

# EDS (Electronic Data Systems) - Corporate Profile

[LAST UPDATED OCTOBER 2002]

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## 1. Organizational Profile

According to their website: "EDS, the leading global services company, provides strategy, implementation and hosting for clients managing the business and technology complexities of the digital economy. EDS brings together the world's best technologies to address critical client business imperatives." They provide information technology services to various businesses and governments. Regarding governments, this includes such areas as welfare provision, Medicaid provision, U.S. Armed Forces Infrastructure, security systems management,...

This is originally the company that made Ross Perot rich, as he is the founder. EDS made its money as the 'original' private contractor for government and Perot invested heavily in his political connections to do so. This included direct contacts in the Nixon administration and things such as Perot being a consultant for EDS's first Medicare client Texas Blue Cross. Perot has since broken away from EDS, though EDS continues to be a major provider of outsourced government services, including, as mentioned above, being a major player in welfare and Medicaid provision, which is the focus of this profile.

On September 18th 2002, EDS announced that its earnings per share for the quarter ending September 30th were likely to be much lower than previously stated. This caused EDS' share price to fall dramatically, losing more than half its value the following day and fell to as far down as \$10.09 on September 24th. It is a big question right now if this huge fall in EDS' earnings is more based on the fall in the information technology sector or if it is from deeper problems in the company's infrastructure.

### Main Divisions

- Management Consulting (includes a venture capital fund).
- E.Solutions
- Business Process Management
- Information Solutions

EDS works for governments and companies in 55 countries and employs approximately 120,000 people.

### Head Office

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### Executive Salaries in 2001 (Salary + Bonus)

Richard Brown, Chair of Board and CEO - \$36,535,128 for his full pay package not including stock options.

Jeffery Heller, former Vice Chair - \$2,358,221

James Daley, Executive VP and Chief Financial Officer - \$4,301,777

Paul Chiapparone, Executive VP - \$4,756,147

## 2. Economic Profile

Financial Data	2001	2000	%Change
Revenue	\$21.54 b	\$19.23 b	12.0%
Net Income	\$1.39 b	\$1.14 b	21.9%
Earnings per Share	2.8	2.4	16.7%

**Stock Ticker Symbol on the NYSE:** EDS

### General EDS Financial Information:

- Stock Free Fall:** On September 18th 2002, EDS announced that its earnings per share for the quarter ending September 30th were likely to be much lower than previously stated. They had predicted EPS to be \$0.75 and now restated this as more likely to be 0.15 due to 2-5% lower expected revenues. This caused EDS' share price to fall dramatically, losing more than half its value the following day and fell to as far down as \$10.09 on September 24th. At one point last November its share price had been \$72.45. As well, on September 20th, it was revealed that on September 20th EDS had to pay \$225 million to pay for derivatives contracts. This was because the contracts were essentially bets that EDS' own stock would go up, which it obviously didn't.

This dramatic loss in stock price hit employees quite hard as well, as EDS' retirement savings plan involves matching employee contributions with company stock. As well, EDS announced it was planning to cut expenses - layoffs were a possible means to this expense cutting.

It is a big question right now if this huge fall in EDS' earnings is more based on the fall in the information technology sector or if it is from deeper problems in the company's infrastructure. Their contracts with

Worldcom, financially troubled Xerox, American airlines, Continental Airlines and the now bankrupt US Airways certainly has not helped their business. And since the stock started into freefall, Procter and Gamble has delayed its awarding of a \$8 billion contract with EDS. Other thoughts that have been raised as reasons for the stock's collapse include the possibility that EDS aggressive growth strategy had led them to ignore the signs that Information Technology sector momentum had been lost. Another is that EDS had made so many large deals in the recent past that they got off track in their already existing businesses and that these mega deals may have absorbed cash that could have gone to strengthening is other businesses.

According to a Dallas Morning News Report from September 29th, 2002 - EDS and CEO Dick Brown will have the following tasks if it is to turn the company's troubles around:

- A. "Convince Wall St that it isn't fudging when it predicts its revenues and costs"
- B. Handle cash appropriately
- C. Practice Careful Accounting

As a result of this earnings statement, the US Securities and Exchange Commission (SEC) has announced an informal inquiry into its financial transactions, including (1) the causes of the steep revenue and earnings shortfall EDS announced (2) the derivative bets EDS made on its own stock and ended up paying \$225 million for. As of now EDS has stated it is confident that the SEC will "confirm that its actions were proper". As well, EDS has had several class action lawsuits filed against it on behalf of its shareholders for what the plaintiffs see as misrepresentations to the market of its financial condition which artificially inflated the price of EDS' securities.

- Since CEO Brown came on board in January 1999, EDS fired 15,000+ employees and offered early retirement to 8,000 more (3,200 accepted the offer)
- The biggest reasons for EDS's strong showing in 2000 after a 'lackluster' previous few years are the mass layoffs and the landing of a mega contract with the US Navy and Marines to develop their entire Intranet system, the largest competitive contract for a government Information Technology program in history (\$6.9 billion)
- Earnings from EDS' government work grew 34% in 2000 and represent 14% of EDS' total business.
- EDS had been on a roll up to early 2002, with net income over the past three quarters at \$982 million, up 19%

## Key Transactions and Activities of the Last Few Years

### A. Key Social Services Transactions and Ventures with Government

- **October 2002** - Following an 18 month competitive process, EDS regained the contract from the state of California to administer the claims processing for Medi-Cal, California's Medicaid program.
- **September 2002** - Gained \$100 million US in government healthcare business in Tennessee and New Hampshire. The Tennessee contract is for 5 years for the implementation and maintenance of the Medicaid managed care system for Tennessee and the New Hampshire contract is for fiscal management services for 80,000 New Hampshire residents.
- **July 2002** - EDS outlined its relationship with WorldCom, following WorldCom's revelations of their dire financial situation and their criminal activities. EDS provides IT services to WorldCom, in an 11 year \$6.4 billion

US services contract. They also have many other commitments through WorldCom and this will hurt EDS financially but they stated that they will be entitled to relief from some of the obligations.

- **February 2002** – gained a 3-year contract to provide California’s Welfare Client Data System (CalWIN) with a digital learning system for its 25,000 employees.
- **December 2001** – Contract extension with State of Indiana for Medicaid Services. EDS administers the program for the state. (one year renewal, \$33 million)
- **September 2001** – EDS (with Oracle and PricewaterhouseCoopers as minor partners) won a contract with the US Department of Health and Human Services to create a new accounting system for Medicare and Medicaid with a potential value of \$328 million US. EDS is to oversee the software development and implementation.
- **June 2001** – 18 month contract extension of the “California Healthy Families Program” a program to provide medical insurance to children whose families can’t get Medicaid, and can’t afford private insurance. Worth \$64 million.
- **November 2000** – Oklahoma was awarded a \$102 million contact to supply the web-based technology to the Oklahoma State Medicaid program.
- **October 2000** – Delaware selected EDS to design and operate its new Medicaid System.
- **August 2000** – gained their largest agreement ever outside the US, a contract with the UK Department of Social Security worth \$2.5 billion over 10 years to handle the department’s information technology systems.
- **January 2000** – Contracted by the State of California to create CalWORKs Information Network (CalWIN), the ‘U.S.’s largest information solutions system for social services agencies’. The goal is to support and streamline services for 1.2 million social services recipients in California (40% of the caseload) This is an 11 year contract between 40 California counties and EDS worth \$321 million. Includes: Medicaid, Food Stamp, General Assistance, Welfare-to-Work...
- Overall, there are 18 states where EDS provides extensive Medicaid administration support services
- **Pennsylvania Department of Labor and Industry** – develop the state’s unemployment compensation scheme

## **B. Other Key Transactions and Ventures With the U.S. Government**

- **October 2002** - Gained an outsourcing contract with Dutch bank ABN AMRO worth \$1.5 billion for their software engineering, desktop support, local area network,... EDS won the contract over Accenture, Perot Systems, and IBM.
- **October 2002** - EDS ended its consulting alliance with the consulting arm of PricewaterhouseCoopers as EDS' competitor IBM has recently purchased the PWC Consulting unit.
- **December 2001** - US Air Force Awarded EDS a contract for a wide range of Information Technology (IT) Services including infrastructure modernization, applications, information assurance, and training. Five year agreement.
- **November 2001** – Names Anne Reed, former Department of Agriculture Chief Information Officer, to VP of

## State and Local Government Business

- **November 2001** - Begins Delivery of “Advanced Smart Cards” to “help secure Department of Defense (DOD) Sites, Computer Systems”
- **September 2001** – Awarded the U.S. Navy’s Task Force Web Project, to provide better access to navy personnel to Navy Marine Corps Intranet (NMCI) program. (see below for more details on NMCI)
- **June 2001** – US Department of Education office of Student Financial Assistance to consolidate its direct student loan program. (\$34 million contract)
- **June 2001** - EDS and EZ Gov - \$2.5 million contract in Massachusetts
- **May 2001** - EDS helped craft e-government legislation, helped Senator Joseph Lieberman create the e-government act, and EDS was one of two companies there for its public unveiling.  
[http://www.eds.com/news/news\\_legislation.shtml](http://www.eds.com/news/news_legislation.shtml)

According to Bill Sweeney, EDS vice president of Global Government Affairs: "If it is enacted and funded it will present a market-opening opportunity for EDS and a real chance to showcase EDS' intellectual leadership in helping shape how government should interact with itself as well as its citizens and businesses in the digital economy."

- **October 2000** - \$6.9 billion project to build the entire infrastructure for the Navy Marine Corps Intranet. Given that the Bush Administration is encouraging outsourcing, NMCI's scope makes it a likely model for how other agencies make decisions about outsourcing. EDS was said to have been a surprise pick for the contract, brings up questions of how much it was their vast political connections that got them the contract. It was brought up in the costs may double in time (though the Navy says it would still pay off hugely) and questions have been raised about the lack of a back-up company chosen if EDS
- **June 1999** - State of Connecticut scrapped a deal with EDS to privatize Connecticut's entire information technology infrastructure. (For more info, see social profile below)
- **July 1998** - Immigration and Naturalization Service – 5 year contract to ‘modernize Information Technology and business processes’

## C. Assorted Transactions and Ventures – including International

- **November 2001** – launches a wide range of security offerings for Airlines and Airports around the world. This includes Passenger Authentication, boarding control, Passenger Risk Scoring. All part of a plan to methodically separate the “known or trusted” people from the riskier, “lesser known people.
- **November 2001** – announced 4 major initiatives to broaden their business relationship, including an outsourcing contract extension.
- **October 2001** – Subsidiary AT Kearney to develop a strategy with the Beijing government to help create Beijing as a “global software hub” in light of Beijing's new position following China's accession to the WTO.
- **October 2001** – Six year contract to provide the Quebec government with implementation of “Oracle integrated management software” for use in Quebec's human resources management, financial management and materials management.

- **September 2001** – Renewal of EDS contract to process Brazil’s Visa card transactions.
- **August 2001** – Awarded contract extension to provide services to Eni Group, the largest Oil and Gas company in Italy.
- **June 2001** – EDS gained a 9 year, \$271 million (US) contract with the Government of Canada to provide “all business operations supporting the sale, customer service, and redemption of Canada Savings Bonds. Around 500 Bank of Canada staff joined EDS as a part of this outsourcing agreement. Beyond serious questions of privatization of the government workforce, questions have also arisen regarding the symbolic meaning a private company like EDS gaining a foothold in the Bank of Canada, the heart of Canadian monetary policy and sovereignty.
- **June 2001** - EDS contract to provide Human Resources Management Services for the Canadian Imperial Bank of Commerce
- **June 2001** – 9 year outsourcing deal with AeroMexico (Azteca 2000)
- **May 2001** - Dell Computers and EDS Alliance – Dell to sell its computer systems combined with EDS services and EDS to expand its use of Dell servers and products.
- **May 2001** – outsourcing contract south Australia, worth \$565 million US. Seen by some critics as “very secretive”
- **February 2001** – EDS announced plans to set up a new “Customer Interaction Centre” in Nova Scotia. This is an expansion in Nova Scotia on the previously built 900 person Customer Interaction Centre built in Sydney, NS. The Centre’s are used to support EDS clients throughout North America.
- **Banko Superior** – five year contract to provide IT outsourcing services in Colombia
- **Ontario (Canada) Network Services** – complete e-government platform for the province
- **Alberta (Canada) Government Services** – created a system so that 230 private agents could offer one-stop services to 3 million people.
- **Ontario (Canada) Corrections** – Ontario Integrated Justice Project
- **UK Inland Revenue** – support services for taxpayers
- **1999 – A.T. Kearney Ventures** – EDS created a \$1.5 billion fund (over 5 years) for B2B (business-to-business) and Internet investments. This includes purchasing stock of its clients.
- **Chek Lap Kok Airport in China** - key info services provider.
- **EDS Co Next** – announced this venture for the management of the supply chains of major global corporations including B2B netmarket provider.
- Making electronic social security smart cards for 8 million Austrian citizens through the government run Austrian Insurance.

## Key Future Strategic Aims

- EDS is trying to grow by ‘up to 30% in the federal sector’ and use its commercial offerings to ‘bring federal

agencies up-to-date'

- Get 'beyond e' – continue pursuit of the fully integrated digital economy by 'providing innovative end-to-end solutions' and establishing relationships with target clients beyond 'e' to create sustainable profitability.
- One of their newest efforts is building security systems to stop hackers
- Build off of the new, post-September 11, security focus of governments, business.

### 3. Political Profile

#### EDS' vast ties to Power and Government Decision Making

##### A. Board of Directors (EDS/Government revolving door?!)

- **William Daley** – Commerce Secretary under the Clinton Administration, chair of the Gore/Lieberman Presidential campaign, elected to the EDS Board on February 6, 2001. UPDATE: Daley was forced by law to resign in February 2002 when he became President of SBC Communications, a business with some similar work as EDS.
- **James Baker** – former Chief of Staff and Treasury Secretary under President Reagan, and Secretary of State under George Bush (EDS Shares = 15,346). Also a senior partner with the law firm Baker & Botts, LLP, which, according to a shareholder in EDS, collects substantial fees from EDS and EDS does not disclose these fees. In addition, the American Bar Association discourages directors from sitting on boards from which they collect substantial legal fees. (EDS Shares = 15,346)
- **Richard Brown, EDS CEO and Chair of the Board** – also on the board at Vivendi, Home Depot, and recently, Dupont
- **Roger Enrico** – CEO of PepsiCo (EDS Shares = 11,121)
- **Dick Cheney (former longtime EDS Board member)** – currently US Vice President (Defense Secretary under George Bush), resigned from the EDS Board last fall, being replaced by former Commerce Secretary Daley. Cheney's financial disclosures revealed that 'when he was picked by Gov. George W. Bush of Texas as his running mate, Cheney received hundreds of thousands of dollars from EDS'  
[www.sptimes.com/News/090200/Worldandnation/If\\_he\\_wins\\_Cheney\\_to.shtml](http://www.sptimes.com/News/090200/Worldandnation/If_he_wins_Cheney_to.shtml)

Interestingly, a Cato institute report came out at the same time touting "Cheney's Record Shows Willingness to Take Hard Steps on Social Security" <http://www.socialsecurity.org/dailys/08-01-00.html>

Touting his support for Reagan's 1981 limit on the cost of living increase and his expressed support for Social Security reform based on personal retirement accounts. (He reiterated this on the Regis show a few weeks later)

- **The Rest of the Board:** William Gray III, President and CEO of The College Fund/UNCF, Ray Groves, Retired CEO and Chair of Ernst and Young, Jeffery Heller, EDS Vice-Chair, Ray Hunt, Chair and CEO of Hunt Oil, C. Robert Kidder, Chair and CEO of Borden Inc, Judith Rodin, President of the University of Pennsylvania.

## B. Coalitions, Lobby Groups and Gov't Consultations – Membership and Connections

- **U.S. Coalition of Service Industries member** – the key big business lobby pushing the General Agreement on Trade in Services at the WTO Millenium Round ([www.uscsi.org](http://www.uscsi.org))
- On the **Steering Committee of the WTO Millenium Round** private sector program on e-commerce (current board member William Daley gave a speech to this group when he was Commerce Secretary)
- EDS CEO Brown is on **President Bush's Advisory Committee on Trade Policy and Negotiations** as well as his National Security Telecommunications Advisory Committee (sat on both committees under Clinton as well)
- **US Trade Representative – Industry Consultations Program** ([www.ustr.gov](http://www.ustr.gov)) This is the chief consultation method of the USTR with business. EDS is represented on the **Industry Sector Advisory Committee for Electronics and Instrumentation** by Heidi Hijikata (EDS director of Asia Pacific Policy and Government Affairs)
- The **Dialogue on Electronic Commerce during the World Services Congress (WSC) 1999** in Atlanta had Bill Poulis, the manager of technology policy for EDS, as a panelist (along with representatives from the State Department, IBM, and the American Enterprise Institute. The WSC was in many ways the kick off to the Services 2000 round of GATS negotiations. [www.worldservicescongress.com](http://www.worldservicescongress.com)
- **Trans-Atlantic Business Dialogue (TABD)** – promotes liberalization Stephen Ward of EDS Global Government Affairs chairs the TABD Expert Issue (Working Group) on Government Procurement. The TABD has laid out an extensive wish list for GATS negotiations, including maximum liberalization of market access, full national treatment, a focus on ending barriers to e-commerce, the full embrace of previously neglected sectors like energy, environment, and express delivery, and horizontal or cluster negotiating approaches 'where appropriate'. The TABD also states that the case of a lack of a new WTO Millennium round of negotiations should not hamper progress in services negotiations. ([www.tabd.com](http://www.tabd.com))
- Member of the **US Business Roundtable** ([www.brtable.org](http://www.brtable.org))
- **Member of US-Trade (also known as the US Coalition for Trade Expansion):** Key umbrella Group for promoting Trade Promotion Authority (fast track) for President Bush as well as trade liberalization through the World Trade Organization (WTO). The USCSI and the Business Roundtable are part of this organization. (<http://www.us-trade.org>)
- **US-China Business Council** ([www.uschina.org](http://www.uschina.org)) – EDS CEO Brown is one of twelve members of the Council. The council lobbied the Clinton Administration and Congress to pass Permanent Normal Trading Relations with China including a letter sent to Clinton that was cc'd to William Daley, now on EDS' board. This group is currently one of the driving forces behind the US-Trade Group that has formed to push Trade Promotion Authority (Fast Track)
- **Global Business Dialogue for e-commerce** – EDS CEO Brown is the chair
- **Phillip Little**, President of the EDS Banking Division gave a speech to the **Trade Policy Staff Committee of the USTR** on the need for expanded liberalization in the WTO and FTAA.

- **Digital Divide Summit** – hosted by current EDS board member William Daley (then Commerce Secretary). EDS CEO Brown was a participant on one roundtable moderated by Daley.

- **Political Donations to the House Ways and Means Committee (key committee on trade):**

\$1500 to William Thomas (committee chair)

\$1000 to Philip Crane (Trade subcommittee chair)

\$3000 to S. Levin (Trade Subcommittee standing member)

- **House Ways and Means Health Subcommittee** – David Bryan, EDS Health Care Senior Markets, spoke on Management of the Medicare Program – Feb, 1999

- **In September 2001**, former Israeli Prime Minister Ehud Barak was named Special Advisor to Chairman and CEO Dick Brown. He will advise on international business and policy issues.

## C. Campaign Contributions

**Total Political Donations during the 2001-2002 US election cycle:**

### Political Action Committee Donations (As of September 30th, 2002)

- \$206,436 (44.0% to the Democrats, 56.0 % to the Republicans)

**Top recipients were in Virginia and California:**

Rep. James P. Moran Jr (Democrat - Virginia) - \$4,000

Rep. Robert Matsui (Democrat - California) - \$4,146

Sen. John Warner (Republican - Virginia) - \$4,000

(EDS gained two big contracts from California in 2002. In addition to contributions to federal candidates, EDS also gave \$14,000 to candidates for the State of California elections. <http://cal-access.ss.ca.gov>)

**Soft Money Donations** (same company, but donations given through different channels - i.e. money goes to Democratic or Republican National Committee rather than directly to a specific politician)

\$235,457 [\$25,500 (11%) to Democrats, \$209,957 (89%) to Republicans]

## 4. Social Profile

### Questionable Practices and Problem Contracts:

• **Texas Medicaid** – accused of overcharging the State of Texas on a Medicaid contract. “The Travis County district attorney convened a grand jury to investigate whether EDS overcharged the state, potentially by over \$10m. This came after searches in Plano and Austin. In June 2001, EDS offered to pay the state \$3.4 million to end the grand jury investigation. EDS said that this settlement does not equal an admission of wrongdoing. In July 2002, the Texas Attorney General stated in a report that was not released to the public, that EDS, through its subsidiary National Heritage Insurance Co., had overcharged and improperly billed the state of Texas for its work on the Texas Medicaid program. The report included information that the EDS subsidiary charged for an executive's luxury apartment, sports tickets, and questionable employee bonuses, among other things. Still, the Attorney general refused to release the full report publicly saying that the report is protected communication between the state's lawyers and its clients. Numerous newspaper articles, including two Austin American-Statesman editorials, called for the public release of the document, especially because the Texas Medicaid contract is up for renewal in late in 2002. Through all of this, including their \$3.4 million payment, EDS continues to deny any wrongdoing stating that this is all politically motivated.

A whistleblower, former state employee James Churchill and his team of lawyers were given \$995,000 from EDS at the end of July 2002 to drop a lawsuit accusing the company of recouping Medicaid dollars paid to patients who either had private insurance or had their medical bills paid later. The settlement was to pay for all the legal fees in the case and Churchill got \$150,000 because he was a lawyer working on the case himself. This was all done confidentially, which though legal and not uncommon, is questionable because of the continued secrecy surrounding events in the entire EDS/Texas Medicaid affair. Ironically enough given all of this, EDS is still in the running for contract renewal. With the contract up for renewal, many newspapers and commentators are stating that the entire process is too secretive to be able to make proper decisions about whether or not EDS should be awarded the contract. And it is certainly interesting that in this time of corporate scandal, that a company can still fight to renew a contract that the state has already had many problems with - it is fair to say that it may be true that having the right connections in the state and pouring the right amount of money in helps to get past these issues of corporate responsibility.

The watchdog group Lobby Watch, part of Texans for Public Justice, did a probe into EDS' lobby efforts during the time of the signing of the 1998 deal. The EDS Political Action Committee gave \$45,750 to state politicians for the 1998 election campaign, including \$12,500 to George Bush's campaign for Governor. As well, EDS had 36 lobbyists reporting EDS income between \$1.3 million and \$2.1 million and it had 14 staff lobbyists as well. EDS campaign contributions and lobbying efforts surely helped them build the clout sometimes needed to land a major contracts such as the Texas Medicaid contract. Though it is speculation as to how much EDS' lobby efforts contributed to it gaining the contracts, it can be safely stated that companies do not pay for such an expensive team of lobbyists if they do not expect to get major returns.

A look into their past connections with the state of Texas revealed a long-standing “marriage” which was very beneficial to EDS. In 1980, Ross Perot appealed to the governor and Attorney general over the Medicaid contract EDS lost on and persuaded them to reverse their decision, awarding the contract to EDS. In 1987, the state extended the contract with EDS without looking for outside bids, a move the state auditor questioned. In 1988, a memo was released which urged employees to destroy documents which looked bad on the company's Medicaid management. EDS said this was a mistake and no documents were shredded.

[Dallas Morning News, February 24th, 2001; “A Company's storied history with the state of Texas”, Laylan Copelin, Austin American-Statesman, March 4th, 2001; "Whistleblower, state contractor settled lawsuit", Laylan Copelin, Austin American-Statesman, July 30th, 2002; "Medicaid Lawsuit ends in Secret Settlement", Associated Press, July 30th, 2002; "Company overbilled Medicaid, probe finds", Polly Ross Hughes, Houston Chronicle, July 18th, 2002; "Taxpayers Deserve Data on Contractor", Editorial, Austin American Statesman, July 16th, 2002; "AG Refuses to release report on Medicaid Contractor, Associated Press, July 14th, 2002; "Get NHIC Facts Before Awarding Contract", Editorial, Austin American-Statesman, July 19th, 2002; "Medicaid

Raid! Following the Money Behind the EDS Mess", Lobby Watch (Texans for Public Justice (February 27th, 2001)]

- **Virginia Medicaid** – in 1997, Virginia state officials cancelled a \$45 million Medicaid contract with EDS saying the company could not deliver the technical expertise required, failing to develop a system to manage the Medicaid payments -they were 20 months late on the contract when the contract was cancelled. According to Joseph Teefey, the State's Medicaid director, EDS denied access to the system from the state and refused the Medicaid agency's request for the master plan EDS had received the contract 3 years earlier, even though its bid was 50% higher than that of its competitor. EDS hired a senior Virginia Medicaid official a short time after the bids were completed and there were numerous other accusations of impropriety. It had over \$20,000 to legislative candidates in Virginia's 1996 elections and hired Vectre Corporation to handle its lobbying. Vectre employs some of Virginia's top, most connected lobbyists.

It was determined in August 1997 that EDS was to repay \$2.3 million in damages for not honoring the contract and for return of an initial payment that had been given to Medicaid.

["State Will be repaid \$2.3 million: Firm didn't devise way to handle Medicaid contracts", Stacey Hawkins Adams, Richmond Times Dispatch, August 23rd, 1997; "State Cancels Contract for Medicaid claims system" The Virginian-Pilot (Norfolk Virginia), Local Scene Section, April 26th, 1997; "Virginia Drops Pact on Medicaid: Failure to finish system blamed", Michael Hardy, Richmond Times Dispatch, April 25th, 1997]

- 15,000+ people fired since 1999 in restructuring and streamlining operations. In July 2002, EDS announced that it would be axing 2,000 more jobs across divisions, mostly in the U.S. (the 2,000 jobs amounts to about 1.4% of its total workforce)

- **State of Connecticut** scrapped a deal with EDS to privatize Connecticut's entire information technology infrastructure. calling the early results of an EDS study a 'wake-up call'. The study sites numerous failures of EDS in its small scale contracts with the state, including failure to complete implementation of a info management system for Medicaid claims. Before the deal was scrapped, the state comptroller Nancy Wyman said privatizing the state's IT through EDS could be "the worst fiscal and policy decision of the decade for the state of Connecticut" Regarding two years worth of documents between EDS and the state which she based many of her findings on, Wyman also stated: "These documents should be a wake-up call to this administration to abandon this billion-dollar-plus boondoggle. If **EDS** couldn't handle this single project, how can the administration consider them the front-runner for the biggest contract in state history?" "IT Confidential", Jack Soat, Information Week Online, June 21st, 1999, <http://www.informationweek.com/739/confid.htm>; "Comptroller: Dump plans to hire EDS to run state computers", Diane Scarponi, Associated Press State and Local Wire, June 15th, 1999]

## 5. Stakeholder Profile

- If EDS had a fallout with a particular government it works with, this could cause big problems for recipients of services. This was spelled out in particular with regard to EDS' lawsuit against Xerox for 'payment of certain infrastructure services'. A UK writer posed the question of if EDS and the UK government ever got in a major dispute, the welfare benefits that EDS is contracted to process would have to be processed by hand and the nations tax affairs would have to be handled manually as well. How much control over public records and processes can a company have before it becomes a threat and has a stranglehold over elements of policy or process? [http://www.findarticles.com/cf\\_0/m0COW/1999\\_Feb\\_25/53997615/print.jhtml](http://www.findarticles.com/cf_0/m0COW/1999_Feb_25/53997615/print.jhtml)

- Following the late 2001 fall of Enron, many companies have been singled out as having questionable bookkeeping in need of serious oversight. Under current accounting rules, it is perceived that management can do what it pleases, and EDS is seen as one of the companies that has most used this opportunity. However, it is now beginning to scare shareholders. In particular, EDS is "potentially liable for \$500 million in financing costs for computers that its customers use - an item that only appears as a footnote to a company report. ["Under the Microscope, Daniel Kadlec, Time, February 4th, 2002]
- Along the above lines of being at the mercy of a company you have outsourced to, a Feb. 13, 1996 letter from Connecticut Dept of Social Services Commissioner Joyce A. Thomas to Dr. Ronald D. Preston, the Associate Regional Administrator of the Federal Health Care Financing Administration, tells of why the state did not end a contract with EDS, despite wanting to:

"Serious consideration was given to termination of the project and the contract as well as the imposition of liquidated damages and penalties." [However], "Steering Committee members from both within the Department and outside the agencies felt the risk of litigation and a protracted dispute resolution processes (sic) posed a great liability for the Department. Additionally, the Department does not have the in-house capacity to rapidly absorb the critical and complex processing of Medicaid claims, ..."

And finally, the Commissioner acknowledges that the State of Connecticut was at the mercy of EDS:

"Without continuation of the AIM development effort it was felt that the current contractor would not continue in its fiscal agent capacity for the state of Connecticut thereby placing the clients, medical providers, the newly established managedcare initiative as well as the traditional fee-for-service program administration at risk."

<http://www.state.ct.us/otc/pressrl/PRRL9912.HTM>

## Quotations

**Connecticut Comptroller Nancy Wyman, on why the state should abandon a \$1.5 billion privatization plan with EDS (it eventually did abandon it):** "There are too many questions still unanswered, and a growing body of evidence suggests that privatizing our information technology through EDS could be the worst fiscal and policy decision of the decade for the state of Connecticut.... These documents should be a wake-up call to this administration to abandon this billion-dollar-plus boondoggle. If EDS couldn't handle this single project, how can the administration consider them the frontrunner for the biggest contract in state history? The taxpayers of this state deserve an answer." [Office of the Comptroller, State of Connecticut, Press Release, June 1999]

**Other documents obtained during the Connecticut Comptroller's audit showed that officials involved in the privatization project concluded that:** "EDS appears to believe that it is automatically entitled to however many extensions and however long it takes to make this project a reality, with no consequences..." There was "...serious slippage in AIM development activities that had been either ignored or camouflaged by EDS." "...categorically (EDS has) a very dissatisfied customer in the State of Connecticut."

**Cecilia Norwood, vice president for global communications at EDS, on impending job cuts (notice the order of importance placing Wall Street before the people):** "We're going to put the pedal to the metal to get it done...It's important to put closure on this for Wall Street and for the people."

**Rick Ferreira, Manager of Human Services, Electronic Data Systems, (EDS) Office for Government**

**Affairs, Washington D.C., presents on privatizing welfare to the Arizona State Senate Committee on Government Reform:** He stated privatization has been suspect in some quarters in the belief that the client well-being will diminish because accountability for outcomes will be overridden by the profit of the private sector. He stated privatization has been suspect in some quarters in the belief that the client well-being will diminish because accountability for outcomes will be overridden by the profit of the private sector. As states have become more sophisticated in their contracting practices and as successes meet the accountability expectations of legislators and clients advocates, privatization of traditional public systems is growing nationally and will continue to do so. Mr. Ferreira urged members to remember that we are still in the early states of this transformation and that there are many unanswered questions. He stated that EDS is "fully cognizant" of the myriad of stakeholders in human services delivery. EDS will remain flexible in its approaches to different processes. Part of that flexibility will include taking each situation as it comes by hiring and retaining existing workers, developing new skill sets, and offering competitive salaries. He stated that if workers are impacted, EDS will look at a variety of options for transitioning them as well.

[http://www.azleg.state.az.us/legtext/43leg/1r/comm\\_min/senate/0225grf.wpd.htm](http://www.azleg.state.az.us/legtext/43leg/1r/comm_min/senate/0225grf.wpd.htm)

**Remarks of Philip M. Littell Business Process Management business line Spoken before the Trade Policy Staff Committee June 24, 1999, regarding negotiations on Market Access, Government Procurement, and Services in the World Trade Organization (WTO) and the Free Trade Area of the Americas (FTAA):** Our ability to conduct business and be successful outside the United States depends entirely on trade agreements successfully concluded by our trade negotiators. We are able to operate outside the U.S. only because our negotiators have obtained the right of establishment. We compete successfully at the global level because we are afforded national treatment.

We have an opportunity to achieve real progress in several areas at the WTO Ministerial itself. The two most important issues for EDS are (1) the moratorium on duties on electronic transmissions and (2) government procurement.

First, the current moratorium on duties on electronic transmissions should be made permanent at the Ministerial. Electronic transmissions cannot be stopped at the border, hence there is no meaningful reason for the imposition of duties. Further, countries should agree that to the extent regulation of electronic commerce is necessary, it should be as minimal as possible, transparent, non-discriminatory, and non trade-distorting.

EDS supports the next step of including government procurement in the market access negotiations of the new round, with a particular emphasis on the provision of services. While the current WTO Agreement on Government Procurement (GPA) has set the early standard for an orderly process for open public procurements, its signatories are limited to a fraction of the WTO membership. EDS supports expanding coverage of government procurement by its inclusion in the multilateral GATS negotiations.

[http://www.edsasia.com/news/news\\_releases/news\\_speeches\\_littell.shtml](http://www.edsasia.com/news/news_releases/news_speeches_littell.shtml)

**From Business Week:** "EDS still must prove that it can reignite its sluggish top-line growth. Brown has done "an exceptional job" of restructuring EDS [15,000 laid off workers later] and boosting profitability, "But [revenue] growth is much more difficult than restructuring."

"As part of Brown's \$1 billion cost-cutting effort, the company terminated about 125 contracts and sold units with subpar profits. That left a \$600 million hole in revenues to fill this year. Brown let a third of his salesforce go to make room for better performers but only recently staffed up to prior levels. And a massive shuffling of executives followed some 13,500 layoffs and early retirements, hurting critical sales relationships with existing customers."

"Brown hit EDS like a neutron bomb. Only 10 of the 37 top officers who were there when he arrived

remain...Jack Sandner, CEO of FreeDrive Inc.--which offers data storage services via the Net--was astonished at EDS's newfound focus...But less than two weeks after Sandner and Brown chatted at a White House dinner in August, EDS teams were combing through FreeDrive. Ten days later, EDS had agreed to invest in FreeDrive and to provide Web-hosting and data-storage services to the startup. "This is a completely different EDS," marvels Sandner." [http://www.businessweek.com/2000/00\\_51/b3712203.htm](http://www.businessweek.com/2000/00_51/b3712203.htm)

**On management of EDS during its Ross Perot days:** "How much does his [the Director Ross Perot's] company (EDS) make off the government? Consider this; in 1980, EDS won a contract that paid over \$390 million per year for administering Medicare -- just in Texas! That's not the cost of the actual health care -- it's purely administrative expense for doing the paperwork. Medicaid is separate, and EDS has similar contracts with states around the country -- using software that they charged the federal government for developing, but kept the rights to."

"...the company has faced critical audits, congressional investigations, and charges of poor quality work and exorbitant fees. But they built a dominant position in a new industry by investing heavily in political connections, notably with the Nixon Administration, and by personal contacts (Perot himself was a consultant for EDS' first Medicare client, Texas Blue Cross.) They have maintained profits from government work with their near-monopoly power and, in part, with vicious, sleazy attacks on any potential competitors."

"EDS tapped phones and used detectives to investigate its own employees, according to [writer Gerard] Posner. He traced license plate numbers in the parking lot to see who came late or left early...and in "particularly heated" fights for contracts, employees on the bid team would be physically searched to ensure they did not remove any paperwork that could assist the opposition."  
<http://www.realchange.org/perot.htm#govtmoney> [based on excerpts from the book Citizen Perot: His Life and Times, Gerald Posner (Random House: NY), 1996]

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