Introduction

Last December someone gave me this bumper sticker ["It's been Monday all year"]. I've kept that bumper sticker on my desk this year to remind me that 1985 was an experience worth working to avoid, ever again. Tough times are one thing, but a continuing free-fall in seeming never-ending uncertainty and gloom is something else again.

Thankfully 1986 has been a far different story. It is true that every day seemed like thirty in those agonizing months of the bank agreement negotiations. It is true that some of the plans with which we started the year have not become reality. It is likewise true that we have been reminded one more time that affordable and winning product strategies are tough to fashion for a niche player in the rapidly changing computer systems business, and that strategic flexibility is paramount.

1986 has given us emotional challenge enough for anyone, for as we talk today there are 4,651 fewer people in Control Data than when we started this year. Many of those are executive colleagues with whom we in this room shared years of achievement. The others are people with whom we have shared
the excitement of Control Data experience in a more impersonal way. But, either way, that reduction in people produces an implicit sense of no progress, no growth and therefore of personal loss. If you have felt that at some point in these past ten months, I can assure you so has each of your colleagues in this room, including me.

In that regard, though, we should remind ourselves that the sense of "no progress" is wrong for restructuring in Control Data is caused more by the structural changes in today's world markets and technology change -- than it is "bad business conditions" -- media talk of the "computer slump" notwithstanding. All industries and companies are affected. Frank Dawe was telling me just a couple days ago about a meeting which involved these companies:
General Foods Corporation
GTE Corporation
Amax, Inc.
Chevron Corporation
Texaco, Inc.
FMC Corporation
TRW, Inc.
GenCorp
United Technologies Corporation
The Procter & Gamble Company
General Dynamics Company
Allied-Signal Inc.
E. I. du Pont de Nemours & Company
Eastman Kodak Company
The Goodyear Tire & Rubber Company
Shell Oil Company
American Telephone & Telegraph Company
Now that's a blue ribbon list of U.S. companies. At the meeting it was discovered that 3/4 of them are restructuring.

That is just a fact of life in today's new and globalizing markets.

It is also good to remind ourselves that Control Data is guided by a constancy of purpose with regard to people and their jobs that does not merely flourish in the sunshine of prosperity, but can survive the damp chill of adversity as well.

It is good to renew our commitment to the principles of Fair Exchange, including the principle of job security and all that entails: to both provide an increasing level of job security to as many as possible and to fashion policies, practices and plans which minimize the impact of economic adversity and technological change on each individual in Control Data.

1986, then, in spite of all its trials, has been a year of great achievement. No more spinning out of control; rather we are in position to fashion a vision of our future.

Certainly, to get to today's position -- from which we shall move on to future growth, excitement and achievement -- we have had to make, some sacrifices and endure "the slings and arrows" of the world, as well as the puzzled concern of our community and neighbors.
Even now -- within the last two weeks, the morning Mpls. papers greeted us with headlines about people reductions, and some no doubt thought, "What, again?" or "What now?" or some such.

But, of course, it is not "again", or a new event, or another change. Nothing is fundamentally different today than last month or last January. We are no less determined than in January to lay the foundation for a new day for Control Data.

Now the year is fast approaching its end, and we have work yet to do, but we can take great pride in what we have already done and satisfaction in knowing that the tasks we laid out for ourselves in 1986 are nearly done.

So what I want to talk to you about today, as we prepare to move on, is the nature of Control Data and it's businesses and what they can become.

Who We Are
Underpinning all we have done this year is a belief in who we are and what we can do. Last winter -- with no bank agreement in place; no financing in sight; not even a glimmer of a possibility that CCC might be positioned for a public offering; when Data Storage Products which had more than wiped out its total historic earnings in one year's loss had not yet shown
that it could return to profitability in the course of this year: when we did not yet know Business Services would yield a whopping 71% ROIC for the year. Last winter when all those things were unknown and yet to be achieved, the Management Committee took a hard look at Control Data and what it could and should be.

This mission statement was developed to encapsulate our thoughts:

"The Mission of the Corporation is to provide its customers with products and services based on computer technologies."

"Four commitments support this mission:

To its customers, for innovation and technological leadership yielding high quality, cost effective products and services;

To its stockholders, by providing consistent and increasing profits;

To its employees, for an environment of fairness, concern for personal quality of work life, and opportunity to pursue their full potential;
To society, where its technologies can be profitably and productively applied to addressing unmet needs."

As important as it is to have a simple straightforward mission statement, it is only a starting point, and in and of itself is certainly not adequate guidance for day to day management. So we went further and set down the principles of management, operation and organization which would guide us in pursuit of that mission.

Let's look at those principles:

- Financing objectives and constraints are the starting point for evolving a business strategy.

  Take a hard look at that word "constraints." Financial constraints force us to make choices. Most important, constraints give us the discipline to choose the best alternative available to us within the necessity to achieve a pre-determined bottom line objective.

- Meeting established, agreed-on objectives will be the key factor in evaluating organizational and individual performance.
You are all deeply engaged in budgets and plans. Those budgets are your statement and commitment to financial excellence. Learn to love your budget -- it will set you free.

- Responsibility, authority and consequent accountability for individual businesses will be invested in each strategic business unit.

This operating principle is the one that has led to a number of organization and operating decisions involving decentralization. Decentralization means that the person with the responsibility has both the authority and the accountability. And in this new Control Data, that responsibility will be driven as far down the line as possible in every organization.

- A commitment to continuous improvement is paramount to corporate success.

This of course is a fundamental premise of TQMP. That concept is enlarged upon in the next principle.

- Quality results from process and people -- process and people dedicated to ever-improving quality are a result of management dedicated to that purpose.
We've made progress in this year in TQMP that is encouraging. Data Storage has provided us with extraordinary examples of what attention to process can do to effect quality. In one year, the plug and play rate on the Wren II went from 88.8% to 97.2%. Still, there is skepticism. In a recent focus group meeting of technologists these were a few of the quotes: "TQMP has no meaning in what we do (GS)." "We're all committed to quality, but it would take 100K years to take enough data points." "We have individual responsibility, but not authority." "We know that TQMP will not be here next year."

In each market we serve, we will distinguish ourselves by providing high quality, high value-added products and services, and high levels of customer support.

If we can't meet this commitment to the markets we're in, we should get out.

Control Data's people management principles express the foundation of all dealings with employees at all levels.
Now especially is the moment to reiterate our commitment to Fair Exchange and all that entails. Now especially is the moment to reaffirm that Control Data will be a leader in assuring a work environment in which women and minorities thrive and realize their full potential.

These principles of management and operation have been a steadfast through all this restructuring. They gave us both guidance and determination. The result has been great progress in this year of 1986, and some reflection on that progress is in order.

The financial restructuring task itself has been awesome. The bank override agreement alone took thousands of hours of intense thought, preparation, negotiation and determined patience. The financial restructuring involved much more than just the override agreement, however -- that just took us to "ground zero," so to speak. Multiple alternatives for gaining access to new funds had to be considered and all of them involved great risk and some undesirable aspect or other. Meantime day-to-day cash management has gone from the unknown to the known in our management repertoire. And asset sales -- both business units and physical property -- provided more than 250M dollars to finance operation of the company.
None of that has been easy, but I can tell you that with a very clear idea of the underlying value of Control Data and of what it can be, the determination to effect financial restructuring never wavered. Last year on October 30th Control Data didn't have the cash to pay its bills. Today, as John noted in his remarks, we are in, what is in effect, a no debt position. Put another way, we have the money to finance our future.

Well, we said we'd do it! Most people didn't believe us. Now they do. I'm proud of that. You can be proud of that. We did it and we did it on our own.

The question now is do we have a business worthy of the financing we've made available to it. There's been some progress in that regard as well over the past year. Data Storage Products is back from the brink, but more important we have a clearer vision of what that business can be. Great progress has likewise occurred over these past 12 months in the services businesses, even though it is far from uniform -- with Business Services being best, Science & Engineering Services worst and Education Services somewhere in between.

More important, we have developed in every SBU over this year a better strategic feel for the business than we've had in many years, and in no SBU is that more true than in Computer Systems.
Thru the 2007 Committee which has strategic oversight for the corporation and which I chair, we have looked at both the specific and the broad implications of this improved strategic understanding. I'll come to that, but first, I want to give you a somewhat deeper look at the nature of Control Data and its businesses than that provided by the abbreviated nature of the mission statement. That will help you understand the strengths we have, the challenges we face, and what it is we can become.

Saying that we are a computer company using computer technology to help people and organizations do their jobs better, is indeed a very broad statement. Computer technology ranges from integrated circuits and printed circuit boards to data storage devices and special processors to full computer systems to a wide range of computer land services.

We engage in three major sectors of the computer industry: Services, Computer Systems and Data Storage Products.

Computer Services is, in too many Control Data minds, equated to remote data processing services. The services sector in actuality, of course, is much more broadly defined than that. That definition comprises five types of value-added computer based services:
Information Services -- such as those in Arbitron

Software -- Systems & Application Software -- e.g.,
application software has become a major thrust of
BIS -- the old time sharing division of SBC

- Turnkey Systems. Included in this category would
  be our credit union turnkey -- Focus, the ICEM
  system of CIM, the Management Program 2000 system
  of Quorum, and yes, the EMSD systems.

- Integration, maintenance, training, support and
consulting services.

- Processing Services to be sure are still around and
growing -- e.g., the business centers payroll
services and the supercomputer services of SIS.

This true definition of services apparently causes
confusion because the services involved include computer
hardware -- as in turnkey systems. It should not cause
confusion. Turnkey systems are really specific
application systems versus a general purpose systems.

Their value-added component is simply the dominant factor
in their economics. And, these application systems don't
necessarily have to use CDC hardware.
Our second sector of involvement is general purpose computer systems -- specifically from medium scale systems to supercomputers -- the Cyber 180, 205 and ETA 10. Included in this sector would also be special purpose military computers and systems such as the AYK-14.

And the third sector is Data Storage Products. High capacity, high performance magnetic and optical storage devices.

In each of these areas we have different strengths and weaknesses, which must be considered in our future direction. Each area also has different strategic dynamics. For example:

Services:

- The markets are highly differentiated by value-added.
- There is the need to understand end-user needs, requirements in much more depth than other areas.
- Service markets are characterized by lower invested capital requirements, but have a need for greater marketing expenditure.
- Most service markets and long buildup times for revenue and thus are more heavily front-end loaded.
- New technologies coming into play -- optical storage, AI. Make new services possible. Render some obsolete.
Systems:

. Necessity to have a narrow market and product focus.
. Intensive competition from smaller specialized companies to large companies.
. Rapidly moving technology. An accelerating trend toward application specific systems and workstations and away from general purpose systems.
. Large R&D investments and invested capital.

Data Storage Products:

. Large growing market in terms of the need for megabytes of storage.
. There are both large, vertically integrated competitors and niche players to contend with.
. Very rapidly moving technology, short product cycles — 2 years.
. High volume, low-cost manufacturing, and quality of critical importance.

While there are distinctive differences in these three businesses, all of them are at the heart of the computer industry. And that's our intent—to be center stage, not on the fringe. In somewhat more casual words think of the mission statement as saying: "we're computer people -- we use them to help people solve important problems, we buy some, we build
some, especially big computers and data storage devices — we're even so good at the latter that other computer people buy products from us rather than build them themselves. But, whatever, we're computer people. And we love it.

[PAUSE]

Where We Are Going

To what, then, can Control Data's three business, Services, Computers & DSP, aspire? Let me tell you. Turning first to Services,

a. In total $48B market, 20% growth rate.

b. Numerous market and service areas range from companies like D&B (info services) to Integraph (turnkey systems for CAD/CAM) to EDS (integration, facility management services).

c. Need to capitalize on technology shifts. Change produces opportunity.

d. Need to be selective, build on our strengths -- Arbitron leadership, EMSD leadership.

e. Acquisition will play a role.
Technology just as surely drives the services business as it does systems or data storage products. Everyone can cite the example of how technology changed the nature of processing services. Remote processing has become desk top processing, that opened up vistas for computer services that we have been slow to see and yet the possibilities are still there for us to realize. And now a new technology -- optical recording -- will dwarf the change micro-computers made possible in information services.

Stop to think that not only in magnetic recording, but in optical recording technology we have available to our services business the best information storage technology available today.

We intend to capitalize on the opportunity that offers. Optical Technology alone is now emerging as a driving force of information services for law firms, for engineers, for people in agri-business, and for training and education services. In each of the engineering, business and education service market areas we serve we are or can be the leading company by 1990. And computer technology makes it possible.

In services markets lie Control Data's most profitable opportunities, and we will place increasing emphasis on expanding services businesses.
Let's turn to computer systems. There is more change taking place in the market than in over a decade. Control Data faces competition not just from its historic competitors, but even more crucially from specialty competitors such as the near supercomputer manufacturers. The market is fractionating; due to technology change there is more opportunity for specialty competitors. We must react to that change. I know we can do so -- we reacted to a much greater marketplace change in the early 70'S and by 1975 had embarked on a new and successful strategy.

Now there are only two truly significant challenges when it comes to designing and building computers. That's to build the biggest, most powerful and to build the littlest most powerful possible for any given state of the art. We've shown we can do the first while most others have failed, and ETA is proving that we can continue to be successful at the top of the line.

Technology is clearly the driving force of computer systems. Technological evolution kills old computer lines and old architecture and makes new ones possible, a never ending cycle of obsolescence and renewal. The 20K CMOS technology used in the ETA 10 is the most advanced in commercial use today. And that's not all. Leading edge technology is a fact of daily life in Government Systems such as in the new P3I airborne computer.
We specialize in scientific and engineering application of the computers we build for ourselves. The future of computing in those applications is supercomputers and workstations. We are going to get serious about the second part of that statement. We have the technology to build a 30 MIP workstation that could sell for $30K. By 1990 such workstations will be commonplace. Think about that. Should we miss the opportunity to participate? Cooperation may be a good approach to this opportunity. But whether we do it for ourselves or with a partner, we must and we will change our thinking from "mainframe out" to "workstation in" in order to succeed.

Now the third leg of Control Data's business -- Data Stg. Products.

a. Significant strengths -- leading OEM market share.

b. In the course of 1986 we have evolved a clear cut strategy: high performance, high capacity magnetic and optical storage devices for the OEM market.

c. Technology and product introduction critical. Projections are for:

- 1 gigabyte 5 1/4" storage product in a few years
- Continue progress with thin film heads, more emphasis on media.
d. Continue emphasis on quality. I mentioned the progress we have made in this regard, but it is only the barest beginning.

e. Perhaps manufacturing capability most important. By end of decade, we will be facing $1 to $2 per megabyte pricing. Need to be high-volume, low-cost producer. This will involve:

   . Highly automated processes and capital investment as well as off-shore manufacturing.

In sum, we want to be strong participant in all three areas. There is, to be sure, the question of resources -- the money and management expertise to do it all. It's a good question. One that we must keep at the forefront. To provide prospective, keep several points in mind:

a. We will be in much better financial position at end of this year than we have been in in the last several. Over $300M in cash after CCC. But, we can't take all that cash and use it to support higher expense levels. We need to show improving profits.

b. We are going to have to be very selective with both internal investments and acquisitions -- only the best market/product opportunities.
c. We can't do it all alone. Need to be creative in establishing strategic relationships, partnerships to strengthen our position and gain market, product/technology, people, financial leverage. These relationships could be "relatively" straightforward like a venture to design or manufacture a product. They might be much more significant like working with a partner to establish a separate company and taking part of that company public. What we do in any area must obviously be based on the requirements of a particular business for long-range success. We don't want to and can't be 5th and 6th tier players in any market/product area.

What Ties Us Together

The differing characteristics of the data storage products, systems and services businesses is a source of great strength. Like any virtue, however, this strength becomes a weakness if carried to excess. In the past Control Data has had a tendency to undertake more things than it could manage, and badly underestimated the resources required to do them. In short, Control Data had gone beyond diversity to profligacy -- and has paid the price. Data Storage, to use just one example, has reduced its scope from four lines of business with 15 product
lines to one business -- OEM -- and 7 product lines. In total John mentioned we have exited some 20/businesses or product lines and over half those businesses were in services. That's a simple measure of having tried to start too many things at once.

That is in the past, however, and now our challenge is to retain the financial and strategic strengths afforded by diversity without suffocating the business by stuffing it all into one mold. The unique demands of each of Control Data's businesses is the principal reason I have chosen to structure the company on a more decentralized basis.

Though just beginning, the effects of decentralization will now start to move rapidly through the company.

So financially, technologically and structurally 1986 has seen us become positioned for the future: a company whose driving force is computer technology. That is the basis of our existence. Never forget it. Never. Never. Never.

Now we can move forward with a shared vision of a dynamic and exciting 21st Century company. We have a better grasp of the management values by which we can win than most any company. Those values -- that technology without marketing is like a pathfinder without eyes; that quality is the result of people
feeling individually responsible and accountable; and that a sustainable successful company is only possible if people truly matter -- each individual knowing his/her initiative, thoughts and actions.

In these executive briefings I have talked about those values -- Quality, Marketing and People -- and you may be sure I'll do so again. They are identical across all of our business. They are the essential values of good management. They are the tie that binds us together. They are my vision of what I want Control Data to be.

Conclusion
The result will be financial excellence. Excellent financial performance is something we have never known in Control Data. In the last twenty years the highest return on sales we have achieved was 4.9, the highest return on invested capital 9.3.

We can change that and we can do it now. If we have the will to do so -- to achieve superior financial goals -- we will also build a company in which individual opportunity abounds. The feeling of "no progress" I mentioned at the outset will disappear as rapidly as the fog dissipates in the morning sun. Now financial results alone are not enough. But we have developed a set of principles embodied in TQMP and Fair
Exchange which focus on the important of individual growth and self-worth. They work, and we are miles ahead of many other companies in their implementation. Let's now blend them with financial performance and we'll have an elixir beyond our dreams.

Performance, financial excellence, it does not begin five years down the road, or next year -- it starts now. Next year will be no different than this year unless the fourth quarter of this year meets its plan. And the fourth quarter won't do that if this week you don't take the action to make it happen.

As a matter of fact we are projecting an operating profit in the fourth quarter, but our shareholders will probably not see it. Why? Because the restructuring tasks which we set out to do in 1986, which could have been done last quarter or the one before or the one before that, are not yet done. So now we must finish the job and take the charges involved. And if we don't finish now -- this week, this month, this quarter, this year -- then it will still have to be done next year. Next year starts now.

Control Data has positioned itself as a diversified computer company. We are structuring ourselves both financially and organizationally through decentralization to support that corporate concept. We will have leading edge products and services both technologically and in their market position.
We will be number one in OEM -- we will be the low cost manufacturer.

We will be leaders in giving scientists and engineers the best tools for their trade -- whether it be supercomputers or workstations.

We will ultimately be recognized as the leading computer services company.