

Edgar Filing: AFFILIATED COMPUTER SERVICES INC - Form 425

AFFILIATED COMPUTER SERVICES INC

Form 425

September 29, 2009

Filed by Xerox Corporation

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12 under the

Securities Exchange Act of 1934

Subject Company: Affiliated Computer Services, Inc.

Commission File No.: 1-12665

The proposed merger transaction involving Xerox and ACS will be submitted to the respective stockholders of Xerox and ACS for their consideration. In connection with the proposed merger, Xerox will file with the SEC a registration statement on Form S-4 that will include a joint proxy statement of Xerox and ACS that also constitutes a prospectus of Xerox. Xerox will mail the joint proxy statement/prospectus to its stockholders. **Xerox and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information.** You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from Xerox's website, [www.xerox.com](http://www.xerox.com), under the heading "Investor Relations" and then under the heading "SEC Filings". You may also obtain these documents, without charge, from ACS's website, [www.acs-inc.com](http://www.acs-inc.com), under the tab "Investor Relations" and then under the heading "SEC Filings".

Xerox, ACS and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the respective stockholders of Xerox and ACS in favor of the merger. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective stockholders of Xerox and ACS in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Xerox's executive officers and directors in its definitive proxy statement filed with the SEC on April 6, 2009. You can find information about ACS's executive officers and directors in its definitive proxy statement filed with the SEC on April 14, 2009. You can obtain free copies of these documents from Xerox and ACS websites using the contact information above.

This release contains "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 the future business operations of ACS will not be successful; the risk that we will not realize all of the anticipated benefits from our acquisition of ACS; the risk that customer retention and revenue expansion goals for the ACS transaction will not be met and that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; 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; 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 Quarterly Report on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009 and our 2008 Annual Report on Form 10-K and ACS' 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Xerox 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.

Investor Relations  
Xerox Acquisition of  
Affiliated Computer Services

2

#### Forward-Looking Statements

This presentation contains 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 forward-looking statements, 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 the future business operations of ACS will not be successful; the risk that we will not realize all of the anticipated benefits from our acquisition of ACS; the risk that customer retention and revenue expansion goals for the ACS transaction will not be met and that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; 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; 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 Xerox's Quarterly Report on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, Xerox's 2008 Annual Report on Form 10-K and ACS's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Neither Xerox nor ACS assume any obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

3

Executive summary

Combination overview

Financial impact

Agenda

4

Executive summary

Combination overview

Financial impact

Agenda

5

Xerox to Acquire ACS

Compelling financial combination  
with strong strategic opportunities  
for growth by leveraging:

Xerox's industry-leading  
document management, brand  
strength, global account  
management and R&D  
investments.

ACS' s industry-leading BPO capabilities, process automation competencies and services talent management.

Significant expense and revenue synergies

Creates a new class of solutions provider with leading technology and expertise in document and business process management.

6

Transaction Overview  
Key Transaction Terms

Xerox acquires 100% of ACS Class A and Class B common stock

Consideration of approximately 70% stock and 30% cash

ACS shareholders will receive 4.935 Xerox shares and \$18.60 in cash for each Class A and Class B share

Transaction includes refinancing of \$2B of ACS debt

Issuing \$300M of convertible preferred stock to ACS Class B shareholder

Approvals and Timing

Regulatory and shareholder approval

Closing expected in 1Q 10



Xerox + ACS: A New Class of Solutions Provider

The lines between business process  
and document management are  
blurring

Customers need service providers  
with global capabilities offering a full  
range of solutions

Enterprises will continue to reduce  
costs through outsourcing

World leader in document and

business process management

Global delivery network

Best-in-class document  
technologies and services

Leadership centered around the  
information needs of the business  
process

Compelling customer value through  
innovative, differentiated offerings  
Evolving market demand  
requires a new solutions provider

7

8

The combination of Xerox and ACS yields a strong financial model

Note:

Combined

Company

on

a

pro

forma

basis,

LTM

Last Twelve Months

1

See slide 29 for explanation of non-GAAP measures

World leader in document and business process

management

Total Revenue

Annuity Revenue

Services Revenue

Operating Margin

Adjusted

EPS

CAGR

Free

Cash

Flow

\$22B LTM

~80% total revenue

Accelerated expansion

\$10B LTM

Double digit growth

\$2B LTM, 8+% of revenue

1

1

9  
Experienced and Deep Management Team

Ursula Burns  
Chief Executive Officer

Lawrence Zimmerman  
Vice Chairman and Chief Financial Officer

James Firestone  
Corp. Executive Vice President and President,  
Corporate Operations

Willem Appelo  
Corp. Senior Vice President and President, Xerox

Global Business and Services Group

Stephen Cronin  
Corp. Senior Vice President and President, Xerox  
Global Services

Don Liu  
Corp. Senior Vice President and General Counsel

Lynn Blodgett  
President and Chief Executive Officer

Kevin Kyser  
Executive Vice President and Chief Financial  
Officer

Tom Burlin  
Executive Vice President and Chief Operating  
Officer

Tom Blodgett  
Executive Vice President and Chief Operating  
Officer

John Rexford  
Executive Vice President, Corporate Development

Lora Villarreal  
Executive Vice President and Chief People Officer

Tas  
Panos  
Executive Vice President and General Counsel  
Xerox  
ACS

10

A Powerful Shareholder Value Proposition

Transformational transaction that creates a new class of solutions provider

Leverages the strengths of two best-in-class companies to create a global, diversified leader in providing document management and services

Enhances Xerox's strategic posture and positions the company for long-term growth, accelerated margin expansion and earnings appreciation

Strong combined management team with commitment to equity appreciation to drive shareholder value

11

Executive summary

Combination overview

Financial impact

Agenda



12

Xerox Today

Generating strong and consistent cash flow  
through a challenging environment

Investing in growth and winning in the  
marketplace

Maintaining operating margins in tough  
environment through disciplined cost  
management

Delivering and maintaining strong balance  
sheet

Delivering on commitments

1

See slide 29 for explanation of non-GAAP measures

1

\$15.7

\$15.9

\$17.2

\$17.6

\$16.0

9.6%

10.0%

8.4%

7.4%

9.0%

2005

2006

2007

2008

LTM

Revenue

Operating margin

\$1.2

\$1.3

\$1.5

\$1.2

\$1.3

8.3%

8.8%

6.9%

8.7%

7.5%

2005

2006

2007

2008

2009E

FCF

% revenue

Free cash flow

1

generation (\$B)

Revenue

and

operating

margin

1

(\$B)

13

ACS Today

ACS is the largest worldwide diversified business  
process outsourcing company

Diversified portfolio of BPO services

Vertical focus on education, transportation,  
communication, healthcare, federal/ state/ local  
government, financial services, manufacturing,  
consumer goods and retail

Strong revenue growth and margin performance  
through the recession

Record business signings, revenue and earnings  
in fiscal 2009  
Recurring revenue under long-term contracts  
Highly-regarded management team  
Leverageable  
technology platforms  
Consistent cash flow generation  
Culture of flexibility, responsiveness, reliability and  
integrity  
Free cash flow

1  
generation (\$M)

Revenue  
and  
operating  
margin

1  
(\$B)  
1

See slide 29 for explanation of non-GAAP measures

Note:

ACS

has

a

June

30

fiscal

year

end

\$5.4

\$5.8

\$6.2

\$6.5

10.6%

10.5%

10.5%

10.9%

2006

2007

2008

2009

Revenue

Operating margin

\$518

\$514

\$378

\$208

8.4%

7.9%

3.9%

6.6%  
2006  
2007  
2008  
2009  
FCF  
% revenue  
th

14  
ACS Commercial Services  
FY2009 Revenue  
Revenue  
Business  
Process  
Solutions  
\$1.2B  
32%  
Enterprise  
Solutions &  
Services  
\$1.3B  
33%  
IT

Solutions

\$1.4B

35%

Operating margins

Enterprise

Solutions &

Services

IT Solutions

Business

Process

Solutions

Q4FY09 Total Revenue Growth<sup>1</sup>: 5%

Q4FY09 Internal Revenue Growth: 2%

\$ millions

1

Excluding divestitures: see slide 29 for explanation of non-GAAP measures

Complete service suites for customers

Focus on human capital management solutions, finance and accounting and education markets

Comprehensive IT outsourcing services

Focus on data centers, managed services, network services outsourcing

Remote infrastructure management

ACS leverages technology platforms and process management expertise to enable businesses to increase productivity

\$970

\$974

\$1,013

Q4FY08

Q3FY09

Q4FY09

9.8%

11.1%

11.0%

Q4FY08

Q3FY09

Q4FY09

15  
ACS Government Solutions  
FY2009 Revenue  
Revenue  
Government  
Solutions  
\$1.8B  
70%  
Transportation  
Solutions  
\$0.8B  
30%  
Operating margins  
Government  
Solutions



Transportation  
Solutions

Q4FY09 Total Revenue Growth<sup>1</sup>: 7%

Q4FY09 Internal Revenue Growth: 5%

\$ millions

1

Excluding divestitures: see slide 29 for explanation of non-GAAP measures

\$644

\$637

\$683

Q4FY08

Q3FY09

Q4FY09

17.7%

15.3%

14.8%

Q4FY08

Q3FY09

Q4FY09

ACS provides a wide range of BPO  
services to local, state and federal  
agencies

Services include: Child support solutions,  
Medicaid fiscal agent services, electronic  
benefits transfer, student loan processing  
and many others

Electronic Toll Collection (ETC)

Commercial Vehicle Operations

Motor Vehicle Services

Photo Enforcement, Violations Processing

Public Transport

16

Significantly Expanded Market Opportunity

Source: IDC, Gartner and Xerox Internal Analysis

Current

Xerox Market

BPO

Market

ITO

Market

Combined

Addressable Market

\$250B

~6% CAGR

\$150B

~5 to 10% CAGR

\$132B

~4% CAGR

\$500B+

>6% CAGR

Office:

distribution

expansion, color transition,

services growth

Production:

Infrastructure optimization

Global scale and

efficiencies

Market

leader:

Xerox

Leverage

technology

services

and

process

expertise

across

vertical

markets

Consolidating a

fragmented industry

Expand service offerings

with proven innovative

solutions

Market leader: ACS

Leverage IT

infrastructure to deliver:

Differentiated BPO

solutions

Document

Management

Services

Share leader across

core markets

Addressable market

expanded by over 4x

Enhanced growth profile

Ability to leverage core

strengths of each

company into new

opportunities

digital

17

A Powerful Combination

Combined

Market

Opportunity

Winning in a \$132B Document

Technology Market

Leading BPO and IT Services  
company winning in a large and  
growing BPO / ITO market

Poised to capture incremental share of a \$500B+ market with leadership in key segments and best-in-class capabilities

Go To  
Market

Leveraging a large and global direct sales force of over 7,500 and world-class Brand

Leveraging deep vertical and horizontal expertise with expanding global delivery platform

Global player with scale, brand, sales coverage and global delivery platform  
Technology

Heritage of innovation and commitment to investment  
R&D resources of \$1.5B annually

Proven ability to leverage technology to enhance BPO capabilities

Leverage Xerox technology to deliver enhanced BPO services providing more value and advantage to customers  
Business  
Model

Recurring revenue based on long-term contracts and high customer retention

Strong organic growth and recurring revenue based on long-term contracts and high customer retention

Complementary business modes with stable recurring revenue and strong annuity driven cash flow  
Customers

Loyal and global customer base with over 47% of revenue generated outside the U.S.

Loyal and entrenched customer base, primarily in the U.S.

Huge, entrenched customer base with very little overlap

18  
Complementary Businesses  
U.S.  
\$14.6B  
65%  
Europe  
\$5.6B  
25%  
Combined  
Geographic  
Segments  
Products/  
Services



Segments

BPO

\$5.1B

79%

ITO

\$1.4B

21%

U.S.

\$6.0B

92%

Other

\$0.5B

8%

BPO

\$6B

27%

Post Sale excl

Services

\$8.8B

39%

Equipment

Sales

\$4.0B

18%

Post Sale

\$12.0B

75%

Equipment

Sales

\$4.0B

25%

U.S.

\$8.6B

53%

Other

\$2.1B

14%

Europe

\$5.3B

33%

Scale

\$22B revenue

Nearly 50% services

International expansion  
opportunities

Cross-selling opportunities

~20% customer overlap

Other

\$2.3B

10%

ITO  
\$1.4B, 6%  
MPS  
\$2.3B  
10%  
(LTM Revenue, in Billions)  
Note:  
MPS  
is  
Managed  
Print  
Services

19

Material Synergies

Expense Synergies

Overlapping public company costs

Cross-deploy Xerox technology and

ACS

process expertise to increase

automation and efficiency

Revenue Synergies

Penetrate Xerox global accounts with

ACS

BPO solutions

Penetrate ACS ITO accounts with  
Managed Print Services offering

Use Xerox technology to create new  
automated and differentiated BPO  
services

Year 1 pre-tax cost synergies > \$95M

\$300M to \$400M in annualized pre-tax  
cost synergies in three years

Synergy assumption includes  
cumulative \$50M to \$75M of  
restructuring costs over three years

Additional cash benefits

\$250M+ over 3 years

Upside revenue synergy potential  
significantly higher than cost  
synergies

Tangible and Achievable Synergies

20

Implementation Plan and Priorities

Phase 0

4Q 2009

Phase 1

1H 2010

Phase 2

2H 2010

and Beyond

Cost Savings

Go To Market

Technology Innovation

Detailed, phased plans in place for each synergy area

Operational Objectives

Guiding Principles

Organizationally manage ACS  
as an end-to-end business

Minimize organizational  
disruption

Support office established to  
drive synergy opportunities

Xerox BPO integrated into ACS

Xerox Account General  
Management leveraged to drive  
sales

21

Powerful Expense Synergies

Opportunity

Enable better Xerox

cost efficiency

Enable better ACS

cost efficiency

Create a more efficient

corporate structure

Deploy Xerox IP and

technology to gain

efficiencies in ACS BPO

Equipment

Workflow tools

Document  
management

Integrate ACS' s  
corporate structure into  
Xerox

Eliminate overlap

Create process and  
infrastructure  
efficiencies

Leverage Xerox' s  
procurement practices  
at

ACS

Powerful incremental cost opportunities  
Combination benefits

Apply ACS  
methodologies to Xerox

ACS expertise and a  
heritage of  
successful  
implementation

Leverage ACS global  
delivery platform,  
including offshore  
capabilities and BPO  
centers



22

Powerful Revenue Opportunities  
Opportunity  
Solutions  
examples

Leverage Xerox's global client  
base and account management  
infrastructure to drive sales of  
ACS solutions

Targeting opportunities across  
verticals and geographies  
Introduce expanded  
offerings to Xerox's accounts

Introduce expanded offerings  
to ACS ITO & BPO accounts  
Create new ACS capabilities  
with Xerox IP and  
technology

Leverage ACS's existing ITO  
customers to pull Xerox services  
and solutions

Extends ACS ITO from computing  
infrastructure to print  
infrastructure

Apply Xerox's IP and technology  
to enhance ACS BPO for  
improved value propositions

Potential new joint offerings

ACS Healthcare Payer & Provider  
Solutions

Finance & Accounting Solutions

Customer Care Solutions

Human Resources Outsourcing

Mortgage and Financial Services

Government Solutions

Managed Print Services  
(successful strategy with current  
Xerox ITO partners)

Expand ACS infrastructure  
outsourcing from computing to  
print infrastructure

Document Production and  
Publishing solutions

Xerox Litigation Services  
Powerful incremental revenue opportunities  
Transformational  
opportunities

Automated Traffic Management

Xerox image processing  
ACS traffic management

Immigration Processing  
Xerox Smarter Documents  
ACS U.S. entry processing

Advanced Healthcare Processing  
Xerox Smarter Documents  
ACS healthcare claim processing

23

Executive summary

Combination overview

Financial impact

Agenda

24

Technology leadership

Ability to drive cost  
efficiencies to balance gross  
profit / expense

Accretive acquisitions

+ 70% recurring revenue

Driven by:

Equipment installs

MIF, pages and color

Services

Consistent cash flow from operations

Driven by recurring revenue

Modest capital investment

Focus on returning capital to shareholders

Xerox's key pillars will be enhanced by the core elements of ACS's business model

+ 85% recurring revenue

Strong organic growth profile

Driven by:

BPO leadership

Long-term contracts

Diversity of businesses, clients, and markets served

Highly cash flow generative

Annuity model results in stable cash flow profile

Accretive to Xerox standalone cash flow

Global delivery capabilities with strong offshore presence

Expertise in applying proprietary technologies to business processes

Process expertise to drive efficiencies

Acquisition core competency

Annuity Model  
Expanded Earnings  
Cash Generation

25

Enhanced Pro Forma Operating Metrics

\$22B+ revenue with strong growth prospects

Nearly 50% of revenues from services

Improved operating margin leverage -  
accelerates return to 10%+

Strong operating and free cash flow

Revenue

Operating Margin

Free Cash Flow

(LTM Revenue, in Millions)

\$16,025

\$22,548

Xerox

Pro Forma

7.4%

8.3%

Xerox

1

Pro Forma

\$1,439



\$1,953

Xerox

1

Pro Forma

1

Note: Pro forma figures represent the sum of Xerox and ACS's results and do not make any other adjustments for synergies or

1

See slide 29 for explanation of non-GAAP measures

26

Strong Balance Sheet and Liquidity Profile  
Liquidity

Maintains significant liquidity with  
cash on hand and revolver capacity

\$2.6B of revolver capacity plus  
cash on hand

Significant debt reduction with  
strong free cash flow

Commitment to investment grade

Debt

\$3.0

\$2.6

\$ billions

Note: Pro forma reflects the estimated effects of the acquisition on cash and debt as of 6/30/09

\$ billions

\$1.2

\$1.2

\$1.4

\$1.8

Standalone

Pro Forma

Cash

Undrawn revolving credit facility

\$8.0

\$11.6

\$1.4

\$5.0

Standalone

Pro Forma

Debt

Core debt

27

A Compelling Financial Profile

Enhanced profitability and growth profile

Recurring, annuity business model

Accelerated margin expansion

Strong and consistent revenue and cash flow

Attractive

Financial

Model

Opportunity  
for Value  
Creation  
Strong  
Balance  
Sheet

Significant synergy potential arising from new revenue opportunities and operating efficiencies

Enhancing revenue growth, operating margins, free cash flow and adjusted earnings in Year 1

Committed to maintaining investment grade rating

Significant liquidity profile pro forma

Approximately \$1.0 billion to be financed through combined company cash and existing revolving credit agreement

Approximately \$3.0 billion to be financed in capital markets

28  
Non-GAAP Measures

29

### Non-GAAP Financial Measures

To better understand the trends in our business and the impact of this transaction post-acquisition, we believe it will be necessary to adjust diluted earnings per share to exclude the effects of the following items: (1) the amortization of purchased intangible assets; (2) asset impairment charges; and (3) acquisition related costs. Management believes that excluding the effects of these items will allow investors to better understand and analyze the impact of this transaction as well as results for a particular period as compared to prior periods. Management expects to use this non-GAAP financial measure in its own evaluation of Xerox's performance, particularly when comparing performance across periods.

To better understand the trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software and certain additions to intangible assets. Management believes this measure provides investors an additional perspective on cash flows from operations in excess of amounts required for operations. Free Cash Flow provides a measure of our ability to fund acquisitions, repay debt, pay dividends and repurchase shares. Additionally, it is helpful to adjust Free Cash Flow to exclude the net payments made for the securities-related litigation matter. Management believes that excluding the effects of these payments helps investors better understand and analyze the current periods' results given the nature of the payments and their relation to prior period events. A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on slides 30, 31 and 32.

To better understand the trends in Xerox's business, we believe that it is helpful to adjust Operating Margins to exclude restructuring and asset impairment charges, other expenses and a 2008 equipment write off. For ACS, we excluded the effects of the charges recognized on the sale of a business and the 2007 software impairment charge. Management believes that excluding the effects of these items allows investors better understand and analyze the results and provides a better measure of comparability given the discrete nature of these items in respective periods. A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on slides 33 and 34.

To better understand the trends in the ACS business, we believe that it is helpful to adjust revenues to exclude amounts related to businesses that were subsequently divested. Management believes that these divested businesses are not comparable to ongoing operations and excluding these revenues will enable investors to better analyze results for a particular period and the period of continuing operations. A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on slide 35.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results corresponding to prior periods' results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, Xerox's reported results prepared in accordance with GAAP.

Adjusted EPS":

Free Cash Flow

Adjusted Free Cash Flow":

Adjusted Operating Margin :

Adjusted Revenue Growth :

30  
Pro Forma Adjusted Free Cash Flow Reconciliation  
Free Cash Flow and Adjusted Free Cash Flow  
Xerox  
ACS  
Pro-Forma  
Combined  
(in millions)  
Operating Cash Flow  
1,076  
\$  
877  
\$  
1,953  
\$  
Capital expenditures  
(155)



(320)  
(475)  
Internal use software  
(125)  
-  
(125)  
Additions to other intangible assets  
-  
(43)  
(43)  
Free Cash Flow  
796  
\$  
514  
\$  
1,310  
\$  
Payments for securities litigation, net  
643  
-  
643  
Adjusted Free Cash Flow  
1,439  
\$  
514  
\$  
1,953  
\$  
Year Ended June 30, 2009

31  
Xerox Adjusted Free Cash Flow Reconciliation  
Xerox Adjusted Free Cash Flow  
2005  
2006  
2007  
2008  
(in millions)  
Operating Cash Flow -  
As Reported  
1,420  
\$  
1,617  
\$  
1,871  
\$  
939

\$  
 Payments for securities litigation, net  
 -  
 -  
 -  
 615  
 Operating Cash Flow -  
 As Adjusted  
 1,420  
 1,617  
 1,871  
 1,554  
 Capital expenditures  
 (181)  
 (215)  
 (236)  
 (206)  
 Internal use software  
 (56)  
 (79)  
 (123)  
 (129)  
 Adjusted Free Cash Flow  
 1,183  
 \$  
 1,323  
 \$  
 1,512  
 \$  
 1,219  
 \$  
 Total Revenues  
 15,701  
 \$  
 15,895  
 \$  
 17,228  
 \$  
 17,608  
 \$  
 Operating Cash Flow % of Revenue  
 9.0%  
 10.2%  
 10.9%  
 5.3%  
 Adjusted Free Cash Flow % of Revenue  
 7.5%  
 8.3%  
 8.8%  
 6.9%

Year Ended December 31,

32  
ACS Adjusted Free Cash Flow Reconciliation  
ACS Free Cash Flow  
2006  
2007  
2008  
2009  
(in millions)  
Operating Cash Flow  
639  
\$  
738  
\$  
827  
\$  
877  
\$

Capital expenditures

(395)

(317)

(268)

(320)

Additions to other intangible assets

(36)

(43)

(41)

(43)

Free Cash Flow

208

\$

378

\$

518

\$

514

\$

Total Revenues

5,354

\$

5,772

\$

6,161

\$

6,523

\$

Operating Cash Flow % of Revenue

11.9%

12.8%

13.4%

13.4%

Free Cash Flow % of Revenue

3.9%

6.6%

8.4%

7.9%

Year Ended June 30,

33  
Xerox Adjusted Operating Margin Reconciliation  
Year Ended  
Xerox Adjusted Operating Margin  
2005  
2006  
2007  
2008  
June 30, 2009  
(in millions)  
Income before Income Taxes and  
Equity Income (Pre-Tax Income)  
830  
\$  
808  
\$  
1,438  
\$

(114)  
 \$  
 416  
 \$  
 Restructuring and asset impairment charges  
 366  
 385  
 (6)  
 429  
 360  
 Other expenses, net  
 224  
 336  
 295  
 1,122  
 371  
 Equipment write-off  
 -  
 -  
 -  
 39  
 39  
 Pre-Tax Income -  
 As Adjusted  
 1,420  
 \$  
 1,529  
 \$  
 1,727  
 \$  
 1,476  
 \$  
 1,186  
 \$  
 Total Revenues  
 15,701  
 \$  
 15,895  
 \$  
 17,228  
 \$  
 17,608  
 \$  
 16,025  
 \$  
 Pre-Tax Income Margin -  
 As Reported  
 5.3%  
 5.1%  
 8.3%



(0.6%)

2.6%

Pre-Tax Income Margin -  
As Adjusted

9.0%

9.6%

10.0%

8.4%

7.4%

Year Ended December 31,

34

ACS Adjusted Operating Margin Reconciliation

ACS Adjusted Operating Margin

2006

2007

(in millions)

Operating Income -

As Reported

617

\$

537

\$

Gain on sale of business

(33)

-

Software impairment charge

-

76  
Operating Income -  
As Adjusted  
584  
\$  
613  
\$  
Total Revenues  
5,354  
\$  
5,772  
\$  
Operating Margin -  
As Reported  
11.5%  
9.3%  
Operating Margin -  
As Adjusted  
10.9%  
10.6%  
Year Ended June 30,

35

ACS Adjusted Revenue Growth

ACS Internal and Adjusted Revenue Growth by Segment Reconciliation

Internal and Adjusted Revenue Growth

June 30, 2008

June 30, 2009

% Growth

(in millions)

Total Commercial Revenue -

As Reported

970

\$

1,013

\$

4%

Divested revenues

(5)

-

Total Commercial Revenue -

As Adjusted

965  
1,013  
5%  
Acquired revenues  
(3)  
(34)  
Internal Commercial Services Revenue  
962  
\$  
979  
\$  
2%  
Total  
Government  
Revenue  
-  
As  
Reported  
644  
\$  
683  
\$  
6%  
Divested revenues  
(4)  
-  
Total  
Government  
Revenues  
-  
As  
Adjusted  
640  
683  
7%  
Acquired revenues  
(4)  
(13)  
Internal Government Solutions Revenue  
636  
\$  
670  
\$  
5%  
Three Months Ended

36

Rule 425 Statement

The proposed merger transaction involving Xerox and ACS will be submitted to the respective stockholders of Xerox and ACS for their consideration. In connection with the proposed merger, Xerox will file with the SEC a registration statement on Form S-4 that will include a joint proxy statement of Xerox and ACS that also constitutes a prospectus of Xerox. Xerox will mail the joint proxy statement/prospectus to its stockholders. Xerox and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information. You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from Xerox's website, [www.xerox.com](http://www.xerox.com), under the heading "Investor Relations" and then under the heading "SEC Filings". You may also obtain these documents, without charge, from ACS's website, [www.acs-inc.com](http://www.acs-inc.com), under the tab "Investor Relations" and then under the heading "SEC Filings".

Xerox, ACS and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the respective stockholders of Xerox and ACS in favor of the merger. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective stockholders of Xerox and ACS in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about the Xerox's executive officers and directors in its definitive proxy statement filed with the SEC on April 6, 2009. You can find information about ACS's executive officers and directors in its definitive proxy statement filed with the SEC on April 14, 2009. You can obtain free copies of these documents from Xerox and ACS websites using the contact information above.

