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INTRODUCTION

Control Data has been through a lot these past 18 months, as many of you are fully aware. Rather than dwelling on that, however, I would like to share with you my thoughts with regard to the nature of Control Data's business today and where we intend to take it.

WHO WE ARE

At the start of the restructuring process we took a hard look at what Control Data was and what it could and should be. To begin with, we adopted a mission statement expressed in as straightforward terms as possible:

"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;

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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."

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. Lots of companies could claim such a 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 based services.

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.

Control Data is engaged in three sectors of the industry: Services, Computer Systems and Data Storage Products.

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Computer Services is, in too many peoples' minds, equated to remote data processing services. The services sector of our industry in actuality, of course, is much more broadly defined than that. That definition comprises many types of value-added computer based or computer related services: information services, software, turnkey systems, processing services, and maintenance, training, support, integration and consulting services.

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 sectors we have different strengths and each sector also has different strategic dynamics which must be considered in determining future direction. For example:

Services:

- o The markets are highly differentiated by value-added.
- o There is the need to understand end-user needs, requirements in much more depth than other areas.
- o Service markets are characterized by lower invested capital requirements, but require relatively greater marketing expenditures.

Systems:

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

Data Storage Products:

- o There are both large, vertically integrated competitors and niche players to contend with.
- o Very rapidly moving technology, short product cycles -- 2 years.
- o 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."

WHERE WE ARE GOING

To what, then, can Control Data's three businesses, Services, Computer Systems and DSP, aspire? Let me tell you. Turning first to Services.

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. An now a new technology -- optical recording -- will dwarf the change micro-computers made possible in information services.

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 business, and for training and education services. In each of the engineering, business and education 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. 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.

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. The 20K CMOS technology used in the ETA 10 is the most advanced in commercial use today. It has allowed us to shrink the number of semi-conductor chips from several thousand with the Cyber 205 to only 240 chips. But this technology goes far beyond making possible the ETA 10. It likewise makes possible very high performance application systems and specialized processors. This has great potential for a specialty player as Control Data.

We specialize in scientific and engineering application of the computers. The future of computing in those applications is supercomputers, application specific systems and workstations. We have technology now, and not just the CMOS technology I mentioned, that can make us a superior participant in this arena. "Computer slump" is overplayed, or at least misinterpreted. What is occurring is a transition period engendered by basic technology advances that open up new possibilities.

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

We will build on the strength of having the leading OEM market share and drive harder in the high performance, high capacity magnetic and optical storage devices for that market. Basic technology is key in this part of Control Data's businesses. Disk storage products are driven by head media technology. From '82 to '85 Control Data invested heavily in thin film head technology. Today we are the only world class manufacturer of thin film heads other than IBM. Our new components division conducted its first executive seminar last week [attendees statistics].

As far as future Data Storage systems are concerned, we fully expect a 1 gigabyte 5 1/4" product within a few years. Low cost quality manufacturing capability is the other factor of overriding importance in the disk storage business. The experiences of the past two years have solidified our confidence in being able to be a leader in that all important aspect of this business.

OUR CHALLENGE

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 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.

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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. Because of the unique demands of each of Control Data's businesses, I have chosen to structure the company on a more decentralized basis. What this means is responsibility, authority and consequent accountability will be invested in each strategic business unit.

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. 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 computing tools for their trade.

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

Control Data is a company whose driving force is computer technology. That is the basis of our existence.