THANK YOU FOR INVITING ME TO SPEAK WITH YOU THIS AFTERNOON.

-ANECDOTE-

1977 WAS A GOOD YEAR FOR THE CORPORATION. TOTAL REVENUES REACHED $2.3 BILLION, AN INCREASE OF ABOUT 9% OVER LAST YEAR. EVEN MORE IMPORTANT NET EARNINGS OF THE CORPORATION INCREASED TO 63 MILLION DOLLARS, 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 EXPERIENCED $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 ALSO CONTINUED TO GAIN, AND POSTED REVENUES OF $555 MILLION, WITH PROFIT GOING UP 5.1 MILLION TO 28.3.

THE SYSTEMS PORTION OF OUR BUSINESS COMPRISSES 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.

OVER THE PAST TWO YEARS, THE RESULTS OF OUR ASSET MANAGEMENT PROGRAMS HAVE ALSO BEEN PARTICULARLY REWARDING. A 10% REDUCTION IN ASSETS WAS ACHIEVED IN 1977. MORE IMPORTANTLY, ASSET UTILIZATION REQUIRED ONLY 82¢ FOR EACH REVENUE DOLLAR COMPARED TO 92¢ IN 1976
AND $1.06 in 1975. Asset reduction was a key factor in enabling us to reduce interest bearing debt. Because of our successes in this area, total interest expense was down for 1977 by nearly $11 million.

With that quick run down on 1977 let's move ahead to this year. What we plan in 1978 is a continuation of emphasis on controlled growth with productivity improvements. As far as overall numbers are concerned it goes something like this: We expect to generate revenue in the computer group totaling $1.7 billion. The services business are projected to contribute $653 million of that total. The systems operations are forecasted to contribute $428 million, peripherals will add 626 million. We also plan to utilize only 78¢ worth of assets to generate this record revenue. Profitability will also increase. Last year's 60% will be hard to match but we should do well.

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.

Sales of peripheral equipment to other computer manufacturers is very strong. Control Data offers a total range of products from small floppy disks used in terminals and mini computers as well as large capacity disk files that are used in medium and large computers to unit record, terminals, and tape drives. Control Data is without question the leader in disk technology.
GROWTH IN THE PERIPHERAL AREA IS A DIRECT RESULT OF CONTINUING COMMITMENT TO INVEST IN ADVANCE PRODUCT DEVELOPMENT. LAST YEAR FOR EXAMPLE, PERIPHERAL PRODUCTS INVESTED MORE THAN $55,000,000 IN TECHNICAL EFFORT 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 BOTH HARDWARE AND SOFTWARE. SO 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 THERE IS SERVICES. NOW 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 AND, OF COURSE, SO ARE PERIPHERAL PRODUCTS. CONSEQUENTLY, THIS WHOLE MARKET OF SERVICES IS STILL SOMEWHAT NEW TO US, AND HOW IT RELATES TO OUR CORPORATE EXPERIENCE IN THESE 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.

CONTROL DATA CAN BE VIEWED AS A HIGHLY VERTICALLY ORGANIZED INFORMATION SERVICES COMPANY. THAT IS, WE MAKE ALL OF THE COMPONENTS, COMPUTER MAINFRAMES, PERIPHERAL PRODUCTS, THE SOFTWARE PRODUCTS, AND HAVE THE FINANCIAL SERVICES AND THE CONSULTING THAT GOES INTO THE FINAL INFORMATION SERVICE. THE TOTAL MARKET FOR INFORMATION SERVICES IS SO HUGE AND CAN BE APPROACHED IN SO MANY WAYS, THAT THERE ARE ENORMOUS MARKETS FOR EACH OF THESE INDIVIDUAL COMPONENTS. THUS, IN PERIPHERAL PRODUCTS BY SELLING OEM, OR COMPUTER MAINFRAMES BY SELLING COMPLETE SYSTEMS, WE ACHIEVE ECONOMIES OF SCALE NOT POSSIBLE TO ANY OTHER SERVICE COMPANY.

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 SERVICES DIVISION, ON THE AVERAGE, SELLS $32,500 OF SERVICE PER YEAR, FOR THE DURATION OF EACH AND EVERY INSTALLATION OF A MAINFRAME.

EQUALLY IMPORTANT, I THINK, IS THAT WE NEED TO UNDERSTAND HOW THIS NEED FOR SERVICES CAN GENERATE REQUIREMENTS AND BUSINESS FOR HARDWARE. LET ME GIVE YOU AN EXAMPLE.

OUR MOST RECENT SUCCESS WITH THE FORD MOTOR COMPANY WAS THE ORDER AND INSTALLATION OF A CYBER 176 SYSTEM. ALTHOUGH FORD HAS BEEN A CUSTOMER FOR MANY YEARS, THIS REPRESENTS OUR FIRST PENETRATION WITH A LARGE SCALE SYSTEM.

IT'S SIGNIFICANT TO NOTE THAT THIS SYSTEM ORDER IS THE DIRECT RESULT OF OUR SERVICES BUSINESS. PRIOR TO INSTALLATION OF THIS SYSTEM, FORD WAS A MAJOR CYBERNET USER, HOWEVER, IT DIDN'T BEGIN THERE -- IT ALL BEGAN WITH A SMALL, BUT PROFITABLE, PSD CONSULTING CONTRACT. YES, FORD PAID US TO BEGIN THIS MARKETING EFFORT!
I'D LIKE TO LOOK BACK IN TIME AND UNFOLD THE EVENTS AND STRATEGIES
THAT LED TO THIS SUCCESS.

THE EVENTS OF 1974 WERE SIGNIFICANT IN THE DEVELOPMENT OF RECENT
STRATEGY. BACK THEN OUR CYBERNET DATA BASE CAPABILITIES WERE
BEING USED BY THE FORD PARTS DIVISION. ONE-HALF OF THE TOTAL
REVENUE FOR THAT YEAR RELATED TO THIS APPLICATION. ALTHOUGH
FOREWARNED BY FORD OF THEIR POLICY TO MIGRATE ALL LARGE OUTSIDE
SERVICES PROJECTS TO THEIR IN-HOUSE SYSTEMS, WE STUBBORNLY
HELD IN OUR ATTEMPT TO KEEP THE WORK ON CYBERNET. WELL, WE
LOST ALL OF IT TO AN IN-HOUSE IBM SYSTEM AND OUR 1975 REVENUE
REFLECTS THAT LOSS.

WE FOUND OUR NEW FOOTHOLD IN A MOST SUBTLE WAY. FORD ENGINEERING
BEGAN A HEAVY INVESTMENT PROGRAM IN 1976, FOR THE DESIGN OF A
NEW, MORE EFFICIENT, CAR LINE. AWARE OF OUR CONSULTING SKILLS
IN THE AREA OF STRUCTURAL ANALYSIS, THEY AWARDED US A SMALL
$10,000 CONTRACT TO ASSIST IN THE DEVELOPMENT OF A NASTRAN MODEL
FOR THEIR IN-HOUSE IBM SYSTEM. AS THE COMPLEXITY OF THE PROJECT
INCREASED, IT BECAME CLEAR THAT FORD WOULD BE BETTER SERVED BY
CYBERNET.

THEY ELECTED TO TRANSFER BOTH THE FRAME AND BODY ANALYSIS TO
CYBERNET IN SEPTEMBER 1976. THE EFFECTS OF THIS ON OUR 1977
REVENUE IS EVIDENT -- $3 MILLION OF CYBERNET AND PSD BUSINESS
IN THAT YEAR ALONE. ALL OF THIS GREW FROM THAT SMALL $10,000
"SEED".
BUT ONCE AGAIN WE ENCOUNTERED PRESSURE WITHIN FORD TO MOVE THIS LARGE EXPENDITURE TO AN IN-HOUSE SYSTEM. SOMEWHA T WISER FROM PAST EXPERIENCE, THIS TIME WE COUNTERED WITH A JOINT SYSTEMS AND SERVICES STRATEGY WHICH ALLOWED FOR AN ORDERLY MIGRATION FROM STANDARD CYBERNET SERVICES, TO A CYBERNET SYSTEM ENTIRELY DEDICATED TO FORD, TO A LEASED CYBER 176. THIS PROVED TO BE THE WINNING APPROACH.

ON THE SURFACE, IT MIGHT APPEAR THAT CYBERNET WAS SLIGHTED IN THE EXCHANGE, HOWEVER, BY NATURE OF OUR PHASED IMPLEMENTATION WE ACTUALLY GAINED SIX ADDITIONAL MONTHS OF CYBERNET USE BEYOND THAT DATE TARGETED FOR CUT-OVER TO THE IN-HOUSE SYSTEM.

OUR CYBERNET BILLINGS FOR THAT PERIOD WERE $1.5 MILLION.
FURTHERMORE, THE EXISTANCE OF A CYBER SYSTEM AT FORD FOSTERS OPPORTUNITY FOR SUPPLEMENTAL PROCESSING AND SPECIAL APPLICATIONS. ALREADY WE HAVE PROJECTS UNDERWAY WHICH WILL PROVIDE 1978 CYBERNET BILLINGS OF $1 MILLION.

NOW LET ME MOVE 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"S WORTH 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 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. 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 NEEDS OF THE FUTURE, AND WITH CONTINUED EMPHASIS ON IMPROVING THE FUNDAMENTALS OF THE BUSINESS, I AM CONFIDENT THAT WE CAN ACHIEVE THE IMPROVEMENTS THAT WE HAVE OUTLINED.

NOW, IT IS CERTAINLY TRUE THAT ALL OF THIS IS NOT GOING TO HAPPEN UNLESS EVERY ONE OF US AS EMPLOYEES OF CONTROL DATA REALIZE THAT WE HAVE A SHARE IN THIS ACTION, A SHARE IN THOSE STAKES, A SHARE IN THOSE PLANS, AND YOU AS FIRST LINE MANAGEMENT KNOW THAT YOU MUST MOTIVATE AND TRAIN YOUR PEOPLE TO ACHIEVE THIS OBJECTIVE.

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. IN 1977 OVER 140 HOURS OF COMPUTER BASED MANAGEMENT EDUCATION WAS AVAILABLE AND WE ARE ADDING 55 HOURS IN 1978. IN ADDITION, IN YOUR OWN FIELD, THERE ARE TRAINING OPPORTUNITIES AVAILABLE WITHIN THE COMPANY WHICH RANGE FROM BEGINNING BUYER SEMINARS TO LEGAL ASPECTS OF PURCHASING. YOU ALSO HAVE THE OPPORTUNITY TO IMPROVE YOUR NEGOTIATION SKILLS THROUGH IN-PLANT VIDEOTAPE WORKSHOPS ON EFFECTIVE NEGOTIATION. THE POINT IS THIS; KNOWLEDGE IS AN ESSENTIAL INGREDIENT OF ONE'S
ABILITY TO EXECUTE. THE BUSINESS IS GROWING MORE COMPLEX AS MORE KINDS OF SERVICES ARE ADDED. WE LOOK AT OUR EMPHASIS ON THE FUNDAMENTALS AND WE CONCLUDE THAT INDIVIDUALLY WE MUST CONTINUE TO GROW AND INCREASE OUR KNOWLEDGE SO THAT WE CAN DEAL WITH THIS INCREASING COMPLEXITY. BY EDUCATING AND MOTIVATING OUR EMPLOYEES WE CAN BE ASSURED OF ACHIEVING THE STRATEGIES THAT I OUTLINED ABOVE.

FINALLY, BUT NOT UNIMPORTANTLY, WHAT IS THE STAKE, WHAT IS THE ROLE THAT YOU, PURCHASING MANAGEMENT, CAN PLAY IN THE GROWTH AND STRATEGIES OF THE COMPUTER GROUP?

EARLIER THIS MORNING YOU HAD A PRESENTATION OF THE PERFORMANCE - THE DOLLARS - WHICH YOUR ORGANIZATIONS CONTRIBUTED TO OUR PERFORMANCE LAST YEAR. WHEN YOU REALIZE THAT ONE OUT OF EVERY FOUR DOLLARS OF REVENUE GENERATED IS THEN USED BY PURCHASING THE SIGNIFICANCE OF YOUR POTENTIAL CONTRIBUTION AND LEVERAGE ON OPERATING RESULTS TAKES ON A LOT BIGGER SIGNIFICANCE THAN IS GENERALLY UNDERSTOOD.

THE DOLLARS YOU SAVE THE COMPANY HAVE A DRAMATIC EFFECT UPON THE EARNINGS WE CAN REPORT. FIRST, THE PURCHASE DOLLAR SAVINGS LAST YEAR OF NEARLY 17 MILLION DOLLARS WERE CERTAINLY SIGNIFICANT BY THEMSELVES. IN TERMS OF EARNINGS PER SHARE, .69 OF THE 3.65 PER SHARE REPORTED CAME AS A RESULT OF THE PURCHASING EFFORT ($16.9 MILLION SAVINGS LESS $5.2 MILLION PURCHASING EXPENSE). AND OF COURSE, THIS PERFORMANCE INCLUDES NOT ONLY THE SAVINGS I HAVE MENTIONED, BUT INCLUDES THE EFFORTS THAT ARE PUT FORTH IN THE AREA
OF ASSET MANAGEMENT. YOU ARE THE FRONT-LINE MANAGEMENT WHICH I REFERRED TO EARLIER THAT MANAGES OUR ASSETS. THE PURCHASING FUNCTION HAS A DIRECT, MEASURABLE IMPACT UPON THE CONTINUED IMPROVED PERFORMANCE OF THE COMPANY. THE CONTRIBUTIONS YOU MAKE DAILY IN YOUR TASKS ARE OF THE UTMOST IMPORTANCE, AND YOUR EFFORTS PAST AND PRESENT ARE VERY MUCH APPRECIATED AND RECOGNIZED BY EXECUTIVE MANAGEMENT.

BECAUSE YOU IMPACT SUCH A LARGE PART OF THE PLAN FOR CONTINUED PERFORMANCE IMPROVEMENT, YOUR EFFORTS MUST BE THE MOST PROFESSIONAL YOU ARE CAPABLE OF RENDERING. WE CAN DO EVERYTHING ELSE THAT IS PLANNED, BUT WITHOUT THE CONTINUED TOP PERFORMANCE OF THE PURCHASING COMMUNITY, OUR EFFORTS THIS YEAR, AS WELL AS IN THE YEARS AHEAD WILL BE SUBSTANTIALLY LESS THAN WHAT WE ENVISION.
Perseverence, as you all know, is a very effective negotiating technique. I understand Tom Lang used this method a lot in his early years as a buyer for GSD. Once, it seems, Tom phoned for the price on two million capacitors. An hour later, he called and asked if the same price would apply on just half the quantity.

Being assured of this, he then called after lunch and wanted to know if the same price would be available for 500 pieces. Negotiation ensued, the seller finally agreed to make the 500 piece price the same as two million. Tom called again about 3 PM to see if the price would hold on 100. However, the dealer ran out of patience, and told him, "Look, Tom, if you just bring your damn boards over to our warehouse, we will be glad to put the capacitors in for nothing." So, Tom placed the order.

All I can say is, I'm sure glad when I was in sales I didn't have to sell computers to Tom, or I might not be here today.