Good Morning. I'm Bob Price, President of Control Data. I have a few introductory comments, and then Marv Rogers, Control Data's chief financial officer, will give you an overview of Control Data's current capital structure, the planned use of the proceeds of this offering, as well as our overall financing plans. He will also discuss Commercial Credit, including the events of the past nine months and future plans.

I want to begin by providing a brief historical perspective on Control Data. Control Data was started 28 years ago when the computer industry was in its infancy. The intention was to use the then newly developed transistor technology to build very large computers which were particularly good for scientific, engineering, and military application. The result was the first commercially successful transistorized computer -- the Control Data Model 1604 -- which has been followed by a succession of more powerful computers over the past quarter century. The immediate successor to the 1604, the Model 6600, was the first machine known by the now-familiar term "supercomputer".
Out of some 50 small startup companies which sprang up in the decade of the 50's at the dawn of the computer age, Control Data in mainframes and DEC in mini-computers are the sole independent survivors. Control Data pursued a strategy of market differentiation from the beginning, namely large mainframes for scientific and engineering computing -- that remains the core business of our company.

An early diversification of the company was into the peripheral products business. The major reason for this was that there was no reliable source for the high performance data storage and unit record devices which we needed for those high performance computers -- other than IBM which only sold at list price. Not being able to justify the necessary R&D nor to achieve manufacturing economies of scale based solely on Control Data's internal requirements, the decision was made to become a supplier of peripherals to other computer manufacturers. Ultimately a series of cooperative development and manufacturing ventures with other computer companies enable us to achieve even greater economies of scale. By the middle 70's Control Data had become the world's largest OEM (original equipment manufacturer) supplier of disk storage media.
The dominance of IBM in the computer industry is widely discussed but its true strategic implications are poorly understood. At least as far as Control Data was concerned it was clear by the early 60's that sustained growth and reasonable strategic stability -- that is not just getting chased from our "niche" to another -- would demand a different approach. Our response was to diversify into computer services which involves using computers and application expertise to provide an end result to people as opposed to just supplying computers and computing software tools.

Computer services is widely equated with "time sharing" but it actually encompasses a whole host of services provided by companies like ADP, Control Data, and EDS that cover everything from doing payrolls to providing an analysis of TV audiences or medical laboratory data.

Control Data entered this business in the early 60's. As technology has evolved many new services have become possible. While Control Data's computers are naturally used in our services business so is hardware from some 57 other vendors, including IBM, DEC, Zenith, Apple and so on. Services now is a $1.564 segment of our total business.
The services business has also changed from a fairly broad base of application twenty years ago to specific areas of expertise in which we are among the industry leaders. We are concentrating on six of these vertical markets: Engineering applications and services revolving around computer aided design services; Financial Information Services for banks and credit unions; Commercial Services -- principally marketing decision support services such as Arbitron which have grown out of the audience measurement business serving advertisers and broadcasters; services to the health industry; education services for secondary & elementary schools, and finally training and other knowledge related services to provide job readiness for the disadvantaged and small business.

The computer industry has gone through a very rapid evolution from its inception. We are in the midst of a particularly turbulent time at the moment. Control Data, as many of you know, has been particularly hard hit in the last two years in its peripherals business. We'll talk about that in a few minutes, as well as systems & services in detail.

First, however, I want to frame for you a few major points regarding the company and its position in the industry.
First, as I say, the industry is in a slump. Since our peripherals company's customers are other industry participants, it is hardest hit. But we have responded to the slump by:

- Product rationalization in peripherals,
- Exit floppy disk drive business and end user plugs, and
- Potential divestiture of other parts

- Narrow the focus of services to concentrate on 6 basic markets. Means divestiture or withdrawal of some business
- Restructuring of CCC -- downsized and lower leveraged -- higher ROA
- General productivity increase -- lower employee population, increased 10% revenue/employee 85K+-90K+ '86

Jan. 1 - fulltime - 4K employees
    supplemental - 2K employees
What makes news is problems. But the company is blessed with excellent, high yielding assets as well.

- Svcs. - more established Svcs. - TSS, SES, ARB, TICKET $900M in Rev. ROIC - 16%
- Systems - new product line 60x range over 6 models. Gov't. Sys. $300M growing 12-14%
  ETA - supercomputers
- Peripherals - new products - 90% of '86 models introduced since '84 - TFHA

Financing Liquidity - contrary to some general impressions - WSJ promulgates
  - 1.7B equity, 750M debt
  - There is $130M available - not projecting need

Net, net, in order to better focus our resources and energies we are restructuring major segments of the business. This means potential divestiture or shut down of certain peripheral product lines and service businesses. In total some 15% of 1984 computer business revenue is involved. The net result will be a flat revenue profile in both '85 and '86. This reduced business scope, however, is expected over the longer term to perform at a return on equity of in excess of 15%.

As I say we can cover some details shortly, but first Marv Rogers will cover CCC and the financing overview.
I'll turn now to the computer systems business, which includes three areas: the Cyber 180 family of computers; government systems and supercomputer operations.

As I mentioned earlier, Control Data has its origins in the scientific computer business. The Cyber 180 product line is a continuation of Control Data's historic emphasis in the scientific and engineering marketplace. The Cyber 180 line, which was announced in 1984, was one of the most significant computer systems announcements that we have made since the company was founded. The Cyber 180 family is a new line that includes six models ranging in performance from the supermini 810 at $250,000 for a system to a 990 unit that is 60 times more powerful and sells for around $4 million. These Cyber 180 systems are designed for use in such industries as manufacturing, petroleum, education, electric utilities, and environment, as well as by government agencies.
These key industries have been the strategic focus for Control Data for a number of years. While growth rates for the mainframe segment of the industry have been in the 6-10% range for a number of years. More engineering oriented areas have been among the more rapidly growing. Computer aided design both for mechanical and electronic design engineers is one in which significant future growth is expected. Today Control Data is the sixth largest vendor of CAD systems and expect to improve the position. In electric power distribution we are the major supplier and will maintain that position.

Early on Control Data began supplying services to these market areas and as technology has become cheaper it has been a natural evolution to move from remote services to dedicated in-house systems. This approach is quite different from other mainframe and mini-computer vendors who have been suppliers of "tools" as opposed to solutions. Many mini-computer manufacturers in particular have worked through OEM's or value-added dealers as opposed to addressing end-use applications themselves. As technology matures and marketplace distinctiveness is harder to achieve many of them have followed Control Data's lead and have moved more toward supplying turnkey systems.
The price of competing in mainframes has always been high. For Control Data, nearly 25 percent of systems revenue has to be reinvested in R&D in order to maintain competitive hardware and software. Clearly, to generate sufficient margins, we need maximum creativity and efficiency in how we produce, market, and deliver our systems. It also means that evolution of the customer base is critically important -- preserve the old and add the new. One of the technological features which has greatly helped us in this regard is the multi-state architecture of the Cyber 180. We have not only preserved our base but are adding new customers -- some 13% of new orders are new customers for the past few years.

Overall, the reception to the Cyber 180 line has been very positive. It is recognized in the marketplace as a system designed to meet the needs growing needs not only through this decade, but also as the architectural basis for follow-on products that will take us into the 21st century.

Government Systems

In Government Systems we actively pursue technology program funding, which lets us become involved in programs at an early stage and thus understand customers' needs, and helps us stay on the leading edge of technology.
Then, of course, we attempt to have our military products recognized as the "standard" whenever possible. When a product is recognized as a standard within DOD, that specific product must be used by other contractors whenever it is specified in any given program. We are the production supplier of three standard products.

The three we supply are: the U.S. Navy's AN/AYK-14 standard airborne computer; the fire control computer for the U.S. Army's M-1 tank; and the UYH-3 Navy standard disk. In total Government systems is a $300M business growing at some 12-14% per year.

**Supercomputers**

Now, let's talk about supercomputers, which at Control Data, mean ETA Systems, the spinoff company in which we have a majority interest. ETA's basic charter is to develop the next generation supercomputer and have the first unit in the marketplace by the end of 1986. They have been and are continuing on schedule. They have already booked three orders for this machine, the ETA 10.
Of course, we are not alone in pursuing supercomputers. Besides Cray Research, we are seeing increased competition from Japanese manufacturers. The market is also being muddied with so-called "near-supercomputers" and application-specific special computers.

ETA not only is developing and marketing the ETA 10, it is also responsible now for marketing and sales functions covering the existing Cyber 205 supercomputer. We now have one focused marketing and sales organization supporting supercomputers in the marketplace. The moving of marketing and sales for the Cyber 205 over to ETA allows ETA to concentrate on supercomputers and frees up the Control Data sales force within systems to concentrate on selling the Cyber 180 line. We expect this change to be able to increase the number of Cyber 205 units that we can bring to the market in 1986.

**General**

We expect computer systems to continue its steady growth with some acceleration occurring in 1987 and beyond as the supercomputer and special purpose application computers begin to have a more significant effect. For 1985 and 1986 computer systems will operate somewhat below its profit performance norm because of expenditures for development of the ETA 10. By 1987 this segment will return to previous performance levels.
SERVICES

As I have already indicated Control Data, in the early sixties began to reduce its dependence solely on mainframe computers as a vehicle for growth by diversifying into peripherals and more significantly into value added services based on the use of computers. For the most part these services were design analysis services for engineers. However, by 1970 both Arbitron and Ticketron had been acquired. Technical consulting and support services including vocational education had been developed internally. These older businesses today in total represent some $900M in revenue and a return on invested capital in excess of 16%.

In the last ten years additional service businesses have been acquired or started internally. SBC with its time-sharing business was acquired from IBM in 1973. A major expansion was also begun into the international marketplace in order to provide a more stable base for that business than could be provided by the sale of mainframe computers for use in engineering applications. While we will continue this strategy the effort in International Services will be much more market focused and greatly reduced in scope.
In addition to the start up expenditures associated with the start up of new services the time-sharing business has been heavily impacted by the advent of micro-computers. As a result the services business in total will be only marginally profitable on $1,564M in revenues.

We have therefore begun a process of divestiture and refocusing in services that, along with other operating improvements and when complete by year-end, will reduce the size of the services business, but should also significantly increase earnings in 1986.

The service business now consists, then, of six market focused units. In each of these markets there is a combination of computer based information services as well as technical consulting, and training services.

I'll briefly review each of the six.

1) Scientific & Engineering Services

In Scientific and Engineering Services, revenue reached $646M in 1984, up 11% from the prior year. In 1985, the revenue growth will be minimal due to the restructuring I mentioned. However, as a group, these businesses achieved their revenue
goal in the first two quarters and surpassed their profit objectives as well. So the movement is in the right direction, and we're confident that we will continue to see improved profitability.

Control Data has made a major commitment to CAD/CAM -- computer-aided design and computer-aided manufacturing. This is a market with revenues of U.S. vendors estimated at more than $2.7 billion and with an annual growth rate of 30%.

2) Healthcare

In healthcare services, we market both health-related services and information systems. Two of these systems are Pathlab for medical laboratories and HELP, a comprehensive hospital information system which includes an expert system to aid medical practices in patient care. More than 150 of the Pathlab systems are installed.

We anticipate over 20 percent annual growth in the laboratory systems market over the next three years.

3) Education

Early this year our education services for elementary and secondary schools were made part of a joint venture with Wicat
Systems. This joint venture, called PLATO/Wicat Systems Company, serves the entire kindergarten through 12th grade educational process.

The market for educational courseware and hardware for the 1985-86 school year is estimated to be $859M. Again, our competitive advantage against those companies which deliver lesson material via microcomputers is a total system and array of services to support the entire classroom process. The Garland, Texas school district recently ordered an additional 39 systems valued at $2.5M to add to nearly 100 systems that will be installed next year.

4 & 5) Financial and Commercial Services

Financial and Commercial Services together generated revenues of 530 million dollars in 1984. Due to reduced revenues in the time-sharing segment of this business the expectation for 1985 is an increase of less than 10%.

The common denominator of these operations is the ability to deliver value-adding for the information needs of targeted industries. Those markets are principally the financial industry and marketing information services such as Arbiton's audience measuring services. They also include basic financial systems for manufacturers and other small businesses as well as Ticketron.
Financial Industry Services, which provides processing and other data services to banks, credit unions and consumer finance companies, is having a good year, primarily on the strength of our credit union business. There are roughly 18,000 credit unions in the U.S., which represents a $250M market, which is growing at a cumulative annual rate of 25 percent. We hold just over 15 percent of that market, which is second in the industry.

The time-sharing part of commercial services is going through a difficult transition. Over the past two years we have begun to sell integrated decision support systems for marketing, operations and finance, and deliver them through a combination of remote services and on-site equipment.

Also in Commercial Services, Arbitron last year reached the hundred million dollar revenue mark on the way to record earnings, and should finish ahead of plan again this year.

6) Economic Development Services

Economic Development Services are, for the most part, new services mostly including education and training for job-seeking disadvantaged people. Total revenue for 1985 is forecast at $13M with a loss of $5M. These businesses should reach breakeven in the fourth quarter of this year.
Overall we have these goals for the services business: through divestiture and restructuring to reduce the scope and sharpen the market focus of the business in total; to attain a market leadership or close to it in each of the six segments and to be known for quality of services.

Close

Control Data has, over twenty-eight years, developed three great strengths -- its technology, its customer base, and its people who are known for creativity and leadership. The technology has been acquired and developed at great expense but it is there in computer mainframes, peripherals, and services. Our people are and always have been in great demand -- particularly by those seeking people with broad based business capability. We continue to develop people and business managers of superior capability. We also continue to learn. Because we have never been afraid of great challenge there are times when perhaps we have taken on too many challenges. Right now our strategy is concentrating our energies on becoming the most cost effective, quality producer possible. That means a somewhat narrower focus for the business. It also means more money at the bottom line. With it all we have the technology to assure us of product and service leadership.

And now we'll be glad to answer your questions.