

Earlier this year Bob became the second chairman of the board and chief executive officer in Control Data's history, succeeding William C. Norris. Bob joined Control Data in 1961, became director of international operations in 1963, vice president of sales in 1967, and senior vice president and group executive for the services group in 1972. In 1977 he was named president of the computer company. Three years later he became president and chief operating officer of Control Data, a position he held until he succeeded Mr. Norris earlier this year. As you know, the legal relationship between Commercial Credit and its parent company, Control Data, is undergoing significant important changes. Later today Bob and Joe will announce those changes to the press and the public. Here to talk about that relationship and give you some perspective on Control Data's operations is Robert M. Price, chairman of the board and chief executive officer of Control Data Corporation. Robert.

Thank you Bruce. First of all let me say that it truly is good to have this opportunity to thank you all for the continuing, rewarding relationship between Commercial Credit and the organizations that you represent. As you have already heard this morning, there is both a lot of change and a lot of determination and a lot of excitement...somebody just, not that much Bob...actually, you should have seen him when we rehearsed that...in any event, without falling off your chairs, I want you to know that you are an integral part of Commercial Credit's change, and of the excitement that we all feel about that, so, it truly is with even greater than usual pleasure and I know that those are the words that everybody says at the beginning of a speech, but it is with a great deal of pleasure that we take this time to share with you the plans for Commercial Credit's future. Joe, I do have to confess, however, that when you first invited me to come down here and have dinner with a building full of sharks that I was a little apprehensive, but in any event, just at this moment, though, I do want to change the focus of the discussions from Commercial Credit to the parent company, and I want to talk to you for a moment about its status and the outlook for the future.

Control Data is, as I am sure most of you are well-aware, itself in the midst of major change. In that regard the large loss in 1985 can best be viewed as a symptom of that change rather than as might well be most commonly thought, the cause of change. I want to enlarge on that thought for just a moment. Over the years Control Data had become a highly

diverse computer products and services company. Probably one of the most diverse in the industry and as the industry itself developed and grew in the 1970's, that diversity was a source of considerable strength, for by the end of the decade, by the early '80's it had positioned Control Data with more attractive, strategic options than most participants in the industry. On the other hand, during the past four years, as the rate of technological change has increased and as international competition has intensified, especially in the computer peripherals market, and that sold to other manufacturers the so-called OEM market, that same diversity of Control Data became a serious handicap. In short the demands of the market in these many areas simply overwhelmed the company's ability to respond and it was in that environment that late in 1984, demands softened for these computer peripherals in the OEM market, and that precipitated a collapse of both volume and margins in that large segment of the company's business.

Over the past six months we have taken rapid and aggressive action to meet both this short-term crisis, the crisis caused by losses in peripherals, and the longer term necessity of narrowing the focus of the company's business, and I'll summarize those actions for you. The first and foremost was to firmly focus the operation on its core mission. All the businesses have been and will be evaluated to ensure that they have a clear and measurable potential for profitability and that they fit strategically the thrust of the company. Divestiture of several businesses has already occurred, and some are in process just at the moment. I am going to return to that thought in just a moment.

The services business, the second major piece, the services business, both international and domestic were reduced in scope and that was to eliminate primarily a lot of startup efforts that had been undertaken in recent years, and to concentrate only on those few remaining with the best profitability. The peripherals business has been downsized and refocused towards the delivery of high-performance data storage products, both magnetic and optical. In that regard, this segment of the company which we use to refer to as the peripheral products company, indicating the broad scope of its focus has been renamed data storage products. Now, the pain in those actions has been very great. They have resulted however, in pride and confidence in the future that's even greater.

Joe Minutilli reviewed with you the program of restructuring that was undertaken in Commercial Credit, so there is no need for me to review that, but in summary the actions that we have taken across the company in both the computer business and the financial services business, have meant the divestiture or shutdown of businesses that represent approximately 12% of the revenues, 1985 revenues in the computer business; some 35% of the revenues of Commercial Credit, and these, as I say, are actions that either have been completed or are currently under way. The total work force of the company has been reduced by approximately 10,000 people, and that reduction was accomplished through attrition, divestitures, retirements, including an early retirement program, and some terminations. But I do want to emphasize that the work force reduction in spite of what you read in the paper, is not just layoffs in response to lower demand. The change is permanent, and it

reflects both a more productive focus of our businesses and more productive operational processes, particularly as I mentioned, in the peripheral products or data storage products segment of the company. And very simply what that means is as volume grows in the business, we will, we can and we will continue to operate with fewer people. In addition to people, operating plant space associated with new processes has been reduced and as a matter of fact, was reduced by about 20% last year, or some 1.2 million square feet of manufacturing space. Also during this time the computer business, through careful cash management, and selected asset sales, and asset financing, have generated the necessary cash to sustain operations without outside sources. The net effect of all of these and other actions, then if fully annualized, would have been to improve profits in 1985, by about \$240 million. That, of course, was not the result as we didn't realize the full effect. Expenses were down in 1985 from 1984 and, of course, in 1986 we will see much more benefit. The net effect of the actions then has been to stabilize the business, and although we still expect to be operating at a loss in the computer business in the first half of this year, we also expect steady quarter-to-quarter improvement, and on the basis of the first two months results, we are even more confident of that than we were at the beginning of the year. For this year we have three priority tasks...to return the computer business to profitability before the end of the year; to repay the domestic short-term bank debt, and to do an in-depth strategic analysis and reassessment of our business portfolio.

To speak to repayment of the debt first, that will involve the sale of certain assets, the largest single one of which is Ticketron, and that is currently in negotiation. It will require careful cash management as we go through this process, so that the bulk of the cash generated from asset sales can be used to pay down debt rather than sustain operations, and the third piece will be some new financing, the alternatives for which are currently under evaluation.

With regard to the other priority tasks, returning the computer business to profitability and the reassessment, let me take just a moment and sketch for you, give you a brief overview of the makeup of the computer business.

The total computer business as we plan and manage it is divided into ten, what we call strategic business units, and those ten strategic business units in turn fall into one of four categories; four groups, if you will. The first of those groups and the largest is scientific and engineering products and services. The second is data storage products, which I have already mentioned; the third is financial information and commercial services, and the fourth is human resource information services. Scientific and engineering products and services; data storage products; financial information and commercial services, and human resource information services.

The first of those groups, scientific and engineering information products and services, includes the computer main frame business, supercomputers, our government and military systems; it includes products and services for the computer integrated manufacturing market and technical support services such as consulting, industrial training and maintenance services. As the name of the group indicates, the priority markets that these business units address are engineering in nature. They include things like research laboratories, weather and environment applications, electrical power distribution, petroleum exploration, computer aided design, computed aided manufacturing and so on. The company has long established positions in many of those markets and collectively in 1986, this year, those businesses will produce some 51% of total computer business revenues.

The second segment, data storage products, as I indicated earlier, with the divestiture of the magnetic media and computer supplies business, and with the exit from the so-called plug compatible or end user disk drive business, the focus of peripheral products has been narrowed to magnetic and optical disk storage devices, thus the name change for the business. Further the business now addresses, even within that, only the higher performance and higher capacity products and deals only in the original equipment manufacturer as opposed to the end user business. In terms of revenue, data storage products this year, in 1986, will have been reduced by more than one-third from the 1984 base. But in terms of number of

products and the focus of the business, it is even more dramatic and it has been reduced from some 14 families of products in 1984 to four, today. The results are already beginning to be felt. Margins have improved in the last two months and demand has firmed. And in no small way that's due to the fact that quality resulting from this intensity of focus has dramatically improved. As a matter of fact, Control Data now offers the highest reliability specification as expressed in terms of meantime between failure in the industry in the eight and nine inch disk drive business. In any event, we see that in orders, we see that in our margins and its beginning to have effects already. Revenues from data storage through a part of the business will be approximately 28% of this year's total computer business revenues.

The third group has two strategic business units, as I mentioned as the name says, financial information services and commercial services. These businesses offer both turn key systems and remote computing services as well as syndicated information services such as those of the Arbitron Ratings Company. Significant market positions have been established in the legal market with turn key systems, and litigation services, in the credit union market, and for general accounting and payroll services. The group in total financial information services and commercial services combined will account for approximately 15% of total computer business revenues this year.

Finally human resource information services, the business units that are in this group are for the most part newly developing, one important exception to that is the offering of vocational training, that's been done for many years now, through the Control Data Institute. But included in this group are other newer ventures such as the PLATO ^{WICAT} ~~WHY-CAT~~ joint venture which is just a year old now, which offers products and services to the kindergarten through 12th grade elementary/secondary school market, also included are consulting and other computer related services to small business and to agriculture. The revenues of this group represent then approximately 6% of the total computer business revenues this year.

Well, as I remarked a moment ago, not only do we intend to return the computer business in total to profitability before the end of this year, we also intend to have each of the ten strategic business units that fall into these four groups individually positioned for profitability in 1987. Or alternatively, we will have decided on a course of divestiture. But even beyond that, our task is to do an in-depth analysis and reassessment of the market position of each of the strategic business units and this strategic reassessment and analysis will be done by the middle of this year. The result of that may well be the further divestiture of some business units if it's felt that attainment of a strong market position, long-term market position for the business is too costly or too uncertain. So we are not just looking to position those

ten business units for profitability in '87, we are doing an analysis of their long-term prospects for positions of market strength and leadership. In short then what we seek is a more certain market path to critical mass and favorable market position for fewer businesses. In that regard we'll select the best choices that are available amongst these several businesses. So that is the third and actually in the long run, the most critical priority task that we have laid out for ourselves in 1986.

Let me just repeat them for you...we are going to repay the debt; we are going to get people positioned for profitability, and we are going to return the computer business in total to profitability to the end of the year, and we are going to choose from amongst the current portfolios of strategic business units, those with the best chance for long-term market leadership. Thus in both Commercial Credit and the computer business we have done a great deal that will help assure that 1986 will have a far different financial result than 1985. Moreover in both cases, we are simultaneously taking steps which address strategic questions and which will help assure long-term growth and profitability. A mandatory goal in the latter regard is to regain the investment grade ratings of Commercial Credit. I shall close then, with just a few comments on the policies and actions which were announced today and my colleagues have described to you.

The first and most obvious benefit is that we believe the separation will mean improved access to capital markets for Commercial Credit, the fundamental of its long-term strength. The achievement of investment grade ratings is essential for Commercial Credit's future, and as the sole investor, Control Data obviously has a great stake in those profits.

Second the separation will mean that we will divert less management time away from the computer business where it is greatly needed, obviously, and it will result in clearer focus on what we need to do in the computer business' own problem areas. At the same time we are able to do that because we have supreme confidence in Joe Minutilli and the management team that he has assembled. The separation will give the Commercial Credit management team much greater flexibility and they will be able to respond much more quickly to their own markets without having to concern themselves with the possible effects on the computer business of the corporation.

I think that we all will feel more comfortable with the new relationship; if for no other reason for the very simple one that it's cleaner and more responsive.

Finally the separation will once and for all I think, clarify for you, for our investors, for our lenders and for the public in general, that Control Data Corporation is first and foremost a computer company. It will help us sharpen the perception of both companies, though, in the minds of their respective customers. And all-in-all we are confident that the separation is in the best interest of all of us. We know that Commercial Credit is now a strong, well-managed financial services company. We have evaluated its strategic plan and believe our investment is actually on firmer ground than it ever has been before and I hope that after today you will all share that conviction as well. Thank you very much.