Good Morning.

For those of you who have come in from out of town, welcome to our first bit of winter—and to all of you, welcome to Control Data.

We last met about five weeks ago to review our operating progress in 1985 and the work to date in connection with the debt restructuring. Since then we and our advisors have been hard at work on the restructuring, and we at the company have been hard at work on our self-help cash conservation and cash generation programs as well as a top to bottom reassessment of the computer businesses.

Before I discuss these activities, I want to review briefly with you third-quarter results and the fourth-quarter outlook. Incidentally, copies of our third quarter 10-Q are available for you.

In the third quarter we reported an $83 Million loss on an operating basis for the computer business—that compares to the $101 Million loss projected on page one of the materials we gave you at the September 25 meeting.
In addition, a special charge of $154 million was taken. That charge represents provisions against investments of $77 million for EESI, Digital Productions and some publicly traded stocks. A reserve of $50 million was taken for Peripheral Products, of which the major item was the Business Products Group, or BPG. In addition, provisions were also made for the restructuring of International and U.S. Services which accounted for most of the remaining $27 million.

As we look ahead to the end of the fourth-quarter, we expect that the operating results for the computer business will be a loss of approximately $60 million. That is somewhat higher than previously forecasted for the fourth-quarter. As I noted earlier, the third-quarter results were somewhat better than forecasted, so for the year, we now expect a computer business operating loss of $177 million, which is slightly less than the $182 million loss we projected in the September materials.

Now turning briefly to Commercial Credit--the third-quarter results were $26 million earnings before taxes which was in line with the forecast. In the fourth-quarter, Commercial Credit with continuing high claims in property and casualty insurance is expected to earn about $23 million which is down from the $30 million forecasted in September. Commercial Credit is then expected to earn $74 million pretax vs. a previous forecast of $81 million.
For Control Data in total, with some improvement in the computer business and somewhat less in CCC, 1985 earnings before taxes will be about what we previously forecasted, or a $103 million dollar loss.

What all these numbers mean is that while there are no strong indications that an upturn in the business is imminent, there are signs of stabilization. From an orders perspective there are indications of strengthening in both the systems business as well as peripheral products.

We are now in the process of shaping the 1986 budgets. At this point it is too early to indicate specifics but you can be assured that the commitment to improve the operating results in 1986 is no less than it was when we last met, although we are still not expecting any dramatic turn around.

Last week I had a lengthy session with our board regarding our core businesses and the restructuring that is needed. To summarize the overall position as I relayed it to them, CDC today is actually well positioned strategically, but given the obvious cash problems and the terrible 1984 deterioration in the operating results, being strategically well positioned is not enough. We will change and change dramatically. We must have fewer businesses if we are to do any of them well. First
we cannot afford the expenditure and investment. But it is even deeper than that. We have been a project oriented, challenge accepting organization. Nothing we believe, is too hard, or too different for us. And it is true. If we had not believed that, there never would have been a Control Data. We have been blessed over the years with some extraordinary people who could, and can do extraordinary things. But having grown to a $5 Billion Dollar company, we are beyond the point of just looking for hills to climb. We have not concentrated hard enough on excellence on the things already started.

So, we must change--from this project orientation to profit orientation and we must do so immediately. Culture change is not easy, but we have begun, and it will be done.

Now to specifics. At our last meeting I showed you a list of assets to be sold to raise cash. We are also looking at asset sales, divestitures and simple closings of operations in order to narrow the focus of the business as well as raise cash.

(Chart I)

This slide shows the business terminations currently planned. Most of these I believe you are aware of. Mr. Minkel will comment on the schedule for the Ticketron sale later this morning. BPG is something I mentioned briefly at the last
meeting. It is the business products group of the Peripheral Products Company, which makes tape and floppy disk media. As you may have read, we recently signed a letter of intent with Xidex to purchase a substantial portion of that business. Of the remaining portions, we shall sell the forms business and liquidate the receivables, during the first quarter of 1986.

(Chart II)

This slide shows the sales and terminations which have been under consideration and which we will now undertake. As you can see, the pretax loss attributable to these businesses in 1985 is substantial. In addition, we will either divest or joint venture the Medlab product line, whose operations will account for an approximately $11 million dollar loss in 1985.

(Chart III)

To put the specifics in context, let me show you the pretax numbers for the company's strategic business units, plus corporate. This is the information we presented to you in September (on page 17 of your handout) updated for current projections.
What do those specifics mean? First, we will either completely exit the health care business, or remain in it only as a partner in a joint venture. Second, activities in USSA, the K-12 education business, will be restricted to participation in the Plato/Wicat joint venture. Third, the economic development services business will be dramatically scaled back. And finally, in International Data Services, we will exit from a substantial number of the product lines in many countries and concentrate where we currently have a better market position. These actions represent substantial steps along the road of narrowing the focus of the computer business.

I wish to emphasize that we are in the midst of this analysis and just beginning the implementation and decision process. What I am showing you here is not the final product; rather it is our progress to date.

As part of and in addition to these restructuring activities, we are simply looking at any other non-strategic assets that may be sold in the short term to raise cash.

(Chart IV)

This chart indicates assets which are currently in the process of being sold, and what we anticipate we might receive from them.
The timing of asset sales is, obviously, uncertain. Russ Peppit of Peat Marwick will review the cash flow projections with you later. As you will see from those projections cash flow from operations continues to be negative. We are making good progress in improving these cash flows, but this is not a change we can implement over night. I wish to emphasize that in asset sales the timing is uncertain. Restructurings involve closings of operations, which require cash payments as well as sometimes generating cash. Despite selling certain assets and focusing the business, the potential need for new money has not necessarily disappeared. Although we have a much better sense of short-term cash flow than we did when we met with you in September, (such that we believe we are in a better position to manage the liquidity problem) we are by no means out of the woods in terms of short-term cash flow. I want to emphasize this so that you understand that we need to continue to proceed to a closing on this debt restructuring as quickly as possible.

In addition to restructuring, let me emphasize that our goal for those of you who wish to terminate your relationship with us, is to get you out, in full, as quickly as possible. That means before December 31, 1986, if that can be achieved. We are working as hard toward that goal as to any of the others I have described to you.
In addition, it is vitally important for our sales and marketing to tell the world that we have at least reached an agreement in principle with our lenders. The mature of computer products and services is such that customers can only purchase from vendors whom they are sure will be in business over the long haul. We are spending an enormous amount of time now providing these reassurances—our vice president of marketing for our systems group, for example, tells me that he spends two-thirds of his time reassuring our customers of our long-term viability. This is not productive, and to the extent that we can quickly provide an added measure of confidence in this area, it is vitally important to both of us.

We had originally hoped to be able to close the restructuring prior to year end. Completion within that time frame is becoming more difficult. However, closing a restructuring in early January is extremely important to continue to stabilize the business.

To that end our own people and our advisors have been working hard on the term sheet that you presented to them some time ago. I have reviewed this in detail with them, and believe it represents a structure that works and a transaction that accommodates the needs of all parties. I would hope that you
can finish hammering it out over the next two days. It is my highest priority during this period. I am of course available to you if that is necessary for any reason.

Thank you. I am sure discussions over the next two days will proceed well and quickly.