Good morning. I know you have a lot of questions and we will do our best to answer them. But, first, I want to cover a couple of points of particular pertinence to the announcements we made yesterday.

First, ETA. The decision to close ETA Systems was clearly a very difficult one. The people at ETA had achieved great technological success. ETA was, however, a very large financial drain on the Company. In 1988 the supercomputer business lost just over $100 million. The simple fact is that it was no longer possible for us to finance ETA in its efforts at market penetration. In short, we ran out of time and money.

We will of course continue to support current ETA customers. In addition, we are evaluating how some of the ETA technology might be used to enhance the performance of upper-end mainframes. We'll also make every effort to see if there are others than Control Data who can benefit from the technology.

ETA was, of course, the major action we announced. The action with regard to the mainframe business was an entirely different matter. Let me explain.
The computer industry today is going through its 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 the industry has ever 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 will suffice. It was titled, "In an Age When Tiny Is All, Big Computers Are Hurting." Here's the quote: "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."

In truth, this industry always has been one of rapid technological change, increasing minaturization and so on. So that's not necessarily new.
The other change, however, is truly 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.

As for Control Data, we are certainly a niche player in the mainframe business. But there is plenty of opportunity for us. And, by concentrating on the CYBER mainframe business, we can provide much more value-added in the markets we already serve.

In a broader context what we have in this announcement is another step in what we set out to do three years ago -- build a new Control Data.
That company would focus its efforts on fewer, more value-added businesses.

Let me briefly review the strategic tasks that we faced at that time.

The first task was to shed a host of small, fledgling businesses and projects that were diffusing corporate focus and sapping management energy.

The second task was to monetize the financial services (Commercial Credit Corporation—CCC) and to find a strategic alliance for the OEM disk-drive (now Imprimis) businesses, which would allow that business to be more self-sustaining and be in industry leadership position. We could then use those resources to build the core services and systems integration businesses.

That, then, was the third task -- enlarging this core. The basic strategy in that regard was and is to pursue high value-added businesses. For the most part such businesses in our industry are the services business: information services, systems integration, processing services and so on. In Control Data’s case the task also involved positioning the computer systems business to successfully participate as a niche player in the mainframe market.
The first task of narrowing the focus of the Company to major businesses was relatively straightforward. And, by the end of 1986, it was largely accomplished. Some 22 operations were closed.

The second task was the restructuring of CCC. That restructuring was so successful that by the fall of 1986 we were able to effect an IPO. From the initial offering and subsequent sale of our remaining interest, we received $843 million.

Unfortunately, the other part of task two -- the OEM disk-drive business -- was more difficult. First of all, it had to be fixed -- a task which was widely believed to be impossible. Thanks to Larry Perlman and the management team he put in place, that task was done. However, it not only took longer than we planned, it cost more.

In 1985, '86 and '87, the losses (including one-time corporate provisions) from this business were approximately $210 million.

Still, by the middle of last year, we were well positioned with regard to our investment in Imprimis. Unfortunately, neither the disk-drive market nor the financial markets cooperated. Meanwhile, Imprimis is a leader in the OEM disk drive business, and we are positioned to take advantage of a good opportunity if it should arise.
What about the third task — enlarging the core business and strengthening computer systems as a more value-added or application oriented systems integration business.

I will come back to the services part of this in a moment. But let me talk about computer systems.

It has been obvious for a long time that Control Data could only be successful in computer systems by being a high value-added, market niche vendor, as opposed to a broad-based, low-cost producer.

Supercomputers in fact represent one such specialization. It also represents possibly the highest risk part of the whole computer industry because both technical risk and market risk are very great. With ETA, we felt confident about the technical risk. While that confidence was not misplaced — particularly from a hardware point of view — ETA had not developed the market momentum to be self sustaining, and as I said, we simply could not finance both continued investment in ETA and the necessary effort in mainframe computer systems.

Without the extra burden, we can do a much better job of serving the needs of our current customers and the markets they represent. We can and will do that with a much reduced cost and expense base. Including ETA, we have been supporting the design and on-going support of some half dozen different hardware design points. That not only is unnecessary to pursue Control Data’s limited market, it actually detracted
from customer support services. The actions we are taking will correct that, and put computer systems on a profitable on-going basis.

The computer products group will focus its efforts on meeting the needs of the technical computing market. More specifically, we will target the automotive and aerospace industries, government, the electric utility industry, higher education and other organizations with large information projects. Current customers will remain the highest priority.

We will retain the key elements of the current CYBER product plan. And, we will move ahead with introducing UNIX into the mainframe 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 systems, engineering information management (EDL), computer-aided design and manufacturing applications (ICEM), and optimized data management packages. We have not -- nor do we intend to -- compete across the broad spectrum of the mainframe industry. Rather, by concentrating on applications such as those I have maintained, we will be a successful and profitable business.
I have concentrated my remarks on the things involved in today's announcement. The core of Control Data's strategy, however, is the services business. As much as I enjoy talking on that part of the business, in view of the time I think it is better to move on to your questions.