This 3DAdvisors Report Covers:	
✓	**Insider Trading**: Insider Trading Behavior
	Accounting: Quality of Earnings Issues
✓	**Governance:** Corporate Governance Issues

Expose on Founder Reveals Only Some of the Issues
Affiliated Computer Services, Inc. (NYSE:ACS) Update

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Affiliated Computer Services, Inc. is a global company delivering comprehensive business process outsourcing and information technology (IT) outsourcing solutions, as well as system integration services. The Company operates in three business segments: commercial, federal government and state and local governments.

Summary of 3DAdvisors Findings for ACS

- **Governance:** Magazine article focuses on related-party transactions
- **Insider Trading:** Founder and others dump stock prior to article publication

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Discussion of 3DAdvisors Findings

Governance: Magazine article focuses on related-party issues

We are on record for identifying a number of behavioral issues concerning ACS founder, and largest shareholder, Darwin Deason. An article in a Dallas area magazine called *D Magazine*, published on May 27, 2003, brought some of those issues into public view. Most notably, the fact that Deason owned an airplane brokerage business (DDH Aviation), which had not only sold an aircraft to ACS at inflated prices, but had other business dealings with ACS as well. Also mentioned were some of Deason's dealings with Precept Business Services, a company that had been spun-off from ACS and from whom Deason had been able to buy assets from before its eventual Chapter 11 filing. Although the article bought out some of our previously reported conflict of interest issues concerning Deason and ACS, there remains other Deason/ACS-related information that has yet to surface. We would strongly suggest you review both our 8/16/2002 and our 10/30/2002 research reports.

The article brought the DDH affair to the public eye for the first time. Much more was exposed in the piece. Lots of mud-slinging and far-from-complimentary descriptions of Deason's behavior were revealed. It also turns out that dealings between the DDH Aviation business partners (Deason controlled the deal) have gone sour, resulting in suits and counter-suits between the players. Documents filed in federal court allege that

Deason created off-balance sheet entities that would ultimately provide him free use of not only a fleet of private jets but also company-owned yachts. There are many other allegations as well. Given that the documents are lawsuit-related, the facts become difficult to sort out. We do know, however, that the facts 3DAdvisors has uncovered on both ACS and Deason are factual.

Wall Street did not like the magazine article. In the midst of a strong late-May market, ACS shares sold off, on big volume, about 17%, dropping from about $53 each to $44 immediately after the publication of the article. The stock has yet to recover, and we don't have to belabor the fact of how strong the stock market has been during the period.

The Company stance, after the release of the article, was that this was all old news and they are a different business now. To this, we would remind you that Darwin Deason, who is no longer an operating officer, remains the highest compensated individual at the company, and the fact remains that he will continue to have a significant influence on the strategic if not day-to-day operation of the Company.

Again, we would urge you to review our previous two pieces on the Company. There is much that has yet to hit the public eye and we continue to monitor the Company carefully. For example, since publication of the article, on June 24th, news broke that an ACS joint venture partner, Tier Technologies, had received a grand jury subpoena to "produce certain documents pursuant to an investigation involving the child support payment processing industry by the U.S. Dept. of Justice." This investigation includes ACS. ACS itself estimates that it processes over 50% of child support payments in the U.S. We have seen estimates that such contracts could approximate $180 million in revenues. On this news, ACS shares, which had been working their way back to the $50 range, dropped back to $45 were they remain at this time.

<u>Insider Trading: Founder and others dump stock prior to article publication</u>

Perhaps we're not surprised that Darwin Deason moved to unload a significant chunk of his shares prior to the release of the May 27th expose article. On April 23rd, he began selling, unloading 18,000 shares at $50 each. He followed this up with an 182,000-share sale on May 6th, for $50 each. On May 13th, he dropped 20,000 more for $52.36 apiece, then another 5,000 on May 20th at $50 per share. It is clear, from the article that the writer had been in contact with Deason. A safe assumption is that there were multiple conversations.

Given the depth of the article, and the inflammatory nature of its contents, there is no way that the entire piece came together in a short period of time. Indeed, it has been our experience over the years, with this type of expose, that such efforts can easily take weeks, if not months, before the author has enough supporting facts to earn both editorial and legal approval to go to print.

Prior to these sales, Deason had not sold an ACS share, in the open market, since 1998. It is very likely that he, recognizing the direction the article was taking, made the decision to sell a good portion, if not all, of the 225,000 shares he unloaded.

During the same time that Darwin Deason was selling, two key insiders exercised their entire holdings of exercisable options that had vested just the day before. The options were not set to expire until 5/18/2008. Both sold the entire amount of shares optioned for but there's more:

Warren Edwards – CFO. Edwards cleared out the entire 50,000 shares (at $50.73) that he had exercised options for at just under $16 each. Not only were these the only exercisable options he owned, the underlying shares were the only shares he owned as he had been holding his entire stake in the form of options. So here you have a CFO clearing out his entire stake of actionable holdings (stock plus vested in-the-money options), which is an extremely rare event.

His last selling occurred in May of 2002 when he exercised options and sold the 50,000 underlying shares for $55 each. This was right at the 2002 peak, and just prior to a 36% drop in the shares.

Henry Hortenstine - Executive V.P., Global Business Development. Hortenstine acted similarly, exercising options for 80,000 shares, for under $16 each, and selling the shares for just over $50. He also exercised every exercisable option that he had (and they vested just the day before). He also had been holding his entire stake in the form of options. Consequently, he has reduced his actionable position by 100%.

As in the case of Edwards (above) Hortenstine's last selling appeared near the 2002 peak. At that time, he exercised for and sold the same amount (80,000) of shares at $54, and within three months, the shares were trading at $35.

So now, in addition to the Deason selling, we have two key insiders who have dropped everything as soon as their underlying options vested, and just before the article publication. This is rare insider behavior and almost certainly not coincidental. There are other sellers here as well. It is not our intent to chronicle each and every one. Suffice it to say that ACS insiders seem very much to be looking to monetize their positions.