REVIEW OF 1985 ACTIONS TAKEN THAT WILL POSITIVELY IMPACT 1986 BUDGET:

STARTING WITH THE TWO BUSINESS UNITS THAT HAVE CAUSED US THE MOST CONCERN IN 1985 -- PERIPHERAL PRODUCTS AND INTERNATIONAL SERVICES.

PERIPHERAL PRODUCTS


COMPLETING THIS SCENARIO, ON TUESDAY WE CONCLUDED THE SALE OF OUR BUSINESS PRODUCTS GROUP TO XIDEX FOR A PRICE OF $60M.

2. WE HAVE CUT THE PERIPHERALS DOMESTIC EMPLOYEE BASE DOWN DRAMATICALLY FROM ABOUT 17,500 AT MARCH 31 TO ABOUT 9,000 AT DECEMBER 31.

WITH THE SALE OF BPG, THERE WILL BE ANOTHER REDUCTION OF SOME 1,700 EMPLOYEES WORLDWIDE.

3. MANUFACTURING AND WAREHOUSE SPACE HAS BEEN REDUCED FROM 3.3 MILLION SQUARE FEET AT THE BEGINNING OF THE YEAR TO ABOUT 2.4 MILLION TODAY.

4. FINALLY AND MOST IMPORTANT, WE DEVELOPED A PRODUCT STRATEGY FOR THE BALANCE OF THE DECADE THAT SHOULD PRODUCE MORE PRODUCTS OUT OF FEWER COMMON COMPONENTS IN THE PAST AND SHOULD GIVE US A COMPETITIVE PRODUCT LINE TO EFFECTIVELY MEET CUSTOMER NEEDS FOR DATA STORAGE.
INTERNATIONAL SERVICES

1. IN INTERNATIONAL SERVICES, A MAJOR PROBLEM HAS BEEN SYSTIME AND THERE IS PROGRESS BEING MADE. IN ADDITION, THE BUILDING SALE WILL BE COMPLETED THIS MONTH. THE DEC RELATED HARDWARE BUSINESS WILL BE SOLD. DEC AND TWO OTHER PARTIES ARE BIDDING. DEC'S BID HAS BEEN RECEIVED. WE EXPECT THE OTHERS THIS WEEK. [POTENTIAL BUYERS: PETER ERB -- U.S. BUSINESSMAN WORKING WITH UK INVESTMENT BANKER, & EMPLOYEE GROUP HEADED BY B. ROBERTS]. SYSTIME'S LAWSUIT WITH DEC IS IN THE PROCESS OF BEING SETTLED AS PART OF ALL THIS.

2. STAFF LEVELS ARE DOWN 350 FROM THE FIRST QUARTER TO A LEVEL OF ABOUT 700 TODAY. FURTHER REDUCTIONS WILL OCCUR IN 1986 AS THE DIVESTITURES ARE COMPLETED AND OTHER IMPROVEMENTS IMPLEMENTED.

3. SYSTIME WILL CONCENTRATE ITS EFFORTS ON ITS OWN LINE OF HARDWARE AND SOFTWARE PRODUCTS IN THE UK ONLY. SYSTIME NET PROFIT IN 1985 WAS $39M LOSS, AND IN '86 IS BUDGETED TO BE BREAKEVEN.

4. OTHER KEY 1985 ACCOMPLISHMENTS IN INTERNATIONAL THAT SUPPORT THE 1986 PROFIT PLAN INCLUDE:
FIS WILL LOSE $15M IN 1985. HOWEVER, THE SIGNING OF A MAJOR CONTRACT WITH BARCLAYS BANK TO REDESIGN A BACK OFFICE ACCOUNTING SYSTEM WILL PROVIDE US WITH A NEW AND BETTER PRODUCT THAT CARRIES HIGHER MARGINS. COUPLED WITH THIS, ANNUAL SOFTWARE MAINTENANCE CONTRACTS ARE BEING RENEGOTIATED WITH EXISTING CUSTOMERS AND THIS WILL PROVIDE ANOTHER $3M MARGIN IMPROVEMENT IN 1986. IN TOTAL FIS IN "86 WILL LOSE $4.5-$5.0M OR 1/3 THE 1985 FIGURE.

SALES ACTIVITY FOR COMPUTER-BASED EDUCATION IN 15 COUNTRIES WHERE WE DO NOT HAVE CONTROL DATA INSTITUTES IS BEING ELIMINATED AND OUR EFFORTS WILL BE FOCUSED ON EDUCATION AND TRAINING PROGRAMS WHICH ARE LOCALLY FUNDED BY INDUSTRY OR GOVERNMENT.

IN CYBERNET, THE JAPANESE OPERATION LOST OVER $3M IN 1985. WE HAVE SOLD 51% OF THE CYBERNET OPERATION TO KOBE STARK WHO WILL ALSO BRING ADDITIONAL BUSINESS TO THE JOINT VENTURE.

THE BRAZIL CYBERNET BUSINESS WILL BE SOLD BY MID-1986 AND THE FRENCH 205 CYBERNET CENTER WHICH LOST $2M IN 1985 WILL BE CLOSED THIS MONTH.
INTERNATIONAL HAS REDUCED ITS STAFF (EXCLUDING SYSTIME) BY 955 PEOPLE IN 1985 AND WILL HAVE FURTHER REDUCTIONS OF 196 IN THE FIRST HALF OF 1986, FOR A TOTAL 1,191 PEOPLE REDUCED.

NEEDLESS TO SAY, COST REDUCTION AND BUSINESS IMPROVEMENT STEPS HAVE BEEN TAKEN THROUGHOUT THE COMPANY AND I'D LIKE TO JUST BRIEFLY REVIEW WITH YOU SOME OF THE ACTIONS FROM THE OTHER MAJOR SBU'S.

CYBER SYSTEMS AND SERVICES

THE SCIENTIFIC AND ENGR. RELATED SYSTEMS AND SERVICES HAVE HAD SIGNIFICANT HEADCOUNT REDUCTION -- SOME 570 PEOPLE:

. BUILD SCHEDULES/INVENTORY REDUCTIONS HAVE TAKEN PLACE.

. THE SIX CYBERNET PROCESSING CENTERS WERE CONSOLIDATED INTO ONE AND WE ARE NOW IN THE PROCESS OF BRINGING TOGETHER THE UIS/CYBERNET OPERATIONS WHICH WILL RESULT IN SUBSTANTIAL SAVINGS IN MARKETING, SALES, OPERATIONS, SUPPORT, AND ADMINISTRATION.
THE MINERAL SYSTEMS DIVISION WHICH DEALT WITH SOFTWARE & TURNKEY SYSTEMS FOR THE MINING INDUSTRY HAS BEEN CLOSED, AS HAS THE INFORMATION SYSTEMS DIVISION.

ON THE OTHER HAND WE WILL HAVE AN INCREASED SALES FORCE IN THESE MARKETS FOR 1986, AND HERE AS ELSEWHERE THERE IS CONSTANT EMPHASIS ON IMPROVED QUALITY OF THE PRODUCTS AND SERVICES.

FINANCIAL AND COMMERCIAL SERVICES

FINANCIAL AND COMMERCIAL SERVICES CONTINUES TO IMPROVE ITS OPERATIONS.

THESE TWO BUSINESS UNITS IMPROVED OPERATING NPBT FROM A $2.7M LOSS IN THE FIRST QUARTER TO A $7.8M PROFIT IN THE 4TH QUARTER WITH THE KEY FACTORS BEING BETTER MARKET FOCUS -- THAT IS CONCENTRATING ON THOSE MARKETS WHERE WE HAVE A COMPETITIVE ADVANTAGE.

ARBITRON, FOR EXAMPLE, IN 1985 INCREASED REVENUE 15%, NET PROFIT 20%—OVER 90% OF EXPIRING CONTRACTS RENEWED. AND 75% OF THE CONTRACTS SIGNED ARE FOR FIVE YEARS. WE ARE CURRENTLY EXPLORING THE POSSIBILITY OF A COOPERATION FOR THE SCANAMERICAN PROJECT WE DESCRIBED TO YOU AT THE JULY BOARD MEETING. I EXPECT SOMETHING CONCRETE TO REPORT BY THE REGULAR JANUARY BOARD MEETING. BY THE WAY, THE SCANAMERICA PILOT OPERATION IN DENVER BECAME OPERATION LAST MONTH.

BUSINESS DEVELOPMENT

IN BUSINESS DEVELOPMENT:

. THE EMPLOYMENT PREPARATION SERVICES, CORRECTIONS, AND DISABILITIES DIVISIONS HAVE BEEN ROLLED INTO ONE.

. NINE CDI’S WILL BE DIVESTED.

. THE REAL ESTATE PORTFOLIO IS IN THE PROCESS OF BEING SOLD, AND WE WANT TO COMPLETE ALL OF THE SALES BY YEAR END 1986.
ALL OF THE GROUP'S SMALL BUSINESS PROGRAMS HAVE BEEN CONSOLIDATED AND OTHER ACTIONS BEING TAKEN THROUGHOUT THE GROUP WILL CONTRIBUTE TO IMPROVED PROFIT PERFORMANCE IN 1986.

TECHNICAL SUPPORT SERVICES

IT IS IMPORTANT TO COVER PROBLEMS ON TURNAROUND AREAS AND AREAS OF MAJOR CHANGE, BUT IT WOULD BE WRONG TO FORGET THAT EVEN IN BUSINESS UNITS WHICH ARE GOING PROFITABLY ALONG A CONTINUING AND PREVIOUSLY DEFINED STRATEGIC PATH THERE IS LIKELY ATTENTION TO IMPROVING AND REFINING THE BUSINESS. FOR EXAMPLE, IN THE TECHNICAL SUPPORT SERVICES GROUP, A NUMBER OF STEPS HAVE BEEN TAKEN.

- SYNTONIC, A SMALL DIVISION WHICH PROVIDES MAINTENANCE FOR MOBILE RADIO COMMUNICATION EQUIPMENT IS BEING PUT UP FOR SALE AS NON-STRATEGIC AND NOT ADEQUATELY PROFITABLE. IT MAY BE SOLD BEFORE YEAR-END.

- CFS, A SMALL COMPUTER FACILITIES CONSTRUCTION CONSULTING OPERATION, WILL BE SOLD OR SHUT DOWN IN THE FIRST QUARTER.
PRODUCTIVITY IMPROVEMENTS IN 1985 RESULTED IN A PROFIT IMPROVEMENT OF CLOSE TO $400K. IN 1986 ADDITIONAL PRODUCTIVITY ENHANCEMENT WILL AGAIN RESULT IN A PROFIT IMPROVEMENT OF AN ADDITIONAL $500-600K.

GOVERNMENT SYSTEMS

IN GOVERNMENT SYSTEMS, WE ARE ENTERING INTO 1986 WITH AN 85% BACKLOG THAT SUPPORTS OUR REVENUE AND PROFIT GOALS. AND MAJOR REVENUE PRODUCING PROGRAMS IN THE U.S., CANADA, AND HASTINGS CONTINUE TO BE ON TRACK.

SO, THAT'S A BRIEF SUMMARY OF MAJOR OPERATING UNIT ACTIONS TAKEN TO SUPPORT THE 1986 PROFIT IMPROVEMENT.

CORPORATE EXPENSE HAS BEEN DIVIDED INTO TWO CATEGORIES, CORPORATE G&A, CORPORATE MARKETING.

CORPORATE G&A

THE EXECUTIVE OFFICE AND HUMAN RESOURCE MANAGEMENT SERVICES INCLUDES THREE DEPARTMENTS: 1) THE EXECUTIVE OFFICE WHICH INCLUDES BILL NORRIS, NORB BERG AND MYSELF PLUS CLERICAL SUPPORT. HANK WHITE (ASSISTANT TO THE PRESIDENT) AND GENE BAKER (HUMAN RESOURCES MANAGEMENT & ADMINISTRATIVE SERVICES) PLUS
CLERICAL SUPPORT; 2) THE SOCIAL RESPONSIBILITY BUDGET WHICH INCLUDES SOCIAL RESPONSIBILITY PROJECTS, WHICH ARE REVIEWED AND APPROVED BY THE BOARD EACH YEAR, PLUS CHARITABLE CONTRIBUTIONS, CORPORATE MEMBERSHIPS AND THE PUBLIC AFFAIRS DEPARTMENT; 3) SECURITY, WHICH IS FUNCTIONALLY RESPONSIBLE FOR CORPORATE SECURITY WORLDWIDE. BOTH PEOPLE AND EXPENSES HAVE BEEN REDUCED DURING 1985 AND IN THE 1986 BUDGET.

(People 1984 - 48, 1985 - 32, 1986 - 29)

PERSONNEL AND ADMINISTRATION UNDER FRANK DAWE. FRANK HAS DONE A GOOD JOB IN REDUCING EXPENDITURES OVER THE PAST FEW YEARS AS THE TOTAL PEOPLE POPULATION IN THE COMPANY DECREASED, HOWEVER, HAS MAINTAINED A GOOD QUALITY SERVICE. HEADCOUNT - IN PERSONNEL AND ADMINISTRATION ARE AS FOLLOWS:

(People 1984 - 127, 1985 - 113, 1986 - 102)

FINANCE AND LEGAL

THE FUNCTIONS INCLUDED IN FINANCE AND LEGAL ARE AS FOLLOWS:

OPERATIONS FINANCE - WHICH INCLUDES CORPORATE ACCOUNTING AND FUNCTIONAL RESPONSIBILITY FOR FINANCIAL PLANS AND CONTROLS IN EACH OF THE OPERATING BUSINESSES.
CORPORATE TAXES - WHICH INCLUDES STATE & LOCAL TAXES, INCOME TAX COMPLIANCE AND INTERNATIONAL TAXES.

CORPORATE TREASURER - WHICH INCLUDES CASH MANAGEMENT, DOMESTIC FINANCE, INTERNATIONAL FINANCE AND INVESTOR RELATIONS.

ALSO INCLUDED IN THE FINANCE & LEGAL RESPONSIBILITY IS THE INTERNAL AUDIT DEPARTMENT AND LEGAL SERVICES AS WELL AS A NEW FUNCTION RECENTLY ESTABLISHED UNDER GEORGE TROY, FINANCIAL PLANNING AND ANALYSIS.

ALTHOUGH NINE PEOPLE WERE TRANSFERRED WITH THIS NEW DEPARTMENT, OVERALL IN FINANCE AND LEGAL THERE IS STILL A REDUCTION IN BOTH PEOPLE AND EXPENSES IN 1985 AND 1986.

(People 1984 - 225, 1985 - 210, 1986 - 206)

MANUFACTURING & TECHNOLOGY

THE FUNCTIONS INCLUDED IN MANUFACTURING & TECHNOLOGY, WHICH REPORTS TO HANK WHITE, INCLUDE THE FOLLOWING:

CORPORATE MANUFACTURING WHICH INCLUDES TECHNICAL STANDARDS, CORPORATE SAFETY, CORPORATE MATERIAL MANAGEMENT AND ENVIRONMENTAL SERVICES.
SOFTWARE AND TECHNOLOGY DEPARTMENT WHICH IS RESPONSIBLE FOR COORDINATING, MONITORING AND STAFFING TECHNOLOGY PROGRAMS WITH MCC AND WORKING WITH SRC.

IN ADDITION TO THESE RESPONSIBILITIES WHICH HAVE BEEN IN PLACE FOR SOME TIME, TWO FUNCTIONS, QUALITY & PRODUCTIVITY (TQMP) AND INVENTORY MANAGEMENT WERE CONSOLIDATED OUT OF GROUP STAFF IN 1985. THESE TWO FUNCTIONS WERE PARTIALLY FUNDED IN OPERATIONS IN 1985 AND WILL BE INCLUDED IN G&A FOR THE FULL YEAR IN 1986, WHICH WILL RESULT IN AN INCREASE IN THIS CATEGORY OF EXPENSES FOR THE YEAR.


OVERALL THEN, CORPORATE G&A EXPENDITURES ARE DOWN ABOUT $5M IN 1985 AND WILL TO DECREASE ANOTHER $3M IN 1986.

THE RELATED PEOPLE REDUCTIONS WERE 47 IN 1985 WITH AN ADDITIONAL 19 TO BE REDUCED IN 1986.

IN TOTAL WE HAVE REDUCED G&A BY ALMOST 15% FROM 1984 LEVELS.

CORPORATE MARKETING UNDER THE DIRECTION OF BOB DUNCAN PERFORMS THREE FUNDAMENTAL FUNCTIONS.
MARKET RESEARCH AND ANALYSIS PROVIDES CONSOLIDATED AND CONCENTRATED PRODUCT/MARKET FOCUSED STRATEGY ANALYSIS TO CURRENT AND POTENTIAL GROWTH BUSINESSES. IN ADDITION, THEY ARE RESPONSIBLE FOR CORPORATE TELEMARKETING, SALES TRAINING, EXECUTIVE SEMINARS AND THE CORPORATE LIBRARY.

GOVERNMENT RELATIONS COORDINATES, MONITORS AND WORKS WITH VARIOUS LOBBY AND POLITICAL GROUPS ON BOTH STATE AND LOCAL AND NATIONAL LEVELS.

ADVERTISING & PUBLIC RELATIONS PLANS AND FUNCTIONALLY COORDINATES ALL ADVERTISING PROGRAMS IN THE COMPANY PLUS HANDLES THE EXTERNAL COMMUNICATIONS AND PUBLIC RELATIONS.

THESE FUNCTIONS HAVE BEEN CUT BACK IN 1985 WHICH RESULTS IN A MUCH MORE FOCUSED EFFORT FOR CONSIDERABLY LESS EXPENSE IN 1986.


INSURANCE - ANOTHER AREA OF OVERHEAD IS INSURANCE. THESE COSTS CONTINUE TO INCREASE ON A PER CAPITA BASIS BUT WITH THE REDUCTION IN POPULATION WE WILL MANAGE TO HOLD COSTS LEVEL YEAR TO YEAR, 1985 TO 1986
GROUP HEALTH INCLUDES THE EMPLOYEE HEALTH INSURANCE PROGRAM, STAYWELL AND UNEMPLOYMENT INSURANCE IN 1985, TO PROVIDE FOR BETTER COST CONTAINMENT. THESE INSURANCE PROGRAMS WERE CONSOLIDATED. CONTAINMENT EFFORTS ARE ANTICIPATED TO RESULT IN AN 8% INCREASE IN PER CAPITA EXPENSE IN 1986. WITH THE REDUCED NUMBER OF EMPLOYEES, TOTAL DOLLARS OF EXPENSE WILL BE DOWN.

PROPERTY AND CASUALTY EXPENSES WILL BE UP CONSIDERABLY IN 1986. THE INSURANCE MARKET IS CURRENTLY EXPERIENCING A SIGNIFICANT DOWNTURN WITH RESPECT TO COVERAGE OFFERED. IT'S THE RESULT OF REACTING TO ADVERSE LOSSES EXPERIENCED RECENTLY. SIMPLY STATED, THIS REACTION HAS RESULTED IN LOWER COVERAGE BEING OFFERED AT LOWER LIMITS, HIGHER DEDUCTIBLES, BROADER EXCLUSIONS AND SKYROCKETING COSTS. CONTROL DATA, AS A BUYER OF COVERAGE, HAS EXPERIENCED THE HIGHER COSTS AND LOWER LIMITS IN OUR PORTFOLIO OF PROPERTY AND CASUALTY COVERAGES. IN THE PROPERTY AREA WE HAVE EXPERIENCED A 35% INCREASE. IN THE CASUALTY AREA, WHICH INCLUDES GENERAL LIABILITY AND AUTOMOBILE, WE WILL BE EXPERIENCING ALMOST A 40% INCREASE IN 1986. IN ADDITION, THERE WILL BE AN INCREASE OF 10 TO 15% IN FIDELITY AND ERRORS & OMISSION INSURANCE WITH CONSIDERABLY LESS COVERAGE.

WORKMAN'S COMPENSATION, RETIREMENT, WHICH INCLUDES THE COST OF ADMINISTERING AND FUNDING, AND EARN ARE ALL EXPECTED TO STAY AT ABOUT 1985 LEVELS IN 1986.
SO IN TOTAL, THE REDUCTIONS WE WERE ABLE TO GET IN THE HEALTH INSURANCE IS BEING OFFSET IN PROPERTY & CASUALTY INSURANCE.


CENTRAL & REGIONAL SVCS. CHARTS

1985 FINANCIAL REPORT

IN ADDITION TO THESE OPERATING UNIT MEASURES, SIGNIFICANT OPERATIONS AND INVESTMENT RESTRUCTURING CHARGES ($158M) WERE TAKEN IN THE THIRD QUARTER. THESE SPECIAL CHARGES INCLUDED DIVESTITURES OF THE BUSINESS PRODUCTS OPERATION AND OPERATIONS RESTRUCTURING OF INTERNATIONAL, CYBERNET/UIS, AND PART OF PERIPHERAL PRODUCTS. IT ALSO INCLUDED CHARGES FOR CERTAIN INVESTMENTS -- DIGITAL PRODUCTIONS, EESI, VIC, CENTRONICS, AND SEVERAL OTHERS.

AT THAT TIME, WE ALSO INDICATED THAT WE WOULD CONTINUE TO ANALYZE INVESTMENTS AND THAT ANALYSIS MIGHT RESULT IN ADDITIONAL CHARGES IN THE FOURTH QUARTER. THIS ANALYSIS WILL BE COMPLETED BY YEAR END. EARLY INDICATIONS ARE THAT FURTHER CHARGES FOR INVESTMENTS AND GUARANTEES WILL RESULT IN FOURTH QUARTER CHARGES OF $30 TO $45M.
THIS INVOLVES EESI, BANCTEC, AND CENTRONICS. FURTHER OPERATIONAL RESTRUCTURING IN INTERNATIONAL REQUIRES AN ADDITIONAL FOURTH QUARTER CHARGE OF $43M. THIS PROVIDES FOR PEOPLE TERMINATION COSTS, BALANCE SHEET ADJUSTMENTS, AND RESERVES FOR SYSTIME INVENTORY WRITE-OFFS. IN TOTAL, FOURTH QUARTER OPERATIONS AND INVESTMENT RESTRUCTURE CHARGES WILL BE $88M.

SINCE WE LAST MET, THERE HAS BEEN AN ADDITIONAL $30M EROSION IN OPERATING LOSSES, PRIMARILY IN PERIPHERAL PRODUCTS. THIS DETERIORATION IS DUE TO FIELD CHANGE ORDER COSTS ON THE FSC AND 33800 HEAD DISK ASSEMBLIES AND INVENTORY VALUATION ADJUSTMENTS.

IN SUMMARY, THIS (CHART 1) IS THE FINANCIAL PICTURE FOR 1985. COMPUTER BUSINESS FOURTH QUARTER LOSSES WILL BE $177M AND THE TOTAL YEAR WILL BE $447M.

COMMERCIAL CREDIT PRE-TAX EARNINGS WILL BE $15M FOR THE QUARTER AND $65M FOR THE YEAR. THIS HAS SLIPPED BY ABOUT $7M, PRIMARILY DUE TO INCREASED RESERVES IN GULF INSURANCE AND INCREASED LOSS RESERVES IN EQUIPMENT FINANCING AND LEASING.

AFFILIATES' LOSSES WILL BE $9M IN THE FOURTH QUARTER, PRIMARILY DUE TO EESI AND VTC. THE NET EARNINGS LOSS WILL BE $183M FOR THE QUARTER AND $453M FOR THE YEAR. THIS IS NOT A PRETTY PICTURE, BUT I THINK WE HAVE ESTABLISHED A BASE FOR IMPROVEMENT FOR 1986.
1986 BUDGET STATUS

THE 1986 OUTLOOK IS COMING INTO FOCUS NOW THAT THE BUDGET PROCESS IS NEARLY COMPLETION. I WILL GIVE YOU A PRELIMINARY STATUS AND ASSURE YOU THERE IS MORE WORK TO BE DONE. COMPUTER BUSINESS REVENUE WILL BE ABOUT $3.3B IN 1986. THIS WILL BE SOME $450M LESS THAN THIS YEAR; $410M OF THIS IS DUE TO SOLD OR DISCONTINUED OPERATIONS. PERIPHERAL PRODUCTS REVENUE WILL CONTINUE TO DECLINE WHILE COMPUTER SYSTEMS AND INTERNATIONAL SERVICES WILL HOLD AT THE 1985 LEVELS. ALL OTHER ORGANIZATIONS WILL INCREASE REVENUE BY SOME 11%.

THE FIRST HALF NET PROFIT BEFORE TAX WILL CONTINUE TO BE IMPACTED BY OPERATION PERFORMANCE PROBLEMS IN PERIPHERALS AND INTERNATIONAL SERVICES. EVEN THOUGH WE HAVE IMPLEMENTED MANY ACTIONS TO IMPROVE PERFORMANCE, WE WILL NOT SEE A RETURN TO PROFITABILITY IN THE COMPUTER BUSINESS UNTIL THE THIRD QUARTER.

THE CURRENT BUDGET STATUS INDICATES A PRE-TAX PROFIT OF $2.7M FOR THE YEAR, REQUIRING A STRONG FOURTH QUARTER. COMMERCIAL CREDIT WILL CONTINUE TO IMPROVE PROFITS THROUGHOUT THE YEAR AND ACHIEVE $118M PROFIT FOR 1986. FOR NOW, WE ARE ASSUMING NO TAXES IN THE COMPUTER BUSINESS, BUT THIS REQUIRES FURTHER ANALYSIS BEFORE WE COMPLETE THE BUDGETS. NET EARNINGS FOR THE YEAR ARE $60M WITH ALL OF IT IN THE SECOND HALF.
THE BALANCE SHEET (CHART 2) IS ALSO PRELIMINARY AT THIS TIME. ASSETS WILL DECLINE FOR EACH OF THE FIRST THREE QUARTERS AS WE CONTINUE TO WORK OFF INVENTORY AND REDUCE RECEIVABLES. THE FOURTH QUARTER INCREASE IS DUE TO AN INCREASED LEVEL OF RECEIVABLES CAUSED BY HIGHER REVENUE LEVELS. DEBT WILL BE REDUCED BY SOME $86M, BUT THIS DOES NOT REFLECT ANY IMPACT FROM THE TERMS OF A FUTURE FINANCING AGREEMENT ON THE SALE OF ANY ASSETS, INCLUDING TICKETRON.

THIS CHART (CHART 3) SHOWS THE SOURCE AND APPLICATION OF FUNDS BASED ON THE CURRENT BUDGET STATUS. THIS EXCLUDES TICKETRON ENTIRELY.

BOTH THE SOURCE AND APPLICATION OF FUNDS, AND THE CASH RECEIPTS AND DISBURSEMENTS ARE STILL TENTATIVE, BUT THE CURRENT PICTURE LOOKS LIKE THIS: CASH IS MARGINALLY POSITIVE IN THE FIRST QUARTER, MOVING SLIGHTLY NEGATIVE IN THE SECOND, AND MOVING POSITIVE IN BOTH THE THIRD AND FOURTH QUARTERS. TOTAL YEAR REFLECTS A POSITIVE $55.7M. KEEP IN MIND THAT THIS SOURCE AND APPLICATION OF FUNDS REFLECTS ONLY OPERATIONAL FLOWS AND EXCLUDES THE PROCEEDS OF ASSET SALES INCLUDING TICKETRON. CONTINUING EFFORT WILL BE DIRECTED AT IMPROVING THE FIRST HALF OPERATIONAL CASH FLOWS.
THE NEXT CHART (CHART 4) SHOWS THE DETAIL FORECAST FOR CASH RECEIPTS AND DISBURSEMENTS FOR THE EIGHT-WEEK PERIOD ENDING JANUARY 31. YOU SEE THERE IS A STEADY BUILDUP OF CASH AVAILABILITY THROUGH JANUARY, RESULTING FROM HEAVY COLLECTION OF YEAR-END RECEIVABLES.

THE COMBINED CASH AVAILABILITY AND SHORT-TERM INVESTMENT BALANCES THROUGH JANUARY RANGE FROM $70 TO $90M.