Thank you - and what a day this has been - impressive, exciting, busy. You are wonderful hosts and great people to be with. Perspective is a wonderful thing - from Minneapolis, Oklahoma City looks a bit off the beaten path. From here it looks like the heart of the country.

(Stories)

Whatever the secret of your success here in Oklahoma City - keep it up! You and your 37,528 fellow employees of the Computer Group are setting new records for Control Data and that's a better way to live than some we have known in the past.

1977 was a good year for the Corporation. Total revenues reached $2.3 billion, an increase of about 9% over last year. More important, net earnings increased to $63 million - an improvement of 42% over 1976. Also, the company declared its first cash dividend in 1977, which was both symbolic and representative of the continuing progress we have made.

The computer business portion of this performance was $1.5 billion in revenue, an increase of more than 11% over 1976. Net earnings
of the computer business improved by over 60% to $20.1 million. These increases were in turn attributed to substantial gains in the revenue and earnings reported by the Peripheral Products Company and Data Services, and improved profit margins in the Systems business.

When we look at the individual members of our Computer Group, the increase of nearly $100 million in revenues by Peripheral Products seems most noteworthy. In 1977 revenues for Peripheral Products totalled $528 million, compared with $429 million in 1976. Net profit before taxes increased from $1.2 million to $13 million.

Services, the largest segment of our business, continued to gain, and posted revenues of $555 million.

The Systems portion of our business comprises EDP Systems; Instruments and Controls; and Aerospace. While Systems actually experienced a decrease in total revenues from $430 million in 1976 to $395 million last year, their net profit before taxes was improving to $14.5 million, compared with only $3.3 million in 1976.

I should also comment on the strong performance turned in by Commercial Credit Company last year. Their earnings increased from $31.7 to $42.8 million even with a $4.6 million loss in foreign exchange. This increase in Commercial Credit's earnings
WAS DUE PRIMARILY TO SIGNIFICANT IMPROVEMENTS IN THE INSURANCE OPERATIONS WHICH REPORTED EARNINGS OF $12 MILLION IN 1977 COMPARED TO A LOSS OF $6 MILLION IN THE PRIOR YEAR.

ONE OF THE MAJOR CONTRIBUTORS TO OUR IMPROVING PERFORMANCE HAS BEEN BETTER ASSET MANAGEMENT AS A RESULT OF THE PROGRAMS PUT IN PLACE BY PEOPLE LIKE YOURSELVES OVER THE PAST TWO YEARS. THE ASSET INTENSITY OF OUR BUSINESS CONTINUED TO DECLINE. BY ASSET INTENSITY I MEAN THE INVESTMENT WE MUST MAKE IN ASSETS TO PRODUCE A DOLLAR OF REVENUE. BACK IN THE 73-74-75 ERA WE WERE ADDING A DOLLAR OF ASSETS TO PRODUCE AN INCREMENTAL DOLLAR OF REVENUE AND OVERALL THE 1975 ASSET TO REVENUE RATIO WAS $1.06. IN 1976 THIS WAS REDUCED TO $.92 AND AS A RESULT OF A 10% REDUCTION IN ASSETS LAST YEAR, EVEN WHILE REVENUES WERE GROWING IT WENT DOWN TO $.82. ASSET REDUCTION HAS BEEN A KEY FACTOR IN ENABLING US TO REDUCE DEBT. AND BECAUSE OF THIS, INTEREST EXPENSE WAS DOWN LAST YEAR BY SOME $11 MILLION. THE KEY FOR THE FUTURE IS TO SUSTAIN THAT PERFORMANCE.

YOU AT MPI/OKC WON THE PERIPHERAL PRODUCTS COMPANY ASSET MANAGEMENT PROGRAM FOR THE SECOND YEAR IN A ROW LAST YEAR. I BELIEVE YOU HAD SOME 15 TEAMS WORKING OVER EVERY PART OF YOUR BUSINESS HERE. THE RESULTS WERE IMPRESSIVE - NO NEED TO REVIEW THAT AGAIN. THE QUESTION FOR YOU AS FOR ALL OF US NOW IS, WHAT KIND OF PROGRESS ARE WE MAKING IN MAKING ALL THE THINGS WE HAVE LEARNED IN TWO YEARS AN INTEGRAL AND STANDARD PART OF THE ON-GOING MANAGEMENT PROCESS.
What we plan in 1978 is a continuation of emphasis on controlled growth with productivity improvements. So, how does 1978 look to us? Well, we expect to generate revenue in the Computer Group totaling $1.7 billion. Individually, the Peripheral Products company is projected to contribute $626 million of that total. The Systems Operations is forecasted to contribute $428 million, Services will add $653 million. Along with this revenue growth is improved profitability. While it won’t be possible to match last year’s growth for the group, we still should do very well. We also plan to utilize only 78¢ worth of assets to generate a dollar of 1978 revenue -- a new low in assets to revenue ratio -- to go with the new high in revenue volume.

The risk in achieving our revenue objectives is primarily in areas such as change in the purchase/lease mix of Computer Systems, or timing of acceptance of some of the large purchased computer systems that impacts revenue receipts. Peripheral Products sold to OEM customers are sensitive to the business cycle, and in particular, to the level of capital investment. Right now, at least, all the indicators are positive. Not the least important of these indicators, by the way, is the incoming order rate. As of April 14th, OEM orders were already 60% of the total year quota.

I now want to turn to the subject of Product Line growth, so you can better understand some of the things we are going to do to assure continued success.
Much of the successful expansion in OEM shipments is due to the rapid growth in the mini computer industry. Mini computers are greatly increasing in numbers and constitute the means by which thousands of users can interact with the computers in our Data Services network. This strong demand, in turn, drives requirements for many Peripheral Products and we have entered this market with a complete line of disk, printers and terminals, diskettes and memory devices which through single card adaptors will be plug compatible with the IBM series 1 mini computers. Growth in the Peripheral area is also a direct result of continuing commitment to invest in advance product development. Over the past year, Peripheral Products Operations has invested more than $55,000,000 in the research and development and other technical programs related to more than twenty major products. We are maintaining this commitment to technical leadership. Over the next decade Control Data will concentrate heavily on the development of a complete family of products that incorporate the latest technologies, such as RAM and ROM components, bubble memory and electron beam memories.

In large computer systems, CYBER 170 will provide the major source of revenue and profits between 1978 and 1983. This will be realized through product enhancements and continued attention to cost reduction programs. We will also see the incorporation of many of the new technologies that are already influential in the Peripheral Products area. Components like 4K and 16K memory chips will be implemented in technical and cost reduction enhancements. The CYBER 171 systems will be supplied to the majority of new
CUSTOMERS WHILE OTHER MODELS WILL PROVIDE GROWTH CAPABILITIES FOR THE CURRENT 6000 CYBER 70 BASE. OVER THE NEXT FIVE YEARS THE CYBER 170 LINE WILL CONTINUE TO Evolve. ESSENTIALLY WE WILL HAVE ONE MAJOR SOFTWARE UPGRADE PER YEAR AND ONE OR TWO HARDWARE UPGRADES PER YEAR. THE UPGRADES OF HARDWARE WILL INCLUDE SWITCHING TO ALL LSI TECHNOLOGY OVER THAT TIME PERIOD. ARCHITECTURALLY THE MAIN CHANGE WILL BE IN MEMORY MANAGEMENT SYSTEMS. BY THAT I MEAN BOTH LARGER MEMORIES AND BETTER SECURITY, PROTECTION AND FAIL SAFE FEATURES. THIS IS OF COURSE PRIMARILY AN OPERATING SYSTEM MATTER AND THE EVOLUTION WILL HAVE TO COME CAREFULLY TO PROTECT OUR CUSTOMERS INVESTMENT IN CURRENT APPLICATIONS SOFTWARE. IN ANY EVENT BY 1983 WE WILL BE ABLE TO LOOK BACK AND SEE AN AMAZING CHANGE NOT ONLY IN PERFORMANCE (UP TO 60 TIMES THE CURRENT 172) BUT ALSO IN COST AND USABILITY FEATURES. AND THEN THERE IS SERVICES.

THE ORIGINAL BUSINESS PLAN OF THE COMPANY WAS TO DEVELOP AND MANUFACTURE COMPUTERS -- ESSENTIALLY, A HARDWARE ORIENTATED EFFORT. THE ADVENT OF SOFTWARE WAS STILL A PRODUCT ORIENTED EVOLUTION, SO WAS THE PERIPHERAL OEM BUSINESS. CONSEQUENTLY, THIS WHOLE MARKET OF SERVICES IS SOMewhat NEW TO US, AND HOW IT RELATES TO OUR CORPORATE EXPERIENCE IN THESE TWO OLDER AREAS STILL TAKES A LOT OF UNDERSTANDING, BUT THE TRANSFORMATION FROM ESSENTIALLY A MAINFRAME MANUFACTURER TO A SERVICE BUSINESS HAS BEEN SUCCESSFUL. THE BUSINESS OPPORTUNITY FOR SERVICES CANNOT BE OVERSTATED. ALL THE MAJOR PROBLEMS OF SOCIETY INVOLVE OVERWHELMING NEED FOR INFORMATION AND THIS IS WHAT DATA SERVICES, EDUCATION AND PROFESSIONAL SERVICES ARE ALL ABOUT.
What it comes down to is a unique company which participates in the total spectrum of the information industry through its three main business segments: Data Services, Peripherals and Systems and has in addition to all that comprehensive financial services to offer through Commercial Credit. And perhaps most important, the elements of our computer business are highly inter-related 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 to the computer systems is our peripheral products organization. Moreover, computer systems provide products for the Education Company and for Commercial Credit. On the other hand, Commercial Credit is the Systems business major source of lease financing. For each computer system that we install, professional systems division, on the average, sells $32,500 of service per year.

Another area of increasing importance, both as a service and hardware generating business is PLATO. There has never been a greater demand for improvement in education -- whether it is public pressure to lower the 75 to 90 billion dollar cost of the U.S. public Education system, or for more effective government and business training. Today, PLATO is installed in 60 universities, high schools, state correctional systems, and in the Federal Government. As PLATO’s cost declines and the cost of traditional class room teaching continues to rise, there is a compelling case for use of CBE in an increasing portion of the total education and training market. Computer Based
Education is also a good example of the interdependence of our Computer Group business. A PLATO system involves products of almost every segment of our business: MPI, CPI, Terminals, Small Systems, Large Systems and support from Professional Services and Engineering Services as well. Computer based education, when we offer it as a service, is actually a highly specific form of data services, and so on, and so on. There are lots of other examples of the interaction and mutual benefit of our several businesses, but let me move on to look a little further in the future.

By 1983, we expect to generate revenues of over $3 billion. At the same time, the continuation of our asset management reduction plans will improve the assets to revenue ratio, such that by 1983, we will require only 62¢ of assets to generate a dollar of revenue. Even more importantly, we are going to steadily improve the net profits. Our present 1.6% profit after tax to revenue is obviously a number we must improve on -- a number we can improve on -- and our plans reflect a determination to do just that. By 1983 we hope to achieve a 6% profit and that is certainly a modest goal.

What all of this means is that we are improving the financial performance of the corporation on all major fronts not only through our eyes, but the eyes of the stockholder. The numbers which I have set forth above also cause improvement in the traditional financial ratios which an investor examines. In
THIS AREA, FOR EXAMPLE, WE WILL IMPROVE OUR ROA FROM ITS PRESENT 4.3% TO NEARLY 20% BY 1983. IMPROVED NPAT MEANS A GREATER RETURN TO THE SHAREHOLDER EXPRESSED AS EARNINGS PER SHARE.

IN SUMMARY, WE ARE COMMITTED TO A STEADY IMPROVEMENT IN FINANCIAL RESULTS IN THE COMING YEARS. HAVING ACHIEVED A BROAD BUSINESS BASE AND GIVEN A STRATEGY, GEARED AROUND MEETING SOME OF THE MOST FUNDAMENTAL FUTURE NEEDS OF THE SOCIETY, AND WITH CONTINUED EMPHASIS ON IMPROVING THE FUNDAMENTALS OF THE BUSINESS, I AM CONFIDENT THAT WE CAN ACHIEVE THE IMPROVEMENTS THAT WE HAVE OUTLINED.

SO FAR IN 1978 WE ARE ON TRACK. FIRST QUARTER REVENUES ARE UP 18% FOR THE COMPUTER BUSINESS AND EARNINGS ARE UP 20% OVER LAST YEAR. WE ARE AHEAD OF BUDGET IN BOTH REVENUE AND PROFIT. WE ARE BELOW BUDGET IN TOTAL ASSETS, HOWEVER, ASSET TRENDS FOR THE PAST TWO MONTHS HAVE NOT BEEN GOOD WITH ASSETS RISING AT SLIGHTLY ABOVE THE BUDGETED RATE - SO THE NEED FOR INTENSE ATTENTION BECOMES GREATER AS OUR SUCCESS GROWS. THE SAME IS TRUE OF COSTS AND EXPENSES. OUR PRE-TAX NET PROFIT RATE WAS 3.3% FOR THE 1ST QUARTER COMPARED TO 3.0% LAST YEAR. AND WHILE THE GROSS PROFIT RATE WAS UP 1.1 PERCENTAGE POINTS EXPENSES WERE UP ALMOST AS MUCH AS REVENUE. SO THE NEED FOR HARD, CREATIVE MANAGEMENT NEVER CEASES - FORTUNATELY FOR ALL OF YOU IF YOU WANT TO GRASP THE OPPORTUNITY THAT OFFERS.

AT THE RECENT 100% CLUB MEETING I TRIED TO EXPRESS TO THOSE PEOPLE THE AWESOME AND EXCITING BUSINESS WE ARE IN AND THE
UNIQUE OPPORTUNITY WE HAVE TO SERVE OUR SOCIETY, OUR COMPANY AND OURSELVES. YOU IN THIS ROOM ARE PART OF THAT - YOU HAVE A WONDERFUL OPERATION - LET'S MAKE IT BETTER. WE HAVE A WONDERFUL COMPANY - LET'S MAKE IT BETTER.

THANK YOU AGAIN FOR ASKING ME TO COME. IT HAS BEEN JUST GREAT.