AS YOU HAVE JUST HEARD, THE FINANCIAL RESULTS IN TOTAL THIS YEAR ARE BELOW LAST YEAR AND THE BUDGET. ON THE OTHER HAND, THERE ARE SOME BRIGHT SPOTS. COMPUTER SYSTEMS REVENUE CONTINUES TO PROGRESS ON PLAN DESPITE THE ECONOMIC SITUATION. ACCEPTANCE OF THE NEW CYBER 170 SERIES 800 LINE OF COMPUTERS IN THE MARKETPLACE HAS BEEN EXCELLENT WITH 35 SYSTEMS ALREADY INSTALLED AND ACCEPTED. THE PROGRESS OF THE CYBER 205 IS GOOD. BY YEAR END, EIGHT SYSTEMS WILL HAVE BEEN SHIPPED. DATA SERVICES REVENUE IS ALSO HOLDING UP QUITE WELL AND HAS SHOWN A 15-18% GROWTH FROM LAST YEAR. BOTH CYBERNET AND CALL ARE EXPERIENCING LOWER GROWTH THIS YEAR BUT ARBITRON, TICKETRON, AND SOME OTHER SEGMENTS ARE ACHIEVING EXCELLENT RESULTS. IN SPITE OF THE HIGH INTEREST RATE, CASUALTY LOSSES AND BUSINESS CREDIT INSURANCE LOSSES THE FINANCIAL SERVICES RESULTS ARE HOLDING UP QUITE WELL.
THE DROP IN OEM REVENUE CONTINUES TO OFFSET THE BRIGHT SPOTS. TOM KAMP AND HIS PEOPLE HAVE TAKEN A LOT OF STEPS TO MINIMIZE THE IMPACT IN 1982 AND, EQUALLY IMPORTANT, GET THEMSELVES IN A MUCH STRONGER POSITION TO PROCEED INTO 1983.

WE ARE CONTINUING TO WORK THE PEOPLE, PROCESS AND CAPITAL ELEMENTS TO IMPROVE THE FUNDAMENTALS OF OUR BUSINESS. LAST MONTH WE REVIEWED WITH YOU IN SOME DETAIL SEVERAL AREAS IN WHICH WE ARE CONCENTRATING ON IMPROVING PROCESS. LAST NIGHT YOU HEARD ABOUT THE "PEOPLE" PART OF THE FORMULA.

TODAY I WANT TO TALK BRIEFLY ABOUT A COUPLE ASPECTS OF CAPITAL. WE HAVE MADE EXCELLENT PROGRESS OVER THE PAST FEW YEARS IN IMPROVING ASSET UTILIZATION BUT THE PRESSURE FOR FURTHER IMPROVEMENT CONTINUES. INVENTORIES, THOUGH SOMewhat TOO HIGH, ARE IN FAIRLY GOOD SHAPE. FINISHED GOODS ARE HIGHER THAN WE WOULD LIKE IN COMPUTER SYSTEMS, BUT THE PRINCIPAL PROBLEM IS, OF COURSE, PERIPHERALS. WE SIMPLY COULDN'T REACT QUICKLY ENOUGH TO PREVENT THE INVENTORY LEVELS FROM INCREASING. A YEAR AGO THE OEM INVENTORY WAS $334M AND GRADUALLY INCREASED TO A HIGH OF $358M IN MARCH. MANUFACTURING SCHEDULES WERE CUT AND MATERIAL RECEIPTS FROM Vendors WERE PUSHED OUT. IN THE LAST FEW MONTHS OEM INVENTORY HAS DECREASED TO $316M AND FURTHER REDUCTIONS ARE EXPECTED FOR THE BALANCE OF THE YEAR. BY DECEMBER, IT WILL BE DOWN TO $275M — THAT'S 20% BELOW LAST YEAR.
RECEIVABLES

THE OTHER AREA I WANT TO COVER IS TRADE RECEIVABLES. THE CONTINUED IMPROVEMENTS WE HAVE ACHIEVED IN 1982 IN THIS AREA WOULD BE GOOD UNDER FAVORABLE ECONOMIC CONDITIONS -- IT'S EXCEPTIONAL PERFORMANCE IN TODAY'S SITUATION.

THE AVERAGE DAYS OUTSTANDING FOR THE ELECTRONIC INDUSTRY (AS PUBLISHED BY THE CREDIT RESEARCH FOUNDATION) A YEAR AGO WAS 46.4 DAYS. THE NATIONAL AVERAGE HAS DETERIORATED BY 7% TO 48.6 DAYS OUTSTANDING. AT THE SAME TIME OUR DAYS OUTSTANDING HAVE IMPROVED FROM 44.2 DAYS TO A CURRENT LEVEL OF 37.4 DAYS. WE ARE CURRENTLY 23% BETTER THAN THE INDUSTRY AVERAGE AND THE GAP IS CURRENTLY WIDENING.

TOTAL RECEIVABLES ARE DOWN FROM THE BEGINNING OF THE YEAR BY $48M OR 12% IN SPITE OF REVENUE INCREASES. ALL THE KEY RECEIVABLE INDICATORS SHOW IMPROVEMENT. U.S. MARKETING'S RECEIVABLE PERFORMANCE IS AN EXAMPLE.
IN 1981 THE COLLECTION RATIO (EXPLAIN COLLECTION RATIO)

PERFORMANCE OF U.S. MARKETING AVERAGED 524. HANK WHITE SET A
TARGET OF 550 FOR 1982 WHICH REPRESENTED A 5% IMPROVEMENT.

TO-DATE THE UNIT IS PERFORMING AT A LEVEL OF 588 OR AN
IMPROVEMENT OF 12%. AS A MATTER OF INTEREST, THE MONTH OF JULY
WAS AN ALL TIME HIGH OF 662. THE REASON FOR THIS IMPROVEMENT
GOES BACK SEVERAL YEARS WHEN WE RECOGNIZED A NEED FOR AN
IMPROVED TOTAL RECEIVABLE PROCESS. THIS INCLUDED THE NEW
MEASUREMENT -- THE COLLECTION RATIO -- NEW INCENTIVES AND NEW
INFORMATION SYSTEM. AFTER LOOKING AT ALL THE OPTIONS, SOFTWARE
WAS PURCHASED FROM AN OUTSIDE FIRM AND MODIFIED FOR SOME UNIQUE
CONTROL DATA REQUIREMENTS. WE NOW HAVE AN ON-LINE SYSTEM WITH
TERMINALS IN THE FIELD THAT PROVIDE IMPROVED VISIBILITY. AND
VISIBILITY IS KEY WITH RECEIVABLES.

BEYOND THAT, SALES, SALES MANAGEMENT AND APPROPRIATE
ADMINISTRATION PEOPLE HAVE BEEN GIVEN SPECIFIC TARGETS IN THEIR
COMPENSATION PLANS. THE FIELD NOW HAS BOTH IMPROVED TOOLS AND
INCREASED INCENTIVES TO MAKE COLLECTION IMPROVEMENTS. MONTHLY,
HANK WHITE AND HIS PEOPLE HOLD TELECONFERENCE MEETINGS WITH
EACH OF THE REGIONS TO REVIEW THE RECEIVABLES. THE RESULT IS
THE TRULY EXCELLENT PERFORMANCE I MENTIONED.
STAYWELL

STAYWELL HAS HAD A FAIR AMOUNT OF BOARD VISIBILITY AS AN INTERNAL PROGRAM. AND AS REPORTED LAST NIGHT, WE THINK IT IS DOING WELL. BUT REMEMBER THAT STAYWELL IS REALLY ONE OF OUR IMPORTANT NEW SERVICE PRODUCTS BASED ON PLATO. THE INTERNAL PROGRAM WAS JUST USING OURSELVES AS THE GUINEA PIG. ANYWAY, I THOUGHT A BRIEF PROGRESS REPORT ON STAYWELL'S EXTERNAL PROGRESS WAS IN ORDER.

WE RECENTLY SIGNED OUT FIRST SIZEABLE EXTERNAL STAYWELL CONTRACT. IT IS ALSO REPRESENTATIVE OF THE MARKETING APPROACH WE FEEL WILL BE MOST SUCCESSFUL FOR SUCH SERVICES.

THE HOUSTON METHODIST HOSPITAL WITH OVER 1,200 BEDS IS A TEACHING HOSPITAL AFFILIATED WITH BAYLOR UNIVERSITY MEDICAL SCHOOL. RECOGNIZED AS ONE OF THE LEADING CARDIAC CENTERS IN THE U.S. IT ATTRACTS PATIENTS FROM THROUGHOUT NORTH AND SOUTH AMERICA.
In May, we signed a contract with the hospital's "for profit" subsidiary -- the Sid W. Richardson Institute for Preventive Medicine. This is our first "distributor" type agreement for Staywell. It grants Methodist the right to market and deliver the program in the Houston and Galveston territories for a period of three years. Staywell will be marketed by Methodist's own sales representatives to Houston companies (over 200 employees) for on-site delivery to the employees and their spouses. Methodist has a three year exclusivity clause to deliver Staywell in the Houston area as long as they exceed pre-arranged performance standards.

The financial aspects of this agreement look good. Methodist has agreed to purchase all their training, educational, and promotional material from Control Data. In addition, Control Data will continue to process all the health risk profiles sold by Methodist in conjunction with the Staywell program. Finally, over the three year contract period, they are obligated to provide $100,000 worth of design work focusing on the application of Staywell Plato courseware in an ambulatory medical care setting.
METHODIST APPEARS TO HAVE STARTED MARKETING STAYWELL FROM THE DAY THE CONTRACT WAS SIGNED AND ARE CURRENTLY NEGOTIATING WITH TWO MAJOR COMPANIES. IN ADDITION, THEY ARE PLANNING TO OFFER STAYWELL TO OVER 500 OF THEIR OWN EMPLOYEES STARTING NEXT YEAR. USE OF HOSPITALS AND OTHER HEALTHCARE AGENCIES ALLOWS US TO FUNCTION WITH A MUCH SMALLER DELIVERY FORCE. IN ADDITION, IT PROVIDES THE ENTREE TO THE LOCAL MARKETPLACE THAT CDC COULD NOT REACH AS EFFECTIVELY AND WILL ENABLE STAYWELL TO ACHIEVE A NATIONAL PRESENCE IN A RELATIVELY SHORT PERIOD OF TIME. FINALLY, IT PROVIDES AN ALTERNATIVE DISTRIBUTION NETWORK FOR OTHER CDC PRODUCTS AND SERVICES TO BE MARKETED TO PHYSICIANS AND OTHERS IN THE HEALTHCARE FIELD.

IT TOOK WELL OVER A YEAR TO SIGN THE AGREEMENT WITH METHODIST. WHILE OTHERS SHOULD NOT TAKE AS LONG, IT IS NEVERTHELESS A COMPLICATED PROCESS. CURRENTLY, WE ARE ACTIVELY NEGOTIATING WITH NORTHWEST HOSPITAL AND EVANGELICAL HOSPITAL ASSOCIATION IN CHICAGO, ALBERT EINSTEIN MEDICAL CENTER IN PHILADELPHIA, BETHANY HOSPITAL IN KANSAS CITY, ST. BARNABUS IN NEWARK, MEMORIAL HOSPITAL IN LOS ANGELES AND UNITED HOSPITAL IN ST. PAUL. IN ADDITION, PRELIMINARY CONVERSATIONS AND MEETINGS HAVE BEEN HELD WITH OVER A DOZEN OTHER MAJOR HOSPITALS IN OUR 24 TARGET MARKETS. BY THIS TIME NEXT YEAR, WE COULD HAVE AS MANY AS SIX DISTRIBUTORS THROUGHOUT THE U.S. THE POTENTIAL VALUE OF THESE ARRANGEMENTS OVER THE NEXT TWO TO THREE YEARS IS SOME 1.5 to 2.0 MILLION DOLLARS.
NYSSA

TWO WEEKS AGO, MARV ROGERS AND I SPOKE BEFORE THE NYSSA. AS IT TURNED OUT OUR TIMING WAS PRETTY GOOD. OUR UNHAPPY MESSAGE OF REDUCED EARNINGS PROSPECTS FOR THE YEAR WAS OVERSHADOWED BY THE GENERAL STATE OF EUHORIA CAUSED BY THE SURGING MARKET. FOR THE MOST PART, THE QUESTIONS WERE ROUTINE. THERE WERE AN OVERWHELMING NUMBER OF QUESTIONS ABOUT THE PERIPHERALS BUSINESS. THIS IS IN PART DUE TO THE DOWNTURN IN THAT AREA, BUT AT LEAST EQUALLY IMPORTANT IS AN INTENSE WORRY OVER THE FUTURE OF THE MINICOMPUTER COMPANIES. LIKewise, THE OUTLOOK FOR CRAY RESEARCH MOTIVATES A DISPROPORTIONATELY LARGE NUMBER OF QUESTIONS ON THE CYBER 205.

ALL IN ALL, WE FELT PRETTY GOOD ABOUT THE MEETING AND THE OTHER MEETINGS WE HELD THAT DAY.