GENERAL

As I indicated to you in March, we had some generally favorable trends during the first quarter and the result has been a first quarter profit of $2,099,000 compared to a budgeted loss and compared to a loss of $53,000 in the first quarter of 1971.

I'll take a few minutes to go over the financial highlights and forecast with you before a few comments on the general development of our services business.

OPERATING STATEMENT -- First Quarter Highlights & Forecast

REVENUE

As you can see, we were 4 1/2 million dollars favorable to our financial plan in the first quarter. We were also 5.1 million over 1971. All four services groups were favorable to their first quarter revenue plan. The outlook for the year is quite good for Consulting and Engineering Services. Our basic U.S. data services business also looks good. We have, however, planned for a rapid build up during the year of our time-sharing revenues, and the forecast as of now is that we will not achieve that. Education services also will experience some impact from the FTC complaint that Bill mentioned. All in all, revenues for the year are forecast to be favorable to plan and will be at the 170 million dollar level.
GROSS PROFIT

CHART 2 - Gross Profit Amount

Operating costs were below plan for the quarter. As we have mentioned before, it would be unwise to be too optimistic based on first quarter results because of reporting problems from international subsidiaries. But, we should be able to hold our cost-of-sales essentially to plan and at the higher revenue level will have favorable gross profit rates for the year.

EXPENSES

CHART 3 - Expenses Amount

Our expense levels are $700 thousand over plan for the quarter. Marketing expenses are part of this, but division incurred costs are also over budget. On a percent basis we are still favorable to plan, but we should be able to control the actual expenses in the divisions to come within $100,000 of our total year's budget.

NET PROFIT

CHART 4 - Net Profit

We are 2 1/2 million dollars favorable to plan at the end of the first quarter. Our current forecast is for the last three quarters -- where our financial plan calls for 5 1/2 million dollars in profit -- to be only slightly better than plan to yield a year end net profit of a little over eight million. The second quarter will be profitable, but not as much so as the first quarter. The second
quarter is traditionally a slow quarter for education and for ARB. Things will pick up again in the third and then fall off again in the fourth.

In summary, we should be able to hold the favorable position we have at the end of the first quarter. Our internal targets are higher than that and we are driving very hard to meet higher growth and diversification targets while maintaining our profit position.

**CLOSING COMMENTS - Business Strategy**

**CHARTS 5 & 6**

During the first quarter the Services Group management has spent a great deal of time in further defining our markets and developing techniques for analyzing market opportunities. Time doesn’t permit me to go into detail on this with you today, but I will try to cover it quickly and would be more than happy to discuss it individually with any of you who would like to do so.

This first chart shows pictorially a very simple concept. That is, in looking for rapid expansion of our business, the most obvious thing is: to do "more" of the same.

**First Overlay**

The investment needed to do this is generally a gradual build-up of marketing and R&D and operating expenses. In doing so we can tap new markets. Geographical expansion is the simplest form of this. Generally, however, growth rates above industry average require "new" businesses.
Second Overlay

The idea here is to take some existing capability, skill, or attribute and apply it to a totally new market area. For example, to apply Ticketron's capability to Lottery or to OTB. Minimizing market risk in these situations is critical. In developing growth strategy for the Services Group, we have taken inventory of "what we are doing now" and defined that in terms of four factors:

- Product/Discipline/Attribute
- Industry
- Function
- Geography.

Here is an example from Data Services...........

CHART b Format of the Chart -

- Left column
- Top Row
- Right Column
- Bottom Row

A few examples -

- Geographic - West but not East on APT
- Functional Area - planning in utilities and civilian government, but not services and manufacturing.
  CENSTAT/TRANPLAN
- Attribute - All industries except Services and Pet/Chem.
Market areas can be defined in the same way and opportunities then sought which easily "fill the gaps," exploit a known skill or otherwise minimize market risk. As we develop better and better analytical tools, we know we can present you with better service, growth, and profits such as the Syntonic Technology opportunity which Bill Moyles will be discussing later.
## Exhibit 1. Summary of Results, Data Services Inventory of Capabilities

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<tr>
<th>Total Monthly Revenue in Data Services (000's)</th>
<th>Total Monthly Revenue in Sample (000's)</th>
<th>Total Turnaround &amp; Reliability</th>
<th>Network &amp; Reputation</th>
<th>Ease of Use of Accessibility</th>
<th>Applications &amp; Expertise</th>
<th>Price Performance</th>
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**Note:**
- P = Planning, O = Operations, E = Engineering, R = R&D, F = Financial, M = Marketing
- The total data services revenue, $1,500,000, is attributable to ARB, TRS, BTSI, and Airlines.