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 IN DECEMBER, WE CONCLUDED THE SALE OF OUR BUSINESS PRODUCTS GROUP TO XIDEX. THE TOTAL CASH WHICH WILL BE GENERATED IS SOME $92M.
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. THE BUILDING SALE WILL BE COMPLETED THIS MONTH. THE DEC RELATED HARDWARE BUSINESS WILL BE SOLD. DEC AND TWO OTHER PARTIES ARE POTENTIAL BUYERS. DEC'S BID WAS RECEIVED LAST MONTH AND IS THE MOST LIKELY PROSPECT.
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 $46M LOSS (INCLUDING $31M RESTRUCTURING CHARGES), AND IN '86 IS BUDGETED TO BE BREEKEVEN.

4. OTHER KEY 1985 ACCOMPLISHMENTS IN INTERNATIONAL THAT SUPPORT THE 1986 PROFIT PLAN INCLUDE:

0 FIS LOST $16M IN 1985 (PRELIMINARY NUMBER). 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 STEEL 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 WAS CLOSED IN DECEMBER.

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 1,151 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.

COMPUTER 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 SERVICES AND COMMERCIAL SERVICES CONTINUE TO IMPROVE THEIR OPERATIONS.

0 THESE TWO BUSINESS UNITS IMPROVED OPERATING NPBT FROM A $2.7M LOSS IN THE FIRST QUARTER TO A $8.8M 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.


0 ARBITRON, FOR EXAMPLE, IN 1985 INCREASED REVENUE 15%. NET PROFIT 20%--OVER 90% OF EXPIRING CONTRACTS RENEWED, AND 75% OF THE RADIO CONTRACTS SIGNED ARE FOR FIVE YEARS. AT THE JULY BOARD MEETING WE DESCRIBED FOR YOU THE SCANAMERICA PROJECT WHICH COMBINES TV VIEWING DATA AND PRODUCT PURCHASE DATA. WE HAVE REACHED A HANDSHAKE WITH TIME INC. FOR A 50/50 JOINT VENTURE TO PURSUE SCANAMERICA AS WELL AS OTHER NEW-FOR-US MARKET RESEARCH PROJECTS. DAVE WHITE WILL DISCUSS THIS LATER IN THE AGENDA OF TODAY'S MEETING.
BUSINESS DEVELOPMENT

IN BUSINESS DEVELOPMENT:

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

0 NINE CDI'S WILL BE DIVESTED.

0 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 LIKewise 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 commun. equipment is being put up for sale as non-strategic and not adequately profitable. The closing is scheduled today.

CFS, a small computer facilities construction consulting operation, is in the process of being sold and we are currently negotiating the letter of intent.

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.
1985 FINANCIAL REPORT

IN ADDITION TO THESE OPERATING UNIT MEASURES, YOU WILL RECALL THAT SIGNIFICANT OPERATIONS AND INVESTMENT RESTRUCTURING CHARGES ($154M) WERE TAKEN IN THE THIRD QUARTER. THESE SPECIAL CHARGES INCLUDED THOSE ANTICIPATED WITH THE DIVESTITURE OF THE BUSINESS PRODUCTS OPERATION AND THE RESTRUCTURING IN INTERNATIONAL, CYBERNET/UIS, AND PART OF PERIPHERAL PRODUCTS. IT ALSO INCLUDED CHARGES FOR CERTAIN INVESTMENTS -- DIGITAL PRODUCTIONS, EESI, VTC, 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. FURTHER CHARGES FOR INVESTMENTS AND GUARANTEES WILL RESULT IN FOURTH QUARTER CHARGES OF SOME $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.
AS MENTIONED LAST TIME WE 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.

(SLIDE 1)

IN SUMMARY, THIS IS THE FINANCIAL PICTURE FOR 1985. COMPUTER BUSINESS FOURTH QUARTER LOSSES OF $177M AND THE TOTAL YEAR OF $447M.

COMMERCIAL CREDIT PRE-TAX EARNINGS WILL BE $15M FOR THE QUARTER AND $65M FOR THE YEAR.

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.

AS I MENTIONED AT THE DECEMBER BOARD MEETING, THIS IS NOT A PRETTY PICTURE. IT SHOULD ALSO BE POINTED OUT THAT THESE 1985 NUMBERS ARE NOT FINAL AND UNTIL THE INVESTMENT ANALYSIS IS FINISHED AND THE BOOKS CLOSED WE CAN EXPECT CHANGES. YOU SHOULD CLEARLY UNDERSTAND THAT IT IS MY BELIEF THAT THE FINAL NUMBERS WILL BE NO BETTER THAN WHAT I AM SHOWING TODAY.

(SLIDE 2)

THIS CHART SHOWS CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES IN THE COMPUTER BUSINESS. AS YOU CAN SEE THE FIRST QUARTER RESULTS REFLECT THE GAIN ON THE SALE OF TICKETRON ($150M). SO TOTAL YEAR INCLUDING THIS GAIN IS $259M NET PROFIT BEFORE INTEREST AND TAXES. PARENT CO. (I.E. COMPUTER BUSINESS) INTEREST IS PROJECTED AT $95M SO PRE-TAX PROFIT IS $165M. I'LL COME BACK TO THE INTEREST FIGURE AS IT IS OBVIOUSLY A FUNCTION OF THE FINAL FINANCING/BANK ASSET SALE SCENARIO. I WOULD REMIND YOU AGAIN THAT THE $165M FIGURE INCLUDES $150M FROM THE TICKETRON SALE AND $12M REDUCTION IN INTEREST EXPENSE SO THE COMPUTER BUSINESS OPERATIONS ARE AT $2.7M PRE-TAX OR ESSENTIALLY BREAKEVEN. THE TOTAL PRE-TAX OF SOME $300M ALSO INCLUDES $17M IN ASSET SALES FROM CCC, AS WELL AS CCC'S $118M IN OPERATING EARNINGS.

(SLIDE 3)
THIS NEXT CHART SHOWS THE CURRENT STATUS OF OUR WEEKLY CASH FORECAST. CASH FLOW FROM OPERATIONS IS POSITIVE THROUGH THE END OF JANUARY AS A RESULT OF THE HEAVY COLLECTION OF YEAR-END RECEIVABLES. DURING THE MONTHS OF FEBRUARY AND MARCH, A NEGATIVE CASH FLOW IS PROJECTED FROM OPERATIONS (ABOUT $30M/MONTH). AS A RESULT, THE POSITIVE CASH POSITION THAT WAS BUILT UP THROUGH THE END OF JANUARY ($117M) WILL BEGIN TO DETERIORATE, BUT WE WILL STILL BE CASH POSITIVE AT THE END OF MARCH BY $42M. I WOULD LIKE TO POINT OUT THAT THE WEEKLY CASH PROJECTIONS DO NOT INCLUDE THE SALE OF TICKETRON. THE FULL YEAR CASH FLOW PICTURE LOOKED AT ON A SOURCE & APPLICATIONS BASIS IS ALSO POSITIVE. ONLY THE SECOND QUARTER IS SHOWN TO BE SLIGHTLY NEGATIVE

(SLIDE 3A)

NOW I'D LIKE TO SPEND A FEW MINUTES DISCUSSING THE BALANCE SHEET FROM TWO PERSPECTIVES.

(SLIDE 4)

ASSETS DECLINE THROUGH THE THIRD QUARTER DUE TO THE REDUCTIONS IN RECEIVABLES AND THE INVENTORY WORK-OFF, AND INCREASE IN THE FOURTH QUARTER DUE TO THE INCREASED RECEIVABLES CAUSED BY HIGHER REVENUE LEVELS.

DEBT UNDER THIS SCENARIO DECREASES BY $261M FROM YEAR END 1985 TO YEAR END 1986, WITH $150M OF THE DECREASE RESULTING FROM THE TICKETRON SALE.

(SLIDE 5)

THIS CHART SHOWS THE ANALYSIS OF THE DEBT AND AS YOU CAN SEE, THE TAKEDOWN IS NOT SUFFICIENT TO PAY OFF THE BANK DEBT.

IT IS IMPORTANT TO ALSO POINT OUT THAT THE $200M TICKETRON SALE PRICE IS AT THE HIGH END OF THE RANGE, SO THERE IS DOWNSIDE RISK IN THIS PROJECTION.

WE HAVE ALSO TAKEN A LOOK AT THE BALANCE SHEET FROM A "MOST FAVORABLE" PERSPECTIVE. THAT IS:

0 TICKETRON IS SOLD FOR $200M.

0 A PRIVATE PLACEMENT TAKES PLACE FOR $150M.
AND WE CAN UPSTREAM A DIVIDEND FROM CCC FOR $200M -- THE MAJORITY OF THE PROCEEDS BEING USED TO REDUCE INTERCOMPANY DEBT BETWEEN CCC AND CDC.

(SLIDE 6)

UNDER THIS SCENARIO, ASSETS ALSO DECLINE THROUGH THE FIRST THREE QUARTERS AND INCREASE IN THE FOURTH QUARTER, AGAIN DUE TO THE INCREASED RECEIVABLES CAUSED BY THE HIGHER REVENUE LEVELS.

DEBT UNDER THIS SCENARIO DECREASES BY $388M FROM YEAR END 1985 TO YEAR END 1986 AS A RESULT OF THE ONE-TIME CCC DIVIDEND AND THE TICKETRON SALE.

(SLIDE 7)

AND DEBT LOOKS LIKE THIS -- ALL OF THE BANK DEBT IS PAID OFF BY THE END OF THE FIRST QUARTER. THE MIX OF DEBT SHIFTS FROM TWO-THIRDS SHORT TERM TO ONE-THIRD SHORT TERM AND TWO-THIRDS LONG TERM.

CCC INTERCOMPANY DEBT IS PAID DOWN AND STABILIZED AND WE HAVE ELIMINATED A LARGE PORTION OF THE INTEREST PAYMENTS TO CCC.
I SHOULD POINT OUT THAT THE "BASE CASE" IS NOT ONE THAT WILL IN FACT OCCUR FOR IT SIMPLY ASSUMES WE CARRY SOME $127M OF BANK DEBT UNDER A REVISED CREDIT AGREEMENT THROUGH TO 12/31/86 AND PAY IT OFF ON THAT DAY. IT IS DOUBTFUL FIRST OF ALL THAT WE COULD LIVE WITH THAT KIND OF UNCERTAINTY ALL YEAR, AND IN ANY EVENT THE TIMING IN REALITY MUST BE DIFFERENT.

ALSO NOT EVIDENT IN THESE BALANCE SHEET FIGURES IS THE PROBLEM OF CONTINGENT LIABILITIES WHICH ALTHOUGH THEY DO NOT RESULT IN INTEREST CHARGES OR AFFECT THE FINANCIAL RATIOS, THEY DO WEIGH HEAVILY ON OUR ABILITY TO EFFECT A REVISED CREDIT AGREEMENT.

DAN PENNIE WILL COVER ALL THIS IN SOME DETAIL IN A MOMENT. JUST LET ME SAY THAT THE MOST DESIRABLE SCENARIO IS TO GET OUT OF THE BANKS ENTIRELY AS SOON AS POSSIBLE -- 1ST QUARTER -- AND THAT WILL INVOLVE MORE THAN THE SALE OF TICKETRON AND THE POTENTIAL $150M PRIVATE PLACEMENT.

IN ANY EVENT THE MINIMUM DEBT LEVEL ON A WORKING LEVEL BASIS IS $400M ± 10%. IMPROVING THE PARENT COMPANY DEBT TO EQUITY RATIO -- GIVEN THE BREAKEVEN OUTLOOK FOR OPERATING EARNINGS IN 1986 -- WILL RESULT FROM THE TICKETRON SALE (OR OTHER ASSETS) AND OUR ABILITY TO "MONETIZE" THE SAME IN CCC. NOW DAN AND GEORGE TROY WILL COVER THE FINANCING AND ASSET SALE PROJECTS.