

AFFILIATED COMPUTER SERVICES INC

Form DEF 14A

September 29, 2003

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 x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

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):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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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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SEC 1913 (02-02)

AFFILIATED COMPUTER SERVICES, INC.

2828 North Haskell Avenue
Dallas, Texas 75204

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on October 30, 2003

To the Stockholders of

AFFILIATED COMPUTER SERVICES, INC.:

The Annual Meeting of Stockholders of Affiliated Computer Services, Inc. will be held at Cityplace Conference Center, 2711 North Haskell Avenue, Dallas, Texas 75204 on October 30, 2003 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 our executive officers;
3. To ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2004; 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 19, 2003 as the record date for the determination of our stockholders 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 our 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 our 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 OUR 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 PROMPTLY RETURN THE PROXY CARD ENCLOSED WITH THIS NOTICE.

By Order of the Board of Directors

William L. Deckelman, Jr.
Corporate Secretary

September 29, 2003

AFFILIATED COMPUTER SERVICES, INC.

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

PROXY STATEMENT

**for
ANNUAL MEETING OF STOCKHOLDERS
To Be Held on October 30, 2003**

GENERAL INFORMATION

This proxy statement is being furnished to you as a stockholder of record, as of September 19, 2003, of Affiliated Computer Services, Inc., a Delaware corporation, in connection with the solicitation by our Board of Directors 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 30, 2003, 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 29, 2003.

Record Date and Voting

Our Board of Directors has fixed the close of business on September 19, 2003 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, we had outstanding 126,488,989 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 our books 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 our books 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 and broker nonvotes (shares held by brokers or nominees as to which they have no discretionary power to vote on a particular matter and have received no instructions from the beneficial owners of such shares or persons entitled to vote on the matter) will be counted for the purpose of determining whether a quorum is present. 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, in person or by proxy, is required to approve Proposal 1, the proposal to elect directors. Stockholders may not cumulate their votes in the election of 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 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 our executive officers, and Proposal 3, the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2004.

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, you may, nevertheless, revoke it at any time prior to the voting thereof at your pleasure, either by (i) your filing a written notice of revocation received by the person or persons named therein, (ii) your attendance at the Annual Meeting and voting the shares covered thereby in person, or (iii) your delivery of 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 our executive officers and to ratify the appointment of PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2004. 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 us. We 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 us to own more than 5% of the outstanding shares of such classes, (ii) each of our directors and Named Executive Officers, and (iii) all of our executive officers and directors as a group.

Name	Amount and Nature of Beneficial Ownership of Class A Common Stock	Percent of Total Shares of Class A Common Stock 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)
BENEFICIAL OWNERS OF MORE THAN 5% OF OUR COMMON STOCK						
FMR Corp.						
82 Devonshire Street Boston, Massachusetts 02109	9,644,991(2)	7.63%			7.25%	5.01%
AXA Financial						
1290 Avenue of the Americas New York, NY 10104	7,528,340(3)	5.95%			5.66%	3.91%
T. Rowe Price Associates, Inc.						
100 E. Pratt Street Baltimore, MD 21202	7,270,670(4)	5.75%			5.46%	3.78%
SECURITY OWNERSHIP OF MANAGEMENT						
Darwin Deason(5)	2,650,408	2.10%	6,599,372	100%	6.95%	35.66%
Jeffrey A. Rich(6)	640,424	*			*	*
Mark A. King(7)	336,096	*			*	*
John Brophy(8)	931	*			*	*
Lynn Blodgett(9)	15,500	*			*	*
Frank A. Rossi(10)	75,000	*			*	*
Joseph P. O'Neill(11)	27,620	*			*	*
J. Livingston Kosberg		*			*	*
Dennis McCuiston(12)	400	*			*	*
All Executive Officers and Directors as a Group (fourteen persons)(13)	3,813,762	3.02%	6,599,372	100%	7.82%	36.27%

* 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) Based on filings by the stockholder with the Securities and Exchange Commission dated August 14, 2003. Shares reflected include those held by FMR Corp. and Fidelity International Limited. Such stockholder has indicated that it has sole voting power with respect to 2,842,543 shares and no voting power with respect to the remaining shares and shared investment power with respect to all shares.
- (3) Based on filings by the stockholder with the Securities and Exchange Commission dated August 14, 2003. Such stockholder has indicated that it has sole voting power with respect to 2,901,088 shares, shared voting power with respect to 2,491,414 shares and no voting power with respect to the remaining shares and sole investment power with respect to all shares.
- (4)

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Based on filings by the stockholder with the Securities and Exchange Commission dated August 13, 2003. Such stockholder has indicated that it has sole voting power with respect to 1,488,870 shares and

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no voting power with respect to the remaining shares and sole investment power with respect to all shares.

- (5) 6,599,372 of the shares of our Class B common stock listed and 110,194 of the shares of our 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 our Class A common stock include 5,214 shares owned by Mr. Deason through the ACS Employee Stock Purchase Plan. We have 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. Excludes 120,000 shares of our Class A common stock which are vested, but not exercisable under the terms of the stock option grant.
- (6) Includes 548,100 shares of Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date; 360 shares owned through the ACS 401(k) Plan; and 992 shares owned through the ACS Employee Stock Purchase Plan. Excludes 200,000 shares of our Class A common stock which are vested, but not exercisable under the terms of the stock option grant.
- (7) Includes 235,000 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 our Class A common stock owned by Mr. King's spouse (either individually or through an IRA), to which Mr. King disclaims beneficial ownership; 2,108 shares of our Class A common stock owned through the ACS 401(k) Plan; 5,986 shares of our 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. Excludes 180,000 shares of our Class A common stock which are vested, but not exercisable under the terms of the stock option grant.
- (8) Includes 808 shares owned through the ACS Employee Stock Purchase Plan; and 123 shares owned through the ACS 401(k) Plan.
- (9) Excludes 231,800 shares of our Class A common stock which are vested but not exercisable under the terms of the stock option grant.
- (10) Includes 25,000 shares of our Class A common stock which are not outstanding, but are subject to options exercisable within sixty days of the record date.
- (11) Excludes 24,000 shares of our Class A common stock which are vested but not exercisable under the terms of the stock option grant.
- (12) All shares are held in the McCuistion and Associates, Inc. Profit Sharing Plan.
- (13) Includes 858,100 shares of our Class A common stock, which are not outstanding, but are subject to options exercisable within sixty days of the record date; 6,183 shares of our Class A common stock owned through the ACS 401(k) Plan; and 22,691 shares of our Class A common stock owned through the ACS Employee Stock Purchase Plan. Excludes 1,249,800 shares of our Class A common stock which are vested, but not exercisable under the terms of the stock option grant.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, certain officers and persons who own more than 10% of our outstanding common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock held by such persons. These persons are also required to furnish us with copies of all forms they file under this regulation. To our knowledge, based solely on a review of the copies of such reports furnished to us and without further inquiry, all required forms were filed on time except that Harvey Braswell, our Executive Vice President and the President of our State Healthcare Group, filed a Form 4 on September 12, 2003 with respect to 1,100 shares purchased by Mr. Braswell on August 29, 2002.

PROPOSAL 1**ELECTION OF DIRECTORS**

The Board of Directors consists of seven 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 seven 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 recommendation of the Nominating/ Corporate Governance Committee of the Board. You may withhold authority to vote for all nominees or withhold authority to vote for any nominee by following the directions provided on the proxy card or voter instruction form.

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.

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
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
J. Livingston Kosberg	Investor	2003
Dennis McCuiston	President, McCuiston & Associates, Inc.	2003

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 63, has served as our Chairman of the Board since our formation in 1988. Mr. Deason also served as Chief Executive Officer from our formation until February 1999. Prior to our formation, 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 boards of various subsidiaries of MTech and MCorp.

Jeffrey A. Rich, age 43, has served as director since August 1991. Mr. Rich has served as our Chief Executive Officer 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 us in 1989 as Senior Vice President and Chief Financial Officer and was named Executive Vice President in 1991. Prior to joining us, 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 46, has served as a director since October 1996. Mr. King has served as our President and Chief Operating Officer 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 us in November 1988 as Chief Financial Officer of various subsidiaries. Prior to joining us, Mr. King was Vice President and Assistant Controller of MTech Corp.

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Joseph P. O Neill, age 56, has served as a director 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 66, has served as a director since November 1994. Mr. Rossi has served as Chairman of FAR Holdings Company, L.L.C., a private investment firm, since February 1994. Prior to that Mr. Rossi was employed by Arthur Andersen & Co. for over 35 years and, prior to his retirement in 1994, Mr. Rossi served in a variety of capacities for Arthur Andersen, including Managing Partner/ Chief Operating Officer and as a member of the firm's Board of Partners and Executive Committee.

J. Livingston Kosberg, age 66, was elected as a director in September 2003. Mr. Kosberg has been involved in a variety of industries including healthcare, finance, and construction. Currently, he serves as an advisor to several investment funds and is an active investor in U.S. Physical Therapy, where he served as its CEO from 1990 until May, 1995 and was its Chairman of the Board until 2000. He also served as Chairman of the Board of the Texas Board of Human Services and is a past president of both the Jewish Federation of Greater Houston and the Gulf Coast Chapter of the National Cystic Fibrosis Foundation. Mr. Kosberg was also honored in April 1988 by the Houston Chapter of the National Conference of Christians and Jews. Mr. Kosberg also serves as a director and is Chairman of the Board of Analytical Surveys, Inc.

Dennis McCuistion, age 61, was elected as a director in September 2003. For the past 26 years, Mr. McCuistion has been President of McCuistion & Associates, providing consulting services to banks and businesses. Since 1990, Mr. McCuistion has served as executive producer and host of the nationally syndicated, award-winning McCuistion Program on PBS. Mr. McCuistion has also been an instructor for the American Institute of Banking for twenty years, and has been a faculty member for the Graduate School of Banking of the South, the Graduate School of Banking in Madison, Wisconsin, and the Southwestern Graduate School of Banking at Southern Methodist University. He is also a member of the National Association of Corporate Directors and the International Association of Facilitators.

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

On September 11, 2003, certain changes in our Board of Directors occurred and a number of corporate governance initiatives were adopted by the Board of Directors, including the following:

- i. The retirement or resignation of three management directors and one independent director was accepted and two new independent directors were elected by the remaining directors, which resulted in a majority of our Board of Directors being comprised of independent directors.
- ii. The Board adopted Independence Standards to determine the independence of a director, which Independence Standards are consistent with the independence standards set forth in the proposed New York Stock Exchange Listing Standards, and upon such adoption made an affirmative determination that Messrs. Kosberg, McCuistion, O Neill and Rossi were independent. A copy of the Independence Standards are attached hereto as Appendix A.
- iii. Corporate Governance Guidelines were adopted, a copy of which is attached hereto as Appendix B. The Corporate Governance Guidelines include, among other things:

Submission of auditors to stockholders for approval annually,

Adoption of auditor rotation policy,

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Formation of a Nominating/ Corporate Governance Committee of the Board of Directors comprised solely of independent Directors,

Institution of stock ownership guidelines for both directors and executive officers,

Prohibition on stock option re-pricing,

Formalization of the ability of independent directors and committees of the Board of Directors to retain outside advisors,

Formation of a Compensation Committee comprised solely of independent directors,

Performance of periodic formal Board evaluation, and

Limitation of the number of additional company boards a director may serve on to a maximum of four.

iv. The Audit Committee was reconstituted, with the four independent directors (Messrs. Rossi, O Neill, Kosberg and McCuistion) being elected to serve thereon. Mr. Rossi was designated as the Audit Committee chairman. Upon consideration of the attributes of an audit committee financial expert as set forth in Section 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission, the Board of Directors determined that Mr. Rossi possessed those attributes through his years of public accounting experience and he was designated as the Audit Committee Financial Expert. Mr. Rossi is independent as that term is defined in Item 7(d)(3)(iv)(A) of Schedule 14A under the Exchange Act. The Board of Directors also approved and adopted a revised Audit Committee Charter, a copy of which is attached hereto as Appendix C.

v. The Special Compensation Committee was consolidated into the Compensation Committee, the Committee membership was reconstituted with two independent directors (Messrs. O Neill and Kosberg) being elected to serve thereon, Mr. O Neill was designated as the Chairman of the Compensation Committee, and a Compensation Committee Charter was adopted, a copy of which is attached hereto as Appendix D.

vi. The Nominating Committee was renamed the Nominating/ Corporate Governance Committee, the Committee membership was reconstituted with two independent directors (Messrs. O Neill and McCuistion) being elected to serve thereon, Mr. O Neill was designated as the Chairman of the Nominating/ Corporate Governance Committee, and a Nominating/ Corporate Governance Committee Charter was adopted, a copy of which is attached hereto as Appendix E.

During fiscal year 2003, the standing committees of the Board of Directors were the Audit Committee, the Compensation Committee, the Special Compensation Committee, the Special Transaction Committee and the Nominating Committee.

During fiscal year 2003 our Audit Committee was composed of Messrs. Rossi (Chairman) and O Neill, and Clifford M. Kendall. Mr. Kendall is not standing for re-election. All of such Audit Committee members were independent as defined in the current New York Stock Exchange listing standards. The Audit Committee of the Board of Directors is responsible for monitoring the integrity of our consolidated financial statements, our system of internal controls and the independence and performance of our internal and independent auditors. The Audit Committee has selected the independent auditors for fiscal year 2004, subject to ratification by our stockholders. The Audit Committee operates under a written charter adopted and approved by the Board of Directors. The Report of the Audit Committee for fiscal year 2003 is included in this proxy statement on page 19.

During fiscal year 2003, the members of the Compensation Committee were Messrs. Deason (Chairman), Rossi and O Neill. The Compensation Committee was responsible for recommending to the Board of Directors policies and plans concerning the salaries, bonuses and other compensation of our executive officers, including reviewing the salaries of the executive officers and recommending bonuses and other forms of additional compensation for the executive officers.

In connection with our 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 us for federal income tax purposes, we formed the Special Compensation Committee in August 1996. The members of the Special Compensation Committee were Messrs. Rossi and O'Neill (Chairman). The Special Compensation Committee was 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 was also responsible for the grant of all awards under the stock option plans (other than those to independent directors). The Report of the Compensation Committee and Special Compensation Committee for fiscal year 2003 is included in this proxy statement on page 17.

The Special Transaction 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, our Class A common stock, or other consideration with a dollar value of up to 10% of our 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, our Class A common stock, or other consideration with a dollar value of up to \$25,000,000.

The Nominating Committee was formed in March 1999. Mr. Deason was the sole member of the Nominating Committee during fiscal year 2003. The Nominating Committee had the sole responsibility of considering, evaluating and recommending to the Board the slate of director nominees. Future recommendations as to nominees will be considered by the Nominating/ Corporate Governance Committee, which was formed on September 11, 2003 to replace the Nominating Committee. Recommendations by the Nominating/ Corporate Governance Committee are subject to the approval of Mr. Deason pursuant to his Employment Agreement with us. Recommendations for nominees can be submitted to the Nominating/ Corporate Governance Committee by directing them to our executive offices at 2828 North Haskell Avenue, Dallas, Texas 75204.

During the fiscal year ended June 30, 2003, there were five (5) meetings of our Board of Directors. During the fiscal year, there were thirteen (13) meetings held by the Audit Committee and two executive sessions to meet with our independent auditor and to meet with the director of internal audit, two (2) 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. Each incumbent director 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 OUR EXECUTIVE OFFICERS

The Internal Revenue Code limits our tax deduction for expense in connection with compensation of our chief executive officer and our 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.

At the Annual Meeting, the stockholders will be asked to approve the terms relating to incentive compensation to be paid to our executive officers for fiscal year 2004. Executive officer compensation for fiscal year 2004 will consist of a base salary, stock option plan, and bonus compensation and will be based on criteria that are similar to the criteria previously used in fiscal year 2003. There are approximately one thousand

(1,000) of our officers who will participate in the incentive compensation plan, including our nine (9) executive officers. See Report of the Compensation Committee and Special Compensation Committee on Executive Compensation. Executive officers (other than Mr. Rexford) will be entitled to receive varying percentages (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 up to 150% for all the other six (6) executive officers) of their base salaries upon achievement of bonus performance goals, which include our achievement of pre-established growth performance goals in the following four targeted financial measures: consolidated revenues, consolidated earnings before interest, taxes, and acquisition amortization, consolidated pre-tax earnings and consolidated earnings per share. The maximum bonus that any executive officer may receive for the fiscal year 2004 will be \$1,948,676. 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 were established in fiscal year 2003 by the Special Compensation Committee and will be established after September 11, 2003 by the Compensation Committee, which consists solely of independent directors, and are then approved by our Board of Directors. We believe that the incentive-related provisions provide performance incentives that are and will be beneficial to our stockholders.

Since the amounts payable under the performance-based incentive compensation plan for the fiscal year ending June 30, 2004 are dependent on our 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, 2003.

Name and Position	Maximum Incentive Compensation \$(1)
Darwin Deason Chairman of the Board	\$ 1,948,676
Jeffrey A. Rich Chief Executive Officer	\$ 1,500,000
Mark A. King President and Chief Operating Officer	\$ 962,500
John Brophy Group President State & Local Solutions and Executive Vice President	\$ 562,500
Lynn Blodgett Group President Commercial Solutions and Executive Vice President	\$ 562,500
All executive officers (9 persons)	\$7,538,676

- (1) Since fiscal year 2004 incentive compensation is not yet determinable, the dollar value was calculated utilizing the fiscal year 2004 base salary and bonus percentages for each executive officer and the fiscal year 2003 bonus performance goals achieved by each respective executive officer.

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

PROPOSAL 3

RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR

INDEPENDENT AUDITORS FOR FISCAL YEAR 2004

PricewaterhouseCoopers LLP, independent certified public accountants, has been selected by the Audit Committee as our independent auditors for the fiscal year 2004, subject to ratification by the stockholders. PricewaterhouseCoopers LLP was also our independent auditors for fiscal year 2003. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting. That representative will have an opportunity to make a statement, if desired, and will be available to respond to appropriate questions.

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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 eligible to vote and voting, either in person or by proxy, at the Annual Meeting will be required to ratify the selection of PricewaterhouseCoopers LLP.

Auditor s Fees

Fees for professional services provided by our independent auditors in each of the last two fiscal years, in each of the following categories, were as follows:

	<u>2003</u>	<u>2002</u>
	(in 000 s)	
Audit Fees	\$ 847(1)	\$ 586
Audit Related Fees	35	51
Tax Fees	438	133
All Other Fees	100	240
	<u> </u>	<u> </u>
Total Fees	\$1,420	\$1,010
	<u> </u>	<u> </u>

(1) Includes \$75,000 of fees that were applicable to fiscal year 2002, but not billed until fiscal year 2003. Such amount was not included in the fiscal year 2002 fees disclosed in the Proxy Statement for the 2002 Stockholders Annual Meeting.

Fees for audit services include fees associated with the annual audit, and the reviews of the Company s interim financial statements. Audit-related fees include fees associated with accounting consulting services. Tax fees include tax consulting and tax compliance and preparation work. All Other Fees includes, among other things, fees related to equity and debt offerings.

Since December 2002 the Audit Committee has approved all of the independent auditors engagements and fiscal year 2003 fees presented above. In the future, all audit and non-audit services provided to the Company by our independent auditors will be pre-approved by the Audit Committee in accordance with the policies and procedures set forth in the current Audit Committee Charter. A copy of the Audit Committee Charter is attached hereto as Appendix C.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT AUDITORS FOR FISCAL YEAR 2004.

BUSINESS EXPERIENCE OF EXECUTIVES

Other than Messrs. Deason, Rich and King, who are standing for election to the Board of Directors and whose business experience is summarized in this proxy statement under Proposal 1 on page 5, the following is a summary of the business experience of our executive management:

Lynn R. Blodgett, age 49, has served as our Executive Vice President, and Group President Commercial Solutions since July 1999. From March 1990 until July 1999 Mr. Blodgett served as President of ACS Business Process Solutions, Inc. (formerly Unibase Technologies, Inc., an entity that we acquired in 1996).

Harvey Braswell, age 58, has served as Executive Vice President, and Group President State Healthcare since March 2003. Prior to that date Mr. Braswell served as our Executive Vice President and Group President Government Services Group from March 2001 until March 2003 and from December 1995 until March 2001 he was an officer of ACS Enterprise Solutions, Inc. (formerly known as Business Records Corporation, an entity that we acquired in 1998).

John M. Brophy, age 60, has served as Executive Vice President and Group President State and Local Solutions since August 2001. From 1988 until August 2001 Mr. Brophy served both as President of Lockheed

Martin IMS Corporation (an entity we acquired in August 2001) and as an elected corporate officer of Lockheed Martin Corporation.

William L. Deckelman, Jr., age 46, has served as Executive Vice President, Corporate Secretary and General Counsel since March 2000. From March 2000 until September 2003 Mr. Deckelman served as one of our directors. From May 1995 to March 2000 Mr. Deckelman was in private law practice, and was a shareholder 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 our Executive Vice President, Secretary and General Counsel from November 1993 until May 1995 and as our Senior Vice President, Secretary and General Counsel of ACS from February 1989 through November 1993.

Warren D. Edwards, age 38, has served as Executive Vice President and Chief Financial Officer since March 21, 2001. Prior to that time Mr. Edwards served as our Senior Vice President, Finance and Accounting since September 1996. In addition to other industry experience, Mr. Edwards also served for approximately six (6) years on the audit staff of PricewaterhouseCoopers LLP.

Donald G. Liedtke, age 50, has served as an Executive Vice President since October 2001. Prior to that date Mr. Liedtke served as Chief Information Officer of Neptune Orient Lines/ American Presidents Line from January 2000 through October 2001; as Chief Information Officer of Packard Bell NEC from June 1998 to October 1999; and as Chief Information Officer of Guarantee Life Companies from January 1995 until November 1997.

John H. Rexford, age 46, has served as Executive Vice President Corporate Development since March 2001. Prior to that date Mr. Rexford served as a Senior Vice President in our mergers and acquisitions area from November 1996 until March 2001.

DIRECTOR AND EXECUTIVE COMPENSATION

Director s Compensation

During fiscal year 2003, the members of our Board of Directors who were not employed by us in fiscal year 2003 (Messrs. Rossi, O Neill and Kendall) received compensation as follows: (i) independent directors were paid \$1,500 per Board of Directors meeting, (ii) members of the audit committee were paid \$1,000 per audit committee meeting, (iii) the Audit Committee chairman was paid \$10,000 annually, (iv) the Compensation Committee chairman was paid \$5,000 annually, and (v) each independent director was paid a retainer of \$25,000 annually. Directors are reimbursed for their travel expenses incurred in connection with the meetings. On November 30, 1994 we 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 75,000 shares of Class A common stock. On November 30, 1994, we granted to Mr. O Neill options to purchase 40,000 shares of Class A common stock, and all of such options were exercised in fiscal year 2003. On July 3, 2001 we granted to Mr. O Neill options to purchase 60,000 shares of Class A common stock, which options vest ratably over five years and 24,000 of such options are vested as of the record date, but none of such options are exercisable until July 3, 2006.

In fiscal year 2004, we will compensate independent directors as follows: (i) independent directors will be paid \$1,500 per Board of 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 \$35,000 annually. In August 2003 Mr. Rossi and Mr. O Neill were each granted options to purchase 20,000 shares of our Class A common stock. Mr. Kosberg and Mr. McCuiston will be granted options to purchase 20,000 shares of our Class A common stock. In the future independent board members may receive an annual grant of options to purchase up to 5,000 shares of our Class A common stock. In 2002 KPMG conducted a study on the then market compensation for independent directors. Such study was conducted by KPMG at our request. The KPMG study was based on compensation paid to independent directors in the computer services peer group and three independent director compensation surveys. The

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compensation to be paid to directors for fiscal year 2004 is based on an internally prepared update of the peer group study conducted by KPMG in 2002.

Summary of Named Executive Officers Cash and Other Compensation

The following table sets forth certain information regarding compensation paid for all services rendered to us in all capacities during fiscal years 2003, 2002, and 2001 by our chief executive officer and the four other of our most highly compensated executive officers whose total annual salary and bonus exceeded \$100,000, based on salary and bonuses earned during fiscal year 2003 (collectively, the Named Executive Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)(1)	Securities Underlying Options/SARS(1)	LTIP Payouts (\$)(2)	All Other Compensation (\$)
Darwin Deason Chairman of the Board	2003	734,882	1,837,205	118,007(3)		600,000		21,362(4)
	2002	608,749	1,521,895					30,963
	2001	574,295	1,435,750					9,558
Jeffrey A. Rich Chief Executive Officer	2003	750,000	1,500,000	63,752(5)		400,000		39,601(6)
	2002	525,000	1,050,000					13,751
	2001	500,000	1,000,000					5,992
Mark A. King President and Chief	2003	500,000	875,000			200,000		13,063(7)