will be offering this course.

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Board of Directors - July 14, 1972

R. M. Price

**TICKETRON**

As you can see, Ticketron is operating favorable to its net profit plan for the year. While revenue is 5% or 208K under plan, costs are 424K under plan.

Sports and Entertainment revenue is really very close to planned revenue. Automated wagering is off plan -- this is a combination of being over in OTB and under in Lottery. We plan in New Jersey to implement a daily lottery around November 1. This will significantly increase revenues to Ticketron and, most important from our point of view, is the fact that a daily lottery must be automated, and you don't have the competition of manual versus terminal based that is present in the weekly lottery.

Our average income per ticket on S & E continues to inch upward. For June it was up to 51 cents per remote ticket issued. This compares with less that 20 cents per ticket two years ago.

For the first time since the acquisition, we have a budget to which we have been able to stick -- at least so far. The third quarter forecast is also to be on plan. The fourth will be touch and go -- that's a soft season for Ticketron -- but, all in all, our people have gained a great deal of confidence and enthusiasm over the last six months. They have, by and large, escaped from the syndrome of looking for excuses or for some sure activity which will be the "savior" to a firm belief that what we are doing right now can be grown into a profitable business.
TICKETRON, INC.

INCOME STATEMENT

SEVEN MONTHS TO DATE - {MAY}

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<th>SPORTS &amp; ENTER.</th>
<th>AUTOMATED WAGERING</th>
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<td>ACTUAL</td>
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<td>REVENUE</td>
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<td>Total Cost of Rev</td>
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<td>NET INCOME</td>
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7/13/72
AGENDA FOR SPECIAL MEETING  
OF THE BOARD OF DIRECTORS OF  
CONTROL DATA CORPORATION  

Friday, July 14, 1972 - 8:00 A.M.  
8100 - 34th Avenue South - Tower Building  
Minneapolis, Minnesota 55440  

1. Approval of Prior Minutes  
   R. B. Hawkins (5)  
   Annual Shareholders Meeting 5/03/72  
   Board of Directors (Annual & Special) 5/03/72  
   Executive Committee 6/14/72; 6/15/72  
   Option Committee 5/04/72  

2. President's Comments  
   W. C. Norris (30)  

3. Consolidated Financial Summary  
   B. R. Eng (20)  

   Computer Systems  
   R. C. Gottier (10)  
   Peripheral Products  
   T. G. Kamp (10)  
   Computer Services  
   R. M. Price (10)  
   Marketing  
   P. G. Miller (10)  

5. Commercial Credit Operations Report  
   D. S. Jones (20)  

6. Status of ALS Program  
   R. D. Eisenhardt (10)  

7. Financing Plans  
   M. G. Rogers (20)  

8. Increase Capitalization of Elbit Computers Ltd.  
   W. P. Moyle (10)  

9. Stockholder Response re Stock Dividend  
   W. C. Norris (5)  

10. Preferred Stock Dividend  
   R. B. Hawkins (5)  

11. Acquisition of Minority Interest in Ticketron  
    W. P. Moyle (10)  

12. Authorization to Sign Contractor's  
    Releases and Assignments  
    M. G. Rogers (5)  

13. Land Purchase  
    N. R. Berg (10)  

14. Other Business  

Executive Session  

JUL 13 1972  
R. M. PRICE