

AFFILIATED COMPUTER SERVICES INC

Form 10-K/A

April 11, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 2)**

Mark One

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended June 30, 2007**
- OR**
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .**

**Commission file number 1-12665
AFFILIATED COMPUTER SERVICES, INC.
(Exact name of registrant as specified in its charter)**

Delaware

51-0310342

State or other jurisdiction of
incorporation or organization

(I.R.S. Employer
Identification No.)

**2828 North Haskell
Dallas, Texas 75204**

(Address of principal executive offices)
(Zip Code)

214-841-6111

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Class A common stock, par value \$.01 per share

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of March 28, 2008, 89,669,072 shares of Class A common stock and 6,599,372 shares of Class B common stock were outstanding. The aggregate market value of the Class A common voting stock held by nonaffiliates of Affiliated Computer Services, Inc. as of the last business day of the second quarter of fiscal year 2007 approximated \$4,411,795,197.

AFFILIATED COMPUTER SERVICES, INC.

**FORM 10-K/A
for the Fiscal Year Ended June 30, 2007**

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EXPLANATORY NOTE

Affiliated Computer Services, Inc. (hereinafter referred to as us, we, our, ACS or the Company) is filing this Amendment No. 2 on Form 10-K (the Second Amendment) to its Annual Report for the fiscal year ended June 30, 2007, which was filed with the Securities and Exchange Commission (SEC) on August 29, 2007 (the Original Report), as amended on October 19, 2007 (the First Amendment), in order to correct Item 11 which was previously filed with certain executive compensation information as of September 30, 2007 rather than June 30, 2007 as required by Item 402 of Regulation S-K.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment also includes currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certification exhibits and Item 15 *Exhibits* have been revised accordingly.

This Amendment speaks only of the filing date of the Original Report, as amended by the First Amendment and, except for those Items disclosed in this explanatory note, is unchanged from the Original Report, as amended. You should read this Second Amendment together with our other reports that update and supersede the information contained in this Second Amendment.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program and Philosophy

Our general compensation philosophy is that total compensation should vary based on our achievement of defined financial and non-financial goals and objectives, both individual and corporate. The Company's compensation structure centers around a pay for performance philosophy. Base salaries for our managers are generally maintained at a level below the market median, but managers have the opportunity to receive bonuses if their individual performance and the performance of their business unit meet certain goals, which if full bonuses are earned, results in their total compensation exceeding the market median. This philosophy applies more generally to all of our officers and senior management personnel, with the level of variability and the proportionate amount of bonus compensation increasing as the employee's level of responsibility increases. Each executive officer's bonus is based on our achievement of defined financial goals and objectives, based only on consolidated corporate results. Our named executive officers for fiscal year 2007 were Darwin Deason, Chairman of the Board; Lynn Blodgett, President and Chief Executive Officer; Tom Burlin, Executive Vice President and Chief Operating Officer; Ann Vezina, Executive Vice President and Group President -Commercial Solutions Group; and John Rexford, Executive Vice President, Corporate Development. Mr. Rexford served as our Executive Vice President and Chief Financial Officer from November 2006 to September 2007. Our named executive officers for fiscal year 2007 also included our former President and Chief Executive Officer, Mark King, and our former Executive Vice President and Chief Financial Officer, Warren Edwards.

Our executive compensation program is overseen and administered by the Compensation Committee, which is comprised entirely of independent directors as determined in accordance with various New York Stock Exchange, SEC and Internal Revenue Code rules. The Compensation Committee has reviewed current compensation practices and identified the following key strategic compensation design objectives:

to attract and retain qualified, motivated executives;

to closely align the financial interests of our executives with both the short and long-term interests of our stockholders;

to promote fair treatment of all employees; and

to encourage equity ownership by our executives.

Comparative Review

Our executive compensation program is intended to provide our named executive officers with overall levels of compensation that are competitive within the business process and information technology outsourcing industry, as well as within a broader spectrum of companies of similar size and complexity. During fiscal year 2007, the employment agreement of our Chairman, Mr. Deason, provided him with the right to recommend to the Compensation Committee, or as applicable, to the Special Compensation Committee of the Board of Directors, salary, bonus, stock option and other compensation matters for our Chief Executive Officer, President, Chief Financial Officer, Executive Vice Presidents, General Counsel, Secretary and Treasurer. In December 2007, the employment agreement was amended in order to remove certain exclusive governance rights previously held by Mr. Deason, including his rights to

appoint certain officers and recommend directors for election or removal from the Board of Directors, and the agreement now provides that the Compensation Committee shall consult with Mr. Deason in determining the compensation policies of the Company and the compensation of the Company's executive officers. In fiscal year 2007, our President and Chief Executive Officer, Lynn Blodgett had input on compensation and bonuses for the Company's executive officers other than himself. Mr. Blodgett received compensation market data and history including salary, bonus, and stock options from human resources for each officer. Mr. Blodgett reviewed the information and submitted compensation recommendations to Mr. Deason and the Compensation Committee.

In setting executive compensation for fiscal year 2007, the Compensation Committee commissioned Mercer Human Resource Consulting to provide comparative compensation information on the chief executive officer, chief operating officer and chief financial officer of our outsourcing peers, who were determined without regard to revenue or market capitalization. The companies included in the outsourcing peer group were Electronic Data Systems Corporation, Accenture Ltd., Computer Sciences Corporation, First Data Corporation, Automatic Data Processing, Inc., Unisys Corporation, Fiserv, Inc., Hewitt Associates, Inc., Convergys Corporation, Sabre Holdings Corporation, DST Systems, Inc. and Perot Systems Corporation. The peer group comparison was also used by Mr. Deason in making recommendations to the Compensation Committee for fiscal year 2007 executive compensation that are consistent with our compensation philosophy, as discussed above. The Compensation Committee used the comparative peer group information in considering and approving the recommendation of Mr. Deason.

Based on the study commissioned by the Compensation Committee, the compensation paid to our Chief Executive Officer, Mr. Blodgett, and our Chief Operating Officer, Mr. Burlin, in fiscal year 2007 was between the median and 75th percentile for companies in our outsourcing peer group. The compensation paid to our Chief Financial Officer, who at the time of the study was Mr. Rexford, was above the top 75th percentile for companies in our outsourcing peer group. However, a portion of Mr. Rexford's compensation was attributable to commission based payments related to mergers and acquisitions activity as further described under the caption "Special Executive FY07 Plan", in connection with Mr. Rexford's ongoing role in our corporate development efforts. Hence, the compensation paid to Mr. Rexford was greater than what would typically be provided to a chief financial officer of the Company, since commission payments are not normally provided for that position.

Elements of Compensation

There are six major elements that comprise our compensation program for our executive officers, including our named executive officers: (i) base salary; (ii) annual incentive opportunities, including bonuses; (iii) long-term incentives - our stock incentive plans; (iv) generally available benefit programs; (v) executive perquisites; and (vi) change of control agreements. ACS has selected these elements because each is considered useful and necessary to meet one or more of the principal objectives of our compensation policy. For example, base salaries and bonus target percentages are set with the goal of attracting employees and adequately compensating and rewarding employees on a day-to-day basis for the time spent and the services they perform, while our equity programs are geared toward providing an incentive and reward for the achievement of long-term business objectives and retaining key talent. The Compensation Committee believes that these elements of compensation, when combined, are effective, and will continue to be effective, in achieving the objectives of our compensation program.

Section 162(m) of the Code limits the deductibility of compensation in excess of \$1 million paid to certain executives of public companies with the exception of certain performance-based compensation. Our goal is to structure as many components of any executive officer's compensation so that it qualifies as performance-based to the extent it is in the best interests of the Company and its stockholders. However, certain forms and amounts of compensation may exceed the \$1 million deduction limitation from year to year. Based on the rapidly changing nature of the industry, as well as the continued competitive market for outstanding leadership talent, the Compensation Committee believes it is appropriate and competitive to provide adequate compensation, even though it may not be fully tax-deductible.

The Compensation Committee reviews the compensation program on an annual basis, including each of the above elements. Retirement benefits are reviewed from time to time to ensure that benefit levels remain competitive but are not included in the annual determination of an executive's compensation package. In setting compensation levels for a particular executive, the Compensation Committee takes into consideration the proposed compensation package as a whole and each element individually, as well as our stock ownership guidelines and the executive's past and expected future contributions to our business.

Base Salaries

Each executive officer's base salary is reviewed at least annually and is subject to adjustment on the basis of individual, corporate and, in some instances, business unit performance. The Compensation Committee consults with the Chairman (under the terms of his

employment agreement) in determining the compensation policies of the Company and the compensation of the Company's executive officers. Our Chief Executive Officer additionally provides a recommendation regarding the compensation for executive officers other than himself. The Compensation Committee also considers competitive, inflationary and market survey considerations, as well as salaries for comparable positions. As discussed under the caption "Comparative Review", we utilized the report of Mercer Human Resource Consulting in determining base salaries for fiscal years 2007 and 2008. Other factors in determining any adjustment of base salary include consideration of relative levels of responsibility, amount of business experience and future potential. Mr. Deason's employment agreement provides for annual adjustments to his base salary by a percentage equal to the average percentage adjustments to the annual salaries of our top five executive officers (excluding promotions).

At a meeting of our Compensation Committee in September 2007, the salaries for our current named executive officers for fiscal year 2008 were considered and approved. Mr. Deason's base salary was set at \$924,158, Mr. Blodgett received no increase to his base salary of \$750,000, Mr. Burlin received no increase to his base salary of \$500,000, Mr. Rexford received no increase to his base salary of \$500,000 and Ms. Vezina received no increase to her base salary of \$500,000.

Incentive Bonus

ACS maintains a performance based incentive plan for its executive officers. During fiscal year 2007, our executive officers participated in one of two performance based incentive compensation plans: (i) the fiscal year 2007 performance based incentive compensation plan (FY07 Bonus Plan); or (ii) the Special Executive FY07 Bonus Plan. The Special Executive FY07 Bonus Plan was created to enable the Company to comply with Section 162(m) of the Code in connection with the promotion during the fiscal year of certain executive officers and a modification of their performance goals in connection with the same as further described under the caption "Special Executive FY07 Bonus Plan".

The FY07 Bonus Plan permits (and the Special Executive FY07 Bonus Plan requires) the exclusion of, and the Compensation Committee has historically excluded, items that it determined were unusual or one time events that were not indicative of the performance of the named executive officers for such year from the calculation of the financial metrics used to determine bonus achievement. Adjustments made to financial metrics in one fiscal year are carried forward to the next fiscal year to determine bonus achievement for that next fiscal year. Most metrics are based on growth from the prior year results. Since the plans allow (and in some cases require) adjustments to actual results to determine the current year bonus achievement, we subsequently make these same adjustments when setting the baseline used for the subsequent year growth metrics.

In fiscal year 2007, the operating income was adjusted to exclude certain unusual items (principally an asset impairment charge and certain legal costs). While operating income on a GAAP basis decreased between fiscal years 2006 and 2007, the operating income for fiscal year 2007, as adjusted under the FY07 Bonus Plan (and the Special Executive FY07 Bonus Plan), exceeded the operating income for fiscal year 2006, as adjusted under the FY06 Bonus Plan, which resulted in the payment of a bonus to the executive officers.

FY07 Bonus Plan

Approximately seven hundred (700) of our officers and other senior management personnel participated in our FY07 Bonus Plan, including our Chairman of the Board, Darwin Deason, and certain other executive officers who were not named executive officers.

The performance goals were established for Mr. Deason based on the following components:

Consolidated ACS The Consolidated ACS performance goals are established to ensure that certain consolidated corporate criteria are met before bonuses are paid. The percentage of achievement against the performance goals is multiplied by the percentage of achievement of the ACS Corporate performance goals.

ACS Corporate The bonus of each of the executive officers is determined based on the achievement of performance goals in this group.

Equal weight was given to each of the Consolidated ACS and ACS Corporate components in determining the achievement of performance goals by Mr. Deason. The performance goals for the FY07 Bonus Plan were: revenue growth; growth in earnings before interest and taxes; growth in earnings before interest, taxes, depreciation and amortization; and a cash flow metric (determined as earnings before interest, taxes, depreciation and amortization, plus non-operating (income) expense (excluding intercompany interest), plus equity compensation expense per SFAS 123(R), less such unusual items such as gain or loss on divestiture, plus/minus capital expenditures and additions to intangible assets (per the cash flow statement), plus/minus changes in accounts

receivables and unearned revenue (per the cash flow statement)). ACS Corporate includes all of the above performance goals in addition to growth in consolidated earnings per share.

No bonuses were payable if the Company's growth in consolidated earnings before interest and taxes was less than 4% and no bonuses were payable to business unit participants in the FY07 Bonus Plan if that particular business unit's growth in earnings before interest and taxes was less than 5%. Further, at least 50% of a particular performance goal must have been achieved before it was included in the calculation of the overall achievement of the performance goals, except for cash flow, which was included if a pre-determined minimum amount was met. The FY07 Bonus Plan performance goals were approved by the Compensation Committee.

We have not disclosed target levels with respect to specific quantitative or qualitative performance-related factors considered by the Compensation Committee because disclosure of the specific performance goals would give our competitors information that could be leveraged for competitive advantage which would result in competitive harm to the Company. In fiscal year 2007, the executive officers earned approximately 80% of the maximum bonus under the FY07 Bonus Plan. In fiscal year 2006, no bonuses were paid to the executives under the fiscal year 2006 performance based incentive compensation plan, which contained similar performance goals as the FY07 Bonus Plan (however, discretionary bonuses were paid to each of the Group President of the Commercial Solutions Group (Ms. Vezina) and the Group President of the Government Solutions Group (Mr. Burlin); to one of our other current executive officers, but who was not an executive officer at the time of payment; and, in accordance with his agreement with us, one of our executive officers was paid a commission for acquisitions and divestitures during the fiscal year). In fiscal year 2005, executive officers earned approximately 53% of the maximum bonus under the fiscal year 2005 performance based incentive compensation plan.

Mr. Deason, the only named executive officer who participated in the FY07 Bonus Plan, was entitled to receive a bonus percentage of up to 250% of his base salary. The maximum bonus that any executive officer received for the fiscal year 2007 under the FY07 Bonus Plan was \$1,835,468, which was the bonus paid to Mr. Deason. The Compensation Committee certified the achievement of the performance goals before the bonuses were paid.

Special Executive FY07 Plan

Section 162(m) of the Code provides that in order for remuneration to be treated as qualified performance-based compensation, the material terms of the performance goals must be disclosed to and approved by the stockholders of the employer. The performance goals must be established before the first 25% of the period of service to which the performance goal relates has elapsed. Due to the resignation of certain executive officers, and as a result, the promotion of certain other executive officers, the Compensation Committee desired to change the performance goals of the promoted executive officers. In order to comply with Section 162(m) of the Code, the Special Executive FY07 Bonus Plan was created with a performance period beginning December 1, 2006 and ending June 30, 2007 (to be referred to as the performance period), to coincide with the period the promoted officers served in their new positions during fiscal year 2007. The following named executive officers, all of whom were promoted in fiscal year 2007, participated in the Special Executive FY07 Bonus Plan: Lynn Blodgett, our Chief Executive Officer; John Rexford, our then Chief Financial Officer; Tom Burlin, our Chief Operating Officer; and Ann Vezina, Executive Vice President and Group President - Commercial Solutions Group (together, the Selected Officers).

Since the Selected Officers were all executive officers, separate financial performance goals were established based on the following components:

Consolidated ACS	The Consolidated ACS performance goals are established to ensure that certain consolidated corporate criteria are met before bonuses are paid. The percentage of achievement against
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the performance goals is multiplied by the percentage of achievement of the ACS Corporate performance goals.

ACS Corporate

The bonus of each of the executive officers is determined based on the achievement of performance goals in this group.

Equal weight was given to each of the Consolidated ACS and ACS Corporate components in determining the achievement of performance goals for each of Messrs. Blodgett, Burlin and Rexford and Ms. Vezina. The performance goals for the Special Executive FY07 Bonus Plan were: revenue growth; growth in earnings before interest and taxes; growth in earnings before interest, taxes, depreciation and amortization; and a cash flow metric (determined as earnings before interest, taxes, depreciation and amortization, plus non-operating (income) expense (excluding intercompany interest), plus equity compensation expense per SFAS 123(R), less such unusual items such as gain or loss on divestiture plus/minus capital expenditures and additions to intangible assets (per the cash flow statement), plus/minus changes in accounts receivables and unearned revenue (per the cash flow statement)). ACS Corporate includes all of the above performance goals in addition to growth in consolidated earnings per share. Such performance goals were

recommended by our Chairman and Chief Executive Officer, subject to approval of the Compensation Committee within the first 25% of the period of service to which the performance goals relate.

No bonuses were paid if the Company's growth in consolidated earnings before interest and taxes did not equal a target dollar threshold during the performance period. Further, at least 16% of a particular performance goal must have been achieved before it would be included in the calculation of the overall achievement of the performance goals, except for cash flow, which was included if a pre-determined minimum amount was met. The Special Executive FY07 Bonus Plan performance goals were approved by the Compensation Committee.

We have not disclosed target levels with respect to specific quantitative or qualitative performance-related factors considered by the Compensation Committee because disclosure of the specific performance goals would give our competitors information that could be leveraged for competitive advantage which would result in competitive harm to the Company. In fiscal year 2007, the Selected Officers earned approximately 80% of the maximum bonus under the Special Executive FY07 Bonus Plan. There was no similar plan in prior fiscal years.

The Selected Officers (other than Mr. Rexford) were entitled to receive varying percentages of their base salaries upon achievement of performance goals for the performance period, upon full achievement of the performance goals. Mr. Blodgett was entitled to receive up to 200% of his base salary and earned a bonus of \$1,200,000 for fiscal year 2007, which was the maximum bonus that any Selected Officer received under the Special Executive FY07 Bonus Plan. Mr. Burlin was entitled to receive up to 150% of his base salary and earned a bonus of \$600,000 for fiscal year 2007. Ms. Vezina was entitled to receive up to 150% of her base salary and earned a bonus of \$600,000 for fiscal year 2007.

Mr. Rexford was entitled to receive the greater of (i) up to 150% of his base salary upon full achievement of the bonus performance goals; or (ii) any commissions earned for acquisitions completed during the performance period, not to exceed 150% of his base salary. In connection with (ii), Mr. Rexford's bonus compensation was tied to commission payments for closed mergers and acquisitions based on a target percentage related to revenue acquired by the Company in such transactions. Mr. Rexford had an acquisition target revenue for fiscal year 2007, which was based on a percentage of the Company's revenues for fiscal year 2006. The revenue acquired through each closed merger or acquisition transaction contributed, on a percentage basis, towards Mr. Rexford's achievement of the acquisition target revenue. Mr. Rexford earned a bonus of \$600,000 for fiscal year 2007 under the Special Executive FY07 Bonus Plan, as a result of his achievement of 80% of the bonus performance goals.

Long Term Incentives – Our Stock Incentive Plans

ACS provides long-term incentive compensation through awards of stock options that generally vest over multiple years. Our equity compensation program is intended to align the interests of the participants, including our named executive officers, with those of our stockholders by creating an incentive for our named executive officers to maximize stockholder value. The equity compensation program also is designed to encourage our named executive officers to remain employed with ACS despite a very competitive labor market.

We granted stock options to our officers in 2007 under our 1997 Stock Incentive Plan and, after approval by our stockholders on June 7, 2007, our 2007 Equity Incentive Plan. All proposed stock option grants to employees, including executive officers, are considered and, if deemed acceptable to the Compensation Committee, approved at a formal meeting of the Compensation Committee. Under the Company's stock option grant policy adopted on May 25, 2006 and revised on January 22, 2007 (hereafter, our Stock Option Grant Policy), among other things: (i) a formal meeting to approve option grants to employees is held on August 15th of each year; (ii) a formal meeting to approve option grants to new hires, employees receiving a grant in connection with a promotion, or persons who become ACS employees as a result of an acquisition are to be held on the day prior to or the day of our regularly scheduled

quarterly board meeting; (iii) the date of the formal meeting at which a grant is approved is the option grant date; and (iv) the exercise price for each approved grant shall not be less than the fair market value of a share of the Company's Class A Common Stock on the date of grant which shall be determined by reference to the closing price for such stock on such date on the New York Stock Exchange; provided that if a grant is made on a date when the New York Stock Exchange is closed, then the fair market value of a share of the Company's Class A Common Stock on the date of grant shall be determined by reference to the closing price for such stock on the last day on which the New York Stock Exchange was open for trading activities.

On August 15, 2006, the Compensation Committee granted 2,091,500 options to employees under the 1997 Stock Incentive Plan. Based on executive management's recommendation, no stock option grants were made to corporate executive management pending substantive determination regarding corporate executive management's actions in the matters related to the stock option investigation by the SEC and the grand jury subpoena issued by the United States District Court, Southern District of New York. However, the

Compensation Committee agreed to grant options to purchase 100,000 shares each to Ann Vezina, Chief Operating Officer, Commercial Solutions Group and Tom Burlin, Chief Operating Officer, Government Solutions Group, but those grants were delayed. The delay in the grants to Ms. Vezina and Mr. Burlin was necessary at the time because there were insufficient shares remaining in the 1997 Stock Incentive Plan to make the grants to Ms. Vezina and Mr. Burlin. Subsequent to August 15, 2006, a number of options granted under the 1997 Stock Incentive Plan terminated, thereby making certain options available to grant to other employees, including Ms. Vezina and Mr. Burlin as discussed below.

Because of the ongoing stock option investigation, we were unable to timely file our Annual Report on Form 10-K for the fiscal year ended June 30, 2006 and our Annual Meeting of Stockholders was delayed, and the regularly scheduled meeting of our Board of Directors that was to have occurred in November 2006 was focused solely on stock option investigation matters and any other matters for consideration were deferred. Under our stock option granting policy, the day prior to or the day of that regularly scheduled November 2006 Board meeting, the Compensation Committee could have granted options to new hires, employees receiving a grant in connection with a promotion, or persons who become ACS employees as a result of an acquisition. On the morning of December 9, 2006 the Compensation Committee met to discuss whether options, that were available under the 1997 Stock Incentive Plan should be granted to new hires, employees receiving a grant in connection with a promotion, or persons who became ACS employees as a result of an acquisition. After consideration of the fact that options would have been granted in November 2006, if the regularly scheduled Board meeting had not deferred consideration of matters other than the stock option investigation, the Compensation Committee granted options to purchase 692,000 shares to new hires, employees receiving a grant in connection with a promotion, or persons who become ACS employees as a result of an acquisition, with such grants including options to purchase 140,000 shares to Lynn Blodgett, who had been promoted to President and Chief Executive Officer; options to purchase 75,000 shares to John Rexford who had been promoted to Executive Vice President and Chief Financial Officer; and options to purchase 100,000 shares to each of Ann Vezina and Tom Burlin which grants were in recognition of their recent promotions to Chief Operating Officers of the Commercial and Government segments, respectively, and had been approved by the Compensation Committee on August 15, 2006 but were delayed until shares were available for grant.

During the December 9, 2006 Compensation Committee meeting, it was recognized that the grants made to Mr. Blodgett and Mr. Rexford were for a number of shares that were less than the number of shares that would have been normally granted to a new Chief Executive Officer and new Chief Financial Officer because of the limited number of options remaining available under the 1997 Stock Incentive Plan. The Compensation Committee noted that it should consider a future grant to supplement the number of options made in the earlier grant so that the aggregate number of shares granted to Mr. Blodgett and Mr. Rexford would be equal to the number that would normally be granted to a new Chief Executive Officer and new Chief Financial Officer. To accomplish this purpose, at a meeting on July 2, 2007, the Compensation Committee approved option grants (the Grants) to Lynn Blodgett to purchase 60,000 shares of the Company's Class A Common Stock under the 2007 Equity Incentive Plan and to John Rexford to purchase 25,000 shares of the Company's Class A Common Stock under the 2007 Equity Incentive Plan, subject to the waiver of the Stock Option Grant Policy by the Board of Directors as the grants were made outside of normal option approval dates set forth in the Policy, which occurred on July 9, 2007 and on which date the grants became effective.

Generally Available Benefit Programs

We also offer a number of other benefits to our named executive officers pursuant to benefit programs that provide for broad-based employee participation. These benefit programs include accidental death and dismemberment insurance, health and dependent care flexible spending accounts, business travel insurance, wellness programs, relocation/expatriate programs and services, educational assistance and certain other benefits.

Retirement Benefits

To assist our employees in accumulating funds for retirement (or for other purposes permitted by our plans) we provide our employees, including our named executive officers, the opportunity to participate in the ACS Savings Plan and the ACS Supplemental Savings Plan. For a description of these plans, please see the caption Retirement Benefits. While a small number of our non-executive employees may participate in pension or defined benefit plans, we provide these plans in lieu of pension or defined benefit plans for our general employee base, including our named executive officers.

Mr. Deason's Supplemental Executive Retirement Agreement and Employment Agreement

In recognition of his efforts on behalf of the Company and his determination to position the Company for future growth, in fiscal year 1999 we entered into a Supplemental Executive Retirement Agreement and an employment agreement with our Chairman, Darwin Deason. A description of the Supplemental Executive Retirement Agreement, including amounts payable to Mr. Deason under the

agreement, is set forth under the caption Mr. Deason's Supplemental Executive Retirement Agreement. A description of the employment agreement, as amended in fiscal year 2007, including amounts payable to Mr. Deason under the agreement, is set forth under the caption Mr. Deason's Employment Agreement.

Perquisites

The Compensation Committee reviews and approves any perquisites offered to executives. The Company offers the Executive Benefit Plan to promote the health and well-being of the executives, maximize the value of the compensation provided by the Company and minimize the time that executives spend managing personal affairs so that they may devote their full attention to Company business. While the Compensation Committee does not consider perquisites to be a significant component of executive compensation, it recognizes that such perquisites are an important factor in attracting and retaining talented executives. A description of the Executive Benefit Plan and other perquisites offered to our executive officers are set forth under the caption Perquisites.

Termination of Employment and Change of Control Benefits

In fiscal year 2007, Lynn Blodgett, Tom Burlin, John Rexford and Ann Vezina had written change of control agreements for benefits that were due to them upon a change of control. Mr. Blodgett's change of control agreement has subsequently been replaced by his employment agreement, dated December 14, 2007, which provides for a severance benefit in the event the Company terminates his employment without cause or Mr. Blodgett terminates his employment for good reason, as defined in the agreement, including upon a change of control. In addition to his severance benefit, Mr. Blodgett's unvested stock options or other equity based awards under any incentive plan shall become fully vested upon such termination.

Additionally, Mr. Deason's employment agreement provides for certain payments to Mr. Deason upon a change of control.

We believe that these change of control benefits are important to our ability to recruit executive officers. We also believe this benefit allows us to retain executives during times of unforeseen events when the executive's future is uncertain, but continued employment of the executive may be necessary for the Company.

Additional information regarding the change of control payments and severance benefits payable to our named executive officers, including estimates of the amounts payable under such agreements assuming a change of control as of June 30, 2007, is set forth under the caption Post Termination Benefits.

Stock Ownership Guidelines

On April 19, 2007 the Board of Directors revised the guidelines for stock ownership by the Company's directors and executive officers, which had been originally adopted by the Board of Directors in September 2003. The Board of Directors may evaluate whether exceptions should be made to the guidelines for any director or executive officer and may from time to time change such guidelines.

The revised policy generally provides as follows:

Our Chief Executive Officer is required to own, within five years after he or she becomes subject to the guidelines, shares of our Class A common stock having a value equal to a minimum of five times his or her annual base salary.

Our other executive officers are required to own, within five years after he or she becomes subject to the guidelines, shares of our Class A common stock having a value equal to a minimum of three times his or her annual base salary.

Independent directors serving on the Board of Directors are required to own, within three years after they become subject to the guidelines, shares of our Class A common stock having a value equal to a minimum of three times their annual retainer.

Vested options to purchase Class A common stock may be counted as shares owned in determining compliance with the guidelines.

Our named executive officers currently subject to the guidelines, hold shares and vested options in sufficient number to comply with the minimum ownership requirements of the revised policy. Our independent directors currently subject to the guidelines have not yet completed three years of service and therefore are not yet subject to the minimum requirements of the revised policy.

Report of the Compensation Committee

The Compensation Committee reviewed and discussed with management of the Company the foregoing Compensation Discussion and Analysis. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the ACS Annual Report on Form 10-K/A for the fiscal year ended June 30, 2007.

Compensation Committee

TED B. MILLER, JR. *(CHAIRMAN)

PAUL E. SULLIVAN*

FRANK VARASANO*

Notwithstanding any statement in any of our filings with the SEC that might incorporate part or all of any future filings with the SEC by reference, including this Form 10-K/A, the foregoing Report of the Compensation Committee is not incorporated by reference into any such filings.

*Each of Messrs. Miller and Varasano has served as a member of the Compensation Committee since November 25, 2007. Mr. Sullivan has served as a member of the Compensation Committee since March 19, 2008. Messrs. Miller, Sullivan and Varasano were not involved in and did not participate in any decision of the Compensation Committee prior to the date that they joined the Committee.

SUMMARY COMPENSATION TABLE FOR FISCAL 2007

The following table shows compensation information for fiscal 2007 for our named executive officers, and a former Chief Executive Officer and Chief Financial Officer who resigned during fiscal year 2007 (collectively, the named executive officers).

Name and Principal Position	Year	Salary (\$)	Bonuses (\$)	Stock Awards		Non-Equity Incentive Plan Compensation (\$) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (5)	All Other Compensation (\$) (6)	Total (\$) (7)
				(1)	Option Awards (\$)(2)				
Deason Chairman of the Board	2007	916,053			2,048,835(4)	1,835,468	952,710(5)	219,033(6)	5,971,099
Podgett President and Chief Executive Officer	2007	695,769			1,767,183	1,200,000		29,985(7)	3,692,937
Wexford Executive Vice President and Financial Officer	2007	429,108			796,062	600,000		291,419(8)	2,116,589
Wurlin Executive Vice President and Operating Officer	2007	420,913			542,306	600,000		25,454(9)	1,588,673
Rezina Executive Vice President and Operating Officer - Commercial Solutions	2007	422,401			273,499	600,000		33,110(10)	1,328,910
Former Officers:									
King President and Executive Officer	2007	698,654			1,581,016			32,193(11)	2,311,863
D. Edwards Executive Vice President and Chief Financial Officer	2007	456,455			687,882			17,611(12)	1,161,948

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