

Relationship of Electronic Data Systems Corporation
and its Subsidiaries ("EDS") with
Mr. Abolfath Mahvi

I. Early Meetings

During the Fall of 1974, EDS was considering expanding its business to the international market. Mr. Abolfath Mahvi's name came to its attention through conversations with Mr. Charles A. Hofflund, President, Litton Aero Products. On October 22, 1974, Mr. Paul W. Bucha of EDS wrote Mr. Mahvi expressing EDS' interest in having discussions with him. Shortly thereafter, Mr. Bucha was contacted at his office in New York by Mr. Mossa Haghani, Mr. Mahvi's business associate who at that time lived in New York City.

In November 1974, EDS had several meetings in New York with Mr. Haghani. These meetings were devoted to the general concepts of doing business in Iran and did not include any specific business discussions. During these meetings, it was decided that EDS should send a team to Iran in early December to evaluate the market potential and have discussions with Mr. Mahvi.

On December 3-4, 1974, a group of top managers of EDS arrived in Tehran. The group was hosted by Information Systems Iran ("ISIRAN"), an Iranian company which EDS understood to be owned by Mr. Mahvi. EDS held many discussions with ISIRAN and other organizations on the potential market in Iran. On two occasions during this trip, various members of the EDS group met with Mr. Mahvi. These were only introductory meetings and did not result in specific proposals. Mr. Mahvi told EDS that if EDS were interested in a joint relationship it should work out the details with Mr. Haghani.

On several occasions the EDS representatives were told that Mr. Mahvi was a very important Iranian businessman who was interested in introducing the benefits of automation to Iran and who had close connection to His Majesty and could be very important to EDS in developing its business in Iran.

During January 1975, there were several meetings in New York between Mr. Haghani, EDS representatives, and attorneys for both parties. Out of these meetings developed the concept of a joint venture company that would be owned 50% by EDS and 50% by the Mahvi interests. The Mahvi group also wanted 25% of the revenue in addition to their ownership and wanted EDS to have an exclusive relationship with them while they were not willing to have an exclusive relationship with EDS. EDS would not agree to these points and there was further disagreement over how direct cost and overhead would be defined and treated. While no definitive agreement was reached, it was agreed that EDS and the Mahvi group would try to pursue business together and would define the relationship once a firm prospect was at hand.

II. ISIRAN Project

In late January or early February 1975, Mr. Haghani introduced EDS representatives to Mr. E. Manavi, Managing Director of ISIRAN, at a meeting held in Boston, Massachusetts. Mr. Manavi explained that ISIRAN had a comprehensive data processing contract with the Iranian Navy and discussed the Iranian Navy's need for a document control system. He felt this was a good way for EDS to enter the Iranian market and asked for EDS to submit a proposal to ISIRAN for this project.

EDS learned in early February that the Iranian Government was going to buy ISIRAN. This was confirmed by Mr. Mahvi. While EDS never learned the purchase price, prices in the \$40 to 50 million range were often mentioned, even by associates of Mr. Mahvi.

During February, 1975, EDS conducted a study of the Iranian Navy document control requirements and prepared a proposal to accomplish those requirements. After being reviewed and approved by Mr. Mahvi, it was presented to Mr. Manavi by Mr. Bucha and Mr. Ali Tadjedin, an associate of Mr. Mahvi. During the course of the ensuing negotiations, the proposed contract price was reduced substantially, both by reducing the scope of the project and also by eliminating some of the profit. Since EDS would not agree to reduce its share of the profits below the profit margin which it could achieve in the United States, Mr. Mahvi agreed that the bulk of the reduction in profit would come from his share.

After the contract between EDS and ISIRAN was signed and approved, Mr. Bucha and Mr. Tadjedin prepared and signed a Memorandum of Understanding, dated May 15, 1975, specifying that the first 34% of the profits from the ISIRAN contract would be distributed to EDS and the remaining profits would be distributed 50% to EDS and 50% to the Mahvi group.

In the latter part of May, 1975, Mr. Mahvi and Mr. Haghani visited the EDS headquarters in Dallas, Texas. Although there was still substantial disagreement as to the exclusivity issue and the share of profits demanded by Mr. Mahvi, EDS agreed to try Mr. Mahvi's approach for the ISIRAN contract with the understanding that if EDS were not satisfied with the results, the arrangement could then be discussed further.

In late June, 1975, several EDS representatives went to Iran and formed an Iranian private joint stock company named Pars Data Sysrms ("PDS") to be owned 51% by the Mahvi group and 49% by EDS. Mr. Mahvi at first wanted his shares issued in bearer form, but EDS refused and so it was decided to issue them in the name of his daughter, Shirin Mahvi. ISIRAN signed a written consent, dated July 1, 1975, to an assignment of the ISIRAN contract from EDS to PDS. However, due

to Mr. Mahvi being placed on the Blacklist, as discussed below, this assignment was never effected and PDS, as so organized, never became an operating business entity.

Shortly after EDS completed performance of the ISIRAN contract in June, 1977, Mr. Mahvi requested payment of his share of the profits based upon the May 15, 1975 Memorandum of Understanding. However, EDS was unwilling to enter into a final settlement until the performance guarantees relating to the ISIRAN contract had expired, final tax liabilities could be determined, and a true accounting of the ultimate profits from the contract could be obtained. In the interim, EDS offered to provide him funds equal to his estimated share of the profits as a loan with the understanding that the loan would be forgiven once the actual profits from the ISIRAN contract were verified. Mr. Mahvi acquiesced in this approach and requested that the funds be paid to CUMANA Investment Company ("CIC"), a Panama company which EDS understood to be owned by Mahvi interests. Accordingly, in both December 1977, and February, 1978, EDS transferred \$200,000 to CIC, both payments being initially treated as loans. In approximately May or June, 1978, EDS management in the United States verified that these payments represented Mr. Mahvi's proper share of the profits from the ISIRAN contract, the loans were forgiven, and the payments were expensed on the EDS accounting records.

III. Mr. Mahvi and the Blacklist

In late August, 1975, EDS received a letter from ISIRAN, dated August 20, 1975, signed by B. Motazed, stating that ISIRAN was immediately and retroactively withdrawing its consent to assignment of the ISIRAN contract from EDS to PDS. In private conversations Mr. Motazed told EDS representatives that this was done because Mr. Mahvi had been placed on the Blacklist.

As a result of a series of meetings with Mr. Mahvi in Europe, it was decided that EDS would perform the ISIRAN contract directly and that after Mr. Mahvi was removed from the Blacklist, EDS would, if legally possible, pay him his share of the ISIRAN profits and would reopen negotiations as to pursuing business in Iran on a partnership basis.

For the next six months, EDS pursued its business in Iran with almost no contract or involvement with the Mahvi group. Mr. Mahvi was in the country only infrequently during this period and, due to the Blacklist problem, EDS felt it was in EDS' best interests to stay away from him. PDS was left in a dormant state.

On March 2, 1976, General H. Toufanian, Vice Minister of War, issued an order certifying that Mr. Mahvi's name was removed from the Blacklist.

Beginning in late March, 1976, EDS representatives in Iran began meeting with Mr. Mahvi representatives on a casual and infrequent basis to discuss, among other things, various proposals to reconstitute the original partnership concept. These discussions continued off and on for several months without reaching a solution. However, there was no really serious activity towards establishing an EDS-Mahvi partnership until the September 10, 1976, telex from Mr. Mahvi discussed below.

IX. The Ministry of Health and Social Welfare Automation Project

In mid May, 1975, just before the meeting at which Mr. Mahvi and Mr. Haghani visited EDS in Dallas, Texas, Mr. Bucha was in New York and, through social acquaintances, learned that a Dr. Mozayani, a data processing consultant to the Ministry of Social Welfare of Iran, was looking for a data processing firm experienced in health insurance and social

social security to do data processing for the Ministry. Immediately after the meeting in Dallas, Mr. Bucha returned to Iran and was met by Mr. Hussein Amir Sadeghi, whom Mr. Mahvi had assigned to work with and assist Mr. Bucha. Mr. Bucha asked Mr. Sadeghi to contact the Ministry of Social Welfare and arrange a meeting for Mr. Bucha.

Mr. Sadeghi contacted Dr. Emrani at the Ministry and was referred by Dr. Emrani to Dr. Vafaii. Through a series of meetings, Mr. Bucha learned that the Ministry had already solicited and received proposals for the project from Louis Berger & Co., Marsh & McLendon, ISIRAN, and Univac and that a proposal from Cap Gemini Sogeti was to be received shortly. Mr. Bucha offered to have EDS perform a free preliminary study for the Ministry and this offer was accepted. Based on the results of this preliminary study, the Ministry agreed to have EDS perform a detailed study for \$200,000. The result of this detailed study were presented to the Ministry in October, 1975. The Ministry accepted the EDS proposal and beginning in December, 1975, entered into contract negotiations with EDS. By April, 1976, substantial agreement on the contract had been reached by EDS and the Ministry and they turned to the lengthy process of obtaining all the necessary approvals.

During this period of time, to the best of EDS' knowledge, other than the initial introduction to Dr. Emrani by Mr. Sadeghi, neither Mr. Mahvi or his associates were in any way involved in EDS' marketing efforts relating to the Ministry contract. During most of this period, Mr. Mahvi was on the Blacklist and out of Iran and EDS was avoiding any association with him.

In May, 1976, Mr. Neghabat invited Mr. Bucha to come to his house and, in the course of their conversation, asked Mr. Bucha who Mr. Mahvi was, saying that he had heard a lot about him

from friends at ISIRAN and just wanted to know what kind of person he was. Mr. Bucha asked if Mr. Neghabat would like to meet Mr. Mahvi, Mr. Neghabat indicated that he would, and so Mr. Bucha arranged a meeting a few days later at Mr. Mahvi's house. There was no EDS representative present at that meeting, but Mr. Mahvi later told Mr. Bucha that it was a very non-committal type meeting, that Mr. Neghabat was merely interested in meeting Mr. Mahvi and talking about his ambitions.

Later in May or June, 1976, Mr. Mahvi called Mr. Bucha to his house and informed Mr. Bucha that the Ministry contract was now approaching the final steps. Mr. Mahvi told Mr. Bucha that Mr. Behrouz of the Plan and Budget Organization ("PBO") was very important in the approval process and had expressed concerns about the contract price. Mr. Mahvi suggested that he arrange a meeting for Mr. Bucha to explain this area to Mr. Behrouz. Mr. Bucha prepared documents showing the anticipated costs and expected profits and attended the meeting, which was held at Mr. Mahvi's house. Mr. Behrouz reviewed the documents, which at that time showed a maximum expected profit of 24-25%, and said that he thought the contract price was fair.

In June, 1976, Dr. Sheikholeslamzadeh told Mr. Bucha that the Ministry could not honor the tax protection clause which EDS had insisted be included in the contract. EDS and its attorneys and accountants then began meeting over several months with the Ministry of Finance to obtain a tax ruling that EDS' profit margin would be deemed to be under 20%. EDS worked primarily with Mr. Soltani of the Ministry of Finance, who reported to Mr. Shoraka. Finally, on September 11, 1976, the Ministry of Finance issued the tax ruling, which was signed by Mr. Shoraka. As discussed below, Mr. Mahvi later claimed that he was instrumental in obtaining this tax ruling, but EDS had no indication of this at the time.

V. Signing of Ministry Contract and Reorganization of PDS

On September 10, 1976, Mr. Mahvi sent a telex to EDS alleging that EDS had agreed that all of its contracts in Iran would be through PDS and requesting that the Ministry contract be signed in PDS instead of EDS.

Upon receiving this telex, EDS contacted its attorney in Iran for his advice as to EDS' legal rights and obligations. He asked EDS if he could take this matter to Prime Minister Hoveyda and EDS said that he could do whatever was legal and proper.

Shortly thereafter, Mr. Bucha received a midnight phone call from Mr. Neghabat who told Mr. Bucha that Dr. Sheikholeslamzadeh was on the phone with the Prime Minister, who was in his car, and that the Prime Minister had indicated that he had received information that EDS was being asked for a bribe on the Ministry contract and that if Mr. Bucha did not inform them who was asking for the bribe, Mr. Bucha should leave the country the next morning. Mr. Bucha told Mr. Neghabat that no one had asked EDS for a bribe, but that EDS was having problems with Mr. Mahvi.

A few days later, on approximately September 20 or 21, 1976, representatives of EDS met with Dr. Sheikholeslamzadeh and Mr. Neghabat at Dr. Sheikholeslamzadeh's office and explained EDS' problem with Mr. Mahvi. Dr. Sheikholeslamzadeh responded substantially as follows: "I know. You have done the right thing. You have responded properly. You have no choice but to report those things when they occur. Do not worry about Mr. Mahvi. He has nothing to do with this. He can't help you and you don't need any partner. I want this contract absolutely clean as I have told you from the beginning and that is what it is. I have told the Prime Minister not to worry about it. The contract will be signed in the next day or so."

On September 27, 1976, Mr. Neghabat signed the contract subject to final legal review by the Ministry and to approval of EDS as a qualified consultant by PBO, but did not date the contract, explaining that the date upon which those two conditions were satisfied would become the official contract signature date.

On October 2, 1976, in reply to Mr. Mahvi's telex of September 10, 1976, EDS send Mr. Mahvi a letter denying that EDS had agreed that all of its contracts in Iran would be made through PDS and stating that the Ministry contract provided that it could not be assigned by EDS.

Later, EDS was informed that after Mr. Mahvi received this letter, he sent Mr. Fatholah Sotoodeh, an associate of his, to meet with Dr. Sheikholeslamzadeh and tell him that EDS and Mr. Mahvi had formed an agreement sometime ago, that EDS was now trying to back out of it dishonorably, and that if the Ministry proceeded to enter into a contract with EDS, it would be illegal and Mr. Mahvi would cause trouble for everybody.

Around October 14, 1976, Mr. Bucha received a call from Mr. Neghabat who told him that if EDS did not know how to control things with Mr. Mahvi, he (Mr. Neghabat) was never going to put a date on the contract.

A few days later, Mr. Bucha had a series of very emotional meetings with Mr. Mahvi in which Mr. Mahvi accused EDS of being crooked Americans and Mr. Bucha said that EDS did not want to split anything with Mr. Mahvi since he hadn't done anything to help EDS and had caused problems at ISIRAN. Mr. Mahvi would not accept EDS' position and stated that EDS did not appreciate the value of his association. Among other things, Mr. Mahvi claimed that the only reason that EDS obtained the tax ruling for the Ministry contract was because

Mr. Ansari, the Minister of Finance, had spent time with Mr. Mahvi in Monte Carlo. Finally, Mr. Mahvi and Mr. Bucha agreed to reopen negotiations to resolve the problems.

Around October 23, 1976, EDS representatives came to Iran to negotiate with Mr. Mahvi's representatives. Prior to the negotiations, they met with Mr. Neghabat to confirm that the Ministry contract would be held up until EDS' problems with Mr. Mahvi were resolved. Mr. Neghabat seemed somewhat apologetic, but said, "You must understand that signatures in government are not as strong as signatures in the private sector. Go solve your problems."

After several days of rather stormy negotiations between the EDS representatives and Mr. Haghani, Mr. Tadjedin, and Mr. Sergio Erede, an Italian attorney representing Mr. Mahvi, the basic terms pursuant to which EDS and the Mahvi group would conduct business through a reorganized PDS were agreed upon. EDS steadfastly refused to agree to give Mr. Mahvi any commission or other payment from the Ministry contract since Mr. Mahvi had not assisted EDS in obtaining that contract. However, it was agreed that since an educational foundation founded by Mr. Mahvi was to own his shares of PDS, it would be appropriate for EDS to subcontract with PDS to recruit and provide Iranian trainees as required for the Ministry contract.

By the end of October, 1976, both PDS and Mr. Mahvi had reviewed and accepted these basic terms.

On November 2, 1976 (11 Aban 2535), the Ministry contract was dated by Mr. Neghabat and it became effective on the first day of the next Iranian month.

VI. Operation of PDS and Payments to Mr. Mahvi

After the reorganization of PDS was accomplished and relations between EDS and Mr. Mahvi were normalized, EDS and PDS conducted

business concurrently. EDS continued to perform the ISIRAN contract and began to perform the Ministry contract. PDS began to perform its subcontract to provide Iranian trainees for the Ministry contract and assumed all marketing activity.

PDS succeeded in entering into contracts with Bank Omran and with Iran Japan Petrochemical Company. However, due to the high costs typically experienced in the early stages of a data processing contract, PDS has not yet succeeded in operating at a profit and, consequently, PDS has not paid dividends to its shareholders, including the Mahvi Foundation. Therefore, Mr. Mahvi and his interests have not obtained any funds from the operations of PDS. This has led to dissatisfaction on the part of the Mahvi interests with the current arrangements. As a result, over the past several months discussions have been taking place with respect to modifying and possibly terminating the relationship.

On May 17, 1977, at the request of Mr. Tadjedin, EDS loaned 5,000,000 Rials (approximately \$70,670) to Iranian Management & Technical Consultants Institute ("IMTCI"), a company which EDS understands to be owned by Mahvi interests. This was a short term loan to overcome a temporary cash shortage and allow IMTCI to meet its payroll and was repaid in full on June 29, 1977. Similar short term loans to IMTCI were made on July 2, 1977 and September 25, 1977 totaling 14,150,000 Rials (\$200,000). Despite respected demands, these loans have not yet been repaid. However, EDS has succeeded in obtaining from Mr. Tadjedin a letter acknowledging that these are valid debts owed to EDS. EDS has insisted that those loans must be repaid before the discussions referred to in the preceeding paragraph can proceed.

Other than the payments to CUMANA Investment Company which represented Mr. Mahvi's share of the profits from the ISIRAN contract, the loans to IMTCI discussed above, and occasional

purchases in the ordinary course of business of goods and services from companies which may be owned by Mahvi interestes, to the best of EDS' belief, the only items of more than nominal value provided by EDS to Mr. Mahvi or his representatives are as follows:

- (A) For approximately the last year, Mr. Tadjedin has been provided the use of a Paykan Deluxe automobile owned by EDS. EDS is currently attempting to regain possession of this automobile so that it can be sold along with most of the other automobiles in Iran owned by EDS.
- (B) At one point in time EDS provided a carpet worth approximately \$2,500 to Mr. Tadjedin for use in his office. When Mr. Tadjedin subsequently changed offices, he took the carpet with him. EDS has no current plans to attempt to regain possession of the carpet.