I want to spend most of my time tonight answering the
questions that you submitted. But let me begin with a few
remarks of a more general nature that address broader
questions such as: "What is the Company’s status?", "What’s
going on?" and "Where are we going?"

First, Control Data is continuing to improve. That’s fact--
not wishful thinking.

The Company is improving in terms of focus, in terms of the
quality and competitiveness of its products and services, and
in spite of recent setbacks in financial performance. In
1985, for example, we lost $567 million. In 1986, $264
million. Last year we made a small profit--$19 million.
After getting off to an encouraging start this year, we stumbled badly in the third quarter. And, then, last Monday we announced that we now expect the fourth quarter to be a loss that could wipe out the profits recorded through the first nine months of 1988.

That leads to the question: "What’s going on?"

First of all, we are NOT experiencing a sudden decrease in demand for Control Data’s products. In fact, the momentum for ETA and for Cyber systems is building. The situation, however, is still what we’ve pointed out many times: we are in a position where costs and expenses are very nearly equal to revenue. In this fragile situation, even small changes in either revenue or costs are highly leveraged and swing us violently between loss and profit.
Over the past three years, we have also been through a tremendous change affecting both people and structure. Change of this magnitude takes time to stabilize. To a large degree, what’s going on now is the result of that instability. But there is a bit of chicken and egg business going on here as well. The simple fact is that we are not producing a reasonable return on sales. So we try to compensate, which makes more change. But rather than chase around that circle, let’s look at the situation from a different perspective.

At the beginning of 1986, we had two tasks: first, to financially restructure and refocus the Company, and second, to renew, replace and augment the then existing products and services. We needed new product momentum and that, of course, required expenditure and investment.
The first task was achieved. By mid-1986, we had successfully refinanced the Company through the public debt offering. We had rapidly sold off or shut down a number of businesses. And, with the public offering of Commercial Credit, we had bought some breathing room. Moreover, by the end of 1987 we had sufficiently positioned—although at considerable cost—the data storage business so that it could become an independent business. That allowed us to focus Control Data on its service and computer systems businesses.

Finally, we had already made a good start at replacing the CYBER product line, and the ETA-10 was becoming a reality. So, we had made progress toward the second objective.

That was the situation about this time last year. With more than $400 million in cash, we looked for further opportunities to strengthen the business. One such opportunity was the
acquisition of SAMI/Burke. Another opportunity was the purchase of 20 percent of Silicon Graphics. In addition, we built into the plan for 1988 aggressive expenditures for ETA, Ticketron and Data Storage Products.

We made those strategic investments counting on performance to plan in the rest of the Company but with some margin of safety due to the good cash position we had.

What happened? We haven’t had that profit performance, and our cash cushion has been reduced. So, the prime objective for 1989 is improved cash flow through improved profits.

That’s the cash perspective. Now, let’s take a different look at the business and where we are by major business unit.
Business Services will exceed its planned profit for the year.

Imprimis will considerably exceed its planned profit.

Computer Systems, ETA, and Government Systems will be significantly below plan.

The obvious question is whether or not there’s something fundamentally different in the computer systems market from the basis on which the 1988 plan was made.

Clearly, the plan overestimated our ability to move Cyber mainframes. Clearly, the plan overestimated ETA’s ability to achieve several key acceptances on schedule, as well as build significant order momentum. It’s also true that we had an unneeded surprise from a supplier with regard to chips for the Cyber 960. Still, the answer to the question is: "No! Nothing is fundamentally different."
Control Data’s strategic approach to the computer systems market is no different today than it ever was. For the most part, the computer systems business addresses the technical computing niche of the total market. Moreover, we have usually faced some entrenched competitor—just as we do today—in supercomputers. Those circumstances are unforgiving to overreach or mishap—either externally or internally produced.

In fact, the opportunity for the computer systems business is as good as Control Data has ever had. This opportunity is the result of the heterogeneous nature of the computer power in large scientific and engineering installations in industries such as aerospace and automotive. And, the emergence of the need for unified engineering data bases.
Nevertheless, computer systems is a high risk business—especially supercomputers. There is no guarantee of success. At the same time, there is potential for great success.

The third general question I posed is: "Where are we going?"

I have often said that the metaphor of generations for computers is valid only from the perspective of how computers are used. And, the use of computers today to solve challenging, complex tasks is the driving force—indeed, the determining factor—of Control Data’s strategy and our future.

In that context, the ETA-10 is much more than a big computer. It is rather more correctly conceived strategically as an
application for solving the equations of fluid flow—as an application system for meteorologists, for example.

We are building a future Control Data based on the concept of how computers are used. At present, the core of that strategy revolves around six businesses which specialize in certain applications: Energy Management Systems...ETA...Military Systems...Marketing Information Services...Financial Information Services...and Cyber Systems. The specialty of Cyber Systems will be information management in the heterogeneous computing environment I mentioned earlier. It’s this use of computers that is the basis for the Company’s Transparent Computing Environment strategy.

Today, these businesses are in the range of $100-$400 million each. (In the case of Cyber Systems, I’m referring only to the TCE application.) But they are the core of our future.
Within five years, they will grow to be one-half to one billion dollars each.

Without exception, these applications revolve around the acquisition, analysis, display and distribution of data. So, the answer to the question—"Where are we going?"—can be summed up very neatly in one sentence. And, this is it: "We—you and I—are about to put real meaning in the name Control Data."

[PAUSE]

As for the present, I have said many times that we have better and more competitive products and services than we’ve ever had. There is no reason to be pessimistic or downhearted in
that regard. In fact, we should be proud and optimistic about what we have achieved.

This week’s announcement undoubtedly will lead to adverse publicity. That’s to be expected. But we shouldn’t let negativism distract us from the task ahead. Our job is to concentrate every ounce of management energy we have on getting revenue, holding down costs and calming the understandable concerns of the people we lead.

We have achieved much. We will achieve much more. It is a matter of concentration and the will to overcome adversity.

[PAUSE]

Now, let me turn to your questions.