I. REVIEW OF SEVEN MONTHS RESULTS -- January - July

The most current period for which firm numbers are available is January through July, however, we do have preliminary data on August and I will comment on that later.

For the seven months period ended July, the Computer Services Group revenues are running approximately 3% below our budget of $86.7 Mil. At the net line the group shows a loss of $266K versus a budgeted profit of $817K.

You may recall that the June figures showed a net profit of $458K versus a budget of $404K. It is obvious, then, that July was a very bad month. However, I must hasten to point out that we do not consider it indicative of the future. Part of this is due to some month to month reporting of maintenance services which has been very favorable to budget over the year. In July, however, Maintenance Services incurred a significant drop in both Domestic and International parts and International Maintenance revenues. This, coupled with some below normal revenue levels in the other KOB's, caused the bad month of July. Preliminary results for August show a very definite improvement. A sizeable portion of the July deviation, particularly in international reporting, will be recorded in August.
OPERATING HIGHLIGHTS BY KOB: EDUCATION SERVICES

Education Services has missed its profit goals for the past two months. There are several sets of independent problems responsible for these deviations. The biggest single problem is in CAI where the low order rate for unbundled and customer training has combined with a lower rate of internal training to produce a loss of over $850k for the first eight months of the year. We will be making some major changes in our structure and management of marketing in order to capture more of the specific contract training business we know to exist. With respect to internal training, we are teaching the planned number of classes but to much smaller audiences than in former years. Costs, wherever possible, have been reduced substantially below budgeted levels and will be below the levels of former years.

Education Services International performance continues strong. They are $87k ahead of their profit goal year to date. We are somewhat concerned as to how a European recession might effect our education business overseas, but I have just received word that last week's sales were at an all time high. Still, we will be watching this closely during the last few months of CY1997.

The revenue in U.S. Career Entry Institutes has softened somewhat even though contract signings continue at a very favorable rate. The problem is one of class starts. The biggest problem at present is to increase sales and retain students in cities hardest hit by the recession (Los Angeles, San Francisco, Boston, Minneapolis, and Arlington). The net profit rate on our best schools is over 40% year to date including all allocations and interest expense. The education business seems to be a good one, but at this point we still
need more school to school consistency and better insurance against bad local market conditions through more product diversification.

MAINTENANCE SERVICES:

As indicated earlier, we have had a very strong performance from Maintenance Services for the first seven months of the year. This is true even though two problems occurred in the month of July; namely, a fall off in Domestic Parts revenue and a shortage of both Maintenance and Parts Revenue in International. Preliminary August results indicate a lessening of both of these problems -- particularly the Maintenance Revenue for International. While parts revenue -- both Domestic and International has improved, we continue to see a deterioration in parts gross profit.

Year to date and in terms of the forecast for the remainder of 1971, Customer Engineering is still in good shape. Year-to-date profit is $3.6 Mil or $779K ahead of plan. Continued weakness in new orders for Commercial Spare Parts has caused us to forecast that part of the business $700K below budget; however, the Maintenance and Parts forecast shows them holding their $779K favorable deviation throughout the rest of the year.

DATA SERVICES:

The Domestic trend in increased average daily revenue is encouraging. Domestic revenues in July were $83K per day versus a rate of $74K per day in July 1970. Preliminary August results show a strong revenue performance for the month -- in excess of our forecast by approximately 5%. Since Data Services has a near breakeven load level, such a favorable deviation falls right through to the bottom line.
International Data Services business is improving very steadily. Revenues are exceeding budget in Germany and Scandinavia by some $708K year to date; however, losses in Italy and Mexico are offsetting these strong showings. Australiasia revenues are showing definite signs of strength and with the installation of the BB600 in Frankfurt we look for International to be a much stronger contributor for the balance of 1971 and on into 1972. We also have underway or planned, additional computing power for the Twin Cities, Palo Alto, and Houston. In addition, we have under consideration a proposal for a second BB600 in Los Angeles.

In summary our network is very close to capacity for the prime shift hours and our principal problem in achieving really significant profits is to find and promote applications which will use up the third shift time.

CONSULTING SERVICES:

The up trend in analyst revenues which first reported to you in July has continued and further progress should be made for the rest of the year. As reported in July, PSD-Washington and CEIR International continue to be major problem areas primarily due contract over-runs.

July was a breakeven month for Consulting Services, so the year-to-date loss of $301K remains the same as in July. Consulting Services is projecting a pick-up of approximately $200K of this unfavorable deviation by year end.