IN THE MIDDLE THIRTIES, I LIVED IN A VERY SMALL TOWN ON THE KENTUCKY/VIRGINIA BORDER CALLED JENKINS.

NOW JENKINS WAS A "COMPANY TOWN" -- OWNERSHIP -- SCRIPT, ETC. NOTHING EVER HAPPENED IN JENKINS.

IT'S BEEN THIRTY-FIVE YEARS SINCE I LEFT JENKINS, BUT ONE HOT SUMMER DAY I HAD AN EXPERIENCE I'VE NEVER FORGOTTEN.

I'LL GET BACK TO THAT IN A MOMENT. FIRST THOUGH, IT TURNS OUT THAT THE OTHER DAY I VISITED JENKINS AGAIN -- FOR THE FIRST TIME IN THIRTY-FIVE YEARS. NOW JENKINS ISN'T EXACTLY ON YOUR BASIC FREeway SYSTEM. YOU HAVE TO HAVE A CERTAIN AMOUNT OF DEDICATION JUST TO GET THERE.

(Story about CCC Office in Hazard, Kentucky)

Anyway, forty years ago is when my story happens ..... 

(Story about growing up in Jenkins, Kentucky)

I never knew then and I never debate now the goods and bads, the rights and wrongs, what makes happy and what makes sad -- but I've never forgotten that simple lesson in what unity-of-purpose can accomplish.
IN 1975, WE HAD THAT TO A MUCH GREATER DEGREE THAN EVER BEFORE IN CONTROL DATA. THE RESULTS OF THE YEAR REFLECT THAT. WE ALSO HAVE A TREMENDOUS CHALLENGE IN 1976.

AND, THIS AFTERNOON, I WOULD LIKE TO REVIEW EACH OF OUR SYSTEMS AND SERVICES PRODUCT FAMILIES AS WELL AS HIGHLIGHT SOME MAJOR ACCOMPLISHMENTS AND PROBLEM AREAS.

FIRST, COMPUTER SYSTEMS. FOR 1975, COMPUTER SYSTEMS WAS OUR AREA OF GREATEST PROGRESS. COMPUTER SYSTEMS BEAT ITS BASE FINANCIAL PLAN FOR THE YEAR BY 12.5 MILLION DOLLARS. AT THE BEGINNING OF 1975, WE ESTABLISHED AN INTERNAL TARGET WHICH WAS MUCH TOUGHER THAN THE FINANCIAL PLAN. SYSTEMS CAME WITHIN 1.5 MILLION DOLLARS OF ACHIEVING THAT PROFIT GOAL. ASSETS WERE DOWN BY 77.3 MILLION DOLLARS -- FROM 719.4 MILLION AT THE BEGINNING OF THE YEAR TO 642.1 AT THE CLOSE. HEADCOUNT WAS DOWN FROM 4548 TO 3758. TECHNICAL EFFORT INCURRED, FROM * 30.2% TO 21.3% OF REVENUE. REVENUE TO ASSETS IMPROVED BY 18% TO .46%.

AND THE CYBER 170, OF COURSE, WAS THE HIGHLIGHT OF THE SYSTEMS' YEAR.
THESE RESULTS SPEAK WELL OF YOU AND YOUR COLLEAGUES IN SYSTEMS.

WITH ALL THAT, HOWEVER, OUR SYSTEMS BUSINESS IS NOT YET PROFITABLE. THE PAST TWO YEARS, WE HAVE BEEN HAMMERING AWAY AT THE FUNDAMENTALS OF PRODUCT STRATEGY, INDUSTRY MARKET ANALYSIS AND PLANNING, BETTER MANAGEMENT AND COST VISIBILITY. WE ARE POSITIONED NOW TO MAKE OUR SYSTEMS BUSINESS PROFITABLE. YOU DISTRICT MANAGERS ARE GOING TO PLAY A MORE IMPORTANT ROLE THAN EVER IN MAKING THAT HAPPEN. I WANT EACH OF YOU TO LEAVE THESE SESSIONS NOT ONLY WITH A BETTER UNDERSTANDING OF WHAT YOU CAN DO, BUT WITH AN ABSOLUTE DEDICATION TO DOING IT. IT IS SOMETHING THAT TRANSCENDS QUOTA AND BONUS OR BUDGETS AND TARGETS -- IT IS A MATTER OF PRIDE. IT'S A MATTER OF HOW WE LOOK AT OURSELVES, HOW WE FEEL ABOUT OURSELVES AND THE TIME IS NOW -- 1976 IS THE YEAR. THE ORDER QUOTAS WE HAVE ASSIGNED ARE NOT ADEQUATE FOR PROFITS IN 1976 -- OR FOR THAT MATTER IN 1977. BUT, WE CAN BEAT THOSE TARGETS. IT IS A MATTER OF WILL.
FOR MY PART, WE ARE NOT ONLY GOING TO GIVE YOU BETTER MANAGEMENT TOOLS AND HIGHER QUALITY PRODUCTS IN SYSTEMS, WE ARE LAYING THE GROUNDWORK FOR FUTURE PRODUCTS THAT WILL ALLOW US TO CONTINUE BUILDING INTO THE 1980's.

STILL THERE ARE LARGE PROBLEMS YET TO BE OVERCOME. IN 1975 FOR EXAMPLE, WE EXCEEDED OUR PURCHASE CONVERSION BUDGET (EXCLUDING ALS) BY 21.2 M. WE MISSED OUR OUTRIGHT SALES TARGET BY 36.9 M. THE LEASE BASE ACTUALLY DECREASED IN 1975 BY A MILLION PER MONTH, AGAIN EXCLUDING ALS. AND IN SPITE OF ALL THOSE PURCHASE CONVERSIONS, WE MISSED OUR TARGET REVENUES OF $310 MILLION BY 15 MILLION DOLLARS. HAD WE MADE THOSE REVENUES, OUR COMPUTER SYSTEMS BUSINESS WOULD HAVE BEEN VERY NEARLY IN THE BLACK.
INSTRUMENTS AND CONTROLS

AUTOCON, ELECTROFACT, AND KEROTEST MADE A PROFIT FOR THE FIRST TIME IN TWO YEARS AND HAD A POSITIVE CASH FLOW OF ALMOST 6 MILLION DOLLARS. IN FACT, OUR INSTRUMENTS AND CONTROLS BUSINESS HAD THEIR MOST PROFITABLE YEAR EVER.

ENERGY MANAGEMENT SYSTEMS FROM AUTOCON REPRESENT A MAJOR NEW MARKET AREA FOR OUR COMPUTER SYSTEMS. AND DURING 1976 WE WILL BE MAKING ADDITIONAL INVESTMENTS TO PRODUCTIZE THESE SYSTEMS AND INCREASE THEIR SALEABILITY AND PROFITABILITY. OUR FINANCIAL PLANS FOR INSTRUMENTS AND CONTROLS IN 1976 DO NOT CALL FOR GROWTH IN EITHER REVENUE OR PROFITS. BUT THEY DO CALL FOR INCREASED PRODUCTIVITY AND PROFITABILITY SO THAT MORE MONEY CAN BE INVESTED IN THE BUSINESS. AS A RESULT, IN A FEW YEARS, THIS IS GOING TO BE A MAJOR SEGMENT OF OUR SYSTEMS BUSINESS.
AEROSPACE AND MILITARY PRODUCTS

OVER THE PAST FIVE YEARS, AEROSPACE AND MILITARY PRODUCTS HAS BEEN THE FASTEST GROWING PRODUCT FAMILY WITHIN OUR SYSTEMS BUSINESSES. IN 1972, REVENUES WERE $42.3 MILLION AND PRE TAX PROFITS OF $1.3 MILLION REPRESENTED A 3% RETURN ON REVENUES. IN 1975, REVENUES REACHED $104.2 MILLION AND PRE TAX RETURN REACHED 5.1%. AEROSPACE BEAT ITS ASSIGNED PROFIT TARGET BY 36%.

THERE IS A PROBLEM IN ALL THIS, HOWEVER. FROM 1972 THROUGH 1975 ASSETS GREW BY OVER 125% -- FROM $21.9 MILLION TO $49.3 MILLION. CUMMULATIVE NEGATIVE CASH FLOW OVER THAT PERIOD WAS SOME $20 MILLION.

IN 1976, OUR STRATEGY IS VERY MUCH MORE ORIENTED TOWARD THIS PROBLEM. REVENUE GROWTH IS PEGGED AT A MODEST LEVEL OF 4%. BUT ASSETS WILL LEVEL OFF AND A POSITIVE CASH FLOW OF 2.0 MILLION DOLLARS WILL RESULT. ALSO IN 1976, WE HAVE A LARGE MARKETING TASK TO DEVELOP NEW PROJECTS FOR 1977 AND BEYOND.
AEROSPACE REPRESENTS A LARGE TECHNOLOGY RESOURCE FOR CONTROL DATA. IN THE PAST, SOME SIGNIFICANT PROGRAMS HAVE BENEFITTED FROM AEROSPACE TECHNOLOGY. FOR EXAMPLE, THE MP-17 AND ITS USE IN THE 2550 COMMUNICATIONS SYSTEM IS A DIRECT FALLOUT OF THE AEROSPACE MPP TECHNOLOGY. AEROSPACE ALSO HAS MADE AND IS MAKING IMPORTANT CONTRIBUTIONS TO OUR PLASMA DISPLAY TECHNOLOGY.

BUT, IF WE ARE TO GET FULL BENEFIT FROM OUR INVESTMENTS IN THIS PRODUCT FAMILY, WE MUST DO MUCH MORE IN THE FUTURE. THIS SUBJECT WILL GET CONSIDERABLE ATTENTION FROM JOHN TITSWORTH, TAYLOR KINCANNON AND FRED JENNY THIS YEAR.

NOW I WILL TURN TO OUR SERVICES PRODUCT FAMILIES ---

FIRST ENGINEERING SERVICES. ENGINEERING SERVICES OVER THE YEARS HAS BEEN THE MOST CONSISTENT PERFORMER IN TERMS OF MEETING BUDGET AND IN TERMS OF GROWTH AND IMPROVING PROFITABILITY. IN 1975, IN TERMS OF ABSOLUTE DOLLARS, ENGINEERING SERVICES PRODUCED MORE BEFORE TAX PROFIT THAN ANY OTHER PRODUCT FAMILY IN THE COMPUTER BUSINESS -- $18.1 MILLION.

YET IT IS HERE THAT WE FACE PERHAPS OUR GREATEST CHALLENGE IN MEETING THE FINANCIAL GOALS OF THE NEXT FIVE YEARS. FOR WHILE REVENUE HAS GROWN BY SOME 82 MILLION DOLLARS FROM 1972 THRU LAST YEAR, ASSETS HAVE INCREASED BY $87 MILLION. THOUGH TOTAL BEFORE TAX PROFIT IN THAT PERIOD WAS $60 MILLION, CUMMULATIVE NEGATIVE CASH FLOW OVER THOSE FOUR YEARS WAS 31.0 MILLION.
WE TEND TO THINK OF ENGINEERING SERVICES PRIMARILY AS A PEOPLE BUSINESS. AND, OF COURSE, IT IS! THAT IS, IT IS A VERY PEOPLE DEPENDENT BUSINESS. IT IS ALSO AN ASSET INTENSE BUSINESS AND HAS GROWN MORE SO. FOR EACH EMPLOYEE WITHIN ENGINEERING SERVICES, WE REQUIRE TODAY $24,000 IN ASSETS. INVENTORY AND INITIAL SPARES REPRESENT OVER HALF OF THIS -- SOME $14,000. RECEIVABLES REPRESENT ANOTHER $5,000.

THIS PROBLEM IS NOT SOMETHING THAT OUR ENGINEERING SERVICES PEOPLE ALONE CAN SOLVE. IT STARTS WITH PRODUCT STRATEGY AND IS ESPECIALLY INFLUENCED BY PRODUCT PROLIFERATION AND EARLY OBSOLESCENCE. IT CONTINUES WITH DESIGNERS AND THE MANUFACTURING PEOPLE AND FINALLY RESTS WITH YOU -- THE MARKETING MANAGEMENT -- NOT ONLY IN RECEIVABLES MANAGEMENT BUT IN ACCOUNT AND MARKET AREA STRATEGIES AS WELL.

IN THE COMING FIVE YEARS, WE MUST FIND A WAY TO GROW ASSETS IN ENGINEERING SERVICES BY ABOUT HALF THE HISTORICAL RATE WHILE OPERATING THE BUSINESS AT AN EVER INCREASING VOLUME OF REVENUE.
PROFESSIONAL SERVICES. BY ALMOST ANY NAME, PSD, DRIVING OFF THE FORCE OF UNBUNDLING IN 1970, HAS BECOME ONE OF OUR MOST SUCCESSFUL PRODUCT FAMILIES. IN 1975, THEY REACHED A BEFORE TAX PROFIT RATE OF 8.6% WHILE GROWING REVENUES SOME 23.0%.

IN CONTRAST WITH ENGINEERING SERVICES, ASSET REQUIREMENTS ARE LOW -- SOME $4400 PER EMPLOYEE. AS YOU NO DOUBT UNDERSTAND, THIS IS MOSTLY RECEIVABLES -- ABOUT 65% RECEIVABLES. DURING 1975, YOU MADE A LOT OF PROGRESS IN HANDLING OTHER RECEIVABLES. AVERAGE DAYS OUTSTANDING WENT FROM 78 IN 1974, TO 70 LAST YEAR. IN 1976, THE DAYS OUTSTANDING MUST FURTHER IMPROVE TO 58.

TWO YEARS AGO, AT DIRECTION '74, WE TALKED ABOUT INCREASING THE INDUSTRY AND APPLICATION MARKET AREA ORIENTATION OF PSD. THERE HAS BEEN CONSIDERABLE PROGRESS IN THE LAST TWO YEARS AND THIS THRUST WILL CONTINUE IN THE FUTURE. THE "FIRM" CONCEPT HAS PROVEN SUCCESSFUL THROUGH OUR STRUCTURAL ENGINEERING SERVICES AND THIS SERVICE HAS NOW BEEN EXPANDED INTERNATIONALLY. 1976 WILL SEE THE INTRODUCTION OF NEW FIRMS ...... DATA MANAGEMENT AND ENERGY. MAJOR ADDITIONS TO PSD'S RESPONSIBILITIES THIS YEAR ARE THE UTILITIES SERVICE CENTER AND NUCLEAR ASSOCIATES INTERNATIONAL. THESE NEW ADDITIONS REPRESENT MAJOR UNDERTAKINGS -- NOT JUST AS A PSD ENTERPRISE BUT IN GROWING OUR CYBERNET BUSINESS. IN THE LONG RUN, IT WILL BENEFIT SYSTEMS AS WELL.
EDUCATION SERVICES

IN 1975 EDUCATION SERVICES WAS OUR BIGGEST DISAPPOINTMENT. IN 1974 WE HAD ACHIEVED A REAL TURNAROUND IN U.S. CDI. IN 1975 THE TURNAROUND WAS ALSO PLANNED IN INTERNATIONAL. AND IN FACT IT WAS ACHIEVED -- INTERNATIONAL CDI WAS IN THE BLACK. BUT EARLY IN THE YEAR IT WAS APPARENT WE HAD A BADLY MISMANAGED PROGRAM IN IES AND IT WAS CUT OFF. EVEN SO, THERE WAS A NEGATIVE 1.3 MILLION DOLLAR UNFAVORABLE IMPACT ON THE P & L. THE BIGGEST PROBLEM BY FAR WAS IN IRAN WHERE GOVERNMENT FUNDING DELAYS STRETCHED OUT THE PROGRAM AND INCREASED THE TOTAL COSTS AS WELL. ALTHOUGH 1976 WILL SEE SOME OF WHAT WE LOST IN 1975 MADE UP, THE EFFECT IN 1975 WAS OVER 4 MILLION DOLLARS IN UNFAVORABLE PROFIT DEVIATION. ALL-IN-ALL, EDUCATION WAS SIX MILLION DOLLARS UNFAVORABLE TO PROFIT PLAN.

IN SPITE OF ALL THOSE UNFAVORABLE STATISTICS, THERE WAS A LOT OF PROGRESS DURING THE YEAR. AND, IN PARTICULAR, THE CBE PROGRAM MADE GIANT STRIDES DURING THE YEAR. IN SPITE OF THE PROBLEMS, AND THE LOSS IN EDUCATION WAS CONTAINED TO THE 1974 LEVEL OF 2 MILLION DOLLARS.
IN SEPTEMBER, WE BEGAN MOVING EDUCATION SERVICES INTO COMMERCIAL CREDIT. AS OF THE FIRST OF THE YEAR, COMMERCIAL CREDIT STARTED THE SALE OF CBE AS WELL AS CDI EDUCATION SERVICES TO INDUSTRY AND CONSUMERS. FOR THE FUTURE THE COMPUTER BUSINESS WILL CONCENTRATE ITS EFFORTS ON CONTINUED DEVELOPMENT OF CBE SYSTEMS AND NETWORK SERVICES. DURING THE COURSE OF THESE MEETINGS, YOU WILL HEAR A LOT MORE ABOUT THIS, SO I WON'T DWELL ON IT HERE.

JUST LET ME SAY THAT THIS IS THE MOST FAR REACHING PRODUCT CONTROL DATA WILL EVER HAVE PRODUCED. NOT ONLY WILL IT FORM A CENTRAL PART OF CCC BUSINESS STRATEGY, THERE WILL BE DIRECT BENEFIT TO OUR SYSTEMS AND DATA SERVICES BUSINESSES AS WELL. CBE SYSTEMS WILL AUGMENT OUR CURRENT SHIPMENT LEVELS TO SOME DEGREE AND MORE IMPORTANTLY PROVIDE RENEWED MARKET LEADERSHIP FOR CONTROL DATA IN THE EDUCATION MARKET.

FOR 1976 IN THE SYSTEMS AND SERVICES EDUCATION GROUP, WE WILL INCUR A LOSS OF 1.2 MILLION DOLLARS. THE IRANIAN PROJECT WILL PRODUCE A PROFIT BUT NOT ENOUGH TO OFFSET THE HEAVY START-UP COSTS IN BUILDING THE CBE NETWORK. I SHOULD ALSO SAY THAT THE LOSS I MENTIONED GIVES NO CREDIT TO EDUCATION FOR CBE SYSTEMS SALES. THOSE REVENUES AND PROFITS WILL ACCRUE ENTIRELY TO SYSTEMS.
1976 WILL ALSO SEE INVESTMENTS IN ASSETS FOR DEVELOPMENT OF THE NETWORK. IN FACT, THIS WILL CONTINUE OVER THE NEXT FIVE YEARS.

AS I HAVE REMARKED TO MANY OF YOU BEFORE, I HAVE NO BELIEF IN PANACEAS OR MIRACLES. A SUCCESSFUL CBE PROGRAM IS GOING TO REQUIRE A LOT OF MONEY, A LONG TIME, AND MORE THAN ANYTHING, DEDICATED WILL TO MAKE IT HAPPEN.

BUT I KNOW BETWEEN COMMERCIAL CREDIT AND SYSTEMS AND SERVICES WE CAN DO JUST THAT - MAKE IT HAPPEN. AND WE WILL BE ABLE TO LOOK BACK AND BE VERY HAPPY ABOUT THE TIME, THE MONEY AND THE DEDICATION IT TOOK.

DATA SERVICES

OUR DATA SERVICES PRODUCT FAMILY HAS A LOT OF CONTRASTS. IT LACKS CONSISTENCY. SOME SERVICE LINES ARE MATURE AND SOLIDLY PROFITABLE, SOME REPRESENT CONTINUING INVESTMENTS - AND LOSSES. ON THE ONE HAND, WE HAD A LARGE SHORTFALL IN REVENUE IN 1975; ON THE OTHER HAND, COSTS WERE BETTER CONTROLLED IN THIS PRODUCT FAMILY THAN ANY OTHER. U.S. CYBERNET IN SPITE OF A 3.5 MILLION DOLLAR REVENUE SHORTFALL EXCEEDED BUDGETED PROFIT (WITH AN ASSIST FROM SYSTEMS WHO ABSORBED ALL STAR DEVELOPMENT EXPENSES). ON THE ONE HAND, U.S. CYBERNET LANQUISHED IN THE EARLY PART OF THE YEAR, WHILE EUROPE BOOMED ALONG. ON THE OTHER HAND, THE REVERSE WAS TRUE IN THE LAST SEVERAL MONTHS.
THIS WEEK YOU ARE GOING TO HEAR A LOT ABOUT DATA SERVICES. MR. SIELING HAS TALKED ABOUT 1975 PERFORMANCE, YOU WILL HEAR FROM VON GILLERN, BICKEL, MURDAKES, MR. NORRIS, CHUCK ROSKAM, AND I DON'T KNOW WHO ALL ELSE. THEY WILL TALK ABOUT DATA SERVICES GLOWINGLY, COMMANDINGLY, THEY WILL TALK DATA SERVICES PAST, PRESENT AND FUTURE, THEY WILL TALK DATA SERVICES FINANCIALLY, STRATEGICALLY, MAYBE WORRIEDLY, CERTAINLY ENTHUSIASTICALLY. BUT, I'M ON FIRST. AND I WANT YOU TO KNOW FIRST, LAST, AND FOREMOST WHAT I WANT. I WANT CONSISTENCY. AND I WANT IT NOW. THIS WEEK. THIS MONTH. THIS YEAR. I WANT THE REVENUE PRODUCED WHEN IT IS BUDGETED TO BE PRODUCED — OR SOONER — NOT SIX MONTHS LATER.

I WANT CONSISTENTLY PROFITABLE REVENUE — NOT REVENUE AT ANY COST. YOU HAVE THE TOOLS AND THE STRUCTURE YOU NEED. YOU HAVE THE VISIBILITY AND MEASUREMENTS YOU NEED. ALL THESE THINGS WILL IMPROVE DURING 1976 TO BE SURE. YOU AND YOUR PEOPLE WILL GET MORE TRAINING, BETTER TRAINING, AND SO ON. BUT PERFORMANCE IS NOW UP TO YOU. IT REQUIRES CONCENTRATION AND ATTENTION TO DETAIL AND IT REQUIRES IT EVERY DAY. WITH IT WE'LL HAVE A GREAT YEAR IN CYBERNET AND A BETTER FOUNDATION FOR FUTURE GROWTH. WITHOUT IT WE WON'T HAVE ANYTHING.
SBC

THE FINAL BUSINESS SEGMENT I HAVE TO COVER IS SBC. AT 13.4 MILLION, SBC DID NOT QUITE REACH ENGINEERING SERVICES IN TOTAL BEFORE TAX PROFIT DOLLARS. BUT AT 13.6% RETURN ON REVENUES, THEY ARE CONTROL DATA'S MOST PROFITABLE BUSINESS ENTITY. THEY WERE ALSO THE MOST PROFITABLE BUSINESS ENTITY IN TERMS OF RETURN ON ASSETS. REVENUE GROWTH IN 1975 FROM 1974 WAS 9.7%. PROFIT GROWTH WAS 562.0% FROM 2.0 M IN 1974 TO 13.4 M IN 1975.

IN 1976 SBC WILL BE MAKING MAJOR INVESTMENTS IN SEVERAL NEW MARKET AND APPLICATIONS AREAS: BANKING (DEMAND DEPOSIT ACCOUNTING), INSURANCE, RETAIL POINT OF SALE, DISTRIBUTION AND TWO PROGRAMS IN MANUFACTURING. WE WILL ALSO CONTINUE DEVELOPMENT IN EUROPE AND CANADA AND PLAN TO ENTER THE JAPANESE MARKET DURING THE YEAR.

INVESTMENT IN THESE NEW PROGRAMS WILL NATURALLY REDUCE THE PROFITABILITY OF SBC IN 1976, BUT STILL WILL YIELD A PRE TAX RATE OF 20% ON AVERAGE ASSETS EMPLOYED.
IN 1972, THE LAST YEAR BEFORE THEY JOINED CONTROL DATA, SBC HAD A PRE TAX PROFIT OF 2.8M ON REVENUES OF 62.9M. THE GROWTH FROM THAT POSITION TO WHERE THEY STAND TODAY SPEAKS FOR ITSELF AND DOESN'T REQUIRE FURTHER NUMBERS AND RATIO ANALYSIS ON MY PART. HANK WHITE AND ALL THE PEOPLE IN SBC HAVE A LARGE JOB TO MAINTAIN THAT MOMENTUM. I'M SURE THEY HAVE THE WHEREWITHAL -- AND THE WILL -- TO DO THAT JOB.

FINALLY, I WOULD LIKE TO CLOSE WITH A FEW REMARKS OF A MORE GENERAL NATURE.

IN 1976 WE CONTINUE THE TASK WE TOOK UP IN MIDS-1973 OF GETTING AT THE FUNDAMENTALS OF OUR BUSINESS. WE HAVE A SOLID AND UNIQUE BUSINESS STRATEGY WHICH CENTERS AROUND DATA SERVICES. OVER THE COURSE OF THE PAST TWO AND A HALF YEARS, WE HAVE REFINED, IMPROVED AND FLESHEED OUT THAT STRATEGY. WE HAVE GIVEN BETTER PURPOSE AND MEANING TO THE STRATEGY BY LOOKING AT OUR BUSINESS ON AN INDUSTRY MARKET BASIS AS WELL AS A PRODUCT LINE BASIS.
THE INDUSTRY MANAGEMENT OFFICES HAVE CONTRIBUTED MORE IN THIS REGARD THAN ANY PREVIOUS APPROACH. IN 1976 WE WILL CONTINUE OUR INDUSTRY MANAGEMENT APPROACH AND FURTHER REFINE AND IMPROVE IT. IN ONE SENSE, INDUSTRY MANAGEMENT WILL BE MORE NARROW AND SPECIFIC THIS YEAR. IN ANOTHER IT WILL BE MORE ALL PERVERSIVE.

IN 1973 WHEN WE UNDERTOOK THE INDUSTRY PROGRAM, WE HAD, EXCEPT FOR EDUCATION, NO APPLICATION KERNEL WHICH PROVIDED A FOCAL POINT FOR OUR EFFORTS IN ANY INDUSTRY MARKET AREA. THE RESULT WAS MEANDERING STRATEGY, SQUANDERED TECHNICAL EFFORT AND WASTED ASSETS. TODAY THAT IS NO LONGER TRUE. OVER THE PAST TWO YEARS, WE HAVE LEARNED BY MARKET AREA WHAT OUR BEST SHOT IS, NOT ONLY IN TERMS OF APPLICATION, BUT IN TERMS OF PRODUCTS AS WELL. WITH THIS KNOWLEDGE AND EXPERIENCE WE HAVE MADE SOME ADJUSTMENTS.

SYSTEMS WILL CONTINUE TO HAVE PRIMARY RESPONSIBILITY FOR THE GOVERNMENT IMO'S -- BOTH CIVIL AND DOD. IN 1976, HOWEVER, THESE WILL BE PUT INTO MORE SPECIFIC PROGRAM OFFICES: ERDA, INTELLIGENCE, WEATHER, ALS, IRS/SPEEDEX, NASA LANGLEY AND SITE DEFENSE. SYSTEMS WILL ALSO HAVE PRIMARY RESPONSIBILITY FOR THE PROCESS INDUSTRIES, AND WILL CONCENTRATE ON PETROLEUM.
IN THE UTILITIES MARKET AREA, WE HAVE DEVELOPED TWO PRINCIPAL THRUSTS — ONE AROUND ENERGY MANAGEMENT SYSTEMS AND THE OTHER THE UTILITIES SERVICE CENTER. I COVERED BOTH OF THESE EARLIER.

SERVICES WILL ASSUME RESPONSIBILITY FOR THE MANUFACTURING IMO WHICH OVER THE COURSE OF 1975 BECAME MUCH MORE DEDICATED TO ENGINEERING DESIGN AND GRAPHICS. IN 1976, WE WILL CONTINUE TO CONCENTRATE ON THAT AND DO IT IN A MORE SPECIFIC WAY THROUGH THE ENGINEERING DESIGN SERVICES CENTER OF CYBERNET.

THE FINANCIAL AND HEALTH CARE IMO'S CONTINUE ALSO IN SERVICES.
THE EDUCATION IMO, AS I SAID A MOMENT AGO, FOCUSED FROM THE BEGINNING ON PLATO. THE EDUCATION GROUP AND THE EDUCATION IMO WITHIN IT CONTINUE ON THIS PATH.

AUTOMATED WAGERING IMO IS NOW A PART OF HUGH HENIG'S SMALL SYSTEMS OPERATION.

ONE IMO -- TRANSPORTATION -- WILL BE DISCONTINUED IN 1976. ALTHOUGH THERE WAS SOME EXCELLENT WORK OVER THE COURSE OF TWO YEARS WITHIN THIS GROUP, WE DO NOT FEEL THAT THE MARKET POTENTIAL JUSTIFIES CONTINUING OUR EFFORTS IN THIS AREA.

LET ME MOVE ON TO A SECOND FUNDAMENTAL.

ESPECIALLY IN THE COMPUTER SYSTEMS BUSINESS WE HAVE WORKED ON THE SECOND FUNDAMENTAL OF THE SYSTEM BY WHICH WE MANAGE. RELATIONSHIPS OF ORDERS, REVENUES, EXPENSES AND ASSETS ARE NOT ONLY BETTER UNDERSTOOD AND MORE VISIBLE, THEY ARE MUCH MORE AN INTEGRAL PART OF MANAGEMENT'S DAILY LIFE. THE SYSTEM OF MANAGEMENT INVOLVES BETTER LINKING OF ORGANIZATIONAL GOALS; BETTER LINKING OF INDIVIDUAL GOALS. TARGETED INCENTIVES FOR SALESMEN IS BUT ONE PART OF THIS BETTER SYSTEM.
IN 1975 WE ALSO GREATLY IMPROVED IN THE THIRD FUNDAMENTAL -- THAT OF EXECUTION, OR PUT IN TERMS OF ITS RESULT -- THAT OF PRODUCTIVITY. FOR 1976 OUR TASK IS TO INCREASE OUR MOMENTUM IN ALL THESE FUNDAMENTALS, BUT MOST ESPECIALLY IN TERMS OF EXECUTION AND PRODUCTIVITY.

BEFORE I CLOSE, I HAVE TO TELL YOU ANOTHER STORY. THIS ONE TAKES PLACE IN THE MOUNTAINS TOO -- BUT TWO THOUSAND MILES WEST AND A HUNDRED YEARS BEFORE MY OTHER STORY.


ONE OF THE GREATEST OF THESE MOUNTAIN MEN WAS A MAN BY THE NAME OF TOM FITZPATRICK AND MY STORY IS ABOUT HIM ------

THE RFMC'S PACK TRAIN DID ARRIVE FIRST BUT NOT WITH TOM. EVERYONE ASSUMED HIM DEAD BECAUSE IT WAS KNOWN THAT THE COUNTRY HE HAD TO CROSS WAS FILLED WITH BLACKFEET.

BUT LATE THAT SAME DAY, BAREFOOT AND ALL BUT NAKED, STARVING AND BRUISED, TOM CAME INTO CAMP.

WHAT HAD HAPPENED TO TOM WOULD HAVE KILLED ANYONE LESS EXPERT. ON HIS WAY TO MEET THE PACK TRAIN HE HAD RUN SQUARE INTO A MIGRATING VILLAGE OF BLACKFEET ...........

I'M SURE YOU'LL FIND THE NEXT FEW DAYS INTERESTING AND INFORMATIVE. WE HAVE A DEMANDING AND EXCITING YEAR AHEAD OF US.
THE REWARDS ARE THERE FOR ALL OF US. WHAT WE NEED IS TO COMBINE THAT UNITY OF PURPOSE OF THE APPALACHIAN MOUNTAIN MEN WITH THE INDIVIDUAL INGENUITY AND GUTS OF TOM FITZPATRICK. I'M SURE WE CAN -- AND I'M SURE YOU WILL.

THANK YOU.