

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 72938 / August 28, 2014**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3578 / August 28, 2014**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-16045**

**In the Matter of**

**Lynn R. Blodgett and  
Kevin R. Kyser, CPA**

**Respondents.**

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, MAKING  
FINDINGS, AND IMPOSING A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Lynn R. Blodgett (“Blodgett”), and Kevin R. Kyser (“Kyser”).

**II.**

In anticipation of the institution of these proceedings, Blodgett and Kyser have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondents' Offer, the Commission finds<sup>1</sup> that:

#### Summary

1. At or near the end of each quarter ended September 30, 2008 through the quarter ended June 30, 2009, Affiliated Computer Services, Inc. ("ACS") arranged for an equipment manufacturer to re-direct certain of its pre-existing orders through ACS, which gave the appearance that ACS was involved. ACS, however, had no substantive involvement in the orders, and there were no changes to the terms of the pre-existing orders. Because of the nature of these arrangements, ACS should not have reported revenue from these arrangements and therefore misreported revenues in its financial reports filed on Form 10-K and Forms 10-Q for these periods. As a result, ACS falsely reported its internal revenue growth, which Blodgett and Kyser highlighted in earnings releases and analyst conference calls during the period.<sup>2</sup> In addition, ACS's periodic filings with the Commission inadequately or incompletely described these so-called "resale transactions." ACS improperly reported approximately \$125 million in revenue due to such arrangements.

2. During all relevant periods, Respondents Blodgett and Kyser were, respectively, ACS's chief executive officer and chief financial officer. As such, they were responsible for the content of ACS's filings with the Commission, as well as ACS's earnings releases and analyst conference calls. Blodgett and Kyser received bonuses that were higher than they would have been had ACS correctly applied generally accepted accounting principles (GAAP) with respect to determining the amount of revenue to report from the "resale transactions."<sup>3</sup>

3. Based on the conduct described below, Respondents were a cause of ACS's violations of the reporting, record-keeping, and internal controls provisions of the Exchange Act. In addition, Blodgett and Kyser violated the Exchange Act's certification requirements relating to ACS's Forms 10-Q for each fiscal quarter from September 30, 2008 through March 31, 2009 and ACS's Form 10-K for the fiscal year ended June 30, 2009.

#### Respondents

4. Lynn R. Blodgett, age 59, served as the President and Chief Executive Officer of ACS from November 2006 and as a director from September 2005 until Xerox Corporation acquired ACS in February 2010. Following Xerox Corporation's acquisition of ACS, Blodgett

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<sup>1</sup> The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> Internal revenue growth was a non-GAAP measure that ACS disclosed "to provide both management and investors a more complete understanding of the Company's underlying operational trends and results."

<sup>3</sup> Financial statements filed with the Commission that are not prepared in accordance with GAAP are presumed to be misleading or inaccurate. Regulation S-X 210.4-01 [17 C.F.R. § 210.4-01].

became an executive vice president of Xerox Corporation and has served as the President of Xerox Services since January 2012.

5. Kevin R. Kyser, age 44, served as an executive vice president and the Chief Financial Officer of ACS from September 2007 until Xerox Corporation acquired ACS in February 2010. Following Xerox Corporation's acquisition of ACS, Kyser continued as ACS's Chief Financial Officer until named the Chief Operating Officer of Xerox's Information Technology Outsourcing Group in January 2012, a position he held until he resigned in May 2013. Kyser's license as a certified public accountant in the state of Texas expired in April 2008.

### **Relevant Entity**

6. Affiliated Computer Services, Inc. was a Delaware corporation headquartered in Dallas, Texas during the relevant period. The registration of ACS's common stock pursuant to 12(b) of the Exchange Act was withdrawn following ACS's merger in February 2010 with a subsidiary of Xerox Corporation, and the ACS corporate entity was subsequently dissolved.

### **Facts**

7. ACS provided business process outsourcing and information technology services through two reportable operating segments: the Commercial Services Group, which accounted for approximately 60% of ACS's fiscal year 2009 revenues, and the Government Services Group, which accounted for the remaining 40% of ACS's revenues. ACS historically generated approximately 85% of its revenues from recurring, long-term contracts and 15% from non-recurring transactions. The "resale transactions" discussed below originated in ACS's Commercial Services Group and were classified as non-recurring revenue.

### **ACS mischaracterized "resale transactions" to increase revenue**

8. In its Form 10-K for the fiscal year ended June 30, 2008, ACS disclosed that its primary goal for fiscal year 2009 was to increase internal revenue growth. In an August 7, 2008 analyst call, Blodgett characterized ACS as "well positioned to accelerate internal revenue growth in fiscal year 2009."

9. Shortly before the end of its first quarter of fiscal year 2009, ACS noted that the company's revenue would, at current rates, fall short of company guidance and consensus analyst expectations. To increase revenue, ACS arranged for an equipment manufacturer to re-direct through ACS approximately \$20 million of pre-existing orders that the manufacturer already had received from another reseller. ACS's transaction documents gave the appearance that ACS was involved in the "resale transactions," but ACS in fact had no such involvement. Among other things, even after ACS was inserted into the "resale transactions," the pricing for equipment remained unchanged, the equipment continued to be shipped from the manufacturer directly to the reseller's customers (*i.e.*, ACS never had actual or constructive possession of it), and the reseller's customers were unaware that ACS was involved. In short, these pre-existing orders between the manufacturer and other reseller proceeded in all material respects according to their original terms and were unaffected by ACS's late insertion.

10. ACS executed virtually identical “resale transactions” at the end of the next three quarters.<sup>4</sup> In total, ACS reported revenue of \$124.5 million from such arrangements during fiscal 2009.

### **ACS’s improper accounting**

11. ACS improperly applied GAAP in determining the amount of revenue to report in each of its quarters in FY 2009. In making a determination of the amount of revenue to report, ACS did not appropriately take into account all of the critical terms of the arrangement and therefore failed to reflect the lack of economic substance of the “resale transactions” under GAAP. In addition, ACS’s internal controls were insufficient to provide reasonable assurance that ACS reported revenues in conformity with GAAP, primarily because ACS failed to appropriately evaluate the economic substance of the “resale transactions.”

12. The revenue from these “resale transactions” enabled ACS to meet its publicly disclosed internal revenue growth (“IRG”) guidance for three of the four quarters for that fiscal year. ACS missed its guidance for its third quarter even with the improperly reported revenue. The table below summarizes the amount of the resale revenue (as reported), ACS’s public IRG guidance, IRG (as reported), IRG (as adjusted), and the percent misstated by quarter and for the year:

<b>Period</b>	<b>“Resale” Revenue (as reported) (\$ in millions)</b>	<b>ACS’s Public IRG Guidance</b>	<b>IRG (as reported)</b>	<b>IRG (as adjusted)</b>	<b>IRG Over Statement</b>	<b>% Over Statement</b>
Q1 2009	\$ 19.9	5%	5%	3.4%	1.6%	47%
Q2 2009	\$ 40.6	4-5%	4%	1.2%	2.8%	233%
Q3 2009	\$ 39.7	5-6%	3%	(0.2)%	3.2%	1,600%
Q4 2009	\$ 24.2	3%	3%	1.7%	1.3%	76%
FY 2009	\$ 124.5	5-6%	3%	1.5%	1.5%	100%

### **ACS failed to properly disclose the “resale transactions” and their impact on IRG**

13. Even though the “resale transactions” were the largest contributors to ACS’s internal revenue growth, ACS did not disclose them in its September 30, 2008 Form 10-Q. In subsequent quarters, ACS disclosed these transactions as “information technology outsourcing related to deliveries of hardware and software.” This description did not accurately disclose the nature of these transactions and falsely suggested that they were executed as part of existing ACS outsourcing contracts.

<sup>4</sup> Contemporaneous with the “resale transactions” executed for the quarters ended September 30, 2008 and December 31, 2008, ACS also agreed to purchase equipment from the equipment manufacturer or the reseller.

14. Blodgett and Kyser understood the origination of these “resale transactions” and their impact on ACS’s reported revenue growth. However, Blodgett and Kyser did not ensure that ACS adequately described their significance in ACS’s public filings and on analyst calls. Blodgett and Kyser certified each of ACS’s fiscal year 2009 Forms 10-Q and 10-K.

### **Blodgett’s and Kyser’s bonuses**

15. As part of their compensation, Blodgett and Kyser received bonus payments that were, in part, tied to ACS’s financial performance, including revenue growth. As a result of the improperly reported revenue, Blodgett and Kyser received bonuses based on fiscal 2009 performance that were 43% higher than they would have received if ACS had properly applied GAAP with respect to determining the amount of revenue to report from the resale transactions.

### **Violations**

16. ACS violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder by filing Forms 8-K, 10-Q, and 10-K for fiscal 2009 that improperly reported revenue related to the resale transactions, materially misstated ACS’s internal revenue growth and either inadequately or incompletely described the significance of the resale transactions to internal revenue growth. Blodgett and Kyser were a cause of ACS’s violations of these provisions.

17. ACS violated Section 13(b)(2)(A) by keeping books and records that inaccurately reported ACS’s resale transactions during fiscal year 2009. ACS also violated Section 13(b)(2)(B) by failing to devise and maintain a system of internal controls sufficient to provide reasonable assurance that transactions are recorded and financial statements are prepared in accordance with GAAP. Blodgett and Kyser were a cause of ACS’s violations of these provisions.

18. As a result of the conduct described above, Blodgett and Kyser violated Rule 13a-14 under the Exchange Act, which sets forth the requirements for certain reports filed under Section 13(a) of the Exchange Act to include specified certifications by each principal executive and principal financial officer of the issuer.

## **IV.**

On the basis of the foregoing, Respondents hereby consent to the entry of an Order by the Commission that, pursuant to Section 21C of the Exchange Act:

- A. Respondent Blodgett cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-14 thereunder;
- B. Respondent Kyser cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-14 thereunder;

- C. Respondent Blodgett shall, within thirty (30) days of the entry of this Order, pay disgorgement of \$351,050 and prejudgment interest of \$61,682 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Further, Respondent Blodgett shall, within thirty (30) days of the entry of this Order, pay a civil money penalty in the amount of \$52,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717.
- D. Respondent Kyser shall, within thirty (30) days of the entry of this Order, pay disgorgement of \$133,192 and prejudgment interest of \$23,403 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Further, Respondent Kyser shall, within thirty (30) days of the entry of this Order, pay a civil money penalty in the amount of \$52,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717.
- E. Payment must be made in one of the following ways:
- (1) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (2) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:
- Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169
- Payments by check or money order must be accompanied by a cover letter identifying Lynn Blodgett or Kevin Kyser as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to David L. Peavler, Associate Regional Director, Fort Worth Regional Office, Division of Enforcement, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas, 76102.
- F. Such civil money penalties may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended ("Fair Fund distribution"). Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of

Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against either Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Jill M. Peterson  
Assistant Secretary