You have probably heard the announcement this morning. But I wanted to talk to you personally about the very significant actions that we announced.

The actions include the discontinuance of the Company's ETA supercomputer business, the streamlining of our CYBER mainframe business, reducing the size of the corporate staff and a temporary realignment of our bank financing agreements.

These actions will result in restructuring charges of approximately $490 million, and a workforce reduction of approximately 3,100 employees. Of the estimated charges, $350 million is associated with the discontinuance of ETA. Actual charges will be recorded in the second quarter.

Earlier this morning, I talked with ETA managers. Larry Perlman is talking right now to all ETA employees. They are the people most immediately affected by the actions we've taken today. Jim Ousley is talking to ECODU.

But, as you probably already realize, this group, too, will be profoundly affected by these actions.

The very nature of the computer industry has changed. And, Control Data must change, too. The decisions made were necessary. But they were not easy and they won't be painless.
Let me read you excerpts from the news release that went out this morning. Essentially, the same information is covered in a letter to all Control Data employees that’s being distributed this morning. Copies of the letter will be available to each of you as you leave this meeting.

The news release reads as follows:

"By eliminating the ongoing losses in supercomputers and streamlining the computer systems business, the Company will be able to focus its energies on providing CYBER products and services to meet the needs of its customers. At the same time, we will continue to move aggressively in Control Data’s profitable and growing services businesses such as Arbitron, Micrognosis and the Energy Management Division.

"The Company’s actions should result in a profitable second half of 1989, and set the stage for sustained and growing profitability in 1990 and beyond.

"While ETA is a technological success, we have not really developed any market momentum. It is also not expected in 1989. In 1988, the supercomputer business had operating losses of approximately $100 million."

The hard reality is that it has become impossible for us to finance ETA. We will continue to support current ETA customers. In addition, we are evaluating how selective parts of the ETA technology can be used in future products and to enhance the performance of the upper-end CYBER mainframes."
Also, while working to satisfy the continuing needs of existing ETA customers, every effort will be made to achieve the maximum benefit from ETA assets and technology.

We are going to focus computer systems on the needs of the current customer base and specific segments of the engineering, scientific and information markets where we have significant strengths for future growth. This will allow us to increase the value-added content of CYBER mainframes to serve customers better, and substantially improve the financial performance of the CYBER business.

The news release continues:

"Control Data said that an agreement has been reached which temporarily modifies the earnings and net worth tests under its current bank agreement. The interim bank arrangement, which is valid through May 31, 1989, limits borrowings to $30 million and the letter of credit facility to levels currently outstanding of $105 million. This facility plus current cash balances are adequate to meet the Company’s immediate needs. The cash requirements of the Company’s restructuring actions are significantly less than the charges against the results of operations and will occur over time. However, they will require financing beyond that available under the current agreement. The Company has begun discussions for a new financing arrangement which, together with operating cash flows and asset sales, is expected to satisfy longer-term needs."
With these actions we are building a new Control Data. It’s a Control Data based on the concept of using computers to solve important and complex problems. I want to spend more time talking about the new Control Data. But, first, let me elaborate on the changes in the computer industry that have prompted the streamlining of the CYBER business.

The computer industry today is in the midst of profound change. As a matter of fact, the industry is going through the greatest period of change in its history.

There are two factors driving this change.

One--technology--is a familiar source of change in the computer industry.

The other key factor is the advent of portable standard software systems such as UNIX. Industry standard operating systems came into the world with the introduction of MS-DOS for the personal computer. But only with the growing acceptance of UNIX has the "new world" come to mini-computers and mainframes. And, this is a source of change more powerful than anything we’ve previously experienced.

I won’t dwell on the technology change. There’s a story every day on that subject. Perhaps one quote from a recent New York Times article titled, "In An Age When Tiny Is All, Big Computers Are Hurting," will suffice: "Many computer experts see [IBM, DEC and Unisys] problems [in mainframes] as a
telling sign of just how much smaller and faster computers will become in the next few years and the chaos such change is likely to cause."

But, in truth, our industry always has been one of rapid technological change. So, that’s not really new.

The other change, however, truly is new. In earlier times, the cost to the user of forsaking one proprietary software system for another was prohibitive. As a result, the citadel of the vendor’s installed base was not only secure, it expanded at a pace the vendor could afford to introduce new applications or increased performance. All that is changing with UNIX and other more portable systems software.

Application vendors will build for standards systems rather than for proprietary systems. Consequently, vendors of computer platforms must look beyond their own proprietary software systems for the account control and value-added that brings profits. Beyond that, standard software systems reduce enormously the cost to the user of migrating to more cost-effective hardware. This both opens the market to new vendors and shortens the product cycle for introduction of new hardware platforms.
In a recent research report, analysts John Levinson and Andrew Krawitt [Kraw-it] of Goldman Sachs made the following statement: "...within two to three years, we foresee micro/standards-based products as representing the vast majority of mid-range and high end [computer] systems purchased for new applications." They go on to say: "...making money in this new world is very different from the business of making money in the old world."

Here are a few of the differences they point out for the mini and micro businesses:

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
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<tbody>
<tr>
<td>Asset Turnover</td>
<td>1.3X</td>
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<tr>
<td>Revenue/Employee</td>
<td>$112K</td>
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<tr>
<td>Hardware Design</td>
<td>Proprietary</td>
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<tr>
<td>Software Design</td>
<td>Proprietary</td>
</tr>
<tr>
<td>Mfg. Philosophy</td>
<td>Prim. In-house</td>
</tr>
<tr>
<td>Partnerships</td>
<td>Few</td>
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This is the world we live in now. We cannot deny that fact. It’s here. And, if we want to compete in this "new world", we will have to look like one of the "new world" companies I’ve just described. I’ll come back to this in a moment.
Before doing that, tho’, I want to point out something else important. Despite the difficulties of the past three years, Control Data has made excellent progress in services, especially in the area of application-specific systems integration.

Revenues from such businesses have nearly doubled during that time. Micrognosis alone, for example, has grown 40 percent on the average over each of the past five years.

The Energy Management Division (EMD) is a CYBER-based, application-specific systems integration business. EMD will take 15 percent of the 960s produced this year as it expands aggressively beyond its strong U.S. base. EMD systems currently manage one-fourth of the electricity transmitted in the United States. In 1988, the Division won a $50 million contract from the United Kingdom to supply one of the world’s largest energy management systems in the utility industry.

Over the years, Control Data has built a billion dollar core of profitable services businesses that are application-specific. We can rapidly build on these businesses, which range from processing services to application-specific systems integration to information services. The business units involved are focused by industry as well as application. Frequently, they offer more than one kind of service. EMD is a good examples.
As we say in the news release: "The potential of all these businesses is such that they should continue to see excellent growth in revenues and profits."

Now let me turn to Computer Products. The highest priority is getting product strategy in line with the business.

We will retain the key elements of the current CYBER product plan. There will be follow-on mainframe products. We will maintain and selectively enhance NOS/VE and CDCNET. And, we will move ahead with introducing UNIX into the line, starting with native UNIX at the lower end—CYBER 910 and CYBER 920—and a POSIX NOS/VE at the high end.

Product development will begin to favor industry-standard components. We will add value to these components instead of duplicating generic technology. The goal in computer products is to provide high value-added products such as energy management, engineering information management (EDL), computer-aided design and manufacturing applications (ICEM), and optimized data management packages. A strategy of more value-added is key to success of this business. By concentrating on specialized applications of computers and doing a better job than anybody else we can and will have a very profitable business.
Closing ETA is painful, but it allows us to improve the profitability of the mainframe business, and it greatly enhances the growth prospects of the services businesses. The opportunity is there.

I’m sure everyone in this room realizes that that means far fewer jobs in the Computer Products Group. The next few days and weeks will be difficult as workforce reductions begin to take place. For both those who leave and those who stay, the painful burden of losing friends and colleagues will be very real. All of you will be involved in change. For some, you will be helping to build the new Control Data. For others, you will be making decisions and choices that will build your life outside of Control Data.

Change is difficult. But it is also challenging. Have confidence in yourself and in your colleagues.

What we are about is completing the repositioning of Control Data that we began three years ago. We set out to achieve sustainable profitability. With these actions we can do it. The result will be better service for customers, improved opportunity and working environment for employees, and enhanced shareholder value.