Thank you, and once again, welcome to the Twin Cities and to Control Data.

My role here today is to give you as complete a picture as I can of Control Data...some of its recent history, its current conditions and then we'll share with you plans and strategies for the future.

An important part of that plan is to raise $350 million through the sale of unsecured debt instruments. Proceeds of this transaction will be used primarily to repay short-term bank debt obligations and to provide a stable base for the sound financial foundation we are building.

The others here will take you more deeply into their specific parts of the company. My comments are of broader corporate consequence.

From the outset I would like to make clear that the Control Data you are visiting today is different from the Control Data that was here in 1984 or, for that matter, even six months ago. And it has changed for the better. My colleagues here and I intend to demonstrate for you that the changes we have undertaken are working.
The most visible of the changes we've made are the divestitures, shutdowns and structural modifications accomplished over the past year or so. Frankly, one of the things that has been most frustrating over these difficult months has been the reaction to the actions we've taken...particularly the reactions from the business and popular press.

For example, we said we'd consider selling Commercial Credit if we thought the price was right...and if it wasn't, we wouldn't. Well, we weren't offered what we thought was fair value and didn't sell it. That decision set in motion our "Plan B" alternative for restructuring Commercial Credit and ultimately separating more distinctly it from Control Data. That's exactly what we've done.

We were prepared to sell it...but never as a desperate act. In fact, even today that divestiture remains a viable alternative.

Another example...when we examined the product line of computer peripherals, we determined that some parts of that line didn't fit into our strategic plan. We then began the measured process of focusing down on those parts of the product line that did fit into the plan and which held the greatest potential: high-performance, high capacity data storage
devices. At the same time, we decided to divest or discontinue products/business except those where we are the strongest: in the Original Equipment Manufacturers market.

As a result, we sold some divisions, shut down some production facilities and trimmed the product lines. Larry Perlman will tell you later that those decisions are already paying off...that we're ahead of our 1986 recovery plan in that segment of the business.

There were a host of other actions too...some large and some small...but all a part of restructuring and recovery. Yet each of those actions, when viewed outside the strategic context, was somehow seen as evidence of a deeply troubled corporation...when in fact they were just the opposite. The primary objective through all of this has been to return Control Data to consistent profitability...(with a ROE goal of at least 15%) and debt to equity ratio of 0.4.

There is no question that we've made some mistakes and we've learned some important lessons. Frankly, we were inefficient in implementing certain product introductions that we had planned in response to market requirements. But through it all we have retained strategic flexibility. Our plan is sound and execution is growing increasingly more crisp.
We had a serious liquidity problem and we're dealing with it. We've had some structural problems and we're tackling them. We've clearly got an unbalanced short-term debt problem and we're working on that right now. That's why you're here today.

To give you an idea of what we've accomplished over the past few months, I'd like to run through some of the major actions we took in 1985 as we moved to restructure Control Data.

In the computer business we have been narrowing the business focus. The process actually began in 1984 when we realized that some major changes were going to be needed. The narrowing process continues today in 1986; but the bulk of the actions were taken during the past year with corresponding impact on the 1985 financial results.

In 1984 we pulled out of the end-user peripherals business, and that was a big decision. Other business connections we severed included Microbit, the Life Extension Institute, Genoponics—which was a computer-controlled indoor farming research effort—and we closed down Control Data publishing and software companies. It was just a harbinger of the future.
We accelerated that pace of strategic withdrawals in 1985 with substantially reduced interests in the flexible disk drive. As you no doubt know, the floppy disk aspects of the industry is a market with razor-thin margins. We're just not interested in that part of the business.

We closed down some Business Center applications services, sold Brokerage Transaction Services, pulled out of Magnicom and shut down a global technology exchange service, WorldTech.

There were more such actions in 1985—we shut down Control Data Commerce, some Learning Centers were closed as were some Control Data Institutes. We sold or shut off manufacturing operations in feeder plants which were rendered unnecessary by technology change, and scaled back production in some other joint venture operations. Late in the year we sold the entire business products group--tape, ribbons, paper and floppy disks--to Xidex Corporation.

I realize those are just names that may not mean much to you, but I offer the list to demonstrate the scope of our restructuring efforts. As of December 31, 1985, completed divestitures and asset sales in the Computer Business totalled some $300 million in cash proceeds. In the aggregate, completed and currently planned divestitures or shut-downs of
businesses representing approximately 12% of the 1985 revenues of the computer business and 35% of the revenues of Commercial Credit have been completed or are under way.

Further actions to improve liquidity and add to our financial flexibility included the consolidation or closure of manufacturing and warehouse facilities which resulted in a 20% reduction in space throughout the company in 1985. We also made substantial reduction in the company's workforce. The computer business had 7,028 fewer full-time employees at the end of 1985 than at the beginning of the year. Commercial Credit had 2,787 fewer. These reductions were accomplished through normal attrition, early retirement options, divestitures and job eliminations. At the same time, per employee productivity improved 17%.

The process of narrowing the business focus by selling or closing operations will continue, although at a slower pace, through 1986. Already completed this year were sales of the Syntonic and Mini/Micro Systems operations. (In process is the sale of Ticketron, which we expect to close shortly). We are also making good progress in negotiations with buyers for three other non-strategic businesses.
Those are just the major and most visible changes we made during 1985 to restructure the company to be better positioned as we entered this year.

The decision to retain Commercial Credit, last summer, set in motion a series of corresponding financial events. After that decision was made, we undertook a public offering of $300 million in securities, the proceeds of which would have been used to pay down short-term bank borrowing debts. But the increasing losses in the peripherals business and a clearer view that the 2nd quarter financials did not adequately picture the prospect of additional restructuring charges during the remainder of the year caused us to withdraw that offering.

In turn, that action prompted certain lenders to withhold additional committed credit, and the company was in technical default on its domestic debt. After several months of intensive negotiations with a lender committee, we have reached agreement in principle on a plan for the repayment of that debt.

Harold Hahn will cover that agreement in more detail later, but in essence we have agreed to repay about $385 million to banks by the end of 1986. The agreement includes a commitment to remit substantial portions of the proceeds from asset sales to the banks, and in any event a payment of $75 million in September with the remaining debt to be repaid by December 31, 1986.
We have more than sufficient assets to cover those obligations under several alternative scenarios, however the debt placement we are considering today would allow us to continue the planned restructuring with minimal disruption.

This restructuring of Control Data is important to short-term recovery, but it is in fact more fundamental than that.

As I said a moment ago, it reflects some of the painful lessons we have learned over the past two years. One of those lessons came from the recognition that we have historically tried to do too many things...chased too many challenges.

Over the years, Control Data had become a highly diverse computer products and services company; probably the most diverse in the industry. And as the industry grew through the 1970s, that diversity was a source of considerable strength. By the beginning of the current decade, Control Data was positioned with an enviable range of attractive strategic options. The question was the availability of the resources necessary to exploit those options.
As the market changed dramatically over the past four years, that same diversity became an even greater resource handicap as the industry was beset with shortened product life cycles brought on by waves of technological advances. We were met with new and increasingly intense competition, particularly in the OEM computer peripherals market.

Late in 1984 and into 1985, the OEM demand for computer peripherals softened, which brought about a collapse of volumes in older product lines and margins in newer ones. In anticipation of the CCC divestiture, we turned to short-term borrowing as a temporary solution, and you know the rest.

The need to narrow focus became crucial, to concentrate efforts on products and services that hold added-value in selected markets; and above all, to pursue those opportunities only when there is substantial potential for consistent profits in a relatively shorter timeframe.

Another important lesson we've learned over these past few months is the vital necessity to maintain a conservative financing structure.
Our most immediate objective, however, is to return to profitability just as quickly as possible, and in support of that goal, to get the house in order, pay off the existing bank debt in a prudent manner, and install a much more conservative financial structure, which will mean less debt and certainly less dependence on short-term debt.

To accomplish these tasks, we have structured the computer business around what we call Strategic Business Units. (Organization Chart) To help give you a better understanding of the business, I have shown these SBU's -- there are ten of them (not including CCC) -- on this chart. We've grouped them into four categories to more clearly portray how we are addressing various markets.

The first group is Scientific/Engineering Systems and Services, which includes four SBU's: Computer Systems (including ETA), Scientific & Engineering Services, Government Systems and Technical Support Services.

ETA is included in the Computer Systems SBU, even though it is a separate company. Its charter is to develop the next generation of supercomputers, and to have the first unit in the marketplace by the end of 1986.
The mainframe portion of Computer Systems represents Control Data's thrust into industries such as petroleum exploration, higher education and electric utilities.

The CYBER 180 line of mainframe computers, marketed in these targeted industries, it spans from a low-end super mini to a high-end mainframe from which the next step is the super computer.

The Scientific & Engineering Services SBU includes two divisions: the first offers remote computing on the largest supercomputers and access to a variety of engineering oriented applications. The second division is CIM, or Computer Integrated Manufacturing specializing in turnkey systems as well as mainframes and services used for computer-aided design applications.

The Government Systems SBU is, as the name implies, a unit offering special purpose and standard mainframes to the DOD and NASA. It allows us to actively pursue technology program funding, lets us become involved in such programs at an early stage, and helps us stay on the leading edge of new computer technologies. The key to profitability in military products is to have them recognized as the government "standards." We are the production supplier of three such 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.
The Technical Support Services SBU supplies maintenance services, consulting and training. These support services principally address the markets in conjunction with Control Data's other products and services. They provide not only significantly enhanced marketability of those other products and services, but also in total represent a very profitable 490 million dollar business.

The next SBU is Data Storage Products which includes both magnetic and optical disk devices. The magnetic disk business is, as I mentioned, now concentrated on the OEM market for high capacity, high performance disk storage products. Because of the reduction in product scope the designation of this business unit has been changed from "peripheral products" to Data Storage Products.

We have made a substantial commitment to regain the product leadership that has been a great strength 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 and through this venture we will be a major player.
In Data Storage today, orders continue to be strong in relation to the 1986 plan. If the market continues to pick up, all the better, but volume rebound has not been and is not the key to renewed profitability. The change in technology that has occurred since 1983, has made it necessary to totally restructure the development, procurement, and manufacturing processes previously employed. This has involved a more than 1/3 reduction in manufacturing and warehouse space, as well as a 45% reduction in the employee population. For the most part this massive change was achieved in the nine months from April 1985 to January 1986, and led to a large part of the restructuring and one-time changes incurred in the 3rd and 4th quarters of last year. I want to emphasize that these reductions have not been the result of reduced need or demand for megabytes of storage, but rather from the fundamentally different manufacturing process resulting from new technology. As only one example the 80 megabyte disk drive we deliver today has less than 1/15 the amount of CDC labor input of the 80 megabyte drive we delivered in 1984. The demand softness that began in late 1984 and continued into 1985 only precipitated and compounded the problem.

The next group comprises two SBU's: Financial Information Services and Commercial Services. We continue to sharpen market focus in these two business units as well.
Financial Information Services provides computer-related services to banks, credit unions, and consumer finance companies. Commercial Services consists of Business Information Services, Arbitron, which provides market audience demographic measurement for radio and television; 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.

Both these business units have undergone a large transition since 1983 from a services delivery mode involving remote computing and time-sharing to one involving turnkey systems and distributed computing. The change, while neither as massive nor as precipitous as the Data Storage business, has nevertheless involved significant restructuring and concomitant bottom line loss. Profitable operation in total returned in the second half of 1985 and continues to grow.

The last group is Human Resource Information Services, which includes the Healthcare Services, Economic Development, and United School Services of America, SBU's.

Healthcare Services comprises three divisions, the principal one of which is Medlab, a division that specializes in large-scale hospital laboratory computer systems, coupled with
an advanced hospital diagnostic information system. We are not satisfied with the performance in Healthcare and currently are reviewing a number of alternatives, including divestment.

USSA consists primarily of the investment in the PLATO/WICAT joint venture which is directing its efforts at the elementary and secondary education training market.

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

Now let's take a look at the numbers. First we'll take a look at historical performance, then compare 1985 to the first quarter and full year projections for 1986, and then look at the 1987 to 1989 plan.

Revenues (RMP 1) from continuing business operations remained relatively constant from 1984 through 1985. In the Computer Business, the pre-tax loss was $484 million in 1985, of which $143.3 million resulted from ongoing operations and $340.7 million from one-time charges, one-time credits and from our operational restructuring.
Affiliates include a $37.3 million loss in 1985, due primarily to losses in Earth Energy Systems, VTC, Control Data Properties and Custom One. With the exception of VTC, each of these affiliate investments is in process of significant reduction or total divestiture.

Net loss in the Computer Business was $562.7 million, which included $43.7 million of tax expense related to profits made on International operations and with domestic losses, an inability to defer taxes on International shipments.

Commercial Credit, which has been restated for comparative purposes to the equity method, had a $4.8 million loss for 1985 as that company continued to increase its reserves in the casualty insurance business.

So, total loss for all of Control Data as reported for 1985 was $567.5 million.

The balance sheet (RMP 2) on a comparative basis for the three year period looks like this: Total Assets declined from 1984 to 1985 by $392 million, with the most significant declines in receivables; inventory; and data centers and leased equipment. The $208 million decline in inventory is due to both improved inventory management practices, and shipments of newly introduced Data Storage products and systems late in the year.
Liabilities increased by $173 million due to the increase in non-interest bearing liabilities which are accounted for by accruals set up to cover various aspects of the 1985 restructuring.

Total debt, however, remained constant during the course of 1985 and of course from September on was frozen by the standstill agreement with the banks. As previously noted restructuring and reducing the debt is a major goal for 1986 and the reason for this meeting with you.

(RMP 3) in your handout is a comparative statement of the sources and applications of funds for the three year period. After you work your way through all the ins and outs, it boils down to this: In 1985 there was a $319 million negative hit from the P&L; $190 million positive from working capital; and $164 million positive in the capital and equity account. Together, they result in a $35 million positive cash flow for the year...even with all of our problems.

So that's the financial summary of 1985. It was a truly difficult year for Control Data, but by consciously choosing to take our licks we have been able to move into 1986 in much better condition.
I would like to turn now and address the financial picture for 1986. The first quarter is now behind us, and we are more and more confident in meeting our budgets for the year.

This chart (RMP 4) shows the profit picture for the computer business in some detail, the net earnings of Commercial Credit and the consolidated net earnings. As you can see, we are budgeted for almost $67 million of earnings in the computer business, including the projected gain on the sale of Ticketron. Commercial Credit is targeted for $65 million of earnings.

In the first quarter we are running somewhat ahead of our budget. Although the computer business is showing a loss, we are approximately $2.7 million favorable to the budget, with Commercial Credit $6.2 million favorable at the bottom line.

Computer business revenues are up slightly over budget. Although gross profits are down, we are managing our expenses and interest below budget so that the net profit before taxes is essentially on budget.

From a balance sheet standpoint, as shows on the next chart (RMP 5), assets are down from year-end 1985 and somewhat under budget. We plan to continue to drive assets down, particularly
in the inventory area. Debt, by year-end is projected to be $603.6M. The budgeted debt reflected on the balance sheet did not include the proposed $350M debt offering, nor did it include a number of off balance sheet items that are now included in the forecast. So the debt comparison of year end forecast to budget is not meaningful. The computer business equity improves substantially as a result of the $200 million dividend from CCC and budgeted earnings.

There are a lot of numbers on this next chart (RMP 6), but let me make several points. First cash flow reflects the sale of Ticketron and also the $200 million dividend from Commercial Credit. Most important, there is a positive cash contribution from operations of $13 million. Given first quarter performance, we believe that we will meet or exceed these cash projections for the year.

Looking beyond 1986, I would like to now review preliminary financial plans. I want to underscore that these are preliminary. They were developed in January and are currently being refined. The next formal check-point in strategic planning process will come in the middle of this year with a comprehensive review of basic business strategies and planned financial results.
As you can see from this chart (RMP 7), we are targeting to achieve a steady and significant growth in earnings over the next several years. Revenues increase modestly in 1987 through 1989 at about the 10% level. Profits improve more sharply, as strategies take hold and we continue to make operational improvements. Profits are bolstered somewhat, on an after-tax basis in both 1986 and 1987, by the application of the tax loss carry forward. Our estimate at this time is that this tax loss carry forward will be completely used up in 1988. Net earnings from the computer business are projected to grow to $203 million by 1989.

Commercial Credit will also see strong growth in earnings from the budget this year of $65 million to over $100 million by 1989. This is primarily due to improvement in return on assets.

Overall Corporate earnings are forecasted for improvement to a healthy $304 million in 1989.

I want to stress that in the case of both the computer business and Commercial Credit, these earning increases can be accomplished with more tightly focused business strategies and with continued improvements to maximize effectiveness and efficiency.
As shows on this next chart (RMP 8), the earnings increase will be accomplished with a relatively slow growth in asset levels in the computer business. Growth from internal cash flows will be adequate to finance the build up in assets so that the debt remains at relatively stable low levels.

In total, this preliminary financial plan is geared to gain a return on equity in the computer business of over 15% with a debt to equity ratio of under .4.

Harold Hahn will discuss the financing plan in more detail later, but I would like to touch on some of the major elements here.

As I mentioned earlier, the centerpiece of the lender agreement is a commitment to repay bank debts -- approximately $380 million -- by the end of this year. Included in that is a $75 million payment due by September 30. We will make this payment schedule with a combination of asset sales and/or debt financing.

The most significant asset sale we're looking at now involves Ticketron. We have identified a buyer -- Allen and Company of New York -- and had hoped to have a complete agreement in hand before this meeting. Negotiations have been more difficult
than anticipated. However, it is anticipated that the buyers will secure firm financing commitments very soon. When they do, the contract will be signed.

Under the terms of the bank agreement, a major portion of those proceeds will be used to pay down bank debt. Proceeds from any other asset sales will also be divided: 80% to the banks and 20% retained by Control Data.

Of critical importance, then, is the public debt issue we are discussing today. The final form of that issue is still to be determined. We are working closely with First Boston on that question. A successful offering would allow us to pursue a fuller range of possible strategic alternatives.

We are also working with Manufacturers Hanover on a $125 million receivables financing package. They have agreed to begin assembling a syndication of these receivables and we anticipate that arrangement will be completed by the end of April or the middle of May.

I had mentioned that this financing plan is cast against a backdrop of continuing operational improvements. These improvements are being made in every part of the company. In almost every case, a narrowed business focus is giving us the
ability to move more effectively into market opportunities where the existing base of products and services can generate improved gross margins.

We've also been strengthening management processes in a number of ways that have immediate and positive effects on financial performance.

One by-product of operating within the covenants of the current bank agreements has been the implementation of much stricter controls over such things as capital purchases, guarantees and general cash management including a more disciplined forecasting procedure with intensive reviews on a more frequent basis. As a result, we are better able to react and respond to changing needs.

Rigorous cash management, for example, has meant accelerated collection of receivables. We have asked suppliers to extend payment terms and most have agreed. Expenses in 1985 were not only down, but below budget from the previous year as well. That trend continues into 1986.

This determination for improved financial performance is pervasive throughout the company. As an example, sales management force came forward and urged that we forego the
annual sales recognition events scheduled for this year. That bothered me because the sales force has earned all the recognition we can give them, but that offer saved us several million dollars.

The spirit exemplified by that small example has given us the opportunity to dig into every nook and cranny of the company. We had a preliminary strategic review in January and are now engaged in a much more in depth review which, as I noted, we will complete early in the third quarter.

By 1990 it is the intent that every SBU achieve a leadership position. In this instance, leadership means being one of the top four competitors in that market. If we cannot see a good chance of that occurring the SBU will be discontinued -- divested or shut down.

In some cases, the market may be defined in more narrow terms, but that's one way that we are forcing a no-nonsense focus on areas where business opportunities justify our continuing presence.

I am going to call now on the people who are going to meet that challenge. (show presenter chart and identify the speakers to follow)