Thank you, Larry.

Although I've seen and talked to many of you from time to time over the past few years, this is the first time I've had the opportunity to talk to all of you together since becoming CEO of Control Data. A lot has happened over the past 2 1/2 years and I certainly won't try to rehash all that this morning. But I would like to give you a picture of what we've done -- or more accurately what it means -- where we are, and what's ahead for the future.

First of all, however -- with my priorities in the right order -- I want to say congratulations to each of you. Your selling efforts, your order performance, have just been outstanding over the past 18 months. We've got super products (what a change from three years ago, huh?). And we have a super sales and marketing organization to match those products. The result is clear to everybody -- at the bottom line, where it counts.

[PAUSE]

When I became CEO in January 1986, I was faced with two tasks.
The first was the need to restructure the Company to make it more manageable. This task was obviously the more visible one—both externally and internally. It involved both financial and organizational restructuring.

I've explained the financial restructuring on many occasions so I won't dwell on that subject here.

The organizational restructuring can best be summed up in the word "decentralization", although clearly there were other things such as organizational realignments, management changes, and management system changes involved as well. Furthermore, this restructuring task involved not just rearrangement, but making the Company smaller, more focused, and, in general, leaner and more effective. That is, we were downsizing in terms of both number of people and diversity of the business, the number of businesses. Doing so allowed us to focus more time, attention and money on the businesses such as Data Storage Products that we retained. The DSP organization has used the opportunity provided by that better focus of resources superbly.

In today's world, restructuring is a continuous and on-going process. But it is fair to say the "crisis" phase of this task is behind us.
The second task was to reassert leadership in technically and competitively advantaged products and services.

When we began this task 2 1/2 years ago, Data Storage Products no longer had any semblance of product leadership in disk drives...the Cyber mainframes product line needed to be upgraded...the ETA-10 development was yet to be completed...competitors had introduced new technology in audience measurement and, moreover, the phrase "single source market information service" of had come into being, which meant finding the means to expand the scope of Arbitron...the AYK-14 militarized airborne computer in its technology implementation was nearing the end of its production...and more.

So, there was a clear-cut need to invest in new products and services. There was a need to offer a more comprehensive and expanded set of products and services in each part of the business in order to regain or enhance competitive advantage in chosen markets.

More crucially, this second task couldn't wait for the first task to be completed. Put another way, my challenge was not just to downsize and prune to regain profitability. Instead, it was to do that and simultaneously to invest in and expand the business. Otherwise, there would be no substantive and sustainable return to profitability and growth.
We've made excellent progress. There is no question that we have regained product momentum. There is no denying that we have competitively advantaged products and services. There is no denying, in the case of DSP, that "we are the competition!"

What does that mean? It means that Data Storage Products is the leader in the disk-drive industry.

Data Storage Products introduced...

--The first 3 1/2-inch disk drive with 200 megabytes;

--The first 5 1/4-inch disk drive to have a 16 millisecond average seek time;

--The first 1-gigabyte 8-inch drive.

Data Storage Products also has demonstrated technology leadership by pioneering zone-bit recording. Increased storage capacity of 30-to-40 percent at minimal costs is no small feat.

So, "We are the competition!" is not just a catchy slogan. It's a statement of fact that is the result of a sound strategy that has been well executed by all of you in DSP.
Now it's time to get on to the future. It's time to make sure that we don't miss the opportunity that we have gained from all the hard work of the past three years. And that means more change. "Business as usual" will not do the job. We need even greater ability to respond to the market and to make certain we have the financial wherewithal to respond to market opportunities.

So I'm making an important announcement today, and that is: we intend to establish Data Storage Products as a separate wholly-owned subsidiary of Control Data.

There are two basic reasons for this action. First, the strategic and operating characteristics of the OEM disk drive business are fundamentally different from the remainder of Control Data's business. In view of this, the Data Storage Products business needs maximum flexibility and autonomy in its operations in order to be competitive.

Second, separation will provide the opportunity to make Data Storage Products self-financing. This can be done through a variety of debt and equity mechanisms. What it may well mean, over time, is a reduction of Control Data's ownership position, but at the same time it will give us the means to preserve important strategic relationships between Data Storage Products and other Control Data businesses.
In addition to these advantages for the Data Storage Products business, the separation will make it possible for Control Data to concentrate greater attention and resources on the growth of its services and systems businesses.

The Company has made a lot of progress over the past two and a half years. It has exciting growth opportunities in marketing information services, business management services and in systems integration across a broad range of applications from energy management to the trading operations of international banks. It has likewise introduced new models of computers across its entire product line from supercomputers to workstations.

Given this favorable situation, we feel this is a crucial time to concentrate our efforts in order to assure above average growth and financial return.

This approach to the structure of Control Data's business allows us to better realize the important strategic and economic value of Data Storage Products. At the same time, it will provide more focus on those parts of the business which require more resources as a result of their greater value-added characteristics. Let me elaborate just a bit more.
We look at Data Storage Products and all businesses of the Company as to their competitive advantage and the availability of resources to be able to sustain competitive advantage.

Data Storage Products is recognized in the industry as having the highest market share in the high-capacity, high-performance segment of the OEM disk-drive business. This is probably the single most important factor for long-term competitive advantage and success in this market. Equally important, the industry continues to undergo consolidation and change. Taking this approach will position Data Storage so that it can use its strengths to gain even better market position in the face of that consolidation.

In time, Control Data may, as I noted, have a smaller ownership position. But that isn't the principal issue here. What matters and the point I want to get across is that Control Data is committed to the success of Data Storage Products. The Company has poured enormous resources into making the business the success that it is today. We're determined to do whatever it takes to build on that success.

In my annual remarks to shareholders last month, I cited Data Storage Products as the Company's best example of renewed sales vigor. I said: "No organization could have gone through more
trauma than that one did in '85, '86 and '87. But things began to turn in the second half of last year and for the first quarter of 1988, orders were up 48 percent over the first quarter of 1987."

I concluded by saying: "We like that. And we're determined to see sales momentum restored—not just in Data Storage Products but in all Control Data products and services."

Perhaps the decision to make Data Storage Products a subsidiary of Control Data is best put into perspective with the definition of the word "marketing".

"Marketing" is understanding what you can do to make customers successful. By focusing on their success—their needs and requirements to achieve success—you, yourself, can gain competitive advantage and success.

That's what Control Data is doing in the case of Data Storage Products. We understand what the business must do to be successful. By focusing on the success of Data Storage Products—your needs and requirements to achieve success—the Company will likewise gain success.
Let me close as I began by once more saying congratulations on the selling job you have done. This business is well positioned in terms of products, customers, and now, with this intended change, operating structure. Given that position the challenge is to succeed. Success is a matter of sales. I know you'll see to that end of things.

Thank you.