PRESENTATION TO MOODY'S

R.M. PRICE - FEBRUARY 14, 1978

Good Morning - I'll start by taking

Let me first take a moment and list and size the elements

which make up the computer group. It comprises ten major businesses

or product families as we call them. These ten product families

in turn come under one of three groups of business: services,

systems and peripheral products. Peripherals comprises four

businesses: OEM, end user or plug compatible products, terminals

and business products. Peripherals in total in 1977 had $525

million in revenues.

Systems comprises three businesses: EDP systems, instruments and

controls, and aerospace and military products. Together, systems

product families had $395 million in 1977 revenues.
SERVICES, THE MAJOR THRUST OF OUR BUSINESS, COVERS THE DATA
SERVICES, PROFESSIONAL SERVICES AND ENGINEERING SERVICES. TOTAL
REVENUES FOR THESE SERVICES WERE $555 MILLION LAST YEAR. THE OTHER
MAJOR SERVICE - EDUCATION - IS A SEPARATE GROUP WITHIN THE COMPUTER
BUSINESS.

IT IS TEMPTING TO PROFILE, CATEGORIZE AND OTHERWISE GET INTO
THE DETAILS OF THESE BUSINESSES BUT THE ESSENTIAL POINT THAT SHOULD
BE MADE IS THIS:

WITHIN THESE BUSINESSES CONTROL DATA IS MORE COMPREHENSIVELY
INVOLVED IN THE INFORMATION INDUSTRY THAN ANY OTHER COMPANY IN
THE WORLD.

MORE IMPORTANT IS THAT WE HAVE EVOLVED FROM JUST A COMPUTER
MAINFRAME MANUFACTURER INTO A SERVICE COMPANY - A UNIQUE SERVICE
COMPANY.
THE BUSINESS OPPORTUNITY FOR SERVICES CANNOT BE OVERSTATED.

ALL THE MAJOR SOCIETAL PROBLEMS INVOLVE AN OVERWHELMING NEED FOR INFORMATION; AND THIS IS WHAT DATA SERVICES, EDUCATION AND PROFESSIONAL SERVICES ARE ALL ABOUT. CONTROL DATA CAN BE VIEWED AS BEING A HIGHLY VERTICALLY INTEGRATED INFORMATION SERVICE COMPANY.


AT THE SAME TIME, THE TOTAL MARKET FOR INFORMATION SERVICES IS SO HUGE AND IS APPROACHED IN SO MANY WAYS BY SO MANY DIFFERENT COMPANIES THAT THERE ARE ENORMOUS MARKETS FOR EACH OF THESE INDIVIDUAL COMPONENTS AS WELL. THUS IN PERIPHERAL PRODUCTS BY SELLING OEM, OR IN COMPUTER MAINFRAMES BY SELLING COMPLETE SYSTEMS,
OR IN CONSULTING SERVICES BY TREATING THAT AS A SEPARATE SERVICE,

WE ACHIEVE ECONOMIES OF SCALE NOT POSSIBLE TO ANY OTHER SERVICE

COMPANY. ANOTHER WAY TO LOOK AT IT IS STARTING FROM THE BASE LEVEL

PRODUCTS SUCH AS PERIPHERALS, COMPUTERS, FINANCIAL SERVICES,

SOFTWARE AND PROFESSIONAL PEOPLE. A VERY LARGE NUMBER OF EVER

INCREASING VALUE ADDED PRODUCTS AND SERVICES CAN BE GENERATED.

THE HIGHEST VALUE ADDED COMBINATION IS A SPECIFIC DATA SERVICE:

THE LOWEST IS A SIMPLE PIECE OF HARDWARE. SO THESE COMBINATIONS CAN

BE THOUGHT OF AS LEVELS OF VALUE ADDED SERVICES. AND, AS I HAVE

INDICATED, ATTRACTIVE MARKETS EXIST FOR ALL LEVELS, WHILE AT THE

SAME TIME THEY REINFORCE THE ULTIMATE SERVICES THRUST OF OUR

BUSINESS.

THE FOCUS OF OUR MARKETING ORGANIZATION IS TO PROVIDE EACH OF

OUR CUSTOMERS WITH A LEVEL OF SERVICE TAILORED TO HIS PARTICULAR
NEEDS. IN GENERAL OUR SERVICES, SYSTEMS AND PERIPHERAL PRODUCTS
ARE SOLD THROUGH ONE UNIFIED SALES ORGANIZATION WHICH HAS SALES
SPECIALISTS FOR THE MAJOR SERVICES AND PRODUCT AREAS.

AS YOU CAN SEE THEN, THE ELEMENTS OF OUR COMPUTER BUSINESS ARE
HIGHLY INTERRELATED AND SUPPORTIVE OF ONE ANOTHER. FOR EXAMPLE,
THE LARGEST COMMERCIAL CUSTOMER OF OUR COMPUTER SYSTEMS BUSINESS
IS OUR OWN DATA SERVICES ORGANIZATION, AND IN TURN, THE PRINCIPAL
SUPPLIER OF COMPUTER SYSTEMS IS THE PERIPHERAL PRODUCTS ORGANIZATION.

MOREOVER, COMPUTER SYSTEMS PROVIDES PRODUCTS FOR THE EDUCATION
COMPANY AND FOR COMMERCIAL CREDIT. ON THE OTHER HAND, COMMERCIAL
CREDIT IS SYSTEMS MAJOR SOURCE OF LEASE FINANCING.
PERIPHERAL PRODUCTS is the largest manufacturer of peripherals in the world other than IBM. It provides all peripherals, as I say, for control data systems but it also supplies IBM compatible peripherals to data services for use on their IBM computers. And, again, economies of scale are achieved through major cooperative agreements such as those with NCR and Honeywell. We are the primary supplier of peripherals to these two companies.

With that bit of general overview, let me move on to some operational aspects of our business. Last evening, Mr. Norris remarked that—after a long struggle—by 1974 Control Data had achieved leadership positions in data services, peripherals and selected computer systems markets. Coincidentally, then, we achieved the ability to lessen our dependence on high risk projects and to concentrate on programs which would enhance our market positions.
AND IMPROVE FINANCIAL PERFORMANCE. THESE PROGRAMS ARE MANY AND
VARIED. WE DEFINE THEM IN TERMS OF THREE FUNDAMENTAL CATEGORIES:
THOSE HAVING TO DO WITH STRATEGY, THOSE HAVING TO DO WITH OUR
SYSTEM OF MANAGEMENT AND THOSE HAVING TO DO WITH PRODUCTIVITY OF
OUR PEOPLE - OR IN OTHER WORDS, THOSE HAVING TO DO WITH INDIVIDUAL
COMPETENCE AND EXECUTION.

STRATEGY - THE BASIC STRATEGY THAT MR. NORRIS DISCUSSED LAST
EVENING. I WANT TO ELABORATE A LITTLE ON THE SUBJECT. 1977 SERVED
ONCE AGAIN TO DEMONSTRATE THE CORRECTNESS OF OUR STRATEGY TO MAKE
DATA SERVICES THE MAIN THRUST OF OUR BUSINESS. WHILE THERE ARE STILL
THOSE WHO PROBABLY DON'T APPRECIATE THE DOMINANT ROLE OF APPLICATION
SOFTWARE AND INFORMATION DATA BASES IN OUR INDUSTRY, THEIR NUMBER
IS RAPIDLY DIMINISHING AND THE IMPORTANCE OF SPECIALIZED DATA
SERVICES IN DELIVERING APPLICATIONS AND INFORMATION WAS BECOMING
MORE AND MORE VISIBLE DURING THE PAST YEAR. IN THE EARLY DAYS,

SCIENTIFIC AND ENGINEERING COMPUTATION WAS ASSOCIATED PRIMARILY WITH

MILITARY APPLICATIONS. FOR SEVERAL YEARS THIS AREA OF COMPUTING

WAS VIEWED AS BEING OF DECLINING IMPORTANCE. OVER THE PAST FEW

YEARS WE HAVE SEEN A REAL RE-EMERGENCE OF DEMAND FOR THE KIND OF

SCIENTIFIC AND ENGINEERING SYSTEMS THAT WE ARE FAMOUS FOR. THE

MAJOR SOCIETAL PROBLEMS OF TODAY ALL REQUIRE OUR KIND OF EXPERTISE —

ENERGY RESEARCH, PETROLEUM EXPLORATION, REDESIGN OF AUTOMOBILES

FOR WEIGHT REDUCTION AND ENGINE EFFICIENCY, AGRICULTURE, WEATHER,

EDUCATION, TECHNOLOGY TRANSFER AND JOB CREATION, BETTER HEALTH

CARE, WATER CONSERVATION AND SO ON. AND BY THE WAY, THESE PROBLEMS

ARE NOT CYCLICAL, THEY ARE FUNDAMENTAL, INSISTENT AND GROWING.

AS WE PURSUE THESE OPPORTUNITIES THERE ARE A FEW FUNDAMENTAL

STRATEGIC PRINCIPLES WE ADHERE TO:
FIRST WE ARE LOOKING FOR CONTROLLED GROWTH. THE OVERALL 12 - 13% PER YEAR INCREASE WE HAVE BEEN ACHIEVING IS CONSISTENT WITH THIS. DATA SERVICES IS THE ONE AREA IN WHICH REVENUE GROWTH IS A SPECIFIC STRATEGIC OBJECTIVE. THE ELECTRIC POWER UTILITY MARKET SEGMENT FOR SYSTEMS IS ANOTHER. AND WE HAVE MADE A CONSCIOUS STRATEGY TO GAIN MARKET SHARE IN PERIPHERALS FOR MINI-COMPUTERS. IN ALL OTHER BUSINESSES PARAMETERS OTHER THAN REVENUE GROWTH PREDOMINATE. COLLECTIVELY, THIS MEANS A STRESS ON QUALITY OF BUSINESS, SETTING STANDARDS AND IMPROVING OPERATING EFFICIENCIES.

SECONDLY, WE HAVE STEADILY INCREASED OUR INVESTMENT IN MARKETING EXPENSE -- NOT JUST IN ABSOLUTE DOLLARS BUT AS A PERCENT OF REVENUE. PART OF THIS IS CONNECTED WITH DATA SERVICES GROWTH -- WE NOW HAVE OVER 1,000 PEOPLE SELLING DATA SERVICES WORLD WIDE -- AND PART OF IT IS SIMPLY LAYING THE FOUNDATION FOR A COMPANY THAT IS MORE SOUNDLY BASED ON MARKETING STRENGTH.
THIRD, EVEN THOUGH OUR BASIC STRATEGY NATURALLY LEADS US IN THIS REGARD, WE MAKE A CONSCIOUS EFFORT TO SEEK UNIQUENESS BASED ON APPLICATIONS AND MARKET AREA EXPERTISE RATHER THAN JUST HARDWARE TECHNOLOGY.

FINALLY, ASSET EFFICIENCY IS A GUIDING STRATEGIC PRINCIPAL. DATA SERVICES HAVE A RELATIVELY LOW ASSET INVESTMENT PER DOLLAR OF REVENUE AND HAVE BEEN AN IMPORTANT FACTOR IN THE IMPROVEMENTS OF THE PAST FOUR YEARS.

THE SECOND CATEGORY OF FUNDAMENTAL PROGRAMS ARE THOSE HAVING TO DO WITH IMPROVING THE SYSTEM OF MANAGEMENT. FOR SEVERAL YEARS WE HAVE BEEN WORKING TO DEVELOP SOUND STRATEGIC PLANS, CONVERT THE PLANS INTO OPERATING BUDGETS THAT MEET THE PLAN OBJECTIVES AND THEN ACHIEVE RESULTS WHICH EXCEED THE BUDGET. UNDERPINNING THIS BASIC MANAGEMENT PROCESS THERE HAVE BEEN AND ARE A LARGE NUMBER OF PROGRAMS.
SOME PROGRAMS WERE DESIGNED TO ADDRESS IMMEDIATE PROBLEMS —
SUCH AS THE ASSET REDUCTION PROGRAM OF 1975 AND 1976. SOME ARE
MORE ON-GOING AND I WILL COMMENT ON FOUR OF THEM. THE FIRST HAS TO
DO WITH MANAGING TECHNICAL EFFORT — WHICH IN OUR BUSINESS IS THE
SINGLE MOST CRUCIAL RESOURCE. THE EFFECTIVITY OF MANAGING TECHNICAL
EFFORT IN THE COMPUTER BUSINESS IS THE EQUIVALENT OF EFFECTIVITY OF
MANAGING CAPITAL ASSETS IN MORE TRADITIONAL INDUSTRIES. THIS
MANAGEMENT PROCESS IS CALLED PHASE REVIEW MANAGEMENT SYSTEM.

EACH SIGNIFICANT PRODUCT OR SERVICE GOES THROUGH FIVE WELL
DEFINED PHASES: STRATEGY, DEVELOPMENT, VALIDATION, DELIVERY AND
PHASEOUT. AT EACH PHASE THE MARKET REQUIREMENTS, TECHNICAL
CONSIDERATIONS, PROGRAM COSTS AND LIFE CYCLE FINANCIAL PLANS ARE
REVIEWED BY SENIOR MANAGEMENT BEFORE PROCEEDING TO THE NEXT PHASE.

THE PROCESS INVOLVES EVERY ORGANIZATION WHICH HAS OR WILL HAVE
A RESPONSIBILITY FOR THE FINAL PRODUCT OR SERVICE. TYPICALLY,
As you may imagine, this includes almost everybody -- peripheral
products people, maintenance services, consulting services, sales,
application development and so on. Accountability is the key word of
the phase review system. It is a process of pre-commitment and
accountability for achieving a given financial result for a given
investment of technical effort.

A second element of our system of management is our industry
marketing organization. Industry marketing develops expertise
in our target market and application areas and guides both the
engineering and sales organizations in developing and applying
products and services to meet specific customer needs. Although
this approach has been around for a long time it is now beginning to
mature as part of our total process. It is particularly important
in looking for synergistic opportunities in given applications for
our various products and services.
THE THIRD MAJOR PROGRAM IS ASSET MANAGEMENT. SINCE BEGINNING OUR
"WAR ON ASSETS" IN 1975, MANY OF THE LESSONS WE HAVE LEARNED HAVE
BECOME INCORPORATED AS PART OF THE STANDARD MANAGEMENT PROCESS.
FIRST WAS A GOOD REPORTING AND CONTROL SYSTEM. THIS INVOLVED
DEVELOPING KEY RATIOS AND INDICATORS TAILORED TO EACH BUSINESS.
INVESTMENT ANALYSIS IS NOW COMPUTERIZED AND SELF-TEACHING SO THAT
AS OUR FAR FLUNG BUSINESS GROWS FINANCIAL ANALYSTS DON'T RE-INVENT
THE WHEEL. RECEIVABLES COLLECTION TECHNIQUES WERE ANALYZED AND
IMPROVED AND NOW THERE IS A COMPUTER-BASED TRAINING PROGRAM WHICH
CAPTURES THOSE TECHNIQUES AND SIMULATES REAL-LIFE SITUATIONS FOR
THE COLLECTION TRAINEE. AD HOC TEAMS SET UP INITIALLY TO REDUCE
ASSETS HAVE GIVEN WAY TO AN ANNUAL OBJECTIVE. SETTING AND
ACCOUNTABILITY PROCESS FOR HUNDREDS OF FIRST-LINE MANAGEMENT
EMPLOYEES WHO ARE POSITIONED TO HAVE MOST AFFECT ON ASSET ACQUISITION
AND USE, AND SO ON.
THE FINAL AREA IS THE SYSTEM OF MANAGEMENT EDUCATION. SINCE
THE INTENT OF THIS PROCESS IS REALLY IMPROVED INDIVIDUAL PRODUCTIVITY,
I WILL COVER THAT AS PART OF THE THIRD FUNDAMENTAL -

EXECUTION - THIS REALLY BOILS DOWN TO TRAINING AND MOTIVATION.

OVER THE PAST FEW YEARS OUR INVESTMENT IN TRAINING HAS BEEN GATHERING
MOMENTUM. THE BREADTH OF TRAINING AS WELL AS THE DEPTH HAS BEEN
INCREASED. FOR EXAMPLE, OVER 140 HOURS OF COMPUTER BASED MANAGEMENT
EDUCATION IS NOW AVAILABLE AND 55 MORE HOURS WILL BE ADDED IN 1978.

IN SALES TRAINING STUDENT DAYS INCREASED 40% IN 1977. I COULD GO ON
AND ON BUT THE REASON FOR ALL THIS IS SIMPLE - KNOWLEDGE IS AN

ESSENTIAL INGREDIENT OF ONE'S ABILITY TO EXECUTE.

NOW LET'S LOOK AT HOW OUR EMPHASIS ON FUNDAMENTALS WORKS WITH
REGARD TO SOMETHING AS BASIC AS PRODUCT QUALITY. FIRST OF ALL

PRODUCT AND SERVICE QUALITY GOES TO THE VERY HEART OF OUR STRATEGY,
AND HERE I AM Referring TO Quality AS The CUSTOMer SEES OUR
EFFECTIVENESS IN SOLVING HIS PROBLEMS. THERE IS A QUALITY OF
SALES REPRESENTATIVES, OF PRODUCTS OR SERVICES OFFERED, OF THE
SUPPORT SERVICES AND OF THE FINAL SOLUTION. IN ALL OF THESE AREAS
THE BASIC QUALITY MUST BE BUILT INTO THE PRODUCT OR SERVICE AT THE
ONSET AND REFLECTED IN ENGINEERING SPECIFICATIONS, PRODUCT DEVELOP-
MENT PROGRAMS, TRAINING OF PERSONNEL AND SO ON. IN OTHER WORDS ALL
PRODUCT AND SERVICE STRATEGIES MUST REFLECT THE QUALITY DIMENSION.
SECOND, WE HAVE ESTABLISHED A SYSTEM TO MANAGE QUALITY. WHILE QUALITY
IS GENERALLY CONSIDERED DIFFICULT TO MEASURE WE HAVE ESTABLISHED
MEASUREMENT TECHNIQUES TO ASCERTAIN OUR PROGRESS AND HAVE ACHIEVED
VISIBILITY AND HIGH LEVEL MANAGEMENT REVIEW OF RESULTS. IN
DEVELOPMENT, MANUFACTURING AND MARKETING, WE HAVE QUALITY ORGANIZA-
TIONS WORKING WITH THE LINE ORGANIZATION TO ACHIEVE INCREASINGLY
BETTER RESULTS.
AND THIS BRINGS US TO OUR THIRD FUNDAMENTAL OF EXECUTION THROUGH TRAINING, VISIBILITY AND MOTIVATION. ONE EXAMPLE MAY ILLUSTRATE THE TECHNIQUE. ON OUR COMPUTER SYSTEMS SHOP FLOOR WE HAVE ESTABLISHED QUALITY CIRCLES WHERE EMPLOYEES AT THE OPERATING LEVEL HAVE AN OPPORTUNITY TO SEE THE IMPACT OF THE QUALITY OF THEIR WORK ON THE ORGANIZATION AND ULTIMATELY ON THE CUSTOMER. THIS, IN TURN, HAS LED TO GROUP EFFORTS TO DEVELOP IDEAS FOR IMPROVEMENT AND TO IMPLEMENT THEM. WE FEEL THAT WE ARE MAKING HEADWAY AGAINST A NATIONAL TREND WHICH SEEMS TO FIND A TYPICAL WORKER LESS AND LESS CONCERNED ABOUT THE EFFECT OF HIS WORK.

LET ME TURN NOW TO THE COMPUTER BUSINESS FINANCIALS FOR 1975-1977

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AND OUR PLANS FOR 1978. THE EMPHASIS ON CONTROLLED GROWTH AND PRODUCTIVITY IMPROVEMENTS HAVE RAISED GROSS PROFIT MARGINS NOT ONLY BECAUSE MANUFACTURING COSTS ARE LESS BUT ALSO BECAUSE THERE ARE
REDUCED SUPPORT AND OTHER COSTS THAT ARE INCLUDED IN COST OF
SALES. OUR CYBER 170 SERIES HAS MUCH BETTER MARGINS THAN PREVIOUS
PRODUCT LINES. DATA SERVICES' GROSS MARGINS HAVE BEEN IMPROVED
STEADILY THROUGH IMPROVED OPERATING METHODS FOR THE NETWORK.

ASSET UTILIZATION IMPROVED SO THAT ONLY 82¢ OF ASSETS WERE
REQUIRED PER DOLLAR OF REVENUE IN 1977 COMPARED TO 92¢ IN 1976.
The temporary programs which enabled us to improve our asset
efficiency in 1975 and 1976 have been institutionalized and will
permit us to continue to improve asset-to-revenue ratios for some
time to come. For example, the 1978 ratio is planned at 78 and
five-year goals will show further steady reduction.

The improvements in asset efficiency were a key factor in the
reduction of interest bearing debt. Though revenue was up $155
million 76 to 77, assets were down $13 million. Our total interest
expense was down year-to-year by $10.8M.
AS I MENTIONED, PART OF THE IMPROVEMENT IN GROSS MARGIN AND INTEREST EXPENSE WAS REINVESTED IN THE BUSINESS IN THE FORM OF HIGHER MARKETING EXPENSE, PARTICULARLY FOR DATA SERVICES AND PERIPHERAL EQUIPMENT. ADDITIONAL INVESTMENTS WERE ALSO MADE IN TECHNICAL EFFORT WHICH WAS UP $14.3M OR 24%.

WHILE WE WERE MAKING MAJOR INVESTMENTS IN 1977 FOR THE FUTURE, WE WERE ALSO ACHIEVING AN INCREASE IN PRE TAX NET PROFIT FROM $27 TO $47.5 OR ABOUT 76%. WHEN YOU VIEW OUR P&L PROFILE YEAR TO YEAR, 1977 WAS A YEAR OF PROGRESS AS WE ACHIEVED MANY OF THE GOALS WE SET FOR OURSELVES. IT'S CERTAINLY NO END POINT, OR FOR THAT MATTER NO BIG MILESTONE, IT WAS JUST ANOTHER STEP ALONG THE WAY TO A STEADY AND CONSISTENT PERFORMANCE.
OUR PROGRESS IN IMPROVING THE THREE FUNDAMENTALS OF STRATEGY, SYSTEMS OF MANAGEMENT AND EXECUTION IS WHAT GIVES US CONFIDENCE THAT THE OUTLOOK FOR 1978 IS QUITE FAVORABLE. WE HAVE HEALTHY BACKLOGS GOING INTO THE YEAR IN OUR COMPUTER BUSINESS. THE RISK IN ACHIEVING OUR REVENUE OBJECTIVES IS PRIMARILY IN SUCH AREAS AS CHANGES IN THE PURCHASE LEASE MIX OF COMPUTER SYSTEMS AND TIMING OF ACCEPTANCE OF SOME LARGE PURCHASED COMPUTER SYSTEMS SUCH AS THOSE USED IN UTILITY POWER CONTROL NETWORKS. IN GENERAL THESE RISKS RELATE TO THE TIMING OF REVENUE, SPECIFICALLY HOW MUCH WILL BE RECORDED IN 1978 COMPARED TO THAT WHICH WILL BE RECORDED IN SUBSEQUENT YEARS.

WE HAVE RECENTLY REVIEWED OUR VENDOR LEAD TIMES AND CAN SEE NO SIGNIFICANT PROBLEMS IN THE SUPPLY OF KEY COMPONENTS. DESPITE THE
GENERAL EFFECT OF INFLATION ON THE COST OF MATERIAL, THE COST OF KEY COMPONENTS SUCH AS INTEGRATED CIRCUITS ARE DECLINING RAPIDLY AND OFFSETTING THE GENERAL INFLATIONARY TREND.

SOME SEGMENTS OF OUR COMPUTER BUSINESS SUCH AS PERIPHERAL PRODUCTS SOLD TO OEM CUSTOMERS ARE QUITE SENSITIVE TO THE BUSINESS CYCLE AND, IN PARTICULAR, TO THE LEVEL OF CAPITAL INVESTMENT. WE HAVE WATCHED THESE TRENDS CLOSELY AND CURRENT FORECASTS FOR 1978 SHOW A SLOW, BUT STEADY, IMPROVEMENT OVER 1977.

ABOUT 30% OF OUR REVENUE COMES FROM INTERNATIONAL OPERATIONS AND THE PRINCIPAL IMPACT OF THE WEAKENING DOLLAR IS TO IMPROVE OUR COMPETITIVE POSITION VIS-A-VIS OUR INTERNATIONALLY BASED COMPETITION.

OUR LARGEST INTERNATIONAL MARKET IS IN WEST EUROPE WHERE WE HAD A VERY GOOD YEAR IN 1977 AND ARE ENTERING 1978 WITH HEALTHY BACK-LOGS. GERMANY, FRANCE, HOLLAND AND THE UNITED KINGDOM ARE OUR
PRINCIPAL MARKETS IN WEST EUROPE AND THE OUTLOOK FOR THE COMPUTER 
BUSINESS IN THESE COUNTRIES GENERALLY IS FAVORABLE.

THE INTERNATIONAL AREA, ON THE OTHER HAND, IS ONE THAT CAUSES 
US THE MOST WORRY. THE WEAKENING OF THE DOLLAR IS ONE THING --
BUT GENERAL CURRENCY INSTABILITY MAKES SOUND, LONG-RANGE PLANNING 
DIFFICULT. OUR INDUSTRY IN GENERAL COULD SUFFER IF THE U.S.
GOVERNMENT SHOULD ADOPT PROTECTIONIST MANNERS AND THEREBY CAUSE 
BACKLASH AGAINST U.S. IMPORTS BY OTHER COUNTRIES. OUR EXPORTS 
COULD ALSO SUFFER IF THE U.S. GOVERNMENT TAKES A NARROW VIEW AND 
UNNECESSARILY RESTRICTS SHIPMENTS TO SOCIALIST COUNTRIES. ALSO
MANY COUNTRIES ARE SHOWING SIGNS OF RAISING ARTIFICIAL BARRIERS 
TO THE FLOW OF INFORMATION ACROSS NATIONAL BOUNDARIES WHICH COULD 
RESTRICT DEVELOPMENT OF INTERNATIONAL DATA SERVICES. IN SPITE OF 
THESE PROBLEMS, WE ARE COMMITTED TO AND ON BALANCE ARE OPTIMISTIC 
WITH REGARD TO INTERNATIONAL OPERATIONS.
IN SUMMARY, WE ARE COMMITTED TO A STEADY IMPROVEMENT IN FINANCIAL RESULTS IN THE COMING YEARS. HAVING ACHIEVED A BROAD BASED BUSINESS AND GIVEN A STRATEGY GEARED AROUND MEETING ONE OF THE MOST FUNDAMENTAL NEEDS OF THE FUTURE AND WITH CONTINUED EMPHASIS ON IMPROVING THE FUNDAMENTALS OF THE BUSINESS I AM CONFIDENT WE CAN ACHIEVE THE IMPROVEMENTS WE HAVE PLANNED.

AS I MENTIONED EARLIER, WE ARE MAKING SIGNIFICANT INVESTMENTS TODAY TO SUSTAIN OUR FUTURE FINANCIALS IN THE FORM OF MARKETING AND WE HAVE A LEADERSHIP POSITION IN MANY OF OUR TARGET MARKETS AND ARE DETERMINED TO IMPROVE OUR POSITION FURTHER. TO GIVE YOU MORE INSIGHT INTO OUR PRINCIPAL GROWTH AREA OF DATA SERVICES, I WOULD NOW LIKE TO INTRODUCE BOB KLEINERT.
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DATA SERVICES

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