IT'S GOOD TO BE HERE AND ONCE AGAIN HAVE THE OPPORTUNITY TO BRING YOU UP-TO-DATE ON CONTROL DATA.

IN MY REMARKS TODAY I'LL PROVIDE FIRST A BRIEF OVERVIEW OF THE COMPANY AND ITS MAJOR BUSINESS COMPONENTS, AND FOLLOWING THAT THE STATUS AND BUSINESS OUTLOOK FOR EACH OF THESE COMPONENTS.

AS A VERY GENERAL INTRODUCTION FOR SOME OF YOU WHO MAY BE LESS FAMILIAR WITH CONTROL DATA, I SHOULD NOTE THAT WE ARE NOW ABOUT A $4.5 BILLION COMPANY, WE EMPLOY SOME 56,000 PEOPLE AND DO BUSINESS IN 47 COUNTRIES.

CONTROL DATA'S ACTIVITIES FALL INTO FOUR MAJOR BUSINESS GROUPS -- COMPUTER SERVICES, COMPUTER SYSTEMS, PERIPHERAL PRODUCTS AND FINANCIAL SERVICES. IN 1982 CONSOLIDATED REVENUE FOR THE COMPANY WAS $4.3 BILLION, UP $200 MILLION FROM 1981.

PERIPHERAL PRODUCTS REPRESENTED ABOUT $1.3 BILLION OF LAST YEAR'S REVENUE, WITH THE LARGEST ELEMENT BEING OEM, OR SALES OF PERIPHERAL EQUIPMENT TO OTHER COMPUTER COMPANIES. THE MAJOR PRODUCT OFFERINGS ARE A BROAD RANGE OF MAGNETIC DISK STORAGE DRIVES.
COMPUTER SERVICES, AT 30 PERCENT OF LAST YEAR'S REVENUES, ALSO ACCOUNTED FOR NEARLY $1.3 BILLION. THE LARGEST ELEMENT WITHIN THIS COMPONENT IS DATA SERVICES, WITH A BROAD RANGE OF APPLICATIONS COVERING SCIENTIFIC AND ENGINEERING PROBLEM-SOLVING, BUSINESS DATA PROCESSING, SPECIALIZED APPLICATIONS AND COMPUTER-BASED EDUCATION.

THE COMPUTER SYSTEMS COMPONENT, WHICH ACCOUNTED FOR SLIGHTLY MORE THAN $700 MILLION OF 1982 REVENUE, INCLUDES MEDIUM, LARGE AND SUPER-SCALE COMPUTERS SOLD INTO SELECTED INDUSTRY MARKETS. IT ALSO INCLUDES SPECIALIZED COMPUTING EQUIPMENT FOR AEROSPACE AND DEFENSE APPLICATIONS.

FINALLY, FINANCIAL SERVICES, WHICH REPRESENTED ALMOST A Billion DOLLARS IN REVENUE LAST YEAR. THE LARGEST COMPONENT -- CONSUMER AND BUSINESS FINANCING -- MADE UP ABOUT 70 PERCENT OF THAT, WITH THE REMAINDER COMING FROM INSURANCE UNDERWRITING. WITH THAT QUICK OVERVIEW, LET ME TURN TO A SOMEWHAT MORE DETAILED LOOK AT THE STATUS AND STRATEGIES AS WELL AS THE OUTLOOK FOR SOME OF THE COMPONENTS OF THESE MAJOR BUSINESS GROUPS.

COMPUTER SERVICES

LET'S START WITH COMPUTER SERVICES IN THE U.S. GROWTH RATES OF THE INDIVIDUAL PROFIT CENTERS WHICH MAKE UP COMPUTER SERVICES HAVE BEEN QUITE VARIED THIS YEAR RANGING FROM A VERY ROBUST
30 PERCENT GROWTH RATE TO AN ACTUAL REVENUE DECLINE. NETWORK SERVICES INTENDED TO SERVE THE NEEDS OF LARGE ENGINEERING PROJECTS HAVE BEEN STEADILY IMPACTED BY THE DECLINE IN SUCH PROJECTS SINCE THE ONSET OF THE RECESSION 2–1/2 YEARS AGO AND THE STEADY DECLINE IN RECENT YEARS OF NUCLEAR POWER PLANT CONSTRUCTION.

BEYOND GENERAL NETWORK SERVICES THERE IS THE MATTER OF APPLICATION SPECIFIC SERVICES WHERE CUSTOMERS BUY CONVENIENCE, UNIQUENESS, AND INDEED BETTER "SERVICE" THAN THEY COULD PROVIDE THEMSELVES. GROWTH RATES FOR COMPUTER SERVICES OF THIS TYPE HAVE CONTINUED AT A HIGH LEVEL.

THE PART OF COMPUTER SERVICES THAT HAS THE FASTEST GROWTH IS PLATO COMPUTER–BASED EDUCATION AND TRAINING. WE SELL PLATO IN THREE MARKETS:

- BUSINESS AND INDUSTRIAL TRAINING
- ACADEMIC EDUCATION
- VOCATION TRAINING

PENETRATION IS GROWING IN ALL THREE MARKETS THROUGH A VARIETY OF APPROACHES -- BOTH IN TERMS OF PRODUCT AND MARKETING CHANNELS.
THE LIBRARY OF PLATO EDUCATIONAL COURSEWARE IS INCREASINGLY AVAILABLE FOR DELIVERY VIA FLEXIBLE DISKS ON MICRO COMPUTERS.

WITH REGARD TO MARKETING CHANNELS, WE ARE USING BOTH DISTRIBUTORS AND INDEPENDENT MARKETING REPRESENTATIVES TO REACH CUSTOMERS NOT COVERED BY THE DIRECT SALES FORCE.

JUST AS IN OTHER AREAS OF COMPUTER SERVICES, COMPUTER-BASED EDUCATION STRATEGIES ARE INDUSTRY-SPECIFIC. IN MANUFACTURING, BANKING, AGRICULTURE, AND SO ON, WE DETERMINE WHAT THE TRAINING NEEDS ARE AND DEVELOP SOLUTIONS. THESE NEW PRODUCTS ARE THEN MARKETED TO THE INDUSTRIES IN THE MOST EFFECTIVE MANNER.

BUSINESS AND INDUSTRY AT PRESENT IS THE MAJOR MARKET FOR PLATO TRAINING BUT ACADEMIC EDUCATION IS GROWING IN IMPORTANCE. SOME 250 COLLEGES AND UNIVERSITIES WILL RECEIVE CONTROL DATA MICRO COMPUTERS AND PRE-ENGINEERING COURSEWARE FOR ADOPTION INTO THEIR PROGRAMS. THIS IS A COOPERATIVE ARRANGEMENT IN WHICH WE PROVIDE A BASIC LOWER ENGINEERING CURRICULUM TO THESE SCHOOLS AND ALSO GET SOME EXCELLENT COURSEWARE DEVELOPED BY THEM.

WITH REGARD TO THE K-12 MARKET, THE FOREST CITY, IOWA PROJECT HAS RECEIVED A FAIR AMOUNT OF PRESS COVERAGE. HERE WE HAVE JOINED WITH THE PUBLIC SCHOOLS AND WALDORF COLLEGE TO INSTALL A COMMUNITY-WIDE COMPUTERIZED EDUCATION SYSTEM. BUT THIS IS ONLY THE MOST DRAMATIC OF A NUMBER OF INITIATIVES.
VOCATIONAL TRAINING IS ALSO A STRONG GROWTH MARKET WHERE WE WILL CONTINUE TO EXPAND BOTH GEOGRAPHICALLY AND IN TERMS OF NEW VOCATIONAL DISCIPLINES.

ALL IN ALL, WHAT IT NETS DOWN TO IS THAT COMPUTER-BASED EDUCATION IS ON THE THRESHOLD OF BECOMING A HUGE MARKET IN THIS COUNTRY, AND CONTROL DATA IS IN A STRONG POSITION TO CAPITALIZE ON THAT GROWTH.

FINANCIAL SERVICES

TURNING NOW TO FINANCIAL SERVICES, HERE WE HAVE SIMULTANEOUSLY BEEN TRANSFORMING THE FUNDS SOURCING END OF THE BUSINESS AND BROADENING FINANCIAL SERVICES FOR SMALL BUSINESS TO INCLUDE CONSULTING, TRAINING, AND INFORMATION PROCESSING PRODUCTS AND SERVICES. ON TOP OF THAT HAS BEEN THE TASK OF TAKING ON A MAJOR MOVE INTO REAL ESTATE SERVICES THROUGH ERA AND ABSORBING THE NEGATIVE HITS TO THE PROPERTY-CASUALTY BUSINESS. THAT'S A FULL PLATE IN ANYBODY'S BOOK, AND I DON'T MIND TELLING YOU WE UNDERESTIMATED THE TASK.

ON THE OTHER HAND, THE EVENTUAL PAY-OFF -- PARTICULARLY FOR SMALL BUSINESS -- WILL BE ENORMOUS. SMALL BUSINESS SERVICES INCLUDE CONSULTING AND INFORMATION DATA BASE SERVICES, IMPORT-EXPORT SERVICES, MICRO COMPUTER-BASED APPLICATIONS, MANAGEMENT AND OPERATIONS TRAINING, TEMPORARY HELP AND
EMPLOYMENT SERVICES, FACTORING, DATA PROCESSING SERVICES, LEASING, INSURANCE AND FINANCING SERVICES. THESE ARE ALL AVAILABLE THROUGH CONTROL DATA BUSINESS CENTERS. DURING THE EARLY STAGES OF DEVELOPMENT, THIS HAS INVOLVED CONSIDERABLE EXPERIMENTATION IN PRODUCT PACKAGING AND MARKETING TECHNIQUE. THERE IS AS WELL THE ENORMOUS TRAINING TASK TO STAFF THE BUSINESS CENTERS PROPERLY. WE LEARNED A LOT, WE'RE MAKING SOME ADJUSTMENTS, AND, OF COURSE, WE HAVE A WAYS TO GO. THE PRE-TAX LOSS FOR NINE MONTHS THIS YEAR HAS BEEN $25 MILLION. THE RATE OF LOSS WON'T LESSEN NOTICEABLY IN THE FOURTH QUARTER AS WE MAKE ADJUSTMENTS BUT BEYOND THAT THERE WILL BE STEADY IMPROVEMENT AS WE GO FORWARD.

ON THE FUNDS SOURCING SIDE OF THINGS WE HAVE BEEN ACQUIRING SAVINGS AND LOANS AS WELL AS CONVERTING SOME COMMERCIAL CREDIT OFFICES INTO SAVINGS AND LOANS. THESE MOVES ARE IMPROVING COMMERCIAL CREDIT'S CAPITAL FORMATION CAPABILITY. THRIFT FUNDS WILL EXPAND TO MORE THAN $7 BILLION BY 1988 -- A FIVE-FOLD INCREASE.

WE ARE CONFIDENT OF SIGNIFICANT IMPROVEMENT IN FINANCIAL SERVICES IN 1984. AND LONGER TERM, THERE IS IN AREAS SUCH AS SMALL BUSINESS SERVICES, REAL ESTATE SERVICES, AND LEASING, A STRATEGIC SYNERGISM WHICH MAKES THE SHORT-TERM PROBLEMS WELL WORTH THE EFFORT.
COMPUTER SYSTEMS

LET ME MOVE ON TO COMPUTER SYSTEMS.

THE CYBER 170 SERIES 800 PRODUCT LINE WHICH WAS INTRODUCED LAST YEAR HAS BEEN EXPANDED WITH THE INTRODUCTION THIS YEAR OF THE MODEL 845. THAT LINE NOW SPANS A RANGE FROM SUPER MINI TO VERY LARGE SCALE, SCIENTIFIC SYSTEMS.

SYSTEM SHIPMENTS PROBABLY WILL EXCEED 225 THIS YEAR, AN INCREASE OF ABOUT 40 PERCENT. THIS HIGHER VOLUME OF SHIPMENTS REFLECTS A CHANGE IN THE MIX, WITH THE ENTRY-LEVEL SHIPMENTS UP SUBSTANTIALLY. NEW SYSTEM ACCOUNTS, WHICH NUMBERED ABOUT 40 IN 1982, WILL NEARLY DOUBLE THIS YEAR.

IN THE SUPER COMPUTER AREA, THE MAJOR RECENT NEWS WAS THE FORMATION OF ETA SYSTEMS -- A MOVE WHICH WILL KEEP CONTROL DATA A SOLID FORCE IN THAT END OF THE SYSTEMS BUSINESS. MORE ABOUT THAT IN A MOMENT.

IN OCTOBER WE ALSO ANNOUNCED A NEW PARALLEL PROCESSING SYSTEM CALLED CYBERPLUS. THE TRUE POTENTIAL OF PARALLEL PROCESSING LIES SOME DISTANCE IN THE FUTURE, BUT CONTROL DATA'S CYBERPLUS TECHNOLOGY IS A PROVEN OUTGROWTH OF A DECADE'S WORK IN CERTAIN CLASSIFIED APPLICATIONS AND OFFERS SOME EXCITING, IF SOMEWHAT ESOTERIC, NEAR-TERM PROSPECTS.
GOVERNMENT SYSTEMS IS A SOLID GROWTH BUSINESS WITH GOOD POSITION IN MILITARY PROCESSORS, SUBSYSTEMS, AND PERIPHERALS. MAJOR CONTRACTS THIS YEAR INCLUDE SUPPLYING THE NAVY WITH AIRBORNE COMPUTERS, AND THE ARMY WITH WEAPONS CONTROL SYSTEMS. PLATO, BY THE WAY, IS ALSO ENJOYING GOOD SUCCESS WITH THE MILITARY SERVICES.

PERIPHERAL PRODUCTS


LOOKING AT SOME UNDERLYING LONG-TERM FACTORS OF THE PERIPHERALS BUSINESS THERE IS THE ALL IMPORTANT MATTER OF TECHNOLOGY. CONTROL DATA'S INVESTMENTS IN TECHNOLOGY AND NEW PRODUCT DEVELOPMENT HAVE Begun TO PAY OFF. IN THE PAST 18 MONTHS WE HAVE INTRODUCED 16 NEW DISK DRIVE AND TAPE DRIVE PRODUCTS. AT THE NATIONAL COMPUTER CONFERENCE THIS YEAR WE INTRODUCED FIVE NEW DISK DRIVES THAT FEATURE THIN-FILM HEAD TECHNOLOGY. THESE NEW PRODUCTS WILL ALLOW US TO MAINTAIN A STRONG MARKET SHARE IN THE MEDIUM-TO-HIGH PERFORMANCE SYSTEMS SEGMENT. BUT WHAT IS MORE SIGNIFICANT IS THE RAPID STRIDES WE HAVE MADE IN ENTERING THE GROWING MICRO AND PERSONAL COMPUTING MARKET SEGMENT. THE INDUSTRY RATES CONTROL DATA'S 5 1/4" FLEXIBLE DISK DRIVE AS ONE OF THE MOST RELIABLE ON THE MARKET.

SUCCESS OF THE FLEXIBLE DISK DRIVE AND ITS FUTURE, AS WELL AS THAT OF NEW RIGID DISK PRODUCTS, IN THE MICRO AND PERSONAL COMPUTING MARKET, HAVE LED TO THE DECISION TO EXPAND THE CHANNELS OF DISTRIBUTION BY MARKETING DISK DRIVES AND MEDIA, UNDER THE STORAGEMASTER BRAND NAME, DIRECTLY TO END USERS THROUGH SUCH OUTLETS AS SEARS AND COMPUTERLAND.

THE FOCUS WILL BE ON BUSINESS AND PROFESSIONAL MICRO USERS AND SUBSTANTIAL INVESTMENTS WILL BE MADE IN NEW PRODUCTS. LIKE THE ONES NOW IN THE LINE, THESE WILL BE HIGH-PERFORMANCE PRODUCTS, WITH HIGHER CAPACITIES AND COMPETITIVE PRICES.
INITIAL SYSTEMS SALES WILL BE TARGETED BUT THE STRATEGY INCLUDES THE AFTER-MARKET, TOO. OVER A TWO-YEAR PERIOD, TYPICAL PERSONAL COMPUTER BUYERS SPEND AS MUCH ON ADDITIONAL CAPACITY AS THEY DO ON THEIR ORIGINAL SYSTEM PURCHASES.

BEING COMPETITIVE IN THE PERIPHERALS MARKET REQUIRES ECONOMIES OF SCALE IN RESEARCH, DEVELOPMENT AND MANUFACTURING. FORTUNATELY, THROUGH COOPERATION, CONTROL DATA OVER THE PAST 20 YEARS HAS BUILT THE NECESSARY ECONOMIES OF SCALE TO COMPETE WITH THE LIKES OF IBM AND JAPANESE COMPANIES. THE VIABILITY OF THE JOINT VENTURE CONCEPT WAS FURTHER EVIDENCED THIS YEAR BY SPERRY'S INVESTMENT IN MAGNETIC PERIPHERALS, INC. OTHER KEY COOPERATIONS WILL KEEP THE MOMENTUM GOING SO THE OUTLOOK FOR PERIPHERAL PRODUCTS IS VERY GOOD INDEED.

COOPERATION

HAVING TOUCHED ON TECHNOLOGICAL COOPERATION, LET ME ELABORATE ON THAT SUBJECT FOR A MOMENT. THE PATTERN BEGAN IN CONTROL DATA 11 YEARS AGO, WHEN WE JOINED WITH NCR TO ESTABLISH COMPUTER PERIPHERALS, INC., TO DEVELOP AND MANUFACTURE UNIT RECORD PERIPHERAL EQUIPMENT.

TECHNOLOGICAL COOPERATION IS NOTHING MORE THAN ORDINARY COMMON SENSE APPLIED TO THE GEOMETRICALLY EXPANDING COST OF TECHNOLOGY DEVELOPMENT, REQUIRED ECONOMIES OF SCALE, AND THE NATURE OF INTERNATIONAL COMPETITION. IT IS AN ABSOLUTELY NECESSARY FACT
OF LIFE FOR ALL U.S. INDUSTRY IF WE ARE TO MAINTAIN ANY
SEMBLANCE OF THE SYSTEM THAT HAS SERVED OUR COUNTRY SO WELL --
NAMELY FREE AND OPEN COMPETITION AMONG A LARGE NUMBER OF
COMPETITORS.

THIS COMMON-SENSE APPROACH IS NO SECRET TO THE JAPANESE.
THERE, INDUSTRY AND GOVERNMENT TEAM UP TO TARGET SPECIFIC
INDUSTRY OPPORTUNITIES, AND THEY DOGGEDLY PURSUE THEM THROUGH A
VARIETY OF TACTICS. ALL THE TACTICS EMPLOYED BY JAPAN ARE
NEITHER POSSIBLE NOR DESIRABLE IN THE U.S., BUT THE ONE THING
WE CAN AND MUST DO IS BETTER EXPLOIT OUR TECHNOLOGICAL PROWESS
THROUGH COOPERATION.

TWO OF CONTROL DATA'S MOST RECENT COOPERATIVE INITIATIVES HAVE
GARNERED A GREAT DEAL OF NATIONAL ATTENTION.

MCC -- THE MICROELECTRONICS AND COMPUTER TECHNOLOGY
CORPORATION -- IS GETTING UNDERWAY IN TEXAS WITH 13 COMPANIES
PARTICIPATING. AS YOU KNOW, CONTROL DATA PROVIDED A MAJOR PART
OF THE INITIATIVE TO GET MCC ORGANIZED AND LAUNCHED.

AS I NOTED EARLIER, WE RECENTLY ESTABLISHED ETA SYSTEMS, INC.,
FOR THE PURPOSE OF DEVELOPING AND MANUFACTURING A NEW
GENERATION OF SUPER COMPUTERS. INITIAL AVAILABILITY IS PLANNED
FOR 1986. ETA SYSTEMS WILL BE PARTIALLY OWNED BY CONTROL DATA
(LESS THAN 50 PERCENT) WITH THE REMAINDER COMING FROM OTHER INVESTORS. CONTROL DATA WILL CONTINUE TO BE A KEY PLAYER IN THE SUPER COMPUTER MARKET -- PARTNERS WITH THE SMALL, ENERGETIC GROUP OF ENTREPRENEURS AT ETA SYSTEMS. ABOUT 100 OF OUR COMPUTER DEVELOPMENT SPECIALISTS ARE NOW WORKING FOR ETA -- AND THEIR NEW ENVIRONMENT WILL -- WE BELIEVE -- ENABLE THEM TO DO THEIR HIGHLY CREATIVE WORK BETTER AND FASTER.

[COMMENT ON ETA ANNOUNCEMENT]

IN ANOTHER DEVELOPMENT, UNITED TELECOMMUNICATIONS AND CONTROL DATA HAVE ANNOUNCED AN AGREEMENT IN PRINCIPLE TO FORM A JOINT VENTURE WITH REGARD TO DATA COMMUNICATION NETWORK DEVELOPMENT. WE EXPECT TO COMPLETE THIS ARRANGEMENT BY YEAR END.

AT THE PRESENT TIME, CONTROL DATA IS ENGAGED IN MORE THAN 50 COOPERATIVE PROJECTS -- INCLUDING SOME OLD FAMILIAR NAMES SUCH AS MAGNETIC PERIPHERALS, INC.; COMPUTER PERIPHERALS, INC.; CENTRONICS....AND SOME NEWER AND FOR SOME OF YOU LESS FAMILIAR ONES. FOR EXAMPLE: OPTICAL MEDIA LABORATORIES AND OPTICAL PERIPHERAL LABORATORIES ARE VENTURES WITH THE PHILLIPS COMPANY RELATED TO OPTICAL DISK MEMORY SYSTEMS DEVELOPMENT. WE ARE ALSO PARTICIPATING WITH ABOUT 15 OTHER COMPANIES IN THE SEMICONDUCTOR RESEARCH CORPORATION, WHICH IS A VENTURE WHOSE OBJECTIVE IS TO IMPROVE THE QUALITY AND QUANTITY OF SEMICONDUCTOR RESEARCH AND EDUCATION IN OUR UNIVERSITIES.
CONTROL DATA - GENERAL STRATEGIC POSITION

TECHNOLOGICAL COOPERATION, IN SHORT THEN, IS A CORNERSTONE OF CONTROL DATA'S BASIC BUSINESS STRATEGY. AND IN THAT MORE GENERAL VEIN OF OVERALL BUSINESS STRATEGY REMARKS, LET ME ADD SEVERAL COMMENTS. THE RELATIVE STRENGTH OF CONTROL DATA'S BUSINESS STRATEGY IS EVIDENT WHEN YOU STOP AND THINK THAT IN ALL THE ECONOMIC AND TECHNOLOGICAL THRASH OF THE PAST TWO TO THREE YEARS, WE HAVE HAD A RELATIVELY MODEST REDUCTION IN RETURN ON INVESTED CAPITAL IN THE COMPUTER BUSINESS. TO SOME DEGREE, THAT IS BECAUSE OF CONSIDERABLY IMPROVED OPERATIONAL EFFECTIVENESS, BUT IT ALSO MEANS THAT STRATEGICALLY WE ARE POSITIONED SO AS NOT TO BE QUITE SO VULNERABLE AS OTHERS TO THE VAGARIES OF THE GENERAL MARKETPLACE.

THAT IS ALSO BECAUSE ANOTHER CORNERSTONE OF OUR STRATEGY IS "VALUE ADDED" AS OPPOSED TO "COMMODITY." PERIPHERALS, AS I HAVE ALREADY NOTED, IS AN EXCEPTION TO THIS IN THAT ECONOMIES OF SCALE ARE CRITICAL TO SUCCESS. WE CHOSE FIVE YEARS AGO TO PURSUE THIS COURSE, FOR EXAMPLE, WITH REGARD TO THE EMBRYONIC MICRO COMPUTER MARKET -- CONCENTRATING ON SERVICES, APPLICATIONS, EDUCATION, (AND OF COURSE PERIPHERALS) RATHER THAN GOING AFTER THE CPU MARKET. AND WHILE PROGRESS HAS BEEN SOMewhat SLOW THUS FAR, THERE IS NO DOUBT THAT IN THE LONG-RUN WE WILL PARTICIPATE IN THIS PART OF THE INDUSTRY IN A FAR MORE PROFITABLE WAY THAN IF WE HAD SPENT OUR EFFORTS ON YET ONE MORE MICRO COMPUTER SYSTEM.
WE HAVE NOT YET ACHIEVED THE DESIRED LEVEL OF STABILITY IN
FINANCIAL SERVICES. OUR BASIC STRATEGIC CONCEPTS IN THIS
REGARD ARE SOUND BUT THERE IS MUCH TO DO IN BOTH STRATEGY AND
IMPLEMENTATION BEFORE WE REACH AN EQUIVALENT LEVEL OF
STRENGTH. THAT'S A MATTER OF TIME AND EFFORT -- THE
FUNDAMENTAL SYNERGY OF FINANCIAL AND INFORMATION SERVICES IS
UNMISTAKABLE.

OUTLOOK

LET ME CONCLUDE NOW WITH A FEW COMMENTS ON THE FINANCIAL
OUTLOOK. I SHOULD FOREWARN YOU THAT WHAT I'M ABOUT TO SAY IS
UNCHANGED FROM WHAT WE SAID TO AN AUDIENCE OF SECURITY ANALYSTS
IN NEW YORK LAST WEEK. AND THAT, IN TURN, WAS VIRTUALLY
UNCHANGED FROM WHAT WE HAD BEEN SAYING FOR SOME TIME. EVEN SO,
THE DAY WE REPEATED IT, THE STOCK INITIALLY DROPPED SOME 3 TO 4
POINTS. SO, IT IS WITH SOME TREPIDATION THAT I AM ABOUT TO
REPEAT IT AGAIN.

THROUGH THE FIRST NINE MONTHS OF THIS YEAR NET EARNINGS OF
$2.94 PER SHARE WERE ESSENTIALLY FLAT WITH LAST YEAR. PRE-TAX
EARNINGS FOR THE FIRST THREE QUARTERS WERE BELOW LAST YEAR'S
LEVEL BY SOME $31 MILLION DUE TO LOWER FINANCIAL SERVICES
EARNINGS, BUT A LOWER TAX RATE THIS YEAR OFFSET THE EFFECT OF
THAT.
FOR THE REMAINDER OF THIS YEAR, WE EXPECT SOME IMPROVEMENT IN FINANCIAL SERVICES EARNINGS OVER THE THIRD QUARTER LEVEL, BUT PROFITS AT COMMERCIAL CREDIT WILL STILL BE GREATLY DEPRESSED.

IN THE COMPUTER BUSINESS, SYSTEMS SHOULD CONTINUE STRONG AS SHOULD SOME AREAS OF SERVICES—MAINTENANCE SERVICES AND SOME SPECIAL APPLICATION SERVICES, PARTICULARLY. BUT THE MAINSTREAM DATA SERVICES, DOMESTIC AND INTERNATIONAL, ARE NOT EXPECTED TO STRENGTHEN MUCH YET THIS YEAR. AND IN PERIPHERAL PRODUCTS, ALTHOUGH OEM ORDER VOLUME SHOULD CONTINUE TO GROW, LITTLE OF THAT WILL FLOW THROUGH TO FURTHER HELP THIS YEAR'S BOTTOM LINE.

WHAT THAT ALL NETS DOWN TO IS THAT MEETING OR EXCEEDING LAST YEAR'S TOTAL EARNINGS OF $4.11 PER SHARE WILL NOT BE EASY, BUT IT IS ACHIEVABLE AND THAT IS OUR GOAL.

I SHOULD ALSO MENTION THAT THERE IS THE POSSIBILITY OF A FAIRLY SIGNIFICANT NON-RECURRING TRANSACTION OCCURRING YET THIS YEAR. IT IS THE SALE OF A PARCEL OF LAND BY COMMERCIAL CREDIT, BUT THE BUYER HAS UNTIL MID-DECEMBER TO EXERCISE HIS PURCHASE OPTION. ALTHOUGH IT'S NOT INCLUDED IN OUR EARNINGS OBJECTIVE, IF THE SALE OCCURS, IT WOULD ADD MEASURABLY TO FOURTH QUARTER AND TOTAL EARNINGS.
LOOKING TOWARD NEXT YEAR, ALTHOUGH BUDGETS ARE NOT YET COMPLETED, WE WOULD EXPECT PROFIT IMPROVEMENT TO RESUME AS FINANCIAL SERVICES TURNS UPWARD, COMPUTER SERVICES RETURNS TO A MEANINGFUL GROWTH RATE, AND COMPUTER SYSTEMS AND PERIPHERAL PRODUCT SHIPMENTS CONTINUE TO GROW STEADILY.

AND ASSUMING THAT THE 1985 BUSINESS CLIMATE IS REASONABLY FAVORABLE, GROWTH SHOULD CONTINUE AT A HEALTHY RATE.

NOW IN THE TIME REMAINING, I'LL RESPOND TO YOUR QUESTIONS.