Thank you, Tim (Kenealy).

It's gratifying for me to take part in recognizing EMSD's most recent great performers. I'm aware that today's recipients are just a couple of the numerous great performers here at Energy Management Systems.

As I reflect back on my early days at Control Data, I recall my first visit to Control Corporation. Someone tried to explain to me what a reed relay was. It was all strange stuff to a programmer from California, but in those relay arrays, or rather in the people who applied them to meeting the utility industry's control problems, was the precursor to EMSD's success today. I also recall how you, Tim, along with Sheldon Tart and Jerry Russell and many others, developed the team of power industry and computer programming experts that led the way to EMSD's success. (TO CROWD) And many of you, of course, made noteworthy contributions to what has become Control Data's leadership position in the industry today.
EMSD not only has delivered the tools to help make the most reliable, cost-effective and safest power system possible, you've also proved what it means to truly understand and bring successfully to market solutions to customer needs that work.

- In short, you are a prime example within this company of focusing in on market-driven requirements.

- Your future is brighter than a ten mega-watt bulb: installed systems are being upgraded while new systems are selling to new customers.

Moreover, your division and your market, the electric utilities industry, is vital to Control Data's future success.

As to the days ahead, they're going to be tough ones. The steps we've taken on several fronts in the past several months are starting to help some, but there is a long way to go, and today I want to review for you the goals which we as a corporation must strive toward in the days ahead.

First off though let me give you a brief status report on some things I suspect are on your minds. We have been busy cleaning away the debris of 1985; certainly we've taken our lumps over the past 18 months, but the core strengths of Control Data,
both technical and financial, are not in doubt. The task of fashioning a new financial structure for the company over the past six months has been difficult, frustrating and time consuming. I know it has been tough on you especially given the hostility of some of the Twin Cities media.

We are, however, nearing the end of that phase. We have plans (and back up plans) to provide Control Data with new financing arrangements that will give us a much sounder financial structure. The first pieces of that are in place [bank agreement, asset sales, asset financing]. The rest will be put in place over the next two months.

In the first quarter as you know we reported a loss, but it is nevertheless a significant improvement over 3rd & 4th quarters 1985. The second quarter will be improved over the first and the outlook for the year is continued steady improvement.

However, I don't want anybody to think that all the problems are behind us. I surely don't. Or even that the practices that caused the problems in the first place have magically disappeared. We all know that's not the case anyway.
I do mean, however, that we need to bring these things out in the open ... to talk honestly and candidly about the issues that affect every one of us. If we do that, we can deal with the problems and from that base of understanding we will make the changes we need to make ... and then move forward with justifiable confidence.

We have two financial objectives for 1986: to return the computer business to profitability, and to repay our short-term bank debt in full. Part of the money to repay the debt will come from the sale of Ticketron that we announced last week. We are also working hard to have a positive cash flow from operations for the year as a whole.

As for bright spots, we're generating substantial profits in some areas. Right here at EMSD there is the recent order from Pacific Gas and Electric of $27 million, which brings the total value of Energy Management Systems -- both installed and on order -- to over $400 million. Your development efforts with Florida Power and Light, for instance, and with Northern States Power are also important. All part of the healthier outlook for '86.

In other areas, the Government Systems Group is both profitable and expanding. Some data services businesses are also doing very well.
Out of all this is emerging a gut determination to fashion a "New Day" for Control Data. Everything we do from this point on, starting right now, is aimed in that direction. And I assure you, each of you here is playing an essential role in shaping Control Data's New Day.

The toughest challenge we face right now is to make a solid connection between what we say...and what we actually do. We haven't made that connection very well over the past few years, and as a result our credibility has suffered greatly. What all that adds up to -- the solution, that is -- can be expressed in one word: QUALITY.

Quality in every aspect of corporate existence, in every action, every process, every procedure, every decision...every individual who draws a Control Data paycheck...and that includes you and me.

Quality isn't 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 comes down to each person feeling that "what I think and do really matters" and for each person to feel both responsible and accountable for that. TQMP is becoming a way of life. It's the mindset that holds true quality as standard operating process.
But obviously we've only begun.

I know there is a certain percentage of people in Control Data who don't understand or deep down don't buy into TQMP. People have seen quality programs come and go. Some think this is just one more "zero defects" program. It's not -- the letter "P" stands for Process, not program. "M" stands for management -- the key to the whole thing. What we're really talking about is a new and better way to manage Control Data's business. In today's vernacular they call that "cultural change." What the skeptics must realize, however, and what they will discover, is that there's no place at Control Data for people who can't accept change.

At its root, absolute quality is a function of intellectual honesty -- that means being able to face facts, to not kid ourselves, and having done that to simply say, "Is there a better way?" Quality. "Control Data means quality" -- that's my first goal in this New Day for our Company.

One of the myths about Control Data is that it is a great entrepreneurial company. In fact, in many regards we've been stuck in a bureaucratic quagmire. The results of growth and size and time. People think bureaucracy is paperwork -- "too much paperwork," "too many forms." Those things are not
themselves bureaucracy — they are symptoms of bureaucracy — symptoms of bad processes. All too frequently it amounts to a literal substitution of form over substance. Following the procedure, filling out the forms become ends in themselves rather than seeking the results they were intended to produce or report.

So what we need to foster as a company is something far more pragmatic than ... entrepreneurism. We need to foster something much more readily available ... and far more satisfying on a personal level. It's called ... individual initiative, and individual determination to produce a result.

That begins with people who know for certain that what they think, and what they do, really does matter. When they have that base of confidence, they'll be able to ask themselves the question: "Is there a better way?" rather than simply saying "How can I get by?" An example is something the marketing support group here came up with in response to the sales proposal process. They were getting lots of the same questions from customers, so they asked, "Is there a better way to produce proposals?" Their solution was to create an organized process and array of answers -- in today's fancy vernacular that would be called a "knowledge data base." That way they could plug in those answers to the previously dealt with
problems and deal with only the unique questions. As a result of their initiative, response time has speeded up -- customers are receiving a more accurate proposal quicker -- and Control Data's image as a quality vendor has increased. Now that doesn't sound like a very big deal -- but it's effect is important. And it results very simply from someone who has the initiative to look for a better way to deal with an everyday task, and that's my second goal, "Control Data means people with initiative" -- and I hope that theme will pervade the development and delivery of every EMS we sell.

A frequent criticism of Control Data is that we have not been strong enough or fast enough to fully understand market needs, and then to fashion the products and services needed to meet those needs. In the past, competition was far less severe than it is today. Customer needs usually exceeded the solutions the industry could deliver. And because of that great need, almost any answer was marketable, or at least there was plenty of time to go back and patch things up.

It's a far different situation today. The essence of the computer industry today is true "value-added."
That starts with product performance, of course. But it goes beyond that, and it means for one thing being involved. It means hands on experience -- years of experience with the problems our customers are trying to solve. Exactly the kind of history of close participation your division is known for. The riskiest, most expensive software development is applications software. We've all had experience with a supposed great application system that somehow missed the mark. Good application software evolves. And it comes from being out there and mixing it up in the market -- for a long time -- just as you yourselves know. "Value-added" is not just applications software, then, it's people -- people with industry/application experience and expertise. That's market driven.

That's how customers see the added value our products and services can offer. That's how we'll develop markets like electric utilities where we can distinguish ourselves by providing high-quality products and services with meaningful customer support, in terms of people and software, and that's what I mean when I say my third goal is to see "Control Data" become "the marketing company".
Now, who will make it possible to achieve these goals? You know who. The hundreds of people like you, who report to work every day to develop to design specialized hardware and applications to write proposals and process orders to do the thousands of small tasks that finally add up to a successful system installation.

A commitment on the part of each of you to the continuous improvement of your part of the process is paramount to our success as a corporation. You are the only person who can truly make good the connection between what you think and what you do.

Some time ago we distilled the kind of work environment we wanted into five principles. I want to repeat them to you:

1. Place a high value on reward for performance.

2. Create an environment for continued self-growth and achievement for each individual.

3. Foster management practices that ensure fair and just treatment.
4. Provide benefits and support services which recognize that personal quality of life affects job performance.

5. Provide an increasing level of job security for employees.

Realization of the work environment articulated by those principles is goal No. 4: "Control Data -- the people company."

As we structure Control Data to be an effective competitive force for the long term, as we reassemble it into a company we can all be proud of, we must remember we have to do it within severe short-term constraints and limited resources. That's a truly tough challenge. This is a pivotal year for us -- not because we must go from a $500 million loss to a profit, but because we must make those decisions upon which rests our ability to go forward -- to build to $500 million in profits.

What I've been talking about today is the company we need to create. We have to get very far very fast.

That means for you right here that the only way we can hope to stay alive is to get the costs down by improved quality. The reality is that rework of any kind can't be. Period. Rework can't be. Rework is the result of a process that needs improvement, and it's everybody's job -- your job -- to see
that the process improves. That challenge never goes away, it's never fully met. You've got to keep at it, using the tools from the TQMP tool box, applying them to every situation...from PRF's to ECO's from scrap to documentation errors.

Driving all this is the customer. If any of our customers can find it cheaper or easier or faster somewhere else, and they will if they can, then we're all going to be part of the tent-folding team. I'm not ready to fold the tent and I know you're not either. What will get us back in the black is making good the connection between what we believe, what we say and what we actually do.

Remember, we have four goals:

1. Control Data means quality
2. Control Data means people with initiative
3. Control Data -- the marketing company
4. Control Data -- the people company.

From those things will come the profit -- and the satisfaction and pride we all seek.