INTRODUCTION

AFTER MANY MONTHS OF SEEMINGLY ENDLESS BAD NEWS, THE LAST QUARTER AND ESPECIALLY THE LAST TWO MONTHS ENDED DEFINITELY UPBEAT. WITHOUT TRYING TO BE COMPREHENSIVE ABOUT IT, I'LL RUN THROUGH SOME OF THE MORE SIGNIFICANT ASPECTS OF WHAT I MEAN IN EACH BUSINESS SEGMENT.

SYSTEMS

COMPUTER SYSTEMS SHIPMENTS IN THE FOURTH QUARTER TOTALED 114 UNITS, WHICH BROUGHT THE 1984 TOTAL TO 280 UNITS, A 22% INCREASE FROM 1983. ALTHOUGH WE HAD HOPED TO ACHIEVE AN EVEN GREATER NUMBER, WE ARE PLEASED WITH THE PROGRESS MADE IN THE FOURTH QUARTER IN THE 810/830 PRODUCT LINE HAVING SHIPPED 74 OF THESE SYSTEMS AND ANTICIPATE SHIPPING MORE THAN 360 UNITS OF THIS CLASS MACHINE IN 1985.
ORDER ACTIVITY WAS ALSO VERY STRONG IN 1984 WITH OVER 300 ORDERS AND 90 OF THOSE, OR SOME 30%, CAME FROM NEW ACCOUNTS.

TOTAL YEAR COMPUTER SYSTEMS REVENUE WAS $470 MILLION.

THE GOVERNMENT SYSTEMS BUSINESS GREW SOME 14% IN 1984 AND WILL HAVE RECORD REVENUES AND PROFITS. BEHIND THIS WAS NOT ONLY THE NEXT LOT OF PRODUCTION FOR THE NAVY AYK-14 STANDARD AIRBORNE COMPUTER WORTH $45 MILLION BUT ALSO A DEVELOPMENT CONTRACT FOR AN IMPROVED AYK-14 VALUED AT $11 MILLION.

IN ADDITION, TWO MAJOR CONTRACTS -- ORDER VALUE $43 MILLION -- FOR THE MILITARY DISK PRODUCT AND ANOTHER MAJOR DEVELOPMENT CONTRACT WERE RECEIVED IN OCTOBER. THIS REPRESENTS A SIGNIFICANT ENDORSEMENT BY THE GOVERNMENT OF THE TECHNOLOGY WHICH HAS BEEN DEVELOPED.

1984 GOVERNMENT SYSTEMS REVENUES WILL BE $267 MILLION WHICH REPRESENTS A SOLID 14% GROWTH COMPARED TO 1983.

COMMERCIAL CREDIT

COMMERCIAL CREDIT'S OPERATING PROFITS ALSO CONTINUED TO IMPROVE IN THE FOURTH QUARTER. THE FOURTH QUARTER IMPROVEMENT WILL BE THE FIFTH CONSECUTIVE QUARTERLY IMPROVEMENT. AS PREVIOUSLY DISCUSSED, THESE IMPROVEMENTS WERE A RESULT OF AGGRESSIVE COST REDUCTIONS, PRICE INCREASES, SELECTIVE AND MORE FOCUSED GROWTH, AND FAVORABLE MONEY MARKET COSTS.
COMMERCIAL CREDIT HAS NOT BEEN TO THE MONEY MARKETS FOR ANY INTERMEDIATE OR LONG-TERM DEBT FOR QUITE A NUMBER OF YEARS. IN LATE DECEMBER THEY REGISTERED $200 MILLION OF MEDIUM-TERM (3 TO 5 YEARS) SENIOR NOTES. WE HAVE BEEN VERY PLEASED WITH THE ACCEPTANCE AND HAVE PRIVATELY SOLD $93 MILLION IN THE FIRST FEW DAYS.

LARRY PERLMAN HAS COVERED (WILL COVER) THE STATUS OF THE POTENTIAL DIVESTITURE.

EDUCATION

WHILE PLATO COMPUTER-BASED EDUCATION AND TRAINING IS NOW AN INTEGRAL PART OF MANY DIFFERENT SERVICES THROUGHOUT THE COMPANY, IT IS THE DEDICATED FOCUS OF THREE SEPARATE BUSINESS UNITS THAT ADDRESS THE NEEDS OF SPECIFIC MARKETS. ONE UNIT FOCUSES ON TRAINING IN BUSINESS, INDUSTRY, AND GOVERNMENT; ANOTHER ON THE UNIVERSITY MARKET; AND THE THIRD ON ELEMENTARY AND SECONDARY SCHOOL MARKETS. THIS LAST ORGANIZATION IS A NEW SUBSIDIARY CALLED USSA -- UNITED SCHOOL SERVICES OF AMERICA. USSA HAS THE RESPONSIBILITY FOR OPERATION OF THE CONTROL DATA INSTITUTES AND HAS A FULL RANGE OF CONSULTING, OPERATIONS, AND MANAGEMENT SERVICES TO IMPROVE THE DELIVERY OF EDUCATION TO THE K-12 MARKET. LATE IN THE YEAR, USSA AGREED TO ENTER INTO A SIGNIFICANT JOINT VENTURE AGREEMENT WITH A COMPANY CALLED WICAT
SYSTEMS -- ANOTHER IMPORTANT ENTRANT IN THIS MARKET. THIS WILL RESULT IN THE MOST COMPREHENSIVE PRIVATE SECTOR PROVIDER OF COMPUTER BASED CURRICULA, TRAINING, AND MANAGEMENT SYSTEMS FOR SCHOOLS. SO ONCE AGAIN, IN THE AREA OF CBE, WE SAW A VERY SIGNIFICANT DEVELOPMENT IN THE LATTER PART OF 1984.

COMPUTER SERVICES

DATA SERVICES ALSO BEGAN TO IMPROVE IN THE LAST THREE MONTHS OF THE YEAR. PROGRESS IN COMPUTER RESOURCE CONSOLIDATION AND SAVINGS WAS NOT AS RAPID AS WE HAD HOPED EARLIER THIS YEAR BUT IT PICKED UP AND SHOULD BE COMPLETE BY THE SECOND QUARTER OF THIS YEAR. SAVINGS IN EQUIPMENT AND RESOURCES WILL BE SUBSTANTIAL BUT WILL BE ACCOMPLISHED WITHOUT ANY DEGRADATION OF CUSTOMER SERVICE. IN FACT, WITH IMPROVED TECHNOLOGY, CUSTOMER SERVICE CAPABILITY WILL BE ENHANCED.

WE HAVE ALSO REDUCED THE CYBERNET PEOPLE COMPLEMENT IN THE LAST 12 MONTHS BY SOME 20%. THE RESOURCES OF CYBERNET ARE ALSO BEING FOCUSED MORE SPECIFICALLY ESPECIALLY ON THE UTILITIES AND ELECTRONICS INDUSTRIES.

CIM (COMPUTER INTEGRATED MANUFACTURING) -- A DIVISION FOCUSED ON THE COMPUTER PRODUCT AND SERVICES NEEDS OF ANOTHER SPECIFIC MARKET -- MANUFACTURING -- IS CONCLUDING A STRONG FIRST YEAR PERFORMANCE. U.S. REVENUE WAS IN EXCESS OF $100 MILLION IN
1984 with the sale of eight CY830's and one CY855 to Chrysler being the largest. Other major system sales include Northrup Cyber 845 purchase, Cal-U LASL, MCAuto, TRW, Tracor and Hasbro. In addition, CIM provides individual workstations for engineers, data services (previously provided as part of Cybernet), as well as technical consulting and software.

In the second half of 1984, CIM, through equity investments, acquired three affiliates: Comserv, a Minneapolis company that has one of the most widely used material requirements planning applications for manufacturing companies; Digital Productions, a company on the West Coast that specializes in high-performance graphics that are so vitally important in the CAD area; and Diversified Data Collection, Inc., that has a manufacturing shop floor manager application. So CIM has also strengthened its future position.

Commercial Services

Arbitron had a very strong fourth quarter finish for 1984 and chalked up another record year with revenues exceeding $100 million for the first time and record profits as well.

In another part of the commercial services area, on December 14, we acquired Compute-R-Systems. CRS is in the legal industry and markets products and services such as
FINANCIAL RECORD KEEPING, MANAGEMENT CONTROL, AND WORD PROCESSING. THE ACQUISITION OF CRS PROVIDES EXCELLENT ADDITION TO THE LEGAL SUPPORT SERVICES DIVISION'S PREVIOUS OFFERING WHICH IS LITIGATION SERVICES.

INTERNATIONAL SERVICES

AS SOME OF YOU KNOW FROM PREVIOUS CONTROL DATA BOARD REPORTS, INTERNATIONAL SERVICES WAS A MAJOR DISAPPOINTMENT IN 1984. SO IT'S GOOD TO REPORT THAT WE COMPLETED 1984 WITH A VERY STRONG FINAL TWO MONTHS IN THIS AREA.

INTERNATIONAL SERVICES REVENUES WERE OVER $64 MILLION IN THE FOURTH QUARTER AS CYBERNET AND PROFESSIONAL SERVICES WERE ESPECIALLY STRONG. THIS WAS DUE NOT ONLY TO IMPROVED PROCESSING AND CONSULTING BILLINGS, BUT ALSO TO INCREASED ACTIVITY IN SOFTWARE AND WORKSTATION SALES. EDUCATION SERVICES WAS ALSO STRONG AS CDI CLASSES WERE FILLED AND THE BILLINGS OF PLATO WORKSTATIONS HAS MOVED UP STEADILY. ONLY FINANCIAL INFORMATION SERVICES WAS LOWER THAN EXPECTED.

WITH HIGHER REVENUES, PROFITS ALSO IMPROVED IN THE FOURTH QUARTER. INTERNATIONAL SERVICES SHOULD BE CLOSE TO A BREAKEVEN FOR THE QUARTER. CYBERNET WAS PROFITABLE IN THE QUARTER FOR THE FIRST TIME THIS YEAR DUE BOTH TO HIGHER REVENUES AND MARGINS. PROFESSIONAL SERVICES AND EDUCATION SERVICES WERE ALSO PROFITABLE WHILE FINANCIAL INFORMATION SERVICES AND OTHER SERVICES STILL OPERATED AT A LOSS.
PERIPHERAL PRODUCTS COMPANY

PERIPHERAL PRODUCTS COMPANY COMPLETED 1984 ON A LONG AWAITED UP
NOTE.

TAPE PRODUCT BACKLOG IS AT AN ALL TIME HIGH OF $55 MILLION.
MEMORY PRODUCTS HAD TWO MAJOR ACCOMPLISHMENTS IN PRODUCT
SHIPMENTS: WE SHIPPED 1,500 NEW WREN II DISK DRIVE UNITS IN
THE FOURTH QUARTER WITH PRODUCTION STEADILY INCREASING
THROUGHOUT THE QUARTER TO PREPARE FOR A 5500 UNIT SCHEDULE IN
THE FIRST QUARTER OF THIS YEAR; THE "FSD" DRIVE SHIPMENTS
REACHED 2,000 TOTAL UNITS IN NOVEMBER AND DECEMBER WITH
FIRST QUARTER '85 BUILD RATES OF 5,200 UNITS. SO YOU CAN SEE
THE KIND OF RAMP WE ARE ON.

SUMMARY AND CONCLUSION

IN SUMMARY, IT'S NICE TO HAVE SOME SUNSHINE FOR A CHANGE. BUT
I CERTAINLY DON'T WANT TO MISLEAD YOU INTO BELIEVING THAT WE
HAVE SOMEHOW MAGICALLY CIRCUMVENTED THE BASIC COMPETITIVE AND
TECHNOLOGICAL PROBLEMS SO PREVALENT IN THIS INDUSTRY -- NOR FOR
THAT MATTER ACHIEVED THE WELL OILED, SMOOTHLY FUNCTIONING
INTERNAL MACHINE AT WHICH WE HAVE BEEN WORKING SO HARD.

ALTHOUGH, AS I MENTIONED, WE EXPECT TO SHIP 28% MORE SYSTEMS IN
1985 IN TERMS OF UNITS, SYSTEMS REVENUE WILL GROW ONLY ABOUT
10%. Gross margins will not increase at all and only by keeping a stranglehold on expenses will there be any systems profit improvement at all.

Peripherals will have, of course, much better profit performance in 1985. There won't be the $130 million in write-offs for plugs -- nor the absorption of some $24 million in losses in the floppy disk area. But peripherals still faces a large task to reach satisfactory yields of high quality products. The last round of competitive technology and performance escalation has truly exposed the problems built up over many years in peripherals. Material management and indeed overall manufacturing processes have a long way to go.

As I look at 1985, the area of greatest improvement is computer services -- especially in the U.S. -- but even at that, that area of business will only operate at about one-third the profit level we would expect if the business were stabilized. International services will probably still operate at a loss in 1985 albeit much less of a one than last year. The fourth quarter surge in international services was in truth at least partially just that and won't be repeated through each quarter of this year.

All in all, after some tough, tough budget sessions with the top operating people, the $4.48 estimate we gave the control
DATA BOARD IN NOVEMBER IS TOO OPTIMISTIC. THE BUDGETS ARE NOW COMPLETE AT A LEVEL OF $4.00 PER SHARE. THAT'S ONE HELL OF A LOT BETTER THAN $.80 IN 1984, BUT IT ALSO ISN'T WHERE I WANT TO BE AND EVEN TO ACHIEVE THE BUDGET WE HAVE ESTABLISHED WILL MEAN OVERCOMING SOME SIGNIFICANT OBSTACLES.

BUT WHILE I AM NOT HAPPY, I CERTAINLY AM NOT DISCOURAGED. WE HAVE FACED ADVERSITY AND A CHALLENGING COMPETITIVE ENVIRONMENT SINCE THE BEGINNING OF THE COMPANY. CERTAINLY THE ENVIRONMENT IN THE 80S IS HARDER THAN IT HAS BEEN FOR MANY YEARS. IBM AND THE JAPANESE ARE A LARGE PART OF THAT.

THE STRATEGIC CONSIDERATIONS, MUCH LESS THE OPERATIONAL CHALLENGE, OF ALL THIS JUST HAPPEN TO BE FASCINATING -- I CAN'T IMAGINE ANYTHING THAT WOULD BE MORE FUN THAN TAKING ON THE CHALLENGE. OVER THE COURSE OF THE YEAR, WITH THE CONTROL DATA BOARD, I EXPECT TO SHARE SOME OF THAT. TODAY, WITH BOTH THE COMMERCIAL CREDIT AND THE CONTROL DATA BOARDS, WE'LL LOOK AT ONE PIECE OF IT -- THE SUPERCOMPUTER MARKET. YOU'LL FIND IT A FASCINATING INTRODUCTION TO ONE OF THE TRULY HIGH STAKES GAMES AROUND -- THE COMPUTER INDUSTRY.