Good morning.

I want to do three things this morning -- to provide you with an overall perspective of the business as we see it at year end, to review in some detail 1985 preliminary results, and cover 1986 preliminary budgets.

Since there are a number of you who are new to this group and probably need some background on Control Data, I'll take a few minutes, with apologies to the old hands, to explain the business segments of the company.

First and foremost, we are in the computer business, and we have one very straightforward mission. It is to provide our customers with quality products and services that are based on computer technologies.
A number of recent problems have come about because we have never been afraid of great challenge. It is both a compliment and a criticism to say there have been times when we have taken on too many new opportunities. But today, right now, the strategy is to concentrate on becoming the most cost effective, quality producer possible. That means a narrower focus for the business, and a more conservative balance sheet. It also means a commitment to consistently increasing returns on stockholder investments and to serve our customers as a supplier of leading technologies.

The most immediate goal, however, is to return to profitability just as quickly as possible, and in support of that goal, to get the house in order, get 1985 behind us, pay off the existing bank debt in a prudent manner.

We have structured the computer business around what we call Strategic Business Units, and to help give you a better understanding of the business, I have taken these business units, as shown on chart 1 of your handouts. On this chart you'll find these SBU's grouped to more clearly portray the major product lines and their markets.
The first group revolves around Control Data developed and produced computers and associated services. It includes the Computer Systems business, Technical Support Services, Scientific & Engineering Services, and Government Systems. ETA is shown within Computer Systems even though it is a separate company. Its charter is to develop the next generation of super computers, and to have the first unit in the marketplace by the end of 1986.

This group of businesses represents Control Data's thrust into industries such as manufacturing, particularly CAD/CAM appliances, petroleum, education, electric utilities and government.

It is through the Government Systems Division, where we actively pursue technology program funding, which lets us become involved in programs at an early stage, understand the customer needs, and helps us stay on the leading edge of technology. Then we attempt to have our military products recognized as the "standard" wherever possible. We are the production supplier of three standard products -- the U.S. Navy's AN/AYK14 Standard Airborne Computer; the Fire Control Computer for the U.S. Army's M-1 Tank, and the UIH-3 Navy Standard Disk.
Next is Data Storage Devices, our Peripherals business. This includes the magnetic disk and optical disk businesses. The magnetic disk business is focused on the OEM market for high capacity, high performance disk storage products.

I don't think there is any need to dwell on the problems in this business -- they have been well publicized. Suffice it to say that Peripherals has been the primary reason that has caused us to be here today.

What is not as well known is the commitment to regain the product leadership that has been our underpinning in the past. An example of the commitment that has been made is the Control Data/N.V. Phillips joint venture partnership in the optical disk business. The partnership in 1985 had funding in excess of $20M and will have comparable funding in 1986. This is expense incurred that relates to advanced research and development in the optical disk business. Optical disk represents a major future technology in the data storage business that will enlarge the market beyond that made possible by magnetic storage technology. It is our intent to be a major player.

In Peripherals today, we have sufficient orders in backlog to cover budgeted revenue in the first quarter 1986 and orders continue to be strong in relation to the 1986 plan. If the market continues to pick up, all the better. But we are not
counting on market rebound to solve the problems facing Peripherals. Appropriate actions have been and continue to be taken to solve the problems, including plant closings, a 45% reduction in the Peripherals employee population from January 1985 to January 1986, and as I stated, a redirection of the business to the OEM market for high capacity, high performance disk storage products.

Next is Business Services which includes Financial Services and Commercial Services. Financial Services provides value-added information services to banks, credit unions, and consumer finance companies. Commercial Services consists of Arbitron which provides market information listener/viewer demo to broadcasters/advertisers market; Quorum, which provides information services to the legal market; and General Business Services which provides payroll and related data processing applications to the general business market. The common denominator of all of our financial and commercial services is their ability to use computer technology to deliver value-added business information to targeted markets.

The other businesses are grouped as Human Resource Information Services. They include Healthcare Information Services, Economic Development, and United School Services of America.
Healthcare Information Services represents primarily Medlab, a division that specializes in hospital laboratory systems, coupled with a hospital diagnostic information system. We are not satisfied with the performance in Healthcare and currently are reviewing a number of alternatives, including possible divestment.

USSA consists primarily of the investment in the Plato/WICAT joint venture which is directing its efforts at the K-12 education training market.

Economic Development Services includes all small business and employment preparation services.

So that's a brief rundown of our businesses. Now I want to review 1985 preliminary results. We have made every attempt in 1985 to restructure the business going into 1986. There have been asset sales, inventory writeoffs, investment writedowns, major employment reductions, and business closings -- all of which are reflected in 1985 performance.

Let me start with the P&L, which is chart 2 in your handout. The Computer Business preliminary pre-tax loss is projected to be $458.5M in 1985, of which $143.4M results from on-going operations, and $315.1M results from one-time charges, one-time credits, and operational restructuring. I'll come back to these numbers.
Commercial Credit's preliminary pre-tax profit for the year is $46.8M with a $4.1M loss projected for the fourth quarter as a result of loss reserves, the majority of which will be taken in the casualty insurance business.

The affiliate line shows a $40.1M loss for the year, primarily due to losses in Earth Energy Systems; VTC, which you will hear more about later; and Interregional Financial Group. All of these investments are undergoing evaluation at the present time.

The net loss for 1985 on a preliminary basis is $529M, which includes $81M of tax expense primarily related to profits made in the international operations and, with domestic losses, an inability to defer taxes on international shipments.

Let me cover the balance sheet, which is chart 3, and then I'll go through the components of the restructuring and one-time writeoffs.

Total assets are down $434M in the computer business. That's partly good news, partly bad. Some $200M is related to the restructuring in 1985. Inventory is down by $200M, due in part to better inventory management.

Debt has remained relatively constant during the course of the year, and since September.
As a result of the losses incurred and charges associated with restructuring the company, computer business equity has declined by $526M.

Chart 4 shows the effect on revenue from discontinued operations in 1985. There was a net impact of $302M -- $217M was in the Data Storage business reflecting the withdrawal from the Business Products and flexible disk businesses. $35M was International Services resulting from a downsizing in Systime and to a lesser extent the other cutbacks.

Chart 5 provides a complete picture of the net profit before tax in 1985 categorized by business unit and separating the impact of other charges, operations and investment restructuring, and other credits from the operational performance. Again, total computer business loss is $458.5M -- with $143.4M coming from operations and $315.1M involved in the 1985 restructuring process. These numbers show the magnitude of the steps taken in 1985 to restructure the business.

Chart 6 is the 1985 source and application of funds. When you work your way through all the ins and outs, it boils down to a $35M positive cash flow for the year made up of $307M negative from the P&L, $218M positive from working capital, and $125M positive in the capital area.
So that's a summary of 1985 -- not a pretty picture. It's been a truly difficult year for Control Data.

The difficulties of the past year, however, have only reinforced our commitment to a strategic restructuring of the corporation. 1985 is behind us and we now need to get on with 1986, and prove to you lenders, and the rest of our stakeholders that we are on the road to recovery. Obviously, the heart of this process is a return to profitability in our operations. Also, as an important part of that process, we need to reach agreement with all of you on the conditions of a new term sheet, improve our balance sheet, repay debt obligations, and get on with the business.

Now let's take a look at 1986. Chart 7 is the P&L. In the computer business, we are looking at essentially a breakeven from ongoing operations. With the sale of Ticketron estimated at $200M, there is a net profit of $150M, so total computer business profit, assuming the sale of Ticketron at that level, will be $164.7M. The assumption is that Ticketron will be sold by March 31 1986. The actual amount obviously will be either more or less, depending on the outcome of the bidding process.

Commercial Credit is forecasted to make $113.9M for the year, and Joe Minutilli, the president of Commercial Credit, will provide you with some detail on that.
So, total net profit before tax, including proceeds of the Ticketron sale and Commercial Credit results, is projected at $278.6M. Net profit after tax is $147.8M, and net earnings are projected at $161.9M.

Chart 8 in your book provides a graphic portrayal of quarterly pre-tax computer business results for 1985 and 1986 projected. We hit the bottom in the third quarter 1985 and there will be steady upward movement throughout 1986 with the computer business returning to profitability in the third quarter.

Chart 9 is the 1986 balance sheet. Some key items include the $182M reduction in receivables between year-end 1985 and first quarter 1986. This reduction is due to the collection of increased billings which occurred during the fourth quarter 1985. There is also a further planned reduction of $75M in inventory as a result of continued improvement in inventory management.

Debt is projected at the end of 1986 at $508M, down $236M with the assumption that a substantial portion of the proceeds of the Ticketron sale goes to reduce bank debt. Computer business equity at year end 1986 is $508.4M. Let me point out that the balance sheet and the P&L do not consider any adjustments other than the Ticketron sale at the end of the first quarter. There are no other major asset sales and the only Commercial Credit assumption is the current $18M dividend.
As you will hear later on this morning, we are having discussions with Commercial Credit's major lenders on the possibility of an upstream dividend to Control Data, the proceeds of which would be used to pay down intercompany receivables. Since these negotiations are not finalized, they are not reflected in either the P&L or balance sheet.

However, I felt it would be appropriate to give you a perspective of the computer business if such a dividend occurs. What this chart, chart 10 in your book, assumes is a $200M one-time dividend to the parent company from Commercial Credit. The dividend occurs at the end of the first quarter with $132M being applied to debt and $68M to other intercompany obligations. The $200M increases the equity in the computer business. Interest savings and reduced amortization payments to Commercial Credit result in a $50M savings to the computer business in 1986. Under this scenario, the debt to equity ratio improves from 1.9/1.0 at year end 1985 to .53/1.0 at year end 1986.

Now let's look briefly at charts 11 and 12. Chart 11 is a recap of 1986 revenue by major business category. Just to highlight a few points, ETA Systems plans delivery of the first major system in the last quarter of 1986. Data Storage Devices continues a planned revenue decline through the first three
quarters with a slight pickup in the fourth quarter. Healthcare, as I mentioned in my overview, is being considered divestiture even though improving. And Ticketron is assumed to be sold at the end of the first quarter.

Chart 12 shows the same business categories on a net profit before interest and taxes basis. ETA Systems represents a major risk for the company; the projected loss for the year is $43M. This assumes that Control Data will continue to provide all of the funding for ETA in 1986; this number could change if other equity partner(s) come into ETA.

Key contributors to positive performance in 1986 include all of the Computer Systems related businesses, and Financial and Commercial Services. The USSA loss of $2.1M represents our participation in the Plato/WICAT joint venture. International Services shows a $10M loss for the year reflecting steady improvement over the course of the year. The improvement results from the actions taken in 1985 and a redirection of the business to its key markets in 1986.

**AREAS OF STRENGTH:** TSS, F/CS, CS CIM UTILITIES, GOVERNMENT SYSTEMS, EVEN PPCO.
After the charge for interest on a consolidated basis, net profit before tax is $164.7M for the year.

The last chart in your package, chart 13, is The Source and Application of Funds for 1986. As you will note, cash flow is positive throughout the year. However, it is important to point out that the first quarter positive cash flow of $145.2M includes the Ticketron sale generating $200M cash. If you offset that, there is a negative cash flow in the first quarter of approximately $55M.

The principal contributor to the negative cash flow is the reduction of $133M in non-interest bearing liabilities. These liabilities derive in large part from accruals relating to restructuring and other non-recurring charges in the fourth quarter 1985, some of which will have to be liquidated by cash payments in the first quarter 1986. Net of the liquidation of these accruals, we are pushing for a cash flow from continuing operations that will be at or near breakeven for the first quarter with each of the remaining three quarters producing a positive cash flow.

What I have tried to do this morning is to highlight the major aspects of the business from a financial perspective for the year 1985 and projected 1986. In many respects, 1986 is a new
beginning for Control Data. It's a year that we intend to rebound from the problems encountered in the past, and represents an opportunity for all of us at Control Data to prove to all of our constituents that we have in place a sound business plan and the ability to execute that plan. We will do that and we will do whatever else turns out to be necessary.

Now we'll be happy to respond to any questions.