Good morning.

Thank you for coming. There are a number of familiar faces from the steering committee meeting we had in Chicago a couple of weeks ago, so some of my comments may be somewhat repetitious for those of you who were at that meeting. But for all of you, I want to convey to you this morning the confidence we have in Control Data's business direction and the ability we have to execute our business strategies.

I want to do three things this morning -- to provide you with a perspective of Control Data, to review in some detail 1985 preliminary results, and cover 1986 preliminary budgets.

First and foremost, we are in the computer business, and as such we have one very straightforward mission. It is to provide our customers with quality products and services that are based on computer technologies.
It is somewhat ironic but true that a number of the company's recent problems have come about because we have never been afraid of great challenge. Over the years we have successfully done a lot of hard things. But it is not only a compliment, it is also a valid 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. The moves we've made in recent months in that regard are already helping. We're getting a narrower focus for the business, and we intend to have a more conservative balance sheet. It also means a commitment to provide stockholders with consistently increasing returns on their investments and to serve customers as a supplier of products and services based on leading technology 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, and grouped them to more clearly portray how we are addressing our various markets.
The first group centers around Control Data developed and produced computers and associated services. It includes the Computer Systems business, including ETA, 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 applications, petroleum, education, electric utilities and government.

The Government Systems Division, where we actively pursue technology program funding, 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 government "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, the Peripherals business. This includes the magnetic disk and optical disk businesses. The magnetic disk business is firmly focused on the OEM market for high capacity, high performance disk storage products. Other businesses not related to the OEM segment have been discontinued or sold.

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 an important future technology in the data storage business -- particularly in expanding the storage market to new applications not feasible with magnetics. 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. In fact January orders are again up significantly from December, November or October. 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. This is another business unit in which we continue to sharpen our market focus. Financial Services provides value-added information services to banks, credit unions, and consumer finance companies. Commercial Services consists of Arbitron which provides market information services -- listener/viewer demographics to broadcasters and advertisers; 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 these information services is their ability to use computer technology to deliver value-added business information to the 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 large-scale hospital laboratory systems, coupled with an advanced hospital diagnostic information system. Although there is great market potential in Health Information Services, we are convinced the required expenditures and investment over the next five years is beyond our means, and currently are reviewing a number of alternatives, including probably, 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 the SBU's. 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, investment writedowns, major employment reductions, and business closings -- all of which are reflected in 1985 results.
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. Part of that is good news, in particular some $200M resulting from better inventory management. Another $200M of the reduction relates to restructuring.

Debt has remained relatively constant during the course of the year.

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 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, and we're glad it's behind us. 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 the stakeholders, that we are on the road to recovery. Obviously, the heart of this process is a return to operational profitability -- and that's what my management team is dedicated to do. Also, as an important part of that process, we need to reach agreement with all of you on the new term sheet, improve the balance sheet, and repay debt obligations so we can 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 will be either more or less, depending on the outcome of the bidding process.

Commercial Credit is forecasted to make $133.7M for the year.

So, total net profit before tax, including proceeds of the Ticketron sale and Commercial Credit results, is projected at $298.4M. Net profit after tax is $158.0M, and net earnings are projected at $170.9M.

Chart 8 in your books provides a graphic portrayal of quarterly pre-tax computer business results for 1985 and projections for 1986. 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. Receivables then are projected to continue to decline until the 4th quarter 1986 when again we will experience a year
end increased. In 1986 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.

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 primarily 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. Chart 10 in your book assumes 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 $56M cash flow 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 shows an increase in revenue in the last three quarters, but as I mentioned in my overview, consideration is being given to the divestiture of this business. And Ticketron is assumed to have been 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 we are successful in finding outside funding resources.
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.

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 to be at or near breakeven for the first quarter with each of the remaining three quarters producing a positive cash flow. As you will see from the most current forecast of cash receipts and disbursements which PMM will be reviewing however, the cash forecasts are by no means firm. There has been significant improvement in the cash management and cash forecasting systems. And we are working to improve them still more. But as you will see a variation of only 1 or 2% in cash receipts, when we are working at the level of $800M to $1B a quarter can mean a variation of $10 or $20M in the net cash flow. And that is a reminder for all of us that the agreement as put together is truly tight and there clearly is no excess amount of cash available to us in running the business.

What I have tried to do thus far is to highlight the major aspects of the business from a financial perspective for the year 1985 and projected 1986. Now I would like to mention a few non-financial aspects as well.

Even with the problems we had last year, there were many positive signs.
Computer Systems sold more systems in 1985 than any year in our history;

Government Systems, as I mentioned previously, continues to be a major supplier to the U.S. Government;

Market share has increased in EMSD and Computer Integrated Manufacturing;

Credit union services and legal services continue to grow;
TSS, -- maintenance of non-CDC manufacturing equipment, OEM Synergy.

PPCo -- warranty, optical, orders

And, more importantly, we have managed our cash and lived within our means since September of last year and will continue to do so. As mentioned earlier, however, this is no easy matter and we are subjected to significant short-term savings in cash flow.

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. And we intend to do just that.

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