Thank you, Jim.

These are exciting times around Control Data and we're glad you're here so we can share them with you.

Among other things Control Data celebrates its 30th anniversary this year. However, in one sense, the Company is barely a year old.

You might say that Control Data was "born again" in 1986. In a nutshell, we refinanced the Company, restructured operations, added new blood to the top management team, narrowed our business focus to those areas where we can have a sustainable competitive edge, and achieved significant improvement in product quality.

A year ago at this time you could hardly read a newspaper story about Control Data without the words "financially troubled" being used to describe the Company. That was an unpleasant state of affairs for all of us -- stockholders, employees, and customers.
Now you can pick up a newspaper and read a different sort of quote. The other day I saw one from a security analyst that said: "It was broke and they fixed it." I don't mind telling you that the explicit simplicity of that statement makes us feel good around here.

For the longer term, however, something more than a restructured balance sheet and organization is required for any company looking for success in today's marketplace. That's why quality and an intense focus on customer needs is deeply imbedded in the thoughts of each one of us here at Control Data.

We recognize that global competition is a fact of life and that the winners in today's marketplace will be the companies that work in partnership with customers to meet the rapidly-changing requirements out there is that marketplace.

The rate of technological evolution in the computer industry today is more rapid than ever. That has both its good points and its difficulties. Whatever that includes, it for sure includes a greater focus of the business.
We have had to face the cold fact that in today's hyper-competitive environment if you want to be good, you've got to put your resources to work on a lot fewer things. There are simply more players around the world with more resources than ever. So a major goal of restructuring Control Data was to reduce its overdiversification.

In line with this thinking, we've eliminated 13 businesses and product lines from the Company since late 1985. More importantly, profitability steadily improved -- the loss purely from operations, not counting restructuring or one time charges was $67M in 3rd qtr. '85. That loss was reduced in each successive quarter. About 35 minutes ago we released this year's 1st qtr. earnings. A profit of $7.2M; $.17/share. You, I'm sure, can imagine our feelings after nine straight quarters of negative numbers. We're proud of the result and I'm happy to share this moment with you who after all make it all possible.

Another goal in Control Data's strategy is to create an operating environment that emphasizes quality, people and marketing as the key values by which we as an organization will live. They are the keys to the continued growth and profitability we expect to achieve.
We've made great progress in quality improvement in the last year or so but I'm confident that the best is yet to come.

I base that optimism on the observation that quality, finally -- after years of effort -- has started to become institutionalized in our company. In Control Data, like almost every company, over the years we've had a myriad of quality "programs." "Programs" as you know, tend to come and go like birds on the wing. About three years ago we found an approach to making quality an integral part of daily management. We call it: Total Quality Management Process, or TQMP.

TQMP operates under the premise that quality can be managed; that quality is the result of a process--a sequence of actions--and that any process can be continuously improved.

Another basic promise on which TQMP rests is that each employee has a customer either inside or outside the Company. No matter what his or her job is each delivers a work product to someone -- his or her customer -- and is accountable for it. That work product in turn is the result of a process. Employees have firsthand knowledge of their particular processes. They constantly have the opportunity to improve them by applying their knowledge and by working in concert with others.
That's the conceptual framework for TQMP. Within that context we use tools such as statistical process control, PFA, and quality circles. It's the conceptual framework of TQMP that counts most, though, because it stems from a commitment at the top that we are dedicated to improving every process in the business.

I assure you that TQMP isn't just a catchy phrase. It really works. Once people get into it they discover all kinds of things to improve processes -- most of them neither expensive nor difficult to implement.

In early 1985, for example, the yield at one disk drive manufacturing facility was roughly 33 percent. By applying TQMP concepts, yield is now running at 95 percent.

One reason for the big improvement is that employees at the plant determined that 99 percent of all defects in their particular process could be visually detected. Each employee now accepts responsibility for examining the product before turning it over to the next person on the assembly line. Simple...Effective!...And harder than you might think to bring into being.
Accountability along with a restructured balance sheet and an intense focus on quality, we have also grouped the downsized company into 5 major strategic business units. In each of these SBU's have placed maximum responsibility and accountability. The new management team, operating within this structure is likewise pushing responsibility downwards in the organization and emphasizing individual accountability. You can see that such an organizational approach is a nature adjunct to TQMP.

The financial and organizational restructuring has not been without pain, but it has clearly galvanized employees to change the Company for the better. They are not satisfied with a comeback that simply puts Control Data where it was before the difficulties of 1985 and 1986.

That's where marketing enters the picture.

Control Data has never lacked leading edge products -- nor do we today. We make the world's fastest computers. We make the best disk drives in the business. And we are still the largest producer of OEM disk drives in the world. Today's world -- our market -- however, demands even more responsiveness.
By way of historical perspective it's interesting to note that we got into the data storage business in 1960 because we couldn't get the performance we needed from the peripherals available in the marketplace at the time. The market required higher performance and we got into the disk business to basically fill this "market requirement."

The same type of thing led us in 1974 to form Magnetic Peripherals, Inc. (MPI) with Sperry and Honeywell Bull. The market, represented by the non-IBM bunch if you will, required more cost effective peripherals and thus the MPI partnership was an ideal solution to fill the market requirement of that group of companies.

The problem with a product-driven organization particularly a technology company, is that often it becomes isolated and loses touch with the customers it is trying to serve. So, for example, on the one hand the economics in R&D and mfg. achieved through MPI made it possible for Control Data to become a dominant force in the peripherals market. On the other hand one of the disadvantages of MPI was that we concentrated too much on just the product requirements of the MPI partners and not enough on the outside OEM segments which soon were the lion's share of the business.
In any event, enhancing "marketing" dimension of Control Data has likewise been a major focus of executive attention, and the biggest difference between the new Control Data and the old Control Data is an obsession with customer needs.

One of the advantages of the SBU organization structure I mentioned is that each business unit can respond faster to customer needs and market changes. Seminars like this are one good way for us to listen to your requirements and a sounding board for our ideas to you.

Also, to do a better job of identifying needs and changes, we're conducting more intensive satisfaction surveys.

The most recent survey revealed that, relative to other vendors, we're doing a good job satisfying our customers.

But without going into a lot of detail we also find out specific areas for improvement. Surveys and such are just one aspect of the grassroots approach we're taking to become a marketing company. I've been pestering my management team to get out in the marketplace and become personally involved with their customers and learn what the competition is doing.
Every chance I get I'm preaching the marketing theme. To me this core value can be put in a very straightforward way:

"Marketing means first, strategy. Winning strategy results from a thorough understanding of and creative response to customer needs. Creative response (innovation) to customer needs results from understanding the needs themselves, the competition, and socio-economic forces impacting the customer.

"Second, marketing means selling and servicing the customer. Excellence in selling and servicing starts with appropriate packaging of the solutions conceived by the strategy. It encompasses superior performance in all aspects of communication, education, sales and service--internally and externally."

I fully realize that all of the rhetoric in the world doesn't make Control Data a marketing company.

It takes both thought and action by lots of people.

As with quality we've developed a comprehensive plan to drive the change process and create a marketing mindset throughout the organization. And, not so incidentally, any manager reading his performance appraisal form will be forcibly reminded of how important this marketing dimension of performance really is.
Conclusion

Let me close by saying, if we've learned one thing from the adversity of the last few years, it's that we can't be all things to all people. We must do less and do it better.

The data storage business is one of the most competitive industries in the world, the winners in this business over time will be the companies that are truly market-driven and responsive. We at Control Data plan on being one of those companies.

A customer's comment in the survey I mentioned earlier says it best: "Businesses today are looking for partners to assist them in getting their product to market. Contracts are out and business partnerships are in."

I agree.

So there are two messages I'd like to leave with you this afternoon:
One, Control Data is prepared to work with you as partners to add value to your systems. The essence of the computer industry today is "value-added" and, with our experience and expertise in data storage. I'm certain that we can work together to provide the "value-added" you need.

Two, Control Data's "comeback" will not be complete until we have your vote as your favorite marketing company.

Thank you.