Good morning.

And welcome to the 1987 Annual Meeting of Control Data Stockholders.

I am pleased that you could be with us this morning, and now would like to call the meeting to order.

I am Bob Price, Chairman of the Board of Control Data, and I will act as the Chairman of this meeting. Dan Pennie, on my left, is the Secretary of the Company, and will act as Secretary of the meeting.

I would like to introduce the nominees for directors. They are: Judson Bemis, retired Chairman and Chief Executive Officer of Bemis Company, Inc.; Norbert R. Berg, Deputy Chairman of the Board of the Company; John K. Buckner, Executive Vice President, and Chief Financial Officer of the Company; Ruth M. Davis, President and Founder of the Pymatuning Group, Inc.; Allen W. Dawson, Chairman of the Board and Chief
Executive Officer of Siecor Corporation; Albert D. Etchelecu, President and Chief Executive Officer of Diversified Energies, Inc.; Sigmund M. Hyman, a self-employed benefits counselor; Richard G. Lareau, a partner in the law firm of Oppenheimer, Wolff and Donnelly; Lawrence Perlman, an Executive Vice President of the Company and President of its Data Storage Products Group; Lois D. Rice, Senior Vice President, Government Affairs of the Company; Thomas G. Roberts, an Executive Vice President of the Company and President of its Computer Systems and Services Group; and James C. Worthy, Professor of Management at Northwestern University. Ralph Hofstad, President and Chief Executive of Land O'Lakes, Inc. was unable to attend today's meeting because of a conflicting meeting and in addition, William C. Norris, Chairman Emeritus of the Company's Board, who is missing his first Control Data Stockholders Meeting ever, is overseas attending the Annual Meeting of the Young President's Organization where he will be one of six international leaders honored by their Leadership Award. I have already introduced myself.

I now turn the meeting over to Dan Pennie for the business portion.

Business Portion
Remarks

Last year in concluding my remarks to you I said that we had "an unshakeable ... determination and the willingness to do whatever it takes" to return Control Data to profitability.

Today I can tell you that we have succeeded in returning Control Data to profitability, and we will continue to do whatever it takes to remain profitable and be consistent winners.

With that statement, I want to welcome you, our stockholders, to this annual review of Control Data. It is with considerable pleasure and pride that we address the Company's status today and our plans to enhance shareholder value in the future.

The financial results for 1986 are covered in detail in the annual report, so there is no need for me to repeat that information again this morning. Suffice it to say that we achieved a dramatic turnaround from 1985 and built a solid financial foundation for success in 1987 and the years ahead.

The first-quarter 1987 results are proof that we are on the right track. The Company recorded net earnings of $7.2 million---17 cents per share---on revenues of $822 million.
This represents what one securities analyst has called a "Lazarus-like earnings recovery" from a loss of $21 million in the first quarter of 1986.

The balance sheet has also been put in solid shape. It shows a debt-to-equity ratio of approximately 1 to 2, an exact reversal of the 2 to 1 ratio at year-end 1985.

The first-quarter results are the beginning of the payoff from operational and financial restructuring, cost control efforts, and above all, strategic focus.

As we said on the cover of the annual report: We are resolved to be consistent winners. In particular what it takes to do that is to constantly seek competitive advantage for each product and service we sell; to strive to enhance shareholder value.

There are, I believe, two important dimensional of the task of building shareholder value. These dimensions can be called "creating wealth" and "realizing wealth."

Creating wealth means building competitively advantaged businesses -- that is, businesses which contribute to the success of the customers they serve and over time, generate superior financial performance which in turn will lead to a higher stock price.
Realizing wealth means to restructure, or broker a portfolio of businesses so that the underlying values become more immediately evident, which will also lead to a higher stock price. Unfortunately in recent years in the face of this two dimensioned task, we've witnessed a disturbing display of one-dimensional thinking. There is a debate—no, actually a war—between those who believe that shareholder value is best served by concentration on one or the other dimension.

In a special report in March, the Wall Street Journal portrayed this war as a clash between "Main Street Chiefs" and "Wall Street Pros."

The "Main Street Chiefs," the newspaper said, consider themselves the true and only legitimate builders of enterprise—that the care and nurturing of business toward long-term goals is the way to build shareholder value. The "chiefs" characterize the "Wall Street Pros" as parasites at best and outlaws—"raiders" is the precise term—at worst.

On the other hand, the "Wall Street Pros," or the "Paper Entrepreneurs" as political economist Robert Reich calls them, dismiss the "Main Street Chiefs" with the epithet "entrenched management" -- self-interested, incompetent, blobs with no appreciation of the cost to shareholders of undervalued,
underutilized assets. The "pros" believe that skillful brokering of businesses or assets is the only true way to shareholder utopia.

In an awesome display of human ingenuity, each side has developed its arsenal of weapons, of battering rams and fortresses, of catapults and great moats, of long-range missiles and anti-missile missiles, of "Sat. Night Specials" and "Poison Pills."

It is not news that single-mindedness and greed in human nature can result in pathological behavior, but if we need a reminder we have only to read in the morning paper of the depredations of an Ivan Boesky.

The inevitable result of such behavior is legislation. It has always been this way and it will continue to be. We can and we must work diligently to try to assure that the resulting laws are rational.

My purpose today is not to venture deep into this sometimes arcane, sometimes merely rhetorical debate. Instead, I simply want to use it as the framework to point out that the management of Control Data has in fact demonstrated competence in both dimensions -- and understands both are necessary in a balanced approach to enhancing shareholder value.
In the financial restructuring of the Company, we enhanced shareholder value by realizing wealth through judicious realignment of its assets, and the supporting capital structure.

Furthermore, we've demonstrated, and will continue to demonstrate, that we know how to build businesses of competitive advantage...businesses that actually create wealth.

Let me talk about the restructuring first.

Put very simply, we took the businesses that we had and by working their financial assets to "realize wealth," we were able to provide an economically sound financial foundation upon which the Company can "create wealth."

At the same time, we narrowed the Company's business focus and improved the opportunity for the chosen businesses to be successful.

Altogether, the restructuring produced some $1.2 billion in cash. How?

We sold or closed 13 businesses or product lines, in the and process realized approximately $150 million in cash ....
A public offering of approximately 80 percent of Commercial Credit Company (CCC) produced another $530 million—the third largest Initial Public Offering in the history of Wall Street at the time. In addition, we received a one-time $200 million dividend from CCC...

And we replaced essentially all of our bank debt with the sale of $400 million of public debt.

The primary goal in restructuring was to move away from a position of overdiversification to one of doing fewer things better and more profitably.

As we've seen the impact of this on profits was almost immediate.

The loss from operations in the computer business -- before all extraordinary and one-time restructuring charges -- steadily diminished from $53 million in fourth quarter 1985 to $39 million in first quarter 1986...$14 million in the second quarter...and $2 million in the third quarter. In fourth quarter 1986, we recorded a $5.4 million operations pre-tax profit. And, as you know, we posted operating earnings of $14.2 million in this past quarter, translating into the reported $7.2 million in net earnings.
I think these results show that portfolio management, or the "realizing wealth" dimension, has placed us in an improved strategic position to do a better job on the other dimension of "creating wealth."

At any given time, of course, the emphasis will be more on one dimension than the other. Over the past two years, it has been necessary to give top priority to "realizing wealth."

But that doesn't mean that we abandoned efforts to create wealth.

On the contrary, we've been working this side of the equation in each of the five businesses -- Computer Systems and Services, Government Systems, Business Services, Data Storage Products and Training and Education.

First of all we preserved these business groups because they possess, or potentially possess, competitive advantage in their marketplace, and they are the kind of businesses that Control Data needs to be a consistent winner. As a matter of fact, they are proof that we know how to "create wealth." Creating wealth, creating products and services of true value to customers, is neither quick nor easy. Most often it requires persistence -- even stubbornness -- and the willingness to keep your eye fixed on long-term objectives.
Consider, for example, the Arbitron Ratings Company that's part of the Business Services group.

Seventeen years ago, Arbitron was a money-losing business with annual sales of $10 million. We've built it into a $180 million business with a projected 1987 pre-tax return on invested capital of nearly 50 percent. But the quest for sustained competitive advantage is never ending.

Last year -- even while the major emphasis as I have said was on the dimension of realizing wealth -- we nevertheless continued to enhance Arbitron by embarking on the development of a new comprehensive service for advertisers and the broadcast industry called SCANAMERICA. The development expenditures for SCANAMERICA totaled nearly $6 million in 1986. Furthermore we broadened Arbitron's services through the acquisition late last year of Broadcast Advertiser Reports (BAR), a television commercial monitoring service.

The integration of BAR's commercial monitoring system with Arbitron's comprehensive audience measurement services gives Arbitron a total package of specialized information services to better meet customer needs.

Another example of "creating wealth" is ETA Systems.
All through the financial difficulties of 1985 and 1986, we spent approximately $50 million annually for ETA to design and manufacture the next generation of supercomputers. In retrospect that may not seem so gutsy, but I assure you it looked very much so at the other end of the tunnel.

It is a measure of our commitment to create products and services that will be of value to Control Data, its customers and its shareholders.

Well, last month the ETA-10 was formally announced at Florida State University and I'm proud to say that it received rave reviews.

In fact, a Florida State professor who had used the ETA-10 gave a glowing testimonial of the machine and how it has exceeded competitive expectations.

Last week, the New York Times reported that when the ETA-10 reaches full configuration, it will be the first supercomputer to receive the U.S. Department of Energy's Class VII rating. Up to now, the most powerful machines have been in Class VI. That Class VII designation is appropriate, because the ETA-10 is the best supercomputer I've ever seen and I've seen them all.
We recognize that it's not enough to be determined to do whatever it takes to be profitable. We understand that a successful company must also know "what" it takes--responding to customer needs through innovation.

Examples of this are the CYBER 930 computer and the CYBER 910 workstation, recently introduced by Computer Systems and Services.

Both products were developed with the needs of engineers and scientists -- the intended customers -- clearly in mind.

The CYBER 930 sets new high-performance standards for departmental systems. The 910 workstation has several features that improve cost-effectiveness and productivity for design, engineering and manufacturing users.

Data Storage Products also responded to customer needs in 1986, by introducing seven technologically advanced products to the high-performance, high-capacity data storage market.

Over the past two years Data Storage Products has transformed itself into a world-class manufacturer.
This point was clearly made when SONY recently ordered $80 million worth of Control Data disk drives for its new microcomputer workstation -- the largest OEM computer products agreement that an American computer firm has signed with a Japanese firm. In fact, SONY picked Control Data's 5 1/4" disk drive over the products of Fujitsu and Hitachi.

We're meeting customer needs with high-quality products that create wealth by giving our customers a competitive advantage and contributing to their success.

We've never stopped -- and never will stop -- creating wealth at Control Data.

We have clearly demonstrated the past two years that we understand both dimensions of building shareholder value. Control Data knows what it takes to be a consistent winner.

We are neither "entrenched management" nor "paper entrepreneurs." Those who reduce complex business issues to such simplistic rhetoric and slogans are doing a great disservice to us all.

One of the goals we set for ourselves in restructuring was to create an operating environment for the Company that would improve the chances of success.
In my letter to you in the annual report, I discussed how we're doing this by reinforcing three core values throughout the Company -- Marketing, Quality and People.

I won't repeat what I said in the letter. But I do want to emphasize the importance that we're placing on marketing.

Let me begin by giving you this definition of marketing:

"Marketing means strategy. Winning strategy results from a thorough understanding of and creative response to customer needs. Innovation is that creative response to customer needs, and it results from understanding the needs themselves, the competition, and other external socio-economic forces that impact the customer.

"Marketing also means selling and servicing the customer. Excellence in selling and servicing starts with appropriate packaging of the solutions conceived by the strategy.

"Marketing encompasses superior performance in all aspects of communication, training, sales and service--internally and externally."
There are, then, three dimensions of marketing: 1) Customers — and their needs; 2) External factors—competitive and socio-economic; and, 3) Internal capability—technological, production, sales and service.

I use this definition of marketing every chance I get with senior management and all employee groups. I want them to be thinking, talking and practicing marketing — to be innovative, if you will, in both thought and deed.

We are in the process of building on existing marketing strengths, attempting to be ever more intensely customer-focused. We want this attitude to pervade the Company and set the tone for everything we do. The resulting sustained competitive advantage is the key to superior financial performance and increasing shareholder value.

And so we are:

"Control Data...The Marketing Company."

We've shown that we know what it takes to both "create wealth" and "realize wealth." We know what it takes to be a consistent winner, and let me assure you that we intend to be the consistent winner you deserve.

Thank you.
Continuing after remarks:

We will now answer your questions. I have already introduced members of senior management who are on the Board of Directors. In addition, Mr. George Troy, President, Training and Education Group; Mr. Frank Dawe, Vice President, Human Resources, and Mr. Larry Jodsaas, Senior Vice President, Quality and Operations Effectiveness are with us today. All of us are available for questions.

Also, representatives from Peat Marwick Main & Co., our auditors, are here. They are Mr. Jim Brocksmith and Mr. John Vickman. They will be pleased to answer any questions as well.

(Questions from Stockholders)