Board of Directors Meeting  
September 15, 1972  
Robert M. Price

GENERAL

Our third quarter profits have, as I indicated in July, shown a substantial increase over the second quarter. With two-thirds of the third quarter completed, we have reported net profits of $2.7M as compared to our budget of $1.2M. For the first 8 months of 1972, the Services Group has reported a profit of $6.2M as compared to our budgeted goal of $2.8M. We have also exceeded our total year plan of 5.0M. This also compares favorably with the first 8 months of 1971 where we recorded a .2M profit versus a budget of $1.4M.

OPERATING STATEMENT - HIGHLIGHTS

REVENUE

As indicated by the chart, revenues continue their favorable trend to plan. This is particularly true in Data Services Cybernet business where the revenues have been 2.1M, 2.3M, 2.2M, 2.3M for the last 4 months. We were experiencing problems in our German Data Center a few months ago, however, that has been rectified and they are once again showing a strong performance. We now have a better feel for the effect of the FTC complaint on our education business -- since June, July, and early August are slow enrollment times anyway, it was difficult to tell. However, in the last half of August our enrollments have not turned up as they normally do, and Career Entry revenues fell short of budget by
480 thousand dollars. I will address the FTC complaint more specifically later in the meeting.

**GROSS PROFIT**

There has not been any significant change in our gross profit levels since I last talked to you. They continue to run favorable to plan, however, unfavorable results in Career Entry tend to overshadow favorable performances within Data Services and Engineering Services. No significant changes are foreseen for the balance of the year as we should finish the year pretty much on target.

**EXPENSES**

Expenses continue to run very close to plan. There is a slight increase in this unfavorable deviation since my last report to you as our marketing expenses have increased somewhat in the Education area as we are trying to overcome the FTC complaint. For the year we are forecasting to be within 2% of plan.

**NET PROFIT**

Data Services - For some time now I have reported that U.S. Cybernet Services and Europe have been profitable, while Airlines, PanAm-Pacific Region and Facilities Management have not been. In August PanAm-Pacific Region turned profitable due to an ever stronger performance in Australia and the total combined Data Services operations are profitable as well.
Ticketron - Ticketron continues favorable to plan through their third quarter which ended July 31. Operating results are summarized on this chart .......... The fourth quarter will be unfavorable to plan due principally to two factors. First, our baseball teams are out of the race and ticket sales will be minimal during August and September. Secondly, the fourth quarter plan called for a strong build up in lottery revenues in New Jersey. This will not occur. We have, however, just completed renegotiation of our lottery contract in New Jersey and it is being routed through the state administration offices for approval. This new contract is more favorable to Ticketron than the old one, but, more importantly, calls for implementation of a daily lottery which will bring much more revenue into Ticketron and eliminate the manual lottery "competitor."

CLOSING COMMENTS

Our problem areas are the same as we discussed in July -- Airlines Services and Career Entry Education Services. Neither will be subject to easy solution. In July I mentioned some cost management problems in CDI. We felt we now have better cost control in CDI. We should see improvement in this regard over the last quarter of the year and for 1973. In both our problem areas we will have to make investment in new services to obtain long term stability of the business and growth in profits. We are currently studying
acquisition as well as development possibilities in both areas, and I will have more to report to you on that in November. Meanwhile, we are experiencing excellent results in data services, consulting, and engineering services as well as improved results in the advanced education segment of our education services. Our fourth quarter, as I have said before, will be less profitable than the third quarter, but we have exceeded already our financial plan for the year and should end up, as I have said before, well ahead of plan.

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BOARD OF DIRECTORS
September 15, 1972
Robert M. Price

FTC MATTER

GENERAL COMMENTS -
We have been working with the FTC trial lawyers since the issuance of the complaint against Control Data to arrive at a consent order. Last week we submitted to the FTC a proposed consent order. In every respect this consent order meets the marketing practices objections contained in the FTC complaint. The potential hang-up is not this aspect, but rather the matter of restitution in the event of consent order violations. First let me review the essentials of the consent order.

Essentials of the Proposed Consent
The proposed consent order follows in outline the notice order originally approved by the Commission. It can be broken down in terms of subject matter into the following categories:

- provisions concerning ceasing and desisting from certain representations and practices. For example, we must not imply that a college education is not advantageous to getting a job in the computer industry. {They would like to say necessary, but that obviously just isn't so.} Other representations with respect to general industry demand for people, salary levels, meaning of aptitude tests, and so forth, must be carefully controlled.
- provisions {so-called "affirmative disclosure"} requiring us to furnish specified material to applicants. Most of this material has to do with placement statistics and there is a careful spelling out of how placement statistics will be presented.

- provisions requiring us to deliver copies of the Order to all persons, including franchisees, selling or distributing any course of instruction included within the scope of the Order and requiring respondents to terminate their relationship with any such parties who fail to consent to the terms of such Order.

- provisions requiring identification of our sales representatives as such.

- provisions committing us to offer appropriate refresher courses to unplaced graduates and continuance of placement assistance.

The affirmative disclosure provisions of the Consent Order would introduce to the field of private vocational education an important and novel concept, namely, that all applicants should be furnished in writing and prior to enrollment information related to their choice to enroll or not enroll. This material would include information for the most recent six month base period describing the
placement experience of graduates of the program and starting salary levels. Control Data supports these affirmative disclosure materials and see them as providing specific content to the very abstract and general language of the Guides for Private Vocational and Home Study Schools recently proposed by the Commission. The proposed Order also includes a three-day "cooling off" period, something which Control Data voluntarily instituted more than a year ago. We are prepared to continue leadership in such disclosures even though the Commission does not and cannot extend such a requirement to our competitors such as tax supported schools, who are beyond the Commission's jurisdiction—and even though we have no guarantee the Commission will enforce uniform and similar disclosure requirements for all private vocational schools.

Restitution
We have been advised that the Bureau of Consumer Protection will not support a consent order unless it contains provisions on restitution. We believe that the Federal Trade Commission lacks authority and jurisdiction to require to enforce restitution, but that even if such authority and jurisdiction were assumed to exist in some cases, it does not in this case.
Background of the Restitution Issue in this Matter

In Paragraph Twelve of the notice complaint, in its printed press release and through the words of its spokesman at its news conference convened on May 21, 1972, the Commission charged that programs were "virtually worthless for future employment." This charge was intended to provide the foundation for a claim of restitution. The notice order approved by the Commission includes no provision on restitution for past and present students but, in a preamble to the notice order, the Commission reserved the right to order such relief, including restitution, as it might find necessary in light of additional facts which might be developed during the proceedings. The Commission introduced for the first time on August 1, a draft provision requiring such restitution. As I said before, we understand that this is one of two provisions which they insist on.

The Commission's notice order provided Paragraph Three for restitution to future students enrolled in violation of the Commission's order. Our lawyers understand this to be the second provision which the Bureau insists on.

No provisions on restitution are included in Control Data's proposed consent order.
Our impression is that restitution is the headline material which the FTC wishes to have in order to serve its political and organizational purposes. It will, therefore, be a very hard point. Basically, the FTC will rest its case on a Curtis Publishing Company case in which magazine subscriptions were ordered refunded on failure to deliver when a magazine was no longer published. The original contention of the FTC was that everyone not receiving a job was in the same class and, like the subscriber, had de facto not been rendered the contracted service. This is legally very unsound, and they have backed off.

What they now are saying is that enrolling a student in violation of the consent order is sufficient grounds for a refund to the student. The problem is the procedure -- theoretically, on any complaint by any student, we would have to judge whether to make the refund. If we did not do so, we would have to prove our innocence or otherwise be held in violation. This is clearly not liveable. Each violation of the order carries a $5,000.00 fine. Our basic contention is that the order and the procedures for enforcement of the order are more than sufficient to protect the public interest.
Dear Bob:

My apologies for missing the schedule on the bi-weekly reports. This will be a very quick summary to be followed in more detail next week.

1. **F.T.C.**

   Offer submitted Thursday, copies of final submission documents sent to distribution list thereon. F.T.C. reaction not expected within two to three weeks.

2. **Franchisees**

   Had meeting with four of remaining six in Los Angeles last week to alert them to consequences of F.T.C. proceeding and possible order. Preliminary exploration of amicable terminations is proceeding.

3. **Class Action**

   Am informed counsel for plaintiffs agrees to quashing of service of process on CDI. Can expect proper service on CDC next week with our taking plaintiff's depositions as soon thereafter as practicable.

4. **Individual Suits**

   Suit in Detroit is proceeding through preliminaries. Suit expected in two individual cases in San Francisco but no service as yet.

With best wishes,

OPPENHEIMER, BROWN, WOLFF, LEACH AND FOSTER

SEP 12 1972

R. M. PRICE
TICKETRON, INC.
INCOME STATEMENT
NINE MONTHS TO DATE - JULY

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9/13/72