AFFILIATED COMPUTER SERVICES INC
Form 10-Q
October 22, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the period from _____ to _____

Commission file number 001-12665

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)

Registrant s telephone number, including area code (214) 841-6111

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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 for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Title of each class	Number of shares outstanding as of October 16, 2009
Class A Common Stock, $.01 par value	91,088,602
Class B Common Stock, $.01 par value	6,599,372

AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except per share amounts)

	September 30, 2009	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 558,761	$ 730,911
Accounts receivable, net	1,524,199	1,415,707
Income taxes receivable		19,210
Prepaid expenses and other current assets	252,196	249,257
Total current assets	2,335,156	2,415,085
Property, equipment and software, net	979,123	955,158
Goodwill	2,896,593	2,894,189
Other intangibles, net	446,190	436,383
Other assets	190,822	200,158
Total assets	$ 6,847,884	$ 6,900,973
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 218,940	$ 272,889
Accrued compensation and benefits	177,061	251,510
Other accrued liabilities	395,634	388,262
Income taxes payable	3,524	
Deferred taxes	91,567	90,798
Current portion of Senior Notes, net of unamortized discount	249,988	249,984
Current portion of long-term debt	43,100	45,188
Current portion of unearned revenue	171,365	187,349
Total current liabilities	1,351,179	1,485,980
Senior Notes, net of unamortized discount	249,641	249,625
Other long-term debt	1,780,646	1,791,904
Deferred taxes	479,009	469,606
Other long-term liabilities	284,960	281,726
Total liabilities	4,145,435	4,278,841
Commitments and contingencies (See Note 11)		

Stockholders equity:		
Class A common stock, $.01 par value, 500,000 shares authorized, 112,048 and 112,044 shares issued, respectively	1,120	1,120
Class B convertible common stock, $.01 par value, 14,000 shares authorized, 6,600 shares issued and outstanding	66	66
Additional paid-in capital	1,736,806	1,729,995
Accumulated other comprehensive loss, net	(40,302)	(45,014)
Retained earnings	2,060,727	1,991,933
Treasury stock at cost, 21,002 shares	(1,055,968)	(1,055,968)
Total stockholders equity	2,702,449	2,622,132
Total liabilities and stockholders equity	$ 6,847,884	$ 6,900,973

The accompanying notes are an integral part of these consolidated financial statements.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30,	
	2009	**2008**
Revenues	$ 1,676,996	$ 1,604,454
Operating expenses:		
Cost of revenues:		
Wages and benefits	767,515	734,016
Services and supplies	428,377	373,505
Rent, lease and maintenance	205,091	202,143
Depreciation and amortization	96,887	97,606
Other	11,556	10,348
Cost of revenues	1,509,426	1,417,618
Other operating expenses	37,260	14,088
Total operating expenses	1,546,686	1,431,706
Operating income	130,310	172,748
Interest expense	29,254	35,208
Other non-operating expense (income), net	(9,096)	3,700
Pretax profit	110,152	133,840
Income tax expense	41,358	50,205
Net income	$ 68,794	$ 83,635
Earnings per share:		
Basic	$ 0.70	$ 0.86
Diluted	$ 0.70	$ 0.85
Shares used in computing earnings per share:		
Basic	97,642	97,307

Diluted	98,091	98,091

The accompanying notes are an integral part of these consolidated financial statements.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 68,794	$ 83,635
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	96,887	97,606
Stock-based compensation expense	6,927	5,695
Excess tax benefit on stock-based compensation		(80)
Deferred income tax expense	9,060	14,319
(Gain) loss on long-term investments	(9,093)	5,987
Gain on sale of business units	(178)	(441)
Provision for uncollectible accounts receivable	273	2,648
Other non-cash activities	14,046	9,406
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(108,115)	(84,192)
Prepaid expenses and other current assets	(6,700)	(13,257)
Other assets	8,747	1,840
Accounts payable	(54,181)	(1,202)
Accrued compensation and benefits	(74,450)	(90,483)
Other accrued liabilities	15,719	9,564
Income taxes receivable/payable	22,554	29,301
Other long-term liabilities	16,111	(8,988)
Unearned revenue	(27,500)	1,244
Total adjustments	(89,893)	(21,033)
Net cash (used in) provided by operating activities	(21,099)	62,602
Cash flows from investing activities:		
Purchases of property, equipment and software, net	(93,927)	(64,550)
Additions to other intangible assets	(34,173)	(9,541)
Payments for acquisitions, net of cash acquired	(7,069)	(4,751)
Proceeds from divestitures, net of transaction costs	178	9,307
Purchases of investments		(2,596)
Proceeds from sale of investments	8,036	10,551
Net cash used in investing activities	(126,955)	(61,580)
Cash flows from financing activities:		

Payments of long-term debt	(24,176)	(33,688)
Excess tax benefit on stock-based compensation		80
Proceeds from stock options exercised	155	5,599
Other, net	(75)	(81)
Net cash used in financing activities	(24,096)	(28,090)
Net decrease in cash and cash equivalents	(172,150)	(27,068)
Cash and cash equivalents at beginning of period	730,911	461,883
Cash and cash equivalents at end of period	$ 558,761	$ 434,815

The accompanying notes are an integral part of these consolidated financial statements.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Affiliated Computer Services, Inc. (ACS or the Company) is a Fortune 500 and S&P 500 company with approximately 76,000 employees providing business process outsourcing and information technology services to commercial and government clients. We were incorporated in Delaware on June 8, 1988, and our corporate headquarters is located in Dallas, Texas. Our clients have time-critical, transaction-intensive business and information processing needs, and we typically service these needs through long-term contracts.

The consolidated financial statements are comprised of our accounts and the accounts of our controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial information presented should be read in conjunction with our consolidated financial statements for the fiscal year ended June 30, 2009. The foregoing unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim period. The results for the interim period are not necessarily indicative of results to be expected for the year.

Significant accounting policies are detailed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

We present cost of revenues in our Consolidated Statements of Income based on the nature of the costs incurred. Substantially all these costs are incurred in the provision of services to our customers. The selling, general and administrative costs included in cost of revenues are not material and are not separately presented in the Consolidated Statements of Income.

Subsequent events have been evaluated through October 22, 2009, the date the financial statements were issued.

2. PROPOSED SALE OF THE COMPANY

On September 27, 2009, Xerox Corporation (Xerox), Boulder Acquisition Corp. (Merger Sub), a wholly-owned subsidiary of Xerox, and the Company entered into an Agreement and Plan of Merger (the Merger Agreement). Subject to the terms and conditions of the Merger Agreement, which has been approved by the Boards of Directors of Xerox and the Company (and recommended by a special committee of independent directors of the Company), the Company will be merged with and into Merger Sub (the Merger). The foregoing description is qualified in its entirety by reference to that certain Current Report on Form 8-K/A filed by the Company on September 29, 2009 as well as the Merger Agreement and other agreements and documents incorporated therein.

During the three months ended September 30, 2009, we incurred approximately $18.1 million in costs related to this transaction including legal costs and $11.2 million related to the terms of the Employment Agreement between Darwin Deason, Chairman of our Board of Directors, and the Company. Under the Employment Agreement, the Company is required to make a specified payment to Mr. Deason upon the vote by the Board of Directors to approve a transaction that would constitute a change of control of the Company. Upon the Board of Directors approval of the Merger Agreement, on or about September 27, 2009, the change of control provision in the Employment Agreement was triggered. The payment was made to Mr. Deason during October 2009.

Because of the proposed Merger, the Company has decided to postpone indefinitely its 2009 Annual Meeting of Stockholders, which it had intended to hold on or around November 5, 2009.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) revised principles and requirements for how an acquirer accounts for business combinations. The revisions include guidance for recognizing and measuring the assets acquired, liabilities assumed, and any noncontrolling or minority interests in an acquisition. The revised guidance is applied prospectively and became effective for the Company for business combinations occurring on or after July 1, 2009. In association with these changes, we recorded a write-down of costs incurred for proposed acquisitions of approximately $3.8 million ($2.4 million, net of income tax) on July 1, 2009 included in other operating expenses in our Consolidated Statement of Income for the three months ended September 30, 2009.

In December 2007, the FASB also issued guidance that establishes accounting and reporting standards that require noncontrolling interests to be reported as a separate component of equity, and net income attributable to the parent and to the noncontrolling interest to be separately identified in the income statement. This guidance also requires changes in a parent s ownership interest while the parent retains its controlling interest to be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. There was no impact on the financial position or results of operations as a result of the adoption of this change on July 1, 2009.

Effective for the Company on July 1, 2009, the *FASB Accounting Standard Codification* (the FASB Codification) is the source of authoritative accounting principles recognized by the FASB. The FASB Codification identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities presented in conformity with generally accepted accounting principles in the United States of America. The application of the FASB Codification did not have an impact on our financial condition or results of operations.

In December 2008, the FASB issued guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan, effective for fiscal years ending after December 15, 2009. We have not yet determined the resulting effect, if any, on our financial statement disclosures.

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. Specifically, we currently allocate the total arrangement consideration based upon the elements relative fair value. The revised guidance established a selling price hierarchy for determining the selling price of the contract elements, which is based on: (a) vendor-specific objective evidence; (b) third party evidence; or (c) estimates. This guidance also expands the required disclosures and is effective for the Company on July 1, 2010. We do not anticipate that this revised guidance will have a material impact on our financial condition or results of operations and have not yet determined the resulting effect, if any, on our financial statement disclosures.

4. GLOBAL PRODUCTION INITIATIVE

During fiscal year 2009, we commenced a global production initiative to lower future labor costs. The following table reflects the activity for the accruals for involuntary termination of employees related to this global production initiative (in thousands):

	Three Months Ended September 30, 2009
Balance at June 30, 2009	$ 2,249
Reversals	(1,035)
Payments	(530)
Balance at September 30, 2009	$ 684

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. PENSION AND OTHER POST-EMPLOYMENT PLANS

Net periodic benefit cost

The following table provides the components of net periodic benefit cost (in thousands):

	Three Months Ended September 30,			
	2009		2008	
	Non-U.S.	U.S.	Non-U.S.	U.S.
Defined benefit plans:				
Service cost	$ 1,044	$ 924	$ 1,732	$ 894
Interest cost	1,636	281	1,994	191
Expected return on assets	(1,494)	(315)	(1,786)	(240)
Recognized net actuarial gain	(2)		1	
Amortization of prior service costs		55		55
Net periodic benefit cost for defined benefit plans	$ 1,184	$ 945	$ 1,941	$ 900

Contributions

We made contributions to the pension plans of approximately $3.8 million during the three months ended September 30, 2009. We expect to contribute approximately $14.6 million to our pension plans during fiscal year 2010.

6. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2009	2008
Numerator:		
Net income	$ 68,794	$ 83,635
Denominator:		
Basic weighted average shares	97,642	97,307
Effect of dilutive securities:		
Stock options	449	784
Total potential common shares	449	784
Diluted weighted average shares	98,091	98,091
Earnings per share		
Basic	$ 0.70	$ 0.86
Diluted	$ 0.70	$ 0.85

Additional dilution from assumed exercises of stock options is dependent upon several factors, including the market price of our Class A common stock. Weighted average stock options to purchase approximately 12.7 million and 9.6 million shares of common stock during the three months ended September 30, 2009 and 2008, respectively, were outstanding but were not included in the computation of diluted earnings per share because the average market price of the underlying stock did not exceed the sum of the option exercise price, unrecognized compensation expense and the windfall tax benefit.

The calculation of diluted earnings per share requires us to make certain assumptions related to the use of proceeds that would be received upon the assumed exercise of stock options. These assumed proceeds include the excess tax benefit that we receive upon assumed exercises. We calculate the assumed proceeds from excess tax benefits based on the deferred tax assets actually recorded without consideration of as if deferred tax assets.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. COMPREHENSIVE INCOME

The objective of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income is the total of net income and all other non-owner changes within a company s equity.

The components of comprehensive income are as follows (in thousands):

	Three Months Ended September 30,	
	2009	2008
Net income	$ 68,794	$ 83,635
Other comprehensive income (loss):		
Foreign currency translation adjustment	3,045	(36,334)
Unrealized losses on foreign exchange forward agreements (net of income tax of $(463) and $(694), respectively)	(895)	(1,145)
Amortization of unrealized loss on forward interest rate agreements (net of income tax of $240 and $240, respectively)	397	396
Unrealized gains on interest rate swap agreement (net of income tax of $509 and $159, respectively)	842	264
Unrealized gains (losses) on interest rate collar agreements (net of income tax of $779 and $(207), respectively)	1,288	(342)
Amortization of prior service costs (net of income tax of $20 and $20, respectively)	35	35
Comprehensive income	$ 73,506	$ 46,509

The following table represents the components of accumulated other comprehensive loss, net (in thousands):

	As of September 30, 2009	As of June 30, 2009
Foreign currency losses	$ (18,442)	$ (21,487)
Unrealized gains on foreign exchange forward agreements (net of income tax of $979 and $1,442)	1,537	2,432
Unrealized loss on forward interest rate agreements (net of income tax of $(3,013) and $(3,253), respectively)	(5,047)	(5,444)
Unrealized losses on interest rate swap agreement (net of income tax of $(11,004) and $(11,513), respectively)	(18,211)	(19,053)
Unrealized losses on interest rate collar agreements (net of income tax of $(1,511) and $(2,290), respectively)	(2,501)	(3,789)
Unrecognized prior service costs (net of income tax of $(449) and $(469), respectively)	(771)	(806)
Unrealized gains on funded status of pension and other benefit plans (net of income tax of $1,050 and $1,050, respectively)	3,133	3,133
Total	$ (40,302)	$ (45,014)

We operate in countries where the functional currency is other than the U.S. dollar, such as the euro, British pound, Indian rupee and other local currencies. When the financial statements of our foreign subsidiaries are consolidated into our U.S. GAAP financial statements, and where such subsidiaries functional currencies are a currency other than the U.S. dollar, we convert such financial statements from the local functional currency of the foreign subsidiary into U.S. dollars. The assets and liabilities are converted using the applicable quarter-end spot exchange rate, while the revenues, expenses and net income of the subsidiaries are converted using an average exchange rate for each month during the period. Because exchange rates fluctuate over time, a debit or credit difference arises between the translated value of each foreign subsidiary s assets and liabilities, using the latest quarter end spot rate, and the translated value of such subsidiary s owners equity, which is carried at the average historical rate.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All debits and credits accumulated during the fiscal year are netted for presentation purposes and considered to be translation gains and losses. These cumulative translation gains and losses, and the resulting activity within the fiscal year are reported within accumulated other comprehensive loss, net in the stockholders equity section of our Consolidated Balance Sheets.

8. FINANCIAL INSTRUMENTS

Derivatives and Hedging Activities

We use certain financial derivatives to mitigate our exposure to volatility in interest rates and foreign currency exchange rates. We use these derivative instruments to hedge exposures in the ordinary course of business and do not invest in derivative instruments for speculative purposes. Each derivative is designated as a cash flow hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as cash flow hedges are recorded net of related tax effects in accumulated other comprehensive loss, net and are reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. Any changes in derivative fair values due to ineffectiveness are recognized currently in income. Changes in the fair value of undesignated hedges are recognized currently in the income statement as other non-operating expense (income), net.

Foreign currency forward agreements

We utilize derivative financial instruments to manage our exposure to foreign currencies related to our domestic and international operations. We enter into foreign currency forward agreements in order to hedge the exchange rate risk associated with specific forecasted transactions, including revenue receipts from clients and payments for cost of revenues. Currencies that we hedge consist primarily of the Mexican peso, Indian rupee, Philippine peso, British pound, euro and Swiss franc. We designate only those contracts which closely match the terms of the underlying transaction as cash flow hedges for accounting purposes. The forward contracts are assessed for effectiveness at inception and on an ongoing basis. During the three months ended September 30, 2009 and 2008, there was no material deemed ineffectiveness related to cash flow hedges, and no reclassification to earnings due to hedged transactions no longer expected to occur. The majority of our contracts will expire at various times over the next 12 months. Results of hedges of revenue receipts and payments to suppliers are recognized in revenues and cost of revenues, respectively, when the underlying transactions affect net income. The net gain of $2.5 million ($1.5 million, net of income tax) related to our revenue and cost of revenue hedges outstanding as of September 30, 2009 is expected to be recognized in earnings within the next 12 months. An immaterial amount of gain relates to hedges with maturities extending beyond 12 months. As of September 30, 2009 and June 30, 2009, the notional amount of our foreign exchange cash flow hedges was $109.0 million and $79.5 million, respectively.

Derivatives not designated as hedging instruments

We have entered into certain other foreign currency contracts not designated as qualified hedges for accounting purposes, although management believes they are essential economic hedges. As of September 30, 2009 and June 30, 2009, the notional amount of these agreements was $40.9 million and $28.3 million, respectively, with maturities ranging from October 2009 to August 2010.

Interest rate hedges

In January 2008, we entered into a zero cost interest rate collar with an interest rate cap of 3.281% and a floor of 2.425%. The notional amount of the collar is $500 million executed in two transactions each having two year terms, $300 million of which expires on January 30, 2010 and $200 million of which expires on February 11, 2010. In March 2007, we entered into a five-year amortizing interest rate swap agreement structured so that we pay a fixed interest rate of 4.897% and receive a floating interest rate equal to the one-month LIBOR rate. At both September 30, 2009 and June 30, 2009, the notional amount of the interest rate swap was $475 million. The interest rate collar and interest rate swap are designated as cash flow hedges of forecasted interest payments on up to $975 million of outstanding floating rate debt. The transactions had a fair market value of zero at inception. Over the next 12 months, we expect to reclassify $21.2 million of deferred losses from accumulated other comprehensive loss, net to interest expense as interest payments related to the designated interest rate swap and collars are recognized.

In order to hedge the variability of future interest payments related to our Senior Notes issuance, we entered into forward interest rate agreements in April 2005. The agreements were designated as cash flow hedges of forecasted interest payments in anticipation of the issuance of the Senior Notes. The notional amount of the agreements totaled $500 million and the agreements were terminated in June 2005 upon issuance of the Senior Notes. The settlement of the forward interest rate agreements of $19.0 million ($12.0 million, net of income tax) was recorded in accumulated other comprehensive loss, net, and is being amortized as an increase in reported interest expense over the term of the Senior Notes, with approximately $2.1

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

million to be amortized over the next 12 months. We amortized approximately $0.6 million to interest expense during each of the three months ended September 30, 2009 and 2008.

Please see Note 9 for information regarding the fair value of our financial instruments and Note 7 for additional information on changes in accumulated other comprehensive loss, net for the three months ended September 30, 2009 and 2008.

The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets (in thousands):

Item	Balance Sheet Location	As of September 30, 2009	As of June 30, 2009
Asset derivatives			
Derivatives designated as hedging instruments			
Foreign exchange forward agreements	Prepaid expenses and other current assets	$ 2,926	$ 3,860
		2,926	3,860
Derivatives not designated as hedging instruments			
Non-qualified foreign exchange forward agreements	Prepaid expenses and other current assets	193	345
		193	345
Total asset derivatives		$ 3,119	$ 4,205
Liability derivatives			
Derivatives designated as hedging instruments			
Foreign exchange forward agreements	Other accrued liabilities	$ 412	$
Interest rate swap and collar	Other accrued liabilities	21,211	24,704
Interest rate swap and collar	Other long-term liabilities	12,015	11,941
		33,638	36,645
Derivatives not designated as hedging instruments			
Non-qualified foreign exchange forward agreements	Other accrued liabilities	913	390
		913	390
Total liability derivatives		$ 34,551	$ 37,035

The following tables present the amounts affecting the Consolidated Statements of Income (in thousands):

	Gain (Loss) Recognized in Other	Gain (Loss) Reclassified from Accumulated Other

Derivatives Designated as Hedging Instruments	Comprehensive Income (Loss), Net on Derivatives (a) Three Months Ended September 30, 2009	2008	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss, Net into Income (a)	Comprehensive Loss, Net into Income (a) Three Months Ended September 30, 2009	2008
Cash flow hedges:					
Foreign currency forward contracts	$ (435)	$ (244)	Revenues	$ 122	$ 161
Foreign currency forward contracts	112	(637)	Cost of revenues	913	797
Interest rate swap	(4,188)	(3,377)	Interest expense	(5,539)	(3,800)
Interest rate collar	(661)	(549)	Interest expense	(2,728)	
Total designated cash flow hedges	$ (5,172)	$ (4,807)		$ (7,232)	$ (2,842)

(a) For the three months ended September 30, 2009 and 2008, we recorded no ineffectiveness from cash flow hedges.

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2009	2008
Foreign currency forward contracts	Other non-operating expense (income), net	$ (1,364)	$ (783)

At September 30, 2009, Citibank, N.A., Wells Fargo Bank, N.A., and SunTrust Bank were the counterparties with respect to all but an insignificant portion of our derivative liability. Our derivative liability totaled $1.04 billion in notional amounts as of September 30, 2009. The aggregate fair value amount of derivative instruments that contain credit-risk-related contingent features that are in a net liability position at September 30, 2009 is $34.6 million. Under the terms of our derivative instruments with each of these counterparties, in the event of (i) bankruptcy or insolvency of the Company (or certain of its subsidiaries as set forth in the Credit Facility), (ii) bankruptcy or insolvency of the counterparty under the derivative instrument, or (iii) certain events of default (including failure to pay or deliver, cross defaults and the failure to comply with specified secured interest and lien requirements) or illegality, impossibility or certain tax events, in each case, the derivative instruments may terminate and we may be required to pay termination amounts there under to the extent we owe such amounts to the relevant counterparty. In addition, the terms of certain of these derivative instruments provide for termination of such instruments and the payment of termination amounts (to the extent we owe such a termination amount) if the Company were to be merged with or into, or all or substantially all of its assets were to be acquired by, another entity, and the surviving or transferee entity s creditworthiness is materially weaker than the Company s. We have netting arrangements with each of these counterparties that provide for offsetting payables against receivables from separate derivative instruments with each of the counterparties. Each of these counterparties to our derivative instruments are also lenders under our Credit Facility. Our Credit Facility, senior subordinated notes and substantially all of our derivative instruments contain provisions that provide for cross defaults and acceleration of those debt instruments and possible termination of those derivative instruments in certain situations.

Investments

As of September 30, 2009 and June 30, 2009, as part of our deferred compensation and other employee benefit plans, we held investments in insurance policies with a fair market value of $63.9 million and $57.7 million, respectively, and mutual funds with a fair market value of $26.6 million and $24.9 million, respectively. We recorded gains (losses) on these investments of $8.0 million and $(5.8 million) during the three months ended September 30, 2009 and 2008, respectively. Our deferred compensation plan mutual funds are classified as trading securities. We had unrealized trading losses of $(1.8 million) and $(3.7 million) related to mutual fund investments held on September 30, 2009 and June 30, 2009, respectively.

During the three months ended September 30, 2009, we sold our U.S. Treasury Notes and recorded a gain on the sale of the Treasury Notes of $0.5 million. As of June 30, 2009, we held approximately $7.4 million of U.S. Treasury Notes in conjunction with a contract in our Government segment, which were pledged in accordance with the terms of the contract to secure our performance, and were classified as investments held to maturity.

9. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, we adopted the authoritative guidance for fair value measurements and the fair value option for financial assets and financial liabilities. We did not record an adjustment to retained earnings as a result and the adoption did not have a material effect on the Company s results of operations. The guidance for the fair value option for financial assets and financial liabilities provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

On July 1, 2009, we adopted a newly issued accounting standard for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The accounting standard for those assets and liabilities did not have a material impact on our financial position, results of operations or liquidity. We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of September 30, 2009.

The FASB provides a fair value framework that requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1

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provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs reflecting management s own assumptions about the inputs used in pricing the asset or liability.

The following table presents information about the Company s financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

Description	Level 1	Level 2	Level 3	Total
ASSETS				
Other current assets				
Foreign currency derivatives (a)	$	$ 3,119	$	$ 3,119
Other assets				
Deferred compensation investments in cash surrender life insurance (b)		63,874		63,874
Deferred compensation investments in mutual funds (c)		26,593		26,593
Total assets	$	$ 93,586	$	$ 93,586
LIABILITIES				
Other current liabilities				
Foreign currency derivatives (a)	$	$ 1,325	$	$ 1,325
Interest rate swap and collar (d)		21,211		21,211
Other long-term liabilities				
Deferred compensation plan liabilities (e)		85,258		85,258
Interest rate swap (d)		12,015		12,015
Total liabilities	$	$ 119,809	$	$ 119,809

(a) Foreign currency derivatives consist of foreign currency forward agreements. Fair value is determined using observable

market inputs such as the forward pricing curve, currency volatilities, currency correlations and interest rates, and considers nonperformance risk of the Company and that of its counterparties.

(b) Fair value is reflected as the cash surrender value of Company-owned life insurance.

(c) Fair value is based on quoted market prices for actively traded assets similar to those held by the deferred compensation plan.

(d) The fair values of the interest rate swap and collars are determined using prices obtained from pricing agencies and financial institutions that develop values based on inputs observable in active markets, including interest rates, with consideration given to the nonperformance risk of the

Company and that of its counterparties.

(e) Fair value of the deferred compensation liability is based on the fair value of investments corresponding to employees investment selections, based on quoted prices for similar assets in actively traded markets.

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10. SEGMENT INFORMATION

The following is a summary of certain financial information by reportable segment (in thousands):

	Commercial	Government	Corporate	Consolidated
Three Months Ended September 30, 2009				
Revenues	$ 1,020,373	$ 656,623	$	$ 1,676,996
Operating expenses (excluding depreciation and amortization)	851,640	533,709	64,450	1,449,799
Depreciation and amortization expense	67,786	27,930	1,171	96,887
Operating income (loss)	$ 100,947	$ 94,984	$ (65,621)	$ 130,310
Three Months Ended September 30, 2008				
Revenues (a)	$ 959,417	$ 645,037	$	$ 1,604,454
Operating expenses (excluding depreciation and amortization)	798,225	511,195	24,680	1,334,100
Depreciation and amortization expense	70,619	26,352	635	97,606
Operating income (loss)	$ 90,573	$ 107,490	$ (25,315)	$ 172,748

(a) Revenues in our Government segment include revenues from operations divested through September 30, 2009 of $0.3 million for the three months ended September 30, 2008.

11. COMMITMENTS AND CONTINGENCIES

Stock Option Grant Practices

On March 3, 2006, we received notice from the SEC that it was conducting an investigation into certain stock option grants made by us from October 1998 through March 2005. On June 7, 2006 and on June 16, 2006, we received requests from the SEC for information on all of our stock option grants since 1994. We have been providing supplemental information to the SEC on a voluntary basis following the initial SEC requests. The SEC issued its formal order of investigation in August 2006. The investigation remains active and the Company has had ongoing discussions with the SEC regarding its resolution.

On May 17, 2006, we received a grand jury subpoena from the United States District Court, Southern District of New York, requesting production of documents related to the granting of our stock option grants. We responded to the grand jury subpoena and produced documents to the United States Attorney s Office in connection with the grand jury proceeding.

In response to the investigation by the SEC and the subpoena from a grand jury in the Southern District of New York, we initiated an internal investigation of our stock option grant practices. The investigation reviewed our historical stock option grant practices during the period from 1994 through 2005, including all 73 stock option grants made by us during this period, and the related disclosure in our Form 10-Q for the three months ended March 31, 2006 (the May 2006 Form 10-Q). We informed the SEC and the United States Attorney s Office for the Southern District of New York of the results of our internal investigation. The results of the internal investigation are disclosed in our Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006 (the 2006 Form 10-K/A).

Subsequent to the delivery of the results of the investigation, we, with the approval of our Audit Committee, determined that the cumulative non-cash stock-based compensation expense adjustment and related income tax effects were material. Our decision to restate our financial statements was based on the facts obtained by management and a special committee comprised of all of the then independent members of the Board of Directors, which oversaw the internal investigation. We determined that the cumulative, pre-tax, non-cash stock-based compensation expense resulting from revised measurement dates was approximately $51.2 million during the period from our initial public offering in 1994 through June 30, 2006. The corrections relate to options covering approximately 19.4 million shares. Previously reported total revenues were not impacted by our restatement. The impact of the restatement on each year of our previously issued financial statements is more fully disclosed in our 2006 Form 10-K/A.

In light of the investigation and due to concerns regarding Section 409A of the Internal Revenue Code and related regulations (409A), beginning in December 2006, we took steps to minimize the effect of 409A. These steps included amending the

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pricing of the options, purchasing, through a tender offer, the outstanding options and reimbursing option holders additional taxes incurred upon exercise. In addition, during the investigation, we determined that certain tax deductions taken with respect to the stock option grants in question were improper under Internal Revenue Code Section 162(m) and related regulations (162(m)). We restated our income tax liability for the relevant years to the Internal Revenue Service (IRS) and paid approximately $35.0 million in additional taxes, penalties and interest to the IRS. During fiscal year 2008, the IRS finalized its audit for our fiscal years 2001 through 2003 which should resolve any 162(m) for those years. This audit resulted in a revised liability of $26.9 million in income tax, interest and penalties. During fiscal year 2008, $5.9 million was released to income tax expense and $0.5 million was credited to additional paid-in capital. At this time, we expect the resolution of the fiscal year 2004 section 162(m) issues to be resolved within the next 12 months but cannot predict the timing of the resolution for fiscal year 2005.

Several shareholder derivative lawsuits were filed in connection with the Company s stock option grant practices, generally alleging claims related to breach of fiduciary duty and unjust enrichment against certain of our directors and executives. Each of these lawsuits has been resolved and dismissed, resulting in the receipt of approximately $22.0 million from our Directors and Officers Insurance carriers, the receipt of approximately $1.8 million from certain former and current directors and executive officers, and the payment of approximately $22.0 million to the plaintiffs in the derivative actions, all of which occurred in fiscal year 2009. Related litigation brought by and on behalf of participants in the ACS Savings Plan was also resolved and dismissed, resulting in the payment of $1.5 million to the plaintiffs in fiscal year 2008; however, the distribution of applicable settlement proceeds remains ongoing.

In July 2007, we notified former employees with vested, unexercised and outstanding options which had exercise prices per share that were less, or may have been less, than the fair market value per share of ACS on the revised measurement dates for such options, as determined by us for accounting and tax purposes, that we will pay them the additional 20% income tax imposed by Section 409A based on the excess, if any, of the fair market value of our Class A common stock (up to $62 per share or up to $1.9 million in the aggregate) on the date a triggering event occurs or condition exists that under Section 409A results in the excess being recognized and reported as income on the former employee s W-2 and the exercise price of the affected option (reduced by any gain that had become subject to tax in a prior year because of an earlier triggering event). As of September 30, 2009, we anticipate that these income tax reimbursements will be up to approximately $1.3 million based on the current fair market value of our Class A common stock on the exercise date and will be paid from cash flows from operating activities as the triggering event occurs for each option holder. During the three months ended September 30, 2009 and 2008, we charged (credited) approximately $0.8 million and $(0.3 million), respectively, to wages and benefits in our Consolidated Statements of Income related to these income tax reimbursements based on the current fair market value of our Class A common stock on September 30, 2009 and 2008. The estimated liability related to these income tax reimbursements will be adjusted to reflect changes in the current fair market value of our Class A common stock each quarter until the options are exercised.

Investigation Concerning Procurement Process at Hanscom Air Force Base

In October 2002, one of our subsidiaries, ACS Defense, LLC, and several other government contractors received a grand jury document subpoena issued by the U.S. District Court for the District of Massachusetts. The subpoena was issued in connection with an inquiry being conducted by the Antitrust Division of the Department of Justice (DOJ). The inquiry concerns certain IDIQ (Indefinite Delivery Indefinite Quantity) procurements and their related task orders, which occurred in the late 1990s at Hanscom Air Force Base in Massachusetts. In February 2004, we sold the contracts associated with the Hanscom Air Force Base relationship to ManTech International Corporation (ManTech); however, we have agreed to indemnify ManTech with respect to this DOJ investigation, which remains ongoing.

Litigation arising from alleged patent infringement

On April 4, 2008, JP Morgan Chase & Co. (JPMorgan) filed a lawsuit against Affiliated Computer Services, Inc. and ACS SLS (collectively, ACS) in U.S. District Court in Wilmington, Delaware. JPMorgan seeks certain declarations as well as unspecified monetary damages related to alleged violations by ACS of JPMorgan s electronic payment card,

lockbox, and check processing and imaging patents. ACS is vigorously defending this lawsuit and has counterclaimed against JPMorgan seeking certain declarations as well as monetary damages related to JPMorgan s violations of ACS s payment processing patents. At this time, the likely outcome of this matter is not determinable with a reasonable degree of assurance.

Litigation Arising from Proposed Xerox Transaction

Nine lawsuits have been filed in connection with the proposed Merger with Merger Sub. Seven lawsuits were filed in the District and County Courts of Dallas County, Texas and two lawsuits were filed in Delaware Chancery Court. The plaintiffs in each case allege that they are Company stockholders, and they purport to bring a class action on behalf of all of the Company s stockholders. The lawsuits generally assert claims of breach of fiduciary duties against members of the

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Company s board of directors, allegedly aided and abetted by the Company and Xerox. The plaintiffs allege that the terms of the proposed acquisition are unfair to the Company s Class A stockholders principally on the grounds that the consideration offered to the Class A stockholders is both inadequate and unfairly favorable to the Chairman of the Company, and that the proposed Merger is the result of an unfair process. Plaintiffs seek equitable relief, including an injunction against the proposed Merger, and recovery of unspecified monetary damages allegedly sustained by the stockholders. On October 7, 2009, the Delaware Chancery Court entered an order consolidating the two cases before it. On October 22, 2009, the Delaware Chancery Court granted the plaintiffs motion for class certification.

In connection with one of the lawsuits pending in the County Court of Dallas County, Texas, ACS, with the concurrence of Xerox, has agreed to an Undertaking pursuant to which it will, in furtherance of the Merger Agreement, provide confidential information to a potential acquiror if: (a) the potential acquiror executes a customary confidentiality agreement on terms no less restrictive than ACS s existing confidentiality agreement with Xerox, which confidentiality agreement shall not contain a standstill provision; (b) the potential acquiror submits a Takeover Proposal as that term is defined in Section 7.03(d) of the Merger Agreement that the special committee determines in good faith to be reasonably likely to lead to a proposal that provides greater consideration to ACS s Class A stockholders than provided in the Merger Agreement, which offer may be made expressly contingent on due diligence and obtaining financing commitments and may be subsequently modified or withdrawn; and (c) ACS s special committee determines in good faith, after consulting with its financial advisors and ACS s management, that the potential acquiror (i) has the financial resources to complete an acquisition of ACS that is more favorable to ACS s stockholders and (ii) is submitting a Takeover Proposal for the purpose of acquiring ACS as opposed to merely pursuing a transaction in order to obtain competitively sensitive information from ACS. In addition, pursuant to this Undertaking: (a) ACS may disclose the above procedure to any potential acquiror that contacts ACS; (b) ACS may participate in discussions or negotiations with the person or entity making such Takeover Proposal (and its representatives) regarding such Takeover Proposal; (c) ACS may directly contact a potential acquiror who has made and continues to make such a Takeover Proposal; and (d) when sharing confidential information with its competitors, ACS may adopt appropriate procedures to protect its competitively sensitive information.

All of the litigation arising from the acquisition offer is being vigorously defended. ACS believes it has meritorious defenses to the plaintiffs claims. Accordingly, ACS has not accrued any amount on its balance sheet related to these lawsuits. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any, should an unfavorable outcome occur for the matters noted above.

Other Litigation

In a tentative agreement to settle in September 2009 which was finalized on October 9, 2009, the Company settled an action 4KS Aviation III, Inc. v. Darwin A. Deason, DDH Aviation, LLC, and Affiliated Computer Services, Inc., which was pending in County Court of Dallas County, Texas. As part of the settlement, the Company paid the plaintiff approximately $12.0 million which included the acquisition of three airplanes which will be recorded at their fair market value of approximately $4.0 million, and agreed to a dismissal, with prejudice, of the case. We recorded a charge of $8.0 million during the three months ended September 30, 2009 related to the settlement. All other defendants in the case were voluntarily dismissed with prejudice by the plaintiff.

Other

Certain contracts, primarily in our Government segment, require us to provide a surety bond or a letter of credit as a guarantee of performance. As of September 30, 2009, $653.5 million of our outstanding surety bonds and $60.5 million of our outstanding letters of credit secure our performance of contractual obligations with our clients. Approximately $18.8 million of our letters of credit secure our casualty insurance and vendor programs and other corporate obligations. In general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote. We believe that we have sufficient capacity in the surety markets and liquidity from our cash flow and our Credit Facility to respond to future requests for proposals.

Our Commercial Education business performs third party student loan servicing in the Federal Family Education Loan program (FFEL) on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At September 30, 2009, we serviced a FFEL portfolio of approximately 6.3 million loans with an outstanding principal balance of approximately $64.6 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management s analysis of the historical performance of the defaulted loans. As of September 30, 2009, other accrued liabilities include reserves which we believe to be adequate.

We are obligated to make certain contingent payments to former shareholders of acquired entities upon satisfaction of certain contractual criteria in conjunction with certain acquisitions. During the three months ended September 30, 2009 and 2008, we made contingent consideration payments of $1.8 million and $2.9 million, respectively, related to acquisitions completed in prior years. As of September 30, 2009, the maximum aggregate amount of the outstanding contingent obligations to former shareholders of acquired entities is approximately $45.7 million. Any such payments primarily result in a corresponding increase in goodwill.

In addition to the foregoing, we are subject to certain other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although we cannot predict the outcomes of these other proceedings, we do not believe these other actions, in the aggregate, will have a material adverse effect on our financial position, results of operations or liquidity.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

All statements and assumptions contained or referenced in this Quarterly Report and its exhibits that are not based on historical fact, such as statements with respect to our financial condition, results of operations, cash flows, business strategies, operating efficiencies, indebtedness, litigation, competitive positions, growth opportunities and plans and objectives of management, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Such forward-looking statements and assumptions include, among other things, statements with respect to our financial condition, results of operations, cash flows, business strategies, operating efficiencies, indebtedness, litigation, competitive positions, growth opportunities, plans and objectives of management, and other matters. Such forward-looking statements are based upon management s current knowledge and assumptions about future events and are subject to numerous assumptions, risks, uncertainties and other factors, many of which are outside of our control, which could cause actual results to differ materially from the anticipated results, prospects, performance or achievements expressed or implied by such statements. Such risks and uncertainties include, but are not limited to: (a) the cost and cash flow impact of our debt and our ability to obtain further financing; (b) the complexity of the legal and regulatory environments in which we operate, including the effect of claims and litigation; (c) our oversight by the SEC and other regulatory agencies and investigations by those agencies; (d) our credit rating or further reductions of our credit rating; (e) a decline in revenues from or a loss or failure of significant clients; (f) our ability to recover capital investments in connection with our contracts; (g) possible period-to-period fluctuations in our non-recurring revenues and related cash flows; (h) competition and our ability to compete effectively; (i) dissatisfaction with our services by our clients; (j) our dependency to a significant extent on third party providers, such as subcontractors, a relatively small number of primary software vendors, utility providers and network providers; (k) our ability to identify, acquire or integrate other businesses or technologies; (l) our ability to manage our operations and our growth; (m) termination rights, audits and investigations related to our Government contracts; (n) delays in signing and commencing new business; (o) the effect of some provisions in contracts and our ability to control costs; (p) claims associated with our actuarial consulting and benefit plan management services; (q) claims of infringement of third-party intellectual property rights; (r) laws relating to individually identifiable information; (s) potential breaches of our security system; (t) the impact of budget deficits and/or fluctuations in the number of requests for proposals issued by governments; (u) risks regarding our international and domestic operations; (v) fluctuations in foreign currency exchange rates; (w) our ability to attract and retain necessary technical personnel, skilled management and qualified subcontractors; (x) risks associated with loans that we service; (y) the effect of certain provisions of our certificate of incorporation, bylaws and Delaware law and our stock ownership; (z) the price of our Class A common stock; (aa) the risk that we will not realize all of the anticipated benefits from our proposed transaction with Xerox; (bb) the risk that customer retention and revenue expansion goals for the proposed Xerox transaction will not be met and that disruptions from the proposed Xerox transaction will harm relationships with customers, employees and suppliers; (cc) the risk that unexpected costs will be incurred in connection with the proposed Xerox transaction; (dd) the outcome of litigation, including with respect to the proposed Xerox transaction; (ee) antitrust and other regulatory proceedings to which we may be a party in connection with the proposed Xerox transaction; and (ff) the risk that the proposed Xerox transaction will not close or that our or Xerox s shareholders fail to approve the proposed Xerox transaction. For more details on factors that may cause actual results to differ materially from such forward-looking statements, please see Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 and other reports from time to time that we file with or furnish to the SEC. Forward-looking statements contained or referenced in this Quarterly Report and its exhibits speak only as of the date of this Report and forward-looking statements in documents incorporated by reference speak only as to the date of those documents. We disclaim, and do not undertake any obligation to, update or release any revisions to any forward-looking statement.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide non-core, mission critical services that our clients need to run their day-to-day business. The cornerstone of our business strategy is our focus on vertical markets and technology solutions that we can leverage across our business and client base.

We enter into long-term relationships with clients to provide services that support their mission critical business process or information technology needs. We derive our revenues from delivering comprehensive business process outsourcing and information technology solutions to commercial and government clients. A substantial portion of our revenues is derived from recurring monthly charges to our clients under service contracts with initial terms that vary from one to ten years. The recurring nature of our revenue provides us with predictable revenue streams during various economic cycles. We define

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recurring revenues as revenues derived from services that our clients use each year in connection with their ongoing businesses, and accordingly, exclude non-recurring revenue sources such as software license fees, short-term contract programming and consulting engagements, product installation fees, and hardware and software sales. If we add consulting or other services to enhance the value delivered and offered to our clients that are primarily short-term in nature, we may experience variations in our mix of recurring versus non-recurring revenues.

New Business Pipeline

Management focuses on various metrics in analyzing our business, its performance and its outlook. One such metric is our sales pipeline, which was approximately $2.2 billion of annual recurring revenues as of September 30, 2009. Our sales pipeline includes potential business opportunities that will be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue that are in excess of $100 million. Both the Commercial and Government pipelines have significant, quality opportunities within our vertical markets and horizontal solutions. As of September 30, 2009, the Commercial segment comprised approximately 59% of our pipeline and the Government segment comprised the remaining 41%. By service line, approximately 80% of our pipeline is business process outsourcing and approximately 20% of the pipeline is information technology solutions as of September 30, 2009. The Commercial segment pipeline includes opportunities in transactional business process outsourcing, information technology outsourcing, commercial healthcare, consumer goods and wireless customer care, commercial education and loan processing, benefits outsourcing and finance and accounting outsourcing. The Government segment pipeline includes opportunities in government healthcare, child support and electronic payment services, public safety, transportation and Federal government services.

While the magnitude of our sales pipeline is an important indicator of potential new business signings and potential future internal revenue growth, actual new business signings and internal revenue growth depend on a number of factors, including the effectiveness of our sales pursuit teams, competition for a deal, deal pricing and the cash flow generation qualities of each deal which are subject to risks described further in Item 1A. Risk Factors of our Annual Report on Form 10-K as of June 30, 2009.

New Business Signings

We define new business signings as estimated annual recurring revenue from new contracts and the incremental portion of renewals that are signed during the period, which represents the estimated first twelve months of revenue to be recorded under the contracts after full implementation. We use new business signings to forecast prospective revenues and to estimate capital commitments. There are no third party standards or requirements governing the calculation of new business signings and our measure may not be comparable to similarly titled measures of other companies. We define total contract value as the estimated total revenues from contracts signed during the period. We use total contract value as an additional measure of estimating total revenue represented by contractual commitments, both to forecast prospective revenues and to estimate capital commitments. Revenues for new business signings, annual recurring revenue and total contract value are measured under GAAP (defined below).

During the three months ended September 30, 2009, we signed contracts with new clients and incremental business with existing clients representing $212.4 million of annual recurring revenue with an estimated $833.0 million in total contract value. The Commercial segment contributed 71% of the new contract signings and the Government segment contributed 29% of the new contract signings (based on annual recurring revenue).

Internal Revenue Growth

We use internal revenue growth as a measure of the organic growth of our business. Internal revenue growth is measured as total revenue growth less revenues from acquisitions and revenues from divested operations. At the date of an acquisition, we identify the trailing twelve months of revenue of the acquired company as the pre-acquisition revenue of acquired companies. Pre-acquisition revenue of the acquired companies is considered acquired revenues in our calculation, and actual revenues from the acquired company, either above or below acquired revenues are components of internal growth in our calculation. Revenues from divested operations are excluded from the internal revenue growth calculation in the periods following the effective date of the divestiture. We believe these adjustments to historical reported results are necessary to accurately reflect our internal revenue growth. Prior period internal revenue growth calculations are not restated for current period divestitures. Our measure of internal revenue growth may not be comparable to similarly titled measures of other companies. During the three months ended September 30,

2009, total revenue grew 5% over the prior fiscal year period and internal revenue grew 2% over the prior fiscal year period.

Client Renewal Rates

We focus on the performance of our contractual obligations and continually monitor client satisfaction. Renewal rates are the best indicator of client satisfaction. We calculate our renewal rate based on the total annual recurring revenue of renewals won as a percentage of total annual recurring revenue of all renewals sought. During the three months ended September 30,

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2009, we renewed approximately 83% of total renewals sought, totaling $309.9 million of annual recurring revenue with a total contract value of approximately $484.8 million. During the three months ended September 30, 2008, we renewed approximately 76% of total renewals sought, totaling $304.3 million of annual recurring revenue with a total contract value of approximately $1.1 billion. Average contract life for renewals varies between our Government and Commercial segments. The average contract life of renewals in the Government segment is often longer than those in the Commercial segment.

Capital Intensity

We respond to technological advances and the rapid changes in the requirements of our clients by committing substantial amounts of our resources to the operation of multiple hardware platforms, the customization of products and services that incorporate new technology on a timely basis and the continuous training of our personnel. Management continually assesses the capital intensity of these technological advances and client requirements, addressing the challenge to stay ahead of the competition for innovative solutions and provide a lower cost solution for clients.

We monitor the capital intensity, defined as the total of capital expenditures and additions to intangible assets, as a percentage of revenue, of new business signings. Understanding the capital intensity of new business signings is critical in determining the future free cash flow generating levels of our business. Historically, our capital intensity in our business has ranged between 5% and 7% of revenue. During the three months ended September 30, 2009 and 2008, the overall capital intensity of our business was approximately 7.6% and 4.6% of revenues, respectively. The increase in capital intensity during the three months ended September 30, 2009 is primarily due to incremental spending in our information technology services business and our government healthcare business. We expect that as our new business signings ramp, we will incur capital expenditures associated with the new business, which could result in increased capital intensity over the fiscal year 2009 percentage. We expect that capital intensity in fiscal year 2010 will remain within our historical range.

Employees

Attracting, retaining and training our employees has been a key component to our historical success and will continue to be a major factor in our future success. Because we operate in intensely competitive markets, our success depends to a significant extent on our ability to attract, retain and motivate highly skilled and qualified personnel. We consistently review our employee retention rates on a regional and global basis to ensure that we are competitive in hiring, retaining and motivating our employees. We perform benchmarking studies in some markets in which we compete to ensure our competitiveness in compensation and benefits and utilize employee surveys to gauge our employees level of satisfaction. We provide our employees ongoing technological, management, financial and leadership training and will continue to do so to develop our employees and remain competitive. We utilize activity based compensation as a means to motivate certain of our employees in both segments of our business and believe our use of activity based compensation is a competitive advantage for ACS.

Other

We identified a number of risk factors in Item 1A. Risk Factors of our Annual Report on Form 10-K as of June 30, 2009. Management continually monitors the general economic conditions, changes in technology and other developments in the markets we serve, competitive pricing trends and contractual terms for future impact on the Company in order to be able to respond effectively and on a timely basis to these developments.

We report our financial results in accordance with generally accepted accounting principles in the United States (GAAP). However, we believe that certain non-GAAP financial measures and ratios, used in managing our business, may provide users of this financial information with additional meaningful comparisons between current results and prior reported results. Certain of the information set forth herein and certain of the information presented by us from time to time (including free cash flow and internal revenue growth) may constitute non-GAAP financial measures within the meaning of Regulation G adopted by the SEC which are reconciled to the most comparable GAAP financial measure. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for comparable amounts determined in accordance with GAAP.

Significant Developments

Proposed Sale of the Company

Please see Note 2 to our Consolidated Financial Statements for a discussion of the proposed sale of the Company to Xerox Corporation.

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Revenue Growth

We use internal revenue growth as a measure of the organic growth of our business. Internal revenue growth is measured as total revenue growth less revenues from acquisitions and revenues from divested operations. At the date of an acquisition, we identify the trailing twelve months of revenue of the acquired company as the pre-acquisition revenue of acquired companies. Pre-acquisition revenue of the acquired companies is considered acquired revenues in our calculation, and actual revenues from the acquired company, either above or below acquired revenues are components of internal growth in our calculation. Revenues from operations divested through the end of the current period are excluded from the internal revenue growth calculation in the periods following the effective date of the divestiture. We believe these adjustments to historical reported results are necessary to accurately reflect our internal revenue growth. Prior period internal revenue growth calculations are not restated for current period divestitures. Internal revenue growth calculations reported in prior periods are not restated for current period divestitures. Our measure of internal revenue growth may not be comparable to similarly titled measures of other companies. The following table sets forth the calculation of internal revenue growth (in millions):

	Three Months Ended September 30,		Growth
	2009	**2008**	**%**
Consolidated			
Acquired revenues	$ 45	$	3%
Internal revenues	1,632	1,604	2%
Total revenues	$ 1,677	$ 1,604	5%
Commercial			
Acquired revenues	$ 43	$	4%
Internal revenues	977	959	2%
Total revenues	$ 1,020	$ 959	6%
Government			
Acquired revenues	$ 2	$	0%
Internal revenues	655	645	2%
Total revenues	$ 657	$ 645	2%

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Results of Operations

The following table sets forth the items from our Consolidated Statements of Income expressed as a percentage of revenues. Please refer to the comparisons below for discussion of items affecting these percentages.

	Three Months Ended September 30,	
	2009	2008
Revenues	100.0%	100.0%
Operating expenses:		
Cost of revenues:		
Wages and benefits	45.8%	45.7%
Services and supplies	25.5%	23.3%
Rent, lease and maintenance	12.2%	12.6%
Depreciation and amortization	5.8%	6.1%
Other	0.7%	0.7%
Cost of revenues	90.0%	88.4%
Other operating expenses	2.2%	0.8%
Total operating expenses	92.2%	89.2%
Operating income	7.8%	10.8%
Interest expense	1.7%	2.2%
Other non-operating expense (income), net	-0.5%	0.3%
Pretax profit	6.6%	8.3%
Income tax expense	2.5%	3.1%
Net income	4.1%	5.2%

Comparison of the three months ended September 30, 2009 to the three months ended September 30, 2008

Revenues

During the three months ended September 30, 2009, our revenues increased $72.5 million, or 5%, to $1.68 billion from $1.60 billion during the three months ended September 30, 2008. Internal revenue growth for the three months ended September 30, 2009 was 2% and the remainder of the revenue growth was related to acquisitions.

Revenue in the commercial segment, which represented approximated 61% of our consolidated revenue for the three months ended September 30, 2009, increased $61.0 million or 6% to $1.02 billion during the three months ended September 30, 2009 compared to the same period last year. Internal revenue growth was 2% and growth from acquisitions was 4%. Internal revenue growth was due to growth in the following areas: business process outsourcing with growth in healthcare payer, financial services and the wireless customer care lines of business. This growth was

offset by declines in our human capital management consulting and information technology outsourcing businesses. Revenue in the government segment, which represented 39% of our consolidated revenue for the three months ended September 30, 2009, increased $11.6 million or 2% to $656.6 million during the three months ended September 30, 2009 compared to the same period last year. Internal revenue growth was 2% and accounted for all of the government growth. We experienced internal revenue growth in the following areas: (i) state and local business with growth in electronic payment and citizen relief services and (ii) our federal business for the student loan and electronic payment services. This growth was reduced by lower performance in our government healthcare, administrative services and transportation solutions, primarily for public transport projects.

Operating expenses

Wages and benefits increased $33.5 million, or 4.6%, to $767.5 million. As a percentage of revenue, wages and benefits increased 0.1% to 45.8% from 45.7% during the same period in the prior year. During the three months ended September 30, 2009, we recorded a charge of $11.2 million related to the terms of the employment agreement with Mr. Deason as discussed

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in Note 2 to our Consolidated Financial Statements. Excluding this charge, wages and benefits decreased 0.6% as a percentage of revenue. During the three months ended September 30, 2009 and 2008, we recorded a charge (benefit) in wages and benefits of approximately $8.8 million and $(6.1 million), respectively, related to our deferred compensation plans as a result of the change in the market value of the liability to employees which is substantially offset in other non-operating expense (income), net as discussed below. During the three months ended September 30, 2009 and 2008, we recorded a charge (benefit) of $0.8 million and $(0.3 million), respectively, for estimated costs related to certain former employees stock options as discussed in Note 11 to our Consolidated Financial Statements. The remaining decrease as a percentage of revenue is primarily due to the impact of our global production initiative which was implemented during fiscal year 2009.

Services and supplies increased $54.9 million, or 14.7%, to $428.4 million. As a percentage of revenue, services and supplies increased 2.2% to 25.5% from 23.3% during the same period of the prior year. Services and supplies increased 1.8% as a percentage of revenue due to ramp of new business in our commercial business process outsourcing line of business. During the three months ended September 30, 2009, we recorded a charge of $0.2 million related to the potential sale of the Company to Xerox Corporation. During the three months ended September 30, 2008, we recorded $0.1 million in costs related to our ongoing stock option investigation. During the three months ended September 30, 2009 and 2008, we recorded a (benefit) charge of $(0.1 million) and $0.1 million, respectively, in services and supplies related to the prior potential sale of the Company.

Rent, lease and maintenance expenses increased $2.9 million, or 1.5%, to $205.1 million. As a percentage of revenue, rent, lease and maintenance expenses decreased 0.4% to 12.2% from 12.6% during the same period of the prior year. During the three months ended September 30, 2009 and 2008, we recorded $0.8 million and $0.6 million, respectively, for electronic data storage costs related to our ongoing stock option investigation.

Other operating expenses increased $23.2 million, to $37.3 million. As a percentage of revenue, other operating expenses increased 1.4%, to 2.2% from 0.8% in the same period of the prior year. Operating expenses during the three months ended September 30, 2009 and 2008 were impacted by the items discussed above, including the following (in millions):

	Three Months Ended September 30,	
	2009	**2008**
Government segment:		
Effect of adoption of new accounting principle (see Note 3 to our Consolidated Financial Statements)	$ 3.8	$
Gain on sale of bindery business		(0.2)
Corporate segment:		
Legal costs associated with the proposed sale of the Company to Xerox Corporation (see Note 2 to our Consolidated Financial Statements)	6.6	
Legal settlement (see Note 11 to our Consolidated Financial Statements)	8.0	
Legal costs associated with the ongoing stock option investigations and stockholder derivative lawsuits, net of insurance recovery	0.7	3.6
Legal costs associated with the prior potential sale of the Company and stockholder derivative lawsuits		0.7
Total	$ 19.1	$ 4.1
As a percentage of revenue	1.1%	0.3%
Change as a percentage of revenue explained above	0.8%	
Other net change as a percentage of revenue	0.6%	

Total change as a percentage of revenue	1.4%

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Operating income

Operating income decreased $42.4 million, or 24.6%, to $130.3 million. As a percentage of revenue, operating income decreased 3.0% to 7.8% during the three months ended September 30, 2009 from 10.8% during the same period of the prior year. Operating income during the three months ended September 30, 2009 and 2008 was impacted by the items discussed above, including the following (in millions):

	Three Months Ended September 30,	
	2009	2008
Commercial segment:		
(Cost) benefit related to our deferred compensation plans	$ (1.7)	$ 1.6
Government segment:		
Effect of adoption of new accounting principle (see Note 3 to our Consolidated Financial Statements)	(3.8)	
Gain on sale of bindery business		0.2
Corporate segment:		
(Cost) benefit related to our deferred compensation plans	(7.1)	4.4
Legal and other costs associated with the proposed sale of the Company to Xerox Corporation (see Note 2 to our Consolidated Financial Statements)	(18.1)	
Legal settlement (see Note 11 to our Consolidated Financial Statements)	(8.0)	
Legal costs associated with the ongoing stock option investigations and stockholder derivative lawsuits, net of insurance recovery	(1.5)	(4.4)
Legal benefit (costs) associated with the prior potential sale of the Company and stockholder derivative lawsuits, net of insurance recovery	0.1	(0.8)
Costs related to certain former employees stock options	(0.8)	0.3
Total	$ (40.9)	$ 1.3
As a percentage of revenue	-2.4%	0.1%
Change as a percentage of revenue explained above	-2.5%	
Other net change as a percentage of revenue	-0.5%	
Total change as a percentage of revenue	-3.0%	

Interest expense

Interest expense decreased $6.0 million compared to the same period in the prior year primarily due to lower outstanding balances and lower interest rates on outstanding debt.

Other non-operating expense (income), net

Other non-operating expense (income), net decreased $12.8 million, to $(9.1 million) from $3.7 million in the same period in the prior year. The three months ended September 30, 2009 and 2008 include losses (income) on the investments supporting our deferred compensation plans of approximately $(8.0 million) and $5.8 million, respectively, and gains on foreign currency offset by losses on our hedging instruments and lower interest income. The losses (income) on the investments supporting our deferred compensation plans are primarily offset in wages and benefits.

Liquidity and Capital Resources

Cash flow

During the three months ended September 30, 2009, cash flows used in operating activities were approximately $(21.1 million) compared to $62.6 million provided by operating activities in the three months ended September 30, 2008. Our cash flows used in operating activities were impacted by the timing of payments to vendors, higher payments to employees for annual incentive compensation plans and lower collections from customers on unearned revenue.

Accounts receivable fluctuations may have a significant impact on our cash flows provided by operating activities. Accounts receivable can be negatively impacted by growth in revenues in one fiscal year or quarter compared to the prior fiscal year or quarter, where collections typically lag behind the related client billings, resulting in a use of cash for operating activities. Conversely, when revenue growth slows, then accounts receivable is positively impacted, resulting in a source of cash for operating activities. Additionally, accounts receivable is impacted by contracts where we apply percentage-of-completion

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accounting in the recognition of revenues. Under such contracts we may receive a different amount of payments from the clients during that fiscal year or quarter than the amount that we record as revenues during the same period. Such payments are typically dependent on original contract negotiations as to the timing of when such payments are due, and based on actual operational performance in the delivery of the contract milestones and associated client acceptance required under the contracts.

Free cash flow is measured as cash flow provided by operating activities (as reported in our Consolidated Statements of Cash Flows), less capital expenditures (purchases of property, equipment and software, net, as reported in our Consolidated Statements of Cash Flows) less additions to other intangible assets (as reported in our Consolidated Statements of Cash Flows). We believe this free cash flow metric provides an additional measure of available cash flow after we have satisfied the capital expenditure requirements of our operations, and should not be taken in isolation to be a measure of cash flow available for us to satisfy all of our obligations and execute our business strategies. We also rely on cash flows from financing activities which, together with free cash flow, are expected to be sufficient for us to execute our business strategies. Our measure of free cash flow may not be comparable to similarly titled measures of other companies. The following table sets forth the calculations of free cash flow (in thousands):

	Three Months Ended September 30,	
	2009	2008
Net cash (used in) provided by operating activities	$ (21,099)	$ 62,602
Purchases of property, equipment and software, net	(93,927)	(64,550)
Additions to other intangible assets	(34,173)	(9,541)
Free cash flow	$ (149,199)	$ (11,489)

During the three months ended September 30, 2009, net cash used in investing activities was $127.0 million compared to $61.6 million during the same period of the prior year. Net cash used in investing activities includes the following:

During the three months ended September 30, 2009, we used $7.1 million for acquisitions, net of cash acquired, primarily for a working capital settlement and contingent consideration related to prior year acquisitions. During the three months ended September 30, 2008, we used $4.8 million for acquisitions, net of cash acquired, primarily for contingent consideration and a working capital settlement related to prior year acquisitions.

During the three months ended September 30, 2008, we received $9.3 million related to the sale of our bindery business during the period.

Cash used for the purchase of property, equipment and software, net and additions to other intangible assets was $128.1 million and $74.1 million for the three months ended September 30, 2009 and 2008, respectively. During the three months ended September 30, 2009 and 2008, the overall capital intensity of our business was approximately 7.6% and 4.6% of revenues, respectively. The increase in capital intensity during the three months ended September 30, 2009 is primarily due to incremental spending in our information technology services business and our government healthcare business.

During the three months ended September 30, 2009 and 2008, we received $8.0 million and $10.6 million, respectively, in proceeds primarily from the sale of investments. During the three months ended September 30, 2008, we purchased $2.6 million of investments to support our deferred compensation plans.

During the three months ended September 30, 2009 and 2008, net cash used in financing activities was $24.1 million and $28.1 million, respectively. Such financing activities include net borrowings on our Credit Agreement with

Citicorp USA, Inc., as Administrative Agent (Citicorp), Citigroup Global Markets Inc., as Sole Lead Arranger and Book Runner, and with Morgan Stanley Bank, SunTrust Bank, Bank of Tokyo-Mitsubishi UFJ, Ltd., Wachovia Bank National Association, Bank of America, N.A., Bear Stearns Corporate Lending and Wells Fargo Bank, N.A., as Co-Syndication Agents, and various other lenders and issuers (the Credit Facility), proceeds from the exercise of stock options and excess tax benefits from stock-based compensation.

Credit arrangements

Draws made under our Credit Facility are made to fund cash acquisitions and share repurchases and for general working capital requirements. During the last twelve months, the balance outstanding under our credit facilities for borrowings ranged from $1.77 billion to $1.82 billion. At September 30, 2009, we have approximately $886.9 million of unused commitment under our revolving credit facility after giving effect to outstanding indebtedness of $33.8 million and $79.3 million of outstanding letters of credit that secure certain contractual performance and other obligations. Based on the current leverage ratios under our Credit Facility, we have approximately $490.7 million available for current draw under this revolving facility. At September 30, 2009, we had $1.77 billion outstanding under our Credit Facility, of which $1.75 billion is reflected in long-term debt and $18 million is reflected in current portion of long-term debt. Approximately $1.74 billion of our outstanding Credit Facility bore interest of approximately 2.25% and approximately $33.8 million bore interest of

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approximately 1.35%. Please see Note 8 to our Consolidated Financial Statements for a discussion of the interest rate swap and interest rate collar agreements related to interest rates on our Credit Facility. We are in compliance with the covenants of our Credit Facility, as amended, as of the date of filing of this report.

Please see Note 11 to our Consolidated Financial Statements for a discussion of our outstanding surety bonds and letters of credit.

Capital and Credit Market Risk

Due to the tightening of the capital and credit markets, we have performed assessments to determine the impact, if any, of recent market developments on our financial statements. Our additional assessment has included a review of access to liquidity in the credit market, counterparty creditworthiness, and operational risk. While we believe that the defensive nature of our business model provides us with a certain level of predictability in our revenue streams during differing economic cycles, the current market volatility may create additional risks in the future.

Derivative instruments and hedging activities

Please see Note 8 to our Consolidated Financial Statements for a discussion of our derivative instruments and hedging activities.

Stock Option Repricing

Please see Note 11 to our Consolidated Financial Statements for a discussion of our offer to former employees related to stock option revised measurement dates as the result of our internal investigation of our stock option grant practices.

Other

At September 30, 2009, we had cash and cash equivalents of $558.8 million compared to $730.9 million at June 30, 2009. Our working capital (defined as current assets less current liabilities) increased $54.9 million to $984.0 million at September 30, 2009 from $929.1 million at June 30, 2009. Our current ratio (defined as total current assets divided by total current liabilities) was 1.7 and 1.6 at September 30, 2009 and June 30, 2009, respectively. Our debt-to-capitalization ratio (defined as the sum of short-term and long-term debt divided by the sum of short-term and long-term debt and equity) was 46% and 47% at September 30, 2009 and June 30, 2009, respectively.

We believe that available cash and cash equivalents, together with cash generated from operations and available borrowings under our Credit Facility, will provide adequate funds for our anticipated internal growth and operating needs, including capital expenditures and the repayment of our $250 million of Senior Notes due June 1, 2010, and will meet the cash requirements of our contractual obligations. Should interest rates rise, our interest expense could increase and impact our results of operations and cash flows. In addition, we intend to continue our growth through acquisitions, which could require significant commitments of capital. In order to pursue such opportunities we may be required to incur debt or to issue additional potentially dilutive securities in the future. No assurance can be given as to our future acquisitions and expansion opportunities and how such opportunities will be financed.

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Disclosures about Contractual Obligations and Commercial Commitments as of September 30, 2009 (in thousands):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (1)	$ 1,772,131	$ 18,380	$ 70,058	$ 1,683,668	$ 25
Senior Notes, net of unamortized discount (1)	499,629	249,988			249,641
Capital lease obligations (1)	51,615	24,720	24,530	2,365	
Operating lease obligations (2)	1,083,694	418,374	432,266	140,562	92,492
Purchase obligations (3)	19,562	5,518	14,044		
Total Contractual Obligations	$ 3,426,631	$ 716,980	$ 540,898	$ 1,826,595	$ 342,158

		Amount of Commitment Expiration per Period			
Other Commercial Commitments	**Total Amounts Committed**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Standby letters of credit	$ 79,268	$ 79,247	$ 21	$	$
Surety bonds	653,467	620,512	31,272	136	1,547
Total Other Commercial Commitments	$ 732,735	$ 699,759	$ 31,293	$ 136	$ 1,547

(1) Excludes accrued interest of $10.6 million at September 30, 2009.

(2) We have various contractual commitments to lease hardware and software and for the purchase of maintenance on such leased assets with varying terms through fiscal year 2021, which are included in operating leases in

the table.

(3) We have entered into various contractual agreements to purchase telecommunications services. These agreements provide for minimum annual spending commitments, and have varying terms through fiscal year 2016, and are included in purchase obligations in the table.

We made contributions of approximately $3.8 million to our pension plans during the three months ended September 30, 2009 and expect to contribute approximately $14.6 million to our pension plans during fiscal year 2010. Minimum pension funding requirements are not included in the table above as such amounts are zero for our pension plans as of September 30, 2009.

As of September 30, 2009, we had gross reserves for uncertain tax positions totaling $39.5 million, which excludes $7.7 million of offsetting tax benefits. We anticipate a significant change in the next 12 months to the total amount of unrecognized benefits due to ongoing negotiations with taxing authorities. However, due to the uncertain nature of the settlement process, we are unable to make a reasonable estimate as to when cash settlements of these uncertain tax positions with taxing authorities will occur.

Please see Note 11 to our Consolidated Financial Statements for a discussion of our outstanding surety bonds and letters of credit.

Please see Note 11 to our Consolidated Financial Statements for a discussion of our obligation to make contingent payments to former shareholders of acquired entities upon satisfaction of certain contractual criteria in conjunction with certain acquisitions.

As discussed in Note 11 to our Consolidated Financial Statements, as of September 30, 2009 we accrued approximately $1.3 million to be paid to former employees related to stock option revised measurement dates as the result of our internal investigation of our stock option grant practices.

Please see Note 11 to our Consolidated Financial Statements for a discussion of our exposure under our Commercial contract to perform third party student loan servicing in the FFEL program on behalf of various financial institutions.

Critical Accounting Policies

As of the date of filing of this report, there have not been any material changes to our critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 filed with the SEC on August 27, 2009.

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New Accounting Pronouncements

Please see Note 3 to our Consolidated Financial Statements for a discussion of recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates and foreign currency exchange rates.

Our Credit Facility is a variable rate facility that is tied to LIBOR. We have $1.77 billion of variable rate debt, of which $975.0 million is hedged under our interest rate swap and interest rate collar agreements discussed below. Based on the net amount of outstanding variable rate debt of $796.3 million at September 30, 2009, a 100 basis point change in LIBOR would change annual interest expense by approximately $8.0 million ($5.0 million, net of income tax).

We entered into a zero cost interest rate collar in January 2008. The collar is designated as a cash flow hedge of forecasted interest payments associated with our floating rate debt, and contains an interest rate cap of 3.281% and a floor of 2.425%. The notional amount of the collar is $500 million, which combined with our $475 million interest rate swap (discussed below), hedges $975 million of our floating rate debt. The interest rate collar was executed in two transactions each having two year terms, $300 million of which expires on January 30, 2010 and $200 million of which expires February 11, 2010.

In March 2007, we entered into a five-year amortizing interest rate swap agreement. As of both September 30, 2009 and June 30, 2009, the notional amount of the agreement totaled $475 million. The agreement is designated as a cash flow hedge of forecasted interest payments on floating rate debt. The interest rate swap is structured such that we pay a fixed rate of interest of 4.897%, and receive a floating rate of interest based on one month LIBOR.

As of September 30, 2009, there have been no other material changes in our market risk from June 30, 2009. For further information regarding our market risk, please see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of September 30, 2009. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of September 30, 2009 our disclosure controls and procedures were effective. There have not been any changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) of the Securities Exchange Act of 1934) during the three months ended September 30, 2009 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 11 to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

As of the date of filing of this report, there have not been any material changes to the information related to the Item 1A. Risk Factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 filed with the SEC on August 27, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Reference is made to the Index to Exhibits beginning on page 28 for a list of all exhibits filed as part of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 22nd day of October, 2009.

AFFILIATED COMPUTER SERVICES, INC.

By: /s/ Kevin Kyser
Kevin Kyser
Executive Vice President and
Chief Financial Officer

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Index to Exhibits

Exhibit Number	Exhibit Name
2.1	Purchase Agreement, dated as of March 15, 2005, among Mellon Financial Corporation, Mellon Consultants European Holdings Limited, Affiliated Computer Services, Inc., ACS Business Process Solutions Limited and Affiliated Computer Services of Germany GmbH (filed as Exhibit 2.1 to our Current Report on Form 8-K, filed March 17, 2005 and incorporated herein by reference).
2.2	Amendment No. 1 to Purchase Agreement, dated as of May 25, 2005, among Mellon Financial Corporation, Mellon Consultants European Holdings Limited, Affiliated Computer Services, Inc., ACS Business Process Solutions Limited and Affiliated Computer Services of Germany GmbH (filed as Exhibit 2.1 to our Current Report on Form 8-K, filed June 1, 2005 and incorporated herein by reference).
2.3	Amendment No. 2 to Purchase Agreement, dated as of November 11, 2005, among Mellon Financial Corporation, Mellon Consultants European Holdings Limited, Affiliated Computer Services, Inc., ACS Business Process Solutions Limited and Affiliated Computer Services of Germany GmbH (filed as Exhibit 2.1 to our Current Report on Form 8-K, filed November 16, 2005 and incorporated herein by reference).
2.4	Agreement and Plan of Merger, dated as of September 27, 2009, among Xerox, Merger Sub, and ACS (includes Certificate of Amendment and Voting Agreement as exhibits) (filed as Exhibit 2.1 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
3.1	Certificate of Incorporation of Affiliated Computer Services, Inc. (filed as Exhibit 3.1 to our Registration Statement on Form S-3, filed March 30, 2001, File No. 333-58038 and incorporated herein by reference).
3.2	Certificate of Correction to Certificate of Amendment of Affiliated Computer Services, Inc., dated August 30, 2001 (filed as Exhibit 3.2 to our Annual Report on Form 10-K, filed September 17, 2003 and incorporated herein by reference).
3.3	Certificate of Elimination of the Series A Cumulative Redeemable Preferred Stock of Affiliated Computer Services, Inc. dated August 20, 2001 (filed as Exhibit 4.3 to our Registration Statement on Form S-8, File No. 333-42385, filed June 13, 2007 and incorporated herein by reference).
3.4	Bylaws of Affiliated Computer Services, Inc., as amended and in effect on August 21, 2008 (filed as Exhibit 3.2 to our Current Report on Form 8-K, filed August 27, 2008 and incorporated herein by reference).
4.1	Form of New Class A Common Stock Certificate (filed as Exhibit 4.3 to our Registration Statement on Form S-1, filed May 26, 1994, File No. 33-79394 and incorporated herein by reference).
4.2	Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. as Issuer and The Bank of New York Trust Company, N.A. as Trustee (filed as Exhibit 4.1 to our Current Report on Form 8-K, filed June 6, 2005 and incorporated herein by reference).
4.3	First Supplemental Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. as Issuer and The Bank of New York Trust Company, N.A. as Trustee, relating to our 4.70% Senior Notes due 2010 (filed as Exhibit 4.2 to our Current Report on Form 8-K, filed June 6, 2005 and incorporated herein by reference).

4.4	Second Supplemental Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. as Issuer and The Bank of New York Trust Company, N.A. as Trustee, relating to our 5.20% Senior Notes due 2015 (filed as Exhibit 4.3 to our Current Report on Form 8-K, filed June 6, 2005 and incorporated herein by reference).
4.5	Specimen Note for 4.70% Senior Notes due 2010 (filed as Exhibit 4.4 to our Current Report on Form 8-K, filed June 6, 2005 and incorporated herein by reference).
4.6	Specimen Note for 5.20% Senior Notes due 2015 (filed as Exhibit 4.5 to our Current Report on Form 8-K, filed June 6, 2005 and incorporated herein by reference).
9.1	Voting Agreement, as amended December 7, 2007, by and between Affiliated Computer Services, Inc. and Darwin Deason (filed as Exhibit 99.1 to our Current Report on Form 8-K filed December 10, 2007 and incorporated herein by reference).
10.1	1997 Stock Incentive Plan of the Company (filed as Appendix D to our Joint Proxy Statement on Schedule 14A, filed November 14, 1997 and incorporated herein by reference).
10.2	Amendment No.1 to Affiliated Computer Services, Inc. 1997 Stock Incentive Plan, dated as of October 28, 2004 (filed as Exhibit 4.6 to our Registration Statement on Form S-8, filed December 6, 2005 and incorporated herein by reference).
10.3	Amended and Restated 2007 Equity Incentive Plan of the Company (filed as Exhibit 10.1 to our Report on Form 8-K, filed August 21, 2009 and incorporated herein by reference).

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Exhibit Number	Exhibit Name
10.4	ACS Senior Executive Annual Incentive Plan (filed as Appendix A to our Proxy Statement on Schedule 14A, filed April 14, 2009 and incorporated herein by reference).
10.5	Form of Directors Indemnification Agreement (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed June 5, 2008 and incorporated herein by reference).
10.6	Form of Change in Control Agreement, dated as of June 9, 2008 (June 6, 2008, in the case of Ann Vezina), by and between Affiliated Computer Services, Inc. and each of Tom Burlin, Kevin Kyser and Tom Blodgett (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed June 11, 2008 and incorporated herein by reference).
10.7	Change in Control Agreement, dated as of June 9, 2008, by and between Affiliated Computer Services, Inc. and John Rexford (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed June 11, 2008 and incorporated herein by reference).
10.8	Amendment to Change in Control Agreements with certain executive officers (filed as Exhibit 10.4 to our Current Report on Form 8-K, filed December 30, 2008 and incorporated herein by reference).
10.9	Supplemental Executive Retirement Agreement, dated as of December 15, 1998, by and between Affiliated Computer Services, Inc. and Darwin Deason (filed as Exhibit 10.13 to our Annual Report on Form 10-K, filed September 29, 1999 and incorporated herein by reference).
10.10	Amendment to Supplemental Executive Retirement Agreement, dated as of November 13, 2003, by and between Affiliated Computer Services, Inc. and Darwin Deason (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed February 17, 2004 and incorporated herein by reference).
10.11	Amendment No. 2 to Supplemental Executive Retirement Agreement, dated as of June 30, 2005, by and between Affiliated Computer Services, Inc. and Darwin Deason (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed July 1, 2005 and incorporated herein by reference).
10.12	Amendment No. 3 to Supplemental Executive Retirement Agreement by and between Affiliated Computer Services, Inc. and Darwin Deason (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed December 30, 2008 and incorporated herein by reference).
10.13	Amended and Restated Executive Employment Agreement, effective as of May 1, 2008, by and between Affiliated Computer Services, Inc. and Lynn Blodgett (filed as Exhibit 10.3 to our Current Report on Form 8-K, filed June 11, 2008 and incorporated herein by reference).
10.14	Amendment to Amended and Restated Executive Employment Agreement by and between Affiliated Computer Services, Inc. and Lynn Blodgett (filed as Exhibit 10.3 to our Current Report on Form 8-K, filed December 30, 2008 and incorporated herein by reference).
10.15	Employment Agreement, as amended December 7, 2007, between the Company and Darwin Deason (filed as Exhibit 99.2 to our Current Report on Form 8-K, filed December 10, 2007 and incorporated herein by reference).

10.16 Amendment to Employment Agreement between the Company and Darwin Deason (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed December 30, 2008 and incorporated herein by reference).

10.17 Affiliated Computer Services, Inc. 401(k) Supplemental Plan, effective as of July 1, 2000, as amended (filed as Exhibit 10.15 to our Annual Report on Form 10-K, filed September 13, 2004 and incorporated herein by reference).

10.18 Affiliated Computer Services, Inc. Executive Benefit Plan, effective as of January 1, 2002, as amended (filed as Exhibit 10.15 to our Annual Report on Form 10-K, filed September 13, 2005 and incorporated herein by reference).

10.19 Form of Stock Option Agreement (filed as Exhibit 10.17 to our Annual Report on Form 10-K, filed September 13, 2005 and incorporated herein by reference).

10.20 Form of Stock Option Agreement (UK grant) (filed as Exhibit 10.18 to our Annual Report on Form 10-K, filed September 13, 2005 and incorporated herein by reference).

10.21 Form of Stock Option Agreement (Switzerland, Canton of Fribourg) (filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q filed May 16, 2006 and incorporated herein by reference.

10.22 Form of Stock Option Agreement (Switzerland, Cantons of Aargau, Basel-Landschaft, Bern & Zurich) (filed as Exhibit 10.9 to our Quarterly Report on Form 10-Q filed May 16, 2006 and incorporated herein by reference.

10.23 1997 Stock Incentive Plan for Employees in France (filed as Exhibit 10.35 to our Annual Report on Form 10-K filed January 23, 2007 and incorporated herein by reference.)

10.24 Form of Stock Option Agreement (France) (filed as Exhibit 10.36 to our Annual Report on Form 10-K filed January 23, 2007 and incorporated herein by reference.)

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Exhibit Number	Exhibit Name
10.25	Form of Stock Option Agreement (Canada, other than Quebec) (filed as Exhibit 10.20 to our Annual Report on Form 10-K filed August 28, 2008 and incorporated herein by reference.)
10.26	Form of Stock Option Agreement (Quebec) (filed as Exhibit 10.21 to our Annual Report on Form 10-K filed August 28, 2008 and incorporated herein by reference.)
10.27	Form of Stock Option Agreement (Germany) (filed as Exhibit 10.22 to our Annual Report on Form 10-K filed August 28, 2008 and incorporated herein by reference.)
10.28	Agreement, dated as of September 30, 2005, between Affiliated Computer Services, Inc. and Jeffrey A. Rich (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed October 3, 2005 and incorporated herein by reference).
10.29	Credit Agreement, dated March 20, 2006, by and among Affiliated Computer Services, Inc., and certain subsidiary parties thereto, as Borrowers, Citicorp USA, Inc., as Administrative Agent, Citigroup Global Markets Inc., as Sole Lead Arranger and Book Runner, and various other agents, lenders and issuers (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed March 21, 2006 and incorporated herein by reference).
10.30	Amendment No. 1 to Credit Agreement dated as of March 30, 2006, by and among Affiliated Computer Services, Inc., and certain subsidiary parties thereto, as Borrowers, and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.24 to our Annual Report on Form 10-K, filed January 23, 2007 and incorporated herein by reference).
10.31	Amendment No. 2 to Credit Agreement dated as of July 6, 2006, by and among Affiliated Computer Services, Inc., and certain subsidiary parties thereto, as Borrowers, and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed July 7, 2006 and incorporated herein by reference).
10.32	Amendment No. 3, Consent and Waiver to Credit Agreement, by and among Affiliated Computer Services, Inc., and certain subsidiary parties thereto and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed September 28, 2006 and incorporated herein by reference).
10.33	Amendment No. 4, Consent and Waiver to Credit Agreement, by and among Affiliated Computer Services, Inc., and certain subsidiary parties thereto and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed December 22, 2006 and incorporated herein by reference).
10.34	Pledge and Security Agreement, dated March 20, 2006, by and among Affiliated Computer Services and certain of its subsidiaries, and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed March 21, 2006 and incorporated herein by reference).
10.35	Deed of Assignment, dated March 20, 2006, by and among the companies listed on Schedule thereto, as Assignors, and Citicorp USA, Inc., as Security Agent (filed as Exhibit 10.3 to our Current Report on

Form 8-K, filed March 21, 2006 and incorporated herein by reference).

10.36 Assignment of Receivables, dated March 20, 2006, by and among the entities listed in Schedule 1 thereto, as Assignors, and Citicorp USA, Inc. as Security Agent (filed as Exhibit 10.4 to our Current Report on Form 8-K, filed March 21, 2006 and incorporated herein by reference).

10.37 Agreement and Deed of the Creation of a First Ranking Right of Pledge of Shares in Affiliated Computer Services International B.V., dated March 20, 2006 (filed as Exhibit 10.5 on Form 8-K, filed March 21, 2006 and incorporated herein by reference).

10.38 Agreement and Deed of the Creation of a First Ranking Right of Pledge of Receivables of Affiliated Computer Services International B.V., dated March 20, 2006 (filed as Exhibit 10.6 to our Current Report on Form 8-K, filed March 21, 2006 and incorporated herein by reference).

10.39 Affirmation of Liens and Guaranties, dated as of July 6, 2006, by and among Affiliated Computer Services, Inc. and certain of its subsidiaries, and Citicorp USA, Inc., as Administrative Agent (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed July 7, 2006 and incorporated herein by reference).

10.40 Confirmation Deed, dated as of July 6, 2006, by and among the entities listed on the Schedule thereto and Citicorp USA, Inc., as Security Agent (filed as Exhibit 10.3 to our Current Report on Form 8-K, filed July 7, 2006 and incorporated herein by reference).

10.41 Engagement Letter between Rich Capital, LLC and Affiliated Computer Services, Inc. dated June 9, 2006 (filed as Exhibit 10.1 on Form 8-K, filed June 12, 2006 and incorporated herein by reference).

10.42 Separation Agreement dated as of November 26, 2006 between Affiliated Computer Services, Inc. and Mark A. King (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed November 27, 2006 and incorporated herein by reference).

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Exhibit Number	Exhibit Name
10.43	Separation Agreement dated as of November 26, 2006 between Affiliated Computer Services, Inc. and Warren D. Edwards (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed November 27, 2006 and incorporated herein by reference).
10.44	Separation Agreement, dated September 27, 2009, among Xerox, ACS and Darwin Deason (filed as Exhibit 10.1 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
10.45	Senior Executive Agreement., dated as of September 27, 2009, between Xerox, ACS and Lynn Blodgett (filed as Exhibit 10.2 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
10.46	Senior Executive Agreement., dated as of September 27, 2009, between Xerox, ACS and Kevin Kyser (filed as Exhibit 10.3 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
10.47	Senior Executive Agreement., dated as of September 27, 2009, between Xerox, ACS and John Rexford (filed as Exhibit 10.4 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
10.48	Senior Executive Agreement., dated as of September 27, 2009, between Xerox, ACS and Tom Burlin (filed as Exhibit 10.5 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
10.49	Senior Executive Agreement., dated as of September 27, 2009, between Xerox, ACS and Tom Blodgett (filed as Exhibit 10.6 to our Current Report on Form 8-K, filed September 29, 2009 and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer of Affiliated Computer Services, Inc. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of Affiliated Computer Services, Inc. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of Affiliated Computer Services, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code. Pursuant to Item 601(b)(32)(ii) of Regulation S-K, this Exhibit is furnished to the SEC and shall not be deemed to be filed.
32.2*	Certification of Chief Financial Officer of Affiliated Computer Services, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code. Pursuant to Item 601(b)(32)(ii) of Regulation S-K, this Exhibit is furnished to the SEC and shall not be deemed to be filed.

* Filed herewith.

Management contract or compensatory plan or arrangement.		