As you can see from the numbers Chuck Roskam has just presented, the year continues to be a slowly developing one in terms of financial results. Although the $.60 earnings per share we expect to report for the second quarter does exceed the first quarter operating earnings of $.51 (i.e. excluding the sale of the Gulf building in Dallas), it is below budget and just emphasizes the task we face in the second half if we are to reach last year's reported earnings of $4.20 or this year's budget of $4.50. I'll come back to that in a moment, but first I want to cover several topics to provide some perspective on where we are strategically as well as in current operations.

OPERATIONS

You will recall from the 1984 budget presentations that we knew when we put the 1984 budget together last fall that the financial results for the year would be heavily skewed to the
second half. This was because we were faced with simultaneously having to work out the recovery of the remote computing services business, introduce new products in the hardware business, particularly peripherals, and bring Commercial Credit from its 1983 nadir in performance. By and large things are on plan. The principal shortfalls from plan are in the services businesses. The three principal ones are: Control Data Institutes, where sales are running 17.5 percent below budget, the Data Services business, and the Computer Services sector of International. The CDI problem is partially due to the drop in vocational enrollments, which normally accompany economic recovery but perhaps more basically to what appears to be a permanent change in the level of demand for the Computer Programming and Operations course which has been one of CDI's staples for nearly twenty years. Although this has been predicted and expected for a long time, we had almost no indication until the last few months of 1983 that it was occurring so rapidly. By contrast, demand for the new office automation course is very strong and we are working very hard to introduce it into the CDI's more broadly. Also, demand is above expectations for the new medical technician courses being offered through the Medix Company which CDI acquired last year.

The shortfall from budget in Data Services is primarily in Cybernet. First of all, we have sold in-house computer solutions to some of our largest Cybernet customers. We did
not lose the business, it just shows up in Computer Systems results. We have cut back in processing capacity and in other costs and expenses in Cybernet. Significantly while total Cybernet revenue is almost ten percent below last year at this time, Cyber 205 revenue is up nearly 75 percent. This is the essence of the Cybernet situation -- the demand for computer services in the scientific and engineering area is always strongest for the largest available processors. The simultaneous migration of Cybernet from the 7600 to the 205 and from pure remote batch to distributed processing involving highly capable work stations has been unusually difficult. As we move through the second half of the year, we see a marked improvement in Cybernet as new products generate more revenue and the cost and expense measures take hold.

As far as services in International are concerned, the shortfall from budget is also a shortfall in Control Data Institutes (although somewhat less than in the U.S.). In addition, it has taken somewhat longer to get several planned acquisitions concluded, but that appears to be well in hand now. All-in-all, seven new acquisitions will add $52 million in computer services revenue and in aggregate will be profitable for the year. This coupled with planned improvement in the base services business in International will mean significant turnaround in the second half.
The subject of International Operations reminds me that I need to alert you to a specific problem which may get some press coverage in the coming months. Last year when we were negotiating the potential acquisition of a 41 percent interest in Systime in the U.K., we became aware that they were incredibly sloppy regarding compliance with U.S. regulations regarding export controls on products of U.S. origin -- and that the U.S. government was considering a fine which wouldn't really have substantially affected Systime's business.

But since that time, further investigation by the U.S. Department of Commerce and the U.S. Customs Service uncovered more licensing problems that occurred prior to Control Data's involvement and that Systime had not disclosed. As a result, the penalty could be much more severe -- including a million dollar fine and denial of some export privileges. Attorneys for both companies are negotiating a settlement with the U.S. government which should be resolved later in the year.

Meanwhile, we've taken aggressive actions, working with Systime, to correct their improper procedures. First of the responsible employees were terminated. Systime has now adopted a formal, written export licensing policy and procedures patterned after Control Data's. Systime also has access to
resources within our company for advice and counsel on export matters. We've also added Systime to Control Data's distribution license to help gain export licensing approvals. Nevertheless, there will be punitive action -- and some resulting publicity -- against Systime.

OPERATIONS - SUMMARY

All in all, the first six months of 1984, while tough in a sense, have held few surprises and a lot of reinforcement that we are on the right track. Each operation is working diligently to control costs and expenses (we are $24 million under budget year to date); we are continuing to weed out non-strategic businesses (the old non-computer controls business of Autocon was the latest in this category -- making a total of 14 spin outs or shut downs in the last twelve months); and we are continuing to reduce employment and improve productivity -- the total employment now is down more than 2,000 people from this time last year, while revenues for the first six months are up 12.3 percent from 1983. So while there have been more happy days as far as the stock price is concerned, and you can be sure there'll be more negative media coverage when second quarter earnings are released. I'm convinced Control Data is stronger and better positioned than is reflected in either regard.
STRATEGIC PLANNING

With that, let me turn to some longer-range aspects of the business. As you are aware and as I discussed at the stockholders meeting in May, the strategic planning process begins with the examination by teams of executives of those issues which top management have agreed are of most critical importance to the future health of the business. This foil

[list of issues]

will serve as a reminder of those topics which have been the subject of this year's task teams. The task teams have now by and large completed their work and each of these issues and the task team reports will be discussed by the Management Committee at a special three-day meeting at the end of this month. At that time, we will also discuss and agree upon long-range financial objectives and then, with guidance from the Management Committee regarding the strategic issues and the financial objectives, the operating groups will finish their five-year strategic plans. These plans will be reviewed with you as usual at the time of the November board meeting.

I don't intend to even try to give a synopsis of all these issues today, but I do want to discuss a few of them because of some developing considerations.
Peripheral Systems Group - The single, largest loss in the computer business in 1984 is the IBM plug compatible peripherals business -- some $26 million pre-tax. 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, it is now questionable whether the past incremental approach to this business is possible for the future. Moreover, the third party maintenance business is not nearly so dependent on it as in the past. The incremental technical expense of the current 33800 program will be $45 million. The market risk is also high. So really the question is not so much do we get out of the business but how. Basically, there are three options: 1) cold turkey -- which would involve significant write-offs; 2) a two-three year work out which has its own set of marketing risks; or 3) have one of the two other U.S. companies (Memorex or STC) take over the business on some basis. These are the options the task team has been considering and what we will be discussing at the end of the month.

Slowly or Unsatisfactorily Developing Businesses - This is a continuing strategic look at some unsatisfactory performance. At the beginning of 1983, there were 19 business units on this
list. Of those, six have been sold or closed, four now deemed to be making satisfactory progress, and nine are still being re-evaluated. One such business I want to mention is BTSI. Although profitable and growing reasonably, BTSI is on the list because it doesn't represent a critical mass for us in services to the brokerage industry. By comparison, ADP's revenues from this market are approximately $120 million and Quotron's are $195 million. On the other hand, Quotron, and others, have some strategic problems of their own as well. We are looking at several alternative strategies with regard to BTSI. We thought a major acquisition of a firm called Monchik-Weber, which has an excellent reputation as a consulting and software supplier, might be possible, but closer examination has made that possibility fairly unattractive. In any event, as far as the securities brokerage industry is concerned, strategically we feel we must significantly increase our commitment or get out of that marketplace.

ITC

You will recall that last year we set up the International Trading Company to take over the business of Control Data Commerce International, Commercial Credit's trading subsidiary. ITC also acquired MITCO -- a company set up by several Minneapolis firms, including Control Data, to
facilitate and promote exports by small Midwest companies. The strategic concept was that, over time, through ITC we could develop the necessary barter trade for us to do business in developing countries. Also, export services for small business would give us yet another service in the array of products and services we offer to that market. To accomplish these objectives, we felt it really wasn't necessary for Control Data to bear the total burden of developing the trading business which we had originally undertaken because of its necessity to marketing in East European countries. Thus, the joint venture concept of ITC. Given the then budding interest of many banks in trading companies, the strategy was to seek several regional banks as partners and for Control Data to end up with only a 25-30 percent interest.

For a variety of reasons, this simply has not worked out — perhaps some of you saw the recent Wall Street Journal article on trading companies — and at the present time we have no immediate potential partners and bank interest has faded — to put it mildly.

As a consequence, we have decided to limit our investment in ITC, subject to finding additional partners, to $3 million of which $2.5 million has already been taken down. If additional partners of at least $4 million can be found, we have agreed to go to $4 million. ITC may or may not survive without continued assurance of Control Data funding support beyond the $3 million level.
Through six months of 1984, ITC has lost $1 million on revenues of $.6. The projection for the year is a breakeven on revenues of $20 million. If ITC can boot strap itself to modest viability, it is felt that ultimately additional investors can be found. In that case, our interest will be diluted. If ITC cannot survive, we will ultimately be faced with the write-off of our $3 million investment.

In any event, ITC is being treated purely on an investment rather than as a strategic affiliate.

**Commercial Credit** - The first two issues on the list both deal with Commercial Credit's basic strategy.

It is clear that some of the difficulties Commercial Credit has been facing result from its efforts and resources being spread over diverse markets. Much of the current analysis is focused on identifying the markets we will concentrate on in the future. Broadly speaking, Commercial Credit's products and services addresses three markets: small and emerging businesses, larger business and the consumer market. Today, I want to take a few minutes to describe to you on a very preliminary basis our thoughts in connection with the last of these -- i.e. the consumer market.

Commercial Credit offers a variety of services to consumers including loans, thrift deposits, life insurance, property and casualty insurance and through ERA, real estate brokerage.
The core of Commercial Credit's consumer activities is its consumer finance network. Not only does that network earn interest income but a large portion of our life insurance company's profits come from credit life and disability insurance sold through the consumer network.

As you are all aware, the financial services consumer is the prize in one of the most hotly contested battles in American business. Large money center banks such as Citibank, regional and local banks, finance companies, insurance companies and broad based financial services organizations such as Merrill Lynch and American Express are all in this market. And, of course, we have begun to see retail oriented organizations such as Sears enter the market as well. Most of these companies have invested or are planning to invest large sums in electronic data process systems to give them a competitive edge. It is estimated that Citibank has invested over $500 million in its electronic network. Citibank projects that by 1990 it will have 35 million customers nationwide, each providing about $30 in earnings for total profits of $1 billion. Sears and others have announced similar ambitious plans.

The point of all this is simply to underline the fact that it will be difficult to compete effectively in this marketplace unless we are prepared to make a continuing substantial
investment over a long period of time. The question, of course, is whether this investment can be justified given the relatively loose relationship between Control Data's basic strategic direction as a provider of products and services to business and the consumer finance business.

As we think through the ramifications of this changing market for consumer financial services, there are several alternatives for Commercial Credit to take. For one thing, we could pull our operation back from its scattered national presence and concentrate on building primarily in selected states east of the Mississippi where we have been particularly profitable. Or, second, we could divest our consumer business and redeploy the assets or, third, join with a partner who desires to become a player in the national market.

None of these choices are easy. Indeed, even if divestiture or joint venture were desirable -- and that is questionable -- it might not be achievable on a reasonable basis. However, I wanted to let you know that we are looking hard at all these alternatives and to give you a sense of the reasoning behind that investigation.

**MAJOR OPPORTUNITIES**

Well, inherent in all these strategic considerations is the fact that the company has enormous opportunities available to
it, all of which require considerable investment and some hard choices. We intend to focus our resources to a great extent more than ever before on the best of these opportunities.

Time doesn't permit an extensive review today of many more segments of the business, but before concluding I do want to mention two major opportunities of importance. Events of the last twelve months or so have reinforced the fact that the K-12 education market and services to the healthcare industry represent even bigger opportunities than we had heretofore planned. Bill will comment on some recent, specific events with regard to the academic education market, but let me just make a couple of general observations. The K-12 market is a distinctly different market than is post-secondary education, whether vocational or college and university and obviously it is distinctly different from business and industrial training. One key characteristic is its intensely localized nature. School districts are difficult to influence much less control -- even at the state level. As Texas Governor Mark White told me recently, the school districts hold out both hands for money while they look you in the eye and dare you to give them any advice. This is not new knowledge by any means, but what is clear is that approaches such as the model centers, or Forest City, Iowa, or the possibilities in Atlanta have shown that a localized or location specific market
strategy is possible. Second is the understanding that our product, as opposed to being machines or courseware or devices, must be a service focused on the basic processes in the schools. The service is that of helping the locality improve the cost-effectivity of their education process. None of this so much changes what we develop and deliver as it does change the method by which we market these things.

In any event, a more highly focused and dedicated effort is essential to grasping the opportunity we see. Shortly, among other things, we'll be making some organizational changes to effect this.

As all of you are no doubt aware, the rate of change in the healthcare services field is greater than ever. The demand for true improvement in cost-effectivity of medical care is intense. I'm told that there is many a hospital administrator who is lost in this new world that literally is threatening the existence of their institutions. Control Data's array of products and services is one of the most powerful in this field. Not the least of these is the new HELP system from the MEDLAB division that Walt Bruning described at the May Board meeting. The strategic question that is being examined is how do we best exploit the opportunity all this presents us and what level of investment is required to do so.
In a quite different arena we have an opportunity through a cooperative venture approach to significantly increase the company's capability to meet our needs for military and commercial, very high speed CMOS integrated circuits. Tom Kamp will be presenting this proposed venture to you later in the agenda.

ETA

Finally, an update with regard to ETA. Earlier we had planned to finance a significant portion of ETA's development expenditures through R&D limited partnerships such as the one we formed a couple years ago for Control Data's S-O computer. Unfortunately, as I reviewed with you in May, with the failure of Storage Technology's computer development and Trilogy's repeated announced delays, limited partnerships for computer development are no longer saleable.

ETA has enough money to last through this year and is working on a private placement to help meet its 1985 funding needs. The current intent for the private placement is to sell $15 million of convertible preferred stock.

[mention AT&T possibility]

As even these brief comments suggest, this is an exciting and important strategic planning year for the top management of the
company. Whether in peripherals, financial services, computer services, or computer systems, we have some serious investment (and disinvestment) - decisions to make. The most exciting part, of course, is the size of the opportunities we have.

OUTLOOK FOR THE YEAR

Let me come back now to the outlook for 1984 and in particular how some of the strategic positioning I have mentioned will help to set the stage for 1985 and .

As I noted, the results for the year are heavily dependent on substantial improvement in profits in the second half. With second quarter earnings of $.60 plus the $.82 in the first quarter, this brings us to only $1.42. To achieve a result equal to last year's $4.20 would require $2.78 in the second half. You can see that the mere size of the improvement casts doubt on the certainty of achieving it.

In the past two weeks, I have reviewed with each of the major operating groups their plans and actions which will yield the needed second half improvement and more importantly set the stage for 1985. I came away from these reviews satisfied that we have the necessary programs in place to significantly improve results over the next six months. Briefly, some of the things being done are these:
In Commercial Credit, while looking at strategic fundamentals we are:

1) Shifting to higher yield personal loans in Consumer Banking.

2) Continuing to reduce the number of people and improve productivity.

3) Gaining some vertical market focus for the Business Centers while cutting both overhead staff and marginal locations.

4) Improving mortgage banking operations which have been extremely poor. More loans closed in five months in 1984 than in all of 1983.

Commercial Credit is not forecasting to make its budget for the year, but on an apples to apples comparison, it is forecasting roughly a $20 million profit improvement compared to 1983.

In International Services, we are, as I noted:

1) Adding seven new acquisitions with $52 million of additional revenue.
2) Turning the corner on all the services businesses where four out of five (except BIS) will be profitable on an operating basis in the fourth quarter of 1984.

So all in all, though International Services will be below plan for the year, we expect to go into 1985 well situated for a profitable operation.

Computer Services also is forecasting below budget results for the year. However, the second half will be better at the pre-tax profit line by almost $20 million than was the first half. This results both from the cost reduction actions which have been undertaken over the last six to nine months as well as improved revenue from new products such as those I mentioned earlier in CDI, Healthcare Services, Data Services, as well as the continued growth and health of the market focused services sectors CIM, PLATO for Business and Industry, Arbitron and Ticketron. Nevertheless, in total for the year Computer Services will be only marginally profitable for the year and represents the greatest challenge to achieving marked improvement in total operating results in 1985.

Computer Products will make or exceed its budget for 1984. The most intense effort for improved gross margins and improved expense ratios is in Peripheral Products. In Computer Systems,
we will ship some 315 systems this year. Those of you who remember that little more than five years ago we measured shipments in the 60-70 unit range will appreciate the change that has transpired.

In all the hardware businesses there are a number of new products which have been or will be announced in 1984, which will reach volume production in the second half of this year. That, too, will improve the financial results in the last half of the year.

So even though our current forecast for the year is short of budget, our people are really stretching to reach our internal goal which is still to achieve the budget and more importantly to enter 1985 in a much stronger earnings position than ever.

Questions?
CONTROL DATA CRITICAL ISSUES

1. CCC CONSUMER SERVICES MARKET SEGMENT STRATEGY
2. CCC BUSINESS SERVICES MARKET SEGMENT STRATEGY
3. DATA SERVICES MARKET SEGMENT STRATEGY
4. PERIPHERAL SYSTEMS LONG TERM VIABILITY
5. CDC PRINTER AND CENTRONICS STRATEGIES
6. MANAGEMENT OF THE HYBRID CONTROL DATA ORGANIZATION
7. HIGH VOLUME/LOW UNIT REVENUE BUSINESS PROCESSES
8. ADVERTISING EFFECTIVENESS
9. MANAGING TO HIGH EXPECTATIONS
10. INTERNAL TECHNOLOGY LEVERAGING
11. CONTROL DATA JAPAN - BUSINESS STRATEGY