INTRODUCTION

The problems affecting the computer industry and and many of those specific to Control Data, are well known to you. So I will concentrate my comments today on a financial perspective of Control Data, our strategy for dealing with the current situation, and some parts of the individual operating units, such as peripherals which are particularly pertinent to those things.

To properly cover that my comments today will be somewhat longer than usual. Since Control Data's financial structure is a subject of so much speculation -- much of it wrong or at least misplaced -- I'll cover that subject first and spell out the facts for you.

To do this let's go back to December 31, 1983 and a look at Control Data's balance sheet. This chart is a summary of parent company capitalization [chart #1]. I've taken some liberty with the conventional long-term/short-term format to more strategically portray the sources of debt and the particular nature of our equity.
1983 - total debt/equity, CCC investment, D/E ex-CCC, short-term bank debt. In 1983 we were cognizant of investment needs in Services over the coming years. One other crucial financial characteristic surfaced in.....

1984 - 1984 change: $D(+20D)$ $E(-80)$ Asset change in Peripherals (+200) total (+214), Debt year end (750), CCC decision.


[Projector off]

Today to achieve the financial structure desired we must pursue still a different path. But the goal is still the same and that is finance the company primarily through equity and long-term debt. To begin that process we have announced our intention to sell the Ticketron division. This sale will both reduce debt and increase equity. The transaction should be complete by the end of the 1st Qtr., although we will make every effort to effect it sooner if that is possible. But what this means is there are three time periods to consider as we
look at the operations and financial status: (1) Short-term (0-4 months), (2) Medium-term (4-12 months), i.e. until the end of 1986, and (3) Long-term (beyond 1 yr.). Let me cover each period.

Short-term

In the next four months we expect to complete such restructuring as is necessary to stabilize the business. This includes the sale of Ticketron, the divestiture of BPG and the retail disk media and drive business, divestiture and/or shutdown of much of the international services operations, the restructuring of Commercial Credit, and at least major resolution of affiliate problems. Beyond that there are variety of actions being taken to shape up the on-going businesses such as peripherals. Also, every effort is being put on conserving cash. This includes cancellation or deferral of capital equipment and plant shutdowns in November and December. To further reduce inventory, we also have continued reduction in employment. This chart [Chart #2] shows both the history and projection of employment levels. Reduction has been and will be more than just a response to business conditions. [productivity stats from board speech].

[Projector off]
Medium Term 4-12 months

As was clear in the financial picture I showed, additional steps beyond these short-term measures and the sale of Ticketron are needed to finish the job of financial restructuring so as to be positioned for both strength and growth. Over the course of next year we should be able to make considerable progress in that regard. The single greatest dependency is peripheral products. I'll cover more of that later. The principal task during 1986, while stabilizing both profitability and cash flow will be to place more emphasis on a reduced scope of business: growing those segments of greatest priority and de-emphasis of the others. It is no doubt difficult to gather from the media coverage we receive, but Control Data is blessed with excellent high yielding assets: the profitable core services businesses have revenues of more than $1B (from TSS, SES, Com'l. & Fin. Svcs., etc.). Total systems revenues are another $800M. Our Cyber product line with a full compatible performance range of over 60 is well accepted and moving well in selected market areas such as power utility distribution control systems (Orders 1985=$60M). The Gov't. Systems segment, some $300M, is growing 12-14% per year and ETA is making excellent progress toward the next generation supercomputer.
The peripherals business is losing woeful amounts of money, but contrary to the common press theme it is not because of obsolete technology and products -- indeed much of the loss is a result of the rapid introduction of new products coupled with market conditions. Next year 90% of shipments will be products introduced over the past two years.

The emphasis on reduced scope and the health of these core businesses in hardware and computer service next year will position us for renewed growth in 1987 and beyond.

**Longer Term**

Let me turn then to some more detailed remarks with regard to some of them.

1) **Peripherals**

As evidenced by our actions over the past year or more it is our intention to focus on the OEM market for high-capacity high-performance disk storage products.

In the past two years we have been severely impacted by two factors. First, we have suffered from sharply reduced demand from our customers, reflecting the dramatic reductions in their
own sales and orders. The revenue reductions from our 1985 forecasts were sudden and dramatic. In addition, price competition has intensified, putting additional pressure on margins.

Internally, we have failed in the past few years to deliver new products on time. That has cost us market share. We opened the door to competition and they walked in -- in many cases with superior quality. Once competition is installed in a customer, first as a second source and often then as a primary source, they are hard to dislodge. New product introduction delays also hurt Peripherals because sales of the units' older products, which carry relatively high gross margins, have fallen off in 1985 much faster than expected. The new products were not there in adequate volume to replace them, and to the extent the new products were there, the margins have been inadequate. We have also had major problems achieving an adequate production rate on new products that would meet reliability specifications.

Manufacturing effectiveness, is at the heart of our challenge. The challenge is particularly great because we are trying to make major strides in our manufacturing effectiveness in the same year that revenues are down dramatically and product mix is moving toward a greater percentage of low margin products. Let me explain the dimensions of that.
a. [Chart #3] Customers buy storage not boxes. With all the issues facing us we will ship 45% more storage (megabytes) in 1986 over 1985 and even this year the increase will be 33%.

b. [Chart #4] The immediate problem is that prices are falling very rapidly; we cannot get costs down as fast.


d. The newer products, with their dramatically reduced dollars to megabytes ratios, carry much lower gross margins [Chart #7] than the older products. [Chart #8] As you can see we have not achieved breakeven -- will do so next year. While the number of units to be shipped over the next few years will go up substantially, revenues will actually decline or hold even. The issue is a margin issue and it takes time to reduce the cost base by a significant amount -- we are talking several hundred million dollars of changeover.

e. [Chart #9] Summarize SMD/WREN comparison. [Projector off] These conditions dramatize the problems we face. Prices have dropped very rapidly even as the number of
megabytes we ship goes up. But the dollar per megabyte price has dropped much faster than we can cut costs. The challenge for us (and for everyone else in the industry) is to get costs in line with prices. It will take much of 1986 to do this. The changes in technology that have driven prices down were inevitable and indeed foreseeable; what we did not foresee was the speed of the industry slowdown. That fast downturn meant that we had to compress the cost reduction responses to fundamental change into a few months rather than a few years.

For Peripherals, this means focusing the product line on high performance products -- it means discontinuing the media (BGG) business. In broad terms achievement of these goals will mean a reduction of the business by some $6-700M in revenue over the two year period 1984-1986. That figure includes the roughly $200M of BPG revenue.

As we look ahead, we are not counting on the market for data storage devices improving in 1986. The cost reduction steps we are taking, the progress in manufacturing effectiveness and the re-focusing of the business means that Control Data Peripherals is expected at best to break even in 1986. October best $60M, August $46M -- two of last three months orders have been very strong. If the market picks up a bit, all the better, but we
are not counting on a market rebound to solve the problems facing Peripherals.

A real strength for Peripherals is its customer base. Despite the current setbacks the organization has maintained a broad and loyal customer base. We want to build on that foundation of customers; it is key to the strategy. Customers who want to do business with Control Data. Customers who want to do business with a domestic manufacturer of data storage devices.

The strong Peripherals customer base is important because the marketplace has been flooded with competitors in recent years. First, there were dozens of U.S. startup companies financed by venture capitalists. Then, Japanese companies began a concentrated attack on the U.S. markets.

An industry shakeout has begun. Early this year there were perhaps 50 companies in the 5-1/4-inch Winchester disk drive market. By the end of this year about half of them will have quit business or have been acquired.

Another strength of Control Data is technology. I have commented on manufacturing effectiveness as a key objective. We believe we have a competitive advantage in technology, especially with a capacity to produce annually millions of
thin-film recording heads, that permit greater storage capacities. Control Data as well has important media technology -- we are confronting and solving some of the principal media issues that competitors, in their zeal to get to market, ignore. But the immediate challenge is not technology, it is to improve product reliability, meet schedules and lower costs. Quality and cost are today's issues more than technology.

The restructuring of the Peripherals business and the changes to move to cost competitive products in the markets where we choose to compete also mean reduced employment: from 17,000 (fulltime and supplemental) at the beginning of the year to fewer than 10,000 employees at year-end. The total reduction in employee population -- January 1, 1985 to January 1, 1986 -- will be approximately 45% and the payroll savings will be in excess of 125 million dollars.

Finally, at the same time as we reduce the employee population, we are working to change the culture of the organization from one that was essentially demand driven to a more flexible market responsive organization. We want the organization to recognize and solve problems, not wait to be told to do something. Employees at lower levels of management will be able to make timely decisions based on their awareness of the
general direction that has been established. The reductions in people, facilities and equipment, the improvements of quality and product yields are not one-time efforts. They are a new way of life for the Peripherals organization.

2) Systems

Cyber 180

I'll turn now to the computer systems business, which generates more than $800 million in revenue and includes three areas: the Cyber 180 family of computers, government systems and supercomputer operations.

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 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. Growth rates for the mainframe segment of the industry have been in the 6-10% range for a number of years, but the 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 we 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 computing "tools" as opposed to solutions. Numerous 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 application 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 25% or more of 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 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 means ETA Systems, the separate 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.

This particular segment of the computer industry has been one of growing interest. 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 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 Computer Systems should return to previous performance levels.

3) Services

I'll comment only on two core service businesses which have priority attention, SES and F&CS.
Scientific & Engineering Services

(Explain my remarks do not include TSS -- maintenance services in particular)

In Scientific and Engineering Services, the move to distributed computing has meant increased revenue from workstations and turnkey systems and offsetting decline in remote computing revenues. Revenue in total then has essentially been flat '84 to '85 at about $225M. Last year this business operated at a significant loss. It will also be slightly unprofitable this year although it is operating at a profit in the 4th quarter, and we expect that to continue into next year. The consolidation of UIS and Cybernet into one operation will be complete by mid-year and with that the two and one-half year restructuring of remote computing part of the SES business will have been completed.

The demand for our super-computing services is growing rapidly. UIS for example will increase by nearly 50%, with consolidation and reduction of older multiple facilities and upgrading of computers. We now are getting capacity in line with demand. With regard to areas of application specifically I should note that Control Data has made a major commitment to CAD/CAM -- computer-aided design and computer-aided
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%. So we expect good future growth and profitability for Scientific and Engineering Services.

Financial and Commercial Services

Business Services to the Financial Industry, together with all other Commercial Services, generated revenues in excess of 500 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%. Incidentally Time-sharing represents less than 15% of the revenues of the Financial and Commercial Services business.

The common denominator of these operations is the ability to deliver value-added for the information needs of targeted industries. For Commercial Services the principal business is marketing information services such as Arbitron's audience measuring services. Commercial Services also include basic accounting systems for manufacturers and other small businesses. Ticketron, a division of commercial services, is, as you are aware, being offered for sale. Development of Ticketron from a start-up to a $100M company has been an exciting and rewarding experience. It is, I'm sure you
understand, with mixed feelings that I came to the conclusion that it's interests as well as Control Data's are best served through divestiture.

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 the 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 largest market share.

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. Arbitron forms the core of a set of marketing decision support services that could a business of several hundred million within 10 years.
Commercial Credit

As most of you are probably aware, Commercial Credit is having a good year. On an operating basis, pretax earnings in the first three quarters increased from $39M in 1984 to $62M this year.

The finance side of the business, particularly consumer services, has improved considerably this year. On the insurance side, the performance of property and casualty is less than expected because claims are still high. Life and Health and Business Credit insurance continue to perform well.

Commercial Credit has underway a major restructuring and "down-sizing" program. When completed over the next three to six months, Commercial Credit's core businesses will be confined to consumer financial services, life and business credit insurance and vehicle leasing.

And their market presence in the consumer area will be concentrated geographically in the mid-Atlantic, Southeast and Southwest United States. They will have divested assets or businesses in the following areas: consumer finance in 11 Western states; real estate related activities including mortgage banking; asset based lending; aircraft and equipment
leasing and financing (other than Control Data lease financing), most international finance activities and property and casualty insurance. Divestitures planned would represent approximately 1/3 of the receivables assets, more than 20% of the revenues and involve 1/3 of Commercial Credit's employees.

Using the proceeds of the sales to repay debt, Commercial Credit will be much stronger financially - with debt/equity reduced from about 6.5 to 1 to about 4 to 1. Currently it is 5.5 to 1. And since on a pro forma basis those divestitures in total slightly will increase rather than decrease net earnings, liquidity, profitability and fixed charge coverages all improve.

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. From the very beginning we have taken on the most challenging products. The technology has been acquired and developed at great expense but it is there -- 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 new opportunities. Right now our strategy is concentrating our energies on becoming the most cost effective, quality producer possible. That means a narrower focus for the business. It also means more money at the bottom line. With all of this we have the technology to assure us of product and service leadership.

I also want to say that I am well aware that many of you doubt that the management of this company will do the things necessary to correct its current business problems. I think that assessment is wrong, but I also recognize both the reasons for and the depth of your sentiment. So at this point, it comes down to proving it to you. I also understand that proof is not a matter of talk, nor is it something that can be achieved overnight. Proof will come as the company returns to a trend of improving profitability and strengthened balance sheet.

In closing, we are committed to reviewing every part of the company, without exception, with a view to deferment of investment, sale of all or a part of business units, or closure of business units.
Particular attention will be given affiliate investments, developing businesses and peripherals. The situation in peripherals is the most difficult and may well result in further down-sizing.

Control Data is a company with pride in its past and high expectations for its future. We know that our restructuring programs will succeed and that Control Data will be a stronger, more focused and profitable company.

And now, we will be glad to answer your questions.
**CONTROL DATA CORPORATION**

**SUMMARY CAPITALIZATION**

**PARENT COMPANY ONLY**

($ MILLIONS)

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(*) OPEN LINES, SWISS FRANC TERM LOANS, MONEY MARKET LINES AND BANKERS' ACCEPTANCES

(1) ASSUMES NO NEW FINANCING, BUT THAT CCC WAS SOLD FOR BOOK VALUE OF $846 MILLION WITH A TAX PROVISION (NO CASH REQUIREMENT) OF $60 MILLION
CONTROL DATA CORPORATION
POPULATION DATA
MARKET TRENDS

PPCo

TOTAL MEGABYTES SHIPPED

1984-1987
185% INCREASE

MEGABYTES SHIPPED (MILLIONS)

YEAR

OEM SELL PRICE PER MEGABYTE

YEAR

$ PER MEGABYTE

PPCo

1984 - 1987
69% decrease

-37%

-23%

-29%

9/10/85
PPCo
QUARTERLY POPULATION DECLINE

EMPLOYEE POPULATION (THOUSANDS)

2Q84 3Q84 4Q84 1Q85 2Q85 3Q85 4Q85

0% -9% -7% -19% -12% -14%

9/10/85
PRODUCT/MANUFACTURING TRENDS

PPCO

MFG & WHSE SPACE

SQ. FT. (MILLIONS)


YEAR

-27% -37% -9%

R M Price CDC speeches Charles Babbage Institute <www.cbi.umn.edu>
MEMORY PRODUCTS RIGID DISK

PRICE/MB VS COST/MB - MATURE PRODUCTS

1984 VS 1985

PRICE/MB

COST/MB

BREAK-EVEN COST
MEMORY PRODUCTS RIGID DISK
PRICE/MB VS COST/MB – NEW PRODUCTS

PRICE/MB

1984 VS 1985

PRICE/MB

COST/MB

BREAK-EVEN COST

1984
2Q84
3Q84
4Q84
1Q85
2Q85
3Q85
4Q85

0
5
10
15
20
25
30
35
40
### PRODUCT/MANUFACTURING TRENDS

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