

NEW YORK SECURITY ANALYSTS MEETING

November 5, 1982 *H81*

Robert M. Price

GOOD MORNING. IT'S A PLEASURE TO BE BACK IN NEW YORK TO TALK WITH YOU ABOUT CONTROL DATA. IT'S ALSO A PLEASURE TO REPORT THAT CONTROL DATA'S BUSINESS IS MOVING ALONG WELL DESPITE A TROUBLED WORLD ENVIRONMENT. MUCH OF OUR PROGRESS IS THE RESULT OF STRATEGIES IMPLEMENTED YEARS AGO. THE RESULT TODAY IS A STRONGER, BETTER POSITIONED, BETTER BALANCED COMPANY.

BUT RATHER THAN DWELL ON THE PAST OR THE PRESENT, TODAY I WANT TO TALK PRIMARILY ABOUT THE FUTURE, ABOUT WHAT CONTROL DATA WILL LOOK LIKE IN FIVE YEARS...ABOUT STRATEGIES WE WILL USE TO HELP US REACH OUR OBJECTIVES, AND SOME SPECIFIC TRENDS THAT WILL AFFECT CONTROL DATA'S PERFORMANCE DURING THE NEXT FIVE YEARS.

COINCIDENTALLY, IT WAS JUST ABOUT FIVE YEARS AGO THAT SOME OF YOU HEARD A SIMILAR SPEECH FROM OUR CHAIRMAN, BILL NORRIS. IT'S INTERESTING TO GO BACK AND LOOK AT SOME NUMBERS PRESENTED IN THAT 1976 SPEECH.

HE PREDICTED THAT BY THE END OF 1981...COMPUTER SERVICES REVENUES WOULD APPROACH \$1 BILLION WITH COMBINED REVENUES IN THE AREA OF \$3 BILLION. IN POINT OF FACT, THOSE GOALS WERE

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REACHED IN FOUR YEARS RATHER THAN FIVE. AT THE END OF 1980,⁸¹
COMBINED REVENUE WAS \$^{4.2}~~3.8~~ BILLION AND WAS BROKEN OUT AMONG
FOUR PRINCIPAL BUSINESS COMPONENTS AS FOLLOWS:

- o COMPUTER SERVICES 28.2%
- o FINANCIAL SERVICES 25.2%
- o PERIPHERAL PRODUCTS 32.3%
- o COMPUTER SYSTEMS 15%

THE MAJOR DIFFERENCE IN THAT PROFILE FROM THAT PROJECTED FIVE YEARS AGO IS PERIPHERALS, WHICH AS MOST OF YOU KNOW HAS EXPERIENCED VERY RAPID GROWTH SINCE 1978.

LOOKING AHEAD AT THE NEXT FIVE YEARS, CONTROL DATA WILL NOT BE A VASTLY DIFFERENT COMPANY FROM WHAT WE ARE TODAY. OUR FUNDAMENTAL STRATEGY HAS NOT CHANGED AND BASIC PRODUCT LINES ARE WELL ESTABLISHED.

BY THE END OF 1986, TOTAL REVENUES SHOULD BE DOUBLE WHAT THEY ARE TODAY, OR MORE THAN \$8 BILLION. THESE REVENUES WOULD BREAK OUT SOMETHING LIKE THIS: COMPUTER SERVICES 30 PERCENT... FINANCIAL SERVICES, WHICH ARE NOT EXPECTED TO GROW AS FAST AS THE COMPUTER ELEMENTS, SHOULD BE ABOUT 25 PERCENT...PERIPHERAL PRODUCTS' RECENT VERY RAPID GROWTH WILL MODERATE SOMEWHAT AND WILL ACCOUNT FOR 30 PERCENT...AND COMPUTER SYSTEMS WOULD MAKE UP THE BALANCE... 15 PERCENT.

THE PRINCIPAL STRATEGIES FOR ACHIEVING THESE GROWTH OBJECTIVES ARE ESSENTIALLY THE SAME AS THOSE OUTLINED BY BILL NORRIS FIVE YEARS AGO. THOSE WERE:

1. AN EMPHASIS ON COMPUTER SERVICES.
2. BUILDING THE EDUCATION MARKET.
3. CONTINUING AN INDUSTRY LEADERSHIP POSITION IN THE PERIPHERAL PRODUCTS MARKET.
4. CONCENTRATION ON LARGE SCIENTIFIC AND ENGINEERING COMPUTERS.

TO THESE FOUR, HOWEVER, I WILL ADD A FIFTH STRATEGY THAT WILL BE OF CONSIDERABLE IMPORTANCE TO US DURING THE NEXT FIVE YEARS:

5. COMBINING AND EXPANDING FINANCIAL AND COMPUTER SERVICES FOR THE SMALL BUSINESS MARKET.

WE ALSO WILL CONTINUE TO PURSUE THE IMPORTANT OBJECTIVE OF INCREASED PROFITABILITY. OVER THE NEXT FIVE YEARS, CONTROL DATA WILL BE A MORE PROFITABLE COMPANY THAN IT IS TODAY. THIS WILL OCCUR BOTH THROUGH INCREASED OPERATIONAL EFFECTIVENESS AND A CONTINUED THRUST FOR PROFIT IMPROVEMENT INHERENT IN THESE MATURING BUSINESS STRATEGIES.

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WITH THAT IN MIND, LET'S TAKE A CLOSER LOOK AT THESE MAJOR STRATEGIES. FIRST IS THE EMPHASIS ON COMPUTER SERVICES. I'D LIKE TO GO BACK TO THE SPEECH THAT BILL GAVE FIVE YEARS AGO AND QUOTE FROM IT. HE SAID THEN THAT OUR BUSINESS STRATEGY IS BASED ON THE TREND TO PUT DATA PROCESSING OUT INTO THE USER'S HANDS WHERE THE WORK IS BEING DONE AND WHERE THE PROBLEMS NEED TO BE SOLVED. THIS TREND HAS BEEN MAKING THE HARDWARE BUILDING BLOCKS LESS AND LESS IMPORTANT...WHILE THE APPLICATIONS OF COMPUTER TECHNOLOGY TO SOLVE THE USERS' PROBLEMS ARE BECOMING MORE AND MORE IMPORTANT. THIS IS WHERE THE NEW MARKETS ARE COMING FROM...AND THAT IS WHAT THE COMPUTER SERVICES THRUST IS ALL ABOUT.

AND THIS IS AS GOOD A POINT AS ANY TO REITERATE WHAT WE'VE SAID BEFORE IN THESE MEETINGS AND IS KEY TO UNDERSTANDING CONTROL DATA. WE HAVE TAKEN AND WE CONTINUE TO TAKE A LONG-TERM VIEW. SO, WHILE THE COMPUTER SERVICES STRATEGY WAS NOT ALL THAT APPRECIATED FIVE YEARS AGO, IT HAS PROVEN TO BE A STABLE AND FAST GROWING PART OF THE COMPUTER INDUSTRY...AND CONTROL DATA IS IN A LEADERSHIP POSITION HAVING GROWN FROM \$450 MILLION IN REVENUES FIVE YEARS AGO TO OVER \$1 BILLION LAST YEAR.

THIS GROWTH IN COMPUTER SERVICES WILL CONTINUE. WE EXPECT COMPUTER SERVICES REVENUES TO MORE THAN DOUBLE IN SIZE OVER THE NEXT FIVE YEARS. THIS WILL OCCUR THROUGH THE DEVELOPMENT OF

NEW SERVICES, INCREASING THE COST-EFFECTIVENESS OF OUR DATA SERVICES NETWORK, EXPANDING THE USE OF MICRO AND MINICOMPUTERS IN SERVICE OFFERINGS, AND THE USE OF BUSINESS CENTERS TO DELIVER SERVICES TO SMALL BUSINESS.

THE SECOND STRATEGY I MENTIONED IS ALSO AN IMPORTANT PART OF THE OVERALL SERVICES THRUST. THAT IS BUILDING THE EDUCATION MARKET.

THERE ISN'T A MEETING WITH THE INVESTMENT COMMUNITY THAT GOES BY WITHOUT A QUESTION ARISING AS TO THE PROFITABILITY OF PLATO. WE EXPECT THAT PLATO WILL BECOME PROFITABLE DURING THIS FIVE-YEAR PERIOD AND THE OVERALL EDUCATION MARKET WILL CONTINUE TO GROW IN IMPORTANCE TO CONTROL DATA. BUT IT IS IMPORTANT TO UNDERSTAND THAT PLATO IS PRIMARILY COURSEWARE AND ASSOCIATED APPLICATIONS...THE PROGRAM IS ESSENTIALLY ON PLAN AND THE MODES OF DELIVERY POSSIBILITIES ARE INCREASING AS ILLUSTRATED BY BOB DUNCAN'S EARLIER DESCRIPTION OF THE CONTROL DATA 110 MICROCOMPUTER.

LET'S TURN TO OUR THIRD STRATEGY...CONTINUING LEADERSHIP IN THE PERIPHERAL PRODUCTS MARKET. LAST YEAR, PERIPHERAL PRODUCTS PASSED THE BILLION-DOLLAR LEVEL IN REVENUES FOR THE FIRST TIME. WE EXPECT THAT GROWTH TO CONTINUE AND PERIPHERAL PRODUCTS SHOULD ALSO DOUBLE IN REVENUES DURING THE NEXT FIVE YEARS.

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LARRY JODSAAS DISCUSSED THE PERIPHERAL PRODUCT'S STRATEGIES EARLIER, SO THERE IS NO NEED FOR ME TO ELABORATE.

SUFFICE TO SAY THAT CONTROL DATA IS POSITIONED TO RETAIN A LEADERSHIP POSITION AS THE DISK MARKET EXPANDS INTO THE EIGHT-INCH AND SMALLER DIAMETER PRODUCTS. I DO WANT TO EMPHASIZE THAT WHERE WE ARE TODAY IS THE RESULT OF A STRATEGY OF TECHNOLOGICAL COOPERATION DATING BACK MORE THAN A DECADE. WE INTEND TO PURSUE THIS STRATEGY AS VIGOROUSLY AS EVER. INCREASED RESEARCH AND DEVELOPMENT EXPENDITURES ARE KEY TO PERIPHERAL'S FUTURE AND COOPERATION ALLOWS THAT ON A MUCH BROADER SCALE THAN WOULD OTHERWISE BE POSSIBLE.

THE FOURTH STRATEGY. IN THE COMPUTER MAINFRAME BUSINESS WE HAVE CONCENTRATED ON LARGE-SCALE SCIENTIFIC COMPUTERS. THAT WILL CONTINUE. THE INDUSTRY GROWTH RATES OF LARGE GENERAL PURPOSE COMPUTERS HAS DROPPED IN RECENT YEARS AND IS EXPECTED TO BE ABOUT SIX PERCENT ANNUALLY THROUGH 1985. HOWEVER, THE MARKET FOR LARGE SCIENTIFIC PROCESSORS HAS REMAINED RELATIVELY STRONG SO WE HAVE ENJOYED ABOVE AVERAGE GROWTH RATES. WE ALSO EXPECT THIS TREND TO CONTINUE.

EIGHTEEN MONTHS AGO WE ANNOUNCED THE CYBER 205 SUPERCOMPUTER. AS BOB DUNCAN NOTED, WE RECENTLY INSTALLED THE FIRST TWO OF THESE SYSTEMS. THE OUTLOOK FOR CYBER 200'S OVER THE NEXT FIVE

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YEARS CONTINUES TO BE VERY PROMISING AND WE WILL CONTINUE TO MAKE THE NECESSARY INVESTMENTS IN THIS MARKET AREA. THE JAPANESE COMPETITION IN LARGE MAINFRAMES WILL BECOME VERY REAL IN THE NEXT FIVE YEARS AND BY 1990, UNLESS A DIFFERENT COURSE IS ADOPTED BY U.S. COMPANIES, THE JAPANESE WILL DOMINATE THIS MARKET. I'LL COME BACK TO THAT POINT.

THE FIFTH STRATEGY I MENTIONED IS DEVELOPING THE VAST POTENTIAL OF THE SMALL BUSINESS MARKET. TODAY IN AMERICA THERE ARE 13 MILLION SMALL BUSINESSES THAT FORM THE BACKBONE OF THE U.S. ECONOMY. THEY REPRESENT 97 PERCENT OF ALL INDIVIDUAL BUSINESS FIRMS...EMPLOY MORE THAN HALF OF THE LABOR FORCE...PROVIDE THE LIVELIHOOD FOR 100 MILLION AMERICANS...CREATE MOST OF THE NEW JOBS...AND THEY ARE IN DEEP TROUBLE. CONTINUED HIGH INTEREST RATES, INFLATION AND ASSOCIATED ILLS PUT SMALL BUSINESS IN MORE JEOPARDY THAN EVER. AND IT WASN'T EVER EASY. FOUR OUT OF FIVE SMALL BUSINESSES FAIL. BUT THOSE THAT SURVIVE FREQUENTLY GROW TO BE THE MOST SUCCESSFUL LARGE FIRMS, PROVIDING THOUSANDS OF JOBS AS WELL AS USEFUL NEW PRODUCTS AND SERVICES.

THIS DYNAMIC ENVIRONMENT OF SUCCESS AND FAILURE ALSO IS AN OPPORTUNITY FOR US -- TO IMPROVE THE ODDS OF SUCCESS FOR SMALL BUSINESS BY OFFERING A WIDE ARRAY OF SERVICES INCLUDING FINANCIAL SERVICES, MANAGEMENT AND MARKETING ASSISTANCE, DATA PROCESSING, EDUCATION AND RELATED KNOWLEDGE SERVICES.

AS PAUL MILLER DESCRIBED TO YOU, SMALL BUSINESS HAS BEEN THE MAJOR FOCUS OF COMMERCIAL CREDIT. EXPANDING THE RANGE OF SERVICES COMMERCIAL CREDIT PROVIDES TO INCLUDE INFORMATION AND MANAGEMENT ASSISTANCE SERVICES IS A NATURAL AND POWERFUL STRATEGY. THE BUSINESS CENTERS WE HAVE BEEN OPENING FOR THE PAST YEAR AND ONE-HALF ARE A NEW AND EFFECTIVE MEANS OF DISTRIBUTING THIS EXPANDED RANGE OF SERVICES. THE SERVICE BUREAU COMPANY'S WELL-ESTABLISHED SMALL BUSINESS ACCOUNTS COMBINED WITH COMMERCIAL CREDIT'S CUSTOMERS ADDS UP TO A LARGE, NATIONAL CUSTOMER BASE THAT KNOWS US...AND KNOWS WE CAN PROVIDE THEM WITH ADDITIONAL PRODUCTS AND SERVICES.

THESE, THEN, ARE THE MAJOR STRATEGIES THAT WILL GUIDE US DURING THE NEXT FIVE YEARS. AND AGAIN, THESE ARE AN EXTENSION OF THE WAY WE'VE BEEN APPROACHING THE BUSINESS OVER THE PAST FIVE YEARS.

NOW LET ME TURN TO THE GENERAL ECONOMIC ENVIRONMENT IN WHICH WE WILL BE PURSUING THESE STRATEGIES. TO PUT IT BLUNTLY - IT LOOKS TOUGH. THE ONLY REALISTIC OUTLOOK FOR THE 1980s CONTINUES TO BE ONE OF ECONOMIC DOLDRUMS. SPECIFIC FACTORS CHANGE FROM YEAR TO YEAR. THERE WILL BE VICTORIES DECLARED WHEN INFLATION JUST DROPS OUT OF DOUBLE DIGITS - WHEN THE REAL GNP GROWTH RATE IS POSITIVE RATHER THAN NEGATIVE AND SO ON AND SO ON. EVERY TWO YEARS OR SO THINGS WILL BE "BETTER." NEVER

MIND THAT THEY FALL BACK IN THE INTERVAL. IN SHORT, WE EXPECT NO GREAT BOOST FROM THE BUSINESS CYCLE. AND WHILE THE NEW TAX BILL WILL HELP SOMEWHAT, IT IS CERTAINLY NOT ANY BIG TAIL WIND. FORTUNATELY, WE ARE ALSO NOT IN ONE OF THE TRADITIONAL BUSINESSES SO TIGHTLY TIED TO THE GENERAL ECONOMY.

BUT BEYOND THE BROAD ECONOMIC PICTURE, IT IS WORTH LOOKING AT SOME SPECIFIC TRENDS THAT DO AFFECT CONTROL DATA. THE FIRST TREND IS THE CONTINUING GROWTH OF THE SERVICES SECTOR. NOT LONG AGO BUSINESS WEEK NOTED THAT "THE SERVICES SECTOR WILL SHINE DURING THE '80's." THE TREND TOWARD SERVICES AND THE PARTICULAR NEED FOR KNOWLEDGE-ENHANCING SERVICES HAS BEEN THE FOUNDATION OF OUR MAJOR BUSINESS STRATEGY SINCE BEFORE THAT TREND SURFACED GENERALLY.

THE SECOND TREND OF IMPORTANCE TO US IS THE GENERAL ECONOMIC RESTRUCTURING WHICH IS GOING ON...THE MISMATCH OF AVAILABLE JOBS AND AVAILABLE SKILLS...AND THE OPPORTUNITY THAT CREATES FOR EDUCATION AND RE-EDUCATION. THE DEGREE OF EMPLOYMENT DISLOCATION IN THE ECONOMY CAN BE APPRECIATED WHEN YOU CONTRAST THE \$2,500 BONUS SOME COMPUTER FIRMS IN HOUSTON ARE PAYING TO EMPLOYEES WHO AGREE TO STAY ON THE JOB AT LEAST SIX MONTHS... WITH 16 PERCENT UNEMPLOYMENT IN DETROIT. HIGH RATES OF MINORITY UNEMPLOYMENT, ESPECIALLY IN THE 18-24 AGE GROUP, IS SOMETHING OF WHICH WE ARE ALL WELL AWARE. LOOKED AT MORE

GENERALLY, IT HAS BEEN ESTIMATED THAT TO BRING ALL PEOPLE IN THE UNITED STATES BETWEEN THE AGES OF 20-29 TO HIGH SCHOOL EQUIVALENCY WOULD COST \$96 BILLION BY TRADITIONAL EDUCATION METHODS.

IF I'M BELABORING THE POINT A BIT, IT'S BECAUSE THE CONNECTION BETWEEN WIDESPREAD SOCIAL AND ECONOMIC DISLOCATION IN THE LABOR FORCE AND THE OPPORTUNITY FOR PLATO COMPUTER-BASED EDUCATION IS SO POWERFUL THAT IT IS HARD TO DO OTHERWISE. CONTROL DATA IS UNIQUELY POSITIONED TO CAPITALIZE ON THESE OPPORTUNITIES.

ANOTHER TREND IS RECEIVING LOTS OF PRESS THESE DAYS...AND THAT'S THE REDUCTION IN FEDERAL GOVERNMENT SERVICES. AGAIN, CONTROL DATA IS WELL POSITIONED TO PROVIDE, VIA PLATO, THE ESSENTIAL INGREDIENT TO THE JOB CREATION, URBAN REVITALIZATION, HEALTHCARE, AND EDUCATION SERVICES THAT MUST BE ASSUMED BY PRIVATE SECTOR INITIATIVES.

FOURTH IS THE MATTER OF TECHNOLOGY. THERE ARE SEVERAL DIFFERENT ASPECTS OF THIS. CERTAINLY THE PACE OF TECHNOLOGICAL CHANGE CONTINUES UNABATED IN THE COMPUTER INDUSTRY. THE ADVANCES IN MICRO-ELECTRONICS HAVE HAD AN INTERESTING RESULT IN THAT IT IS THE VERY LARGEST AND VERY SMALLEST APPLICATIONS OF MICRO-ELECTRONICS -- THAT IS SUPERCOMPUTERS AND MICROCOMPUTERS -- WHICH ARE ENJOYING THE MOST RAPID GROWTH. BOTH OF THESE PLAY IMPORTANT ROLES FOR US.

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MICROCOMPUTERS ARE KEY DELIVERY VEHICLES FOR EDUCATION AND DATA PROCESSING SERVICES AS WELL AS A MEANS OF MAKING SUPERCOMPUTERS EVEN MORE EFFECTIVE. WITH REGARD TO MICROCOMPUTERS, WE CONCENTRATE ON SOFTWARE AND COURSEWARE. FOR MICRO-HARDWARE, WE WILL DEPEND PRIMARILY ON OUTSIDE VENDORS -- EITHER UNDER OEM ARRANGEMENTS OR JUST AS A DISTRIBUTOR OF THE HARDWARE PRODUCT.

BUT THE PACE OF CHANGE IS NOT JUST FAST. IT'S ALSO OCCURRING ON A VERY BROAD FRONT ACROSS THE SPECTRUM OF TECHNOLOGIES AND APPLICATIONS OF TECHNOLOGY THAT HAVE BEEN BUILT UP OVER THE PAST FORTY YEARS. ADD TO THAT THE INCREASING CAPITAL INTENSITY OF SEMI-CONDUCTOR TECHNOLOGY AND YOU HAVE AN URGENT NEED FOR GREATER TECHNOLOGICAL COOPERATION. AND IN PARTICULAR, THIS IS TRUE IN THE FACE OF THE TECHNOLOGICAL THREAT POSED BY THE JAPANESE.

THE "JAPANESE FACTOR" IN THE COMPETITIVE ENVIRONMENT IS RECEIVING LOTS OF PRESS. PERHAPS ONE QUOTE FROM A RECENT BUSINESS WEEKLY WOULD SUFFICE TO DRAMATIZE THE THREAT: "SO GREAT IS THE JAPANESE LEAD IN ELECTRONICS THAT ITS CHALLENGE WILL...PRECLUDE INDUSTRIES THAT MIGHT HAVE BEEN. PROTECTIONISTS LOBBIES WILL DISAPPEAR -- THERE WILL BE NO INDUSTRIES TO PROTECT." HOPEFULLY, ALL THE ALARM WILL SUFFICE TO BRING ABOUT THE MICRO-ELECTRONICS COOPERATION WE NEED IN THE U.S. SEMICONDUCTOR AND COMPUTER INDUSTRIES.

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FIFTH AND FINALLY, IS GOVERNMENT REGULATION AND DEREGULATION. THERE IS MORE DEREGULATION IN THE FINANCIAL AND COMMUNICATIONS INDUSTRIES IN THE U.S. THERE IS MORE REGULATION IN TRANSBORDER DATA FLOW IN INTERNATIONAL MARKETS. TRANSBORDER DATA FLOW REGULATION IS JUST ECONOMIC NATIONALISM IN PRIVACY CLOTHING. CERTAINLY THIS, PLUS THE COMMUNICATIONS MONOPOLY OF FOREIGN GOVERNMENTS, HINDERS THE DEVELOPMENT OF NEEDED KNOWLEDGE SERVICES IN THOSE COUNTRIES. DEREGULATION IN THE U.S. WILL PROVIDE GREATER OPPORTUNITY FOR BOTH FINANCIAL AND DATA SERVICES. IT ALSO PROVIDES THREATS. THE LEGISLATION TO DEREGULATE THE COMMUNICATIONS INDUSTRY CURRENTLY IN CONGRESS IS POORLY CONSTRUCTED. HOPEFULLY, IT WILL GET FIXED BEFORE IT IS FINALIZED.

BUT BEYOND THAT PROBLEM THERE IS A TREMENDOUS OPPORTUNITY IN THE UNITED STATES TODAY - AS GOVERNMENT LOWERS ITS PROFILE - FOR BUSINESS TO PROVIDE THE LEADERSHIP IN DEVELOPING THE PRODUCTS AND SERVICES TO MEET MAJOR SOCIETAL NEEDS. THE MOST IMPORTANT AND UNMET NEEDS INVOLVE KNOWLEDGE SERVICES. WE'VE BEEN ENGAGED IN THAT BUSINESS FOR QUITE A WHILE NOW - THE OPPORTUNITIES FOR US ARE GREATER THAN EVER...AND WILL BE FOR A LONG TIME TO COME.

AS FOR THE IMMEDIATE FUTURE...THE 1981 FOURTH QUARTER AND YEAR-END OUTLOOK...IT'S WHAT WE'VE SAID TO YOU BEFORE: ANOTHER YEAR OF EARNINGS IMPROVEMENT. WE SHOULD EXPERIENCE VERY GOOD

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GROWTH IN THE COMPUTER BUSINESS, BUT THIS WILL BE SOMEWHAT
OFFSET BY LOWER RESULTS FROM COMMERCIAL CREDIT. 1982 WILL BE A
YEAR OF CHALLENGES, BUT WE SEE OPPORTUNITIES FOR CONTINUED
EARNINGS GROWTH. WITH THE STRATEGIES OUTLINED THIS MORNING,
CONTROL DATA IS WELL POSITIONED TO TAKE ADVANTAGE OF THE
OPPORTUNITIES AHEAD OF US.

THANK YOU.

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