GOOD MORNING. I'LL PICK UP FROM TOM KAMP AND COVER THE REMAINING MAJOR PRODUCT GROUPINGS -- OR PRODUCT FAMILIES AS WE CALL THEM -- WHICH MAKE UP CONTROL DATA'S COMPUTER BUSINESS. BROADLY SPEAKING, THEY MAKE UP WHAT WE CALL THE SERVICE PRODUCT FAMILIES AND THE SYSTEMS PRODUCT FAMILIES. FOR MANY OF YOU THIS IS NO DOUBT FAMILIAR BUT EVEN SO PERHAPS A BRIEF OVERVIEW IS DESIRABLE.

(CHART NUMBER ONE) - THIS FIRST CHART IS A PICTORIAL DESCRIPTION OF OUR SERVICES PRODUCT FAMILIES. IN TOTAL, SERVICES ACCOUNTED FOR 37% OF OUR COMPUTER BUSINESS IN 1975. AS YOU CAN SEE, SERVICES COMPRISER PROFESSIONAL SERVICES, ENGINEERING SERVICES, EDUCATION SERVICES AND DATA SERVICES. I WILL SPEAK TO EACH OF THEM IN TURN.

PROFESSIONAL SERVICES HAD ITS GENESIS AS A BUSINESS WITH UNBUNDLING IN 1970. FROM 1972 THROUGH 1974 IT GREW AT AN AVERAGE ANNUAL RATE OF 40%. THE PLAN FOR 1975 CALLED FOR A MORE MODEST GROWTH IN REVENUES OF SOME 17%. IN FACT, GROWTH IN 1975 TURNED OUT TO BE 23%. PROFITS ALSO GREW BY JUST OVER 23%. AS YOU WOULD GUESS, ASSETS EMPLOYED ARE LOW IN THIS BUSINESS BEING MOSTLY TRADE RECEIVABLES. IN SPITE OF THE REVENUE GROWTH, RECEIVABLES ACTUALLY DECLINED AND OVERALL ASSETS GREW LESS THAN 4%. THERE ARE JUST TWO BASIC THINGS TO REMEMBER ABOUT PROFESSIONAL SERVICES. FIRST IS THAT WE LOOK PRIMARILY ON IT AS A PAID FOR ENHANCEMENT OF OUR DATA...
SERVICE AND SYSTEMS BUSINESS. SECOND IS THAT WE EXPECT TO MAINTAIN PEOPLE GROWTH IN PROFESSIONAL SERVICES AT NO MORE THAN 10%. REVENUE GROWTH BEYOND THAT WILL COME FROM MORE UNBUNDLING IN INTERNATIONAL OPERATIONS – THAT IN FACT IS WHAT HAPPENED IN 1975 – AND IMPROVEMENTS IN PRODUCTIVITY.

ENGINEERING SERVICES COMPRIZES SEVERAL BUSINESSES – MAINTENANCE OF CONTROL DATA SYSTEMS, SALE OF COMMERCIAL PARTS TO OEM AND SELF-MAINTENANCE CUSTOMERS, MAINTENANCE OF 3RD PARTY EQUIPMENT, MAINTENANCE OF NON-COMPUTER ELECTRONIC EQUIPMENT AND ENGINEERING AND ARCHITECTURAL DESIGN SERVICES. SINCE 1972, ENGINEERING SERVICES HAS GROWN BY AN AVERAGE OF 20% PER YEAR. LAST YEAR WE PLANNED FOR SLOWER GROWTH HERE AS WELL – 12% – AND THE ACTUAL TURNED OUT TO BE 14%. PROFITS HOWEVER GREW BY 46% REFLECTING PRIMARILY AN IMPROVEMENT IN MAINTENANCE GROSS PROFIT RATES. HERE TOO OUR ASSET CONTROL PROGRAMS BEGAN TO TAKE HOLD AND TOTAL ASSETS INCREASED BY ONLY 3.9% FROM YEAR END 1974 LEVELS.

EDUCATION SERVICES IS THE MOST RAPIDLY CHANGING OF OUR SERVICES BUSINESSES. IN THE PAST IT CONSISTED OF THE CONTROL DATA INSTITUTES AND OUR PROFESSIONAL SEMINAR PROGRAM. THEN LATE IN 1974 CAME THE LARGE SPECIAL EDUCATION PROJECT IN IRAN AND LAST YEAR – PRINCIPALLY IN VENEZUELA – A NUMBER OF DISCUSSIONS FOR SIMILAR PROJECTS TO BUILD VOCATION-TECHNICAL EDUCATION SYSTEMS IN DEVELOPING COUNTRIES. THIS YEAR, OF COURSE, WE HAVE ANNOUNCED THE COMPUTER-BASED PLATO EDUCATION SERVICE. AND, USING PLATO AS WELL AS OTHER INDIVIDUALIZED TEACHING METHODS, COMMERCIAL CREDIT HAS ANNOUNCED ITS LEARNING CENTER PROGRAM.
WITH ALL THAT, AND THE FACT THAT WE ARE DEALING WITH A RELATIVELY LOW REVENUE BASE POINT, WE HAVE A SITUATION IN WHICH YEAR-TO-YEAR COMPARISONS ARE NOT VERY MEANINGFUL. BUT THE FUTURE STRATEGY IS RELATIVELY EASY TO STATE.

OUR PRINCIPAL ACTIVITY IN THE COMPUTER BUSINESS EDUCATION GROUP WILL BE TO DEVELOP AND BUILD THE BASIC HARDWARE, SOFTWARE AND DATA COMMUNICATIONS NETWORK FOR COMPUTER-BASED EDUCATION. WE WILL OFFER, IF YOU WILL, "RAW NETWORK POWER" TO COMMERCIAL CREDIT, UNIVERSITIES, LARGE INDUSTRIAL FIRMS, GOVERNMENT AGENCIES AND OTHER PURVEYORS OF EDUCATION. WE ARE NOT IN THE COURSEWARE BUSINESS - EXCEPT FOR INTERNAL NEEDS - BUT WILL OFFER A COMPLETE LIBRARY, ACCOUNTING AND CONTROL SYSTEM IN THE NETWORK FOR THOSE LIKE COMMERCIAL CREDIT WHO WISH TO HAVE THEIR COURSEWARE AVAILABLE ON THE NETWORK.

FOR THE NEXT FIVE YEARS AT LEAST, RESEARCH AND DEVELOPMENT COSTS IN CB EDUCATION WILL CONTINUE AT THE PRESENT LEVEL. INVESTMENTS WILL COVER IMPROVEMENTS IN ALL ELEMENTS OF THE SYSTEM - TERMINALS, SYSTEMS SOFTWARE, MASS MEMORY SYSTEMS, COMMUNICATIONS AND SO ON.

EDUCATION PRODUCED A SMALL LOSS IN 1975. IT WILL OPERATE AT A SMALL LOSS THIS YEAR AND NEXT. BY 1978 IT WILL TURN PROFITABLE AND CONTINUE TO GROW MORE AS VOLUME INCREASES BEYOND THAT POINT. THE IMPORTANT POINT IS THAT THE PROGRAM IS VERY MANAGEABLE AND THE RATE OF INVESTMENT CAN BE TAILORED BOTH TO OUR ABILITY TO PAY AND THE RATE AT WHICH THE MARKET DEVELOPS.
DATA SERVICES IS THE LARGEST SEGMENT OF OUR SERVICES BUSINESS AND IT WILL BE HELPFUL, I BELIEVE, TO LOOK AT DATA SERVICES IN TERMS OF ITS THREE PRINCIPAL COMPONENTS.

(CHART NUMBER TWO) - FIRST THERE IS NETWORK DATA SERVICES. NETWORK DATA SERVICES IS THE BACKBONE OF OUR DATA SERVICES BUSINESSES. THIS CHART SHOWS THE ELEMENTS OF OUR NETWORK SERVICES. WHILE ASSET LEVELS REMAINED CONSTANT FROM 1974 PROFITS INCREASED DRAMATICALLY. THE AVERAGE RATE OF RETURN ON ASSETS FOR NETWORK SERVICES IS 18%. I THINK MOST OF THIS AREA IS BY NOW QUITE FAMILIAR TO ALL OF YOU. I WOULD CALL YOUR ATTENTION TO ONE NEW CIRCLE ON THE CHART, HOWEVER, AND THAT IS JAPAN. WITH THE LIBERALIZATION WHICH TOOK PLACE IN JAPAN THIS MONTH WE ARE IN THE PROCESS OF TAKING OVER ON A WHOLLY-OWNED BASIS OUR JOINT VENTURE IN JAPAN. ITS PRINCIPAL ACTIVITY WILL BE DATA SERVICES - BOTH CYBERNET BATCH SERVICES AND CALL 370. BOTH SERVICES WILL BE OFFERED VIA SATELLITE - CALL FROM THE CENTER IN CLEVELAND AND CYBERNET SERVICE FROM OUR WESTERN CLUSTER CENTER IN SUNNYVALE, CALIFORNIA.

APPLICATIONS DATA SERVICES ARE INDUSTRY SPECIFIC DEDICATED DATA SERVICES. AS THE NAME IMPLIES THEY RELATE TO SPECIFIC INDUSTRY APPLICATION NEEDS. FOR THE MOST PART THEY ALSO INVOLVE DATA COMMUNICATIONS NETWORKS. THEY ALSO GENERALLY INVOLVE LONG PERIODS OF BUILDING UP A SERVICE BASE BEFORE PROFITABILITY IS REACHED. BUT THEY DO BECOME QUITE PROFITABLE. THIS NEXT CHART SHOWS THOSE SERVICES MAKING UP THIS CATEGORY. (CHART NUMBER THREE) - ALTHOUGH RELATIVELY MATURE GROWTH CONTINUES AT A RATE OF ABOUT 15 PERCENT
PER YEAR. IN 1975 PROFITS MORE THAN DOUBLED. RETURN ON REVENUES IS 12% COMPARED TO 6% IN 1974. RETURN ON AVERAGE ASSETS IS ALSO EXCELLENT AT 41%. IN 1975 NET ASSETS EMPLOYED ACTUALLY DECREASED REFLECTING NOT ONLY CONTINUED DEPRECIATION THROWOFF BUT A REDUCTION IN RECEIVABLES.

THE FINAL CATEGORY IS DEVELOPMENTAL DATA SERVICES. THEY REPRESENT BUSINESSES THAT WILL ULTIMATELY BECOME A PART OF THE PREVIOUS CATEGORY - APPLICATIONS DATA SERVICES - OR THEY WILL DISAPPEAR. SEPARATING THEM IN THIS FASHION GIVES US EASY VISIBILITY ON OUR RATE OF INVESTMENT IN DATA SERVICES. AS YOU MIGHT GUESS IT ALSO PROVIDES A LITTLE EXTRA MOTIVATION TO THE MANAGERS TO GET "PROMOTED" OUT OF THIS CATEGORY. (CHART NUMBER FOUR) - THIS NEXT CHART SHOWS THE BUSINESSES INCLUDED IN THIS CATEGORY IN 1975. LAST YEAR WE PHASED OUT THREE BUSINESSES - ONE - AN AIRLINES RESERVATION SERVICE, ANOTHER AN INSURANCE SERVICE AND THE THIRD WAS HEALTH CARE DATA SERVICES. EVEN INCLUDING THE TERMINATED SERVICES, REVENUES STILL GREW BY 11% FROM 1974 AND THE LOSS FROM 1974 WAS CUT IN HALF. ALL THE BUSINESSES REMAINING ARE EXPECTED TO BE PROFITABLE BY 1977. IN 1975 WE DID NOT INITIATE ANY NEW DEVELOPMENTAL SERVICES. WE DID ACQUIRE 100% OWNERSHIP OF COMPUNET WHICH HAD BEEN INITIATED AS A JOINT VENTURE SEVERAL YEARS AGO. DURING 1976, THERE ARE PLANS FOR ADDITIONAL SERVICES AND I WILL SPEAK OF THAT IN A FEW MINUTES. BUT BASICALLY WE HAVE NOW REACHED A BALANCE WHERE MATURE SERVICES ARE GENERATING SUFFICIENT PROFITS TO ALLOW A FAIRLY STEADY RATE OF INVESTMENT IN NEW PROGRAMS OVER THE NEXT FIVE YEARS.
SYSTEMS

I'LL TURN NOW TO SYSTEMS. IN TOTAL, SYSTEMS REPRESENTS 35% OF THE COMPUTER BUSINESS. (CHART NUMBER FIVE) - THIS NEXT CHART DEPICTS THE ELEMENTS OF SYSTEMS.

FIRST I WILL COVER INSTRUMENTS & CONTROLS. THIS INCLUDES A SMALL INSTRUMENT BUSINESS, POWER UTILITY SUPERVISORY CONTROL SYSTEMS, WATER WASTE CONTROL SYSTEMS AND THE KEROTEST COMPANY WHICH MANUFACTURERS VALVES. IN 1975 THESE BUSINESSES BECAME PROFITABLE, ALTHOUGH AT A MODEST PRE-TAX RATE OF 3%. THIS YEAR WE EXPECT THAT PROFIT RATE TO DOUBLE. LARGE POWER NETWORK CONTROL SYSTEMS ARE A RELATIVELY NEW APPLICATION IN THIS AREA WHICH STARTED IN 1974. TWO SYSTEMS WERE INSTALLED LAST YEAR AND TWO NEW ORDERS RECEIVED. EACH OF THESE SYSTEMS IS IN THE 8 - 10 MILLION DOLLAR RANGE AND WE FORESEE A SIZABLE MARKET AND SIGNIFICANT GROWTH FOR SUCH SYSTEMS OVER THE NEXT FIVE YEARS.

AEROSPACE AND MILITARY PRODUCTS HAVE HAD EXCELLENT GROWTH IN REVENUE AND PROFITS FOR THE LAST SEVERAL YEARS. LAST YEAR WAS NO EXCEPTION. REVENUES GREW BY 34% AND PRE-TAX PROFIT BY 89%. IN 1976 WE DO NOT EXPECT TO CONTINUE THOSE GROWTH RATES. SEVERAL MATURE PRODUCTION PROGRAMS WILL BE COMING TO AN END AND NEW PROGRAMS TO REPLACE THEM WILL NOT REACH PRODUCTION STAGE UNTIL 1977 OR 1978. ACTUALLY GROWTH IN THIS AREA FOR THE PAST TWO YEARS HAS BEEN SOMEWHAT HIGHER THAN DESIRABLE. OUR PLANS CALL FOR THIS SEGMENT TO BE NO MORE THAN 10% OF OUR TOTAL COMPUTER BUSINESS. THIS HAS BEEN THE CASE, BUT GROWTH RATES WERE GETTING US CLOSE TO EXCEEDING THAT GUIDELINE.
PROGRESS IN 1975 WAS EXCELLENT. THE LARGE SPECIAL PROGRAMS WHICH SO HEAVILY IMPACTED 1974 RESULTS ARE BEHIND US. THE CYBER 170 NEW PRODUCT LINE WAS SUCCESSFULLY INTRODUCED AND TECHNICAL EFFORT HAS NOT ONLY BEEN REDUCED BUT ALSO REDIRECTED FROM A DIVERSITY OF CUSTOMER SPECIFIC PROJECTS TO STANDARD PROGRAMS WHICH HAVE A HIGHER PAY-OFF.

I'm happy to say that was a good forecast. We did indeed have a significant turnaround from 1974. I was, as it turned out, too cautious on gross profit margins which actually improved some 13 percentage points. The Cyber 170 turned out to beat its manufacturing cost goals, experienced no problems on initial installations and all in all is the best new product line we have ever put in the field. On the other hand, with regard to purchase conversions I was just flat wrong. We had more than twice as much activity in that regard as we anticipated at the start of the year; also outright sales were lower than budgeted.

Overall revenues grew as expected by 5% and orders were over quota for the year.

Systems still operated at a loss last year - though less than expected.

We also beat our asset targets. Non-revenue producing assets - that is those other than leased equipment were reduced 55 million dollars and the cash flow generated by Systems was a major contributor to the reduced bank debt which the company experienced in 1975.

Let me turn now to the future. First I will make some comments with regard to long range objectives and finally the outlook for 1976.
LONG RANGE OBJECTIVES AND STRATEGY

FINANCIAL STRATEGY

FOR THE NEXT FIVE YEARS WE HAVE SET FOR SYSTEMS AND SERVICES AN UPPER LIMIT ON THE NET ASSET INCREASE OF $200 MILLION. TWO thirds OF THIS WILL BE IN REVENUE PRODUCING ASSETS AND MORE THAN HALF WILL BE IN REVENUE PRODUCING ASSETS FOR DATA SERVICES AND EDUCATION.

THESE ASSETS CAN BE FINANCED THROUGH INTERNAL CASH AND COMMERCIAL CREDIT FINANCING PROGRAMS. MOREOVER TOTAL DEBT LEVERAGE WILL BE REDUCED.

TECHNICAL EFFORT IS PERHAPS AN EVEN MORE VITAL RESOURCE TO MANAGE IN OUR BUSINESS THAN ASSETS. I REFERENCED EARLIER THE CHANGES WE HAVE MADE IN THAT REGARD IN SYSTEMS TO BETTER APPLY OUR TECHNICAL EFFORT. THIS NEXT CHART DEPICTS GRAPHICALLY THE DRAMATIC CHANGE FROM SPECIALS TO STANDARDS THAT WE HAVE EFFECTED. WE EXPECT TO CONTINUE ON THIS COURSE FROM NOW ON. BY CONCENTRATING OUR SYSTEMS EFFORTS IN EDUCATION, PETROLEUM, POWER NETWORK CONTROL SYSTEMS, AND MANUFACTURING ENGINEERING DESIGN PROGRAMS AS WELL AS OUR TRADITION SCIENTIFIC AND ENGINEERING MARKETS, MUCH MORE LEVERAGE ON EXPENDED TECHNICAL EFFORT - NOT TO MENTION REASONABLE PROFITABILITY - CAN BE ATTAINED.
SUBJECT TO A REASONABLE ECONOMIC AND MONETARY SITUATION, THIS ASSET AND EXPENSE PROGRAM WILL ALLOW US TO GROW REVENUES OVERALL AT LEAST AT A 8% AVERAGE RATE PER YEAR AND TO SHOW NOT ONLY A STEADY INCREASE IN PROFITS BUT IN THE PROFIT RATE AS WELL - BOTH IN TERMS OF RETURN ON REVENUES AND RETURN ON ASSETS.

MARKET STRATEGY

TOM KAMP AND I HAVE COVERED THE BROAD SPECTRUM OF PRODUCTS AND SERVICES WHICH CONTROL DATA BRINGS TO THE INFORMATION AND DATA PROCESSING MARKETPLACE. EACH OF THESE PRODUCTS AND SERVICES HAS, IF YOU WILL, A "STAND ALONE" ROLE AND IN ADDITION MAY BE "PACKAGED" WITH OTHER PRODUCTS AND SERVICES TO MEET A GIVEN MARKET AREA NEED.

BASICALLY WE LOOK AT OUR MARKETS ON AN INDUSTRY BASIS - AND MORE PRECISELY ON AN APPLICATION OR PRODUCT OPPORTUNITY WITHIN A GIVEN INDUSTRY. SOME OPPORTUNITIES ARE SIMPLY FOR PRODUCTS. OEM IS AN EXAMPLE, CONSULTING SERVICES ANOTHER. SOME REQUIRE INCREASING LEVELS OF ADDED VALUE TO MEET THE MARKET AREA NEED. (CHART NUMBER ___) - THIS CONCEPT MAY BE REPRESENTED IN A VERY SIMPLE WAY BY THE LEVELS OF SERVICE CHART WHICH SOME OF YOU HAVE SEEN ON PREVIOUS OCCASIONS.

CERTAINLY OUR MOST HIGHLY LEVERAGED OPPORTUNITIES ARE THOSE WE REFER TO AS APPLICATIONS SERVICES. AND I THINK THE FINANCIAL RESULTS I GAVE EARLIER SPEAK TO THIS POINT VERY PRECISELY.
APPLICATION SYSTEMS ARE THE NEXT HIGHEST ADDED VALUE LEVEL OF SERVICE. THE POWER NETWORK CONTROL SYSTEMS I HAVE SPOKEN OF ARE AN EXCELLENT EXAMPLE OF WHAT WE MEAN BY AN APPLICATION SYSTEM.

WITH REGARD TO NEW OR DEVELOPMENTAL APPLICATION SERVICES, I MENTIONED EARLIER THAT SEVERAL NEW SERVICES WOULD BE INITIATED THIS YEAR. THEY INCLUDE: A MATERIAL REQUIREMENTS PLANNING SYSTEM FOR MANUFACTURING FIRMS, A MINI COMPUTER/NETWORK BASED ORDER ENTRY AND INVENTORY CONTROL SERVICE, A RETAIL POINT OF SALE SERVICE, AND IN COOPERATION WITH COMMERCIAL CREDIT A FULL RANGE OF EFTS SERVICES INCLUDING BOTH DATA SERVICES AND FINANCIAL SERVICES. I SHOULD ALSO MENTION THAT IN THE NETWORK SERVICES A NEW INTEGRATED GRAPHICS AND STRUCTURAL DESIGN PACKAGE CALLED UNISTRUC WAS OFFERED BEGINNING IN JANUARY OF THIS YEAR.

OVER THE NEXT FEW YEARS WE WILL CONTINUE TO HAVE AN AGGRESSIVE PROGRAM FOR NEW APPLICATION SERVICES. OUR LONG RANGE FINANCIAL PLANS ASSUME A BOTTOM LINE INVESTMENT OF 5 MILLION PER YEAR. WE CAN SUSTAIN THIS LEVEL OF LOSS ON NEW PROGRAMS AND STILL BE ABLE TO MAINTAIN A PRE-TAX RETURN ON ASSETS OVERALL IN DATA SERVICES OF 12%. IN FACT WE WILL GROW THAT RETURN. NEW PROGRAMS HAVE A RETURN ON INVESTMENT CRITERION OF 25%.

OUTLOOK FOR THIS YEAR

FINALLY THEN 1976. WE EXPECT THAT FOR SYSTEMS AND SERVICES ORDERS, REVENUES, AND PROFITS WILL INCREASE AND THERE WILL BE A FURTHER REDUCTION IN ASSETS. I SHOULD EMPHASIZE HOWEVER THAT THE RESULTS - PARTICULARLY IN OUR SYSTEMS BUSINESS - ARE QUITE
EXPOSED TO CURRENCY EXCHANGE RATE FLUCTUATIONS. THAT IS OUR BIGGEST RISK. A QUICK SYNOPSIS BY PRODUCT FAMILY WOULD BE AS FOLLOWS:

CONTINUED IMPROVEMENT IN COMPUTER SYSTEMS, RELATIVELY LEVEL REVENUES AND PROFITS IN AEROSPACE AND MILITARY PRODUCTS, SIGNIFICANT INCREASE IN REVENUES AND PROFITS IN INSTRUMENTS AND CONTROLS, EDUCATION; SOME GROWTH IN REVENUES AND A LOSS ABOUT EQUAL TO LAST YEAR, ENGINEERING SERVICES; LESS REVENUE GROWTH THAN IN 1975 AND PROFIT RATE ABOUT THE SAME, PROFESSIONAL SERVICES -- I'M A LITTLE HESITANT -- I KEEP SAYING IT WILL SLOW TO A GROWTH RATE OF MORE LIKE 15% AND EACH YEAR THEY BEAT THEIR BUDGET -- SO WE'LL SEE, AND DATA SERVICES WILL CONTINUE ALONG THE PATH OF RECENT HISTORY ALTHOUGH AS I'VE MENTIONED WE WILL BE PUTTING MORE BACK IN NEW PROGRAMS THIS YEAR THAN LAST.

SUMMARY

LAST YEAR AT THIS TIME I SPOKE TO YOU WITH A CERTAIN AMOUNT OF GRIM DETERMINATION. I KNEW THAT WE HAD EMBARKED ON A COMPREHENSIVE PROGRAM DURING 1973 OF IMPROVEMENT IN THE FUNDAMENTALS OF MANAGING OUR BUSINESS AND OF SETTING TARGETS AND STICKING TO THEM. YET THAT WAS OVERWHELMED IN THE PARTICULAR PROBLEMS OF 1974. 1975 WAS A STEP BACK ON THE RIGHT TRACK. WHILE THE GRIM DETERMINATION IS STILL THERE, I'M SURE YOU CAN'T HELP BUT NOTE A BIT MORE OPTIMISM AS WELL. THANK YOU.