Thank you, Bill. Good morning.

Looking back over the past four years, we've seen severe economic turbulence, increasing competition world-wide, and rapidly changing technology -- all of which seriously affect each of Control Data's major business segments. By now you've had a chance to read through the annual report and note the various aspects of Control Data's improved financial performance during 1983, including reduced debt as well as improved earnings. That performance, especially in view of the circumstances, is gratifying.

Of course, there's more to the story than just numbers. We have also made great progress during the past five years implementing our basic business strategies and adapting them to the changes I just referenced.
Moreover, we accelerated the process of getting at the problems that stand between Control Data and further improvement in productivity and profitability. Simply stated, 1983 was the best year we've had in getting at these strategic adjustments and operating improvements. A major reason for this is that for the last two years we have improved at isolating and attacking fundamental issues in both strategy and operations. And it's that process of isolating and attacking critical issues I'd like to spend a few minutes describing to you this morning. It starts at the top and carries down through the organization.

There are many demands -- large and small -- for management attention so identifying and prioritizing issues is important in a strategic planning context in order to focus management's attention on the relatively few critical actions needed to either grasp an opportunity or minimize the potential damage occasioned by economic or technological change.

That seems clear enough, but let me elaborate briefly. Conditions that are likely to have the greatest impact on the business do not result from continuous and predictable change but rather from discontinuous changes that, to the world at large, are only obvious after they have happened. Also, in times of economic distress, old technologies tend to die more
rapidly and new ones come on faster. In short, the rate of change accelerates. As a consequence, it isn't possible to rely solely on trend extrapolation as a prediction of the future.

This perspective of discontinuity as a major force means that in strategic planning it is more important to raise and start to solve key issues than it is to attempt to extrapolate past or present trends with absolute arithmetic precision. The identification and assessment of such issues is demanding work and requires the involvement of senior line management as well as staff planners. After assessment, the next step is to lay out the required short-term actions which will provide the best shot at taking advantage of the particular changes. Briefly that's what this process is all about.

The preparation for last year's strategic issue process began prior to the actual start of the year when the members of the Strategic Planning and Review Committee, or "SPRC" as we call it, nominated a list of 49 broad-based issues that could affect us.

The SPRC then began an intensive review, consolidation and prioritization of the list, and ultimately selected some 19 of these issues for presentation to the Management Committee.
During a three-day meeting in January of 1983, the Management Committee reviewed and discussed these issues. Twelve of the 19 were selected for further study and a thirteenth not identified previously was added. The issues fell into two broad categories: Basic business strategy issues, and operational effectiveness. For each of these, teams of eight to ten senior management personnel were then organized.

During the spring and into the summer, the teams met regularly in order to understand their issue and develop approaches to its resolution. They were led by senior executives drawn primarily from the Management Committee. The team members themselves were drawn from a mix of organizations and included both staff and line people. Further, team members weren't just representatives of affected organizations. Rather, membership was structured to include those senior managers most able to bring independent problem-solving capability, creativity, and fresh insight to bear.

This process required more than 1,500 meeting hours by the issue team members themselves. In addition, each of the affected organizations, ranging from three to nineteen organizations depending on the issue, was asked to develop its individual response for review by the team. This part of the process resulted in some 7,000 additional person-hours of effort. Clearly, a large number of key executives and senior managers throughout the company were involved.
By late summer, the task teams concluded their studies and the results were then incorporated into the strategic plans. Of course, by their very definition critical issues are not for the most part short-term or one-time considerations. Resolving them is generally a multi-year matter and the strategies involved often require modification and refinement over succeeding years. So continued top management attention is required. In that regard, the Management Committee held another three-day meeting this past January to review progress as a result of the '83 process as well as select the list of 1984 issues.

I thought it would be interesting to show you some brief excerpts of that meeting. As I mentioned, the meeting covered nearly three days and the ten-minute video tape you're about to see is intended to only highlight brief portions of the much longer discussions that took place. Incidentally this video tape is a part of a three-hour strategic overview called Direction '84 which has been shown to Control Data management around the world

[DIRECTION '84 VIDEO TAPE]

Again, those are only glimpses, but it should give you some flavor for the kind of discussion which takes place.
As I mentioned, the purpose at the meeting was to both review 1983 progress and to initiate the 1984 strategic process. For 1984, we finally compiled a list of ten critical issues -- five concerning business strategy and five having to do with operational.

The first two business strategy issues concern Commercial Credit and without question these are the top priority items on our list. Nor are they new. All of Commercial Credit's market sectors have seen dramatic change since 1980 -- and this change has been particularly profound in the Consumer and Small Business Services. As we have adapted financial services strategies to this change, we've experienced some difficulties, and as a result, as Mr. Norris noted, earnings at Commercial Credit have suffered. In some instances, we've reacted in the ponderous fashion typical of a large organization, but we've also made a lot of fundamental progress which is not yet visible in operating results. Because the needed change is so far reaching and so fundamental it has been and continues to be crucial to have the highest possible level of corporate visibility. Thus, these two issues continue at the top of the list.

The third issue involves the Data Services market. The change in Data Services is at one and the same time very great and also much distorted in the trade media. The availability of
individual workstations built around small computers has opened up a whole new approach to delivering applications services. These powerful workstations have greatly enhanced the ability to deliver market focused computer services. The workstation of today is clearly a superior partner to the large shared supercomputer than was the remote batch terminal of yesterday. This third issue is on our list for the straightforward reason that the organization has experienced difficulty in responding to the opportunity presented by this change. There's no hard thought required on this one -- just the need to spell out clearly and aggressively the plan of attack.

The fourth and fifth issues address the Peripheral Products business. I'll comment only on the first of them. The IBM plug compatible -- or "end user business" as it is sometimes called -- has always been treated strategically in Control Data as incremental to the basic OEM peripherals business. By definition, it is a "follower" kind of business to IBM's announcements and market windows open and close relatively quickly. In the latest round of large disk systems for the plug market, some tough technology challenges have made us late with our new product. The issue team here is looking at basic market dimensions as well as the technology factors affecting the development cycle.
The remaining issues are listed on the slide. For the most part they are self-explanatory and deal with a variety of subjects all having to do with improving operational effectiveness. As I have noted in previous stockholder meetings, the keys to improved operational effectiveness are people, process, and capital -- PPC. These corporate level issues are simply the peak of a pyramid of actions, policies and programs aimed at better PPC management. We have seen a great deal of progress in that regard over the last several years and the results are gratifying. I'll come back to that in a moment but first let me conclude the subject of corporate strategic issues and issue teams.

Once again, corporate level critical strategic issues are for the most part not short term in nature. As you might expect, then, several of this year's issues were on last year's list and some will undoubtedly be there next year as well. But in every case there has been a decided improvement as a result of dedicated attention and in 1984 we will build on this improvement. While the financial "proof" of that improvement will only emerge over time, review of the decisions and changes made thus far by means of the strategic issue process reinforces our confidence in the future.
As far as this year's process is concerned, the teams of executives have been working since February. We will have their initial feedback within the month and results will be worked into the new strategic plans as they develop over the summer.

Now let me return to the subject of people, process, and capital. While we ourselves know and feel the progress we've made, it's nice to have external recognition of that progress. The April 30 issue of Fortune magazine cited the office equipment/computer industry as the leader in productivity growth, and then went on to note that the "champ of the office equipment companies" ....is Control Data, whose sales per employee "zoomed a spectacular 170 percent over the decade."

The article specifically pointed out the role that our emphasis on process improvement has played in achieving that performance.

There's also a new business book just out called "The 100 Best Companies to Work For in America." One chapter is devoted to Control Data. A major reason for selecting Control Data is the array of distinctive services provided for employees, including such things as comprehensive PLATO training and education, a confidential 24-hour assistance to employees and their families for personal and work-related problems, a peer review grievance procedure, and employee gardens.
It is not coincidence that these separate references to working climate and productivity growth have appeared simultaneously. It is a gratifying and visible result of a productivity strategy that revolves around a broad-based approach in which individual development and involvement are coupled to intense management attention to process, and to the use of working capital.

We will continue efforts to improve the operating effectiveness of Control Data and PPC will continue to be the centerpiece of that effort. It has served us well over the past two years as major segments of the business have experienced the double impact of recession and a high rate of technological change. It meant earnings growth last year and it will mean further improvement this year and in the years to come.

Thank you.