The questions you submitted in advance were really very good, and I want to spend most of my time today answering those questions. But let me make a few remarks first of a more general nature that address somewhat broader questions which probably underlie your more specific ones -- questions and concerns that would be along the lines of: "What is the Company's status?", "What's going on?" and "Where are we going?"

First of all, Control Data is continuing to improve. It is improving in terms of focus, in terms of the quality and competitiveness of its products and services, and in its financial performance. In 1985 we lost $567M; in 1986, $264M. Last year we made a small profit -- $19M. This year we will do substantially better than that. And next year looks to be another substantial improvement in profit over this year. There is just no comparison - we're a stronger, better company than a year ago - not to mention 3 years ago.

What is also true, however, is that we will not do as well this year as we had planned when the year started, and in particular the third quarter will be a poor quarter for us. Looking back over 1988, the 1st Quarter
was better than plan; the 2nd Quarter was fairly close to plan; the 3rd Qtr., as I say, will be much worse than plan, and the 4th Quarter will again be fairly close to plan.

As a result of the announcement in September of the outlook for the 3rd Quarter and the year, we have received some bad press recently -- particularly in the WSJ and BW. Given Control Data's recent history, that bad press naturally raises exaggerated fears in both employees and customers. Looked at factually, however, things look quite a bit better than the media stories would have you believe.

Let's look at the business by major business unit: Business Services will exceed its planned profit for the year. Imprimis -- i.e. DSP -- will considerably exceed its planned profit. Computer Systems and ETA will be significantly below plan, as will Government Systems. We also will have a large loss in VTC.

In significant parts of the Company's business, then, we are doing very well and much better than we thought we could at the start of the year. The question, however, is: is something fundamentally different in the Computer Systems market from the basis on which the '88 plan was made. The plan clearly overestimated our ability to move Cyber 930's and ETA's ability to achieve several key acceptances on schedule. 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."

The computer systems market for Control Data is no different today than it ever was. The computer systems business, for the most part, addresses the technical computing niche of the total market. Moreover, we face an entrenched competitor in supercomputers. Those circumstances are unforgiving to 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.

Still, 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. 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 particularly portrayed the marketing change as the end of ETA's independent status. That's typical Dick Gibson hyperbole, and it's just nonsense.

ETA is still a separate unit -- as much or even moreso than Rigidyne is a separate unit of the disk business. 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 necessary to make that happen.

A word or two on Government Systems. In that area there has been a change in the market. Defense spending is under a lot of pressure -- more than we anticipated. It also appears that will be true for the next year or two at least. 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 -- irrespective of party.
On the other hand we had one of Control Data's most significant wins ever in Govt. Systems this year -- the ATARS contract. Altho' it will not be a big profit contributor in either 1988 or 1989, it will provide significant business -- up to $1B -- in the '90's.

So all-in-all we are much better positioned than we were 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 effort we can win. Computer Systems is stronger, and the 960 deliveries have now begun. We are on the verge of some significant wins in the heterogeneous engineering data base application.

Business Services continues its double digit revenue and profit growth. In addition to that, reduction in overhead and centralized corporate services will reduce corporate spending next year by some $20M.

The next few months will be tough ones -- tough because we have a huge task to make our 4th quarter numbers and tough because we have to deal with all that unfavorable publicity while we get the job done. But by concentrating on our strengths as individuals, as business units, and as a company, we'll manage that as well.

Now let me turn to your questions.
WHAT IMPROVEMENTS ARE PLANNED OR HAVE BEEN MADE TO ENSURE MARKETING GET OUT AND CREATE NEW CDC CUSTOMERS?

- An emphasis on new customers using entry-level 910 and 930 products. Approximately 35-45% of sales of these machines have been to new customers. Emphasis is on customers that will later take larger systems.

- Bigger problem has been slow down in purchase of larger machines by established U.S. customer base.

- Improvements include reorganization of marketing in Computer Products Division, realignment of Professional Services with Computer Products Division, training, etc.
CYBER COMPUTER SYSTEM SALES ARE ACHIEVING EXPECTATIONS IN EUROPE BUT ARE BELOW TARGET IN THE U.S. HOW DO YOU EXPLAIN THIS PHENOMENON AND DO YOU SEE THIS CHANGING?

- Europe market is generally much stronger than the U.S. market
- More senior, experienced CDC sales force in Europe as compared to the U.S.
- Pre-sales analysts more integrated and better focused with sales effort in Europe

Actions to remedy U.S.
- Strong hiring program
- Realignment of Professional Services into Computer Products Division
- Re-emphasized training program
- Recent reorganization combining ETA and Computer Systems marketing, with Carl Ledbetter as head
WHY DID CONTROL DATA "MISPROJECT" THE SALES FOR 1988 BY SO MUCH?

- Weaker market in U.S. during 1988 has affected all computer companies
- Slow government sales
- Chip delivery problems on 960
- State of ETA operating systems software
- Necessity to migrate customers from NOS and NOS/BE to NOS/VE in order to sell the new product line, particularly 930's
- Effectiveness of tactical marketing and ability to manage various sales resources
A RECENT MAGAZINE ARTICLE SAID "CDC COULDN'T SELL FUR COATS TO ESKIMOS." WHEN, IF EVER, WILL WE GET AN EFFECTIVE SALES/MARKETING FORCE?

We have an effective sales force. The real question is how well that sales force is trained and how well it is directed by marketing, particularly tactical marketing. Marketing efforts to improve our information base and knowledge of both existing and potential customers, the recent organization realignment and the continued efforts at training should improve effectiveness in the future.
QUESTION: I understand the Sunnyvale building is being sold for $11 to $12 million and we are moving to a new facility at great cost. I have heard $4 to $5 million moving costs. Is this not an example of short-term thinking at the expense of long-term business considerations?

QUICK ANSWER: The proposed sale of the Sunnyvale property for $10.4 million is an opportunity to capture an $8.0 million P&L gain, a net cash gain of about $7.5 million, and will give us space that better fits most of the operations that will be moving. The incremental annual space cost is less than the value of the immediate cash infusion.

ADDITIONAL DETAIL: The financial analysis of the Sunnyvale transaction looks like this:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales price:</td>
<td>$10.4 million</td>
</tr>
<tr>
<td>Net after costs of sale:</td>
<td>$10.0 million</td>
</tr>
<tr>
<td>Fit-up/moving costs:</td>
<td>$2.5 million</td>
</tr>
<tr>
<td>Net Cash:</td>
<td>$7.5 million</td>
</tr>
<tr>
<td>Net P&amp;L:</td>
<td>$8.0 million</td>
</tr>
<tr>
<td>Replacement Space Cost:</td>
<td>900K/yr rent</td>
</tr>
<tr>
<td></td>
<td>50K/yr inc taxes (due to inc value)</td>
</tr>
<tr>
<td></td>
<td>(150K)/yr util/operating costs (space reduction)</td>
</tr>
<tr>
<td>Increase of:</td>
<td>$800K/yr</td>
</tr>
</tbody>
</table>

Thus, for an incremental space cost of $800K/yr, CDC achieves a positive P&L impact of $8 million, an immediate cash infusion of $7.5 million (a value of approximately $900K/yr at our current cost of money), and gets space that better fits the operation's current needs.
QUESTION: WILL EMPLOYEES HAVE TO CONTRIBUTE TO THE RETIREMENT PLAN AGAIN IN 1989?

ANSWER: In 1987, the Company decided to suspend employee salary reduction contributions to the Pension Plan from October 1, 1987, through December 31, 1988. There were several reasons for that suspension which were communicated at that time.

Recently, the Internal Revenue Service published new regulations which have raised certain questions as to the status of the Plan. The Company is currently analyzing these regulations. Therefore, no final decisions have been made concerning resumption of contributions in 1989. When those decisions are finalized, participants will receive the relevant information.

For planning purposes, however, I would recommend that participants assume that salary reduction contributions will resume in January as scheduled.
QUESTION: RETENTION OF OUR SKILLED TECHNICAL EMPLOYEES HAS BECOME INCREASINGLY DIFFICULT IN THE COMPETITIVE SILICON VALLEY EMPLOYMENT MARKET IN LIGHT OF COST CUTTING MEASURES ADOPTED BY INDIVIDUAL SBU'S THAT AFFECTED EMPLOYEE COMPENSATION OR BENEFITS - FOR INSTANCE, A SIX-MONTH SALARY FREEZE AND A DIRECTED TIME OFF POLICY IMPLEMENTED BY GOVERNMENT SYSTEMS AND SCHEDULED SHUTDOWNS OVER LABOR DAY WEEK AND AT YEAR-END MANDATED BY COMPUTER SYSTEMS. THE POLICIES HAVE ALSO PLACED CDC DIVISIONS IN THE SAME FACILITY IN COMPETITION WITH EACH OTHER FOR THE PEOPLE RESOURCE NEEDED TO MEET THEIR PERFORMANCE GOALS, AS LONG TIME EMPLOYEES SHOP FOR WHAT THEY CONSIDER THE MOST FAVORABLE DEAL VIA THE POSTING PROCESS. MUST THIS MANAGEMENT PROBLEM NOW BE ACCEPTED AS A WAY OF LIFE WITHIN CDC OR IS THERE HOPE OF A MORE COMPETITIVE AND CONSISTENT APPLICATION OF COMPENSATION AND PDO POLICIES AT THE CORPORATE LEVEL IN THE FUTURE?

ANSWER: Control Data's organization structure and management practice has as an objective the focusing of specific businesses to the markets in which they compete. The intent of this direction has been to permit organizations to operate and respond to unique elements in a specific marketplace. Fundamentally this means that where differences in markets and businesses exist, there may be a need for differences to also exist within Control Data.

As a matter of fact, actual pay programs throughout Control Data have been essentially the same. The differences which are cited in this question relate rather to the business requirements in Government Systems and Computer Systems. It will continue to be our intent to permit the Business Units to respond to market circumstances or business conditions in ways which are considered appropriate by the management of those Business Units. It should be recognized that the steps which were mentioned have been taken due to extraordinary circumstances and as such, we do not expect that these dramatic differences will exist in the future.
**QUESTION:** Control Data's presence in the Bay Area has shrunk from an employee population of over 4000 four years ago to under 1000 today. This has impacted promotion of career opportunities and mobility between organizations, which was a major mission originally assigned to the Management Club. Is there any solid prospect of a reversal of this trend in the near future?

**ANSWER:** While the numbers indicated are not quite accurate the nature of the question pertains to reductions in the Bay area, the impact on career opportunities, and future prospects. There are no major population shifts contemplated for the near future. Strategic plans call for steady revenue growth, but greater profit growth through continued process streamlining and reduction of expenses. The end result will be a stable or slightly reduced population. There will be a continued balancing of revenue producing positions and support positions. Long-term, with solid revenue growth, population levels should increase.

### Actual Population

<table>
<thead>
<tr>
<th></th>
<th>9/84</th>
<th>9/88</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco, San Jose, Oakland</td>
<td>3008 (FT &amp; PT)</td>
<td>1358</td>
</tr>
<tr>
<td>All California</td>
<td>4844 (FT &amp; PT)</td>
<td>2496</td>
</tr>
</tbody>
</table>

Major change in technology and effect on staff, plans call for growth.
QUESTION: ANY PLANS TO OFFER AN EMPLOYEE STOCK PLAN WHERE SHARES MAY BE PURCHASED AT A DISCOUNT?

ANSWER: There are no current plans to add a benefit program under which employees could purchase Control Data stock at a discount to market value.

Currently, the Company offers an Employee Stock Purchase Program. This program features the convenience of payroll deduction and the ability to purchase Company stock without brokerage charges. In addition, Company stock may be purchased through the Personal Investment Plan - again without brokerage cost.
An example of employment reduction as a result of technology is the utilization in disk drive manufacturing of automated board testing. Previous manufacturing technology involved the use of skilled technicians who tested boards using instruments essentially on a manual basis. Increasingly, the use of automated equipment eliminates the need for many of the technicians while improving reliability and reducing through put time.