CDC BOARD OF DIRECTORS  
September 16, 1983  

R. M. PRICE  

SINCE WE LAST MET IN JULY, WE HAVE FINISHED THE LONG-RANGE STRATEGIC PLAN AND ARE NOW MOVING INTO THE FIRST PHASES OF PREPARING THE 1984 BUDGET. AS YOU WELL KNOW, PLANNING AND STRATEGIZING THE BUSINESS IS A CONTINUOUS PROCESS THAT IS NEVER REALLY COMPLETED. HOWEVER, IN THIS YEAR'S PROCESS, I BELIEVE WE HAVE NOT ONLY ADDRESSED THE MOST IMPORTANT STRATEGIC ISSUES, WE MADE SOME DISTINCT IMPROVEMENTS IN THE APPROACH TO SOLVING THEM. AS A RESULT, WE ARE NOW IN A MUCH BETTER POSITION TO GO FORWARD. IT'S NO EASY TASK WHICH MUST BE ACCOMPLISHED IF WE ARE TO LIFT CONTROL DATA TO TRULY IMPROVED PERFORMANCE OVER THE NEXT THREE YEARS. BUT SINCE WE WILL HAVE A FULL REVIEW OF THE LONG-RANGE STRATEGIC PLAN WITH YOU AT THE NOVEMBER MEETING, I WON'T COMMENT FURTHER IN THAT REGARD RIGHT NOW. MY COMMENTS TODAY RELATE TO THIS YEAR'S PERFORMANCE.

AT THE LAST BOARD MEETING, I TOLD YOU THAT BECAUSE OF POSITIVE ACTIONS TAKEN IN TERMS OF EXPENSE CONTROLS AND THE ENHANCED REVENUE OUTLOOK FOR THE SECOND HALF, WE FELT THAT THIS YEAR'S EARNINGS AND ROIC WILL EXCEED LAST YEARS. I WENT ON TO SAY THAT THE QUESTION WAS: "WILL WE MAKE THE BUDGETED EARNINGS AND ROIC?"
I further stated that because of continuing profit problems at Commercial Credit and in some areas of Worldwide Data Services, their shortfall would have to be made up in other areas, and all in all, that would be a tough but possible task. Well, two months later that task looks much tougher. Commercial Credit -- and International Services as well -- have continued to deteriorate.

Let me cover International Services first. Revenue, especially in international data services, is lagging behind the budget. International Services improved their profit picture somewhat in August and their plan appears appropriate for some revenue increases over the remainder of the year. For example, in the last four months of the year, we will ship 800 CD 110's (our micro computer) worth $9 million and 20 ICEM 120's (that's the CAD system based on the Cyber 120 computer) worth $2 million. But that's not enough to really get the thing on track. Going into next year, we will have good backlogs, some new applications for added revenues, and a plan to consolidate computer equipment that will reduce base processing costs in 1984. But still, for 1983, rather than helping matters, International Services will just add to the problem of making up the Commercial Credit shortfall from budget.
ALSO,ALTHOUGH BOTH PLATO TRAINING AND EDUCATION AND HEALTHCARE SERVICES ARE PROJECTING GOOD RESULTS FOR THE REST OF THE YEAR AND MANY OF THE PROFIT IMPROVEMENT PROGRAMS PUT INTO PLACE THIS YEAR ARE WORKING, WE WILL NOT BE ABLE TO MAKE UP THE REVENUES AND PROFITS THAT ARE BEHIND BUDGET SO FAR THIS YEAR. PT&E, HEALTHCARE SERVICES, AND CDI ARE ALL WELL POSITIONED FOR GOOD CONTRIBUTIONS TO 1984. UNFORTUNATELY, ONCE AGAIN, THAT WON'T HELP US IN 1983.

AS YOU JUST SAW IN LARRY PERLMAN'S PRESENTATION, COMMERCIAL CREDIT IS HAVING TOUGHT TIMES. THE CURRENT PROJECTION FOR COMMERCIAL CREDIT IS FOR SOME IMPROVEMENT. BUT THAT IS ACTUALLY DEPENDENT ON THE SALE IN DECEMBER OF THE GULF INSURANCE HEADQUARTERS BUILDING IN DALLAS WHICH WILL PRODUCE AN AFTER-TAX PROFIT OF $12.0 MILLION. EVEN WITH THE BUILDING SALE, OUR FINANCIAL SERVICES BUSINESS WILL FINISH $15 MILLION SHORT OF BUDGET.

COMMERCIAL CREDIT MANAGEMENT IS WORKING AT THE VARIOUS ISSUES IN EACH KEY BUSINESS. FOR EXAMPLE, LARRY PERLMAN IS HEADING UP A GROUP OF TOP MANAGEMENT PEOPLE, INCLUDING SEVERAL FROM THE COMPUTER BUSINESS, TO ADDRESS THE STRATEGIES AND IMPLEMENTATION PLANS FOR THE BUSINESS CENTERS.
OPERATING EXPENSES AT COMMERCIAL CREDIT ARE RUNNING HIGHER THAN MAJOR COMPETITORS. THIS PROBLEM IS BEING ADDRESSED. THE COMPANY, FOR EXAMPLE, IS IN THE MIDST OF A PROGRAM TO REDUCE THE NUMBER OF PEOPLE EMPLOYED WHICH WILL REDUCE THE PAYROLL BY $8 MILLION IN 1984. ADDITIONAL EFFORTS ARE PLANNED TO DEAL WITH THE EXPENSE BASE PROBLEM.

GULF INSURANCE CONTINUES TO BE A PROBLEM. CASUALTY INSURANCE IS A VOLATILE BUSINESS AT BEST AND CANNOT BE VIEWED AS A STEADY SOURCE OF FUNDS TO INVEST IN OTHER PARTS OF THE BUSINESS. SINCE IN THIS STRATEGIC SENSE IT DOESN'T REALLY DO ANYTHING FOR US, THE MOST PROBABLE COURSE OF ACTION WILL BE TO DIVEST IT.

THE ISSUES AT COMMERCIAL CREDIT ARE SERIOUS BUT IN GROSS STRATEGIC TERMS THEY ARE ON THE RIGHT TRACK -- SMALL BUSINESS CAN BE AN EXCELLENT MARKET FOR ALL THE PRODUCTS AND SERVICES WE HAVE TALKED ABOUT. THE PROBLEMS WITH ERA HAVE BEEN ONES OF A DISASTEROUS MARKET CONDITION AND SOME POOR IMPLEMENTATION ON OUR PART. WE HAVE DEMONSTRATED GOOD ABILITY TO RAPIDLY BUILD THE THRIFT DEPOSIT BASE BUT MUCH POORER ABILITY TO PROFITABLY EMPLOY THOSE FUNDS WE HAVE RECEIVED. SO THERE IS A LOT TO BE DONE AND IT WILL TAKE TIME -- THAT'S NOT EXACTLY "NEW NEWS" AS THEY SAY BUT CLEARLY THE DOWNSIDE WAS WORSE THAN WE ANTICIPATED -- AND I CAN'T SAY FOR CERTAIN THAT WE HAVE IT FORECAST CORRECTLY NOW.
ON A POSITIVE NOTE, THERE IS SOME UPSIDE POTENTIAL BEYOND
CURRENT FORECASTS IN SYSTEMS, U.S. SERVICES, AND PERIPHERAL
PRODUCTS. BUT CONSIDERING OUR CURRENT PROFIT POSITION AND THE
COMMERCIAL CREDIT SITUATION, AS CHUCK ROSKAM STATED EARLIER, IT
IS NOW PROBABLE THAT THE THIRD QUARTER WILL BE LESS THAN LAST
YEAR'S PERFORMANCE. ADDITIONALLY, WITH THE PROBLEMS AND
CONCERNS I MENTIONED EARLIER, IT IS MOST LIKELY THAT THE
EARNINGS FOR THE YEAR WILL ALSO BE LESS THAN THE BUDGETED LEVEL
OF $4.50 AND MAYBE NOT EVEN AS MUCH AS LAST YEAR'S $4.11. SO,
AS I STATED AT THE BEGINNING, OUR TASK FOR THE REMAINDER OF THE
YEAR IS DEFINITELY MUCH TOUGHER THAN WE THOUGHT IN JULY.

LET ME TURN NOW FROM THE NUMBERS TO SOME OTHER ITEMS.

R&D ANTITRUST LEGISLATION

AS YOU ARE AWARE, WE HAVE BEEN ACTIVE BOTH IN INDUSTRY AND IN
CONGRESS IN PROMOTING TECHNOLOGICAL COOPERATION. WITH MCC
UNDERWAY, MOST OF OUR ATTENTION IN THIS REGARD HAS BEEN DEVOTED
TO CONGRESS AND THE INTRODUCTION OF LEGISLATION TO CLARIFY
ANTITRUST LAWS WITH REGARD TO R&D COOPERATION. LOIS AND HER
STAFF, AIRED BY STEVE OLSON OF THE LEGAL STAFF, HAVE WORKED
HARD AT DRAFTING LEGISLATION, FINDING A SPONSOR, GETTING IT
INTRODUCED, TESTIFYING, WORKING WITH CONGRESSIONAL STAFFS, AND
SO ON. THERE HAS BEEN EXCELLENT BI-PARTISAN SUPPORT. THE
PROBLEM NOW IS THAT EVERYBODY IN CONGRESS HAS JUMPED ON THE BANDWAGON. THERE ARE AT LEAST TEN DIFFERENT PIECES OF LEGISLATION BEFORE CONGRESS OR BEING CONSIDERED. AND THERE ARE MANY VARIATIONS ENDORSED BY VARIOUS INDUSTRY GROUPS. SO EVERYBODY HAS THEIR PET VERSION AND THERE IS SERIOUS DANGER OF THE OLD "TWO MANY COOKS" PROBLEM.

IN THE LAST WEEK OR TWO PROGRESS HAS BEEN MADE IN SORTING SOME OF THIS OUT. A CONSENSUS BILL IS BEING WORKED ON BY CONTROL DATA, THE SIA, AND THE STAFF OF THE HOUSE COMMITTEE ON SCIENCE AND TECHNOLOGY. BUT THERE STILL ARE DAILY FALLINGS OUT. A SITUATION NORB REMEMBERS VIVIDLY FROM THE NEW LEGISLATURE THIS SPRING.

CRUCIAL HEARINGS WILL BE HELD BY THE HOUSE JUDICIARY COMMITTEE IN TWO WEEKS. ONE KEY ISSUE MAY BE THE QUESTION OF SO CALLED MANDATORY LICENSING [EXPLAIN BRIEFLY]. LOIS WORRIES A LOT AND IT'S HARD TO REALLY PREDICT WHAT WILL HAPPEN -- BUT WE'VE MADE A LOT OF PROGRESS IN A SHORT PERIOD OF TIME.

GOOD NEWS

HEALTHCARE SERVICES - EXCERPTS FROM DAVE HENAUT'S MEMO [READ FROM MEMO - ATTACHED].
PLATO TRAINING AND EDUCATION - I JUST PLAIN FEEL GOOD ABOUT IT -- LARGE ORDERS ARE BEGINNING TO COME, THE PRODUCT STRATEGY (FOR THE DELIVERY SYSTEM) IS FINALLY COHERENT AND EFFECTIVE -- THERE'S JUST ALL KINDS OF GOOD THINGS HAPPENING NOT THE LEAST OF WHICH IS A PROJECTION OF A LITTLE PROFIT FOR THE FOURTH QUARTER.

COMPUTER SYSTEMS - THROUGH SEPTEMBER WE WILL HAVE SOLD AS MANY SYSTEMS AS IN ALL OF 1982. UNIT ORDERS ARE PROJECTED TO DOUBLE OVER THE NEXT THREE YEARS.

PERIPHERALS - OEM ORDERS ARE UP 32 PERCENT OVER LAST YEAR AND BY THE END OF OCTOBER, THE ANNUAL QUOTA SHOULD BE IN HOUSE.

PFA JUST GETS BETTER AND BETTER -- SOME 1,700 PROCESSES NOW WITH IDENTIFIED SAVINGS OF SOME $13.6 MILLION. THIS IS A MAJOR CONTRIBUTION TO THE $44 MILLION BELOW BUDGET EXPENSE PERFORMANCE CHUCK ROSKAM NOTED EARLIER AND THAT NUMBER WILL INCREASE BY YEAR END.

PFA/SQC/INVOLVEMENT TEAMS ARE BEGINNING TO TRULY TAKE HOLD -- JUST AS ASSET MANAGEMENT DID BACK IN '74, '75 -- THE RESULT OF THAT IS THE KIND OF YEAR-IN YEAR-OUT IMPROVED PERFORMANCE CHUCK ROSKAM REPORTED (REGARDING ASSET TO REVENUE) A FEW MINUTES AGO.
BEFORE HE MANAGED TO CATCH HIMSELF, GEORGE TROY WAS DOWNRIGHT ENTHUSIASTIC THE OTHER DAY ABOUT SOME OF OUR NEW PROGRAMS IN CDBAI.

AND LAST, BUT NOT LEAST, THERE'S ETA SYSTEMS -- I'LL COVER THAT IN A FEW MINUTES.

IN THE MIDST OF ALL THE GOOD THINGS THAT ARE HAPPENING -- AND THE GOOD FEELING ABOUT THE BUSINESS, IT'S GALLING TO HAVE TO REPORT THE '83 OUTLOOK I DID EARLIER -- BUT THERE'S NOTHING TO DO EXCEPT HAVE AT IT -- IN DUE COURSE THE NUMBERS WILL CHANGE, TOO.