SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): April 30, 2010

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

New York	001-04471	16-0468020
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

**P. O. Box 4505
45 Glover Avenue
Norwalk, Connecticut
06856-4505**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (203) 968-3000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

In connection with a registration statement to be filed on Form S-3, Registrant is filing herewith additional financial statement exhibits to be incorporated by reference into the registration statement.

Attached hereto as Exhibit 99.1 and incorporated herein by reference is the Registrant's and Affiliated Computer Services, Inc.'s ("ACS") unaudited pro forma condensed combined financial information as of and for the year ended December 31, 2009. This pro forma financial information gives effect to certain pro forma events related to the merger and has been presented for informational purposes only. It does not purport to project the future financial position or operating results of the post-merger combined company.

Attached hereto as Exhibit 99.2 and incorporated herein by reference are the unaudited condensed consolidated financial statements of ACS as of and for the three and six months ended December 31, 2009.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Xerox and ACS Unaudited Pro Forma Condensed Combined Financial Information as of and for the Year Ended December 31, 2009
99.2	ACS Unaudited Condensed Consolidated Financial Statements as of and for the Three and Six Months Ended December 31, 2009

Forward Looking Statements

This Current Report on Form 8-K and any exhibits to this Current Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to the unprecedented volatility in the global economy; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; the risk that we will not realize all of the anticipated benefits from the acquisition of Affiliated Computer Services, Inc.; our ability to recover capital investments; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly authorized this Report to be signed on its behalf by the undersigned duly authorized.

Date: April 30, 2010

XEROX CORPORATION

By: /s/ Gary R. Kabureck

Gary R. Kabureck
Vice President and Chief Accounting Officer

EXHIBIT INDEX

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XEROX AND ACS UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On September 27, 2009, Xerox Corporation (“Xerox”) and Affiliated Computer Services, Inc. (“ACS”) entered into an Agreement and Plan of Merger providing for the acquisition of ACS by Xerox. Upon completion of the merger on February 5, 2010 (the acquisition date), ACS became a wholly owned subsidiary of Xerox.

The unaudited pro forma condensed combined balance sheet assumes that the merger took place on December 31, 2009 and combines Xerox’s audited December 31, 2009 consolidated balance sheet with ACS’s unaudited December 31, 2009 consolidated balance sheet.

The unaudited pro forma condensed combined statement of income for the fiscal year ended December 31, 2009 assumes that the merger took place on January 1, 2009. Xerox’s audited consolidated statement of income for the fiscal year ended December 31, 2009 has been combined with ACS’s unaudited consolidated statement of income for the four fiscal quarters ended December 31, 2009. This unaudited methodology includes the last two reported quarters of ACS’s fiscal year ended June 30, 2009 and ACS’s reported results for the six months ended December 31, 2009.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of income, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the following historical consolidated financial statements and accompanying notes of Xerox and ACS for the applicable periods:

- Separate historical financial statements of Xerox as of and for the year ended December 31, 2009 and the related notes included in Xerox’s Annual Report on Form 10-K for the year ended December 31, 2009;
- Separate historical financial statements of ACS as of and for the year ended June 30, 2009 and the related notes included in ACS’s Annual Report on Form 10-K for the year ended June 30, 2009; and
- Separate historical financial statements of ACS as of and for the three and six months ended December 31, 2009 and the related notes included in Exhibit 99.2 of this Form 8-K.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company’s financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. There were no material transactions between Xerox and ACS during the periods presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under existing U.S. generally accepted accounting principles, or GAAP standards, which are subject to change and interpretation. Xerox has been treated as the acquiror in the merger for accounting purposes. The pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information. Although we do not expect any material adjustments, we expect to finalize these amounts during the second quarter of 2010. Under U.S. GAAP, companies have one year after an acquisition to finalize the purchase accounting. The following items still are subject to change:

- amounts for intangible assets, property, equipment and software pending finalization of valuation efforts;
- amounts for legal contingencies pending the finalization of our examination and valuation of the portfolio of filed cases; and
- amounts for income tax assets, receivables and liabilities pending the filing of ACS’s pre-acquisition tax returns and the receipt of information from the taxing authorities which may change certain estimates and assumptions used.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger, the costs to combine the operations of Xerox and ACS or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

Xerox Corporation and Affiliated Computer Services, Inc.
Unaudited Pro Forma Condensed Combined Statements of Income
Year Ended December 31, 2009

(in millions, except per share data)	Xerox	ACS	Pro Forma Adjustments		Pro Forma Combined
Revenues					
Sales	$ 6,646	$ 239	$ —		$ 6,885
Service, outsourcing and rentals	7,820	6,400	(37)	**(A)**	14,183
Finance income	713	—	—		713
Total Revenues	**15,179**	**6,639**	**(37)**		**21,781**
Costs and Expenses					
Cost of sales	4,395	217	—		4,612
Cost of service, outsourcing and rentals	4,488	5,177	(170)	**(B)**	9,495
Equipment financing interest	271	—	—		271
Research, development and engineering expenses	840	—	—		840
Selling, administrative and general expenses	4,149	518	—		4,667
Restructuring and asset impairment charges	(8)	5	—		(3)
Other expenses, net	417	192	199	**(C)**	808
Total Costs and Expenses	**14,552**	**6,109**	**29**		**20,690**
Income before Income Taxes & Equity Income	**627**	**530**	**(66)**		**1,091**
Income tax expense	152	179	(25)	**(D)**	306
Equity in net income of unconsolidated affiliates	41	—	—		41
Net Income	**516**	**351**	**(41)**		**826**
Less: Net Income attributable to noncontrolling interests	31	—	—		31
Net Income Attributable to Xerox Corporation	**$ 485**	**$ 351**	**$ (41)**		**$ 795**
Basic Earnings per Share	$ 0.56	$ 3.59		**(E)**	$ 0.57
Diluted Earnings per Share	$ 0.55	$ 3.57		**(E)**	$ 0.56
Basic - Weighted-Average Shares	870	98			1,360
Diluted - Weighted-Average Shares	880	98			1,381

See the accompanying notes to the unaudited pro forma condensed combined financial statements which are an integral part of these statements. The pro forma adjustments are explained in Note 6 - Adjustments to Unaudited Pro Forma Condensed Combined Statements of Income.

Xerox Corporation and Affiliated Computer Services, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheets
December 31, 2009

(in millions)	Xerox	ACS	Pro Forma Adjustments		Pro Forma Combined
Assets					
Cash and cash equivalents	$ 3,799	$ 825	$ (3,122)	**(A)**	$ 1,502
Accounts receivable, net	1,702	1,375	(64)	**(B)**	3,013
Billed portion of finance receivables, net	226	—	—		226
Finance receivables, net	2,396	—	—		2,396
Inventories	900	20	—		920
Other current assets	708	169	(60)	**(C)**	817
Total current assets	9,731	2,389	(3,246)		8,874
Finance receivables due after one year, net	4,405	—	—		4,405
Equipment on operating leases, net	551	—	—		551
Land, buildings and equipment, net	1,309	611	(185)	**(D)**	1,735
Investments in affiliates, at equity	1,056	—	—		1,056
Intangible assets, net	598	288	2,747	**(E)**	3,633
Goodwill	3,422	2,897	2,166	**(F)**	8,485
Deferred tax assets, long-term	1,640	(505)	(331)	**(G)**	804
Other long-term assets	1,320	759	(505)	**(H)**	1,574
Total Assets	**$ 24,032**	**$ 6,439**	**$ 646**		**$ 31,117**
Liabilities and Equity					
Short-term debt and current portion of long-term debt	$ 988	$ 296	$ (16)	**(I)**	$ 1,268
Accounts payable	1,451	273	—		1,724
Accrued compensation and benefits costs	695	157	13	**(J)**	865
Other current liabilities	1,327	573	(65)	**(K)**	1,835
Total current liabilities	4,461	1,299	(68)		5,692
Long-term debt	8,276	2,036	(1,091)	**(I)**	9,221
Liability to subsidiary trust issuing preferred securities	649	—	—		649
Pension and other benefit liabilities	1,884	110	20	**(L)**	2,014
Post-retirement medical benefits	999	—	—		999
Other long-term liabilities	572	159	(1)	**(M)**	730
Total Liabilities	**16,841**	**3,604**	**(1,140)**		**19,305**
Series A convertible preferred stock	—	—	348	**(N)**	348
Common stock	871	1	489	**(O)**	1,361
Additional paid-in-capital	2,493	1,770	2,055	**(P)**	6,318
Treasury stock, at cost	—	(1,056)	1,056	**(Q)**	—
Retained earnings	5,674	2,152	(2,194)	**(R)**	5,632
Accumulated other comprehensive loss	(1,988)	(32)	32	**(S)**	(1,988)
Xerox Shareholders' Equity	7,050	2,835	1,438		11,323
Noncontrolling Interests	141	—	—		141
Total Equity	**7,191**	**2,835**	**1,438**		**11,464**
Total Liabilities and Equity	**$ 24,032**	**$ 6,439**	**$ 646**		**$ 31,117**

See the accompanying notes to the unaudited pro forma condensed combined financial statements which are an integral part of these statements. The pro forma adjustments are explained in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of Transaction

Upon completion of the merger on February 5, 2010 (the acquisition date), ACS became a wholly owned subsidiary of Xerox as each share of ACS Class A and Class B common stock issued and outstanding converted into the right to receive a combination of 4.935 shares of Xerox common stock and $18.60 in cash, without interest. In addition, the holders of Class B common stock received shares of Xerox Convertible Preferred Stock (see below for description). The transaction qualified as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

ACS stock options, other than ACS stock options issued in August 2009, whether or not then vested and exercisable, became fully vested and exercisable and assumed by Xerox at the effective time of the merger in accordance with preexisting change-in-control provisions. Each assumed option became exercisable for Xerox common stock equal to the product of the number of shares of ACS Class A common stock that were subject to the ACS stock option immediately prior to the effective time of the merger multiplied by (i) the sum of (A) 4.935 and (B) the cash consideration of $18.60 divided by (ii) the per share closing price for Xerox common stock on the last trading day before the closing of this merger — such ratio the "Option Exchange Ratio." The per share exercise price for the shares of Xerox common stock issuable upon exercise of the assumed ACS stock options is equal to the quotient determined by dividing the exercise price per share of ACS Class A common stock of the ACS stock option by the Option Exchange Ratio.

ACS stock options issued in August 2009 will continue to vest and become exercisable for Xerox common stock in accordance with their original terms. The estimated fair value of the new Xerox stock options will be recorded to compensation cost over the future vesting period. No adjustment to the unaudited pro forma condensed statement of income were made related to stock-based compensation since it is not anticipated that the stock-based compensation expense for ACS employees after the completion of the merger will be materially different than the amounts already included in ACS's historical statements of income.

In connection with the merger, Xerox issued shares of Xerox Convertible Preferred Stock with an aggregate liquidation preference of $300 million to the holders of ACS Class B common stock. For purposes of these unaudited pro forma condensed combined financial statements, the Xerox Convertible Preferred Stock was estimated to have a fair value of $349 million. The Xerox Convertible Preferred Stock pays quarterly cash dividends at a rate of 8 percent per year and has a liquidation preference of $1,000 per share. Each share of Xerox Convertible Preferred Stock is convertible at any time, at the option of the holder, into 89.8876 shares of common stock (which reflects an initial conversion price of approximately $11.125 per share of common stock, which is a 25% premium over $8.90, which was the average closing price of Xerox common stock over the 7-trading day period ended on September 14, 2009, and the number used for calculating the initial conversion price in the merger agreement), subject to customary anti-dilution adjustments. On or after the fifth anniversary of the issue date, Xerox will have the right to cause, under certain circumstances, any or all of the Xerox Convertible Preferred Stock to be converted into shares of Xerox common stock at the then applicable conversion rate. The holders of Xerox Convertible Preferred Stock are also able to convert upon a change in control at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for Xerox common stock upon a change in control. In addition, upon the occurrence of certain fundamental change events, including a future change in control of Xerox or if Xerox common stock ceases to be listed on a national securities exchange, the holders of Xerox Convertible Preferred Stock have the right to require Xerox to redeem any or all of the Xerox Convertible Preferred Stock in cash at a redemption price per share equal to the liquidation preference and any accrued and unpaid dividends to, but not including the redemption date. The Xerox Convertible Preferred Stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

2. Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical financial statements of Xerox and ACS. For ease of reference, all pro forma statements use Xerox's period end dates and ACS's reported information has been recasted accordingly to correspond to Xerox's period end dates by adding ACS's comparable quarterly periods as necessary. In addition, certain reclassifications have been made to the historical financial statements of ACS to conform with Xerox's presentation, primarily related to the presentation of revenues; selling, administrative and general (SAG) expenses; software; intangible assets and deferred taxes.

The acquisition method of accounting is based on Accounting Standards Codification (ASC) Topic 805, Business Combinations, which Xerox adopted on January 1, 2009 and uses the fair value concepts defined in ASC Topic 820, Fair Value Measurements and Disclosures, which Xerox has adopted as required.

ASC Topic 805, requires, among other things, that most assets acquired and liabilities acquired be recognized at their fair values as of the acquisition date. Financial statements of Xerox issued after completion of the merger will reflect such fair values, measured as of the acquisition date. The financial statements of Xerox issued after the completion of the merger will not be retroactively restated to reflect the historical financial position or results of operations of ACS.

ASC Topic 820, defines the term "fair value" and sets forth the valuation requirements for any asset or liability measured at fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be unrelated (to Xerox) buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. Our judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed as well as asset lives, can materially impact our results of operations.

Under ASC Topic 805, acquisition-related transaction costs (i.e., advisory, legal, valuation, other professional fees, etc.) not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. The unaudited condensed combined pro forma financial statements assume that the estimated transaction costs remaining as of December 31, 2009 were paid in conjunction with the closing of the merger. Total advisory, legal, regulatory and valuation costs incurred by Xerox were $59 million, of which $14 million was expensed in the year ended December 31, 2009. In addition, Xerox has reflected fees of approximately $58 million associated with the bridge facility, as described in Xerox's Current Report on Form 8-K filed on September 28, 2009, that were expensed in 2009. The bridge term facility was not utilized and was terminated in January 2010. The unaudited pro forma condensed combined balance sheet also reflects acquisition-related transaction costs incurred by ACS of $66 million as an assumed liability paid in connection with the closing of the merger (of which $21 million was expensed by ACS in 2009).

3. Accounting Policies

Xerox is still in the process of performing a detailed review of ACS's accounting policies. At this time, Xerox is not aware of any differences that would have a material impact on the combined financial statements.

4. Consideration Transferred

The table below details the consideration transferred to acquire ACS (certain amounts reflect rounding adjustments):

(shares in thousands)	Conversion Calculation	Estimated Fair Value	Form of Consideration
ACS Class A shares outstanding as of the acquisition date	92.7		
ACS Class B shares outstanding as of the acquisition date	6.6		
Total ACS Shares Outstanding	99.3		
Xerox stock price as of the acquisition date	$ 8.47		
Multiplied by the exchange ratio	4.935		
Equity Consideration per Common Share Outstanding	$ 41.80	$ 4,149	Xerox common stock
Cash Consideration per Common Share Outstanding	$ 18.60	$ 1,846	Cash
ACS stock options exchanged for a Xerox equivalent stock option	13.6		
Multiplied by the Option Exchange Ratio	7.085289		
Total Xerox Equivalent Stock Options[(1)]	96.7	$ 168	Xerox stock options
Xerox Preferred Stock Issued to ACS Class B shareholders		$ 349	Xerox preferred stock
Total Fair Value of Consideration Transferred		$ 6,512	

(1) Xerox assumed all outstanding ACS stock options at closing. For the August 2009 options, the portion of the estimated fair value associated with service prior to the close was recorded as part of the acquisition fair value with the remainder recorded as future compensation cost over the remaining vesting period. The estimated fair value associated with the Xerox options issued in exchange for the ACS options was approximately $222 based on a Black-Scholes valuation model. Approximately $168 of the estimated fair value was recorded as part of the acquisition fair value and $54 million is expected to be expensed over the remaining vesting period which is estimated to be approximately 3.9 years. The following table outlines the assumptions used to value the stock options issued in exchange for the ACS options:

Assumptions	Pre-August 2009 Options	August 2009 Options
Strike price	$ 6.89	$ 6.33
Expected volatility	37.90%	38.05%
Risk-free interest rate	0.23%	1.96%
Expected term	0.75 years	4.2 years

5. Estimate of Assets Acquired and Liabilities Assumed

The following table provides an estimate of the assets acquired and the liabilities assumed by Xerox in the merger and represents ACS's unaudited December 31, 2009 consolidated balance sheet adjusted for fair value and other acquisition related changes. The fair value and other acquisition related changes were determined as of the acquisition date.

Assets	
Cash and cash equivalents	$ 732
Accounts receivable	1,311
Other current assets	280
Land, buildings and equipment	426
Intangible assets	3,035
Goodwill	5,063
Other long-term assets	255
Liabilities	
Other current liabilities	826
Deferred revenue	161
Deferred tax liability	987
Debt	2,343
Pension liabilities	39
Other long-term liabilities	234
Net Assets Acquired / Consideration Transferred	**$ 6,512**

Intangible Assets: The following table is a summary of the fair value estimates of the identifiable intangible assets and their weighted-average useful lives:

	Estimated Fair Value	Estimated Useful Life
Customer relationships/contracts	$ 2,920	11.6 years
ACS tradename	100	4 years
Buck tradename	10	(1)
Title plant	5	(2)
Total Identifiable Intangible Assets	$ 3,035	

(1) Determined to be an indefinite-lived intangible asset.
(2) Title plant is not subject to depreciation or charged to earnings based on ASC Topic 950 – Financial Services – Title Plant, unless circumstances indicate that the carrying amount of the title plant has been impaired.

Deferred Revenue: Deferred revenue in the context of a business combination represents an obligation to provide future products or services to a customer when payment for such products or services has been made prior to the products being delivered or services rendered. A certain portion of ACS's unearned revenue is for services already rendered and therefore no future obligation to provide services remains. The payments from customers were generally for up-front transition and set-up services and were deferred due to the revenue recognition requirements for up-front payments. Accordingly, Xerox adjusted the balance of unearned revenue by $133 million ($53 million current; $80 million non-current) for the estimated portion of unearned revenue for which no future service obligation remains. Post acquisition revenue will be reduced for the value of this adjustment. No adjustment was made for the remaining portion of unearned revenue of approximately $161 million ($145 million current; $16 million non-current) as it was determined to be a reasonable estimate of the fair value for the remaining obligation to provide future services to customers.

Deferred Taxes: For purpose of these unaudited pro forma condensed combined financial statements, we provided deferred taxes and recorded other tax adjustments of $385 million ($54 million current; $331 million non-current) as part of the accounting for the acquisition. After the adjustments, the estimated net deferred tax liability was $987 million as of December 31, 2009 ($151 million current; $836 million non-current). The adjustments primarily related to the estimated fair value adjustments for acquired intangible assets as well as the elimination of a previously recorded deferred tax liability associated with ACS's historical goodwill that was tax deductible. In addition, we also provided deferred taxes of $76 million for the outside basis difference associated with certain foreign subsidiaries of ACS for which no taxes have been previously provided. We expect to reverse the outside basis difference primarily through our current intention to repatriate earnings from those subsidiaries as opposed to permanently reinvesting them as well as through the reorganization of those subsidiaries. See Note 7 Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets, item (G) for details regarding the adjustment to deferred taxes.

Debt: As of the effective time of the merger, debt must be measured at fair value. A portion of ACS's debt was repaid in connection with the closing of the merger - $1,767 million at December 31, 2009 - together with related interest rate swaps representing a $26 million liability at December 31, 2009. Accordingly, Xerox only calculated a fair value adjustment to ACS's remaining debt. As a result of the debt repayment and fair value adjustment, ACS's deferred debt issuance costs of $19 million were written off. The following is a summary as of December 31, 2009 of the ACS debt assumed:

4.70% Senior Notes due June 2010	$ 250
5.20% Senior Notes due June 2015	250
Capital lease obligations and other debt	65
Principal debt balance	565
Fair value adjustments	11
Total debt - not repaid	576
Debt repaid in connection with the acquisition	1,767
Total debt assumed	$ 2,343

Pension Obligations: In connection with our acquisition of ACS, we assumed several pension plans covering the employees of ACS's human resources consulting and outsourcing business in the U.S., U.K., Germany and Canada. The plans in the U.S. and Canada are both funded and unfunded; the plan in the U.K. is funded and the plan in Germany is unfunded. The following is a summary of the estimated funded position of the assumed ACS plans, as well as associated weighted-average assumptions used to determine benefit obligations for purposes of these unaudited pro forma condensed combined financial statements:

	Estimated Fair Value
Projected benefit obligation	$ 142
Fair value of plan assets	111
Net Unfunded Status	$ (31)

Amounts recognized in the unaudited pro forma condensed combined balance sheet:

Other long-term assets	$ 8
Pension liabilities	(39)
Net Amount Recognized	$ (31)

Weighted average assumption used to determine benefit obligations:

Discount rate	5.7%
Expected rate of return on plan assets	6.9%
Rate of compensation increase	3.9%

Other Long-Term Liabilities: The assumed liabilities include payments due under contractual change-in-control provisions in employment agreements of certain ACS employees and its Chairman of approximately $95 million ($15 million current; $80 million non-current). The liabilities include accruals for related excise and other taxes Xerox is obligated to pay. This amount is a preliminary estimate that may change once the underlying calculations are finalized and excludes $11 million of change-in-control related payments made in October 2009.

Contingent Consideration: Although there is no contingent consideration associated with this merger, ACS is obligated to make certain contingent payments in connection with prior acquisitions upon satisfaction of certain contractual criteria. As of the effective time of the merger, contingent consideration obligations must be recorded at their respective fair value. As of December 31, 2009, the maximum aggregate amount of ACS's outstanding contingent obligations to former shareholders of acquired entities is approximately $46 million. The fair value of this obligation was estimated to be $11 million ($9 million current; $2 million non-current) for purposes of these unaudited pro forma condensed combined financial statements.

Contingencies: As of the effective time of the merger, except as specifically excluded by GAAP, contingencies are required to be measured at fair value, if the acquisition-date fair value of the asset or liability arising from a contingency can be determined. If the acquisition-date fair value of the asset or liability cannot be determined, the asset or liability would be recognized at the acquisition date if both of the following criteria were met: (i) it is probable that an asset existed or that a liability had been incurred at the acquisition date, and (ii) the amount of the asset or liability can be reasonably estimated. These criteria are to be applied using the guidance in ASC Topic 405, Contingencies. ACS is involved in various legal proceedings, including an SEC investigation. However, Xerox is still reviewing information regarding the fair value of these contingencies. A fair valuation effort requires review of complex legal matters and associated defense strategies, which are in progress. As required, ACS has historically accounted for these contingencies under ASC Topic 405. If fair value cannot be determined for ACS's contingencies, the combined company would continue to account for the ACS contingencies using ASC Topic 405. For the purpose of these unaudited pro forma condensed combined financial statements, Xerox has not adjusted the ACS book values for contingencies. This approach is preliminary and subject to change after completion of the final review and assessment of ACS's legal proceedings.

Goodwill: Goodwill in the amount of $5.1 billion is estimated for this acquisition and is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of ACS includes:

- the expected synergies and other benefits that we believe will result from combining the operations of ACS with the operations of Xerox;
- any intangible assets that do not qualify for separate recognition such as the assembled workforce; and
- the value of the going-concern element of ACS's existing businesses (the higher rate of return on the assembled collection of net assets versus acquiring all of the net assets separately).

Goodwill is not amortized but rather subject to an annual fair value impairment test. Goodwill of $2.28 billion is estimated to be deductible for tax purposes as a result of being generated from previous taxable acquisitions of ACS.

6. Notes to Adjustments to Unaudited Pro Forma Condensed Combined Statements of Income

(A) Reflects adjustments for the following (in millions):

	Year Ended December 31, 2009
Reduction in revenue related to the write-off of deferred revenue for which no future service obligation remains[1]	$ (53)
Reversal of amortization for certain ACS deferred charges, including contract inducements costs, that were written-off at the consummation of the acquisition	16
Total	$ (37)

(1) See notes (K) and (M) in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets for the estimated reduction to ACS's historical deferred revenue. After the completion of the merger Xerox's revenue will reflect the decreased valuation of ACS's deferred revenue. Although long-term there will be no continuing impact on the combined operating results, the majority of this deferred revenue would have been recognized by ACS in the next two years. To show the anticipated effect on the combined operating results after the completion of the merger, the historical unaudited pro forma condensed statements of income were adjusted to reflect the decrease in ACS's deferred revenue.

(B) Reflects adjustments for the following (in millions):

	Year Ended December 31, 2009
Lower estimated depreciation resulting from fair value adjustments to land, buildings and equipment[1]	$ (78)
Lower estimated depreciation resulting from the write-off and fair value adjustments to software[2]	(48)
Reversal of amortization for certain ACS deferred charges, including customer contract costs, written-off at the consummation of the acquisition	(44)
Total	$ (170)

(1) See note (D) in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets.
(2) See note (H) in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets.

(C) The pro forma adjustment to other expenses, net primarily reflects additional intangible asset amortization and the interest expense related to the Senior Notes Xerox issued in December 2009 and $649 million of additional borrowings under our existing revolving credit facility. The components of the adjustments to other expenses, net are as follows (in millions):

	Year Ended December 31, 2009
New intangible asset amortization[1]	$ 278
Eliminate ACS's historical intangible asset amortization expense	(48)
Interest expense on new debt issuances used to partially finance the merger[2]	120
Amortization of: (i) deferred financing fees related to new debt issuances; and (ii) the estimated fair value adjustment for ACS's debt not repaid.	26
Historical interest cost - debt repaid	(81)
Amortization of deferred financing fees - debt repaid	(9)
Forgone interest income from lower cash balances used to partially fund the merger	17
To eliminate change in control payments which are directly attributable to the merger but do not have a continuing impact on the combined entity's results.	(11)
To eliminate acquisition related transaction costs including advisory and legal fees incurred during the year ended December 31, 2009, which are directly attributable to the merger but do not have a continuing impact on the combined entity's results	(93)
Total	$ 199

(1) For estimated intangible asset values and the associated useful lives, see note (E) in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets.
(2) For the new borrowings used to partially finance the merger, see note (I) in Note 7 - Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets.

(D) This represents the tax effect of adjustments to income before income taxes and equity income primarily related to the expense associated with incremental debt to partially finance the merger and increased amortization resulting from estimated fair value adjustments for acquired intangibles, as well as fair value adjustments including those for unearned revenue, software and land, buildings and equipment. Xerox has assumed a 38% blended tax rate representing the estimated combined effective U.S. federal and state statutory rates. This estimated blended tax rate recognizes that ACS is predominately a U.S. based entity and that the debt incurred by Xerox to effect the merger is an obligation of a U.S. entity. However, the effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities.

(E) The unaudited pro forma condensed combined basic and diluted earnings per share calculations are the historical basic and diluted weighted average shares of Xerox plus the shares issued by Xerox to effect the merger and the effect of Xerox stock options issued in exchange for the ACS options. For purposes of the unaudited pro forma condensed combined diluted earnings per share calculations, net income available to common shareholders reflects net income less dividends on the Series A convertible preferred stock of $24 million per year.

7. Notes to Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets

(A) The sources and uses of funds relating to the merger are as follows:

	(in millions)
Repayment of ACS's debt[1]	$ (1,767)
Cash consideration to shareholders of ACS common stock at $18.60 per share	(1,846)
Estimated remaining Xerox and ACS acquisition related transaction costs (excludes $51 million of fees paid as of December 31, 2009 of which $44 million related to the bridge term facility)[2]	(132)
Payment upon termination of ACS interest rate swaps in conjunction with the closing of the merger	(26)
Total uses of cash	(3,771)
Borrowings under our existing revolving credit facility[1]	649
Net effect on cash	$ (3,122)

(1) See (I) below for a description of the transaction financing.
(2) The unaudited condensed combined pro forma balance sheet assumes that the estimated remaining transaction costs were paid in conjunction with the closing of the merger. The bridge term facility was not utilized and was terminated in January 2010. See (K) below.

(B) Represents the estimated fair market value adjustment for certain accounts receivable.

(C) Reflects adjustments for the following:

	(in millions)
Net change to current deferred tax assets[1]	$ (54)
Represents the write-off of the current portion of ACS's unamortized debt issuance costs[2]	(6)
Total	$ (60)

(1) See (G) below for long-term deferred tax assets.
(2) See (H) and (I) below.

(D) Represents the estimated fair market value adjustment for land, buildings and equipment.

(E) The pro forma adjustments to intangible assets, net reflect the following:

	(in millions)
To record the estimated fair value of the following identifiable intangible assets:	
Customer relationships - estimated 11.6 year weighted average useful life	$ 2,920
ACS tradename - estimated useful life of 4 years	100
Buck tradename - non-amortizable as indefinite-lived	10
Title plant - non-amortizable as indefinite-lived	5
Eliminate ACS's historical intangible assets	(288)
Total	$ 2,747

(F) Reflects adjustments for the following:

	(in millions)
Estimated transaction goodwill	$ 5,063
Eliminate ACS's historical goodwill	(2,897)
Total	$ 2,166

(G) Reflects adjustments for the following:[1]

	(in millions)
Establish deferred tax liability for the increase in the basis of identified acquired intangible assets[2]	$ (1,048)
Elimination of ACS's previous deferred tax liability associated with historical goodwill	472
To provide deferred taxes for the estimated fair market value adjustments for receivables, land, buildings and equipment and software[3]	222
To provide deferred taxes for reversal of outside basis differences[4]	(76)
Reduce deferred tax assets related to the write-off of deferred revenue for which no future service obligation remains[5]	(51)
Establish deferred tax asset for the write-off of certain ACS deferred customer costs including contract inducements and contract set-up and transition costs	59
Increase in deferred tax assets for the accelerated vesting of certain ACS nonqualified stock options	13
Net deferred tax asset provided for other estimated purchase accounting adjustments	24
Total change in deferred tax assets	$ (385)
Total change from the unaudited historical balance sheet:	
Net change in current portion of deferred tax assets - see (C) above	$ (54)
Net change in long-term portion of deferred tax assets	(331)
Total	$ (385)

(1) Given that ACS is predominately a U.S. based entity, Xerox has assumed a blended 38% tax rate representing the estimated combined effective U.S. federal and state statutory rates. However, the effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities.
(2) See (E) above for identified intangible assets.
(3) See (B), (D) and (H) and for the adjustment to receivables, land, buildings and equipment and software, respectively.

(4) The outside basis differences are associated with ACS's foreign subsidiaries for which no taxes have been previously provided. Xerox plans to reverse the outside basis difference associated with certain ACS foreign subsidiaries.
(5) See (K) and (M) below for adjustments to deferred revenue.

(H) Reflects adjustments for the following:

	(in millions)
Write-off of certain ACS deferred customer costs including contract inducements and contract set-up and transition costs	$ (169)
Represents the write-off and estimated fair market value adjustment for ACS's software[(1)]	(331)
Adjustment for net funded position of assumed ACS pensions[(2)]	8
Write-off the long-term portion of ACS's unamortized debt issuance costs[(3)]	(13)
Total	$ (505)

(1) A portion of the adjustment related to software includes the write-off of customer specific or dedicated software (i.e. software with no alternative use beyond the customer contract) as the value associated with such customer specific software is included in the fair value of the customer relationship intangible asset in a similar manner to customer inducements as well as contract set-up and transition costs.
(2) See (L) below.
(3) See (C) above and (I) below.

(I) Reflects adjustments for the following:

	(in millions)
ACS Term Loan Facility due March 2013	$ (1,733)
ACS Revolving Facility due March 2012	(34)
Total debt repayments	(1,767)
Borrowings under our existing revolving credit facility at an assumed current rate of 3.75%[(1)]	649
Estimated fair market value adjustment for the assumed ACS debt that was not repaid in conjunction with the merger	11
Net change in debt	$ (1,107)
Total change from the unaudited historical balance sheet:	
Current debt portion	$ (16)
Long-term debt portion	(1,091)
Total	$ (1,107)

(1) The cash portion of the acquisition, as well as the repayment of approximately $1.8 billion of ACS's assumed debt was funded through a combination of cash on hand, additional borrowings under our existing credit facility and the proceeds from the $2.0 billion of Senior Notes issued in December 2009. See note (C) in Note 6 – Adjustments to Unaudited Pro Forma Condensed Combined Statements of Income for the estimated interest expense related to these borrowings.

(J) Represents increases in benefit related accruals primarily related to conforming accounting policies related to incurred but not reported liabilities.

(K) Reflects adjustments for the following:

	(in millions)
Payment upon termination of ACS interest rate swaps - current portion[(1)]	$ (17)
Write-off of the current portion of deferred revenue for which no future service obligation remains[(1)(2)]	(53)
Fair market value adjustments for contractual commitments - current portion[(1)]	23
To eliminate acquisition related transaction costs including advisory and legal fees accrued during 2009 assumed to be paid in conjunction with the closing of the merger[(3)]	(42)
Current portion of accrual for contingent consideration related to previous ACS acquisitions[(1)]	9
Current portion of estimated incremental payments related to the change in control of ACS[(1)]	15
Total	$ (65)

(1) See (M) below for long-term portion.
(2) After the completion of the merger Xerox's revenue will reflect the decreased valuation of ACS's deferred revenue. Although long-term there will be no continuing impact on the combined operating results, the majority of this deferred revenue would have been recognized by ACS in the next two years. To show the anticipated effect on the condensed combined operating results after the completion of the merger, the historical unaudited pro forma condensed statements of income were also adjusted to reflect the decreased value of ACS's deferred revenue.
(3) See (A) above for acquisition related transaction costs. Amount includes $14 million for accrued fees associated with the bridge term facility.

(L) Represents adjustments to net funded status of ACS's benefit plans assumed by Xerox in connection with the acquisition. See (H) above.

(M) Reflects adjustments for the following:

	(in millions)
Payment upon termination of ACS interest rate swaps - long-term portion[1]	$ (9)
Write-off of the long-term portion of deferred revenue for which no future service obligation remains[1]	(80)
Estimated incremental payments related to the change in control of ACS (excludes $11 million paid by ACS in October of 2009)[1]	80
Fair market value adjustments for contractual commitments - long-term portion[1]	6
Long-term portion of accrual for contingent consideration related to previous ACS acquisitions[1]	2
Total	$ (1)

(1) See (K) above for current portion.

(N) Reflects adjustments for the following:

	(in millions)
Estimated fair market value of Series A convertible preferred stock issuance	$ 349
Deferred transaction costs related to the issuance of the preferred stock	(1)
Total	$ 348

(O) Reflects adjustments for the stock portion of the merger consideration, at par, and to eliminate ACS's common stock, at par, as follows:

	(in millions)
Issuance of Xerox common stock based on conversion ratio of 4.935 shares for each ACS Class A and Class B share	$ 490
Eliminate ACS's common stock	(1)
Total	$ 489

(P) Reflects adjustments for the following:

	(in millions)
To record stock portion of the merger consideration at fair value	$ 4,149
Par value of stock portion of the merger consideration recorded within common stock[1]	(490)
To record the fair value of stock options including those that vested as a result of the merger[2]	168
Eliminate ACS's additional paid-in-capital	(1,770)
Capitalized transaction costs related to the issuance of Xerox common stock	(2)
Total	$ 2,055

(1) See (O) above.
(2) See (G) above.

(Q) To eliminate ACS's treasury stock.

(R) Reflects adjustments for the following:

	(in millions)
Eliminate ACS's retained earnings	$ (2,152)
To record estimated non-recurring costs for remaining Xerox acquisition related transactions costs[1]	(42)
Total	$ (2,194)

(1) Amount excludes $14 million of transactions costs and $58 million of fees associated with the bridge term facility that was not utilized as these costs were expensed by Xerox in 2009.

(S) To eliminate ACS's accumulated other comprehensive loss.

Exhibit 99.2

AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share amounts)	December 31, 2009	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 824,577	$ 730,911
Accounts receivable, net	1,424,804	1,415,707
Income taxes receivable	—	19,210
Prepaid expenses and other current assets	242,584	249,257
Total current assets	2,491,965	2,415,085
Property, equipment and software, net	1,018,534	955,158
Goodwill	2,896,583	2,894,189
Other intangibles, net	438,041	436,383
Other assets	194,930	200,158
Total assets	**$ 7,040,053**	**$ 6,900,973**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 273,096	$ 272,889
Accrued compensation and benefits	156,055	251,510
Other accrued liabilities	373,483	388,262
Income taxes payable	3,677	—
Deferred taxes	93,136	90,798
Current portion of Senior Notes, net of unamortized discount	249,993	249,984
Current portion of long-term debt	45,892	45,188
Current portion of unearned revenue	199,413	187,349
Total current liabilities	1,394,745	1,485,980
Senior Notes, net of unamortized discount	249,657	249,625
Other long-term debt	1,786,382	1,791,904
Deferred taxes	504,665	469,606
Other long-term liabilities	269,289	281,726
Total liabilities	**4,204,738**	**4,278,841**
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Class A common stock, $.01 par value, 500,000 shares authorized, 112,636 and 112,044 shares issued, respectively	1,126	1,120
Class B convertible common stock, $.01 par value, 14,000 shares authorized, 6,600 shares issued and outstanding	66	66
Additional paid-in capital	1,770,649	1,729,995
Accumulated other comprehensive loss, net	(32,298)	(45,014)
Retained earnings	2,151,740	1,991,933
Treasury stock at cost, 21,002 shares	(1,055,968)	(1,055,968)
Total stockholders' equity	**2,835,315**	**2,622,132**
Total liabilities and stockholders' equity	**$ 7,040,053**	**$ 6,900,973**

The accompanying notes are an integral part of these consolidated financial statements.

AFFILIATED COMPUTER SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
Revenues	$1,656,311	$1,612,070	$3,333,307	$ 3,216,524
Operating expenses:				
Cost of revenues:				
Wages and benefits	740,834	731,948	1,508,349	1,465,964
Services and supplies	402,431	403,365	830,808	776,870
Rent, lease and maintenance	208,974	196,491	414,065	398,634
Depreciation and amortization	99,372	95,616	196,259	193,222
Other	10,553	9,686	22,109	20,034
Cost of revenues	1,462,164	1,437,106	2,971,590	2,854,724
Other operating expenses	35,449	6,425	72,709	20,513
Total operating expenses	1,497,613	1,443,531	3,044,299	2,875,237
Operating income	158,698	168,539	289,008	341,287
Interest expense	29,429	35,896	58,683	71,104
Other non-operating expense (income), net	654	3,200	(8,442)	6,900
Pretax profit	128,615	129,443	238,767	263,283
Income tax expense	37,602	53,926	78,960	104,131
Net income	$ 91,013	$ 75,517	$ 159,807	$ 159,152
Earnings per share:				
Basic	$ 0.93	$ 0.77	$ 1.64	$ 1.63
Diluted	$ 0.92	$ 0.77	$ 1.62	$ 1.62
Shares used in computing earnings per share:				
Basic	97,830	97,548	97,736	97,428
Diluted	99,051	97,811	98,571	97,951

The accompanying notes are an integral part of these consolidated financial statements.

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

(in thousands)	Six Months Ended December 31, 2009	2008
Cash flows from operating activities:		
Net income	$ 159,807	$ 159,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	196,259	193,222
Stock-based compensation expense	14,249	12,389
Excess tax benefit on stock-based compensation	(254)	(1,447)
Deferred income tax expense	25,835	28,003
(Gain) loss on long-term investments	(11,851)	18,945
Gain on sale of business units	(765)	(1,849)
Provision for uncollectible accounts receivable	2,892	3,485
Other non-cash activities	24,524	18,666
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(12,964)	(103,015)
Prepaid expenses and other current assets	3,148	(9,600)
Other assets	9,666	(4,112)
Accounts payable	121	31,937
Accrued compensation and benefits	(95,418)	(47,676)
Other accrued liabilities	(4,885)	(8,034)
Income taxes receivable/payable	29,757	16,570
Other long-term liabilities	5,962	(15,118)
Unearned revenue	(567)	17,207
Total adjustments	185,709	149,573
Net cash provided by operating activities	345,516	308,725
Cash flows from investing activities:		
Purchases of property, equipment and software, net	(193,341)	(148,596)
Additions to other intangible assets	(49,217)	(17,818)
Payments for acquisitions, net of cash acquired	(7,952)	(18,960)
Proceeds from divestitures, net of transaction costs	803	10,338
Purchases of investments	—	(7,596)
Proceeds from sale of investments	8,036	12,603
Net cash used in investing activities	(241,671)	(170,029)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net	372	30,687
Payments of long-term debt	(37,223)	(72,764)
Excess tax benefit on stock-based compensation	254	1,447
Proceeds from stock options exercised	26,493	7,406
Other, net	(75)	(138)
Net cash used in financing activities	(10,179)	(33,362)
Net increase in cash and cash equivalents	93,666	105,334
Cash and cash equivalents at beginning of period	730,911	461,883
Cash and cash equivalents at end of period	$ 824,577	$ 567,217

The accompanying notes are an integral part of these consolidated financial statements.

1. BASIS OF PRESENTATION

As of December 31, 2009, Affiliated Computer Services, Inc. ("ACS" or the "Company") is a Fortune 500 and S&P 500 company with approximately 78,000 employees providing business process outsourcing and information technology services to commercial and government clients. We were incorporated in Delaware on June 8, 1988, and our corporate headquarters is located in Dallas, Texas. Our clients have time-critical, transaction-intensive business and information processing needs, and we typically service these needs through long-term contracts.

The consolidated financial statements are comprised of our accounts and the accounts of our controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial information presented should be read in conjunction with our consolidated financial statements for the fiscal year ended June 30, 2009. The foregoing unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim period. The results for the interim period are not necessarily indicative of results to be expected for the year.

Significant accounting policies are detailed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

We present cost of revenues in our Consolidated Statements of Income based on the nature of the costs incurred. Substantially all these costs are incurred in the provision of services to our customers. The selling, general and administrative costs included in cost of revenues are not material and are not separately presented in the Consolidated Statements of Income.

Subsequent events have been evaluated through April 30, 2010, the date the financial statements were issued.

2. SALE OF THE COMPANY

In September 2009, we entered into an Agreement and Plan of Merger with Xerox Corporation ("Xerox"). On February 5, 2010, Xerox acquired all of the outstanding equity of ACS in a cash-and-stock transaction valued at approximately $6.5 billion. Each outstanding share of ACS Class A and Class B common stock was converted into a combination of 4.935 shares of Xerox common stock and $18.60 in cash. Xerox also issued convertible preferred stock with a liquidation value of $300 million and a fair value of $349 million as of acquisition date to our Class B shareholders.

3. PENSION AND OTHER POST-EMPLOYMENT PLANS

Net periodic benefit cost

The following table provides the components of net periodic benefit cost (in thousands):

	Three Months Ended December 31,			
	2009		2008	
	Non-U.S.	U.S.	Non-U.S.	U.S.
Defined benefit plans:				
Service cost	$ 1,031	$ 924	$ 1,480	$ 894
Interest cost	1,653	281	1,693	191
Expected return on assets	(1,511)	(315)	(1,497)	(240)
Recognized net actuarial gain	(2)	—	1	—
Amortization of prior service costs	(14)	55	—	55
Net periodic benefit cost for defined benefit plans	$ 1,157	$ 945	$ 1,677	$ 900

	Six Months Ended December 31,			
	2009		2008	
	Non-U.S.	U.S.	Non-U.S.	U.S.
Defined benefit plans:				
Service cost	$ 2,075	$1,848	$ 3,212	$1,788
Interest cost	3,289	562	3,687	382
Expected return on assets	(3,005)	(630)	(3,283)	(480)
Recognized net actuarial gain	(4)	—	2	—
Amortization of prior service costs	(14)	110	—	110
Net periodic benefit cost for defined benefit plans	$ 2,341	$1,890	$ 3,618	$1,800

Contributions

We made contributions to the pension plans of approximately $3.5 million and $7.3 million during the three and six months ended December 31, 2009, respectively. We expect to contribute approximately $14.7 million to our pension plans during fiscal year 2010.

4. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Numerator:				
Net income	$91,013	$75,517	$159,807	$159,152
Denominator:				
Basic weighted average shares	97,830	97,548	97,736	97,428
Effect of dilutive securities:				
Stock options	1,221	263	835	523
Total potential common shares	1,221	263	835	523
Diluted weighted average shares	99,051	97,811	98,571	97,951
Earnings per share				
Basic	$ 0.93	$ 0.77	$ 1.64	$ 1.63
Diluted	$ 0.92	$ 0.77	$ 1.62	$ 1.62

Additional dilution from assumed exercises of stock options is dependent upon several factors, including the market price of our Class A common stock. Weighted average stock options to purchase approximately 3.9 million and 13.0 million shares of common stock during the three months ended December 31, 2009 and 2008, respectively, and 8.3 million and 11.3 million shares of common stock during the six months ended December 31, 2009 and 2008, respectively, were outstanding but were not included in the computation of diluted earnings per share because the average market price of the underlying stock did not exceed the sum of the option exercise price, unrecognized compensation expense and the windfall tax benefit.

The calculation of diluted earnings per share requires us to make certain assumptions related to the use of proceeds that would be received upon the assumed exercise of stock options. These assumed proceeds include the excess tax benefit that we receive upon assumed exercises. We calculate the assumed proceeds from excess tax benefits based on the deferred tax assets actually recorded without consideration of “as if” deferred tax assets.

5. COMPREHENSIVE INCOME

The objective of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income is the total of net income and all other non-owner changes within a company's equity.

The components of comprehensive income are as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Net income	$91,013	$ 75,517	$159,807	$159,152
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,996	(45,559)	5,041	(81,893)
Unrealized gains (losses) on foreign exchange forward agreements (net of income tax of $679, $(799), $217 and $(1,493), respectively)	1,140	(1,158)	245	(2,303)
Amortization of unrealized loss on forward interest rate agreements (net of income tax of $239, $240, $479 and $480, respectively)	396	396	793	792
Unrealized gains (losses) on interest rate swap agreement (net of income tax of $1,660, $(8,793), $2,169 and $(8,633), respectively)	2,747	(14,552)	3,589	(14,288)
Unrealized gains (losses) on interest rate collar agreements (net of income tax of $1,020, $(3,824), $1,799 and $(4,031), respectively)	1,690	(6,328)	2,978	(6,670)
Amortization of prior service costs (net of income tax of $20, $20, $40 and $40, respectively)	35	35	70	70
Comprehensive income	$99,017	$ 8,351	$172,523	$ 54,860

The following table represents the components of accumulated other comprehensive loss, net (in thousands):

	As of December 31, 2009	As of June 30, 2009
Foreign currency losses	$ (16,446)	$(21,487)
Unrealized gains on foreign exchange forward agreements (net of income tax of $1,659 and $1,442)	2,677	2,432
Unrealized loss on forward interest rate agreements (net of income tax of $(2,774) and $(3,253))	(4,651)	(5,444)
Unrealized losses on interest rate swap agreement (net of income tax of $(9,344) and $(11,513))	(15,464)	(19,053)
Unrealized losses on interest rate collar agreements (net of income tax of $(491) and $(2,290))	(811)	(3,789)
Unrecognized prior service costs (net of income tax of $(429) and $(469))	(736)	(806)
Unrealized losses on funded status of pension and other benefit (net of income tax of $1,050 and $1,050)	3,133	3,133
Total	$ (32,298)	$(45,014)

We operate in countries where the functional currency is other than the U.S. dollar, such as the euro, British pound, Indian rupee and other local currencies. When the financial statements of our foreign subsidiaries are consolidated into our U.S. GAAP financial statements, and where such subsidiaries functional currencies are a currency other than the U.S. dollar, we convert such financial statements from the local functional currency of the foreign subsidiary into U.S. dollars. The assets and liabilities are converted using the applicable quarter-end spot exchange rate, while the revenues, expenses and net income of the subsidiaries are converted using an average exchange rate for each month during the period. Because exchange rates fluctuate over time, a debit or credit difference arises between the translated value of each foreign subsidiary's assets and liabilities, using the latest quarter end spot rate, and the translated value of such subsidiary's owners' equity, which is carried at the average historical rate.

All debits and credits accumulated during the fiscal year are netted for presentation purposes and considered to be translation gains and losses. These cumulative translation gains and losses, and the resulting activity within the fiscal year are reported within accumulated other comprehensive loss, net in the stockholders' equity section of our Consolidated Balance Sheets.

6. FINANCIAL INSTRUMENTS

Derivatives and Hedging Activities

We use certain financial derivatives to mitigate our exposure to volatility in interest rates and foreign currency exchange rates. We use these derivative instruments to hedge exposures in the ordinary course of business and do not invest in derivative instruments for speculative purposes. Each derivative is designated as a cash flow hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as cash flow hedges are recorded net of related tax effects in accumulated other comprehensive loss, net and are reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. Any changes in derivative fair values due to ineffectiveness are recognized currently in income. Changes in the fair value of undesignated hedges are recognized currently in the income statement as other non-operating expense (income), net.

Foreign currency forward agreements

We utilize derivative financial instruments to manage our exposure to foreign currencies related to our domestic and international operations. We enter into foreign currency forward agreements in order to hedge the exchange rate risk associated with specific forecasted transactions, including revenue receipts from clients and payments for cost of revenues. Currencies that we hedge consist primarily of the Mexican peso, Indian rupee, Philippine peso, British pound, euro and Swiss franc. We designate only those contracts which closely match the terms of the underlying transaction as cash flow hedges for accounting purposes. The forward contracts are assessed for effectiveness at inception and on an ongoing basis. During the three and six months ended December 31, 2009 and 2008, there was no material deemed ineffectiveness related to cash flow hedges, and no reclassification to earnings due to hedged transactions no longer expected to occur. The majority of our contracts will expire at various times over the next 12 months. Results of hedges of revenue receipts and payments to suppliers are recognized in revenues and cost of revenues, respectively, when the underlying transactions affect net income. As of December 31, 2009 and June 30, 2009, the notional amount of our foreign exchange cash flow hedges was $107.1 million and $79.5 million, respectively.

Derivatives not designated as hedging instruments

We have entered into certain other foreign currency contracts not designated as qualified hedges for accounting purposes, although management believes they are essential economic hedges. As of December 31, 2009 and June 30, 2009, the notional amount of these agreements was $47.5 million and $28.3 million, respectively, with maturities ranging from January 2010 to August 2010.

Interest rate hedges

In January 2008, we entered into a zero cost interest rate collar with an interest rate cap of 3.281% and a floor of 2.425%. The notional amount of the collar is $500 million executed in two transactions each having two year terms, $300 million of which expires on January 30, 2010 and $200 million of which expires on February 11, 2010. In March 2007, we entered into a five-year amortizing interest rate swap agreement structured so that we pay a fixed interest rate of 4.897% and receive a floating interest rate equal to the one-month LIBOR rate. At both December 31, 2009 and June 30, 2009, the notional amount of the interest rate swap was $475 million. The interest rate collar and interest rate swap are designated as cash flow hedges of forecasted interest payments on up to $975 million of outstanding floating rate debt. The transactions had a fair market value of zero at inception.

In order to hedge the variability of future interest payments related to our Senior Notes issuance, we entered into forward interest rate agreements in April 2005. The agreements were designated as cash flow hedges of forecasted interest payments in anticipation of the issuance of the Senior Notes. The notional amount of the agreements totaled $500 million and the agreements were terminated in June 2005 upon issuance of the Senior Notes. The settlement of the forward interest rate agreements of $19.0 million ($12.0 million, net of income tax) was recorded in accumulated other comprehensive loss, net. We amortized approximately $0.6 million and $1.3 million to interest expense during each of the three and six months ended December 31, 2009. We amortized approximately $0.6 million and $1.3 million to interest expense during each of the three and six months ended December 31, 2008.

Please see Note 7 for information regarding the fair value of our financial instruments and Note 5 for additional information on changes in accumulated other comprehensive loss, net for the three and six months ended December 31, 2009 and 2008.

The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets (in thousands):

Item	Balance Sheet Location	As of December 31, 2009	As of June 30, 2009
Asset derivatives			
Derivatives designated as hedging instruments			
Foreign exchange forward agreements	Prepaid expenses and other current assets	$ 4,644	$ 3,860
		4,644	3,860
Derivatives not designated as hedging instruments			
Non-qualified foreign exchange forward agreements	Prepaid expenses and other current assets	300	345
		300	345
Total asset derivatives		$ 4,944	$ 4,205
Liability derivatives			
Derivatives designated as hedging instruments			
Foreign exchange forward agreements	Other accrued liabilities	$ 309	$ —
Interest rate swap and collar	Other accrued liabilities	17,137	24,704
Interest rate swap and collar	Other long-term liabilities	8,973	11,941
		26,419	36,645
Derivatives not designated as hedging instruments			
Non-qualified foreign exchange forward agreements	Other accrued liabilities	356	390
		356	390
Total liability derivatives		$ 26,775	$37,035

The following tables present the amounts affecting the Consolidated Statements of Income (in thousands):

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in Other Comprehensive Income (Loss), Net on Derivatives[(a)] Three Months Ended December 31, 2009	2008	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss, Net into Income[(a)]	Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss, Net into Income[(a)] Three Months Ended December 31, 2009	2008
Cash flow hedges:					
Foreign currency forward contracts	$ (24)	$ 591	Revenues	$ 3	$ 67
Foreign currency forward contracts	3,398	(3,873)	Cost of revenues	1,552	(1,392)
Interest rate swap	(1,245)	(26,564)	Interest expense	(5,652)	(3,219)
Interest rate collar	(49)	(10,244)	Interest expense	(2,759)	(92)
Total designated cash flow hedges	$ 2,080	$ (40,090)		$ (6,856)	$ (4,636)

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in Other Comprehensive Income (Loss), Net on Derivatives[(a)] Six Months Ended December 31, 2009	2008	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss, Net into Income[(a)]	Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss, Net into Income[(a)] Six Months Ended December 31, 2009	2008
Cash flow hedges:					
Foreign currency forward contracts	$ (62)	$ 347	Revenues	$ 125	$ 228
Foreign currency forward contracts	3,112	(4,510)	Cost of revenues	2,464	(595)
Interest rate swap	(5,432)	(29,941)	Interest expense	(11,190)	(7,019)
Interest rate collar	(710)	(10,793)	Interest expense	(5,487)	(92)
Total designated cash flow hedges	$ (3,092)	$ (44,897)		$ (14,088)	$ (7,478)

(a) For the three months and six months ended December 31, 2009 and 2008, we recorded no ineffectiveness from cash flow hedges.

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended December 31,		Six Months Ended December 31,	
		2009	2008	2009	2008
Foreign currency forward contracts	Other non-operating expense (income), net	$742	$1,195	$(622)	$412

At December 31, 2009, Citibank, N.A., Wells Fargo Bank, N.A., and SunTrust Bank were the counterparties with respect to all but an insignificant portion of our derivative liability. Our derivative liability totaled $1.01 billion in notional amounts as of December 31, 2009. The aggregate fair value amount of derivative instruments that contain credit-risk-related contingent features that are in a net liability position at December 31, 2009 is $26.8 million.

Under the terms of our derivative instruments with each of these counterparties, in the event of (i) bankruptcy or insolvency of the Company (or certain of its subsidiaries as set forth in the Credit Facility), (ii) bankruptcy or insolvency of the counterparty under the derivative instrument, or (iii) certain events of default (including failure to pay or deliver, cross defaults and the failure to comply with specified secured interest and lien requirements) or illegality, impossibility or certain tax events, in each case, the derivative instruments may terminate and we may be required to pay termination amounts there under to the extent we owe such amounts to the relevant counterparty. In addition, the terms of certain of these derivative instruments provide for termination of such instruments and the payment of termination amounts (to the extent we owe such a termination amount) if the Company were to be merged with or into, or all or substantially all of its assets were to be acquired by, another entity, and the surviving or transferee entity's creditworthiness is materially weaker than the Company's. We have netting arrangements with each of these counterparties that provide for offsetting payables against receivables from separate derivative instruments with each of the counterparties. Each of these counterparties to our derivative instruments are also lenders under our Credit Facility. Our Credit Facility, senior subordinated notes and substantially all of our derivative instruments contain provisions that provide for cross defaults and acceleration of those debt instruments and possible termination of those derivative instruments in certain situations.

Investments

As of December 31, 2009 and June 30, 2009, as part of our deferred compensation and other employee benefit plans, we held investments in insurance policies with a fair market value of $65.7 million and $57.7 million, respectively, and mutual funds with a fair market value of $27.0 million and $24.9 million, respectively. We recorded gains (losses) on these investments of $2.5 million and $(12.8 million) during the three months ended December 31, 2009 and 2008, respectively, and $10.5 million and $(18.6 million) during the six months ended December 31, 2009 and 2008, respectively. Our deferred compensation plan mutual funds are classified as trading securities. We had unrealized trading losses of $(1.1 million) and $(3.7 million) related to mutual fund investments held on December 31, 2009 and June 30, 2009, respectively.

During the three months ended September 30, 2009, we sold our U.S. Treasury Notes and recorded a gain on the sale of the Treasury Notes of $0.5 million. As of June 30, 2009, we held approximately $7.4 million of U.S. Treasury Notes in conjunction with a contract in our Government segment, which were pledged in accordance with the terms of the contract to secure our performance, and were classified as investments held to maturity.

7. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, we adopted the authoritative guidance for fair value measurements and the fair value option for financial assets and financial liabilities. We did not record an adjustment to retained earnings as a result and the adoption did not have a material effect on the Company's results of operations. The guidance for the fair value option for financial assets and financial liabilities provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

On July 1, 2009, we adopted a newly issued accounting standard for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The accounting standard for those assets and liabilities did not have a material impact on our financial position, results of operations or liquidity. We did not have any significant nonfinancial assets or nonfinancial liabilities that would be recognized or disclosed at fair value on a recurring basis as of December 31, 2009.

The Financial Accounting Standards Board ("FASB") provides a fair value framework that requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

Description	Level 1	Level 2	Level 3	Total
ASSETS				
Other current assets				
Foreign currency derivatives[a]	$ —	$ 4,944	$ —	$ 4,944
Other assets				
Deferred compensation investments in cash surrender life insurance[b]	—	65,742	—	65,742
Deferred compensation investments in mutual funds[c]	—	27,035	—	27,035
Total assets	$ —	$ 97,721	$ —	$ 97,721
LIABILITIES				
Other current liabilities				
Foreign currency derivatives[a]	$ —	$ 665	$ —	$ 665
Interest rate swap and collar[d]	—	17,137	—	17,137
Other long-term liabilities				
Deferred compensation plan liabilities[e]	—	89,265	—	89,265
Interest rate swap[d]	—	8,973	—	8,973
Total liabilities	$ —	$116,040	$ —	$116,040

(a) Foreign currency derivatives consist of foreign currency forward agreements. Fair value is determined using observable market inputs such as the forward pricing curve, currency volatilities, currency correlations and interest rates, and considers nonperformance risk of the Company and that of its counterparties.

(b) Fair value is reflected as the cash surrender value of Company-owned life insurance.

(c) Fair value is based on quoted market prices for actively traded assets similar to those held by the deferred compensation plan.

(d) The fair values of the interest rate swap and collars are determined using prices obtained from pricing agencies and financial institutions that develop values based on inputs observable in active markets, including interest rates, with consideration given to the nonperformance risk of the Company and that of its counterparties.

(e) Fair value of the deferred compensation liability is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

8. SEGMENT INFORMATION

The following is a summary of certain financial information by reportable segment (in thousands):

	Commercial	Government	Corporate	Consolidated
Three Months Ended December 31, 2009				
Revenues	$1,008,908	$ 647,403	$ —	$1,656,311
Operating expenses (excluding depreciation and amortization)	834,764	518,416	45,061	1,398,241
Depreciation and amortization expense	69,408	28,728	1,236	99,372
Operating income (loss)	$ 104,736	$ 100,259	$ (46,297)	$ 158,698
Three Months Ended December 31, 2008				
Revenues	$ 963,354	$ 648,716	$ —	$1,612,070
Operating expenses (excluding depreciation and amortization)	813,541	515,907	18,467	1,347,915
Depreciation and amortization expense	68,607	26,191	818	95,616
Operating income (loss)	$ 81,206	$ 106,618	$ (19,285)	$ 168,539
Six Months Ended December 31, 2009				
Revenues	$2,029,281	$1,304,026	$ —	$3,333,307
Operating expenses (excluding depreciation and amortization)	1,686,404	1,052,125	109,511	2,848,040
Depreciation and amortization expense	137,194	56,658	2,407	196,259
Operating income (loss)	$ 205,683	$ 195,243	$(111,918)	$ 289,008
Six Months Ended December 31, 2008				
Revenues (a)	$1,922,771	$1,293,753	$ —	$3,216,524
Operating expenses (excluding depreciation and amortization)	1,611,766	1,027,102	43,147	2,682,015
Depreciation and amortization expense	139,226	52,543	1,453	193,222
Operating income (loss)	$ 171,779	$ 214,108	$ (44,600)	$ 341,287

(a) Revenues in our Government segment include revenues from operations divested through December 31, 2009 of $0.3 million for the six months ended December 31, 2008.

9. COMMITMENTS AND CONTINGENCIES

Stock Option Grant Practices

On March 3, 2006, we received notice from the SEC that it was conducting an investigation into certain stock option grants made by us from October 1998 through March 2005. On June 7, 2006 and on June 16, 2006, we received requests from the SEC for information on all of our stock option grants since 1994. We have been providing supplemental information to the SEC on a voluntary basis following the initial SEC requests. The SEC issued its formal order of investigation in August 2006. The investigation remains active and the Company has had ongoing discussions with the SEC regarding its resolution.

On May 17, 2006, we received a grand jury subpoena from the United States District Court, Southern District of New York, requesting production of documents related to the granting of our stock option grants. We responded to the grand jury subpoena and produced documents to the United States Attorney's Office in connection with the grand jury proceeding.

In response to the investigation by the SEC and the subpoena from a grand jury in the Southern District of New York, we initiated an internal investigation of our stock option grant practices. The investigation reviewed our historical stock option grant practices during the period from 1994 through 2005, including all 73 stock option grants made by us during this period, and the related disclosure in our Form 10-Q for the three months ended March 31, 2006 (the "May 2006 Form 10-Q"). We informed the SEC and the United States Attorney's Office for the Southern District of New York of the results of our internal investigation. The results of the internal investigation are disclosed in our Annual Report on Form 10-K/A for the fiscal year ended June 30, 2006 (the "2006 Form 10-K/A").

Subsequent to the delivery of the results of the investigation, we, with the approval of our Audit Committee, determined that the cumulative non-cash stock-based compensation expense adjustment and related income tax effects were material. Our decision to restate our financial statements was based on the facts obtained by management and a special committee comprised of all of the then independent members of the Board of Directors, which oversaw the internal investigation. We determined that the cumulative, pre-tax, non-cash stock-based compensation expense resulting from revised measurement dates was approximately $51.2 million during the period from our initial public offering in 1994 through June 30, 2006. The corrections relate to options covering approximately 19.4 million shares. Previously reported total revenues were not impacted by our restatement. The impact of the restatement on each year of our previously issued financial statements is more fully disclosed in our 2006 Form 10-K/A.

Several shareholder derivative lawsuits were filed in connection with the Company's stock option grant practices, generally alleging claims related to breach of fiduciary duty and unjust enrichment against certain of our directors and executives. Each of these lawsuits has been resolved and dismissed, resulting in the receipt of approximately $22.0 million from our Directors' and Officers' Insurance carriers, the receipt of approximately $1.8 million from certain former and current directors and executive officers, and the payment of approximately $22.0 million to the plaintiffs in the derivative actions, all of which occurred in fiscal year 2009. Related litigation brought by and on behalf of participants in the ACS Savings Plan was also resolved and dismissed, resulting in the payment of $1.5 million to the plaintiffs in fiscal year 2008.

In July 2007, we notified former employees with vested, unexercised and outstanding options which had exercise prices per share that were less, or may have been less, than the fair market value per share of ACS on the revised measurement dates for such options, as determined by us for accounting and tax purposes, that we will pay them the additional 20% income tax imposed by Section 409A based on the excess, if any, of the fair market value of our Class A common stock (up to $62 per share or up to $1.9 million in the aggregate) on the date a triggering event occurs or condition exists that under Section 409A results in the excess being recognized and reported as income on the former employee's W-2 and the exercise price of the affected option (reduced by any gain that had become subject to tax in a prior year because of an earlier triggering event). As of December 31, 2009, these income tax reimbursements were estimated to be $1.8 million based on the fair market value of ACS Class A common stock on the exercise date and will be paid from cash flows from operating activities as the triggering event occurs for each option holder.

Investigation Concerning Procurement Process at Hanscom Air Force Base

In October 2002, one of our subsidiaries, ACS Defense, LLC, and several other government contractors received a grand jury document subpoena issued by the U.S. District Court for the District of Massachusetts. The subpoena was issued in connection with an inquiry being conducted by the Antitrust Division of the Department of Justice ("DOJ"). The inquiry concerns certain IDIQ (Indefinite Delivery – Indefinite Quantity) procurements and their related task orders, which occurred in the late 1990s at Hanscom Air Force Base in Massachusetts. In February 2004, we sold the contracts associated with the Hanscom Air Force Base relationship to ManTech International Corporation ("ManTech"); however, we have agreed to indemnify ManTech with respect to this DOJ investigation, which remains ongoing. At this time, the likely outcome of this matter is not determinable with a reasonable degree of assurance.

Litigation arising from alleged patent infringement

On April 4, 2008, JP Morgan Chase & Co. ("JPMorgan") filed a lawsuit against Affiliated Computer Services, Inc. and ACS SLS (collectively, "ACS") in U.S. District Court in Wilmington, Delaware. JPMorgan seeks certain declarations as well as unspecified monetary damages related to alleged violations by ACS of JPMorgan's electronic payment card, lockbox, and check processing and imaging patents. On February 5, 2010, the parties entered into a Confidential Settlement Agreement and Mutual Release, which resolved the litigation. As a result, during the three months ended December 2009, we recorded a charge of $8.0 million ($5.0 million, net of income tax) related to the settlement of this litigation.

Litigation Arising from the Xerox Transaction

In late September and early October 2009, nine purported class action complaints were filed by Affiliated Computer Services, Inc. shareholders challenging ACS's proposed merger with Xerox. Two actions were filed in the Delaware Court of Chancery which subsequently were consolidated into one action. Seven actions were filed in state courts in Texas, which subsequently were consolidated into one action in the Dallas County Court. The operative complaints in the Delaware and Texas actions name as defendants ACS and/or the members of ACS's board of directors (the "Individual Defendants") and Xerox Corporation and/or Boulder Acquisition Corp., a wholly owned subsidiary of Xerox (the "Xerox Defendants"). On October 22, 2009, a class of ACS shareholders was certified in the Delaware action. Pursuant to a stipulation entered into by all parties in the Delaware and Texas actions on November 20, 2009, the Texas plaintiffs agreed to stay prosecution of the Texas action until agreed otherwise by the defendants and ordered by the Texas court, and all plaintiffs agreed that any further prosecution of the Delaware and Texas actions, or any claims that could have been brought in those actions, would proceed in the Delaware action. The Texas court has calendared a trial date of November 29, 2010, for administrative purposes in the event that all issues are not resolved in the Delaware proceedings.

On December 11, 2009, plaintiffs in the Delaware action filed an amended complaint alleging, among other things, that (i) the Individual Defendants breached their fiduciary duties to ACS and its shareholders by authorizing the sale of ACS to Xerox for what plaintiffs deem inadequate consideration and pursuant to inadequate process, and the Xerox Defendants aided and abetted these alleged breaches; (ii) the Individual Defendants breached their fiduciary duties to ACS and its shareholders by agreeing to the provisions of the merger agreement relating to the consideration to be paid to the holders of Class B shares which the Delaware plaintiffs allege violates the ACS certificate of incorporation and is, therefore, void, and the Xerox Defendants aided and abetted these alleged breaches; and (iii) the Individual Defendants breached their fiduciary duties by failing to disclose material facts in the October 23, 2009 Form S-4 filed with the SEC in connection with the merger. The amended complaint seeks, among other things, to enjoin the defendants from consummating the merger on the agreed-upon terms, and unspecified compensatory damages, together with the costs and disbursements of the action.

On December 16, 2009, the Delaware court so ordered a stipulation between Xerox, ACS and certain Individual Defendants and the plaintiffs in the Delaware action providing, among other things, that in exchange for modifying certain provisions of the merger agreement and other consideration, the plaintiffs would not seek to enjoin any shareholder vote on the closing of the merger, nor take any action for the purpose of preventing or delaying the closing of the merger. On January 20, 2010, the Delaware court so ordered a stipulation by all parties in the Delaware action providing, among other things, for a trial to take place May 10-14, 2010 on the claims for damages asserted in the action. On January 29, 2010, defendants moved to dismiss the amended complaint and on February 8, 2010, plaintiffs moved for partial summary judgment. That motion was fully briefed and argued before the Delaware court on April 5, 2010, and the Delaware court reserved judgment on the motion. All defendants have answered the amended complaint, mooting their previously filed motions to dismiss. On April 28, 2010, plaintiffs filed a motion seeking leave to amend and to supplement the amended complaint.

The merger between ACS and Xerox closed on February 5, 2010. We deny any wrongdoing and are vigorously defending the actions.

Other

Certain contracts, primarily in our Government segment, require us to provide a surety bond or a letter of credit as a guarantee of performance. As of December 31, 2009, $649.2 million of our outstanding surety bonds and $52.6 million of our outstanding letters of credit secure our performance of contractual obligations with our clients. Approximately $19.9 million of our letters of credit secure our casualty insurance and vendor programs and other corporate obligations. In general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote. We believe that we have sufficient capacity in the surety markets and liquidity from our cash flow and our Credit Facility to respond to future requests for proposals.

Our Commercial Education business performs third party student loan servicing in the Federal Family Education Loan program ("FFEL") on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At December 31, 2009, we serviced a FFEL portfolio of approximately 5.7 million loans with an outstanding principal balance of approximately $61.6 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of December 31, 2009, other accrued liabilities include reserves which we believe to be adequate.

We are obligated to make certain contingent payments to former shareholders of acquired entities upon satisfaction of certain contractual criteria in conjunction with certain acquisitions. During the six months ended December 31, 2009 and 2008, we made contingent consideration payments of $1.8 million and $2.9 million, respectively, related to acquisitions completed in prior years. As of December 31, 2009, the maximum aggregate amount of the outstanding contingent obligations to former shareholders of acquired entities is approximately $45.7 million. Any such payments primarily result in a corresponding increase in goodwill.

In addition to the foregoing, we are subject to certain other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although we cannot predict the outcomes of these other proceedings, we do not believe these other actions, in the aggregate, will have a material adverse effect on our financial position, results of operations or liquidity.

10. NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB revised principles and requirements for how an acquirer accounts for business combinations. The revisions include guidance for recognizing and measuring the assets acquired, liabilities assumed, and any noncontrolling or minority interests in an acquisition. The revised guidance is applied prospectively and became effective for the Company for business combinations occurring on or after July 1, 2009. In association with these changes, we recorded a write-down of costs incurred for proposed acquisitions of approximately $3.8 million ($2.4 million, net of income tax) on July 1, 2009 included in other operating expenses in our Consolidated Statement of Income for the three months ended September 30, 2009.

In December 2007, the FASB also issued guidance that establishes accounting and reporting standards that require noncontrolling interests to be reported as a separate component of equity, and net income attributable to the parent and to the noncontrolling interest to be separately identified in the income statement. This guidance also requires changes in a parent's ownership interest while the parent retains its controlling interest to be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. There was no impact on the financial position or results of operations as a result of the adoption of this change on July 1, 2009.

Effective for the Company on July 1, 2009, the *FASB Accounting Standard Codification*™ (the "FASB Codification") is the source of authoritative accounting principles recognized by the FASB. The FASB Codification identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities presented in conformity with generally accepted accounting principles in the United States of America. The application of the FASB Codification did not have an impact on our financial condition or results of operations.

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. Specifically, we currently allocate the total arrangement consideration based upon the elements' relative fair value. The revised guidance established a selling price hierarchy for determining the selling price of the contract elements, which is based on: (a) vendor-specific objective evidence; (b) third party evidence; or (c) estimates. This guidance also expands the required disclosures. We have not yet determined the impact, if any, that this new guidance could have on our results of operations or financial statement disclosures.