Good afternoon.

John Buckner will lead off today's program with a review of the third-quarter results. I'll follow with my remarks and, then, we'll address the questions that you submitted. John...

[BUCKNER REMARKS]

John has given you a good look at the operating results so far and the essentials of the '89 plan as far as cash is concerned.

After getting off to an encouraging start in the first half we have fallen out of bed in the third quarter. And we have a bare bones forecast for the fourth quarter. While it shows the best quarterly profit of the year, it is not even up to plan, much less the optimistic forecast of a couple months ago.

As John pointed out, we simply are not producing reasonable returns on sales. Let me tell you in more detail exactly why we must improve cash flow by improving **operating profit**.
At the beginning of 1986 we had two tasks: first, to financially restructure and refocus the Company, and second, to renew/replace/augment the then existing products and services. We needed new product momentum and that, of course, required expenditure and investment.

The first task was achieved. By mid-'86 we had successfully refinanced the Company through the public debt offering. We had rapidly sold off or shut down a number of businesses. And, with the serendipitous public offering of Commercial Credit, we had bought some breathing room. Moreover by the end of 1987 we had sufficiently positioned -- although at considerable cost -- the data storage business so that it could become an independent business -- which would allow us to focus Control Data on its service and computer systems businesses.

Finally, we had already made a good start at replacing the Cyber product line and the ETA-10 was becoming a reality. So we had made progress at least toward the second objective.

That was the situation toward the end of 1987. At that point, with more than $400M in cash, we looked for further opportunities to strengthen the business. One such opportunity was the acquisition of Sami-Burke for $60M. That transaction actually closed before the end of December last year. Another opportunity was that of buying 20% of Silicon Graphics for $70M. We decided to do that and it was closed by April. In addition, we built into the plan for 1988 aggressive investment and expenditures for ETA and Ticketron and later for Data Storage Products.
We made those strategic investments counting on performance to plan in the rest of the Company but with some margin of safety due to the good cash position we had.

What happened? We didn't get that profit performance. The forecast now says we'll miss by more than $77M pre-tax, pre-interest. We've used up the margin of safety we had in cash and then some; and that's why John said to you, "... we need a profit plan for '89 which is not based on reaching for high risk revenues .... because ..... we simply cannot take undue revenue risks with the kind of cash position we are forecasting for the end of 1988."

Nor, until the cash position changes, are we in a position to make additional strategic investments. So the prime objective for '89 is improved cash flow through improved profits.

That's the cash perspective. Now let's take a different look at the business and where we are by major business unit:

Business Services will exceed its planned profit for the year. Imprimis will considerably exceed its planned profit. Computer Systems and ETA will be significantly below plan, as will Government Systems.
So a large part of the Company, namely Imprimis and Business Services, is doing very well and much better than we thought we could at the start of the year. What the big question comes down to, then, is this: Is there something fundamentally different in the Computer Systems market from the basis on which the '88 plan was made?

Clearly, the plan overestimated our ability to move CYBER mainframes and ETA's ability to achieve several key acceptances on schedule, as well as build significant order momentum. It's also true that we had an unneeded surprise from NSC with regard to chips for the 960.

Still, the answer to the question is: "No! Nothing is fundamentally different."

Control Data's strategic approach to the computer systems market is no different today than it ever was. By that I mean the computer systems business, for the most part, addresses the technical computing niche of the total market. Moreover, we have usually faced some entrenched competitor -- just as we do today -- in supercomputers. Those circumstances are unforgiving to overreach or mishap -- either externally or internally produced.

In fact, the opportunity for the computer systems business is as good as Control Data has ever had. This opportunity is the result of the heterogeneous nature of the computer power installed in large scientific and engineering users in industries such as aerospace and automotive, and the emergence of the need for unified engineering data bases.
Nevertheless, computer systems is a high risk business -- especially supercomputers. No one ever guaranteed our success. At the same time, there is potential for great success.

Realizing that potential will require both strong products and a strong, coordinated marketing and sales effort. That's why Carl Ledbetter has been named to the newly-created position of vice president of marketing and sales for the whole Computer Products Division. He's responsible for all marketing and sales for both Computer Systems and ETA.

The leadership, energy and insight that Carl brought to ETA will now be applied to the entire product line, and toward the common goal of a Transparent Computing Environment for customers.

Some of the media have taken a different view. The Wall Street Journal in particular portrayed the marketing change as the end of ETA's independent status. That's journalistic hyperbole, and it's just nonsense.

ETA is still a separate unit -- as much or even more so than Rigidyne is a separate unit of the disk business or Micrognosis a separate unit of Business Services. The people at ETA are focused on supercomputing as they have always been. And, we are as dedicated as ever to being successful in the supercomputer business. We need to do a better job of marketing and sales. And, we're going to do whatever is necessary to make that happen.
Now, let me address the situation in Government Systems.

As many of you know, there has been a change in that market environment. Defense spending is under a lot of pressure -- more than was expected. It also appears that pressure will continue for at least the next two years. The U.S. budget deficit must be reduced, and relaxation of tensions in the Middle East, as well as improved U.S.-Soviet relations, make defense spending a prime target of the budget planners. That's irrespective of who wins the Presidential election.

On the other hand, Government Systems scored one of Control Data's biggest victories ever this year -- the ATARS contract. Although it will not be a big profit contributor in either 1988 or 1989, it will provide significant business -- up to $1 billion -- in the 1990's.

All-in-all, on the product and services front, Control Data is much better positioned than it was nine months ago.

ETA has made a lot of progress with software over that period. Cray Research certainly isn't going to roll over and play dead. But with concerted sales efforts, we can win.

Computer Systems is stronger, and the 960 deliveries have now begun. We are on the verge of some major victories in the heterogeneous computing environment/engineering data base.
Business Services continues its double digit revenue and profit growth. Imprimis is well-positioned competitively for the first time in five years. Imprimis has a complete and highly competitive product line.

[PAUSE]

So this is where we are: we have achieved or at least made very good progress against the two basic things we had to do three years ago. The Company was restructured and refinanced. We have new products and services and are stronger in that regard than in a long time.

At the same time, however, we have used up a lot more cash in the process than we had planned -- because, as John Buckner has said at the last two Executive Briefings, spending is too great a percentage of revenue. To quote him exactly: "Until spending becomes a lower percentage of revenue, the Company will continue to operate with marginal profitability. Worse still it is helpless to protect itself against negative surprises."

There is yet another way to look at where we are and what we have to do. Control Data is a stronger company today because we have in place a strategic planning process that clearly isolates competitive position and competitive issues. There is some variation across various business units, but we truly do have a much better strategic understanding. What we have to work on is translating that competitive, strategic
understanding into operating initiatives that do not depend on high risk revenues for success, and which result in "spending that is a lower percentage of revenues."

In the end, we may have smaller revenue growth but we'll surely have better profitability. And that's how we'll get the cash flow to make more strategic investments.

The next few months will be tough ones -- tough because you simply have to produce the fourth-quarter numbers you've committed to, and tough because we have to deal with all the unfavorable publicity while getting the job done.

But it's a task we can manage -- if we push fear aside and concentrate on our strengths as individuals, as business units, and as a company.

[PAUSE]

Now let me turn to your questions.

If you net down what John and I have said it comes down to two issues: cash flow and computer systems.

As I look over the questions, basically they reflect those same two concerns.
So let me go through them that way. Those that have to do with computer systems and those that have to do with cash flow and relate them to what we've said so far today.

There are a few questions on other topics. I'll deal with those after the cash flow and computer systems questions.
Executive Briefing Questions and Answers

1. Have we given up on ETA? If not, what is the plan and prospect for the future?

Answer: We have NOT given up on ETA. The supercomputer line is one of three critical parts of our being able to deliver transparent computing to our customers. The Transparent Computing Environment strategy does not hold together without supercomputers. In addition, it should be very clear that we are committed not only to the low-end of the supercomputer line, the air-cooled machines, but we can't survive in the supercomputer business without the top-end liquid nitrogen-cooled machines. Being able to offer clean migration from a $1 million machine to the $20 million machine give us clear competitive advantage.

2. How can we ever make money or achieve differentiation if we continue to develop proprietary architecture and a full range of hardware?

Answer: We can't. The fact is we are not developing a full range of hardware. We don't build personal computers and we don't build workstations. That leaves mainframes and supercomputers. Although NOS/VE and EOS are proprietary operating systems for the CYBER mainframe line and ETA supercomputer respectively, we are moving to UNIX with both products. We announced to the world in June that we would deliver ETA System V on October 1, and we did it. We have said we will have UNIX running on the mainframe line by the end of 1989 and we will do that, too. But having UNIX on our machines will not by itself achieve differentiation. We can go to any customer today and say: "Mr. Customer, don't throw away your VAX, don't throw away your IBM, don't throw away anything. We can make it work together." We demonstrated that to some very skeptical analysts and press in New York two weeks ago, and they left knowing we weren't kidding. The market we are attacking is the heterogeneous computing environment where data creation and management is out of control. That market is large. And we are already achieving success.

3. I'm not technical so I'm confused by what seem to be two different technical strategies: UNIX and NOS and ETA and Cyber. Can you spend a moment and rationalize this point for me?
Answer: First, some background. Our CYBER line of products includes the CYBER 910 graphics workstation, which is built by Silicon Graphics; and the CYBER 930, 960 and 990 mainframes. The ETA10 is our supercomputer line. There really is one strategy here with three critical elements: offer workstations for visualization; mainframes for information management; and supercomputers for simulation and analysis. NOS/VE is the Control Data-developed operating system for the CYBER mainframe line. And UNIX is the industry standard operating system. That operating system now runs on the ETA10 supercomputer line. It now runs on the CYBER 910 workstation line. And by the end of 1989 it will run on the CYBER mainframe line. This UNIX strategy will make possible a more cohesive environment for moving computer tasks or applications between different machines.

4. We continue to have cash flow problems, yet we continue to make investments such as Silicon Graphics. Why?

(assuming cash flow problems are addressed prior to this answer) Silicon Graphics forms one of three pivotal elements in our Transparent Computing Environment: visualization. But more than that, when you think about the possibility of merging SGI's high-performance graphics expertise and ETA's NIC computing expertise, you're talking about the possibility of changing the face of visual computing in the future. The fact is that company is a significant player in the future of the computer business. When a company is that important to you, you can either stand by and hope that they are faithful to you, or you can formalize the relationship. We now hold a 20 percent stake in SGI and a seat on their board of directors.
General Points

o Clearly there are risks

ETA10 Product Line

o We need to establish potential of ETA in the market
  - overcome belief that top end is being conceded to Cray
  - capture accounts outside university and weather markets
  - improve selling thrust
  - move ETA into true production environments

o Specific milestones achieved
  - Acceptance at German Weather
  - TIT payment expected end of October
  - UK Met going well
  - new liquid nitrogen orders getting closer
  - good acceptance of air-cooled machines
  - potential for volume air-cooled business
  - air-cooled production margins increasing

CYBER Product Line

o We need to hold onto CYBER base
  - older systems transition to new machines and operating systems
  - coordinate sales and Professional Services efforts toward selling

o CYBER 960
  - parts problems largely over
  - first customer shipment made
  - machine working well
  - mainstay of the CYBER business in 1989

o CYBER 930
  - volume below expectations . . .but
  - 1988 volume higher than any other mainframe
  - 45 percent of orders from new accounts
  - Mexico order of 23 systems largest mainframe order ever
  - 103 Shipped in 1987
  - 250 expected to ship in 1988
CYBER 930 (continued)
- **French Telecom** -- Eight 930s located in various regions in France as billing problem information systems. INstalled throughout 1988 -- now considering upgrades to 960s.

- **CFE Mexico** -- Largest mainframe order from a single customer for twenty-three 930s. This nationalized electrical utility for Mexico will use the 930s for billing and other commercial applications.

- **Ticketron** -- Now has Sixteen 930s installed in their Hackensack, N.J. facility and in several state lottery systems such as Florida and Pennsylvania. In Florida, recently processed over 400 transactions per second.

**CYBER 910**
- 320 shipped in 1987
- 890 expected to ship in 1988
- range of products: entry, mid and high end complete
- 400 software vendors ported to platform

**Transparent Computing Environment**
- Win prestige accounts (Boeing, Ford, MOI Thailand, etc.)
- Aggressively attack aerospace and automotive markets

**Problems**
- U.S. sales momentum
- volume
- product margins -- especially ETA air-cooled
- too much cash consumed

**Positives**
- good products in rejuvenated line
- strategy creating some excitement - New York Expo