Control Data began 1989 with a major challenge -- to resolve the profitability problems of the computer mainframe and supercomputer business.

Sixteen days ago -- on April 17th -- we announced our plans for dealing with that challenge. We closed the ETA supercomputer business. We also are taking the steps necessary to get mainframe expenses in line with the strategic direction, size and scope of that business.

I know that these steps are painful for many people. I sincerely regret losing talented and dedicated employees who worked hard to make Control Data successful. But the actions with regard to ETA and the CYBER mainframe business are essential to the continued successful implementation of our plans.

In a nutshell, Control Data's strategy is to be a company of high-value added businesses in the computer industry. That has been the focus of my attention since becoming CEO three years ago. As we set out on this path there were major strategic, operational and financial tasks to be accomplished. As we meet here today, many of these tasks have been done.
Others are yet to be completed. My remarks and those of Larry Perlman will give you a status report on where we are.

The strategic tasks were several: to narrow the focus of the Company, to restore the OEM disk drive business to profitability and market leadership, to better position the computer mainframe business as a value-added supplier in its relatively narrow technical computing market, and most importantly, to grow the Company’s services and systems integration businesses.

The operational tasks were to restructure the Company to a decentralized mode of operation, to make total quality management the standard management mode throughout the organization, and to move from what was basically a product oriented company to being a marketing -- a customer -- oriented company.

The financial tasks were to resolve the then very serious liquidity problem and get the Company in an ongoing, profitable and stable financial condition.

With regard to the strategic tasks, much as been accomplished. First, we did narrow the focus by closing or selling some 22 fledgling businesses or product lines that were diffusing corporate focus as well as management attention and energy. In addition, the financial services business -- Commercial
Credit Company — was taken public. From that action the Company realized some $843 million. This was also vital to the financial tasks we faced.

Further, the OEM disk drive business has been restored to a position of leadership — a task many believed at the time to be impossible. There were, to be sure, problems. It took longer and cost more than we had planned — the disk drive business sustained losses of some $210 million in ’85, ’86 and ’87. Still, by the middle of last year, Imprimis, as the business is now named, was well positioned. We should be able to take advantage of any good opportunity that may arise in the inevitable consolidation of the OEM disk drive industry.

The services business, and particularly the application specific systems integration part of the business, has grown in both revenue and profitability over the past three years. This is a result of both internal growth and acquisitions. As a result, we now have a billion dollar core of profitable services business on which we can build for the future.

The final major strategic task — appropriate positioning of the computer systems business — has not been completed.
Worse than that, by 1988, the lack of profitability in computer mainframes and the continuing investment in ETA were destabilizing the company financially and precluding the aggressive pursuit of other strategic tasks.

Again, fixing this was the principal task facing us as we entered 1989.

What about the operational tasks? Decentralization has involved change in basic management processes and information systems. Centralized corporate services and downsized corporate staff functions have meant a reduction from 3,003 employees in December 1985, to approximately 500 today. Of course not all these corporate services ceased to exist. Many are done today within the business units. But many others are performed for the Company by external vendors, a lot of whom are small local businesses.

I will not dwell on the Quality and Marketing aspects of our improved management processes this morning. But one indication of progress worth noting is that last year the Small Disk Division of Imprimis was a finalist among U.S. manufacturing organizations competing for the Malcomb Baldrige National Quality Award.
Now, let me turn to the financial challenge. Monetizing Commerical Credit and other financing allowed us to not only resolve the problems of the past, but also to make investment and expenditure in pursuit of strategic goals. Clearly, however, we have not attained sustained profitability, which was certainly the primary financial goal. Rather, as I have noted, the lack of profitability in computer mainframes and the continued investment in ETA have precluded this.

Stopping the investment in ETA and focusing the computer mainframe business will change this situation. Meanwhile, we are working with the banks to establish a financing facility. While renegotiating financing arrangements is always a challenge, and especially at times like this, we are cautiously optimistic that we can meet the Company’s needs, including the additional cash required for the ETA and CYBER actions. The Company has a good cash balance today and positive cash flows from the ongoing businesses.

The incremental cash requirements for the actions we have announced will be somewhat over $100 million. To offset this, we are in the process of selling assets or businesses that would bring in close to that amount. So, what we really need to do with the financing facility is to bridge the gap between
the time we need to pay out cash and the time the asset sales are completed. Considering the Company’s asset base and forecasts for the balance of the year, we believe this is doable.

In his remarks, Larry Perlman will elaborate on how we will go about operating the business and completing the task of reaching sustained profitability. Now I want to return for a moment to the computer systems business.

The computer industry today 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.

I won’t dwell on the technology change. There seems to be a newspaper story every day on that subject. Perhaps one quote from a recent New York Times article best sums up the situation. The article was titled, "In An Age When Tiny Is All, Big Computers Are Hurting." The quote reads as follows: "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, the computer industry always has been one of rapid technological change, increasing miniaturization and so on. So, technology change certainly is nothing new.

The other key factor is the advent of portable standard software systems such as UNIX. Only with the growing acceptance of UNIX has the "new world" of industry standard operating systems come to the mini-computer and mainframe business. This is a source of change more powerful than anything the industry has ever experienced.

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. All that is changing with UNIX and other more portable systems software.

Application vendors 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. In the long run this change fits well with our goals and strategies.
It has been clear for a long time that Control Data could only be successful in the computer systems business by being a high value-added, market-niche vendor, as opposed to a broad-based, low-cost producer. Our strategy has not changed.

As we move through this transition period in the industry, we can do a much better job of serving the needs of our current customers and the markets they represent. And, we can do that with a much reduced cost and expense base. Including ETA, we have been supporting the design and ongoing support of some half dozen different proprietary hardware design points. That not only is unnecessary to pursue Control Data's limited market, it actually has detracted from moving to more value-added products and services.

Product development will begin to favor industry-standard components. We will add value to these components instead of duplicating generic technology. The goal is to provide high value-added products such as energy management systems, engineering information management systems (EDL), computer-aided design and manufacturing applications. 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 mentioned, computer systems can be profitable on an ongoing basis.
While we undertake that task, there is at the same time excellent progress in services. Revenues from application specific systems integration have nearly doubled during the past three years.

As an example, revenues from our Micrognosis business have grown 40 percent on average over each of the past five years. And, last year, the Company’s Government Systems group received its first major systems integration contract with the award of the U.S. Air Force’s Advanced Tactical Air Reconnaissance Systems (ATARS). We expect ATARS to contribute significantly to the growth of Government Systems in the 1990s.

Other services businesses continue to grow as well. Business Management Services expanded its customer bases for tax filing and human resources management systems at rates in excess of 40 percent. The acquisition of SAMI strengthened the position of Arbitron Ratings in marketing information services.

Control Data’s base of services is a solid foundation on which to grow. We have taken the actions that we believe will bring that intensely-focused, high value-added company closer to reality.
The first time I addressed stockholders as Control Data’s Chairman three years ago, I said that we had "an unshakeable ... determination and the willingness to do whatever it takes" to return Control Data to consistent profitability. There is no question that process has been more difficult than we anticipated. Nevertheless, we are well into it. And we are both committed to and confident of achieving that goal we set out to achieve -- consistent profitability.

And now I would like to turn the podium over to Mr. Perlman who will make his remarks.