I. INTRODUCTION

GOOD EVENING. IT'S PARTICULARLY SATISFYING FOR ME TO BE AT THIS EVENT TONIGHT AND LISTEN TO YOUR ACHIEVEMENTS -- EXAMPLES OF THE TECHNICAL EXCELLENCE THAT CONTINUES TO BE THE HEART AND SOUL OF CONTROL DATA'S SUCCESS. THE 32 OF YOU BEING RECOGNIZED TONIGHT REPRESENT A CONTINUING TRADITION OF TECHNICAL SUPERIORITY THAT NOW IS IN ITS 26TH YEAR. TWENTY-FIVE YEARS AGO, IN JANUARY OF 1958, CONTROL DATA WAS BARELY FOUR MONTHS INTO ITS FIRST DEVELOPMENT -- THAT OF THE 1604 COMPUTER. DURING THE NEXT FIVE YEARS, WE SHIPPED SOME 81 1604 COMPUTERS, BUT MORE IMPORTANT WE LAID THE FOUNDATION FOR THE DEVELOPMENT OF A RANGE OF COMPUTER PRODUCTS AND SERVICES SECOND TO NO OTHER COMPANY. AND SO HERE WE ARE TOASTING YOUR ACHIEVEMENTS IN EVERYTHING FROM 27,000 GATE CHIPS TO COMPLEX ADVANCED APPLICATIONS, FROM MICROCOMPUTERS TO SUPER COMPUTERS WITH SYSTEMS HARDWARE AND SOFTWARE, NUMERICAL METHODS, CONSULTING,
ADVANCES IN DIAGNOSTICS, COMMUNICATIONS, SUPPORT SERVICES, COMPUTER AIDED DESIGN, AND HUMAN FACTORS IN BETWEEN. THAT'S AN IMPRESSIVE LIST. CONGRATULATIONS! IT'S GREAT TO HAVE YOU ON MY TEAM.

II. COMPANY STATUS

LET ME TURN FOR A FEW MINUTES TO A DISCUSSION OF HOW "THE TEAM" IS DOING. 1982, AS YOU ARE NO DOUBT WELL AWARE, WAS NOT A YEAR OF IMPROVED FINANCIAL RESULTS — THE FIRST TIME IN SEVEN YEARS THAT HAS BEEN TRUE. TOTAL REVENUE, INCLUDING COMMERCIAL CREDIT, WAS $4.3 BILLION, UP FIVE PERCENT FROM LAST YEAR. EARNINGS, HOWEVER, DECREASED FROM LAST YEAR. THIS MORNING WE ANNOUNCED THAT EARNINGS PER SHARE WERE $4.11 COMPARED TO $4.48 LAST YEAR — DOWN 8 PERCENT. THE PARTS OF THE BUSINESS HARDEST HIT WERE OEM PERIPHERALS, INSURANCE SERVICES, AND THE CALL 370 AND STRUCTURAL ANALYSIS PARTS OF DATA SERVICES. THE LARGEST GROWTH RATES OCCURRED IN SMALL BUSINESS SERVICES 60%, TICKETRON 47%, GOVERNMENT SYSTEMS 30%, URBAN AND RURAL SERVICES 29%, AND ARBITRON 21%. THE MOST OVERALL IMPROVEMENT IN TERMS OF PROFIT RATE WERE ARBITRON, GOVERNMENT SYSTEMS AND ENGINEERING SERVICES, AND THE MOST PROFITABLE UNITS WERE: ARBITRON 139%, TICKETRON 46%, PROFESSIONAL SERVICES 44%, AND CDI 23%. SO EVEN IN A NOT SO GOOD YEAR, THERE ARE SUCCESS STORIES APLENTY.
MORE IMPORTANT TO ME THAN THE NUMBERS, HOWEVER, IS THE PROGRESS WE MADE LAST YEAR IN "PROCESS" IMPROVEMENT. PROCESS IS THE CRUCIALLY IMPORTANT SECOND "P" OF OUR PPC FORMULA FOR SUCCESS. (EXPLAIN PPC) LOOKING BACK, IT HAS BEEN CLEAR TO ME THAT POOR PROCESS AS MUCH AS ANYTHING HAS KEPT US FROM FULLY CAPITALIZING ON OUR TECHNICAL EXCELLENCE.

WE'VE BEEN WORKING AT THAT IN VARIOUS WAYS DURING RECENT YEARS AND THE IMPROVEMENT IN FINANCIAL PERFORMANCE SINCE 1975 REFLECTS THAT WORK. BUT IN DECEMBER 1981, WE UNDERTOOK A MORE CONCERTED, MORE COMPREHENSIVE ATTACK ON POOR PROCESSES. ONE IMPORTANT TOOL BEING USED TO DO THAT IS PROCESS FLOW ANALYSIS. AND WE HAVE MADE REMARKABLE PROGRESS IN THE PAST YEAR.

BETTER THAN 3,000 EMPLOYEES HAVE BEEN TRAINED IN PFA AT A COST OF ONLY $87,000 AND THEIR KNOW-HOW HAS BEEN APPLIED TO MORE THAN 500 PROCESSES.

THE RESULTS REALIZED ARE JUST BEING FELT - SUCCESS STORIES BEING REPORTED ARE IMPRESSIVE. FOR EXAMPLE:

OEM SPARES IN PHILADELPHIA HAS REDUCED ITS INVENTORY BY $800,000; AND ALSO HAS REFINED ITS PROCESS FOR AN ANNUAL SAVINGS OF $160,000.
U.S. MARKETING RECENTLY HAD NEED TO REPLACE ITS CCRF SYSTEM -- A SYSTEM DEVELOPED IN THE LATE 60'S. AN OUTSIDE VENDOR QUOTED A REPLACEMENT SYSTEM AT $2.5 MILLION. BEFORE TAKING ANY ACTION, A PFA ON THE EXISTING SYSTEM WAS ORDERED. THE RESULT - A REDESIGNED SYSTEM BY CDC EMPLOYEES AT A COST OF $700,000. THIS OUTCOME REPRESENTED A COST AVOIDANCE TO CONTROL DATA OF $1.8 MILLION.

CDI IN BUSINESS DEVELOPMENT CONSOLIDATED ITS REGIONAL AND DISTRICT ACTIVITIES FOR AN ANNUAL SAVINGS OF $1.3 MILLION.

THOSE ARE THREE SMALL EXAMPLES. TAKEN TOGETHER YOU CAN SEE THAT THE 500 PROCESSES ALREADY UNDER ANALYSIS CAN ADD UP TO A TREMENDOUS PROFIT IMPACT.

PFA FUTURE DIRECTION - WHILE ALL OF THE PFA TRAINING AND PROCESS IMPROVEMENT ACTIVITY HAS BEEN IN PROGRESS, THE PROCESS IMPROVEMENT OFFICE ITSELF HAS BEEN WORKING TO IMPROVE PFA ITSELF THROUGH AUTOMATION.

IN NOVEMBER 1981, WHEN WE KICKED OFF THE PFA PROGRAM, THE ONLY MECHANICAL ASSISTANCE AVAILABLE WAS SOME SPECIAL WORD PROCESSING PROGRAMS TO HELP IN THE DOCUMENTATION PROCEDURE THAT IS PART OF PFA. TRAINING WAS ALL STAND-UP CLASSROOM STYLE. FIFTEEN MONTHS LATER -- BY APRIL 1, 1983 -- PFA PLATO WILL BE INSTALLED IN LEARNING CENTERS THROUGHOUT CONTROL DATA.

LATER THIS YEAR, A CD-110 EXPANDED PLATO COURSEWARE CAPABILITY WILL BE OFFERED FOR THE ANALYSIS PHASE OF PFA WHICH, OF COURSE, IS WHERE THE PAYOFF REALLY COMES.

IN EVALUATING OUR EXPERIENCE WITH PROCESS FLOW ANALYSIS AS AN INTEGRAL PART OF OUR PEOPLE/PROCESS/CAPITAL STRATEGY, YOU CAN ONLY SAY THE PROSPECTS ARE OUTSTANDING! PFA IS MAKING ITS SPECIAL CONTRIBUTION TO AN EVER-IMPROVING OPERATIONAL EFFECTIVITY. AND THE COMBINATION OF OPERATIONAL EXCELLENCE AND TECHNICAL EXCELLENCE IS GOING TO MAKE CONTROL DATA STRONGER THAN EVER.

LET ME MOVE ON NOW TO SOME OTHER TOPICS. ONE QUESTION I GET ASKED A LOT THESE DAYS IS ABOUT MCC -- WHAT IT IS AND WHAT IT MEANS TO US. YESTERDAY WE ANNOUNCED THE SELECTION OF THE CEO FOR MCC -- BOB INMAN. LET ME GIVE YOU A BRIEF STATUS REPORT ON MCC. (THE BASIC OBJECTIVE, SYNOPSIS OF THE FOUR PROJECTS, NEED PROJECT SUMMARY SHEETS, THE COMPANIES INVOLVED)
MCC is by far the most important, and the most difficult, cooperation control data has ever undertaken. Since we have more experience and more success at cooperation than any other company, we have the greatest responsibility to make MCC a success. And it's important to note that we do not manage MCC as we do MPI or some other of our cooperative efforts. So MCC could be a success and still not benefit Control Data unless we work at making that happen. But I'll tell you: it's an adventure well worth the undertaking. MCC is exciting! A lot of people in Control Data will have the opportunity to participate -- maybe some of you in this room. My objective is to make the technical projects of MCC the most advanced, the most exciting and at the same time the most pragmatic development work going on anywhere in the world. So if you get an opportunity to participate -- grab it.

Another question I am frequently asked in one form or another is whether the reduced 1982 profits and revenue growth were due to the economy or other factors. That's a very important question. First, let me say that though earnings were down compared to 1981, they were still very healthy -- so we should feel good about that.

The problem is, however, that we are behind the planned financial return objectives that we set for ourselves. I've already mentioned some notable 1982 success stories, so it's
CLEAR THAT TO UNDERSTAND THE REASONS WHY IN THE FACE OF THAT WE ARE BEHIND PLAN YOU NEED TO EXAMINE INDIVIDUAL PIECES. THE MAIN AREA OF SHORTFALL WAS IN OEM PERIPHERALS. OEM'S SHORTFALL IN PROFITS WAS GREATER THAN THE TOTAL SHORTFALL OF THE CORPORATION. AND THE MAJOR REASON OF OEM'S SHORTFALL WAS THE ECONOMY. OUR LARGEST CUSTOMERS ARE JUST NOT BUYING THE SAME QUANTITIES AS IN 1981. ON THE OTHER HAND, THERE ARE NEW TRENDS IN OEM PERIPHERALS -- ESPECIALLY PERIPHERALS FOR MICROCOMPUTERS -- WHICH WE MUST LATCH ON TO. SO WHILE THE ECONOMY PRECIPITATED THE PROBLEM, WE CAN'T JUST SIT BACK AND WAIT FOR AN ECONOMIC UPTURN TO FIX THINGS. IT WON'T HAPPEN.

SIMILARLY IN DATA SERVICES, AS THINGS GOT TOUGHER ECONOMICALLY, COMPANIES HAVE CUT BACK BOTH ENGINEERING DESIGN SERVICES AND FINANCIAL ANALYSIS SERVICES. SO REVENUE GROWTH SLOWED AND PROFITS DECLINED. WHEN THE ECONOMY PICKS UP, THESE DATA SERVICES WILL IMPROVE -- BUT AGAIN IT'S NOT THAT SIMPLE. IF WE WANT TO GET BACK ON A GOOD GROWTH CURVE IN DATA SERVICES, NEW SERVICES, CAPITALIZING ON NEW TRENDS, WILL HAVE TO BE DEVELOPED. AND THAT MEANS, MORE AND MORE, INCORPORATING MICROCOMPUTERS INTO OUR THINKING.

THE IMPORTANT THING HERE IS, WHATEVER MAY HAVE BEEN THE SITUATION IN 1982, AS WE LOOK AHEAD TO 1983 AND BEYOND WE HAVE A PRESSING NEED FOR NEW PRODUCTS AND SERVICES -- A NEED WHICH
MUST BE MET IF WE ARE TO RESUME A HEALTHY GROWTH RATE AND THE NEED IS IN EVERY PART OF THE BUSINESS: FINANCIAL SERVICES, COMPUTERS, PERIPHERALS, AND DATA SERVICES. CERTAINLY IT IS MOST PRESSING FOR THE LATTER TWO BUSINESSES.

AND THAT MEANS OUR TECHNICAL DOLLARS ARE MORE PRECIOUS THAN EVER. WE GET A LOT OF LEVERAGE IN THAT REGARD FROM COOPERATION AND AS I MENTIONED THAT MAKES MCC A VITAL PART OF OUR FUTURE. BUT IT ALSO MEANS THAT WE'VE GOT TO DO EVERYTHING POSSIBLE TO STREAMLINE THE DEVELOPMENT PROCESS IN CONTROL DATA. IF I HAVE AN OVERRIDING CONCERN ABOUT THE FUTURE, IT IS THAT BUREAUCRACY WILL STIFLE US -- AND NOT JUST IN DEVELOPMENT, BUT IN MARKETING, MANUFACTURING -- ALL OPERATIONS IN THE COMPANY. SO Process -- TO REPEAT -- IS "WHERE IT'S AT." AND TECHNICAL EXCELLENCE IS JUST AS VITAL TO OUR FUTURE TODAY AS IT WAS IN JANUARY 25 YEARS AGO.

III. THE TRADITION OF TECHNICAL EXCELLENCE

MAKE NO MISTAKE ABOUT IT. IT WAS (THEN) CAPTAIN PAUL WOLFF'S PERSONAL BELIEF IN THE TECHNICAL EXCELLENCE OF THE PEOPLE AT CONTROL DATA THAT LED HIM TO BUY SERIAL #1 1604. PAUL WAS THE COMMANDER OF THE FNWF AT MONTEREY, CALIFORNIA, AND HE KNEW FROM PREVIOUS EXPERIENCE THE QUALITY OF THE PEOPLE INVOLVED. HIS FAITH WAS REWARDED WHEN THE MACHINE WAS INSTALLED ON
JANUARY 12, 1960. WHEN I STARTED TO WORK IN MARCH 1961, IT WAS ON THAT MACHINE THAT I BEGAN DEBUGGING MY FIRST CONTROL DATA PROGRAM.

SO WE HAVE A TRADITION OF TECHNICAL SUPERIORITY -- FROM THE BEGINNING -- TO TODAY -- FROM THE 1604 TO PLATO; FROM THE 7' X 10', 2 TON 808 DISK DRIVE WITH ITS 30" DISKS TO THE 2" X 6", 3 POUND CRICKET DISK DRIVE WITH ITS 3 1/2" MEDIA; FROM THE FIRST STRUCTURES APPLICATIONS ON CYBERNET -- LIKE STARDYNE -- TO THE ICEM SYSTEM OF TODAY. AND THAT'S JUST TO NAME A FEW. AND THROUGH IT ALL, ONE OF THE BEST CHARACTERISTICS WE HAVE DEMONSTRATED HAS BEEN THE WILLINGNESS TO USE THE BEST TALENT AVAILABLE -- WHETHER INSIDE THE COMPANY OR OUTSIDE THE COMPANY.

WE HAVE OUR SHARE OF NIH TO BE SURE, BUT COMPARED TO ANY OTHER COMPANY THERE IS AN UNUSUALLY HIGH DEGREE OF OPENNESS AND WILLINGNESS TO MAKE USE OF THE TALENTS OF OTHERS -- WHETHER IN AN APPLICATION LIKE STARDYNE OR A PRODUCT LIKE CRICKET. AND THAT'S WHY MCC, BY THE WAY, WILL SUCCEED -- FOR US AND FOR OUR PARTNERS.

IV. CLOSE - '83 OUTLOOK

SO WE MOVE AHEAD INTO 1983 -- THE 26TH YEAR OF OUR HISTORY.

REVENUE GROWTH THIS YEAR WILL BE MODEST -- PROBABLY LESS THAN
TEN PERCENT -- BUT OUR PLANS SAY WE CAN GET BACK ON THE TRACK OF IMPROVED PROFITABILITY. TO DO THAT WILL MEAN WE HAVE TO PRODUCE IMPROVED PRODUCTS; IT WILL MEAN EVEN MORE ATTENTION TO IMPROVED PROCESS; AND IT WILL MEAN AS WELL EVEN MORE RELIANCE ON THE EXCELLENCE OF OUR TECHNICAL ENDEAVORS.

SO I THANK EACH OF YOU FOR WHAT YOU HAVE ALREADY ACHIEVED, BUT ALSO FOR WHAT YOU WILL ACHIEVE IN THE FUTURE. CONTROL DATA'S SUCCESS DEPENDS ON IT.