SEC Charges Two Information Technology Executives With Mischaracterizing Resale Transactions to Increase Revenue

FOR IMMEDIATE RELEASE
2014-179

Washington D.C., Aug. 28, 2014 — The Securities and Exchange Commission today charged two executives at a Dallas-based information technology company with mischaracterizing an arrangement with an equipment manufacturer to purport that it was conducting so-called "resale transactions" to inflate the company's reported revenue.

An SEC investigation found that then-CEO Lynn R. Blodgett and then-CFO Kevin R. Kyser caused the disclosure failures at Affiliated Computer Services (ACS), which has since been acquired by Xerox Corporation. ACS provided business process outsourcing and information technology services. Shortly before the end of its first quarter in fiscal year 2009, ACS faced a scenario where the company's revenue was set to fall short of company guidance and consensus analyst expectations, so ACS arranged for an equipment manufacturer to re-direct through ACS pre-existing orders that the manufacturer already had received from one of its customers. This gave the appearance that ACS was involved in resale transactions, but ACS in fact had no such involvement. ACS went on to report $124.5 million in fiscal year 2009 revenue from these transactions as though it had resold the equipment itself.

Blodgett and Kyser have agreed to pay nearly $675,000 to settle the SEC's charges that they and ACS did not adequately describe the arrangement in its financial reporting, and the purported revenue in turn allowed ACS to publicly report inflated internal revenue growth (IRG). Blodgett and Kyser emphasized the inflated IRG as a key metric in earnings releases and other public statements to investors, and a portion of their annual bonuses was linked to IRG.

"ACS positioned itself in the middle of pre-existing transactions without adding value, but still improperly reported the revenue. Blodgett and Kyser knew the truth about these deals, and they were responsible for ensuring that ACS accurately disclosed the full story to investors," said David R. Woodcock, director of the SEC's Fort Worth Regional Office and chair of the agency's Financial Reporting and Audit Task Force. "This enforcement action holds them accountable for failing to uphold that responsibility."

Blodgett and Kyser consented to the SEC's order to cease-and-desist from violating Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-14. Without admitting or denying the findings, they have agreed to collectively disgorge IRG-related bonuses plus prejudgment interest totaling $569,327, and they each must pay $52,000 penalties.

The SEC's investigation was conducted by James E. Etri, Todd B. Baker, and David R. King of the Fort Worth office.

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Related Materials

- SEC order