Good afternoon.

I want to compliment Boyd on a good piece of strategic planning. He scheduled this meeting to take place after the Twins won the pennant, so you'd be able to concentrate.


In particular, the market segmentation is a good and important piece of work. Insightful market segmentation is the essential first step of being a solid market-driven organization. I know that the work you've done this year gives us a better perspective of the Government Systems market. And that's essential if we are to achieve the renewed growth that's the goal of the Company's strategic plan for the next three years.

Meaningful market segmentation is only the first step however, and the challenge of program selection within the segments is certainly at least as tough a job. Competitive advantage is, of course, the key -- just as it always has been -- but the investment decisions have been made a lot tougher by today's procurement policies. The investment curve Boyd showed us at Red Wing made that clear.
The curve is deeper with the pressure on the gross margins. There's a slower return. What it comes down to is you have to be right more often. But it means not only do you have to be strategically right, but there is so much less room for error that costs and expenses have to be managed better than they ever have been. "Lean and Mean" is not just a catchy phrase -- it's your survival path.

I can empathize with your dilemma. It's much the same dilemma that I face in analyzing the Company's five businesses and deciding where the investment dollars should go. The right decision makes for a very rewarding experience. Make the wrong choice and things can get very uncomfortable. But even more important, sloppiness in execution will kill off the rewards even if the decisions were the right ones. That wasn't always true in the computer industry and that is a legacy we have to overcome.

Anyway, if it's any consolation, you're not alone. The uniqueness of your situation is that the government controls the margin capabilities more than any other type of business. On the other hand, the Company's front-end investment can be minimized if you select the proper programs.
Certainly, the business opportunities are there for Government Systems. Certainly you have no lack of competitively advantaged technologies and products. Within the market segments and prospective programs you have identified are the makings of your own championship year. So that's your challenge -- focus -- picking those programs that promise the best returns. And not being shy about being selective.

I'll get to the bulk of the questions you've asked me in a moment, but there was one in particular that I'd like to address at this point.

[ read question ]

What did I say to that? First of all after six straight years of uninterrupt growth and success it was almost inevitable for the organization to collect fat, to take its eye off the ball. That's just common sense. But there were more substantive reasons -- most of them in your financial statements (the balance sheet in particular) -- to believe some storm clouds lay ahead.

Changed Procurement Practices -- change is threat, change is opportunity. In short, to pursue my baseball analogy, Government Systems has been in a hitting slump. We've been taking action to get out of that slump -- that's good. What do I see ahead? I truly believe that intense focus on the greatest competitive
strengths you have vis-a-vis the best opportunities in the market segments, will pay off in future growth and profits. But it won't happen if you don't keep the "lean and mean" pressure on.

Perhaps a football coach, Joe Paterno of Penn State, summed up how I see the G.S. situation best when he said: "I never get very elated over a win, because, as Churchill said, 'Success is never final.' Likewise, I never get depressed over a loss. I look for the lesson in it."

Paterno concluded: "If you're knocked down, you can't lose your guts. You need to play with supreme confidence or else you'll lose again, and then losing becomes a habit."

I know you've been knocked down, but if you execute with guts, determination and confidence, you'll be winning again in no time.