Introduction

With that financial update from Chuck, I want to take a few minutes and give you a summary of the most recent actions we have taken to adjust to the changes affecting the industry, as well as our own particular problems.

The overall strategic and financial framework for these actions is still that which we discussed at the stockholders meeting in May.

Restructuring

First of all to meet the requirement for a tighter management focus as the pace of changes increases in the industry, we have been divesting and will continue to divest segments of the business and we will augment those that have the best prospects for superior financial performance. Yesterday in CIM, Arbitron and USSA you heard some of the needs for augmentation of existing strong positions. Continuing in the view that led to the exit from the plug-compatible disk business and the
proposed divestiture of Commercial Credit, we are pursuing a number of additional actions. These include a plan which will significantly restructure Commercial Credit and improve its profitability to competitive levels by 1987. Joe Minutilli will describe this later in the agenda. It also includes the potential sale of BPG in Peripheral Products, as well as a number of smaller divestitures and shutdowns.

We have further narrowed the focus of the Peripherals business with selective/market segment withdrawals such as the floppy business. Overall the goal of the restructuring is to help Peripherals become a leaner, more responsive, more effective and more profitable organization. The restructuring also includes the movement toward greater functional structure which began last fall and is aimed at giving clearer and greater responsibility directly to Sales, Engineering, and Manufacturing. Some of the highlights of the new organization structure are:

1) Establishing a research function that will have overall responsibility for ensuring the long-term technological leadership position of the Peripherals Company.
2) Establishing a Marketing, Planning and Product Line Management function. Product line managers will integrate the diverse marketing and planning activities throughout Peripherals. The PLM's will be responsible for their products from development through phase-out, worldwide. They need to understand the marketplace and make certain that Peripherals designs and introduces products that have a competitive edge, and through pricing and technology changes, that edge is maintained, and maintained with satisfactory profits. The marketing and planning group will be responsible for strategy including market and industry requirements, and will manage new product thrusts.

3) All peripheral sales activities will be in one organization with the International sales organization reporting on a functional basis.

4) The manufacturing function will be responsible for producing products and its focus will be on quality, cost and schedule.

5) Establishing the technology and engineering operations function which will reinforce the product and market orientation which is at the core of the new structure. This function will continue to be responsible for product development.
As we discussed yesterday in Services we are concentrating on six markets: 1) The Scientific and Engineering market which is spearheaded by engineering design and analysis applications; 2) Commercial Services which provides consulting, training, information services and data processing tools with particular emphasis on marketing information services, such as Arbitron/Burke; 3) K-12 and Vocational Education Services; 4) Healthcare Services; 5) Services to the Financial industry -- in particular credit unions, banks, and finance companies; and 6) Economic Development Services which center on computer based services for job creation networks and assistance to the disadvantaged.

These same markets, for the most part, are also being developed outside the United States. However, we have previously noted the severity of the downturn in the other parts of Control Data's business this year have not allowed us to pursue international expansion on as broad a scale as we had planned. So we are cutting back. The net effect of these actions -- had they been in effect for the full year -- to reduce this approximately $200M a year business by some 10% and cut the loss by more than 50%. However, it will take the better part of 1985 to realize the full effect the people reductions, shut downs, and divestitures. In addition beginning in the 3rd quarter we will have to recognize the full consolidation of
Systime and the total impact of that is not yet known. So there will not be much in the way of visible 1985 evidence of actions being taken in the financial results — on the contrary for International Services we can expect a poorer result in '85 than in '84.

Next I would like to briefly review the most recent organization and executive realignment that was announced and was effective July 1. [Organization Chart] We normally, of course, give the board advance notice of such changes. In this instance the normal order of things wasn't possible because as things developed we felt it necessary to go ahead with the announcement before things leaked out.

Two critically important positions were added to the corporate staff and will help Control Data improve its performance and profits. One, to be filled by Henry J. White, will enable the entire corporation to capitalize on White's expertise in operational processes. Hank will become senior vice president, Operations, and assistant to the president. He will exercise direct authority over software, corporate research and other corporate service functions. He also will chair the company's Operations Committee and be responsible for assisting me in the overview of all operations, with particular emphasis on improving quality and productivity. The computer products
group will be separated into Computer Systems, Government Systems, Peripherals Products and Technical Support Services and report directly to me.

The other function is Corporate Marketing and Strategic Development. Bob (R. W.) Duncan will be the senior vice president of this area. By combining marketing and strategic development we will strengthen the needed in-depth strategic analysis as well as the marketing and market focus aspects I discussed last night and again a few moments ago.

As part of the executive realignment, Tom Miller will become president of a new Technical Support Services business unit which includes Engineering Services, Professional Services, Business Industry Government Training and Education, and Business Advisors.

Thomas C. Roberts, whom I introduced to you last evening, was president and chief executive officer of the Fairchild Camera and Instrument Corporation, a division of Schlumberger, Ltd. Tom has joined us to head International Operations. Tom has had a distinguished career in the electronics industry and brings a combination of management and marketing skills specially appropriate to our international organization. After military service and work as a computer sales engineer for IBM,
Roberts joined Schlumberger in 1970. He has been Fairchild's chief executive for five years, following about 10 years of European service in positions such as treasurer of the Copagnie des Compteurs in Paris and managing director of Schlumberger's electronics business in the United Kingdom.

**Effects of changes**

1) **People.** We have reduced fulltime employment by some 4,800 people since June, 1984. We have reduced fulltime employment by more than 3,800 people since January 1 of this year. That number will increase through the rest of the year. In addition to that, the number of supplemental employees is 1,800 less than those employed at the beginning of the year.

2) **Assets** are down $145M since 12/31/84 which reflects a decrease in receivables of $235M and an increase in inventory -- primarily finished goods in peripherals and systems of $64M. By year end assets will decrease an additional $100M.

3) **Restructuring Effects.** The planned divestitures and other restructuring although underway, for the most part will not actually take place until later in the year. On an annualized basis the effect if we are successful would be to reduce revenue by some $320M.

[slides and comments]
This next transparency gives a rough sizing of the changes. As you can see we have realized about $30M in cash from actions thus far. From the next chart you can see that the proposed divestiture of BPG which I mentioned represents about 2/3 of the total. Larry Perlman is going to review that with you specifically later in the agenda. Other major elements of the special plans to reduce assets and debt include selected sale of plant and equipment -- including some sale and leaseback and some land and venture capital fund security sales. These are shown on the next two transparencies.

4) Cost and Expenses. Through 2 quarters people related costs and expenses in effect will have been reduced by an annualized $100M from the first two quarters of 1984. The full effect of this reduction does not immediately flow to the operating statement. I should also add that interest on the other hand is up some $11M year-to-year.

In total the people, asset and restructuring actions we are taking on an annualized basis would improve pre-tax profits some $160-190M and reduce invested capital some $200M.
1985 results to date compared to 1984 and outlook for the future

Narrowing our product and service focus and resizing the business to reduced volume, then, has been aggressively pursued both through basic restructuring and straight cost cutting. But price erosion and reduced volume in peripherals is such that the effects of these cost reductions, divestitures and other actions have, until last month, not produced much in the way of bottom line improvement. Revenue from Peripherals alone is down over $90M year-to-year through two quarters.

The second half will show improvement over the 1st half. Primarily this is because we will realize the impact of costs reductions rather than have increased revenue. Nevertheless we do expect 2nd half revenues to improve by approximately 4-5%.

Summary

I'll conclude my remarks by making some general observations regarding Control Data and the industry. Since I covered the individual businesses in some detail at the May meeting and for the most part they continue on plan as Chuck has mentioned, Control Data's U.S. Computer Services businesses are on plan and some of those businesses are showing encouraging signs of strengthening. Computer systems unit shipments are expected to
be up sharply again this year. We have lowered the profit forecast because of the intense pricing pressure we have been experiencing.

Again two major business groups experiencing significant earnings pressure are Peripheral Products and International Services. The severity of the problems in peripherals is such that for the Corporation in total, it is very difficult at this time to determine if earnings for the year will match 1984's level of $32M. At this point there are very few, if any, signs indicating that the bottom has been realized in sales to other computer companies. While this outlook is not what I'd like to be describing, it nevertheless is reflective of future near-term business conditions. I don't want to leave you with the impression, however, that everything is negative. In the services areas in particular there is good news -- PLATO Training for industry had several significant new orders in June at Chrysler, Dupont, Proctor & Gamble and American Airlines. Cybernet revenue exceeded forecast and GBS services had their best order month ever, highlighted by a large payroll processing contract with the City of Detroit. We closed another Pathlab system in June -- making 10 so far this year and a second HELP system in North Carolina. And Commercial Credit continues ahead of plan in cash employed, growth written premium in insurance and revenue.
For the U.S. computer industry overall the reports have been
growing steadily more pessimistic over the past two to three
months. The industry is described in terms ranging from
"maturing" to "stumbling" to being "in a state of disarray."

There is no question that the industry is going through
fundamental change. We have said for five years now that that
would be the case throughout a good part of the 80's. When I
talked to security analysts at a meeting three years ago, I was
thought to be a pessimist when pointing out the difficulty that
changes in the computer industry and the economy in general
would cause.

I said in response that I am not a pessimist, but rather an
optimist because in spite of the great hurdles we faced there
is an ever-increasing long term need for information and
computing. I still feel that way. You heard yesterday about 3
businesses where that need is very great indeed. At the same
time it is obvious that Control Data has not been as quick as
we should have been in responding to the changes. In
Peripherals particularly there is just no question that we
misjudged the size of the task we faced in 1981 and we are
paying the price now.
For the industry in total I do not see any sudden rebound either later this year or next. So the answer will be to reduce costs to a sustainable level and continue to work at the basic businesses and markets where we have established strengths. You hear a lot more talk these days about "differentiation", "value-added", "restructuring" and so on. I recall discussing those sentiments with regard to Control Data and the mainframe business fifteen years ago. We were right of course, and our computer systems business survives because we faced those facts. Still I would say, having been through the experience, that saying it is one hell of a lot easier than doing it. So there's a lot of folks in for some tough times.

In spite of the current industry circumstances as well as our own we have the strength and experience to make our strategic and structural adjustments and get back on a path of improving profitability -- and for sure we aren't just beginning to learn the skills necessary to do so. We've done all this before and we'll do it again.