

AFFILIATED COMPUTER SERVICES INC

Form 10-Q

May 15, 2002

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

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

For the period from _____ to _____

Commission file number 0-24787

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 No

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 MAY 9, 2002
Class A Common Stock, \$.01 par value	125,237,999
Class B Common Stock, \$.01 par value	6,599,372
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	131,837,371

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AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	MARCH 31, 2002 (UNAUDITED)	JUNE 30, 2001 (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,201	\$ 242,458
Accounts receivable, net	658,283	472,042
Inventory	11,561	8,591
Prepaid expenses and other current assets	99,055	77,572
Deferred taxes	2,793	8,952
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Total current assets	816,893	809,615
Property, equipment and software, net	334,639	237,563
Intangibles, net	161,902	97,160
Goodwill, net	1,458,473	697,760
Long-term investments and other assets	43,804	49,589
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Total assets	\$2,815,711	\$1,891,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 49,691	\$ 40,265
Accrued compensation and benefits	90,209	82,043
Other accrued liabilities	192,394	126,875
Income taxes payable	12,385	7,742
Deferred taxes	2,058	
Short-term debt	825	3,362
Current portion of unearned revenue	36,913	20,765
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Total current liabilities	384,475	281,052
Convertible notes	316,990	546,927
Long-term debt	204	102,386
Deferred taxes	85,154	55,601
Other long-term liabilities	16,314	20,206
	<hr/>	<hr/>
Total liabilities	803,137	1,006,172
Stockholders' equity:		
Class A common stock	1,250	473
Class B common stock	66	33
Additional paid-in capital	1,318,928	350,767
Retained earnings	692,298	534,374
Accumulated other comprehensive income (net of tax)	32	(132)
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Total stockholders' equity	2,012,574	885,515
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Total liabilities and stockholders' equity	\$2,815,711	\$1,891,687
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See notes to 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 MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
Revenues	\$ 800,687	\$ 533,574	\$ 2,206,133	\$ 1,513,082
Expenses:				
Wages and benefits	351,890	232,220	976,180	660,851
Services and supplies	240,696	157,796	638,274	438,778
Rent, lease and maintenance	67,815	53,621	206,675	169,010
Depreciation and amortization	26,890	24,586	78,804	68,254
Other operating expenses	8,055	3,584	21,896	15,522
Total operating expenses	695,346	471,807	1,921,829	1,352,415
Operating income	105,341	61,767	284,304	160,667
Interest expense	5,789	6,375	25,971	16,250
Other non-operating expense (income), net	7,199	(2,301)	6,825	(16,659)
Pretax profit	92,353	57,693	251,508	161,076
Income tax expense	30,323	22,500	90,005	63,336
Net income	\$ 62,030	\$ 35,193	\$ 161,503	\$ 97,740
Earnings per common share:				
Basic	\$.51	\$.35	\$ 1.41	\$.98
Diluted	\$.46	\$.32	\$ 1.27	\$.90
Shares used in computing earnings per common share:				
Basic	122,795	99,928	114,253	99,472
Diluted	142,776	117,346	135,553	114,490

See notes to consolidated financial statements.

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

	NINE MONTHS ENDED	
	MARCH 31,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 161,503	\$ 97,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	78,804	68,254
Gain on sale of investment		(12,785)
Loss on investments	8,449	
Other	446	(1,474)
Changes in assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(77,078)	(52,729)
Increase in inventory	(2,565)	(1,109)
Increase (decrease) in prepaid expenses and other current assets	(4,565)	7,972
Change in deferred taxes	38,468	31,175
Increase (decrease) in other long-term assets	(2,777)	2,186
Increase (decrease) in accounts payable	7,823	(21,322)
Decrease in accrued compensation and benefits	(18,405)	(2,662)
(Increase) decrease in other accrued liabilities	12,520	(9,962)
Change in income taxes payable	19,466	(37,815)
Decrease in unearned revenue	(1,022)	(5,476)
Increase (decrease) in other long-term liabilities	(2,958)	713
	56,606	(35,034)
Net cash provided by operating activities	218,109	62,706
Cash flows from investing activities:		
Purchases of property, equipment and software, net of sales	(100,607)	(68,740)
Payments for acquisitions, net of cash acquired	(911,755)	(87,047)
Proceeds from (payments on) divestitures, net of transaction costs	(4,013)	206,235
Purchase of investments	(4,129)	(500)
Proceeds from sale of investments		17,100
Additions to other intangible assets	(10,945)	(20,743)
Additions to notes receivable	(3,014)	(3,229)
Proceeds received on notes receivable	3,158	8,913
	(1,031,305)	51,989
Cash flows from financing activities:		
Proceeds from issuance of debt, net of issuance costs	810,360	674,983
Repayments of debt	(921,315)	(566,089)
Proceeds from equity offering, net	714,292	
Proceeds from stock options exercised	13,402	8,400
Other	(800)	(296)
	615,939	116,998

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Net increase (decrease) in cash and cash equivalents	(197,257)	231,693
Cash and cash equivalents at beginning of period	242,458	44,521
Cash and cash equivalents at end of period	\$ 45,201	\$ 276,214

See notes to consolidated financial statements.

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**AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Affiliated Computer Services, Inc. (ACS) and its majority-owned subsidiaries. All material intercompany profits, transactions and balances have been eliminated. We are a Fortune 1000 company comprised of approximately 30,000 full-time equivalent employees in 35 countries providing business process and technology outsourcing solutions to world-class commercial and government clients.

The financial information presented should be read in conjunction with our consolidated financial statements for the year ended June 30, 2001. The foregoing unaudited consolidated financial statements reflect all adjustments (all of which are of a normal recurring nature) which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods. The results for the interim periods are not necessarily indicative of results to be expected for the year.

All share and per share information is presented after giving effect to the two-for-one stock split of our Class A and Class B common shares declared on January 22, 2002, paid on February 22, 2002 in the form of a stock dividend to shareholders of record as of February 15, 2002.

2. EQUITY TRANSACTIONS

On March 15, 2002, we completed the redemption of our 4% Convertible Subordinated Notes due March 15, 2005 (the Notes). Holders of all of the outstanding Notes converted their Notes to shares of our Class A common stock in accordance with Article XII of the Indenture dated as of March 20, 1998 between ACS and U.S Trust Company of Texas, N.A., as trustee prior to the March 15, 2002 redemption date. As the result of such conversions, 10,780,887 shares of our Class A common stock were issued to such holders.

On February 22, 2002, we completed a two-for-one stock split of our outstanding Class A common stock and Class B common stock implemented in the form of a 100% stock dividend (Stock Split). Each holder of record of our Class A Common Stock and Class B Common Stock as of the close of business on February 15, 2002 received an additional share of such stock held by them at that time. In connection with the Stock Split, the number of shares of Class A common stock reserved for issuance or subject to outstanding options granted under our employee stock option or other benefit plans, as well as the number of shares reserved for issuance under our 4% Convertible Subordinated Notes due March 15, 2005 and 3.5% Convertible Subordinated Notes due February 15, 2006, were proportionately increased in accordance with the terms of such options, plans and other instruments.

On October 10, 2001, we completed our offering of 18.4 million shares of our Class A common stock. The shares were issued at \$40.50 per share. Net proceeds of \$714.3 million (net of underwriters' fees and other costs) were used to repay the \$550 million 18-month interim credit facility we obtained in connection with the IMS acquisition (described below) and a portion of the amount outstanding under our revolving credit facility.

3. ACQUISITIONS

In August 2001, we acquired 100% of the stock of Lockheed Martin IMS Corporation (IMS), now known as ACS State and Local Solutions, a wholly-owned subsidiary of Lockheed Martin Corporation for approximately \$825 million. The acquisition was funded from a \$550 million 18-month interim credit facility, borrowings from our existing revolving credit facility, and existing cash on hand. IMS results have been included in our consolidated financial statements from the effective date of the acquisition, August 1, 2001. IMS provides business process outsourcing services to more than 230 state and local government agencies in 45 U.S. states, the District of Columbia, Canada, Australia, and Europe. IMS specializes in child support enforcement, welfare and workforce services, child care management, electronic toll collection, and other intelligent transportation services involving the trucking industry, photo enforcement of red-light and speeding violations, parking management, and information technology outsourcing. We believe the acquisition of IMS solidifies ACS as a leader in technology based outsourcing solutions to state and local government agencies.

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

3. ACQUISITIONS (CONTINUED)

The acquisition was accounted for under the purchase method of accounting with assets acquired of \$932.3 million and liabilities assumed of \$107.3 million. The purchase price was allocated to assets acquired and liabilities assumed based on the estimated fair value at July 31, 2001 as follows (in thousands):

Current Assets	\$ 117,114
Property, equipment and software	50,972
Other long-term assets	2,826
Intangible assets	64,300
Goodwill	697,045
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Total assets acquired	932,257
Current liabilities	107,257
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Total liabilities assumed	107,257
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Net assets acquired	\$ 825,000
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The total amount of goodwill is expected to be fully deductible for tax purposes. Software of \$41.5 million is included in property, equipment and software and has an anticipated useful life ranging from 2 to 10 years. The \$64.3 million of acquired intangible assets is attributable to customer contracts with an aggregate anticipated useful life of approximately 11 years.

Pro forma Financial Information

The following unaudited pro forma information presents a summary of our consolidated results of operations as if the IMS acquisition had occurred at the beginning of the periods presented and are not necessarily indicative of future results or actual results that would have been achieved had the acquisition occurred at the beginning of the periods presented (in thousands, except per share amounts).