Introduction

As I remarked last evening, the major topic of this Board meeting is to give you a current analysis of the company's basic strategic considerations and the plans we have put in place for the next three years. Last evening we looked at the individual operations. This morning we'll have a "situational analysis" on a total corporate basis.

To put that in context I want to return to what was said at the Board meeting last November. That reference point will not only put in context the great progress that has been achieved in 1986, it will also help to emphasize future needs and objectives. The most straightforward way to do that is to recall for you the exact comments that I made at the meeting:

"Over the course of the year our operating results have deteriorated terribly. The planned divestiture of Commercial Credit did not happen and we have had a multitude of lesser woes of which we are all painfully
aware. I know you, as well as many others in the company, have strong feelings of concern, confusion, frustration and even anger. The company has suffered badly from the events of the last three years, and especially this year.

In the midst of all this turmoil we need to keep in mind a few fundamentals. (1) We are not going broke, we are not insolvent, [but] we sure as hell have had a liquidity problem; (2) Strategically the situation in Computer Systems, in Services and in Peripherals is no different today than it was at the start of the year. For the peripherals business there is an additional question, and that is the long-term difficulty of nurturing the "commodity" culture and management system which is necessary to the success in a high volume, low margin business like peripherals, and its ability to co-exist with the "value-added" nature of systems and services; (3) We actually are well-positioned strategically, but if we are going to succeed strategic position is not enough -- Control Data must change -- we must have fewer businesses if we are to do any of them well. First of all we can't afford the investment. But its even deeper than that. We have been a project oriented, challenge accepting organization. Nothing, we believe, is too hard or too different for us. We believe, given time, we can
do anything. And it's true. We've been blessed over the years with some extraordinary people who could, and can, do extraordinary things. You don't do what Control Data has done unless, for example, you believe you can bend the laws of physics -- and then do it. But having grown to a five billion dollar company we are beyond the point of just looking for hills to climb. We have not concentrated hard enough on excellence in the [businesses] already started.

We must change from this project orientation -- to profit orientation. Culture change is neither easy nor quick, but we've begun and it will be done."

I then reviewed in detail the balance sheet situation, cash flow projections, and the potential asset sales as shown on this chart, [Chart "A"] which you will recognize as the one against which we have noted progress at each meeting this year. After reviewing the essentials of the proposed business and product strategies, I summarized the financial strategy to be pursued in these words:

"As you can see, then, we have a totally unacceptable debt/equity financial structure, and I want to emphasize equally unacceptable P&L progress."
How do we address these problems? Since we earlier proposed the divestiture of Commercial Credit, that alternative, now that Plan "B" is nearing completion, could [possibly] be reinitiated.

The debt/equity structural problem would clearly be fixed by that course of action. But it does not fix that problem long-term, nor more important does it fix the P&L problem (it makes it worse short-term) and it does little for the management problem."

Finally I concluded with a summary of the actions to be taken to solve the problem. The principal need as noted was to narrow the focus of the company's business. There were five parts to the proposed plan: [Chart #1] financial restructuring, options with regard to CCC, targeted divestitures, a budget which called for the computer business to be at essentially breakeven on an operational basis in 1986, and the strategic re-direction of the three core businesses.

Let me review each of these five items as to our current position:
A. **Financial Restructure -- Completed**

1. Bank agreement signed

2. $400 million of cash raised through senior note/debenture offerings. $200M additional provided by a Commercial Credit dividend.

3. $150M raised through major asset sales during 1986 (without Ticketron)

4. Ticketron sale still pending -- targeted to close in late November for $140 million

5. Execution of Plan B for Commercial Credit -- sale of around $570 million of assets -- plus $1.5 billion in 1985

6. Successful public offering of Commercial Credit -- resulting in sale of 80 percent (netting $530 million in proceeds to Control Data) of our equity

7. Currently have approximately $300 million in excess funds after paying down intercompany debt and manufacturers Hanover receivables financing -- Harold Hahn to address this later in presentation

8. **Summary:** [Chart #2]
Total Funds Generated in '86:

<table>
<thead>
<tr>
<th></th>
<th>12/31/86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior notes/debentures</td>
<td>$400M</td>
</tr>
<tr>
<td>Commercial Credit</td>
<td>530</td>
</tr>
<tr>
<td>Ticketron</td>
<td>140</td>
</tr>
<tr>
<td>Other assets sales</td>
<td>150</td>
</tr>
</tbody>
</table>

$1.220M

Key Financial Indicators:

<table>
<thead>
<tr>
<th></th>
<th>12/31/85</th>
<th>12/31/86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to Equity</td>
<td>2.0</td>
<td>(1.25)</td>
</tr>
<tr>
<td>Total Debt (Computer Bus.)</td>
<td>744.0M</td>
<td>500.0M</td>
</tr>
<tr>
<td>Equity</td>
<td>373.0M</td>
<td>1.2B</td>
</tr>
<tr>
<td>Cash - after paying off</td>
<td>-</td>
<td>400.0M</td>
</tr>
<tr>
<td>A/R financing, plus 4th Qtr. cash charges</td>
<td></td>
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</tbody>
</table>

B. Strategic Options for Commercial Credit:

1. Commercial Credit was downsized -- $570 million of business assets sold in 1986

2. Analyzed the divestiture options and selected public offering approach with Sandy Weill

3. Current market value of our 20 percent equates to around $200 million

4. Summarize 1986 CCC transactions: [Chart #3]

1986 cash/security proceeds to CDC -- '86 realization on CCC's 12/31/86 equity of $833.2M plus 9-month earnings of $43.9M in terms of cash & marketable securities:

March special dividend $200,000,000
First half regular dividends 9,000,000
10/2/86 stock sale to Weill 6,006,194
10/28/86 dividend 8,750,000
Net sales proceeds pub.offer. 523,877,500
Market value of remaining 9,501,267 shs. at $22 1/4 211,403,191

$959,036,885

Or in short on $833M we have realized $959M (748 + 211)
C. **Targeted Divestitures/Close-downs:**

1. General comments, re narrowing the focus [repeat pg. 3, item (3)]

2. [Chart #4]
   Major/successful effort within the company (Refer to $271 million, November 1985 list).

3. [Chart #5]
   Show complete list for 1986 -- total 1986 asset sales projected at 290 million. Highlight results and closings forecasted for remainder of 1986 (principally Ticketron, Healthcare Svcs.)

D. **Nominal Profitability for 1986:**

1. Don Eisma will cover our year-to-date results and year-end projections next -- but highlights show:
   a) Continuing improvements in reducing the loss from operations in the Computer Business throughout the year (but more slowly than we had planned), leaving us behind our budget by $32 million NPBT (ex-Ticketron sale) on a year-to-date basis. In general, good progress in operational area in 1986, but non-operational charges are substantially higher than planned.
b) Expect to use the Ticketron proceeds and profits to cover major restructuring/non-operational charges in the fourth quarter -- estimated to be approximately $151 million.
c) Generally somewhat disappointed with overall 1986 financials -- but we are making progress and expect to be profitable in 1987 (Harold Hahn will cover this in the 1987-1989 Business Plan).
d) Corporate restructuring is now complete! We do not expect any of these activities to carry into 1987 -- from a financial (P&L) point of view.

E. **Redirection of the Computer Business:**

None of that has been easy, but I can tell you that with a very clear idea of the underlying value of Control Data and of what it can be, the determination to effect financial restructuring never wavered. Last year on November 14 Control Data didn't have the cash to pay its bills. Today we are in, what is in effect, a no debt position.
Well, we said we'd do it! Most people didn't believe us. Now they do. I'm proud of that. You can be proud of that. We did it and we did it on our own.

Once again, the question is do we now have a business worthy of the financing we've made available to it. There's been some progress in that regard as well over the past year. Data Storage Products is back from the brink, but more important we have a clearer vision of what that business can be. Great progress has likewise occurred over these past 12 months in the services businesses, even though it is far from uniform -- with Business Services being best, Science & Engineering Services worst and Education Services somewhere in between.

More important, we have developed in every SBU over this year a better strategic feel for the business than we've had in many years, and in no SBU is that more true than in Computer Systems.

Thru the 2007 Committee which has strategic oversight for the corporation and which I chair, more time has been spent in this strategic analysis, and specifically seeking to gain deeper insight into the financial implications of this improved strategic understanding.
Let me just say a few words about where we are going. First, Services,

a. In total $48B market, 20% growth rate.

b. Numerous market and service areas range from companies like D&B (info services) to Integraph (turnkey systems for CAD/CAM) to EDS (integration, facility management services).

c. Need to capitalize on technology shifts. Change produces opportunity.

d. Need to be selective, build on our strengths -- Arbitron leadership, EMSD leadership.

e. Acquisition will play a role.

Technology just as surely drives the services business as it does systems or data storage products. Everyone can cite the example of how technology changed the nature of processing services. Remote processing has become desk top processing, that opened up vistas for computer services that we have been slow to see and yet the possibilities are still there for us to realize. And now a new technology -- optical recording -- will dwarf the change micro-computers made possible in information services.

Stop to think that in optical recording technology we have available to our services business the most advanced information storage technology available today.
We intend to capitalize on the opportunity that offers. Optical Technology alone is now emerging as a driving force of information services for law firms, for engineers, for people in agri-business, and for training and education services. In each of the engineering, business and education service market areas we serve we are or can be the leading company by 1990. And computer technology makes it possible.

In services markets lie Control Data's most profitable opportunities, and we will place increasing emphasis on expanding services businesses.

Let's turn to computer systems. There is more change taking place in the market than in over a decade. Control Data faces competition not just from its historic competitors, but even more crucially from specialty competitors such as the near supercomputer manufacturers. The market is fractionating; due to technology change there is more opportunity for specialty competitors. We must react to that change. I know we can do so -- we reacted to a much greater marketplace change in the early 70'S and by 1975 had embarked on a new and successful strategy.
Now there are only two truly significant challenges when it comes to designing and building computers. That's to build the biggest, most powerful and to build the littlest most powerful possible for any given state of the art. We've shown we can do the first while most others have failed, and ETA is proving that we can continue to be successful at the top of the line.

Technology is clearly the driving force of computer systems. Technological evolution kills old computer lines and old architecture and makes new ones possible, a never ending cycle of obsolescence and renewal. The 20K CMOS technology used in the ETA 10 is the most advanced in commercial use today. And that's not all. Leading edge technology is a fact of daily life in Government Systems such as in the new P3I airborne computer.

We specialize in scientific and engineering application of the computers we build for ourselves. The future of computing in those applications is supercomputers and workstations. We are going to get serious about the second part of that statement. We have the technology to build a 30 MIP workstation that could sell for $30K. By 1990 such workstations will be commonplace. Think about that. Should we miss the opportunity to participate? Cooperation may be a good approach to this opportunity. But whether we do it for ourselves or with a
partner, we must and we will change our thinking from "mainframe out" to "workstation in" in order to succeed. [elaborate]

Now the third leg of Control Data's business -- Data Stg. Products.

a. Significant strengths -- leading OEM market share.

b. In the course of 1986 we have evolved a clear cut strategy: high performance, high capacity magnetic and optical storage devices for the OEM market.

c. Technology and product introduction critical.
Projections are for:
. 1 gigabyte 5 1/4" storage product in a few years
. Continue progress with thin film heads, more emphasis on media.

d. Continue emphasis on quality. I mentioned the progress we have made in this regard, but it is only the barest beginning.

e. Perhaps manufacturing capability most important. By end of decade, we will be facing $1 to $2 per megabyte pricing. Need to be high-volume, low-cost producer. This will involve:
. Highly automated processes and capital investment as well as off shore manufacturing.
In sum, we want to be strong participant in all three areas. There is, to be sure, the question of resources -- the money and management expertise to do it all. To provide perspective, keep several points in mind:

a. We will be in much better financial position at end of this year than we have been in in the last several. Over $300M in cash after CCC. But, we can't take all that cash and use it to support higher expense levels. We need to show improving profits.

b. We are going to have to be very selective with both internal investments and acquisitions -- only the best market/product opportunities.

c. We can't do it all alone. Need to be creative in establishing strategic relationships, partnerships to strengthen our position and gain market, product/technology, people, financial leverage. These relationships could be "relatively" straightforward like a venture to design or manufacture a product. They might be much more significant like working with a partner to establish a separate company and taking part of that company
public. What we do in any area must obviously be based on the requirements of a particular business for long-range success. We don't want to and can't be 5th and 6th tier players in any market/product area.

This involves:

a) Our current strategies -- along with the risks and opportunities that they present
b) Analysis of our competitive strengths and weaknesses --"What does it take to win?"
c) Strategic alternatives for each of our businesses
d) Incremental business opportunities provided by investments/acquisitions

This is what each line executive reviewed with you last evening. H. Hahn will summarize this later in the agenda this morning.

Before we turn to that I want to also mention that there has been a lot of plain old operational progress as well. Productivity figures illustrate that. The population and productivity data for the Computer Business is as follows: [Chart #6]
### Average Quarterly Population and Quarterly Revenue

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Population</th>
<th>Revenue</th>
<th>Revenue Per Employee (Annualized)</th>
</tr>
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<tbody>
<tr>
<td>First</td>
<td>37,747</td>
<td>$796</td>
<td>$84,360</td>
</tr>
<tr>
<td>Second</td>
<td>36,206</td>
<td>828</td>
<td>91,476</td>
</tr>
<tr>
<td>Third</td>
<td>35,574</td>
<td>818</td>
<td>92,032</td>
</tr>
<tr>
<td>Fourth</td>
<td>34,519</td>
<td>868</td>
<td>100,580*</td>
</tr>
</tbody>
</table>

* By including Tickettron revenues (excluded in fourth quarter, above) through November 1986, the productivity per employee would be 103,000.

### B. The summary population data is as follows:

1. 12/31/85 — 38,856
2. 10/31/86 — 35,064
3. 12/31/86 Projection — 33,718

That is a reduction in this year of 13%.

### Agenda for remainder of this topic:

- 1986 Financials — Don Eisma
- 1987-1989 Business Plan — Harold Hahn

### Conclusion

In summary then, we have successfully executed a difficult but extremely rewarding financial restructuring. We are positioned for a return to reasonable profits in 1987. We have taken major strides toward an organizational restructuring, that has
as its central themes decentralization. This involves: a smaller corporate overhead structure, emphasis on fewer levels of management (including 138 fewer executive level managers than at the beginning of 1985), and emphasizes the three goals of quality through TQMP, improved marketing expertise, and an emphasis on individual initiative and responsibility.

In short, we have done what I set out for us to do at the start of this year. It has not been sufficient to achieve a P&L breakeven for 1986, but it has most importantly positioned us aimed for profitability in 1987. You on the Board and the management team can and should take great pride in that.