SERVICES

Our Services businesses are 1.9 million dollars in pre-tax profit ahead of plan for the first two months. Our operations are all beating their expense budgets - which were reduced to begin with. So there has been a continuing great effort by our people in this regard and we expect to do more throughout the year, although as Paul Miller will remark later on, our actual recorded dollar expenses are subject to international currency fluctuations as well as management control.

I will cover Services in the basic segments we have been seeing in the past few board meetings - combined Professional Services and Data Services in its three principal segments: Network Services, Application Services and Developmental Services.

Combined Professional Services - are ahead of plan by $400 thousand. (Chart) As you can see even though revenues are behind, gross profit rates are ahead of plan. As I remarked a moment ago, expenses are ahead of plan even though interest expense is some 400 thousand over the original budget. Within this segment, Education services is exactly on its gross profit plan - and perhaps most significantly Western Europe which was our poorest performance area last year is on plan - even slightly profitable for the two months. Consulting and Engineering Services are both exceeding their two month profit targets even though engineering services is 600 thousand dollars behind in revenue due to reduced parts sales.
Data Services

In total Data Services revenue are 800 thousand ahead of plan {chart} and net profit is 1.5 million ahead of plan. {Chart}

Looking at the segments we have:

Network Data Services {Chart}

The outstanding performance in this area is SBC's time-sharing business which is ahead of profit plan by 1.2 million dollars for the two month period. Our European Network services are also ahead of plan for the period by three hundred thousand in net profit.

U.S. CYBERNET and Pan Am network services on the other hand has had a 600 thousand shortfall in revenue over the two months and approximately half that amount in net profit shortfall.

The specific areas of weakness in the U.S. is in remote batch as opposed to time-sharing. This situation is the immediate subject of attention by Jack von Gillern and Vern Sieling. Some product improvement and greater marketing attention should improve this situation over the course of the rest of this year. We will have a more specific action program in another three weeks.

Application Services {Chart} - Are ahead in both revenue and net. ARB continues its good performance. BTSI is some 87 thousand ahead of plan. Actually in spite of record volumes of shares traded, the number of transactions has not increased that significantly. In addition, with the loss of one account - Edwards and Hanley - the revenue volume of BTSI is slightly behind plan - some $20,000. Better margins and expense control have made the difference.
Developmental Data Services - {chart} although operating at a loss are ahead of plan and looking stronger than we anticipated. On a year to year basis the two month comparison shows the loss decreased from $1.6 million to 900 thousand and expenses reduced from 2.9 million to 600 thousand. We expect the sale of our SOLAR reservation systems service to be completed next month. We have an agreement, the SITA board meets April 4 to approve the transaction and a few key employees have already been transferred to SITA to prepare for the move next month.

To summarize data services then {chart}, Revenue and Gross are up. Expenses are under. So the year in total for data services is off to a good start.

Let me move on to Systems.

SYSTEMS

Revenue {chart} for the two months is behind plan. However computer systems revenues is $700 thousand ahead of plan. The shortfall is in Aerospace and Instruments and Controls. The Aerospace shortfall is merely a timing one - actually we expect for the quarter and the year for that business to exceed its plan - both in net as well as revenue.

Gross profit is ahead of plan even with the shortfall and the improved margins are reflected in all three segments of the business. Expenses are also favorable to plan - principally in the technical effort area. This is a result of both strategic as well as management control actions which we began over a year ago and are now bearing some fruit.
The net line in total then reflects a 2.7 million improvement over plan.

Computer Systems [chart]
Let me spend a few more minutes on computer systems in particular. As you can see the 700 thousand favorable revenue variation is a combination of shortfall in rental and over budget in outright sales. This is the revenue mix problem we have discussed in the past. The outright sales position is due principally to a large purchase conversion - which although it adds to short term revenue and profit, erodes the lease base and makes achievement of full year rental revenues that much more difficult.

Gross profit rate is also favorable to plan but once again is due primarily to the purchase conversion.

Expenses I have already remarked on ...........
For the rest of the year the outlook is like this:
The first quarter will be okay - ahead of plan actually. At this point - relative to plan - I am most unsure of the second quarter. The third and fourth quarters, the third in particular, look much better. The fourth is still quite dependent on orders to be booked.

Deliveries of the CYBER 170 are expected to begin in June. The project schedules for CYBER 170 have firmed over the past three weeks and this is important at this particular stage of the project. Third and fourth quarter results are obviously very dependent on meeting the 170 shipment schedules.
Paul will comment further with respect to the total year revenue outlook for Systems, so I won't comment further at this time except to say that we need a very active order picture over the next few months if we are to achieve our budgeted revenue and profit. Right now we're forecasting to be a little short.

Summary

Our people are responding very positively to the challenge we put before them for 1975. As you are aware the people of Systems and Services have been under a 10% pay cut since the first of the year. Also, as you can imagine, in our business where there is a high degree of dependence - and interdependence - on Marketing and Peripheral Products, this was a most difficult action to take. Nevertheless, we felt it necessary and our people have recognized this and assumed their role of leadership.

At the end of March pay levels will be restored and the merit program resumed.

We have a solid start on the year. The Systems business will be a loss this year, but we will have made significant progress from a year ago and laid a more solid foundation for 1976. We will continue our programs of upgrading management, reducing employment levels where possible and in general improving our management systems and employee productivity.