

AFFILIATED COMPUTER SERVICES INC

Form DEF 14A

September 26, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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Affiliated Computer Services, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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ACS LOGO

AFFILIATED COMPUTER SERVICES, INC.

2828 North Haskell Avenue
Dallas, Texas 75204

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on October 24, 2002

To the Stockholders of

AFFILIATED COMPUTER SERVICES, INC.:

The Annual Meeting of Stockholders of Affiliated Computer Services, Inc. (ACS) will be held at Cityplace Conference Center, 2711 North Haskell Avenue, Dallas, Texas 75204 on October 24, 2002 at 11:00 a.m., Dallas, Texas time for the following purposes:

1. To elect directors to hold office for a one-year term and until their respective successors shall have been duly elected and qualified;
2. To consider and vote upon the performance-based incentive compensation for ACS executive officers;
3. To consider and vote upon the Amended and Restated ACS Employee Stock Purchase Plan; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on September 20, 2002 as the record date for the determination of stockholders of ACS entitled to notice of, and to vote at, the Annual Meeting of Stockholders. Only stockholders of record at the close of business on the record date are entitled to notice of and to vote at the Annual Meeting. A holder of shares of ACS Class A common stock is entitled to one vote, in person or by proxy, for each share of Class A common stock on all matters properly brought before the Annual Meeting, and a holder of shares of ACS Class B common stock will be entitled to 10 votes, in person or by proxy, for each share of Class B common stock on all matters properly brought before the Annual Meeting.

ALL HOLDERS OF ACS CLASS A COMMON STOCK AND CLASS B COMMON STOCK (WHETHER THEY EXPECT TO ATTEND THE ANNUAL MEETING OR NOT) ARE REQUESTED TO COMPLETE, SIGN, DATE AND RETURN PROMPTLY THE PROXY CARD ENCLOSED WITH THIS NOTICE.

By Order of the Board of Directors

/s/ WILLIAM L. DECKELMAN, JR.

William L. Deckelman, Jr.
Corporate Secretary

September 24, 2002

AFFILIATED COMPUTER SERVICES, INC.

**2828 North Haskell Avenue
Dallas, Texas 75204**

**PROXY STATEMENT
for
ANNUAL MEETING OF STOCKHOLDERS
To Be Held on October 24, 2002**

GENERAL INFORMATION

This proxy statement is being furnished to stockholders of record, as of September 20, 2002, of Affiliated Computer Services, Inc., a Delaware corporation (ACS), in connection with the solicitation by the Board of Directors of ACS of proxies to be voted at the Annual Meeting of Stockholders to be held at Cityplace Conference Center, 2711 North Haskell Avenue, Dallas, Texas 75204, on October 24, 2002, at 11:00 a.m., Dallas, Texas time, or at any adjournments thereof, for the purposes stated in the Notice of Annual Meeting. The approximate date of mailing this proxy statement and enclosed form of proxy to stockholders is on or about September 24, 2002.

Record Date and Voting

The Board of Directors of ACS has fixed the close of business on September 20, 2002 as the record date for the Annual Meeting. Only holders of record of the outstanding shares of Class A common stock and Class B common stock at the close of business on the record date are entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. As of the close of business on the record date, ACS had outstanding 125,503,389 shares of Class A common stock, \$0.01 par value per share, and 6,599,372 shares of Class B common stock, \$0.01 par value per share. A holder of shares of Class A common stock is entitled to one vote, in person or by proxy, for each share of Class A common stock standing in his or her name on the books of ACS on the record date on any matters properly presented to a vote of the stockholders at the Annual Meeting. A holder of shares of Class B common stock is entitled to 10 votes, in person or by proxy, for each share of Class B common stock standing in his name on the books of ACS on the record date on any matter properly presented to a vote of the stockholders at the Annual Meeting. The Class A common stock and the Class B common stock are the only classes of stock entitled to vote at the Annual Meeting. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Class A common stock and Class B common stock entitled to vote at the Annual Meeting or any adjournment thereof is necessary to constitute a quorum to transact business. Abstentions are counted in tabulations of votes cast on proposals submitted to stockholders to determine the total number of votes cast. Abstentions are not counted as votes for or against any such proposal. Broker nonvotes are not counted as votes cast for purposes of determining whether a proposal has been approved. Under Delaware law, the stockholders do not have appraisal rights with respect to matters to be voted upon at the Annual Meeting.

Vote Required

The affirmative vote of the holders of shares of Class A common stock and Class B common stock, voting together as a class, having a plurality of the voting power of ACS, in person or by proxy, is required to approve Proposal 1, the proposal to elect directors. The affirmative vote of the holders of shares of Class A common stock and Class B common stock, voting together as a class, having a majority of the voting power of ACS eligible to vote and voting, either in person or by proxy, at the Annual Meeting, is required to approve Proposal 2, the proposal to approve the performance-based incentive compensation for ACS executive officers, and Proposal 3, the proposal to approve the Amended and Restated ACS Employee Stock Purchase Plan.

Proxy Solicitation, Revocation and Expenses

All proxies that are properly completed, signed and returned prior to the Annual Meeting will be voted as indicated on the proxy. If the enclosed proxy is signed and returned, it may, nevertheless, be revoked at any time prior to the voting thereof at the pleasure of the stockholder signing it, either by (i) filing a written notice of revocation received by the person or persons named therein, (ii) the stockholder attending the Annual Meeting and voting the shares covered thereby in person, or (iii) delivering another duly executed proxy dated subsequent to the date thereof to the addressee named in the enclosed proxy.

Shares represented by duly executed proxies in the accompanying form will be voted in accordance with the instructions indicated on such proxies, and, if no such instructions are indicated thereon, will be voted in favor of the nominees for election of directors named below, to approve the performance-based compensation for ACS executive officers and to approve the Amended and Restated ACS Employee Stock Purchase Plan. Abstentions, broker non-votes and proxies directing that the shares are not to be voted will not be counted as a vote in favor of a matter called for vote.

The cost of preparing, assembling, printing and mailing this proxy statement and the enclosed proxy form and the cost of soliciting proxies related to the Annual Meeting will be borne by ACS. ACS will request banks and brokers to solicit their customers who are beneficial owners of shares of common stock listed of record in names of nominees, and will reimburse such banks and brokers for the reasonable out-of-pocket expenses for such solicitation.

SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the record date, certain information with respect to the shares of Class A common stock and the Class B common stock beneficially owned by (i) stockholders known to ACS to own more than 5% of the outstanding shares of such classes, (ii) each of ACS directors and Named Executive Officers, and (iii) all ACS executive officers and directors as a group:

Directors and Executive Officers	Amount and Nature of Beneficial Ownership of Class A Common Stock	Percent of Total Shares of Class A Common Stock Owned Beneficially	Amount and Nature of Beneficial Ownership of Class B Common Stock	Percent of Total Shares of Class B Common Stock Owned Beneficially	Percent of Total Shares of Class A and Class B Common Stock Owned Beneficially	Percent of Total Voting Power(1)
Darwin Deason(2)	2,874,945	2.29%	6,599,372	100%	7.17%	35.96%
Jeffrey A. Rich(3)	262,370	*			*	*
Mark A. King(4)	250,984	*			*	*
Henry G. Hortenstine(5)	3,698	*			*	*
William L. Deckelman, Jr.		*			*	*
Donald G. Liedtke(6)	311	*			*	*
Frank A. Rossi(7)	100,000	*			*	*
Joseph P. O'Neill(8)	67,620	*			*	*
Peter A. Bracken	660	*			*	*
Clifford M. Kendall(9)	276,418	*			*	*
All Executive Officers and Directors as a Group (fifteen persons)(10)	3,866,625	3.08%	6,599,372	100%	7.92%	36.48%
BENEFICIAL OWNERS OF MORE THAN 5% OF ACS CLASS A COMMON STOCK(11)						
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	11,059,000	8.81%			8.37%	5.78%
AXA Financial 1290 Avenue of the Americas New York, NY 10104	8,398,000	6.69%			6.36%	4.39%
Putnam One Post Office Square Boston, MA 02109	6,463,000	5.15%			4.89%	3.37%

* Less than 1%.

(1) In calculating the percent of total voting power, the voting power of shares of Class A common stock (one vote per share) and Class B common stock (ten votes per share) are aggregated.

(2) 6,599,372 of the shares of ACS Class B common stock listed and 2,006,794 of the shares of ACS Class A common stock listed are owned by The Deason International Trust. Mr. Deason holds the sole voting power with respect to such shares through an irrevocable board resolution passed by the Trust. The investment power with respect to such shares is held by the Trust. The shares of ACS Class A common stock include 4,751 shares owned by Mr. Deason through the ACS Employee Stock Purchase Plan. ACS has filed an S-3 registration statement with the Securities and Exchange Commission, in which 1,504,562 shares of Class A common stock owned by Mr. Deason or The Deason International Trust are registered under an effective registration statement; however, Mr. Deason and The

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Deason International Trust have indicated that they have no present intention to sell such shares.

- (3) Includes 208,100, shares of Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date; 306 shares owned through the ACS 401(k) Plan; and 992 shares owned through the ACS Employee Stock Purchase Plan.

- (4) Includes 150,000 shares of Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date; 11,378 shares of ACS Class A common stock owned by Mr. King's spouse (either individually or through an IRA), to which Mr. King disclaims beneficial ownership; 1,996 shares of ACS Class A common stock owned through the ACS 401(k) Plan; 5,986 shares of ACS Class A common stock owned by Mr. King through the ACS Employee Stock Purchase Plan; and 4,000 shares of Class A common stock owned by Mr. King in an IRA.
- (5) Includes 3,445 shares owned through the ACS Employee Stock Purchase Plan; and 253 shares owned through the ACS 401(k) Plan.
- (6) Includes 239 shares of Class A common stock owned through the ACS Employee Stock Purchase Plan and 72 shares owned through the ACS 401(k) Plan.
- (7) Includes 55,000 shares of ACS Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date.
- (8) Includes 40,000 shares of ACS Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date.
- (9) Includes 4,000 shares of ACS Class A common stock owned by Mr. Kendall's spouse, as to which Mr. Kendall disclaims beneficial ownership; 4,818 shares owned by Mr. Kendall in an IRA; 11,000 held in the name of a trust of which Mr. Kendall is the Trustee; and 35,000 shares owned by a limited liability company in which Mr. Kendall is the manager.
- (10) Includes 453,100 shares of ACS Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date; 4,309 shares of ACS Class A common stock owned through the ACS 401(k) Plan; and 23,750 shares of ACS Class A common stock owned through the ACS Employee Stock Purchase Plan.
- (11) Based on filings by the stockholder with the Securities and Exchange Commission. All of such stockholders have sole voting power and sole investment power.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires ACS directors, certain officers and persons who own more than 10% of the outstanding common stock of ACS to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the common stock of ACS held by such persons. These persons are also required to furnish ACS with copies of all forms they file under this regulation. To ACS knowledge, based solely on a review of the copies of such reports furnished to ACS and without further inquiry, all required forms were filed on time except, that Joseph O Neill, a director of ACS, filed a Form 4 in September 2001 with respect to options granted in July 2001, and Lynn Blodgett, Executive Vice President of ACS and Group President of the BPO Solutions Group, was granted options in September 2001, but the reporting of that grant was not made until the Form 5 was filed for the fiscal year 2002.

PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors consists of nine directors. All directors must stand for election at the Annual Meeting and shall hold office for a one-year term and until their respective successors are elected and qualified.

Shares represented by proxies returned duly executed will be voted, unless otherwise specified, in favor of each of the nominees for the Board of Directors named below. The proxies cannot be voted for more than nine nominees. The nominees have indicated that they are able and willing to serve as directors. If any (or all) such persons should be unable to serve, the persons named in the enclosed proxy will vote the shares covered thereby for such substitute nominee (or nominees) as the Board of Directors may select pursuant to the

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recommendation of Mr. Deason under his authority as the Nominating Committee for the Board. Stockholders may withhold authority to vote for any nominee by striking the name of such nominee on the proxy card.

Nominees for Election as Director

The following table lists the name and principal occupation of each nominee for director and the year in which each such person was first elected as a director of ACS.

Name	Principal Occupation	Served as Director Since
Darwin Deason	Chairman of the Board	1988
Jeffrey A. Rich	Chief Executive Officer	1991
Mark A. King	President and Chief Operating Officer	1996
William L. Deckelman, Jr.	Executive Vice President, Corporate Secretary and General Counsel	2000
Henry G. Hortenstine	Executive Vice President, Global Business Development	1996
Peter A. Bracken	Private Investor	1997
Joseph P. O Neill	President and Chief Executive Officer, Public Strategies Washington, Inc.	1994
Frank A. Rossi	Chairman, FAR Holdings Company, L.L.C.	1994
Clifford M. Kendall	Private Investor	1997

Business Experience of each Nominee

Set forth below is certain information with respect to each of the nominees for the office of director.

Darwin Deason, age 62, has served as Chairman of the Board of ACS since its formation in 1988. He also served as Chief Executive Officer from the formation of ACS until February 1999. Prior to the formation of ACS, Mr. Deason spent 20 years with MTech Corp., a data processing subsidiary of MCorp, a bank holding corporation based in Dallas, Texas, serving as MTech's Chief Executive Officer and Chairman of the Board from 1978 until April 1988, and served on the board of various subsidiaries of MTech and MCorp.

Jeffrey A. Rich, age 42, has been a director of ACS since August 1991. Mr. Rich has served as Chief Executive Officer of ACS since February 1999. He also served as President from April 1995 until August 2002 and as Chief Operating Officer from April 1995 until February 1999. Mr. Rich joined ACS in 1989 as Senior Vice President and Chief Financial Officer and was named Executive Vice President in 1991. Prior to joining ACS, Mr. Rich served as a Vice President of Citibank N.A. from March 1986 through June 1989. Mr. Rich also serves as a director of Pegasus Solutions, Inc.

Mark A. King, age 45, has been a director of ACS since 1996. Mr. King has served as President and Chief Operating Officer of ACS since August 2002 and had served as Chief Operating Officer since March 2001. Prior to that date he had served as Executive Vice President and Chief Financial Officer since May 1995. Mr. King joined ACS in November 1988 as Chief Financial Officer of various ACS subsidiaries. Prior to joining ACS, Mr. King was Vice President and Assistant Controller of MTech Corp.

William L. Deckelman, Jr., age 45, has served as Executive Vice President, Corporate Secretary and General Counsel and as a director of ACS since March 2000. From May 1995 to March 2000, Mr. Deckelman was in private law practice, and was a stockholder of the law firm of Munsch Hardt Kopf & Harr, P.C. in Austin, Texas from January 1996 until March 2000. Previously, Mr. Deckelman served as Executive Vice President, Secretary and General Counsel of ACS from November 1993 until May 1995, and as Senior Vice President, Secretary and General Counsel of ACS from February 1989 through November 1993. Prior to that time he was an attorney with MTech Corp., Electronic Data Systems Corporation and Winstead, Sechrest & Minick.

Henry G. Hortenstine, age 58, has served as Executive Vice President, Global Business Development of ACS since March 2001 and as a director since September 1996. From March 1995 to March 2001, he served as an Executive Vice President, in addition to serving as Group President of ACS Technology Solutions Group from April 1998 to March 2001. He served as Senior Vice President-Business Development from July 1993 to March 1995. Mr. Hortenstine was engaged by ACS as a consultant providing various business and corporate development services from 1990 to July 1993.

Peter A. Bracken, age 61, joined Computer Data Systems, Inc. (now known as ACS Government Services, Inc.) in May 1996 as Chief Executive Officer and President. At the time of the acquisition by ACS of ACS Government Services, Inc. by a merger in December 1997, Mr. Bracken became an Executive Vice President and director of ACS, and served as Group President of ACS Government Services, Inc. from April 1998 until July 1999. Mr. Bracken served ACS as Vice Chairman of ACS Government Services, Inc. until June 2001. From 1986 to 1996, Mr. Bracken was employed by Martin Marietta Corporation (now Lockheed Martin Corporation), most recently as President of the Information Sciences Group. Before joining Martin Marietta in 1986, Mr. Bracken served as Director of Mission Operation and Data Systems for NASA's Goddard Space Flight Center.

Joseph P. O'Neill, age 55, has served as a director of ACS since November 1994. Mr. O'Neill has served as President and Chief Executive Officer of Public Strategies Washington, Inc., a public affairs and consulting firm, since March 1991, and from 1985 through February 1991, he served as President of the National Retail Federation, a national association representing United States retailers.

Frank A. Rossi, age 65, has served as a director of ACS since November 1994. Mr. Rossi has served as Chairman of FAR Holdings Company, L.L.C., a private investment firm, since February 1994, and before that was employed by Arthur Andersen & Co. for over 35 years. Mr. Rossi served in a variety of capacities for Arthur Andersen since 1959, including Managing Partner/ Chief Operating Officer and as a member of the firm's Board of Partners and Executive Committee. Mr. Rossi also serves as a director of Tusa Office Solutions, Manus Health Systems and H. D. American Road LLC.

Clifford M. Kendall, age 71, had been with ACS Government Services, Inc. since the founding of its predecessor in 1968 until it was acquired by ACS by a merger in December 1997. At the time of the merger in December 1997, Mr. Kendall became a director of ACS. From 1970 to 1991, Mr. Kendall served as Chief Executive Officer of ACS Government Services, Inc. Mr. Kendall also serves as a director of Washington Real Estate Investment Trust, as Chairman of the Board of On-Site Sourcing, Inc., and as a director of VSE Corporation.

Except as set forth above, none of the nominees holds a directorship in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or subject to the requirements of Section 15(d) of the Securities Exchange Act or any company registered as an investment company under the Investment Company Act of 1940, as amended.

THE BOARD RECOMMENDS A VOTE **FOR** EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

Committees and Meetings of the Board of Directors

The standing committees of the Board of Directors are the Audit Committee, the Compensation Committee, the Special Compensation Committee, the Special Transactions Committee and the Nominating Committee.

The Audit Committee is composed of Messrs. Rossi (Chairman), O'Neill and Kendall. The Audit Committee of the Board of Directors is responsible for monitoring the integrity of ACS' consolidated financial statements, its system of internal controls and the independence and performance of its internal and independent auditors. The Audit Committee recommends to the Board of Directors the selection of ACS independent auditors, but under new rules recently adopted by the Securities and Exchange Commission, the Audit Committee will commence selecting the independent auditors in fiscal year 2003. The Audit Committee consists of three non-employee directors and operates under a written charter adopted and

approved by the Board of Directors. All members of the Audit Committee are considered independent directors as defined by the New York Stock Exchange's current listing standards (the Standards). The Report of the Audit Committee for fiscal year 2002 is included in this proxy statement on page 16.

The Compensation Committee was formed in May 1994. The members of the Compensation Committee are Messrs. Deason (Chairman), Rossi and O'Neill. The Compensation Committee is responsible for recommending to the Board of Directors policies and plans concerning the salaries, bonuses and other compensation of the executive officers of ACS, including reviewing the salaries of the executive officers and recommending bonuses and other forms of additional compensation for the executive officers.

In connection with ACS's establishment of certain procedures to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, so that compensation to executive officers whose annual compensation exceeds \$1 million may be deductible by ACS for federal income tax purposes, ACS formed the Special Compensation Committee in August 1996. The members of the Special Compensation Committee are Messrs. Rossi and O'Neill (Chairman). The Special Compensation Committee is responsible for reviewing the compensation of the executive officers whose annual compensation exceeds \$1 million, including reviewing and recommending salaries, bonuses and other forms of additional compensation. The Special Compensation Committee is also responsible for the grant of all awards under the stock option plans (other than those to outside directors). The Report of the Compensation Committee and Special Compensation Committee for fiscal year 2002 is included in this proxy statement on page 14.

The Special Transactions Committee, which was formed in August 1997 and on which Mr. Deason serves, has the responsibility of considering, evaluating, and approving the terms of potential transactions resulting in the acquisition of assets, businesses, or stock of third parties for cash, ACS Class A common stock, or other consideration with a dollar value of up to 10% of ACS's consolidated assets. The Special Transaction Committee has delegated to the Chief Executive Officer the authority to consider, evaluate, and approve the terms of potential transactions resulting in the acquisition of assets, businesses, or stock of third parties for cash, ACS Class A common stock, or other consideration with a dollar value of up to \$25,000,000.

The Nominating Committee, which was formed in March 1999 and on which Mr. Deason serves, has the responsibility of considering, evaluating and recommending to the Board the slate of director nominees. Recommendations as to nominees will be considered by the Nominating Committee. Such recommendations can be submitted to the Nominating Committee by directing them to ACS's executive offices at 2828 North Haskell Avenue, Dallas, Texas 75204, to the attention of Darwin Deason.

During the fiscal year ended June 30, 2002, there were nine (9) meetings of ACS's Board of Directors. During the fiscal year, there were eight (8) meetings held by the Audit Committee, four (4) meetings held by the Compensation Committee, one (1) meeting held by the Special Transaction Committee, nine (9) meetings held by the Special Compensation Committee, and one (1) meeting held by the Nominating Committee. All current directors attended at least 75% of the meetings of the Board and the Board committees of which they are members.

PROPOSAL 2

APPROVAL OF PERFORMANCE-BASED INCENTIVE

COMPENSATION FOR ACS EXECUTIVE OFFICERS

The Internal Revenue Code limits ACS's tax deduction for expense in connection with compensation of its chief executive officer and its four other most highly-compensated executive officers for any fiscal year to the extent that the remuneration of such person exceeds \$1 million during such fiscal year, excluding remuneration that qualifies as performance-based compensation. Section 162(m) of the Internal Revenue Code provides that in order for remuneration to be treated as qualified performance-based compensation, the material terms of the performance goals must be disclosed to and approved by the stockholders of the employer.

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At the Annual Meeting, the stockholders will be asked to approve the terms relating to incentive compensation to be paid to ACS executive officers for fiscal year 2003. Executive officer compensation for fiscal year 2003 will consist of a base salary, stock option plan, and bonus compensation and will be based on criteria similar to criteria previously used for ACS executive officers. There are 10 executive officers who will participate in the incentive compensation plan. Executive officers (other than Mr. John Rexford, Executive Vice President, Corporate Development) will be entitled to receive varying ranges of up to 250% (up to 250% for the Chairman of the Board, up to 200% for the Chief Executive Officer, up to 175% for the President and Chief Operating Officer, and from 125% up to 150% for all other executive officers) of their base salaries upon achievement of bonus performance goals, which include ACS achievement of pre-established growth performance goals in the following four targeted financial measures: consolidated revenues, consolidated earnings before interest, taxes and depreciation, consolidated pre-tax earnings and consolidated earnings per share. In addition to the above described bonus plan, for fiscal year 2003, there is an accelerator bonus plan which allows each of the executive officers to earn up to an additional 25% of their maximum bonus upon exceeding certain financial projections. The maximum bonus that any executive officer may receive for the fiscal year 2003 will be \$2,296,506. The bonus performance goals have been pre-established by the Compensation Committee and approved by the Board of Directors for all executive officers other than any executive officer whose compensation may exceed \$1 million. For any executive officer whose compensation may exceed \$1 million, bonus performance goals are previously established by the Special Compensation Committee, which consists solely of independent directors, and are then approved by the Board of Directors. ACS believes that the incentive-related provisions provide performance incentives that are and will be beneficial to ACS and its stockholders.

Since the amounts payable under the performance-based incentive compensation plan for the fiscal year ending June 30, 2003 are dependent on ACS financial performance, the amounts are not currently determinable. However, the following table sets forth information regarding the amounts which would have been earned by each of the following executive officers if the plan had been in effect for the fiscal year ending June 30, 2002.

NEW PLAN BENEFITS

PERFORMANCE-BASED INCENTIVE COMPENSATION FOR ACS EXECUTIVE OFFICERS

Name and Position	Dollar Value (\$)(1)
Darwin Deason Chairman of the Board	\$1,837,205
Jeffrey A. Rich Chief Executive Officer	\$1,500,000
Mark A. King President and Chief Operating Officer	\$ 875,000
Henry G. Hortenstine Executive Vice President, Global Business Development	\$ 487,500
Donald G. Liedtke Group President IT Solutions and Executive Vice President	\$ 450,000
All executive officers	\$7,467,205

- (1) Since fiscal year 2003 incentive compensation is not yet determinable, the dollar value was calculated utilizing the fiscal year 2003 base salary and bonus percentages for each executive officer and the fiscal year 2002 bonus performance goals achieved by each respective executive officer. Amounts do not include the accelerator bonus discussed above.

THE BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE INCENTIVE COMPENSATION PLAN FOR THE EXECUTIVE OFFICERS.

PROPOSAL 3

APPROVAL OF THE AMENDED AND RESTATED ACS EMPLOYEE STOCK PURCHASE PLAN

Introduction

At a stockholders' meeting held on October 28, 1996, the stockholders of ACS approved the 1995 Employee Stock Purchase Plan (the Original Plan). ACS implemented the Original Plan to attract and retain qualified and motivated employees and to align such employees' interests with the interests of ACS and its stockholders by facilitating and encouraging the purchase of ACS stock through participation in the Original Plan. ACS is proposing an Amended and Restated ACS Employee Stock Purchase Plan to further enhance the incentive to employees and potential employees.

At the Annual Meeting, ACS' stockholders will be asked to consider and vote upon an Amended and Restated ACS Employee Stock Purchase Plan (the Amended Plan). The Amended Plan was adopted by ACS' Board of Directors to be effective as of September 1, 2002. A copy of the Amended Plan is attached as Appendix A hereto and is incorporated herein by reference.

Principal Amendments

The following are the principal amendments included in the Amended Plan: (i) the limitation on the number of shares available to be purchased under the Original Plan will soon be exceeded and the Amended Plan increases the number of shares that may be purchased from 2,000,000 shares to 4,000,000 shares; (ii) the term of the Original Plan ends on December 31, 2005 and the Amended Plan extends the term to August 31, 2012; (iii) the requirement in the Original Plan that an employee work for ACS (or one of its subsidiaries) for at least one year before being eligible to participate in the Plan has been removed; and (iv) provisions are added to allow employees of certain ACS subsidiaries outside of the United States to participate in the Amended Plan.

Provisions of the Amended Plan

Except as specifically discussed above in "Principal Amendments", the provisions of the Amended Plan are substantively the same as those in the Original Plan.

Federal Income Tax Consequences

The material federal income tax consequences to employees and ACS in connection with participation in the Amended Plan have not changed from the material federal income tax consequences in connection with participation in the Original Plan.

THE BOARD RECOMMENDS A VOTE **FOR** APPROVAL OF THE AMENDED AND RESTATED ACS EMPLOYEE STOCK PURCHASE PLAN.

DIRECTOR AND EXECUTIVE COMPENSATION

Director's Compensation

Messrs. Rossi, O'Neill and Kendall, three of the members of the Board of Directors of ACS who were not employed by ACS in fiscal year 2002, receive compensation in the amount of \$3,000 for attendance at each Board meeting. Directors are reimbursed for their travel expenses incurred in connection with the meetings. On November 30, 1994 ACS granted to Mr. Rossi options to purchase 100,000 shares of Class A common stock. Mr. Rossi's options are fully vested and exercisable and, as of the record date, Mr. Rossi has exercised options to purchase 45,000 shares of Class A common stock. On November 30, 1994, ACS granted to Mr. O'Neill options to purchase 40,000 shares of Class A common stock, and all of such options are fully vested and exercisable. On July 3, 2001 ACS granted to Mr. O'Neill options to purchase 60,000 shares of Class A common stock, which options vest ratably over five years, 20,000 of which shares are vested as of the

record date. Mr. O Neill has not exercised any options to purchase shares of Class A common stock. In addition, Mr. Kendall has an option covering 100,000 shares of Class A common stock which was awarded to him shortly after the acquisition by merger of ACS Government Services, Inc. in December 1997, in recognition of his duties after the merger with ACS and ACS Government Services, Inc. Mr. Kendall's options vest ratably over five years, 80,000 shares of which are vested as of the record date and the remaining 20,000 of which will vest in December 2002.

In fiscal year 2003, ACS will compensate independent directors as follows: (i) independent directors will be paid \$1,500 per directors meeting, (ii) members of the Audit Committee will be paid \$1,000 per Audit Committee meeting, (iii) the Audit Committee chairman will be paid \$10,000 annually, (iv) the Compensation Committee chairman will be paid \$5,000 annually, and (v) each independent director will be paid a retainer of \$25,000 annually. The compensation to be paid to directors in fiscal 2003 is between the median and the 75th percentile of total compensation paid to directors as reflected in a study on current market compensation for independent directors performed by KPMG at the request of ACS. The KPMG study was based on compensation paid to independent directors in the computer services peer group (which peer group was also used in the determination of executive officer compensation for fiscal year 2003) and three independent director compensation surveys.

Summary of Named Executive Officers Cash and Other Compensation

The following table sets forth certain information regarding compensation paid for all services rendered to ACS in all capacities during fiscal years 2002, 2001, and 2000 by ACS chief executive officer and the four other most highly compensated executive officers of ACS whose total annual salary and bonus exceeded \$100,000, based on salary and bonuses earned during fiscal year 2002 (collectively, the Named Executive Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation				
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)(1)	Restricted Stock Awards (\$)(2)	Options/SARS(2)	LTI Payouts (\$)(3)	All Other Compensation (\$)
Darwin Deason	2002	608,749	1,521,895					30,963(4)
Chairman of the Board	2001	574,295	1,435,750					9,558
	2000	525,000	1,367,625					
Jeffrey A. Rich	2002	525,000	1,050,000					13,751(5)
Chief Executive Officer	2001	500,000	1,000,000			200,000		5,992
	2000	425,000	885,700					1,063
Mark A. King	2002	400,000	700,000					25,435(6)
President and Chief	2001	333,333	600,000			300,000		9,086
Operating Officer	2000	275,000	429,825			100,000		1,146
Henry G. Hortenstine	2002	300,000	450,000					9,786(7)
Executive Vice President,	2001	300,000	450,000					7,545
Global Business Development	2000	275,000	429,825			200,000		1,203
Donald G. Liedtke	2002	212,500	495,000(8)			150,000		5,390(9)
Group President IT	2001							
Solutions, and Executive	2000							
Vice President								

- (1) None of the Named Executive Officers received personal benefits, securities or property in excess of the lesser of \$50,000 or 10% of such individual's reported salary and bonus during fiscal years 2002, 2001, or 2000.
- (2) ACS did not grant any restricted stock awards or stock appreciation rights (SARS) to the Named Executive Officers during fiscal years 2002, 2001 or 2000. Numbers adjusted for 2-for-1 stock split paid as cash dividend on February 22, 2002 to stockholders of record on February 15, 2002.

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- (3) ACS did not grant any long-term incentive plan payouts to the Named Executive Officers during fiscal years 2002, 2001, or 2000.
- (4) Represents \$29,181 in medical costs and \$1,782 in life insurance premiums.
- (5) Represents \$10,731 in medical costs, \$270 in life insurance premiums and \$2,750 in matching 401(k) payments.
- (6) Represents \$22,422 in medical costs, \$263 in life insurance premiums and \$2,750 in matching 401(k) payments.
- (7) Represents \$6,703 in medical costs, \$645 in life insurance premiums and \$2,4