

When a whiz kid grows up

Control Data, once the young genius of the computer industry, now finds that trouble comes in bunches. Earnings slip, executives resign, and at the bottom is a thirst for cash

A story making the rounds at Control Data Corp. has it that a newly hired vice-president inquired about the boulders decorating the grounds of the computer manufacturer's Bloomington, Minn., offices.

"Those aren't boulders, they are pillars of salt," came the reply, "and the word around here is not to look back . . . something might be gaining on you."

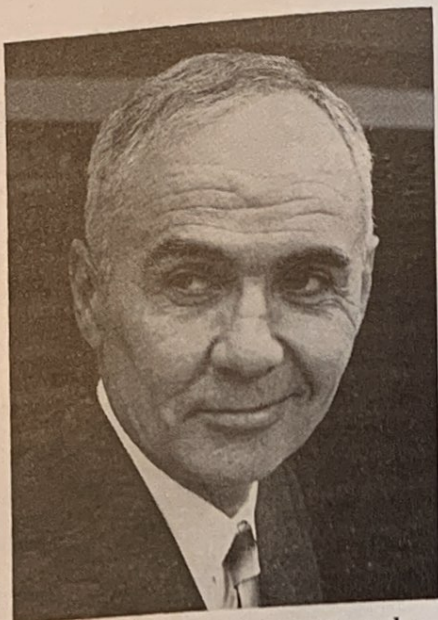
Unfortunately, Control Data's management finds nothing amusing in such quips, for the hard truth is that the company is having plenty of troubles. Once the "wunderkind" of the computer industry (revenues rocketed from \$626,000 in its maiden year, 1958, to \$121.4-million in 1964), it's now showing signs of severe growing pains.

▪ After seven straight years of rising profits in a notoriously unprofitable industry—except for International Business Machines—earnings of \$1.06 per share in fiscal 1965 fell almost 20¢ short of industry projections and would have fallen shy of the preceding year but for accounting and depreciation changes.

▪ For the year ended June 30, the company will show its first loss, since its initial year of operation. The nine months showed a deficit of \$1.8-million (34¢ a share) on revenues of \$112.5-million, which compared with \$120.8-million in the year-ago period. The final fiscal 1966 tally won't be released until mid-August, but observers figure the loss will be 30¢ to 40¢ per share on revenues about the same as 1965.

▪ Four vice-presidents and the company's treasurer have resigned over the past five months. These changes, plus changes in the board of directors, have brought speculation of management dissension, impending resignations of more key men, and rumors that a group of unhappy engineers would quit and form a new company.

Executive suite. At the vortex of speculation is William C. Norris, chairman and president, one of the original founders, and at age 55 still very much the hand at the helm. With beneficial ownership of some



As Chairman Norris sees it, Control Data merely is suffering growth pangs.

270,000 shares, Norris has considerable stake in the company's future.

Norris must contend with some very real problems besetting Control Data, yet he also must deal with a thicket of rumors that cropped up as difficulties mounted. "We are not considering merging or selling," he says emphatically. "There is no management dissension."

"Control Data is going through a transition," he says. "It is a small company growing into a big company, and this is really the basis of these management changes."

"In the beginning, we had a wonderful management team that obviously had what it took, but the problems are a lot different in a small company than a large company. Those that weren't able to cope with the changes had to be replaced," he says.

Outside view. Other observers put it differently. In the beginning, some say, Norris and his eight co-founding engineers largely operated autonomously, without a lot of formal management control, each pursuing his own technical interests. But now that Control Data is many times larger with 10,590 employees and

pressed harder by IBM and competitors such as General Electric and a resurgent Burroughs, the loose structure has cracked.

Another ingredient in management changes has been the source of financing. Early this year, the company negotiated a two-year, \$120-million revolving credit with a group of 10 banks led by Continental Illinois National Bank & Trust Co. of Chicago. Control Data's initial projections on revenues and earnings missed the mark, and Continental Illinois is understood to have urged steps to tighten the management.

The bank's influence also is seen in the election this week of George A. Strichman, chairman and president of Colt Industries, Inc., to the seven-man board. He replaced Seymour R. Cray, a co-founder and Control Data's acknowledged technical star. Strichman's background includes experience with International Telephone & Telegraph's Kellogg Div., Raytheon, and G. E.

There could be more resignations as pressures to perform continue. A peculiarity at Control Data has been that vice-presidencies have been awarded for past performance rather than because of the office held. The title has not gone with a particular position but follows the recipient wherever he goes in the company.

Dollars. At the root of Control Data's problems, though, is a great thirst for cash. The growing trend toward leasing computers means that income—and profits—are deferred. Today, 60% of Control Data's business is in leases; five years ago—when more of its big scientific customers bought machines outright—the figure was 25%.

But late in June the company signed a contract with Leasco Data Processing Equipment Corp., which should help it increase sales in relation to rentals—and thus lift earnings and ease the cash squeeze. Under the plan, Leasco will buy computers that Control Data's customers want and rent them to the user on a five-year payout contract. So far, no new business has been written under the plan.