

Affiliated Computer Services, Inc. Shareholder Derivative Litigation

COURT: 193rd Judicial District Court, Dallas County, Texas
CASE NUMBER: 06-cv-03403
CLASS PERIOD: 1995 - 2002
CASE CONTACTS: Salvatore J. Graziano, Hannah Ross, John Rizio-Hamilton

Affiliated Computer Services, Inc. (“ACS”) provides business process and information technology services to commercial and government clients. On June 2, 2006, BLB&G filed a derivative complaint in Texas state court on behalf of the Anchorage Police and Fire Retirement System. The Complaint was brought in the name and for the benefit of ACS against certain current and former executive officers and members of the Board of Directors. The Complaint alleged that from 1995 to 2003, defendants granted stock options to senior executives that were unlawfully backdated to provide the recipients with windfall compensation at the direct expense of ACS.

On July 13, 2006, the Court appointed Anchorage Police and Fire Retirement System as Co-Lead Plaintiff. On July 22, 2006, BLB&G filed an Amended Complaint which set forth additional evidence of intentional option backdating by the defendants. On November 27, 2006, ACS completed an internal investigation that confirmed Plaintiffs’ allegations of intentional backdating.

In early January 2007, BLB&G began reviewing documents produced by ACS. On March 6, 2007, BLB&G attended a mediation session with counsel for ACS, which was not successful. On March 20, 2007, ACS announced a proposed transaction by Defendant Darwin Deason, the founder and Chairman of ACS, to take ACS private at an inadequate price and pursuant to an exclusivity agreement with Cerberus Capital Management, L.P. (“Cerberus”). This proposed transaction, if effected, would have allowed Defendants to avoid liability for the Company’s improper option backdating practices. As a result, BLB&G amended the complaint to include allegations relating to the proposed transaction (the “Third Amended Complaint”). In the Third Amended Complaint, Co-Lead Plaintiffs seek to: (i) remedy the Company for its losses arising out of Defendants’ unlawful option backdating practices; and (ii) prevent Deason from evading responsibility (and escaping liability) for his role in the backdating of ACS options by taking ACS “private” at an inadequate price and by an unfair process. On May 30, 2007, Lead Plaintiffs moved for a Temporary Injunction to enjoin the exclusivity agreement between Deason and Cerberus. As part of the resolution of this motion, ACS agreed to void the exclusivity agreement, conduct an open auction process so that, at the very least, any sale of ACS would be fair, and allow Lead Plaintiffs to review any serious proposals to ensure that any sale is at the best price.

From November 2007 to February 2008, BLB&G deposed several current and former ACS employees, executives, and directors. In an attempt to resolve the case, in February of 2008, BLB&G prepared two expert reports, submitted a comprehensive mediation statement, and attended an extensive mediation in Texas. As a result of those efforts, BLB&G reached a settlement agreement with Defendants, which has been submitted to the Texas state court for approval. The settlement provides that five current and former officers and directors of ACS, including Darwin Deason, will personally pay or forego a total of more than \$2.1 million in cash; that certain former officers will have their stock options cancelled or re-priced; that certain independent directors will have their stock options repriced, which will yield a value to ACS of approximately \$9 million; and that certain former executives will enter into non-compete and non-solicitation agreements with the Company, which will yield a value to ACS of between \$35.7 million and \$181.8 million. In addition, the settlement includes substantial corporate governance changes, such as limits on the time and manner by which ACS may grant stock options, the removal of Defendant Deason’s rights to appoint officers and recommend directors for election or removal, and a limitation of Mr. Deason’s voting power.