THANK YOU...AND GOOD AFTERNOON. I'LL START BY GIVING A BRIEF NARRATIVE OF CONTROL DATA AND THEN WE'LL BE GLAD TO ANSWER YOUR QUESTIONS.

OUR BUSINESS IS BASICALLY THE APPLICATION OF COMPUTER TECHNOLOGY TO THE NEEDS OF BUSINESS, SCIENCE AND INDUSTRY. TODAY, WE ARE THE WORLD'S LARGEST SUPPLIER OF A WIDE VARIETY OF DATA SERVICES, THE INDUSTRY LEADER IN LARGE-SCALE SCIENTIFIC AND ENGINEERING COMPUTERS AND THE WORLD'S LARGEST SUPPLIER OF COMPUTER PERIPHERAL EQUIPMENT TO ORIGINAL EQUIPMENT MANUFACTURERS.

I'LL TAKE EACH OF THOSE THREE BUSINESS SEGMENTS -- SERVICES, SYSTEMS, AND PERIPHERALS -- AND COMMENT ON THEM IN TURN.

FIRST, SERVICES.

SERVICES COMPRISSES DATA SERVICES, ENGINEERING, CONSULTING AND EDUCATION SERVICES. SERVICES REPRESENTS OUR PRIMARY STRATEGIC THRUST AND THERE ARE FOUR REASONS FOR THIS:

- IT IS ONE OF THE FASTEST GROWING SEGMENTS OF THE COMPUTER INDUSTRY. THE NEED FOR VALUE-ADDED SERVICES OFFERS THE BEST OPPORTUNITY IN THE INDUSTRY FOR LONG-TERM GROWTH.

- WE CURRENTLY ARE A LEADER IN DATA SERVICES AND INTEND TO MAKE THE INVESTMENT NECESSARY TO RETAIN THAT POSITION. THE FRONT-END INVESTMENT NECESSARY TO DEVELOP A SERVICE REPRESENTS A NATURAL BARRIER TO COMPETITION ONCE YOU HAVE MADE IT.
SERVICES IS ONE AREA OF THE INDUSTRY NOT DOMINATED BY ANY ONE COMPANY.

SERVICES DIRECTLY BENEFIT FROM OUR INVESTMENTS IN SYSTEMS AND PERIPHERALS.

SERVICES ACCOUNT FOR 39 PERCENT OF THE COMPUTER BUSINESS REVENUES...DATA SERVICES, THE LARGEST SERVICE BUSINESS, HAS SEEN ABOUT 17 PERCENT COMPOUND GROWTH RATE OVER THE LAST THREE YEARS...SO I'LL COMMENT ON IT A BIT FURTHER.

THERE ARE FOUR MAJOR SECTORS WITHIN DATA SERVICES -- MANAGEMENT TIMESHARING SERVICES, SCIENTIFIC AND ENGINEERING COMPUTING SERVICES, DEDICATED APPLICATIONS SERVICES AND SERVICES FOR SMALL BUSINESS. CUSTOMERS FOR THESE SERVICES INCLUDE MOST FORTUNE 500 COMPANIES AS WELL AS 10,000 SMALL BUSINESS USERS. WE SEE SIGNIFICANT EXPANSION INTO SELECTED OVERSEAS MARKETS AND NEW APPLICATIONS. OUR RECENTLY ANNOUNCED SUPER-COMPUTER -- CYBER 205 -- WILL BE INSTALLED IN CYBERNET CENTERS BOTH HERE AND OVERSEAS. THE POWER OF THIS SYSTEM WILL GREATLY ENHANCE OUR COMPETITIVE POSITION IN SCIENTIFIC AND ENGINEERING APPLICATIONS.

TURNING TO THE SYSTEMS BUSINESS, CONTROL DATA WAS FOUNDED 23 YEARS AGO AS A COMPANY DESIGNING AND BUILDING LARGE-SCALE COMPUTER SYSTEMS. THE STRATEGIC PROBLEM OF THE COMPUTER MAINFRAME MANUFACTURERS HAS ALWAYS BEEN IBM'S MARKET DOMINANCE. BUT BY STICKING TO SELECTED SCIENTIFIC AND ENGINEERING MARKETS IN WHICH WE HAVE DEVELOPED SUPERIOR APPLICATIONS EXPERTISE, WE HAVE LARGELY AVOIDED ACROSS-THE-BOARD COMPETITION WITH IBM, AND ESTABLISHED SIGNIFICANT MARKET POSITIONS. IN RECENT YEARS, THIS STRATEGY HAS MATURED AND BROUGHT STABILITY AND GROWTH TO OUR COMPUTER SYSTEMS BUSINESS.
ALTHOUGH SYSTEMS REVENUES HAVE GROWN SOME 13 PERCENT PER YEAR OVER THE PAST FEW YEARS, THE HIGHER GROWTH RATES OF DATA SERVICES AND PERIPHERALS MEAN THAT SYSTEMS REVENUES HAVE DECLINED AS A PERCENT OF THE TOTAL -- LAST YEAR REPRESENTING 21 PERCENT OF TOTAL COMPUTER BUSINESS REVENUES. I SHOULD ALSO POINT OUT THAT LAST YEAR THE SYSTEMS BUSINESS HAD ITS LARGEST INCREASE EVER IN DOLLAR VOLUME AND NUMBER OF NEW ACCOUNTS -- WITH ONE-THIRD OF ORDERS RECEIVED REPRESENTING NEW CUSTOMERS.

AS I MENTIONED, WE HAVE FOCUSED OUR EFFORTS ON CERTAIN MARKET AREAS. THERE ARE SIX OF THESE: MANUFACTURING -- COMPUTER-AIDED-DESIGN AND MANUFACTURE; ENERGY -- RESEARCH INTO NEW AND CHEAPER SOURCES OF ENERGY AS WELL AS SOURCES; EFFECTIVE CONSERVATION METHODS AND OPTIMIZING AVAILABLE RESOURCES; ENVIRONMENT -- 37 OF THE 43 SUPERCOMPUTERS NOW PROVIDING WEATHER FORECASTING SERVICES WORLDWIDE ARE CONTROL DATA SYSTEMS -- WE HOPE TO IMPROVE OUR BOX SCORE WITH THE 205; EDUCATION -- WITH ONE OUT OF FOUR CYBERS NOW INSTALLED WORKING ON A COLLEGE OR UNIVERSITY CAMPUS SOMEWHERE IN THE WORLD AND WITH THE CALIFORNIA STATE COLLEGE AND UNIVERSITY SYSTEM JUST HAVING ORDERED 21 CYBERS FOR A STATEWIDE NETWORK; MINING AND PETROLEUM -- APPLYING LARGE-SCALE PROCESSING TO THE PLANNING, EXPLORATION AND PRODUCTION PROBLEMS ASSOCIATED WITH THOSE INDUSTRY SEGMENTS; AND PUBLIC UTILITIES -- PLANNING, DESIGNING, MANAGING AND MAINTAINING COMPLEX NUCLEAR AND FOSSIL-FUELED ENERGY GENERATING FACILITIES.

THE THIRD MAJOR BUSINESS SEGMENT IS PERIPHERALS WHICH IS 40 PERCENT OF THE COMPUTER BUSINESS WITH REVENUES OF NEARLY A BILLION DOLLARS LAST YEAR. THE EXPLOSIVE GROWTH OF COMPUTER UTILIZATION -- ESPECIALLY IN THE MINI-COMPUTER AND WORD PROCESSING MARKETS -- HAS FIRED A SPURT IN PERIPHERAL PRODUCTS FROM 26 PERCENT OF OUR COMPUTER BUSINESS REVENUES IN 1975 TO 40 PERCENT LAST YEAR.
WHILE WE HAVE BEEN WATCHING FOR A LEVELING-OFF OF MINICOMPUTER
DEMAND, WE HAVE ALSO WITNESSED A RESURGENCE OF INTEREST IN HIGH
PERFORMANCE PERIPHERALS....A WHOLE NEW LINE OF DISK MEMORIES
BASED ON EIGHT-INCH DISK TECHNOLOGY WHICH WE BELIEVE WILL
BECOME THE DE FACTO STANDARD FOR TOMORROW'S DISK DRIVES....AND
EXCITING POSSIBILITIES FOR NON-IMPACT PRINTERS AND VIDEO DISK
TECHNOLOGIES.

OUR INVESTMENT IN ROTATING MEMORY PRODUCTS HAS ALLOWED US TO
ACHIEVE A LEADERSHIP POSITION IN THE DEVELOPMENT, MANUFACTURE
AND SALE OF DISK DRIVE PERIPHERALS FOR GENERAL PURPOSE
COMPUTERS AND MINI-COMPUTERS.

THE BALANCE OF CONTROL DATA'S BUSINESS IS FINANCIAL SERVICES
OFFERED BY COMMERCIAL CREDIT. OUR BASIC STRATEGIES HAVE BEEN
DIRECTED TOWARDS INCREASED PENETRATION IN SELECTED MARKETS SUCH
AS SMALL BUSINESS THROUGH THE DEVELOPMENT OF NEW NON-CASH
SERVICES WHICH AUGMENT BASIC FINANCIAL SERVICES.

COMMERCIAL CREDIT HAS BEEN PERFORMING BETTER THIS YEAR THAN WE
HAD EXPECTED, GIVEN THE DRAMATIC SWINGS IN INTEREST RATES.

LET ME SUMMARIZE BY SAYING THAT:

TODAY, IN BOTH COMMERCIAL CREDIT AND THE COMPUTER BUSINESS, WE
BELIEVE WE ARE LESS SUSCEPTIBLE TO ADVERSE CHANGES IN ECONOMIC
CONDITIONS THAN IN THE PAST.

BECAUSE....

FIRST, WE HAVE A MUCH BETTER BALANCE IN THE COMPUTER BUSINESS
THAN WE DID FIVE YEARS AGO. SERVICES, SYSTEMS AND PERIPHERALS
ALL CONTRIBUTE TO THAT BALANCE. AND, THOUGH OEM AND SOME OTHER
DISCREET UNITS MAY BE INDIRECTLY SENSITIVE TO ECONOMIC
CONDITIONS, OTHER PARTS OF THE BUSINESS TEND TO BALANCE THIS SENSITIVITY. LET ME ADD THAT IN ANY EVENT WHAT I MEAN BY SENSITIVITY IS A DECLINE IN RATE OF GROWTH AND NOT A DECLINE IN REVENUES PER SE.

SECOND, OUR COMPUTER SYSTEMS CUSTOMER BASE IS MUCH BROADER AND -- BECAUSE OF APPLICATIONS EXPERTISE -- MUCH DEEPER THAN BEFORE. IN MOST OF OUR APPLICATION AREAS -- ENERGY AND PETROLEUM EXPLORATION ARE OBVIOUS EXAMPLES -- MARKET DEMAND SHOULD REMAIN STRONG EVEN IN A DOWN ECONOMY.

THIRD, WE HAVE INVESTED SUBSTANTIALLY IN BUILDING OUR LEASE BASE. TODAY, MORE THAN TWO-THIRDS OF OUR CYBER 170 SYSTEMS ORDERS ARE LEASE AND AS YOU KNOW RENTAL INCOME IS INHERENTLY MORE STABLE THAN OUTRIGHT SALES AND ULTIMATELY IT IS MORE PROFITABLE.

FOURTH, WE HAVE IN COMMERCIAL CREDIT A MUCH HEALTHIER BUSINESS. WE HAVE IMPROVED THE MATCH BETWEEN THE RATE VARIABILITY OF OUR ASSETS AND LIABILITIES, WE HAVE ACHIEVED PROFITABILITY IN OUR INTERNATIONAL OPERATIONS.

FIFTH, OUR INSURANCE BUSINESSES HAVE BENEFITTED FROM THE ELIMINATION OF CERTAIN LINES AND FROM A MORE CONSERVATIVE UNDERWRITING POLICY. WE ALSO HAVE REDUCED THE LEVEL OF COMMON STOCK INVESTMENTS IN THE INSURANCE PORTFOLIO WHICH HAS INCREASED INVESTMENT INCOME AND REDUCED THE NEGATIVE IMPACT OF CHANGES IN EQUITY PORTFOLIO VALUES.

IN THE CONTEXT OF THESE FIVE POINTS, LET ME CLOSE BY NOTING THAT OUR PLANS ARE TO CONTINUE TO IMPROVE PROFITABILITY WHILE AT THE SAME TIME MANAGING A PROGRAM OF INVESTING FOR THE FUTURE.

THANK YOU...AND I INVITE YOUR QUESTIONS AT THIS TIME.