

# I.B.M. TO SELL UNIT TO CONTROL DATA IN SETTLING SUITS

**\$16-Million Will Be Paid for  
Subsidiary—Effect of Pact  
on U.S. Case a Question**

By WILLIAM D. SMITH

The Control Data Corporation and the International Business Machines Corporation announced yesterday settlement of Control Data's antitrust suit against the computer giant, and I.B.M.'s subsequent counterclaims.

The agreement calls for I.B.M. to sell its Service Bureau Corporation subsidiary to Control Data for \$16-million in cash. It also provides for payment over the next 10 years by I.B.M. to Control Data of about \$60-million for various expenses and services.

Control Data, based in Minneapolis, is the nation's fifth largest manufacturer of computers and is responsible for about 4.5 per cent of the installed value of data processing equipment in the United States, mostly in the large-scale segment of the market. The company was established in 1957.

**Suit Was Filed in 1968**

Control Data's suit against I.B.M. was filed in March 1968, 10 months before the Government's antitrust suit against I.B.M. Control Data charged I.B.M. with violation of antitrust laws during the mid-1960's with regard to marketing large-scale computers, and I.B.M.'s counterclaims accused Control Data of similar violations.

A trial date of Nov. 5, 1973, had been set for the case in a Federal court in Minnesota.

Yesterday's settlement came as a surprise to many industry observers, partly because of the vigorous opposition to I.B.M.'s dominance that William C. Norris, Control Data's chairman, has often stated.

**'Timely and Conclusive'**

A major question now is what effect the Control Data settlement will have on the Department of Justice's antitrust suit against I.B.M. The Government's suit was filed in January of 1969 and has relied heavily on information obtained by Control Data.

The Justice Department's suit is considered one of the most important antitrust actions because of the size and importance of the computer industry.

The Department of Justice declined yesterday to comment on the Control Data Settlement.

In a letter to shareholders yesterday, Mr. Norris commented:

"The decision to file a lawsuit in 1968, although difficult at the time, has now proved

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# Control Data and I.B.M. in Pact to Settle Trust Suits

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to be one of the best management decisions in our history. We are extremely pleased with the settlement. It was fair and our company will achieve substantial long-term benefits from the business transactions."

Frank T. Cary, chairman, president and chief executive officer of I.B.M., said:

"I am gratified with the settlement reached with Control Data. This suit has gone on for over four years and has represented a significant and growing expenditure of management time and legal expense. This settlement is timely and conclusive and it gives fair value to both sides."

Mr. Norris also commented: "There have been significant benefits resulting from the filing of our suit against I.B.M. not only to Control Data but to the computer industry. In addition to possibly inducing the Government to take action against I.B.M. and to providing substantial assistance to the Government in its lawsuit, we found that I.B.M. marketing pressures that we have challenged lessened considerably."

In addition to selling its Service Bureau Corporation subsidiary to Control Data, I.B.M. has agreed not to engage in the data service business in the United States for six years. Service Bureau was created by I.B.M.'s 1956 consent decree with the Justice Department that required that the giant computer company's processing of other people's data be handled by a separate subsidiary.

The Service Bureau Corporation operates computer centers

in which customers bring in their data in the form of punched cards to be processed. In recent years, service centers have become at least partially time-sharing operations where customers are connected by remote terminals with a central computer. The data and output are transmitted back and forth on communications lines.

I.B.M. has contracted for continuing use of data processing services from the Service Bureau, as a subsidiary of Control Data, and the minimum service charges are expected to be in the range of \$5-million a year for the next five years. I.B.M. has agreed to leave its equipment installed with Service Bureau for six months without rental charges. This amount is a subsidy of between \$2-million and \$5-million, according to outside observers.

Industry observers generally thought the settlement terms would prove beneficial to both I.B.M. and Control Data.

David R. Caplan, senior computer analyst for the brokerage house of Auerback, Pollak and Richardson, commented, "It's clearly a plus for both parties. I.B.M. has a big thorn out of its side and Control Data appears to have a very good deal on the Service Bureau Corporation."

The agreement also calls for I.B.M. to provide for reimbursement to Service Bureau for retirement and other fringe benefits of current Service Bureau employees of approximately \$2.6-million a year for 10 years.

Under the terms of the agreement, I.B.M. has also granted four five-year research and de-

velopment contracts to be charged to I.B.M. Association, a group of peripheral and materials basic equipment manufacturers, that the settlement indicated that "Control Data is confident the Justice Department will achieve the larger goal of restructuring the computer industry by reduction of I.B.M. power."

The agreement also calls for extension of worldwide patent cross-licensing agreements between Control Data and I.B.M.

James Peacock of EDP Industry Report, a trade paper, commented that the agreement is to be clearing the air along several avenues. He noted that the Service Bureau Corporation had not been a particularly profitable operation for I.B.M. and that Control Data hands because it is not be under the constraints of the 1956 consent decree against I.B.M.

During the last few years, Control Data has been emphasizing the service segment of the business and has its own organization called Cybernet. The Service Bureau Corporation has about 40 offices in the United States and in 1972 earned about \$1.5-million after taxes on sales of \$63-million.

Dan Mandresh of Alliance Institutional Services believes the settlement will allow I.B.M. to concentrate all its energies on the Government action against it.

Another antitrust suit against I.B.M., filed by the Telex Corporation, is scheduled to come to trial in April. Stephen J. Jatras, president of Telex, declined to comment on the Control Data settlement.

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