Good afternoon. We haven’t normally had an exec. briefing in Jan. But so much has happened since the last time we met, I wanted a chance to address the questions and concerns that must be in everybody’s mind.

First of all, I know you are deluged with rumors. And naturally the media amplify and broadcast those rumors. Shana Alexander once said, "Trying to squash a rumor is like trying to unring a bell." Man, do I identify with that!

I’m not about to spend our time today trying to "unring" the campanile that serenades us today, but I do want to make a few points.

Our public response to rumors is always "no comment." We all wish we could say more than "no comment," but we cannot. If we comment on any rumor (whether we think it is true, false or absolute nonsense, as most of them are) or if in response to a rumor we comment on Company plans or anything else that may be under consideration, we then may have a legal obligation to comment on all subsequent rumors and Company plans. Otherwise we would be immediately subject to stockholder suits.
to avoid such a situation that we simply don’t comment at all. It is vital that we adhere carefully to this policy.

There is, however, one very important thing for you to remember. If there is a major development, the Company has a legal obligation to make an announcement. Recall, for example, as soon as there was agreement in principle on the sale of Commercial Credit, it was announced. Moreover, even when we have only determined upon a broad strategic direction, such as with Imprimis, we state publicly the options within that strategic direction as completely as possible. So if there is any really important news, you will hear it directly from me and do not need to wait for rumors. Also, by use of Control Data Mail and other means, we try to make sure that you know before it is known to the media.

One other point on this rumor business: rumors are the inevitable by-product of poor earnings. There is one, and only one, tried and true way to deal with them: concentrate on the job at hand, improve the operating results and the rumors will go away.

Meanwhile, I know there is a lot of confusion, frustration, and even cynicism over recent events and operating results. Certainly those feelings weren’t mitigated last Friday when paychecks reflected the pay related actions we’ve taken. There’s no way to put a positive face on a pay cut and nothing I can say will change that. But I do want you to know this -- the pay reduction and other actions were absolutely necessary
to meet the profitability requirements of the 1st and to some
degree the 2nd quarter of ’89. Unless we took action to meet
this short-term requirement there was no point in thinking
about longer term opportunities. So we did it.

But there is a fundamental point in all this that I want to
make right up front. ’88 was not ’85 all over again. Today
is not 3 years ago. In the past 3 years we have made
tremendous progress. Bus. Management Services has gone from
bare breakeven to strong profits. The disk drive line which
was running last competitively has moved to industry
leadership; Micrognosis has moved from start-up to being a
profitable $100M co.; the ETA-10 from development to delivery;
I could go on.

In short, we have invested heavily these past 3 years, and we
now have leading edge products and services.

What we don’t have is a major asset like Commercial Credit
which we can monetize to bail us out of a cash or profit bind.
We have to solve those problems today within the bounds of
daily operation of the business. We have to solve those
problems right in our own Control Data P&L.

Again, we’ve made a lot of progress. Three years ago with
only a few exceptions, nearly every business in Control Data
was losing money. Today nearly 2/3rds of the Co.’s revenues
are from businesses that are operating quite profitably. We
just need to finish the job.
So, in that sense as well, today is not yesterday. We aren’t looking at 3 or 4 years of revitalization to become competitive and profitable. We can and we will move much faster. We need ’89 to do the job, and if extraordinary expense cuts (or anything else) are necessary to give us the opportunity, those measures will be taken.

I’ll come back to the major tasks we have for the future, but first I want to talk about ’88 results and ’89 budgets.

Control Data got off to a good start in ’88 -- reporting positive earnings of 18 cents per share in the 1st quarter, and 22 cents per share in the 2nd. We stumbled in the 3rd & 4th quarters to finish the year with a terribly disappointing performance.

As I said a moment ago, much of the business operated satisfactorily in ’88 -- meeting or exceeding plan. But the rest, and especially Computer Systems and ETA, had results not only below budget, but which nullified the other positive results.

This is not the time or place to analyze all of the reasons for the shortfall in the 2nd half. However, the optimistic plan we had last year for 4th Quarter shipments in Comp. Systems. and ETA is worthy of note, because it represents a lesson that must be applied to ’89 plans.
This past year is perhaps even more disappointing when viewed from a cash perspective. Control Data entered ’88 with cash -- including restricted cash -- of approximately $365M and, of course, no U.S. bank borrowings. The Co. ended the year with less than $50M in cash and an outstanding loan balance under the new credit agreement of $10M.

So in ’88 we made significant cash investments -- as we had done in ’87 and ’86. Now, a pay cut may be painful, but to me the greatest pain of all is the realization that with a few notable exceptions we have not achieved the kind of return expected from those cash investments. In too many instances we have not converted product momentum into order and sales momentum.

In ’89, Control Data must begin to get a return on its cash investment of the last few years. And, that brings me to the budget for this year.

The final roll-up of the ’89 budget will be completed in the next couple weeks. This budget will not be ideal.

First, it requires extraordinary measures such as the pay cut just to achieve positive results in the first two quarters of ’89, and to satisfy the covenants of the bank credit agreement.

Second, because we have yet to see the pay-back of our investments over the past few years, Control Data must be managed with one eye (if not both eyes) on the cash balance.
In short, we must live within our means, even if that means foregoing some otherwise desirable expenditures.

Third, the P/L plan does not call for the kind of profitability we expected for '89 in our thinking of 2 years ago or even last year. The goal in putting the plan together has not been to put down what we BELIEVE the businesses are capable of doing. Rather, the goal is to have a plan that can be achieved. In '89, it is more important that Control Data meet plan each quarter than it is to meet some desirable measure of success.

If Control Data can meet its internal goals each quarter in '89 the foundation will have been put into place for overachievement in the eyes of the external world in subsequent years.

At the last Exec. Briefing, John Buckner made the following statement:

"Make the money before you spend it.

"I want that to be the motto for '89:"

"Make the money before you spend it."

The lesson of '88 is clear. Control Data’s plans for '89 must be conservative, and spending, particularly in Computer Systems and ETA, must wait for the upswing in the order rate. The budget for '89 calls for a reversal in the cash flow
trend, and a build-up in cash balances for the year. You can make that happen, and I know you will.

Before I go on to discuss the principal strategic tasks which lay before us, there is one other topic from ’88 that I wish to cover -- the recent top management changes.

The structure and arrangement of top management is obviously a principal task for the CEO, and something to which I have given considerable thought ever since becoming chief executive.

In ’86, the requirement was for me to personally have maximum hands-on visibility. There was the major task of exiting businesses in order to narrow the focus of the Co., and in addition, I had to deal with the day-to-day crises of that period.

By ’88 that situation had clearly changed. By and large, the strategic focus had been achieved, the liquidity crisis of ’85–’86 relieved, product momentum re-established, and so on. What was needed was a team at the top to move the Co. aggressively forward and to establish sales momentum. In Larry and John I have that team, and their appointments were much more a natural order of events than perhaps they appear. Once again, the rapid deterioration in 2nd half ’88 results casts a more precipitous look to events than they deserve.

John has been a key figure in repositioning Control Data’s business, and achieving the strategic focus I mentioned.
Larry has many fine qualities, as most of you in this room know. I don’t have to go into a recitation in that regard.

One thing I do want to emphasize, however, is that the basic values on which we are building Control Data -- namely marketing, quality, and people -- is at the heart of the management style of both these executives. Incidentally, the reason Larry is not here today is because of the priority we have on marketing. He’s in Europe meeting with all of the sales people there. Sales momentum is an immediate priority task. I’ll come back to that point.

The mention of the basic values, and particularly "people", brings to mind another observation. Within Control Data’s executive management, for whatever reason or reasons, there has developed over recent years far too much of a "we-they" attitude. More than ever we need to build a sense of "us", and Larry, John and I have that as a priority item as well.

Now let me move on from organization and numbers to the basic business situation. Where are we? What next? What are we trying to achieve?

Despite the disappointment of ’88, I am optimistic about Control Data’s future. I can succinctly summarize in five principal strategic tasks, what we must do in order to pick up speed and move ahead quickly.
The 1st task is a major emphasis on continued growth and momentum in the services businesses. In "services" I include application specific systems integration. "Services," then, includes Energy Management Systems, as well as Business Management Services, Financial Information Systems (Micrognosis), as well as Marketing Information Services, the systems integration elements of Government Systems, and so on.

The 2nd task is to continue the current strategic path for Imprimis -- that is to say to continue to be the industry leader. Imprimis will be operated as a wholly-owned subsidiary, a joint venture, or as part of some other strategic alliance as dictated by economic practicalities.

The 3rd task is ETA. The ETA-10 is the principal product with which we can participate in the numerically intensive computing market. On the other hand, ETA’s strategy must be built around an affordable cost and expense to revenue ratio which it does not now have. If we wish to remain a major supplier to the numeric intensive computing market, we must determine a solution to this problem. The question is not "if", but rather "how" we will achieve success for ETA. I should also add that ETA is much more than just a valued part of Control Data. Its technologies are a vital national resource of the U.S.
The 4th task is Cyber Systems. Control Data's traditional Cyber markets are moving at an increasing rate to supercomputers and workstations. The future for Control Data mainframes must be built around Engineering Information Management. The strategy here is difficult. It involves protecting and migrating the current customer base to the degree possible, while simultaneously reducing the breadth of the product line and building the products and services essential to EIM. EIM, by the way, is basically a systems integration business. It is only the latest instance of the systems integration or services business which we have evolved from the computer hardware business.

The 5th task is to build marketing and sales capability across the Co. -- particularly in the computer systems business.

I mentioned earlier that this is why Larry is in Europe this week. It's also why earlier this week Jim Ousley was picked as the world-wide marketing and sales executive for all of Control Data's computer systems business. In this capacity all of Control Data's International Systems & Services subsidiaries will report to Jim. He in turn will report directly to Larry. Jim's long experience in both services & computer systems marketing is a great resource on which we can draw as we go about the task of establishing market momentum for computer systems.
Those, then, are our five principal tasks. But I want to emphasize that it is the skill and energy that we put into the first task -- building the services businesses -- that is of paramount importance to future profitability. In short, we are building a future Control Data based on the concept of using computers to solve important and complex problems. Actually we have made more progress in this regard than most people realize. In '85, for example, the Co.'s services & systems integration businesses accounted for less than $500M in revenues; about 13% of the total computer business. In '89 they account for nearly $1B, or 25%.

These information services & systems integration businesses also demonstrate the potential that exists. The largest of these businesses -- BMS, EMS, FIS, MIS, EIM, portions of Gov. Systems. are each $100M-$300M in revenues today. Each of them has the potential to reach half a billion. So even in these few examples there is all the potential we could want.

Without exception, these applications revolve around the acquisition, analysis, display, and distribution of data. So, what we’re doing can be summed up neatly in one sentence. And, this is it: "We are about to put real meaning in the name Control Data."

The opportunity we have dwarfs anything that has gone before. And the key to realizing that potential lies in that 5th task -- marketing and sales strength and momentum.
To be sure we must maintain technological and product leadership. Not to do so is devastating -- as Imprimis discovered a few years back.

But the money we want to spend comes from orders. And as I said, the motto for '89 is "make it before you spend it."

Let me conclude my remarks by quoting Brown University Pres. Vartan Gregorian when he spoke to the '87 graduating class of Johns Hopkins U. "The Founding Fathers," he said, "wrote the Constitution with the faith that the ordinary citizen was committed to the accomplishment of extraordinary acts. The Talmud expresses the same belief, 'In every age there comes a time when leadership suddenly comes forth to meet the needs of the hour'. Johns Hopkins has always been a school that cultivates enlightened individuals and hence, enlightened leadership. As you, the Class of '87, go out into the world, may I remind you as I have always reminded my students -- the universe will not be seeing you again. You have the choice to be a comma, a sentence, a paragraph, a chapter or a blank page in the history of mankind. Know that society, regardless of its size and complexity, will always turn on the act of the individual and, therefore, on the quality of that individual."

If there is one characteristic of Control Data that stands out it is that of cultivating enlightened individuals ... and enlightened leadership. More than that, it is dedication to a belief in you as individuals that is the bedrock of my approach to management.
You here today have Dr. Gregorian's choice: to be "a comma, a sentence, a paragraph, a chapter or a blank page" in Control Data's history. And certainly, regardless of the circumstances of the moment, our fortunes "will always turn on the act of the individual and, therefore, on the quality" of those individuals.

We've come too far to let anything stop us now. With faith in each other as individuals, we can write the most exciting chapter in Control Data's history.