Our Services Businesses are $3.3$ million dollars in pre-tax profit ahead of plan for the first quarter. Our operations are all beating their expense budgets - which were reduced to begin with. So as I have remarked before we have had a great effort by our people in this regard and we expect to do more throughout the year. Once again though our actual recorded dollar expenses are subject to international currency fluctuations as well as management control and certainly currency fluctuations will offset the final result.

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 $1.1$ million dollars. As you can see both revenues and gross profit rates are ahead of plan. As I remarked a moment ago, expenses are ahead of plan even though interest expense is some 100 thousand over the original budget. Within this segment Education Services operations in Western Europe continue to be profitable - a decided turnaround from last year. Consulting and Engineering Services are both
exceeding their quarter profit targets.

Data Services

In total Data Services revenues are 1.9 million ahead of plan (chart) and net profit is 2.2 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 1.1 million dollars for the period. Worldwide CYBERNET is 400 thousand ahead of plan. Our European Network services are the basic contributor to this performance as we have continued to have some shortfall in CYBERNET U.S.

In the March meeting, I told you we were experiencing lower than expected revenues from the remote-batch segment of our U.S. CYBERNET Operations. This trend has continued with current year-end forecasts indicating a $2.1 million (5%) revenue shortfall.

During the past six weeks, Marketing and CYBERNET Services have conducted a comprehensive market assessment in the field. As a result, today we are announcing a totally restructured CYBERNET Services organization to be more responsive to the requirements of the market and our field organization. In addition, Marketing has reallocated
certain personnel resources to increase their emphasis on the problem. Other plans are underway to reduce spending levels to control the impact at the net line should the present revenue levels persist.

We already know these actions will result in improvements, and within the next few weeks we will have a more specific estimate of their financial impact.

Applications Services (Chart) - Are ahead in both revenue and net. ARB continues its excellent performance. BTSI and ACTION are performing to plan.

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 quarter comparison shows the loss decreased from 2.9 million to 1.4 million.

The expected sale of our SOLAR Reservation Systems Service is proceeding as planned after a one-month delay. The Executive Committee of the SITA Board of Directors is meeting in Paris today and is expected to approve the agreement to be effective May 15, 1975. At the April SITA Board Meeting, CDC very successfully demonstrated the SOLAR System in Beruit on-line to our Atlanta computer center.
We appear to be in the final stages of negotiation for assignment of our Frontier SENTRY Reservations computer operations to Continental Airlines. The current verbal agreement in principal with Continental would mean a substantial reduction in the planned operating loss for this contract through September 1976.

Let me move on to Systems.

**Systems**

Revenue {chart} for the quarter is behind plan. Computer systems revenues are 4.1 million behind plan. Both Aerospace and Instruments and Controls are ahead for the quarter. They are projecting this favorable performance to continue throughout the year. Computer systems revenues are expected to deviate more as the year progresses. Shortfall is currently forecast at nine million dollars.

Gross profit {chart} 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 500 thousand dollar improvement to plan. You will recall that our two month figures reflected over two million in favorable deviation so we have experienced some of the expected shortfall in computer systems during the last month.

**Computer Systems** {Chart}

Let me spend a few more minutes on computer systems in particular. As you can see the 4.1 million unfavorable revenue variation is a combination of shortfall in outright sales and over budget in rentals. Perhaps you will recall exactly the reverse situation at last board meeting. This is the revenue mix problem we have discussed in the past. The previous outright sales position was due principally to a large purchase conversion - which although it adds to short term revenue and profit, erodes the lease base and has made 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 earlier purchase conversion.

Expenses I have already remarked on ........

For the rest of the year the outlook is like this:

The second quarter will be ok - ahead of plan actually. Principally due to ALS. I will comment on that in a moment. The third quarter at this point looks weakest with the fourth quarters being again stronger. I should hasten to add that last board meeting the second looked
tougher than the third so at least short term prospects have improved - if not the full year. Deliveries of the CYBER 170 are expected to begin in June. The schedules 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 as I've said, we're forecasting to be short some nine million dollars.
ALS

Let me spend a few moments on ALS. I have visited this subject in each of our recent board meetings and I won't dwell on it here. Just to say that we are embarked on the new Air Force plan, we will be fully reserved at year-end for the expected loss which will occur at purchase conversion time in 1976, and we have been able to raise our revenue gross profit projections for 1975 - not because we have had a windfall, but because prior projections in effect were on a worst case condition for ALS and that has not happened. As I remarked in March, our biggest accomplishment has been to retain the opportunity - through performance - of being the long term supplier of the data processing needs for AFLC.

SUMMARY

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.