INTRODUCTION

GOOD EVENING.

IT'S A PLEASURE TO BE HERE TONIGHT. I WANT TO USE THIS OCCASION TO SHARE WITH YOU SOME THOUGHTS ABOUT CONTROL DATA'S PRESENT SITUATION, AND TO OUTLINE THE STEPS WE ARE TAKING TO CORRECT THE COMPANY'S PROFITABILITY PROBLEMS.

I'M GOING TO KEEP MY REMARKS BRIEF FOR TWO REASONS: FIRST, THEY ARE REFLECTED IN MATERIAL YOU'LL BE SEEING IN BOTH WRITTEN AND VIDEO COMMUNICATION FROM ME OVER THE NEXT COUPLE WEEKS. BUT THE MESSAGE BARES REPEATING, SO ANY OVERLAP IS INTENDED. AND SECOND, OF COURSE, I WANT TO LEAVE TIME FOR YOUR QUESTIONS AND COMMENTS. I KNOW YOU WON'T HOLD BACK -- EVEN THO' THE GROUP IS LARGE.

LET ME DEAL AT THE OUTSET WITH TODAY'S EVENTS. [READ PRESS RELEASE]
POINTS TO COVER:

- EXPLAIN PROXIMITY OF CLOSING TO THIRD QUARTER CLOSING/RELEASE

- NOW, WHEN ANY COMPANY INCURS SIGNIFICANT OPERATING LOSSES, ITS BASIC FINANCIAL STRUCTURE IS OF MUCH CONCERN. AND NEW FINANCING IS LIKELY 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 CONTROL DATA 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.
IN THAT REGARD I SHOULD MENTION THAT THE "TECHNICAL DEFAULTS" RESULTING FROM OUR EARNINGS RESTATEMENTS WERE A "NON-EVENT" SO FAR AS THE FINANCIAL COMMUNITY WAS CONCERNED. TO THE EXTENT OUR CREDIBILITY WITH THAT COMMUNITY HAS SUFFERED -- AND IT HAS -- IT HAS RESULTED FROM OUR FAILURE TO MEET PROFIT PROJECTIONS -- NOT FROM ACCOUNTING RESTATEMENTS.

LET'S TAKE A LOOK AT WHAT WE'RE DOING ABOUT THAT -- AT THE RESPONSE TO THE CURRENT SLUMP.

PERIPHERAL

AS MANY OF YOU KNOW, THE GREATEST IMPACT OF THE GENERAL COMPUTER INDUSTRY MALAISE IS IN PERIPHERALS, WHERE WE ARE SUFFERING BOTH FROM REDUCED CUSTOMER DEMAND, AND PRICE COMPETITION.

THIS IS ACCOMPANIED BY A DRAMATIC CHANGE IN TECHNOLOGY AND NEW PRODUCTS IN THE MARKETPLACE. TO RESPOND WE HAVE BEEN NARROWING THE PRODUCT FOCUS OF PERIPHERALS TO HIGH PERFORMANCE PRODUCTS AND WITH NEW PRODUCT OFFERINGS. 90%.
THESE NEWER PRODUCTS, DESPITE OFFERING MANY TIMES MORE MEGABYTES OF STORAGE PER DOLLAR, WILL CARRY MUCH LOWER GROSS MARGINS. SO, WHILE THE NUMBER OF MEGABYTES SHIPPED WILL INCREASE BOTH THIS YEAR AND NEXT, ACTUAL REVENUES WILL DECLINE. TO REGAIN PROFITABILITY, PERIPHERALS MUST CUT ITS COST OF PRODUCTION BY SEVERAL HUNDRED MILLION DOLLARS. AND THE SPEED OF CHANGE IN THE INDUSTRY MEANS WE MUST DO IT IN THE SPACE OF SEVERAL MONTHS, RATHER THAN YEARS, AS WE HAD ORIGINALLY PLANNED.

AS AN EXAMPLE THERE IS THE SMD DRIVES, FOR EXAMPLE, WITH 80 MEGABYTE CAPACITY, REQUIRED 39 HOURS OF DIRECT LABOR IN THE UNITED STATES, WE ARE NOW PRODUCING 86 MEGABYTE WREN DRIVES WITH JUST 2.5 HOURS OF U.S. LABOR. THE WREN DRIVES ARE 30 TIMES SMALLER, USE ONLY TWO CIRCUIT CARDS INSTEAD OF 23, AND SELL FOR ONE-FOURTH THE PRICE OF THE PREVIOUS SMD.

TO ACCOMPLISH THIS, FULL-TIME EMPLOYEE POPULATION IS GOING DOWN RAPIDLY IN PERIPHERALS FROM A PEAK OF 16,500 IN 1983, TO 15,000 AT THE BEGINNING OF THIS YEAR, AND TO 12,000 AS OF TWO WEEKS AGO.

BY THE END OF THIS YEAR WE WILL HAVE ALSO REDUCED PERIPHERALS MANUFACTURING AND WAREHOUSE SPACE FROM A PEAK OF 3.3 MILLION SQUARE FEET TO LESS THAN 2.5 MILLION, WITH SCHEDULED REDUCTIONS
OVER THE NEXT TWO YEARS BRINGING THAT FIGURE DOWN UNDER 1.5M SQUARE FEET. [EMPHASIZE RESPONSE TO CHANGE AS WELL AS TO REDUCED VOLUME]

SERVICES

IN THE SERVICES BUSINESSES, WE ARE ALSO HAVING MARKET FOCUS WITHIN THE SIX MARKETS IN WHICH WE COMPETE. AND WE HAVE BEEN DIVESTING AND WITHDRAWING FROM OTHERS ACCORDINGLY. IN TOTAL 13 DIVEST./SHUT DOWNS IN 15 MONTHS. 8 OTHERS CURRENTLY IN PROCESS.

COMMERCIAL CREDIT

COMMERCIAL CREDIT IS ALSO IN THE PROCESS OF SHEDDING ALL BUT ITS MOST PROFITABLE CORE BUSINESSES. REMAINING IN PLACE ARE CONSUMER FINANCE, LEASING, AND LIFE AND BUSINESS CREDIT INSURANCE. BY THE END OF 1985, WE WILL HAVE DECREASED THE SIZE OF COMMERCIAL CREDIT'S ASSETS BY ABOUT 1/3RD TO AROUND $5 BILLION. WHAT THIS MEANS IS THAT COMMERCIAL CREDIT WILL BE A SMALLER, MORE EFFICIENT ORGANIZATION WITH A MUCH IMPROVED COMPARABLE RATE OF RETURN THAT CAN REACH COMPETITIVE RATES.

ONCE THE DUST CLEARS, THE NET OF THIS ACTIVITY WILL BE A FINANCIAL COMPANY WITH HIGHLY IMPROVED OPERATING RATIOS THAT MATCH OR SURPASS INDUSTRY NORMS, A COMPANY THAT COMMANDS CONFIDENCE FROM ANALYSTS AND THE FINANCIAL COMMUNITY AT LARGE.
INVENTORY, EXPENSE REDUCTIONS

OVERALL FULL-TIME EMPLOYMENT HAS GONE FROM 57,000 TWO YEARS AGO TO 54,000 AT THE BEGINNING OF THIS YEAR, AND 48,500 AS OF SEPTEMBER FIRST. THIS IS MORE THAN JUST RESPONSE TO A SLUMP. MUCH MORE POSITIVELY IT REPRESENTS IMPROVED PROCESS AND INCREASING PRODUCTIVITY IN TERMS OF REVENUE-PER-EMPLOYEE FROM $91,000 IN 1984 TO $100,000 THIS YEAR, AND A PROJECTED $107,000 IN 1986.

IN EVERY INSTANCE, WORK FORCE REDUCTIONS HAVE BEEN MADE -- AND WILL BE MADE -- IN KEEPING WITH CONTROL DATA'S LONG-STANDING PERSONNEL POLICIES AND "RINGS OF DEFENSE" STRATEGY. AS YOU KNOW, THE IDEA OF "RINGS OF DEFENSE" IS A SIMPLE ONE: THE FIRST TO GO WHEN ECONOMIC PRESSURE MOUNTS IS THE OVERTIME EMPLOYEE . . . THEN, IF NECESSARY, INDEPENDENT SUBCONTRACTORS . . . THEN, IF NECESSARY, SUPPLEMENTALS . . . AND SO ON DOWN TO REGULAR PART-TIMERS -- RING AFTER RING, LAYER AFTER LAYER. AT THE CENTER, PROTECTED AND SECURE, IS THE FULL-TIME EMPLOYEE. BEFORE ANY FULL-TIME EMPLOYEE FACES A JOB SECURITY PROBLEM, EACH OF THESE OTHER "RINGS" HAS COME FIRST.

MUCH OF WHAT WE HAVE DONE AND ARE DOING, AS YOU SEE, IS SHORT-TERM ORIENTED. IT IS INTENDED TO STABILIZE THE COMPANY WHILE WE REGROUP. MUCH LIKE AN ARMY REDEPLOYING TROOPS AND EQUIPMENT TO SEIZE TARGETS OF OPPORTUNITY ON NEW FRONTS.
STRENGTHS

UNDERLYING ALL OF THIS IS A CORE OF GREAT STRENGTH. ADDING TOGETHER THE MORE ESTABLISHED SERVICES BUSINESSES (ENGINEERING SERVICES, PROFESSIONAL SERVICES, TICKETRON AND SO ON), WE HAVE ASSETS PRODUCING $1.0B IN REVENUES ANNUALLY, FOR A RETURN ON INVESTED CAPITAL OF 16 PERCENT.

IN SYSTEMS, WE HAVE A NEW PRODUCT LINE (60X RANGE OVER SIX MODELS). GOVERNMENT SYSTEMS, AS ONE EXAMPLE, IS A $300 MILLION BUSINESS, WITH A RETURN ON INVESTED CAPITAL IN EXCESS OF 18 PERCENT. IN SUPERCOMPUTERS, ETA SYSTEMS ALREADY HAS THREE ORDERS IN HAND FOR THE ETA-10.

IN THE OTHER MAJOR BUSINESS, PERIPHERALS, 90 PERCENT OF OUR 1986 SALES WILL BE PRODUCTS INTRODUCED WITHIN THE LAST TWO YEARS. PERIPHERALS HAS ALSO BUILT UP THE CAPACITY TO PRODUCE, ANNUALLY, MILLIONS OF THIN FILM RECORDING HEADS.

SO THE UNDERLYING PROFIT PRODUCING ASSETS ARE THERE.

RESTRUCTURING

LONG-TERM, WE ARE FOLLOWING A PROGRAM TO RESTRUCTURE ALL OF CONTROL DATA IN WAYS THAT MAKE US MORE FUNDAMENTALLY COMPETITIVE.
WE ARE PROCEEDING ALONG THREE STRATEGIC FRONTS:

FIRST IS OUR ONGOING INVESTMENT IN OUR TRADITIONAL STRENGTH: COMPUTER TECHNOLOGY. WE ARE, FOR EXAMPLE, CONTINUING TO FUND ETA SYSTEMS IN SUPERCOMPUTER DEVELOPMENT. WE ARE CONTINUING TO PLACE A PRIORITY ON HIGH-CAPACITY DISK DRIVES AND OPTICAL STORAGE AND THIN FILM HEAD TECHNOLOGY, TOO.

IN FACT, RESEARCH AND DEVELOPMENT AS A PERCENT OF REVENUE HAS INCREASED EVERY YEAR SINCE 1983, AND OUR DOLLAR COMMITMENT TO DEVELOPING AND APPLYING NEW TECHNOLOGY REMAINS STRONG. IN COMPUTERS, OR IN ANY OF OUR OTHER BUSINESSES, MAINTAINING THE STATUS QUO IS NOT A COMPETITIVE STRATEGY.

THE SECOND FRONT IS MARKET FOCUS--CHOOSING THE PRODUCTS AND SERVICES WHERE WE HAVE AN ADVANTAGE AND PROMOTING THEM DOUBLY HARD, BOTH IN THE FIELD AND INTERNALLY.

THE THIRD IS PROCESS IMPROVEMENT, ESPECIALLY IN PERIPHERALS DESIGN & MANUFACTURING. OVER THE COURSE OF TWO YEARS WE WILL SUBSTANTIALLY REDUCE THE AMOUNT OF REQUIRED SPACE AND LABOR, FOCUSING ON A SMALLER BUT MORE PROFITABLE PRODUCT LINE, ACHIEVE SUPERIOR QUALITY LEVELS, AND COMPETE NOT ONLY IN TECHNOLOGY BUT IN COST AREAS.
SIMILAR IMPROVEMENT EFFORTS CAN AND MUST BE MADE ACROSS THE COMPANY. EACH OF YOU, IN YOUR OWN AREAS, ARE IN CHARGE OF REFINING THE DAILY PROCESSES YOU WORK IN. BY BEING PROACTIVE IN THIS, WE'LL GET A LOT FARTHER, A LOT FASTER.

CONCLUSION

I'M NOT TELLING YOU ANYTHING YOU DON'T KNOW WHEN I SAY THAT WE HAVE BEEN THROUGH A TRYING AND DIFFICULT TIME FOR QUITE A WHILE NOW, AS THE WAVES OF CHANGE IN OUR INDUSTRY HAVE BATTERED OUR BUSINESS, BOTH FROM WITHIN AND WITHOUT.

AND WE HAVE WEATHERED A VIOLENT STORM OF MEDIA CRITICISM FOR THE PAST FOUR MONTHS. EVEN THOUGH MUCH OF IT WAS FOR THE MOST PART UNJUSTIFIED, IT GOES WITH THE TERRITORY OF LOUSY RESULTS AND WE JUST HAVE TO GRIT OUR TEETH UNTIL IT'S OVER.

YES, THERE ARE SERIOUS PROBLEMS REMAINING IN PERIPHERALS, INTERNATIONAL SERVICES, AND ELSEWHERE, PROBLEMS THAT WILL COST MONEY TO FIX . . . AND KEEP COSTING US MONEY UNTIL FIXED. MEANWHILE, THERE ARE MAJOR INVESTMENT NEEDS IN SYSTEMS, IN ETA, AND IN OTHER BUSINESSES.

HAVE WE ACTED QUICKLY ENOUGH IN ADDRESSING THESE ISSUES? JUDGED SOLELY BY OUR 1985 PROFITS, THE ANSWER IS OBVIOUSLY NOT.
BUT WE HAVE NOT LOST THE VISION OF OUR BUSINESS NOR OUR RESOLVE TO FIX EACH AND EVERY ONE OF THE PROBLEMS.

THE MOST EFFECTIVE RESPONSE RIGHT NOW IS THE ONGOING ATTENTION TO RENEWED PROFITABILITY. AS THAT BECOMES FACT -- AND IT WILL -- IT WILL SPEAK FOR ITSELF, AND OUR CRITICS WILL BE FORCED TO ADMIT THEY WERE WRONG.

FINALLY, LET ME ASK YOU THIS: HOW DOES IT FEEL TO TELL SOMEONE YOU'RE WITH CONTROL DATA? WHAT GOES THROUGH YOUR MIND WHEN YOU SAY IT?

WELL I THINK THE ONE WORD WE ALL WANT TO BECOME KNOWN FOR IS "QUALITY." THE MEASURE OF CONTROL DATA'S FUTURE WILL BE THE MEASURE OF ITS QUALITY -- IN PRODUCT, IN MANAGEMENT, IN FINANCIAL RESULTS. HIT QUALITY HARD ENOUGH, AND WHEN PEOPLE HEAR CONTROL DATA THEY'RE GOING TO FEEL ENVY IF THEY WORK FOR SOMEONE ELSE, FEAR IF THEY'RE A COMPETITOR, AND SATISFACTION IF THEY'RE A CUSTOMER.

THANK YOU.

NOW I'D LIKE TO HAVE YOUR QUESTIONS.
In any event, as difficult as the outlook is for 1984, the organization is continuing to respond strongly as it has over the past 2 1/2 years. Employment has been reduced 3,600 since two years ago and some 2,014 just in the last year. We have shut down or spun out 14 businesses in the last year and we are continuing to analyze our operational effectivity in all respects.

So as I've said, while we've known happier earnings times, there is no absence of resolve or aggressiveness in attacking the problems, and because we have invested over the years and provided ourselves with strategic options, we are better positioned than most any of our competitors. As a result, the future, including 1985, looks better than ever.

V. EAS RESULTS

Another aspect of the change and restructuring occurring in our markets and in the company is the effect it has on employee attitudes. In that regard, to give everyone a chance to participate, we decided this year to actually take a census rather than the statistical sample approach to the employee attitude survey.

I'll cover a few highlights of that survey. Not surprisingly, overall the survey shows there has been some decline in
employee satisfaction since the last attitude survey in 1982. An outside consultant, Dr. David Sirota, who has many years of experience in employee surveys and consults with companies like Honeywell, Ford, Dayton Hudson, Norwest, First Bank, General Motors, and IBM, helped us review the results. He said that overall attitudes are still quite positive, particularly in comparison to other firms, even though some levels of satisfaction have declined. He says there is reason for concern in some particular areas, but no cause for alarm.

Let's look at just a few specifics.

Thirty-six percent of employees disagree with the statement: "Good performance gets rewarded in my division." This response is a matter of some concern and several actions already are underway to address this problem. Despite our excellent performance process and past program to train supervisors and managers in its use, we clearly still have a ways to go in this area.

Pay is a significant component of reward for performance and employees were asked: "How do you rate the amount of pay you get in your job?" This survey shows that 20 percent of employees say they rate the amount of their as poor or very poor. This is a slight increase from 16 percent in 1982, but down, in fact, from 1980 when the percentage was 28. Sirota also says this is somewhat more positive than other organizations he has surveyed recently.
In response to the statement: "Overall, Control Data treats employees fairly," only 16 percent disagreed. This response is favorable compared to other companies and I'm very proud of that.

One item on the survey asked: "How satisfied are you with your opportunity to get a better job in Control Data?" The result shows that 34 percent of employees expressed dissatisfaction. Interestingly, this is a little better than a composite of IBM, Xerox, Texas Instruments, Kodak, AT&T, and Honeywell, and is about the same Sirotta says he finds in industry generally. There's some comfort in that I suppose, but to me it is something we really need to work on. But especially if we expect to achieve significant revenue growth with little if any overall growth in employment.

Employees were asked: "How do you rate your total benefits program?" The response was quite positive, with only eight percent of employees expressing dissatisfaction with their total benefits program, while Sirotta says in many other companies dissatisfaction has risen substantially.

With regard to job security the question was asked: "How do you rate Control Data in providing job security for people like yourself?" The survey shows that 11 percent were dissatisfied with job security compared to five percent in 1982. While this
is an increase in dissatisfaction it is still positive in terms of overall satisfaction. Again, according to Sirota, it is more positive than other companies he has worked with. This is not an off-hand achievement. We've worked hard at our policy -- greatest feasible degree of job security to greatest number of employees -- no guarantees. Can't guarantee against change. But clearly we have made a lot of progress. We will need to make more.

Employee involvement in decision making is an area that showed a substantial jump in dissatisfaction. In response to the statement: "Sufficient effort is made to get the opinions and thinking of people who work here," 44 percent of employees felt that not enough was made. This is in part due to the increased amount of change we are experiencing as a result of the market restructuring I talked about. During change, people want to contribute and be part of the decisions affecting their work. Clearly this is an area that needs more attention from top to bottom in Control Data. But on a more personal basis, it is something each of you in this room has the power to improve. If you don't know how, we have lots of training that will help you. In any event, it's worth a health check in your own organizations.

Still, and interestingly somewhat in contrast with the preceding result, employees are satisfied with the job their immediate managers are doing. They were asked: "Overall, how
good a job do you feel is being done by your manager?" Only ten percent are dissatisfied. In part at least, the management training emphasis over the past several years is apparently having an impact.

VII. CONCLUSION

Improving market focus, adapting to markets rapidly restructuring themselves, managing for profit. Netted down, that's what we're doing. And, as I say, in spite of the financial results, so far this year we are doing it well.

What is crucial now is momentum and maximum effort over the last two and a half months of 1984 so that we finish on an "upper." This is a crucial time for all management and particularly marketing management to show leadership. And that, my friends, is in your hands. We have no time to agonize or speculate or ruminate -- there is no "wait til next year."

There's only here and now -- this year -- orders to close and books to keep -- processes to improve and people to lead, to help, to improve. Let me read something to you I came across the other day

[READ EXCERPT FROM MANAGEMENT ANALYSIS]

That's our management challenge -- that's my challenge to you tonight, and for each day of the rest of our lives.

Thank you.