GOOD AFTERNOON... IT'S A PLEASURE TO BE WITH YOU TODAY TO DISCUSS CONTROL DATA. NOW THAT BURT TRAUB HAS GIVEN YOU A FINANCIAL OVERVIEW OF THE COMPANY, I'M GOING TO TAKE THE NEXT SEVERAL MINUTES AND COVER SOME OF THE STRATEGIES THAT WILL HELP GUIDE OUR FUTURE GROWTH. BUT BEFORE I DO THAT, LET ME BRIEFLY PROFILE CONTROL DATA'S FOUR MAJOR BUSINESSES -- COMPUTER SERVICES, COMPUTER SYSTEMS, PERIPHERAL PRODUCTS AND FINANCIAL SERVICES.

THE FIRST... COMPUTER SERVICES... INCLUDES DATA SERVICES, ENGINEERING SERVICES, EDUCATION AND CONSULTING. COMPUTER SERVICES REPRESENTS THE COMPANY'S PRIMARY STRATEGIC THRUST. SERVICES IS THE EMBODIMENT OF THE VALUE-ADDED APPROACH WHICH IS THE DOMINANT CHARACTERISTIC OF CONTROL DATA'S BUSINESS STRATEGY.

SECOND, IS THE SYSTEMS BUSINESS. CONTROL DATA WAS FOUNDED 25 YEARS AGO AS A COMPANY DESIGNING AND BUILDING LARGE-SCALE COMPUTER SYSTEMS. COMPUTER SYSTEMS CONTINUES AS A CORNERSTONE OF OUR BUSINESS AND IN RECENT YEARS HAS RECEIVED CONSIDERABLE IMPETUS FOR NEW GROWTH FROM THE ENORMOUS NEED FOR COMPUTING RELATED TO ENERGY-RELATED PROBLEMS SUCH AS ENGINEERING DESIGN, RESEARCH, PETROLEUM EXPLORATION AND ENERGY CONSERVATION.
INDICATIVE OF THE BASIC EXPANSION GOING ON IN OUR PRIMARY MARKETS IS THE FACT THAT OVER THE PAST THREE YEARS ABOUT 25 PERCENT OF ALL ORDERS CAME FROM NEW CUSTOMERS.

THE THIRD MAJOR BUSINESS IS PERIPHERAL PRODUCTS WHICH IS PRIMARILY SALES TO ORIGINAL EQUIPMENT MANUFACTURERS -- OEM'S -- AND CONTROL DATA IS A PRINCIPAL SUPPLIER OF PERIPHERALS TO THE MINI AND MICRO-COMPUTER MANUFACTURERS -- WE ARE LEADERS IN DISK TECHNOLOGY.

THE FOURTH MAJOR BUSINESS IS FINANCIAL SERVICES WHICH IS OFFERED BY COMMERCIAL CREDIT. SERVING THE NEEDS OF SMALL BUSINESS IS A MAJOR PART OF COMMERCIAL CREDIT'S BUSINESS AND THE BASIC STRATEGY HERE INVOLVES THE DEVELOPMENT OF NEW NON-CASH SERVICES TO AUGMENT BASIC FINANCIAL SERVICES.

PRODUCTS AND SERVICES FROM THESE FOUR MAJOR BUSINESSES ARE MARKETED THROUGHOUT THE WORLD. ABOUT ONE-FOURTH OF CONTROL DATA'S REVENUES COME FROM MARKETS OUTSIDE THE UNITED STATES. LET ME GIVE YOU A BRIEF OVERVIEW OF THAT PART OF THE BUSINESS.

CONTROL DATA'S INTERNATIONAL OPERATIONS BEGAN WITH A MARKETING SUBSIDIARY IN SWITZERLAND IN 1962. IN THE EARLY '60's OPERATIONS EXPANDED RAPIDLY NOT ONLY IN EUROPE, BUT IN THE PACIFIC BASIN COUNTRIES AS WELL. OUR MARKETING EFFORTS WERE
FOCUSED PRIMARILY ON HARDWARE -- LARGE COMPUTERS AND PERIPHERAL
EQUIPMENT SOLD ON AN OEM (OR PRIVATE LABEL) BASIS TO OTHER
COMPUTER MANUFACTURERS. THERE WAS A READY MARKET FOR THESE
PRODUCTS, AND OUR BUSINESS EXPANDED RAPIDLY. IN ORDER TO MEET
THE DEMAND -- PARTICULARLY PERIPHERAL PRODUCTS -- WE BEGAN
MANUFACTURING IN VARIOUS LOCATIONS AROUND THE WORLD. IN THE
LAST FEW YEARS WE HAVE BEGUN TO EMPHASIZE SERVICES IN ADDITION
TO HARDWARE. HARDWARE PRODUCTS TEND BASICALLY TO BE THE SAME
WORLDWIDE WHEREAS SOFTWARE AND SERVICES HAVE MUCH MORE LOCAL
VALUE ADDED. STRATEGICALLY THIS MEANS A QUARTER RATE OF
INTERNATIONAL TECHNICAL AND MARKETING EXPENDITURES WOULD BE
REQUIRED BY A HARDWARE STRATEGY.

WE DO BUSINESS IN 46 COUNTRIES WORLDWIDE. IN 1981
INTERNATIONAL OPERATIONS GENERATED REVENUES IN EXCESS OF ONE
BILLION DOLLARS. WE EMPLOY MORE THAN 11,000 PEOPLE OUTSIDE THE
UNITED STATES.

OVER NEARLY TWENTY–FIVE YEARS NOW, WE HAVE EVOLVED A BASIC
BUSINESS STRATEGY THAT HAS WELL POSITIONED THE COMPANY FOR EACH
OF THE MAJOR PRODUCT AND SERVICE MARKETS WE'VE TARGETED.

LET ME SUMMARIZE OUR STRATEGIC POSITION AND MAJOR OBJECTIVES AS
WE MOVE AHEAD INTO 1982.
By 1986, we expect to double our revenue to more than $8 billion. But, whether more or less revenue is achieved, the overriding objective is to continue to grow in profitability. In 1981, the computer business return on invested capital improved from 1980 by more than a percentage point to a figure of 9.3 percent. Though improvement will vary from year to year, we generally expect to continue improvement over the coming years.

There are five basic strategies for achieving our growth and profitability objectives. The first strategy is the emphasis on computer services. I'd like to go back to a speech that William Norris, chairman of our company, gave some six years ago. He said then that our business strategy "is based on the trend to put data processing out into the user's hands -- out 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...this is what the computer services thrust is all about."
AND THIS IS A GOOD OPPORTUNITY TO POINT OUT THAT THE LONG-TERM COMMITMENT IS KEY TO UNDERSTANDING CONTROL DATA -- WE HAVE TAKEN AND WE WILL CONTINUE TO TAKE A LONG-TERM VIEW OF BUSINESS OPPORTUNITIES.

SO, WHILE THE COMPUTER SERVICES STRATEGY WAS NOT ALL THAT APPRECIATED SIX YEARS AGO WHEN MR. NORRIS GAVE THAT SPEECH AND THE COMPANY WOULD EASILY HAVE BOLSTERED SHORT-TERM PROFITS BY CURTAILING SERVICES EXPENDITURES IN DIFFICULT PERIODS AS 1970-71, 1974-75, WE DID NOT TAKE THAT EASY PATH, NOW THE SERVICES SECTOR HAS PROVEN TO BE A STABLE AND FAST GROWING PART OF THE COMPUTER INDUSTRY. AND, TODAY, CONTROL DATA IS IN A LEADERSHIP POSITION, HAVING GROWN FROM 600 MILLION DOLLARS IN COMPUTER SERVICES REVENUES FIVE YEARS AGO TO OVER 1.2 BILLION DOLLARS LAST YEAR. THIS GROWTH WILL CONTINUE.

WE EXPECT COMPUTER SERVICES REVENUES TO MORE THAN DOUBLE OVER THE NEXT FIVE YEARS. TO ACHIEVE THIS WE WILL BE DEVELOPING NEW SERVICES, INCREASING THE COST-EFFECTIVENESS OF THE DATA SERVICES NETWORK, EXPANDING THE USE OF MICRO AND MINICOMPUTERS IN SERVICE OFFERINGS, AND USING BUSINESS CENTERS TO DELIVER SERVICES TO SMALL BUSINESS.
THE SECOND STRATEGY IS ALSO AN IMPORTANT PART OF THE OVERALL SERVICES THRUST. THAT IS BUILDING THE EDUCATION MARKET. TO DO THIS, WE ARE MOVING IN THREE QUITE DIFFERENT MARKET SEGMENTS: BUSINESS AND INDUSTRY, THE ACADEMIC MARKET AND THE VOCATIONAL EDUCATION MARKET. PROGRESS IS BEING MADE IN ALL THREE AREAS AND BY 1983, COMPUTER-BASED EDUCATION WILL COME INTO ITS OWN AS A MAJOR PRODUCT LINE.

LET'S TURN TO THE THIRD STRATEGY...CONTINUING LEADERSHIP IN PERIPHERAL PRODUCTS. TECHNOLOGY IS THE KEY TO PERIPHERALS LEADERSHIP. THIS HAS BEEN AMPLY DEMONSTRATED BY PAST PERFORMANCE. BUT COVERING ALL THE TECHNICAL BASES IN PERIPHERALS IS ENORMOUSLY EXPENSIVE. THE ANSWER TO THIS EXPENSE PROBLEM IS TECHNOLOGICAL COOPERATION. AND, WHEN IT COMES TO THAT, OUR PEOPLE ARE THE MOST EXPERIENCED IN THE INDUSTRY. AS A RESULT, WE CAN EXPECT CONTINUED HIGH GROWTH -- NOT ONLY IN DISK MEMORY PRODUCTS -- BUT ALSO IN PRINTERS AND OPTICAL DISK MEMORY SYSTEMS. I'LL COME BACK TO OUR STRESS ON TECHNOLOGY IN A FEW MOMENTS.

IN ADDITION TO THE BETTER USE OF RESEARCH DOLLARS, COOPERATIVE VENTURES CAN ALSO PROVIDE MANUFACTURING ECONOMIES OF SCALE. COMPUTER MANUFACTURERS THROUGHOUT THE WORLD BUY MORE PERIPHERAL EQUIPMENT FROM CONTROL DATA THAN FROM ANY OTHER SUPPLIER. WE HAVE THE BROADEST DISK DRIVE PRODUCT LINE IN THE ENTIRE INDUSTRY -- CURRENTLY, WE SHIP A DISK DRIVE ABOUT EVERY 36 SECONDS.
THE FOURTH STRATEGY. IN THE COMPUTER MAINFRAME BUSINESS, WE HAVE CONCENTRATED ON THE SIX PRIMARY APPLICATION MARKETS OF: EDUCATION...ENERGY...MANUFACTURING...ELECTRIC UTILITIES...PETROLEUM/MINING...AND ENVIRONMENTAL. THAT WILL CONTINUE. THE INDUSTRY GROWTH RATE OF LARGE, GENERAL-PURPOSE COMPUTERS HAS DROPPED IN RECENT YEARS AND WILL BE AROUND SIX PERCENT THROUGH 1985. HOWEVER, THE MARKET FOR LARGE SCIENTIFIC PROCESSORS -- THE SEGMENT WE ARE IN -- HAS REMAINED RELATIVELY STRONG, SO WE HAVE ENJOYED ABOVE-AVERAGE GROWTH RATES. THAT TREND WILL ALSO CONTINUE. OVER THE PAST SEVEN YEARS, WE HAVE INTRODUCED NEW COMPUTER MODELS EVERY TWO YEARS OR SO. THIS WILL CONTINUE THROUGHOUT THE EIGHTIES. ACTUALLY, NEW HARDWARE INTRODUCTIONS DON'T GET MUCH FANFARE THESE DAYS...CONTINUING PRICE PERFORMANCE IMPROVEMENT OF ABOUT 15 PERCENT PER YEAR IS JUST A FACT OF LIFE IF YOU WANT TO STAY IN THE GAME. AT THE VERY TOP END IT IS REALISTIC TO EXPECT SUPERCOMPUTERS IN 1990 TO BE SOME 8 TO 10 TIMES AS POWERFUL AS TODAY'S MODELS.

THE FIFTH STRATEGY IS DEVELOPING THE VAST POTENTIAL OF THE SMALL BUSINESS MARKET...BOTH IN THE UNITED STATES AND OVERSEAS. TODAY, IN THE U.S., THERE ARE 13 MILLION SMALL BUSINESSES THAT REPRESENT 97 PERCENT OF ALL INDIVIDUAL BUSINESS FIRMS...EMPLOY MORE THAN HALF OF THE LABOR FORCE AND PROVIDE THE LIVELIHOOD FOR 100 MILLION AMERICANS.
IN EUROPE, THE STATISTICS ARE SIMILAR. FOR EXAMPLE, IN THE U.K., 94 PERCENT OF THE COMPANIES EMPLOY LESS THAN 100 PEOPLE. IN FRANCE, 92 PERCENT OF THE COMPANIES CONSIST OF SMALL BUSINESSES WITH LESS THAN 20 EMPLOYEES...AND 42 PERCENT OF THE TOTAL CIVILIAN LABOR FORCE IN FRANCE IS EMPLOYED BY SMALL BUSINESS. IN WEST GERMANY, SMALL BUSINESSES REPRESENT 95 PERCENT OF ALL FIRMS. WHEN YOU LOOK AT ALL OF EUROPE, THERE ARE OVER 77,000 BUSINESSES WITH LESS THAN 50 EMPLOYEES.

SMALL BUSINESSES ARE A MAJOR SOURCE OF INNOVATION...THEY CREATE MOST OF THE NEW JOBS...AND THEY NEED HELP.

CONTINUED HIGH INTEREST RATES, INFLATION AND ASSOCIATED ILLS PUT SMALL BUSINESS IN MORE JEOPARDY THAN EVER. AND IT WASN'T EVER EASY. THE FAILURE RATE FOR SMALL BUSINESS IS HIGH. BUT THOSE THAT SURVIVE FREQUENTLY GROW TO BE 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 FINANCIAL SERVICES, MANAGEMENT AND MARKETING ASSISTANCE, DATA PROCESSING, EDUCATION AND RELATED KNOWLEDGE SERVICES.
THESE, THEN, ARE THE MAJOR STRATEGIES THAT WILL GUIDE US DURING THE NEXT FIVE YEARS. AND, THEY ARE AN EXTENSION OF THE WAY WE'VE BEEN APPROACHING THE BUSINESS OVER THE PAST FIVE YEARS.

NOW LET ME RETURN TO EXPAND UPON OUR COMMITMENT TO TECHNOLOGICAL INNOVATION AND NEW PRODUCT DEVELOPMENT. LET ME SAY FIRST THAT ADVANCES IN ELECTRONIC CIRCUIT TECHNOLOGY PROVIDE THE BASIC UNDERPINNING FOR EVERYTHING WE DO.

THE CONTINUING EVOLUTION FROM SMALL AND MEDIUM-SCALE INTEGRATED CIRCUITS TO LARGE-SCALE INTEGRATED (LSI) CIRCUITS, AND NOW TO VERY LARGE-SCALE INTEGRATED (VLSI) CIRCUITS, PROVIDES THE BASIC VEHICLE FOR EVER MORE COST-EFFECTIVE SERVICES, AS WELL AS MORE COST-EFFECTIVE PRODUCTS.

EVEN THOUGH CONTROL DATA HAS TAKEN AN APPROACH OF PUTTING THE BULK OF RESEARCH AND DEVELOPMENT DOLLARS INTO THE VALUE-ADDED ASPECT OF DEVELOPMENT, WE NEVER LOSE SIGHT OF THE IMPORTANCE OF THE UNDERLYING BASIC TECHNOLOGY. WE HAVE, FROM THE BEGINNING OF THE COMPANY, UNDERTAKEN TO LEVERAGE OUR TECHNICAL RESOURCES THROUGH TECHNOLOGICAL COOPERATIVE PROGRAMS AROUND THE WORLD. MANUFACTURING AND MARKETING THE PRODUCTS IS HANDLED BY THE INDIVIDUAL COMPANIES.
THESE PROGRAMS NOT ONLY INCLUDE OTHER COMPANIES BUT ALSO
GOVERNMENTS AND UNIVERSITIES. COOPERATIVE PROGRAMS WITH OTHER
COMPUTER COMPANIES, THE CYBER 170 PROGRAMS WITH THE CANADIAN
GOVERNMENT, AND A HOST OF OTHER VENTURES ATTEST TO THE STRENGTH
OF THIS APPROACH. PUTTING TOGETHER TECHNOLOGICAL COOPERATIONS
IS A SLOW AND FRUSTRATING BUSINESS. BUT THE RESULTS ARE WORTH
IT. NEEDLESS DUPLICATION OF TECHNICAL EXPENDITURES IS REDUCED
AND THIS FREES PRECIOUS RESOURCES FOR TRUE INNOVATION.
COOPERATION ALSO BROADENS THE SPECTRUM OF TECHNOLOGIES THAN CAN
BE EXPLORED AND HELPS PINPOINT TECHNOLOGICAL DEAD ENDS. THIS
ENHANCES THE COMPETITIVE ABILITY OF THE INDIVIDUAL COMPANIES.
BECAUSE OF THE VITAL NATURE OF MICROELECTRONICS TECHNOLOGY TO
OUR FUTURE, WE REALLY HAVE BEEN WORKING EVEN HARDER TO
ESTABLISH GREATER COOPERATION IN THIS AREA. THE SCOPE AND COST
OF TECHNOLOGY DEVELOPMENT HAS BECOME SO ENORMOUS THAT THERE IS
JUST NO ALTERNATIVE TO COOPERATION. NO ONE COMPANY HAS THE
RESOURCES TO CARRY OUT NEEDED RESEARCH AND DEVELOPMENT. WE SEE
PROGRESS BEING MADE AND VIEW THIS AS ESSENTIAL IN ORDER TO
ASSURE CONTINUED ACCESS TO THE LEADING EDGE OF ELECTRONICS
TECHNOLOGY.

EVEN WITH THE LEVERAGING THAT COOPERATION PROVIDES, THE NEED
FOR RESEARCH AND DEVELOPMENT DOLLARS TO ACHIEVE NEEDED
INNOVATION AND UNIQUE VALUE-ADDED PRODUCTS AND SERVICES MEANS
EVERGROWING EXPENDITURES. MR. TRAUB MENTIONED TECHNICAL
EXPENDITURES IN HIS REMARKS. WE EXPECT TO INCREASE TECH
SPENDING TO SOME $350 MILLION. THAT, BY THE WAY, IS MORE THAN
2 1/2 TIMES THE LEVEL OF FIVE YEARS AGO.

FOR MANY COMPANIES, IT IS A GREAT TEMPTATION, IN UNCERTAIN
ECONOMIC CONDITIONS SUCH AS WE HAVE TODAY, TO CUT DEVELOPMENT
PROGRAMS IN ORDER TO BOLSTER SHORT-TERM EARNINGS. THAT WOULD
NOT BE A WISE STRATEGY FOR A HIGH-TECHNOLOGY COMPANY. AS I
REMARKED EARLIER, WE HAVE PURSUED A TOUGHER, BUT MORE SOUND,
LONG-TERM APPROACH. WE HAVE SOUGHT TO BALANCE TECHNICAL
EXPENDITURES FOR FUTURE SERVICES AND PRODUCTS WITH THE NEED TO
MAKE CURRENT BUSINESS MORE PROFITABLE.

ATTESTING TO OUR SUCCESS IN THIS BALANCING ACT, WE HAVE BEEN
INTRODUCING, IN RECENT YEARS, A STEADY STREAM OF NEW PRODUCTS
THAT ARE ACHIEVING SUCCESS IN THE MARKETPLACE, WHILE THE
COMPANY IS ACHIEVING THE STEADY IMPROVEMENT IN EARNINGS I
MENTIONED EARLIER.

ONE SUCH PRODUCT IS THE CYBER 205 COMPUTER SYSTEM. THE 205 WAS
FIRST ANNOUNCED IN 1980 -- THAT YEAR WE SOLD FOUR SYSTEMS ---
LAST YEAR IT WAS EIGHT --- THIS YEAR WE EXPECT 12. BUT THE
TOP-END SUPERCOMPUTERS ARE ONLY PART OF THE PICTURE. I
MENTIONED A FEW MOMENTS AGO THE STEADY INVESTMENT REQUIRED TO
UPGRADE OUR WHOLE LINE OF COMPUTERS, AND THAT CONTINUES AS WELL.
ANOTHER SIGNIFICANT AREA OF TECHNICAL EXPENDITURES IS IN THE REALM OF SOFTWARE TO PROVIDE GENERALIZED PROBLEM-SOLVING CAPABILITY IN VARIOUS DISCIPLINES.

LET ME CITE ONE EXAMPLE -- COMPUTER-AIDED DESIGN. THIS SERVICE ALLOWS TEDIOUS WORK SUCH AS CALCULATING, MANAGING AND ORGANIZING INFORMATION, AND REPETITIOUS FUNCTIONS SUCH AS STORING AND REPRODUCING DRAWINGS, TO BE DONE BY THE COMPUTER. IN GERMANY, FOR EXAMPLE, COMPUTER-AIDED DESIGN HAS BEEN USED TO DEVELOP THE ERGONOMIC WORKSTATION THAT MUST MEET STRICT EUROPEAN GOVERNMENT AND UNION REGULATIONS FOR WORKER COMFORT. AND VOLKSWAGEN IS USING CAD TO IMPROVE PRODUCTIVITY AND PRODUCT QUALITY, REDUCE COSTS AND IMPROVE THE WORKING ENVIRONMENT. AS A RESULT, ENGINEERS CAN DO WHAT THEY ARE PAID TO DO -- CREATE CONCEPTS, DEVELOP DESIGNS AND SOLVE PROBLEMS.

LET ME CLOSE WITH OUR OUTLOOK FOR 1982 WHICH WE HAVE INCLUDED IN OUR ANNUAL REPORT TO STOCKHOLDERS.

THERE IS LITTLE TO SUGGEST THAT ECONOMIC CONDITIONS WILL IMPROVE MATERIALLY, EITHER IN THE UNITED STATES OR WORLDWIDE IN 1982. PETER DRUCKER SAID RECENTLY THAT "THE SECOND HALF OF THE YEAR" IS RAPIDLY REPLACING THE SPANISH WORD "MANANA" AS A EUPHENISM FOR NEVER. IN SUCH AN ENVIRONMENT, ACHIEVING THE FINANCIAL GAINS WE HAVE PLANNED FOR THE COMPANY WILL BE CHALLENGING, PARTICULARLY IN THE FIRST HALF OF THE YEAR.

ON BALANCE, CONTINUING THE PAST FEW YEARS' RATE OF IMPROVEMENT IN UNDERLYING PROFITABILITY WILL BE MORE DIFFICULT. EVEN SO, THE OUTLOOK IS REASONABLY GOOD FOR FURTHER GROWTH IN EARNINGS IN 1982.

#2811Y