INTRODUCTION

The last time we met we were all feeling pretty good about posting a first-quarter profit.

I wish I could say that the second-quarter results produced the same good feelings but that's not the case.

John Buckner will discuss some of the details of the Company's financial performance following my remarks, but first I want to address the situation from a more basic perspective. And that is: Are we gaining ground or losing ground?

However, from an executive management point of view, that is a flawed perspective. I'm not trying to put on rosy glasses when I say that, nor am I saying, "OK, 2nd quarter was just a passing thing -- don't worry about it." Quite the contrary. What I'm saying is that looking at the situation in such a narrow context -- one three-month period to the next -- obscures the fundamental problems that must be solved. Or, for that matter, the opportunities that must be seized.
Think about it this way: we took a $9M charge in Government Systems because of PMSP. We took a $5M charge because of FSD II. Rather than a $3.7M earnings contribution from CCC we absorbed $5.5M of their LDC loan provision -- that's a $9.2M swing. In the 2nd Qtr., we also began to absorb the full cost of SCANAMERICA rather than one-half, which was another $1 1/2M or so.

All other things being equal, if those things, or even half of them, had occurred just three months earlier, the first quarter would have been negative and the second quarter positive.

So, what is the message? Are we the victims of poor timing? Bad luck? NO!

The message is clear that the core operations of the Company are still too weak to be able to absorb much in the way of adverse hits. And that means we have a long way to go to get the competitive advantages in each of our businesses that will yield the margins adequate to absorb adversity -- and adversity is something we will always face, at any time -- in any quarter -- in any year.
So the answer to the question of whether we're gaining or losing ground is an unequivocal, "YES, we have gained ground in the first six months of 1987." At the same time, we must face unequivocally problems and strategic challenges in each business group so serious that we cannot really call our shots. Let me review briefly some major points:

Computer Systems and Services, including ETA, was slow out of the gate in 1986 — both in terms of restructuring its operations and in taking the action necessary to meet financial targets. This year has seen a lot of progress in both regards.

The primary challenges for Computer Systems and Services are these:

-- ETA...bring the ETA-10 up to full configuration and supporting software.

-- Completing the successful introduction of the 930, and very shortly now to phase in new mid-line products without causing a severe dip in profitability.

-- In Engineering Services, adapt to the changing maintenance requirements and income of the new products while growing third party maintenance.
-- Find ways to make the technical effort needed to sustain a competitive advantage without continuing to spend 20-25 percent of revenues.

Business Services has achieved the restructuring goals set in early 1986 and, in fact, is performing somewhat better financially than we anticipated.

Yet the challenges for Business Services are several:

-- SCANAMERICA...to educate market researchers and advertisers on how to use the new data SCANAMERICA provides and, in turn, create a demand for it.

-- BIS...remain profitable as transition in this business continues at a rapid pace. (I should add that this is an equally large challenge for SIS in the CSS Group).

Government Systems also is very much on the track we laid out in early 1986.

The challenge in Government Systems is simply finding the proper balance between investment programs and production programs and making sure we can manage effectively the investment programs we tackle.
In Training and Education Services, we did not really come to grips with the problems until after mid-year 1986. Consequently, we started this year without a clear understanding of the problems that had to be fixed.

T&E has the unique challenge that every major piece of the business is either an investment program or a turnaround problem, so the major challenge is correctly addressing the question of, "How many such business segments can we truly handle at any one time?"

Specifically the group three very large tasks:

-- Turning around the Control Data Institutes and updating older CDI programs.

-- Development of Industrial Training Services (ITS).

-- Development of Plato Education Services, the K-14 business.

Data Storage Products certainly is a major factor in Control Data's ability to achieve its objectives. DSP has adapted quickly and effectively to global competition. And, except for the warranty cost problem with the FSD II, it has performed better financially in 1986 and 1987 than we expected.
The FSD II problem, however, is significant -- both in terms of excess costs and reduced revenues. One basic question arises from the fact that we're competing with multiple form factors: 5 1/4 inch, 8, 9 and 14, and now we're about to enter the the 3 1/2 inch disk drive market. Can we continue to make the technical, manufacturing and support investments and expenditures necessary to compete in all of these form factors?

Even more crucially, across the board the biggest challenge for DSP is improving its gross margins and expense ratios.

In the Q&A session later in today's program, each group executive will briefly discuss these challenges. However, the publicity and rumor concerning the FSD II is of such magnitude -- and understanding the OEM market situation of enough importance -- that after John Buckner's comments, Larry Perlman will provide you with a somewhat more detailed view of the OEM disk drive market.

The point I want to make clear right now, however, is that until we have met the challenges I've mentioned in each of the operating groups -- we will continue to be subject to quarterly or, for that matter, annual disappointments.
At the beginning of 1986, we judged that the majority of the businesses -- systems, both commercial and military; disk drives; and services -- were well enough positioned that with pruning and new management they would provide a core business that would lead to steadily improving financial performance through 1989.

Nineteen months later we see no reason to change that assessment. Pruning has allowed us to more carefully concentrate our resources; new management has produced considerably -- some would say dramatically -- improved results. More fundamentally, each business group has made significant changes in its structure and mode of operation.

There are two key points that we make to the financial community and which I want to emphasize to you today. They are:

One, Control Data is in the business of strategically managing a diversified set of technically oriented businesses serving specialized computer and computer-related markets.

Two, we're on track. The plan is straightforward -- to keep improving the financial performance of the Company until ALL of its components are operating at attractive levels. I should likewise add that we intend to be proactive in terms of adding
or deleting businesses that help or hinder reaching the financial goals, and achieving appropriate returns for our stockholders.

PEOPLE & TECHNOLOGY

For you here in this room, I want to add a third point: whether Control Data's stockholders achieve appropriate returns...whether we meet the challenges I have mentioned in each business segment... whether we succeed or fail -- is largely up to you, the executive leaders of this Company.

Larry, Dave, George, Tom and Boyd are not going to magically present you with salvation, nor are John Buckner and the financial staff going to pull happy numbers out a hat. Only you can make that happen. We are all in this together. The second quarter was worse than the first. We are responsible -- you, me, all of us in this room -- not Commercial Credit's LDC loans, not the fates or some capricious economic force.

We can succeed only if you, the executive management of this Company, provide strong positive leadership in both words and actions.
I'm deeply concerned about that. In fact, the results of Employee Attitude Surveys, my own meetings with employees and managers, and the recently-completed Executive Attitude Survey tell me that we have some critical problems in terms of executive leadership and attitudes. Of particular concern is the leadership that is being provided regarding the Company's basic technology and people management principles.

I recognize that the financial and operational restructuring of the Company has caused understandable concern in both areas. But in no way have we abandoned the human resource management principles or the determination to maintain the technical strength that helped make Control Data an innovator and leader in "people" and "technology."

Let me address the "people" issue first.

With the financial problems of 1985 and 1986 and all of the attention that they required, I'm certain that many aspects of day-to-day management did not receive appropriate attention. That unquestionably included human resource management.

While that may be explainable as the result of the do-or-die atmosphere that existed at the time, it's not acceptable. Not then, and not now.
More than a year ago, at the first of these Executive Briefings, I reminded you of the five management principles and asked you to go back to your offices and think about them.

Perhaps we should make a regular habit of reading the principles and doing a self-appraisal of how well we're practicing them.

Again, the five human resource management principles are:

-- Place a high value on reward for performance.

-- Foster management practices that ensure fair and just treatment.

-- Provide benefits and support services which recognize that personal quality of life affects job performance.

-- Provide an increasing level of job security for employees, with the certain knowledge that financial success and growth is the first fundamental of that goal.

-- Create an environment for continued self-growth and achievement for each individual.
This principle is the essence of a positive force for change in a Company seeking to strengthen its operating results. Yet attitudes about personal growth -- a perceived commitment to training as a part of that -- are at an all-time low, not just among the people of the Company, but you, its leaders, as well.

The message I am conveying to the top management of each business group during recent human resource management effectiveness reviews, is that proper management of individual development and training is a priority concern. It's a message that all of you need to understand and communicate clearly to your own management team.

The effectiveness reviews confirmed what we suspected -- the single biggest problem is managers sitting down with individual employees to devise a personal development plan that includes both job experience and formalized training.

A development plan is supposed to be part of the performance appraisal process. And a training plan is a crucial part of that personal development plan.
We are making great demands on the people of Control Data, and many of them suffer from a genuine sense of loss. They may see reduced opportunity. They may have been long-time colleagues who have been terminated or were a part of business which has been divested. The antidote for that is two-fold: (1) For the organization of which they are a part to have a renewed sense of direction and momentum, and (2) To feel that their boss is making an investment in them personally.

This last point is your challenge -- not only with the people who report directly to you, but also to see to it that each of your managers is likewise doing that for the people who report to them. That's no small challenge to your creativity, your time, or your attention to detail. Do it. The rewards are fantastic.

The "technology" issue, on the other hand, is more puzzling. The Executive Attitude Survey revealed a generally unfavorable attitude with regard to the Company's position in technology.

For example, more than half of the executives in three business groups responded negatively to a statement about adequate resources being provided for developing the technology of their organization's future products.
The statement, "The level of technology in my organization's products is state-of-the-art," received an unfavorable response from 51 percent of executives in one business group and 45 percent in another.

Yet the facts are that our expenditures for technical effort rank near the top and Control Data products embody some of the most advanced technology in the computer industry. I need only mention a few, such as the ETA-10, thin film heads, the PMSP and P3I products of Govt. Systems, the technologies available to us through MCC, SCANAMERICA, or the NOS/VE operating system.

That last product may be particularly instructive. In an independent evaluation of MVS (IBM), VMS (DEC) and NOS/VE which ranked these systems on nine different characteristics. In five of the nine NOS/VE had as many or more points as the others. In total points out of a potential score of 100, VMS rated 67, NOS/VE 64, MVS 58. Now clearly there have been problems with NOS/VE and particularly with regard to the rate of which we brought the product to market, but we have an excellent product by any measure. Yet within CSS the perception has been that we have a vastly uncompetitive product.
What are we dealing with here?

In no way do I intend to dismiss the negative responses as perception rather than reality. I fully realize that we need to be objective and recognize that, at any particular time, things need to be fixed -- things that generally require more time and money than is desirable. But it is up to executive leadership to manage the problem of limited resources, to develop business and product strategies that gain maximum leverage from strengths and minimize weaknesses, that provide a sense of direction and momentum.

No one is going to do that for you. It's up to you.

I urge you to consider a point Bob White likes to make: "the amount of technology a company has doesn't have as much impact as the way that technology is managed. Too much technology can be like too much data. Without organization, without direction, no amount of technology can meet a single customer need." And that's what we're here for -- to meet customer needs.
I'll borrow another line from Bob to reinforce this key point:

"Being first with a technology feels good. But it feels better -- and pays better -- to have the right technology at the right time at the right price. And the right technology is the one that meets a customer need."

And that is a matter of executive leadership.

We believe that we have a technical strategy in place to ensure that we have the technology we need when we need it.

I encourage you to develop a better understanding of the advanced technology work going on throughout Control Data and at MCC and to take advantage of it.

CONCLUSION

It's human nature to reminiscence fondly about the Good Old Days and lose sight of the many things we've got going for us today.

It's also very human to accentuate the negative side of things instead of the positive. We see examples of this every day in the newspaper and on the nightly TV newscasts.
It's important to remember that, as a member of the executive team and the leadership of this Company, your perspective is especially significant because it influences those around you.

In a large organization, there will always be a diversity of views. This is healthy so long as we don't allow these differences to hamper our ability to lead.

The "people" and "technology" issues are extremely important and deserve your attention. In the end, the success of Control Data depends on how well we as the leaders of this company deal with the issues and challenges we face. As yourself, "What am I going to do to improve the situation?"

You may recall that at the last executive briefing I talked about winning and how winners constantly think in terms of "I CAN" and "I WILL." Today, we need to remind ourselves of these words and apply them to solving our problems and meeting the challenges I've discussed.

Together, we can and we will succeed.

Thank you.