INTRODUCTION

Good evening, ladies and gentlemen.

I want to begin by showing you the cast on my left arm and observe: "This is what happens when a product fails." I broke my wrist when a ladder collapsed under me as I was pruning a tree. (In case any of you are wondering, I'm right-handed and can still sign your paychecks.)

In looking over the 1987-88 program schedule that Bob Reber has put together for you, I was impressed by the variety of the guest speakers.

There's a race car driver, a management consultant, a survivor of the Iran hostage ordeal, a police chief, a humorist, an expert in managing people for superior service, and even a mystery speaker. I've had a little fun speculating on who the mystery speaker might be next May...

Judging from the questions I received from some of you, I immediately ruled out the San Diego Chicken. The Chicken would be worried you'd have HIM for lunch.
I considered former Minnesota Vikings coach Bud Grant until I realized May is when the walleye fishing season begins and he'd be too busy fishing.

Finally, I thought of Steve Chen, the supercomputer designer who recently left Cray Research. But Steve would of course insist on "parallel sessions" and I didn't think you had an operating system to handle the conflicts.

Well, one thing is certain: I'm NOT the mystery speaker.

If anything, my role today is to eliminate some of the mystery that surrounds our business lives and clarify the many, complex issues that face Control Data and the computer industry.

I know you have a lot of questions. In fact, 72 cards with some 200 questions, were submitted for me to answer. What I obviously can't do is answer 200 questions in the time we have because this isn't an all-night meeting. But I did read each of them and made notes on each of them. And so I've grouped the questions by subject matter. This way I can address those subjects in a general way -- at least those that represent the widest possible interest. I also want you to know how gratifying it was to me to see the interest and the thoughtfulness of your questions. Both the number and the nature of the questions reflect a changing culture of openness, trust and a real desire to understand and participate.
Before answering your questions, however, I want to comment briefly on the enormous challenge ahead of us in the fourth quarter.

Not unlike the fourth quarter of a championship football game, it's make-or-break time. The season is on the line. Whether or not 1987 is a profitable year for Control Data, depends on how we perform in the fourth quarter.

We've come a long way the past three years. We've accomplished many of the goals that we set for ourselves. But the one goal that we're still seeking is profitability.

Through the first half of 1987, we were $1 million profitable. The third quarter is marginal. So, what we do the next three and a half months will determine if we'll be profitable for the year.

A strong fourth quarter will mean the successful culmination of three years of turmoil and hard work by all of us in this room. It will give us the much-needed momentum to begin 1988.

Again, we've come a long way. We're on track and very close to being profitable for the year. Let's keep the intensity that has helped us get this far and make 1987 a special year to remember.

(PAUSE)
Now, as I mentioned earlier, I'll answer your questions by subject matter...

DECENTRALIZATION

Altogether, you submitted 15 cards with questions about decentralization. To give you a little bit of the flavor of the questions, I'll read a few of them:

-- What can the Corporation possibly gain from the new decentralization program? The Corporate ...... controls are on unnecessary spending will all be gone with this new decentralization program.

-- How does decentralization affect corporate staff?

-- And this train of thought was interesting: What is different about the decentralization in 1987-88 from the problems experienced in the late 1960s and early 1970s? Why will it work now? Decentralization is in no way related to other problems or reactions to problems at Control Data. And yet isn't it interesting that the connection occurs. I'll talk about that a little.
What is the Management Committee doing to direct the decentralization process in an orderly and consistent manner? (At the moment, decentralization appears to mean that each SBU goes its own way, establishes its own rules, and the h--- with the rest of the Company.)

There is a general opinion that our costs will increase because of decentralization. Do you believe this? If yes, why decentralize? If no, is there a cost savings? What is the primary purpose for decentralization?

To all of you who asked about decentralization, thanks for giving me an opportunity to talk about a subject that's often misunderstood.

(PAUSE)

Historically, Control Data's operational infrastructure has been controlled by transactions rather than by audited adherence to standards and policy. "If I don't control the transaction I can't control costs." The corporate accounting system, personnel transactions, policy enforcement of every kind were rooted in a philosophy of corporate roll-up and/or corp. approval. You have to think about it for a bit to really see it.
Central purpose of decentralization: transform the governance of Control Data into one where the Corporation sets policy, standards, overall strategy and measures adherence to each. Decentralization equals accountability. No more delegation upward. Audit. Senior staff -- corp/group -- at whatever level -- recognized expertise -- consulting role. Example of good decentralization TQMP.

Corp. staff -- (size -- 4). Process -- monthly TQMP meeting. Quality audits. Statistical institute. Note there are no options as to whether TQMP is implemented. No exceptions to customer satisfaction as a principal direction and theme in 1987.

What decentralization is not: anarchy. Lack of tight corporate control. Cost cutting. An organization change in response to the losses of '85-'86. An org. change designed to make groups into companies. Just an organization change, period. A contest between line and staff or level to level as to who's in charge. The reason for every change -- ex. Int'l. re Systems/DSPG has nothing to do with decentralization. Dictated by economics of scale -- people save both ways. Following the latest fad -- survey of 18 companies: 67% (12/18) staying the same; 39% (7/18) plan on changing soon, and 57% (4/7) decentralizing.

Centralization-decentralization is in the eye of the beholder:
- self-ratings vs. perceptions by others
- frame of reference/starting point
- rhetoric vs. practice
Decentralization if neither good nor bad — it's efficiency depends on large part on the nature of the business. What will remain at the corporate level will be a group of top-notch people who are counted on for their expertise. They will be respected and utilized by the operating groups which will be held accountable to the standards and policies that these people set.

Greatest inhibitor to decentralization is the paucity of management capability within the Company. People have not been raised to be problem solvers — rather problem formulators. They were raised to pass a problem as a transaction with a signature to another person who passed it to some level instead of exercising business judgement and the willingness to be held accountable. The result has been an "upward delegation" syndrome which has stifled the co. This characteristic is reflected in this question which as one of the ones given to me [read 1st question in the stack].

Finally, let me give you an assessment of where we are in the decentralization process. As I've just noted the main thing we need is development of mgmt. skills, but we also need new and better info. systems (I'll comment more on that in a moment). We need as well planning, auditing and communication processes that reinforce initiative and above all accountability. I think we've made a lot of progress in the past 1 1/2 years and I think that another couple years should see us pretty adept at managing the business effectively and responsibly.
DATA PROCESSING

Having just mentioned corporate management info. systems, let me turn to a couple of related questions regarding them.

[Read questions and answers from cards]

Incidentally not changing the MIS because of "decentralization" -- changing to be able to manage the business.

The next group of questions pertains to Marketing and People -- two of the three basic values I have emphasized as being the essential underpinnings of our goals and aspirations.

[Read & answer marked (*) questions]

Marketing - first three cards. (*'s)

- We have made an excellent start with this year's strategic plan

- We have far to go. Much further ahead in quality. Continuous improvement. Never can say "it's done." In two or three yrs. we will look back & see a lot of improvement.

- Without dealing in specifics because of time we have plenty of opportunity for growth in existing markets. We need to segment and dissect them much more intensely.
Stability
- Reference earlier comments
- I do see, however, greater stability if we can plan for changes farther ahead
- Last card -- comment re services

Reorganization (on card)

Training
- One form of "love" -- refer to card
- Giving W. Bruning a plug.

Women & Minorities - Even though this question is specific to referrals versus the posting system, I believe two broader questions must be asked. One, what is Control Data's philosophy and what has been our progress against affirmative action goals for minorities and women; and secondly, where does Bob Price stand on attracting, promoting and retaining minorities and women?

I'll answer the last question first. As many of you have heard me say before, I am personally committed to C.D. being an environment where women and minorities can flourish. To this end, each SBU executive is required to report progress or lack of progress against goals on a regular basis. We have a forum planned for later this month where the senior management, in other words, the
Mgmt. Committee, will take a closer look at the positive impact for having a diverse work force as well as the impact of subtle discrimination.

C.D.'s philosophy is well known, and over the past decade much progress has been made.
## Officials & Managers Category

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<th>Year</th>
<th>Total Female</th>
<th>Total Minority</th>
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<tbody>
<tr>
<td>1976</td>
<td>4.7%</td>
<td>3.5%</td>
</tr>
<tr>
<td>*1987</td>
<td>18.5%</td>
<td>6.8%</td>
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## Total Population

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<th>Year</th>
<th>Total Female</th>
<th>Total Minority</th>
</tr>
</thead>
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<tr>
<td>1976</td>
<td>37.3%</td>
<td>10.0%</td>
</tr>
<tr>
<td>*1987</td>
<td>39.2%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

*Executives

<table>
<thead>
<tr>
<th>Total</th>
<th>Minority &amp; Non-minority Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>372</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

*as of 8/28/87
We are, at a senior level, revising and fine tuning our minority/female retention strategy. In addition to the Exec. Forum I mentioned, we have also gone to some of those individuals who voluntarily resigned to learn first hand why, in order to prevent current valued minorities and women from leaving. We also spoke with individuals still with the corporation to discuss the barriers which may exist. The Referral System was cited as one of the barriers. All areas are being explored to determine what can be done to maintain and increase the minority and female representation, particularly in the mgmt. and exec. categories. With fewer opportunities due to downsizing, it is even more important that we learn, and learn quickly, how to stop the erosion of the significant affirmative action progress made during better times.

However, we are not where we want to be, not where I want us to be. This can be attributed to more than the referral vs. posting systems. Although the integrity of the posting system is a concern and has been questioned by more employees over the last two years, there are other key indicators which reflect the lack of results. For example, diversitures (Capital Operation, San Antonio), workforce reductions and voluntary terminations. This last factor -- voluntary terminations -- causes me the greatest concern. Maybe some of the minorities and women who left
voluntarily within the last year should have; best for them, best for Control Data. But many of them were top notch people who if we'd had a choice, we would have retained. Some left for greater opportunity, others for comparable positions.

**New People/New Attitudes**

[2 cards - refer to them]**FINANCIAL, BUSINESS FOCUS, ETC.**

Twenty-five of you asked some 50 questions pertaining to strategy, financial and cash management issues.

[read selected questions from the stack - marked with *]

What we have set out to do is build a set of business which are competitively advantaged thru **value added**. That in contrast with businesses who by their nature, seek competitive advantage by being low-cost producer. With the exception of Data Stg. Prods. none of our businesses have as their dominant strategic critical success factor that of being the "low cost producer." Value added can be in the form of hardware characteristics -- for example with the ETA-10, with a workstation such as the CYBER 910, software such as that embodied in EMS systems, data bases such as those of Arbitron Ratings, or industry/application expertise -- such as in tactical reconnaissance systems for the military. Generally speaking the thing we sell will embody a combination of **all** these things.
Sometimes we will deliver an end-result, such as a paycheck (and no, we absolutely do not intend to sell CDBC) -- and sometimes a "platform" which the customer uses to fashion the end result -- much of the product offerings in computer systems and in education and training fall into this "platform" category.

I can't take the time now, obviously, to go thru the company product-by-product, but if I could I assure you that in each and every business there are products with truly exciting possibilities and I urge you to try to learn from the senior executives in each of the businesses about these things.

You know part of the problem is that we have concentrated so hard for so long on the problems that have beset us that we have hidden from ourselves the great sources of growth, excitement and leadership that exists in each business. How many of you know that we have had the fastest growing 5 1/4" disk drive business in the industry for the past two years, that our CYBER systems "platforms" have capabilities that people like DEC are promising for a year from now, that we have the leading expertise in parallel processing in certain defense applications, that we have the leading load factor/fare analysis system in the airline industry and on and on. If you don't neither does much of the world. So one of our major challenges is to quit hiding our light under a bushel and let people know how really good we are.
We have, absolutely, also had a lot of problems -- structural, process, excess costs and so on that have obscured the financial results these strengths could give us. So we have had to do a lot of tough things for the past two years -- we have many more yet to do. But we are not engaged in a "hunker-down" exercise waiting for an economic storm to pass.

Yes, we have to improve cash flow and cash management, but the way to get that is not pay cuts and arbitrary reductions. We need to change structures, reduce the number of people it takes to build a product through better processes, cut out layers of management, reduce inventories through improved processes like JIT, cut out a lot of administration and so on. That means change. It means fewer people. It means doing things better -- not trying to do the same old things with fewer people. It means some with unneeded or outmoded skills will be impossible to place. It means pain. You know we are all brainwashed by the experience of the past 25 years. Growth is equated to growth in numbers of people and reducing the number of people is conversely equated with declining business. Improved cash flow also means improved inventory mgmt. -- one of our biggest shortcomings in 1987. Better mgmt. of PPE -- and assets in general.
Security -- property losses, lost time due to drug problems, etc. estimated cost per year is ___ and that's both cash and bottom line earnings impact.

We have accomplished a lot during '86 and '87. We did indeed as one person said, set an objective of having each SBU operating profitably by the end of 1987 (not every business or product line). The SBUs as defined at the end of 1985 were not the same as now. There were 10: Data Storage Products, Government Sys., Financial Industry Svcs., Commercial Svcs., Education, Tech Support Svcs., Computer Sys., Scientific & Engr. Svcs., Healthcare Svcs., and Economic Development Svcs. We combined Commercial & Fin. into Bus. Svcs, combined SES into the Computer Systems SBCU, and decided not to pursue Healthcare & Economic Development Svcs. So now we have 7: Data Storage, Gov't Systems, Bus. Svcs., Education, Computer Systems (including SIS), TSS, and Ticketron which was taken out of the old Commercial Svcs. SBU. Those seven are arranged in 5 operating groups as you know.

We have done very well toward our goal; not as well as I hoped in Jan. '86, but well. There have been set backs in DSP and altho on a purely operating basis over the last two years it has been more profitable than we thought it would be back in Jan.'86 the continued restructuring costs of '86 and the FSD problem have eaten
up those results. We also flat out misjudged the depth of the problems in CDI and some of the other education services. So we are behind in achieving the hoped for profitability in education and trng.

Let me talk about education and training. It is easy enough to pick it out as a loser and start flailing away. But that won't wash. In the first place CDI was the most profitable business unit in Control Data five years ago. Now it is losing money. It is not unnatural for mgmt. to believe that a money maker gone bad can be fixed -- particularly if the market at least gives the appearance of being O.K. As I said, two years ago we seriously misjudged the task, but that's a different matter.

More basic: A year ago we did a careful evaluation of the market for education and training products and svcs. The final step in that evaluation was a full day review by the Operations Committee and planning staff. There was, there is, no question of a major market opportunity for Control Data. Even the finan. left the meeting feeling positive. We are in the midst of pursuing that opportunity. It costs some money to do that -- not the kind of money we spend on a new disk drive, or other kinds of products -- but some.
Meanwhile the operating problems of CDI, EPS and some other things have buried those folks in an avalanche of missed financial objectives. But they're digging out, and they deserve to have the opportunity to go for the market opportunity we outlined a year ago.

Back to things in general, we have made good progress and the overriding goal of a 15% ROE by 1990 is very much within our reach. So, by God we just need to get on with making it happen.

The next question I want to treat separately [read attd. question]

I picked this question because it so clearly illustrates a disease to which a more or less degree we are all susceptible. It's all too easy for bitterness and cynicism to result from frustration. I know that as well as any of you and because we're smart people, and because we're smart people that bitterness and frustration feeds on itself as we think more about it. The problem is that frustration and the cynical knee-jerk reaction to it just leads a person down a false trail. The first fatal step is that one doesn't make the effort or take the time to become informed. It's easier just to lash out. You can hear that pretty clearly in this question, for example. And that makes it almost impossible to understand because no one wants to take the time to deal with it. At that point the game is already lost.
Control Data has made more "realistic," tough and far reaching financial decisions in the past two years than any company I know of. As I said a moment ago we are on a solid track for the future and we all need to have the courage and the determination to make it happen. There's no room for those who won't.

The next question also deserves to be treated separately because it reflects a far reaching and important concern -- not just for our company, but for our nation. [read question]

- That analysis is absolutely on the mark.
- Let me give you an analogy (agriculture)
- CDC plan -- worldwide mfg.
- Another thought: automation alone is not sufficient. Change in the system and process.
- Talk to Bill Miller sometime about DSP worldwide mfg. plan and what that means we must do at Ok.City.
- Also means seeking alternatives as in info. svcs. If not every co. can be the "low cost producer" then must seek alternative, additional businesses. Thus the value added basic strategy of CDC.
Misc "People"

[-- 3 cards answer individually]

Takeovers - 6 cards

- No basis for rumors
- Reasons for volatility: narrowly held (altho' some signs are positive), understanding of C.D. as having strong businesses
- We have been leaders/innovators in legal/structural defenses, and have array of such: poison pill (stockholder rights), etc.
- No absolute defense
- Hostile takeovers never beneficial

Most of the rationale put out in defense of hostile takeovers is just that -- rationalization of greed -- pure and simple. The takeover craze has soaked up long term investment funds -- shortened the already short-sighted view of U.S. mgmt. -- helped to destroy our int'l competitiveness. If "entrenched mgmt." is incapable/greedy/self-serving it is about on a normal "Bell curve" with the general American public. Same not true of takeover cats -- they are definitely skewed toward both managerial incompetence and greed.
Finally in this matter of business basics let me take these next two questions

[read questions, follow notes on card]CONCLUSION

I wish time would have permitted me to answer all of your questions individually. I trust however that we've covered enough territory that at least you have some food for thought. Now I want you to have a chance at some food for the Bod.

In any event, I'm sure you sense my sincere belief that we're on track and moving forward in making Control Data profitable and a viable force in the computer industry.

We've still got a lot of work to do, especially in the critical fourth quarter ahead. But when I think how far we've come, I'm confident that we can do what has to be done in the future.

Thank you.