Proposal to the State of West Virginia Department of Health and Human Resources For Medicaid Management Information Systems (MMIS) Re-procurement

Technical Proposal

Solicitation #: Request for Proposal MED12011
Due Date: February 10, 2012, 1:30 PM

Submitted by:

ACS State Healthcare, LLC
2810 N. Parham Road
Richmond, Virginia 23294

Confidentiality Statement

REQUIREMENT: RFP Section 1.16.3, pg, 14 of 115
1.16.3 Freedom of Information/Disclosure. All documents in this RFP process are subject to West Virginia's Freedom of Information Act (FOIA) and may be disclosed upon request. The vendor must clearly identify which data are proprietary, the BMS will notify the vendor (in writing) of the request to allow the vendor time to obtain the appropriate court order to prevent the release of the information. Otherwise, the BMS will be compelled by State law to release such information. If a vendor's proposal includes proprietary language within the technical proposal, an electronic copy omitting any proprietary language for publishing to the DHHR web-site shall be submitted.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has clearly identified which data we consider proprietary within our proposal. We have marked the footer of each page of the proposal that we wish to protect with the words **Proprietary and Confidential**. Additionally, we have provided an electronic copy omitting any proprietary language for publishing to the DHHR web-site.

Table 1-1 identifies the sections of the proposal we wish to protect.

Table 1-1. Confidential Proposal Sections

Proposal Section	Page(s)
4 Executive Summary	4-1 to 4-3
8 Staff Capacity, Qualifications and Experience.	All Pages
9 Project Approach and Solution	9-5
9 Project Approach and Solution – Subsection 9.5 .1 Phase 2a Routine Operations	9-31 to 9-32
9.5.1.1 Methodology and Approach to Routine Operations Support	9-32
Reporting	9-33 to 9-34
Learning Management System (LMS)	9-34 to 9-35
Documentation and User Manuals	9-35 to 9-36
Dental and Vision Outreach	9-37
Electronic Data Interchange (EDI) Transactions.	9-42
Claims Adjudication Services	9-42
Communication and Correspondence Distribution	9-44
Automated Letters	9-44
Customer Service Support Call Center	9-45 to 9-46
Mailroom	9-46 to 9-47
9.5.1.1.4 System Performance Monitoring and Maintenance	9-51 to 9-52
9.5.1.2.1 Monitoring the Implemented MMIS for Quality Control	9-53 to 9-54
9.5.1.2.4 Post-implementation Customer Service Survey	9-55
9.7 Timeline/Gantt Chart	9-85 to 9-88
10 Solution Alignment with BMS' Business and Technical Needs – Subsection 10.1 Proposed West Virginia MMIS	10-2 to 10-17
10 Solution Alignment with BMS' Business and Technical Needs – Subsection 10.4 Support of MITA Maturity	10-109 to 10-112
11 Subcontracting	All Pages
A2 Appendix E Business and Technical Requirements	All Pages
A3 Business Organization – Subcontractor Detail	A3 -2
A4 Roles, Responsibilities, and Skill Sets	All Pages

Proposal Section	Page(s)
A5 Key Staff Resumes	All Pages
A7 Staff Matrix	All Pages
A8 Work Breakdown Structure and Deliverables Dictionary	All Pages
A9 Project Schedule	All Pages
A10 Staffing Plan	All Pages
A11 Facility Plan	All Pages
A12 Documentation Management Plan	All Pages
A13 Training Plan	All Pages
A14 Testing Plan	All Pages
A14a Integrated Test Environment (ITE) Plan	All Pages
A15 Scope Management Plan	All Pages
A16 Schedule Management Plan	All Pages
A17 Cost Management Plan	All Pages
A18 Quality Management Plan	All Pages
A19 Human Resource Management Plan	All Pages
A20 Communication Management Plan	All Pages
A21 Risk Management Plan	All Pages
A22 Issue Management Plan	All Pages
A23 Change Management Plan	All Pages
A24 Integration Management Plan	All Pages
A25 Workflow Management Plan	All Pages
A26 Problem Management Plan	All Pages
A27 Transition Plan	All Pages
A28 Weekly Project Status Report Template	All Pages
A29 Monthly Project Status Report Template	All Pages
A30 Security, Privacy, and Confidentiality Plan	All Pages
A31 Configuration Management Plan	All Pages
A32 Data Conversion Plan	All Pages
A33 Disaster Recovery and Business Continuity Plans	All Pages
A34 Data and Records Retention Plan	All Pages
A35 Signed Forms – Appendix L Special Terms and Conditions	Appendix L, pages 1 to 6
A36 Other Optional Services	All Pages
A37 Additional ACS Offerings	All Pages
A38 Base Solution Value-Adds	All Pages
A39 Sample DSD Deliverable Format	All Pages
A40 Sample Requirements Specification Document	All Pages

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The State of West Virginia Bureau for Medical Services

RFP Subject: Medicaid Management Information System (MMIS) Re-procurement
Solicitation #: MED12011

Submitted by:
ACS State Healthcare, LLC
2810 N. Parham Road
Suite 210
Richmond, VA 23294
Phone: 804.965.8201

Authorized Contact: Will Saunders, President

Delegation of Authority: See Certificate of Secretary on the following page

Signature of Authorized Contact

1/13/12

Date signed

CERTIFICATE OF SECRETARY

I, J. Michael Peffer, in my capacity as Secretary of ACS State Healthcare, LLC, a Delaware limited liability company (the "Company"), am delivering this Certificate of Secretary to certify that **Will F. Saunders** is the duly elected, qualified and acting President of the Company, and in such capacity has been authorized by the managers to obligate, bind, and execute any and all proposals and contracts in connection with that certain Request for Proposals to the State of West Virginia Bureau for Medical Services, Department of Health and Human Resources, Managed Medicaid Information System (the "Proposal") and all other documents to be executed in connection with the Proposal.

IN WITNESS WHEREOF, I have set my hand to this Certificate of Secretary as of the 11th day of January, 2012.

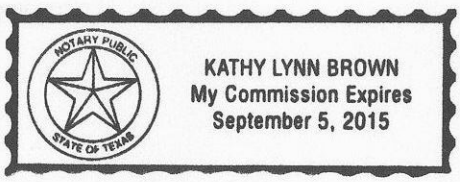
ACS STATE HEALTHCARE, LLC
a Delaware limited liability company

By: _____
J. Michael Peffer, Secretary

STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on this 11th day of January, 2012 by J. Michael Peffer, Secretary of ACS State Healthcare, LLC, a Delaware limited liability company, on behalf of said Company.

_____
Kathy Lynn Brown
Notary Public, State of Texas



2 Transmittal Letter

REQUIREMENT: RFP Section 4.1.2, pg, 102 of 115
4.1.2 Transmittal Letter. A transmittal letter signed in blue ink by an official authorized to bind the Vendor to proposal provisions must accompany the proposal. The transmittal letter must be placed immediately behind the Title Page of the General Technical section. The letter must include a statement that the RFP terms are accepted. Vendors must also include a statement in the letter certifying that the price was arrived at without any conflict of interest.

On the following page, we provide our transmittal letter, which has been signed by an official authorized to bind ACS to proposal provisions.

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Will Saunders
President
ACS State Healthcare, LLC

2810 N. Parham Road
Suite 210
Richmond, VA 23294

will.saunders@acs-inc.com
tel: 804.965.8201

January 30, 2012

Ms. Donna Smith
WV Department of Health and Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

RE: Request for Proposal (RFP) MED 12011, Medicaid Management Information System (MMIS) Re-procurement

Dear Ms. Smith:

With this Letter of Transmittal, ACS State Healthcare, LLC (ACS) submits our proposal in response to West Virginia's Department of Health and Human Resources Request for Proposal MED12011 issued by the State of West Virginia Bureau for Medical Services (BMS) for Medicaid Management Information System (MMIS) Re-procurement.

Enclosed are our technical and cost proposals, sealed separately, in response to RFP MED12011. ACS is fully compliant with the requirements set forth in the RFP, including instructions for proposal format and submission in RFP Part 1 – General Information, Terms and Conditions, Section 1.10 – Proposal Format and Submission and Part 4 – Proposal Format and Response Requirements, Section 4.1. As required, we have provided one (1) original technical and one (1) original cost proposal plus twenty (20) convenience copies of each, including one copy on CD of both the technical and cost proposals. Per RFP Section 1.16.3, Freedom of Information/Disclosure, we have also included an electronic copy of the technical proposal omitting any proprietary language.

ACS is fully compliant with RFP requirements and includes the following specific information requested for inclusion in this letter:

- ACS accepts the RFP terms.
- We affirm and certify that our submitted Cost Proposal price was arrived at without any conflict of interest. Per RFP Section 1.14, Independent Price Determination, ACS certifies that its price in the proposal was arrived at independently without collusion, consultation, communication or agreement as to any matter relating to prices with any competitor.
- ACS is registered with the West Virginia Secretary of State to conduct business in West Virginia with a current Certificate of Good Standing.

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I am the authorized contact person to speak on behalf of and commit ACS to the scope of work for this project. Such authorization is provided in the Certificate of Secretary, placed immediately behind the title page. My contact information is as follows:

Will Saunders
President
ACS State Healthcare, LLC
2810 N. Parham Road
Richmond, Virginia 23294
Telephone: 804-965-8201
Fax: 804-421-6982
will.saunders@acs-inc.com

We look forward to working with BMS to provide information technology products and services to design, develop, implement, obtain CMS certification, operate and serve as fiscal agent for a replacement MMIS solution.

Sincerely,

Will Saunders

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Technical – Volume 3 Appendix

List of Exhibits

List of Tables

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4 Executive Summary

REQUIREMENT: RFP Section 4.1.4, pg. 102 of 115

4.1.4 Executive Summary. Vendor should affirm their ability and capability to provide experienced personnel to accomplish each mandatory requirement of Part 3.1.1 through 3.1.46. The Executive Summary should not exceed three pages.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

5 Vendor's Organization

REQUIREMENT: RFP Section 4.1.5, pg. 102 of 115

4.1.5 Vendor's Organization. The following items must be included in a document titled "Business Organization":

- Business name and address;
- Licenses (as described in Section 3.3.3);
- Subcontractor detail; and
- Financial information, such as annual audited financial reports.

As instructed in RFP Section 4.1, Technical Proposal Format, we include a document titled "Business Organization," which provides the information listed above. Because the Business Organization document is excluded from the 300 page limit (per RFP page 101 of 115), we have placed the document at the end of our proposal in Volume 2 Appendix, specifically, Proposal Section A3 Business Organization.

6 Location

REQUIREMENT: RFP Section 4.1.6, pg. 102 of 115

4.1.6 Location. Indicate the site or sites from which the Vendor and subcontractors, if any, will perform the relevant tasks listed in the proposal.

Our Charleston site is located to facilitate effective interaction between BMS and ACS. The facility houses ACS operations and provides the necessary workspace and equipment both for ACS on-site staff and for BMS personnel assigned to work at our facility.

ACS worked closely with our Charleston real estate representative to select our proposed primary office facility located in Chase Tower at 707 Virginia Street East, Charleston, West Virginia, within a quarter mile of BMS. This site provides adequate space, ensures the comfort, security, and safety of both ACS and BMS personnel, and meets BMS' requirements. ACS will establish our Charleston location at the start of the MMIS Replacement DDI and Certification Planning Phase. As we move into the Operations Phase, we will expand our footprint in this location to provide the additional space required to perform fiscal agent services. We provide our site selection criteria in Proposal Section 9.4, Project Facilities.

Our key staff and support staff will work from the Charleston facility, along with continuously dedicated (CD) staff, as necessary. We welcome the opportunity for BMS personnel to visit our new and existing locations, shown in Table 6-1, which we describe more fully in Proposal Section 9.4, Project Facilities. ACS will perform all work associated with this contract within the continental United States.

Table 6-1. Work Locations

Location	Tasks Performed
New ACS facility in Charleston, West Virginia	Project office functions, including the tasks listed in RFP Section 3.2.4 Project Facilities
Existing ACS location in Pittsburgh, Pennsylvania	Primary data center operations
Existing ACS location in Moon Township, Pennsylvania	Secure storage for backup copies from our Pittsburgh Data Center
Existing ACS location in Tarrytown, New York	Business continuity and disaster recovery data center
Existing ACS location in Atlanta, Georgia	Specialized resources to provide supplemental support to Charleston-based personnel as needed
Existing ACS location in Tallahassee, Florida	Supplemental electronic data interchange (EDI) support as needed
Existing ACS MMIS location in Ridgeland, Mississippi	Operations business continuity and call center disaster recovery
Existing Xerox facility in North Wales, Pennsylvania	Disaster recovery and business continuity for print fulfillment

7 Vendor Capacity, Qualifications, References, and Experience

REQUIREMENT: RFP Section 4.1.7, pg. 102 of 115
4.1.7 Vendor Capacity, Qualifications, References and Experience.

ACS applies our nationwide and West Virginia-specific Medicaid experience to make the MMIS Re-procurement Project a success for BMS and West Virginia Medicaid.

With the replacement of the West Virginia MMIS, the Bureau is seeking a transition to new technology that will offer the most promising means for supporting and enhancing West Virginia Medicaid for future generations. The project is a mission-critical project in the truest sense of the term and requires a capable contractor who can deliver an MMIS that aligns with Medicaid Information Technology Architecture (MITA) principles, employs service-oriented architecture (SOA), and contains fully certifiable Medicaid core functionality. ACS offers a combined solution of people, processes, and next generation MMIS technology—the ACS Health Enterprise—that will ensure the Bureau's current and future goals for the West Virginia Medicaid program are met consistently and reliably, now and in the future.

Capacity, Qualifications, References, and Experience

- 41 years of proven Medicaid and government healthcare experience, expertise, and credentials
- Reliable West Virginia technology and operations partner
- Only national contractor providing full service healthcare administration across Medicaid
- Customers who can attest to our project execution and follow-through

We fully appreciate that the MMIS Re-procurement Project is a significant undertaking requiring considerable technical and operational resources, expertise, and experience. Our goal is to mitigate risk through the transition period and provide quality-driven ongoing operations through the life of the contract. We believe we are well positioned to achieve this for the Bureau based on our extensive MMIS and West Virginia Medicaid experience. We bring over 40 years of successful MMIS design, development, and implementation (DDI) experience; 30 years of successful Medicaid fiscal agent (FA) operations experience; and a proven record of success in West Virginia as the State's former MMIS/FA contractor from 1993 through 2004. ACS successfully transitioned the West Virginia program in 1992, replaced the MMIS in 1999, provided successful FA operations for 11 years, and turned it over to the incumbent vendor in 2004. Having served as an incoming, incumbent, and outgoing contractor, ACS brings the practical experience required to successfully perform all phases of the MMIS Re-procurement. We will apply our nationwide and West Virginia-specific experience to all phases of the MMIS Re-procurement Project to ensure high-quality project execution.

ACS has the human, physical, and financial resources to meet BMS' requirements. We describe our resource approach and commitments in Proposal Sections 8 – Staff Capacity, Qualifications and Experience, Section 9 – Project Approach and Solution, and Section 10 – Solution Alignment with BMS' Business and Technical Needs.

We cite our qualifications and credentials for performing the full scope of services under the MMIS Re-procurement Project in the following sections.

7.1 Profile of ACS

REQUIREMENT: RFP Section 4.1.7, pg. 102 of 115

Proposals should provide a comprehensive profile of the organization that includes a description of the management structure and ownership.

ACS is an experienced Medicaid services contractor with a proven history of providing the scope of services requested. Our national Medicaid experience brings additional value to our approach by providing a broad knowledge of the issues facing Medicaid programs nationwide. To meet the needs of our Medicaid customers, ACS provides a complete array of diversified services including:

- Medicaid Management Information Systems
- Fiscal Agent/Call Center Services
- Pharmacy Benefits Management
- Health Information Exchange (HIE)
- Electronic Health Records (EHR)
- Clinical Consulting and Management Tools Health Care Analytics
- Health Insurance Exchange (HIX)
- Primary Care Case Management
- Care and Disease Management
- Payment Methodology Consulting
- Fraud and Abuse Detection
- Enrollment /Eligibility Determination Solutions
- Long Term Care (LTC)
- Home and Community-Based Services (HCBS) Waivers
- Payment Methodology Development
- Managed Care Support

Our client base includes state healthcare programs in 34 states covering Medicaid, Children's Health Insurance Programs (CHIP), third party liability (TPL), primary care and case management (PCCM), eligibility and enrollment, Medicaid pharmacy, and four workers' compensation programs. As indicated in Exhibit 7-1, our range of expertise, along with our demonstrated commitment to technological innovation and operational excellence, provides BMS assurance of our ability to meet its goals to streamline administration, tailor services to meet the needs of the enrolled populations, coordinate care for those with chronic conditions, and provide members with incentives to maintain and improve their health.

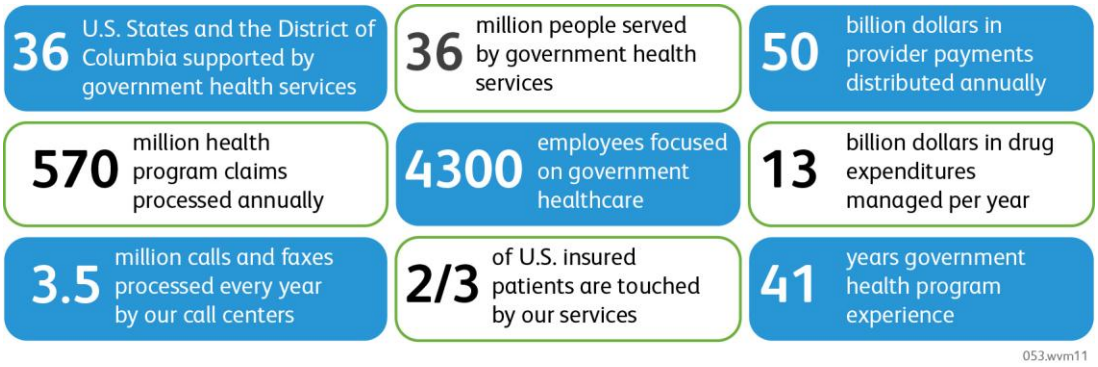


Exhibit 7-1. ACS Government Healthcare Quick Facts
ACS provides comprehensive services that enhance the entire healthcare ecosystem.

ACS' corporate background reflects our mission as a healthcare administrator striving to improve public health programs by working in collaboration with our customers. Because ACS often represents the "face of Medicaid" for our customers' constituency, we consider all Medicaid stakeholders as part of our own "customer base" when serving our State customers. In short, our service to the West Virginia Medicaid community is indistinguishable from our service to BMS.

Affiliated Computer Services, LLC, a Xerox Company

ACS and Xerox

- Combined revenue of $22 billion
- 136,000 employees combined
- Combined geographical reach of 160 countries
- World's leading enterprise for business process and document management

Exciting changes have occurred since ACS last worked for BMS in 2004. Today, our parent, Affiliated Computer Services, LLC, which provides business process outsourcing and information technology services to commercial and government clients worldwide, is now a Xerox Company. On September 28, 2009, Affiliated Computer Services, LLC (formerly known as Affiliated Computer Services, Inc.) and the Xerox Corporation (Xerox) entered into an Agreement and Plan of Merger providing for the acquisition of Affiliated Computer Services, Inc. by Xerox. This acquisition closed on February 5, 2010. Xerox is a leader in document technology and services including printers, multifunction devices, production publishing systems, managed print services, and related software. In 2011, Xerox was recognized as one of the World's Most Ethical Companies by the Ethisphere Institute, a New York City "think tank." Nearly 3,000 companies were nominated in 2011with only 110 organizations being recognized. Combined, Xerox and ACS form a $22 billion company and are the world's leading enterprise for business process and document management services. BMS and ACS both gain from the added strength and support of Xerox and now have direct access to the full range of products and services available through both companies.

Healthcare Innovation Practice: Delivering Value to West Virginia

To help establish a systematic approach to generating ideas that bring value to the State of West Virginia, ACS uses our Healthcare Innovation Practice—a collaborative effort that combines business structures, processes, client needs, tools, and metrics aimed at fostering and managing innovation. Healthcare Innovation Practice coordinates process and business review sessions with innovation research teams from our Palo Alto Research Center (PARC) and other facilities across the globe. These efforts uncover better ways to serve our Medicaid customers and yield streamlined processes, faster response times, and other enhancements. Working with healthcare-focused innovation leaders from across other Affiliated Computer Services' healthcare businesses, the Healthcare Innovation Practice works collaboratively so ideas cross-pollinate and can be shared with clients such as BMS. Healthcare Innovation Practice uses a multi-step plan to foster innovation and generate ideas, as demonstrated in Table 7-1.

Table 7-1. Health Innovation Practice Multi-Step Plan

Step	Details
Step One: Innovation Steering Committee (ISC)	ISC includes thought leaders from across ACS and works closely with research, corporate, and business strategy group and with marketing, business development, engineering, and product development departments—encouraging the exchange of ideas and innovations and ensuring sponsorship and corporate commitment.
Step Two: Idea Management Solution	To further encourage the distribution of new ideas, we deploy an idea management solution. This enterprise-wide application allows all employees to submit thoughts on needs for innovation, prioritizing them, and tracking their development into solutions for our clients.
Step Three: Meetings with BMS	ACS will reach out to BMS to discover and gain a deeper understanding of its needs. One of the ways we do this is by hosting "dreaming sessions," where we meet with the Bureau to discuss in-depth what is needed from its MMIS. The format is less structured than a traditional focus group, allowing for a more wide-ranging discussion.

ACS' Healthcare Innovation Practice will deliver more value to the West Virginia program by fostering ideas and developing them into usable solutions. Leveraging resources from two well-respected sources

of technological innovation—the Xerox Innovation Group (XIG) and the PARC research institute in Palo Alta, California—Xerox has developed over 1,131 patents in 2010 alone and places among the Top 25 world leaders for patents. PARC's history includes technologies such as laser printing, the graphical user interface, Ethernet, and ubiquitous computing. These groups' efforts and methods will have far-reaching effects on how the West Virginia program is operated and managed in the future. We also use Xerox's longtime strengths in document management, digital imaging, and workflow analysis. For example, members of both the Healthcare Innovation Practice and PARC are currently evaluating the workflow process of one of our largest Medicaid programs to look for improvement opportunities. Continuing refinements in digital image processing will be helpful for adoption of EHR and HIE solutions, which tie into BMS' goal of taking full advantage of current Health Information Technology (HIT) and HIE. These solutions will assist BMS to better serve its member, stakeholder, and provider communities and keep pace with regulatory changes and CMS requirements.

ACS State Healthcare, LLC

Today, ACS State Healthcare, LLC (ACS) employs approximately 4,300 people nationwide dedicated to assisting our customers to implement, operate, and enhance their public sector healthcare programs. This is not a side business for ACS but instead our core reason for existing. BMS is assured that the processes and tools we use are proven. BMS can rely on ACS having bench strength of experienced Medicaid experts who can provide thought leadership ideas and recommendations to help address the complex issues surrounding healthcare reform. Moreover, BMS is assured of ACS' commitment to both Medicaid and BMS. ACS began in 1970 with the establishment of Consultec, Inc. In 1971, ACS used a prototype MMIS to develop the General Systems Design (GSD) for the United States Department of Health, Education, and Welfare, which resulted in the MMIS standards used by the federal government.

Our acquisitions over the past decade, and continuing today, underscore our commitment to Medicaid programs such as West Virginia and other facets of the healthcare industry. ACS acquisitions include some of the nation's leading health and human services vendors, including Consultec, a leading provider of Medicaid technology/fiscal agent services; Birch and Davis, specializing in managed care services, including primary care case management (PCCM), CHIP, and Medicaid policy expertise; Concera, specializing in enrollment broker and CHIP services; Heritage Information Systems, the leading provider of clinical management/healthcare analytics services in the nation; and Bowers & Associates, Inc., provider of quality care management services and healthcare analytics management services. The acquisition of Heritage was an important step in the evolution of our HIE products and services. This firm initially developed the nucleus of the systems and technology that has become our HIE solution. Heritage is a co-innovator with ACS in designing, developing, and delivering the most comprehensive health information exchange/electronic health records solutions to Medicaid. We provide additional information about our HIE offering in Proposal Section A36 Other Optional Services in the Appendix.

In 2008, we also acquired Bowers & Associates, Inc., a Wisconsin-based provider of quality care management services and healthcare analytics management services. Bowers (renamed ACS Care & Quality Solutions, Inc.) is one of only a handful of companies that holds Utilization Review Accreditation Commission (URAC) accreditations for medical utilization review/case management, disease management, and workers' compensation case management. In order to better serve our state and federal clients, ACS secured designation as a Quality Improvement Organization (QIO)-like entity under section 1902(a)(30)(A) of the Social Security Act. This designation allows ACS to perform medical/utilization review functions required by federal law to fully support CMS and state efforts to safeguard against unnecessary utilization of care and services and to promote efficiency, economy, and quality of care.

In 2009, ACS acquired Pharm/DUR Inc. (renamed ACS Audit & Compliance Solutions), which offers clients a sophisticated suite of tools designed to look at an entire prescription program—from prescriber, to pharmacy, to patient. The benefits include more effective cost management, greater provider accountability, and improved patient care. These tools combined with a wide array of auditing services ensure our clients maintain continued adherence to plan parameters, attain formulary and reimbursement compliance, and identify other potential areas for investigation. Please see Proposal Section A37 Additional ACS Offerings in the Appendix for a description of our audit and compliance solutions.

Management Structure

Our MMIS Re-procurement Project management structure includes a highly experienced on-site, dedicated, leadership team. Our proposed MMIS Account Manager, Paul Harvey, brings over 18 years of information technology (IT) and over 10 years of overall project and program management experience, with a demonstrated ability to manage a large pool of technical and operational resources to deliver large-scale IT healthcare systems on time and within budget. Mr. Harvey will serve as BMS' sole point of contact and accountability with regard to all contractual matters. As in our previous MMIS/FA contract with BMS, the State can expect a high level of corporate support and commitment. As needed, Mr. Harvey has direct access to ACS/Xerox corporate resources, as shown in Exhibit 7-2.

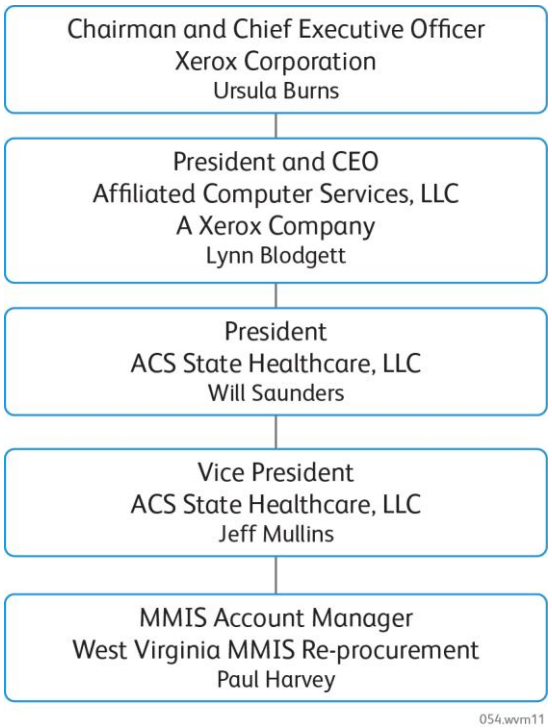


Exhibit 7-2. ACS Corporate Organization
ACS senior management is available as a direct channel of communication for BMS.

Mr. Harvey is directly supported by proposed Medical/Dental Deputy Account Manager/Operations Manager Andy Fontalbert—a native of West Virginia who brings more than 18 years of Medicaid experience including working with BMS for over eight years on ACS' previous MMIS/FA contract with BMS. Additionally, our proposed BMS Liaison, former BMS Deputy Commissioner Mr. Leonard Kelley, will facilitate communication and coordination between ACS leadership and BMS. Mr. Kelley brings

over 27 years of progressive management and information technology experience with state government including valuable experience with West Virginia Medicaid policy, the legislative process, the current HealthPAS MMIS and FA operations, as well as, the federal certification process.

Medicaid Experience

ACS brings a history of advancements to the Medicaid arena, developing products and services that have assisted our Medicaid customers to meet the challenges of an ever-changing state and federal regulatory landscape and to improve the administration of their programs. Exhibit 7-3 depicts the breadth and depth of our support for various healthcare programs throughout the United States.

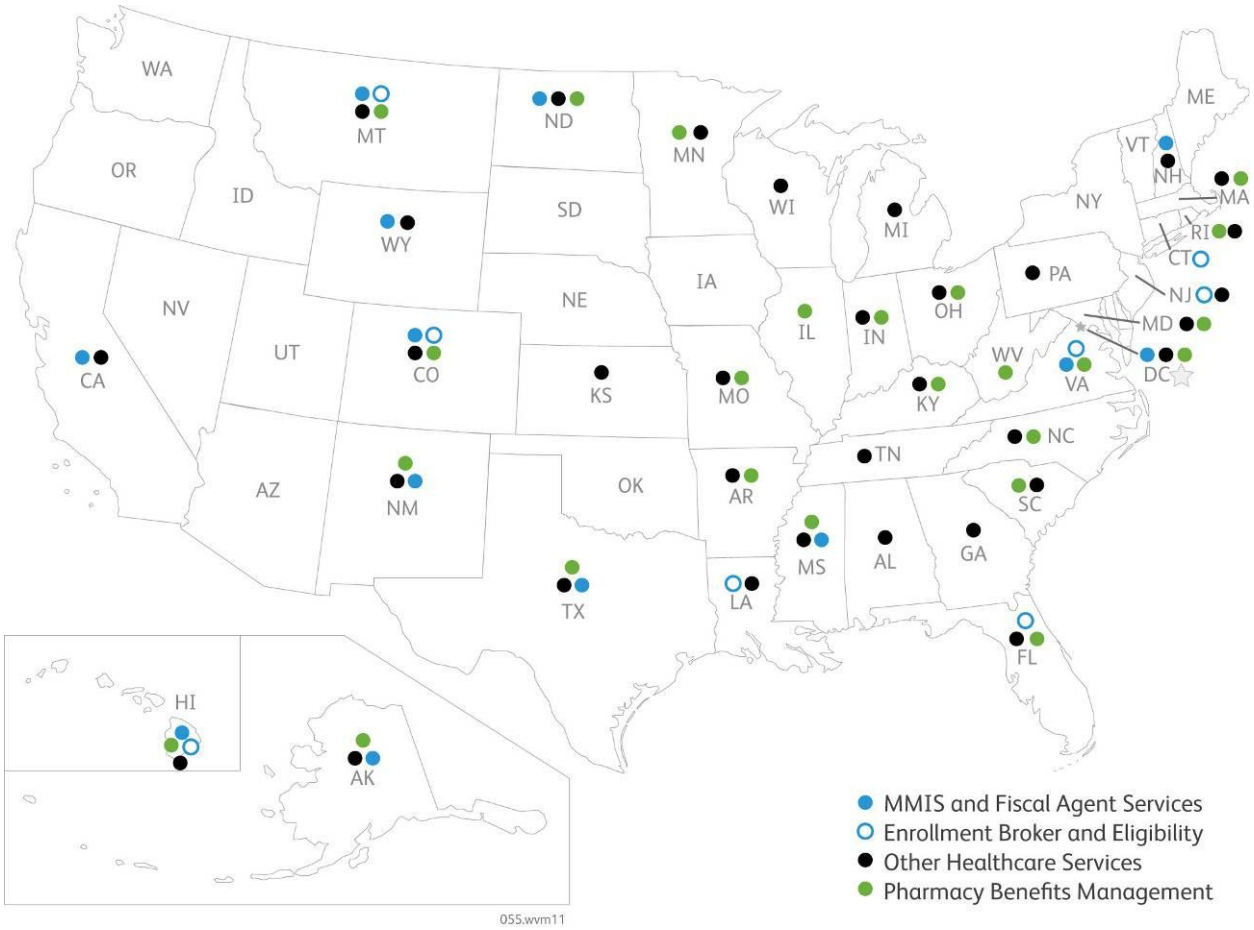


Exhibit 7-3. National Healthcare Experience
ACS brings nationwide healthcare administration experience to West Virginia.

Evolution of ACS MMIS Solutions

Since creating the first MMIS to support Title XIX requirements in 1971, we have evolved our MMIS solutions to keep pace with and optimally support the business and technical requirements of our Medicaid clients. Early in our history, we developed powerful, reliable mainframe systems; then developed the first truly multi-payer MMIS; and now offer our customers the MITA-aligned, Web-based Health Enterprise solution. Exhibit 7-4 shows the evolution of ACS MMIS solutions.

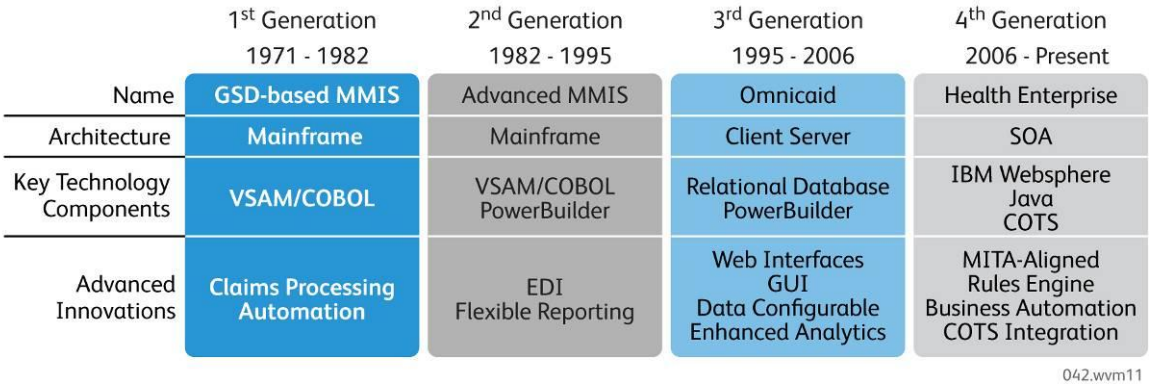


Exhibit 7-4. ACS' Commitment to Medicaid Clients

The evolution of ACS MMIS solutions demonstrates our dedication to addressing the business and technical needs of our customers—leading to the development of our 4th generation MMIS.

Mission as State Technology Partners: Enterprise Technology for a Value-Driven Healthcare System

Our latest generation Web-based Health Enterprise solution is the practical demonstration and result of ACS' commitment to meeting the goals and objectives of our Medicaid customers in a continually evolving healthcare environment, as well as our own dedication to innovation as State technology partners and health care administrators. The objective of ACS Health Enterprise is to support the administration of state-funded healthcare programs to provide quality care to those in need, improve health outcomes of program members, meet federal and State regulations and initiatives, and ensure cost-effective, economical management of program resources. Health Enterprise currently meets BMS' RFP-defined goals and objectives for the replacement MMIS with the inherent scalability to meet unlimited future program growth and change. Designed and developed from the ground up as a Web-based solution—not a legacy system with added Web component functionality—Health Enterprise employs service-oriented architecture (SOA) and is MITA-aligned with proven, certifiable Medicaid functionality, meeting BMS' non-negotiable goals for its replacement MMIS. Consistent with MITA and using best-of-breed commercial-off-the-shelf-products where appropriate, Health Enterprise is member-centric and successfully addresses Medicaid's long-standing issues of interoperability, adaptability, and data sharing, including clinical data, across organizational and other State health care program boundaries. Health Enterprise extends far beyond transaction processing, providing BMS the most technically solid platform for achieving a value-driven health care system that supports all traditional Medicaid services and functionality but extends BMS' reach to population health care management. Additionally, Health Enterprise is rules-driven with inherent flexibility to provide BMS the greatest capability for addressing changes in the State's program and new regulatory requirements and reducing the time and cost associated with ongoing system modifications, enhancements, and remediation of deficiencies.

Design, Development, and Implementation Experience

We address our recent experience in the design, development and implementation (DDI) of complex claims administration systems for Medicaid, including four deployments of Health Enterprise in progress, and the takeover and operation of legacy MMIS systems, including two of the largest Medicaid programs in the nation, California and Texas.

Health Enterprise Deployments

ACS is currently in the DDI phase of three Health Enterprise deployments for Alaska, New Hampshire, and North Dakota Medicaid, and we are in the DDI planning phase with our California client to deploy Health Enterprise to support the state's Medi-Cal program. We are proud to share with BMS two significant milestones we have achieved on two of these contracts, our New Hampshire MMIS Replacement/FA and our California Takeover/MMIS Replacement/FA contracts.

> "I would like to express my sincere appreciation to you and all of the individuals on your staff who worked together to make the CA-MMIS transition effort such a success. The close collaboration between ACS, HP, OTech, IBM, and DHCS personnel…and the efforts of the hundreds of individuals who spent day and night this past weekend completing the 4,000 tasks in the Cutover Playbook on time, overcoming the inevitable problems in an effort of this magnitude and complexity was truly impressive.
>
> Toby Douglas, Director, California Department of Health Care Services

In December 2011, ACS successfully launched the Provide Enrollment (PE) module of Health Enterprise for our New Hampshire Medicaid client; this phase includes all of the functionality needed for providers to re-enroll using the new system, the security infrastructure and contact management. ***The Provider Enrollment module represents 20 percent of Health Enterprise's base code and 95 percent of its architecture. The remainder of the Health Enterprise base code has been developed and system tested with parallel and integration testing in progress. New Hampshire will begin UAT within the next 60 days.*** The successful go-live of Provider Re-enrollment in New Hampshire coupled with the completion of the base system code demonstrates that Health Enterprise is a very low risk solution for West Virginia. We also recently underwent rigorous independent third-party system architecture and design reviews of the Health Enterprise system architecture, code, and functionality that confirmed the system's flexibility, transferability, scalability, and alignment with MITA 2.0 guidelines and standards. Significantly, ***the code review returned a rating of Superior Quality*** for the over five million lines of code contained within Health Enterprise.

Additionally, in October 2011, as part of our California contract, ACS and our teaming partners successfully took over the California legacy MMIS and full fiscal intermediary operations from the incumbent Hewlett Packard Enterprises (HP). The California Medicaid program is the largest in the nation, serving 7.5 million beneficiaries and 80,000 providers. Our State client expressed ***sincere appreciation*** to ACS as prime contractor for the collaborative working relationships among multiple contractors and the California Department of Health Care Services (DHCS) ***for achieving a smooth transition for DHCS and California Medicaid stakeholders.***

In Table 7-2, we provide narrative descriptions of the four projects—Alaska, New Hampshire, North Dakota, and California Medicaid—where we are deploying our Health Enterprise solution.

Table 7-2. Current Health Enterprise DDI Efforts

State	Details
Alaska Medicaid	ACS is currently under contract (2007) with the Alaska Health and Social Services Department to design, develop, and implement a new MMIS and provide full fiscal agent (FA) services, including decision support services, for Alaska Medicaid. ACS is currently implementing our proposed base Health Enterprise to meet Alaska-specific requirements. The DDI of this project has expanded its scope and timeframe to include HIPAA 5010 and ICD-10 legislation. ACS also currently provides MMIS/FA services for Alaska Medicaid under the legacy Alaska MMIS, which ACS took over in 2008 under a separate contract. This takeover included transitioning nearly 100 incumbent fiscal agent (FA) and systems support staff—***a nearly flawless transition that we completed in less than a month***.

State	Details
New Hampshire Medicaid	ACS is under contract with the New Hampshire Department of Health and Human Services to replace the State's existing MMIS and provide full fiscal agent services. ACS is deploying Health Enterprise and customizing it to meet State-specific requirements. In December 2011, ACS successfully launched the Provider Enrollment (PE) module of Health Enterprise for our New Hampshire Medicaid client. DDI is currently in progress and proceeding according to the agreed-upon schedule. DDI services include project and quality management; data conversion; testing; State, ACS, and provider training; provider re-enrollment; MMIS federal certification preparation; and post implementation review. Fiscal agent services include claims processing, management, and payment; provider and recipient services; third party liability (TPL); EPSDT; decision support system/ad hoc reporting; management and administrative reporting (MARS); surveillance and utilization review (SUR): care management; case tracking; county billing; acuity rate setting; benefit package; training; quality assurance; and federal certification.
North Dakota Medicaid	ACS is under contract with the North Dakota Department of Human Services to replace the existing North Dakota MMIS and pharmacy point of sale (POS) system. An early adopter of the MITA initiative, North Dakota is transforming the architecture and infrastructure of its existing information systems to a MITA-aligned MMIS. ACS is deploying Health Enterprise and customizing it to meet North Dakota-specific requirements. The North Dakota MMIS project is a turnkey solution contract with ACS DDI tasks followed by a period of system review, maintenance, and support and final turnover for State operation. The construction phase is completed and system integration testing is wrapping up for the Provider Enrollment component of North Dakota Health Enterprise. Construction for the remainder of the North Dakota Health Enterprise is 50 per cent complete and the ***project is proceeding according to the agreed-upon schedule.***
California Medicaid	In May 2010, the California Department of Health Care Services awarded ACS a contract to take over and operate its legacy MMIS, implement a replacement system, and provide full fiscal intermediary services. ACS will implement the Health Enterprise as the replacement MMIS. In October 2011, ACS and our teaming partners successfully took over the California legacy MMIS and full fiscal intermediary operations from the incumbent Hewlett Packard Enterprises (HP). ACS is the prime contractor and has partnered with several other industry-leading subcontractors, working side by side with these partners and our client to administer and oversee the provision of healthcare services for more than seven million beneficiaries from more than 80,000 healthcare providers. DDI services include enterprise-wide project and quality management; data conversion; testing; ACS and stakeholder training; provider re-enrollment; MMIS federal certification preparation; and post implementation review. Fiscal agent services include: provider and stakeholder relations and training; provider services including outreach, Web portal, and enrollment and credentialing; claims adjudication, payment, and management; beneficiary relationship services; call center services; security and privacy protection; project and quality management services; financial services; decision support system/data warehouse/ (DSS/DW); third party liability (TPL); MARS; SURS/FADS; prior authorization (PA) services; drug rebate administration, and EPSDT services.

Other Relevant Large-scale DDI/System Enhancement/Takeover Experience

ACS brings extensive, relevant experience in the design, development, and implementation (DDI) of large-scale MMIS and other healthcare systems; the DDI of major system enhancements; and the takeover of large-scale systems and fiscal agent operations, often within aggressive timeframes. Table 7-3 provides a high-level overview of recent large-scale projects that attest to our ability to manage a complex, critical transition similar in size and scope to the MMIS Re-procurement Project.

Table 7-3. Other MMIS-Related DDI Efforts and System Enhancements

State	Details
Mississippi Medicaid	ACS is currently fulfilling a third consecutive contract with the Mississippi Division of Medicaid to provide MMIS/FA/PBM services. Our first contract involved the ***successful takeover*** of the State's legacy system, which was ***completed on time and within budget***. Through a contract amendment, the State chose to implement a new MMIS, and ACS transferred and enhanced our OmniCaid MMIS to form the Mississippi *Envision* MMIS, which was ***implemented in October 2003 on time and on budget*** and certified by CMS in 2004. (Although this was a high-profile, mission-critical project, ACS underwent a formal Capability Maturity Model (CMM) assessment during DDI, achieving CMM level 2. ACS' project management and software engineering methodologies currently align with Capability Maturity Model Integration (CMMI) Level 3.) In 2003, we also took over the legacy point-of-sale (POS) pharmacy system developed by Hewlett Packard (HP) and then ***implemented our prescription benefits management (PBM) system*** in October 2003 ***according to schedule.*** Under our second contract, ACS implemented enhancements to the *Envision* MMIS including national provider identification (NPI); UB-04; a complete replacement of the Web portal; and the integration of a condition-based edits engine, enabling table-driven maintenance of certain client-defined claim edits. We executed the enhancements project in two phases and ***completed both phases on time and on budget.*** In May 2007, we implemented the new Provider Web portal, which allows providers to submit claims for real-time adjudication and to conduct eligibility and claims status inquiries. The portal supports approximately 1 million claims inquiries and 8.1 million eligibility inquiries annually. The Web portals Provider Training component has been accessed 12,100 times since implementation.
Texas Medicaid	In November 2002, the Texas Health and Human Services Commission awarded ACS a contract combining the takeover of the MMIS and fiscal intermediary services with the primary care case management (PCCM) contract, which ACS had held since 1997. As prime contractor, ACS managed and worked in partnership with our subcontractor Accenture to take over the highly complex Compass21 MMIS from Hewlett Packard Enterprises (HP). The takeover and start of ACS fiscal agent operations was accomplished ***ahead of schedule*** and was considered a ***nearly flawless takeover***. This contract was renewed through a competitive bid process in 2010. ACS has assisted the Texas Medicaid program in steadily advancing MMIS Web technology—adding key functions such as PCCM services, claims submission and status, eligibility verification, prior authorizations, and provider enrollments and lookups. The Online Provider Lookup functionality has allowed clients to gain information and locate a provider more easily and for providers to access provider information to enhance the client referral process. Texas has continuously enhanced the technology and architecture, increasing flexibility, implementing executive information dashboards, improving claims processing, developing a browser-based application that automates the creation of new plans, and implementing pricing flexibility and Contact Center screen pops, and other system and Contact Center process improvements.
District of Columbia (DC) Medicaid	ACS is fulfilling a second consecutive contract for the DC Medicaid program. Our first contract included in the transfer of our Wyoming MMIS and provision of full fiscal agent services. Under the renewed contract, ACS deployed our OmniCaid MMIS to include enhanced capabilities such as a feature-rich, secure Web portal for providers and recipients; a clinical case management system; a Web-based reporting data mart; and enhanced surveillance and utilization review, management and administrative reporting, and TPL systems. The OmniCaid MMIS contains an enterprise rules engine; an advanced, n-tier, thin-client architecture; and a DB2 relational database management system, providing enhanced performance and reliability. ***The recent DDI was completed successfully and according to schedule.*** *Certification was conducted under the* ***new CMS guidelines*** *provided in the Medicaid Enterprise Certification Toolkit (MECT).T*he *DC MMIS was* ***fully certified by CMS on January 5, 2012, retroactive to the first day of operations.***
Virginia Medicaid	In 2009, the Virginia Department of Medical Assistance Services (DMAS) awarded ACS a contract to take over and significantly enhance its legacy MMIS and provide full fiscal agent and provider enrollment services (PES). We completed the takeover on June 27, 2010, and ongoing operations began the next day—***three days earlier than scheduled***. ACS completed the takeover and transition to operations with no disruption in service. Additionally, we delivered a replacement Web portal that leverages the architectural framework from Health Enterprise.

State	Details
Wyoming Medicaid	ACS has served as the Wyoming Department of Health and Social Services' MMIS fiscal intermediary since 1993 and is currently fulfilling a third consecutive contract to provide MMIS operations and maintenance and full fiscal agent services. During our second consecutive contract awarded in 2000, we implemented major enhancements to the system, including GUI, imaging capability, Web-enabled technology, benefit file plan, Medicare buy-in, and drug rebate processing, including invoicing, dispute resolution, and rebate agreement administration. Under our current contract, ACS executed a major improvement project that involved 24 major system enhancements. All system enhancements were ***successfully implemented*** in October 2009.

Managed Care Operations and Technology Experience

The West Virginia Medicaid program operates under a combined fee-for service and managed care environment, offering a multi-faceted healthcare service delivery model. ACS brings extensive Medicaid managed care systems and operations experience to support our managed care program requirements under this project. We pioneered efforts in managed care program design and development dating back to the 1970s, including developing (1979-1982) a Medicaid Managed Care Monograph Series for the U.S. Department of Health and Human Services. The Series was used to educate community-based organizations on issues concerning managed care program development and operation. We have implemented managed care programs for healthcare programs of varying size and complexity—from primary care case management (PCCM) to fully capitated models—providing our clients with effective managed care system functionality and operational support. Our experience includes managed care program design, development, and roll-out; comprehensive managed care consulting; PCCM program development, roll-out, and administration; managed care MMIS system component development to process managed care fees and encounter data; MMIS enhancement to support movement from fee-for-service to the managed care model on a large scale; and managed care enrollment processing and choice counseling. We understand and have practical experience in all facets of managed care and will apply our experience to fulfill our requirements related to manage care under this contract. States where we have provided managed care services of varying scope and complexity include Connecticut, Georgia, Florida, Louisiana, Montana, New Jersey, New Mexico, Pennsylvania, Rhode Island, Texas, and Virginia.

Related Project Successes in Non-MMIS Health Innovations

The following provides details for our health information exchange (HIE)/electronic health record (EHR) and Care Quality Services (CQS) solutions.

ACS HIE/EHR Solutions

To better serve West Virginia stakeholders and support the Bureau's desire to take full advantage of current health information technology (HIT) and health information exchange (HIE), ACS brings eight years of HIE, electronic health record (EHR) and personal health record (PHR) experience. Our solutions offer physicians, pharmacists, payers, and patients access to clinical and claims information from a wide variety of previously unconnected sources, thus enabling them to make smarter decisions about healthcare treatment and to coordinate care among providers more effectively. Our solution is one of the most comprehensive HIE/EHR/PHR solutions available in the market today, creating a return on investment for our customers while providing meaningful health management services for physicians and members. Our HIE/EHR experience enables users to exchange clinical images, hospital admission and discharge

documents, and lab results; connect to public health systems; detect pandemic outbreaks; and issue appropriate clinical alerts. The solution produces a summarized patient health record in real time, yielding a single standard continuity of care document (CCD) with embedded clinical alerts. The CCD offers a complete summary of a patient's medication and his or her medical, family, social, and known allergy history. **ACS is the first HIE/EHR vendor in the market to provide an aggregated comprehensive CCD with embedded clinical alerts.** The advanced reporting and analytics component of our solution combines clinical and administrative/claims data to provide complete population health management with predictive modeling. Table 7-4 provides a brief summary of ACS' current or recent HIE/EHR solutions in Wyoming, Kentucky, Missouri, Alabama, and Hawaii.

Table 7-4. Summary of ACS Current or Recent HIE/EHR Projects

State	Details
Wyoming Total Health Record HIE	ACS is implementing a Medicaid EHR/HIE/PHR solution for the Wyoming Department of Health. The project establishes an electronic medical home for the Medicaid population of Wyoming through an HIE, EHR and PHR, all of which are connected to provide continuity of care. In the operations phase, the HIE will continue to integrate Medicaid data such as immunizations, case management notes, and vital record data and make this information available to those connected to the HIE. Additional scope during the operations years will also entail the intake of Medicaid data for reportable diseases. There are approximately 140 users of the EHR at this time.
Kentucky HIE Network (KHIE)	In September of 2009, ACS launched a Statewide Health Information Exchange (HIE) solution for the Kentucky Cabinet for Health and Family Services. The solution was led by the Governor's Office of Electronic Health Information (GOEHI) and links hospitals, labs, patients, doctors, and existing RHIOs across Kentucky. Production for the project was completed in December 2010. The solution, now known as KHIE (Kentucky HIE), is used by an average of 600 users and up to 50 provider entities (both individual and groups) added as new users/providers each week.
Missouri HealthNet Clinical Management Services and System for Pharmacy and Prior Authorization (CMSP)	ACS has worked with the Missouri Division of Medical Services since November 2005, adding a Web-based EHR and prior authorization portal to the existing pharmacy prior authorization and disease management system. Today, more than 3,800 provider sites representing more than 15,000 individual providers access our EHR solution on a recurring basis. Missouri was one of the first states in the nation to implement a complete EHR solution, and it is currently being upgraded to a full-blown Medicaid HIE.
Alabama Together for Quality HIE	ACS launched HIE and EHR services for the Alabama Medicaid Agency in September 2007. Production for the project was completed in June 2008. The Alabama HIE is the nation's first successful Medicaid-based and funded HIE solution. It is cited by CMS as a model for state HIT innovation and includes clinical alerts that focus on two chronic conditions: asthma and diabetes. At contract closing, the program was serving over 1,600 users and over 500 physicians in the state.
Hawaii Pediatric EHR/ Early Periodic Screening, Diagnosis, and Treatment (EPSDT)	For the Hawaii Department of Human Services, ACS launched a pediatric EHR/EPSDT solution in January of 2009. Production for the project was completed in June of 2009. The system tracks and schedules immunizations and health screenings for children enrolled in Hawaii's Medicaid program.

Government Healthcare Care Quality Services

To assist the Bureau in achieving its project goals, ACS brings experience in developing Care and Quality Service (CQS) programs that have resulted in added benefits to the our Medicaid clients. ACS is a leading and innovative provider of health quality, coordinated care, and total population management solutions for government healthcare contracts. We have extensive experience with utilization, medical review, and care management and have been URAC-accredited since 1994. As we implement a new CQS program for

our clients, ACS takes into consideration the unique goals of each client, and tailors the services to better serve the state's unique population, improve provider relations, and achieve program goals. Our results include access to care that improves health outcomes while managing costs and reducing administrative burden on providers. As detailed in Table 7-5, ACS CQS solutions are currently in place and working in Wyoming and Missouri.

Table 7-5. Summary of ACS CQS Projects

State	Details
Wyoming	ACS implemented a CQS program in Wyoming focused on prior authorization (PA) for durable medical equipment (DME). Wyoming's EqualityCare program covers 79,221 clients. We were selected for the Wyoming EqualityCare program based on our focused clinical reviews for high-cost DME and our proven track record of maintaining and improving provider relations. Our efforts reduced inappropriate utilization provided the state with a return on investment of $6.56:1. Auditing results were also used as the basis to sampling in the following quarter, such that higher or lower sampling size was chosen based on prior quarter's trends.
Missouri	In late 2009, ACS implemented a CQS program for Missouri's MO HealthNet program. This program focused on precertification of inpatient hospitalizations for its 601,000 participants. At the inception of the state's pre-certification program in late 2009, 70 percent of all precertification requests were made by telephone, with the remaining 30 percent submitted via facsimile (fax). All requests were determined following a manual clinical review process. In mid-2010, CQS implemented an on-line, automated precertification request tool (CyberAccess) via the MO HealthNet provider portal. Within the first seven months, we successfully moved 60 percent of the pre-certifications – 16,000 total – to the online solution. Without this automation, the program's administrative expenses would have cost an additional $157,000 during this period. As more healthcare providers adopt this solution, automated certification volumes continue to increase and the amount of avoided cost to conduct manual clinical review will continue to increase. For the more complex cases requiring manual clinical review, our review process has helped Missouri avoid an average of $479,000 per month in payments based on denied and negotiated service days through the utilization management process. After a year and a half, at the end of 2011, on-line requests represent 72% of all pre-certification requests, with telephone requests reduced to 23% and faxed requests down to 6%. Of those requested on-line through the automated tool, approximately 43% were transparently authorized, without the need for manual clinical review.

MMIS Operations Experience

We are excited about the opportunity to serve in partnership with BMS again. ACS' operational role as a fiscal agent is to serve as a trusted healthcare advisor to our customers and to help them improve business processes, patient access to care, and cost efficiencies. We apply our experience to provide industry best practices and bring innovative ideas to help solve the common and unique issues our customers are currently confronting, as well as potential issues that are on the horizon. Our nationwide success demonstrates our ability to apply these ideas and to work closely with our customers in a way that achieves each customer's specific goals and complements the administration of their Medicaid and other healthcare programs. As an experienced Medicaid claims processing fiscal agent active in 12 states, we process approximately 570 million claims per year totaling approximately $50 billion in provider payments and supporting healthcare for 35 million people. Table 7-6 shows current and recently awarded MMIS fiscal agent projects, along with annual claim volumes and Medicaid expenditures noted in the total amount of dollars disbursed.

Table 7-6. Annual Program Statistics for Current and Recently Awarded Contracts

Account	Claims	Amount	Members
Alaska MMIS and Fiscal Agent Services	8 million	$1 billion	125,000
California MMIS and Fiscal Agent Services	185 million	$40 billion	7,000,000
Colorado MMIS and Fiscal Agent Services	26.8 million	$2.1 billion	580,000
DC MMIS and Fiscal Agent Services	5 million	$1.1 billion	200,000
Hawaii Fiscal Agent Services	2.2 million	$500 million	200,000
Mississippi MMIS and Fiscal Agent Services	45 million	$3.4 billion	625,000
Montana MMIS and Fiscal Agent Services	6 million	$714 million	125,000
New Hampshire MMIS and Fiscal Agent Services *(projected)*	6 million	$1.3 billion	220,000
New Mexico MMIS and Fiscal Agent Services	10 million	$2 billion	463,000
Texas Medicaid and Healthcare Partnership	62.4 million	$18 billion	3,800,000
Virginia MMIS and Fiscal Agent Services	48 million	$4.8 billion	870,000
Wyoming MMIS and Fiscal Agent Services	2.3 million	$377 million	88,000

Meeting BMS' Operational Requirements

ACS entered the arena of Medicaid fiscal agent operations in 1982 after building a strong foundation in MMIS development and implementation. Over the past 30 years, we have performed services similar to those requested by BMS for state healthcare organizations across the country. Having carefully reviewed the operational requirements outlined by BMS in Appendix F of the RFP, ACS is confident in our ability to successfully perform the tasks outlined for the MMIS Re-procurement Project.

7.2 References

REQUIREMENT: RFP Section 4.1.7, pg. 102 of 115

Proposals should include at least three (3) business references that demonstrate the Vendor's prior experience in the Medicaid program. Each reference should include the contact name, address, telephone number and email address of the client, organization, and the responsible project administrator familiar with the organizations performance, and brief description of services that are provided to the reference.

ACS is pleased to present our references from satisfied customers whom we have served. These references demonstrate our Medicaid experience and our ability to meet the requirements set by the Bureau in providing services similar to the scope of work requested. In this section, we provide references for our contracts in the states of **Virginia**, **Mississippi**, **Wyoming**, and **New Hampshire**. In Tables 7-7 through 7-10, we detail the reference information requested by the State including required contact information and a brief description of services provided.

Table 7-7. Virginia Medicaid

Organization: Virginia Department of Medical Assistance Services		
Contact Information/ Project Administrator	Name:	Ms. Sylvia Hart, Director, Division of Medicaid Assistance Services
	Address:	600 E Broad Street, Suite 1300, Richmond, VA 23219
	Telephone:	(804) 371-6269; (804) 786-8992 (f)
	Email:	sylvia.hart@dmas.virginia.gov

Description of Services Provided

In March 2009, the Virginia Department of Medical Assistance Services (DMAS) awarded ACS contracts to take over and enhance the Commonwealth's legacy MMIS and provide full fiscal agent and provider enrollment services. The takeover was completed on June 27, 2010, and ACS went live on June 28, 2010 (three days ahead of schedule). There was no disruption in service to the provider community and normal business processes provided by the fiscal agent and provider enrollment contractor transitioned seamlessly. ACS is currently providing the following fiscal agent and provider enrollment services: claims processing, financial services, recipient identification (ID) cards, pharmacy services, EDI support, other business operations services, application (system) support, platform management, documentation management, security, risk management, change management, provider enrollment, provider relation services via a provider call center, and mailroom services.

Table 7-8. Mississippi Medicaid

Organization: Mississippi Division of Medicaid		
Contact Information/ Project Administrator	Name:	Rita Rutland
	Address:	Walter Sillers Building, 550 High Street, Suite 1000, Jackson, MS 39201
	Telephone:	(601) 576 - 4147
	Email:	Rita.rutland@medicaid.ms.gov

Description of Services Provided

ACS is currently fulfilling a third consecutive contract with the Mississippi Division of Medicaid as the State's FAS/MMIS/PBM/DSS contractor. In March 2001, the Mississippi Division of Medicaid awarded ACS a contract to take over, enhance, and operate the legacy First Health Services Corporation MMIS and provide full fiscal agent services. In October 2003, we implemented an ACS-developed replacement MMIS, known as *Envision*. Also in 2003, we took over the legacy point-of-sale (POS) pharmacy system developed by Hewlett Packard (HP) and then implemented our prescription benefits management (PBM) system in October 2003 according to schedule.

Under our second contract (2007), we implemented 14 MMIS enhancements on time and within budget including National Provider Identification (NPI); UB-04; a complete replacement of the Web portal; and the integration of a condition-based edits engine. ACS also provides prescription benefits management services for Mississippi Medicaid.

Under our current third contract, we provide the following FAS and pharmacy services: claims processing, payment, and management; prior authorization; Medical review; provider and recipient services; financial services; system operation, maintenance, and modification/enhancement; executive Information system (EIS)/decision support system (DSS); Web portal; call center; document control/imaging; surveillance and utilization and review (SUR)/fraud and abuse detection system(FADS); management and administrative reporting (MAR) and ad hoc reporting; pharmacy point-of-sale (POS) claims processing/prospective drug utilization review (Pro-DUR); drug rebate administration; and pharmacy/therapeutics committee.

Table 7-9. Wyoming Medicaid

Organization: Wyoming Office of Healthcare Financing		
Contact Information/ Project Administrator	Name:	Debbie Paiz, Systems Manager
	Address:	6101 Yellowstone Road, Suite 210, Cheyenne, WY 82002
	Telephone:	(307) 777-7531; (307) 777-6964 (f)
	Email:	Debbie.paiz@wyo.gov

Description of Services Provided

ACS is currently fulfilling a third consecutive contract to provide the Wyoming Department of Health and Social Services MMIS maintenance and support and full fiscal agent services (FA). Our initial contract began in 1993 with the transfer and enhancement of our Florida MMIS and provision of full FA services. In 1995, we implemented our prescription drug claims system to receive pharmacy point-of-sale claim and eligibility verification transactions. Until the PBM contract expired in May 2009, we also processed pharmacy claims as part of the MMIS contract.

In 2000, the State awarded ACS a second contract to serve as fiscal agent and to implement major enhancements to the MMIS, including GUI, imaging capability, Web-enabled technology, benefit file plan, Medicare Buy-In, and enhanced drug rebate processing using DRAMS (drug rebate was part of the original FA work) to support all facets of drug rebate including invoicing, dispute resolution, and rebate agreement administration.

At the start of our third and current contract in November 2008, ACS began a major improvement project that involved 24 major system enhancements successfully implemented in October 2009. Also under the new contract, we added a call center to better serve providers participating in the state's dental program. Our MMIS maintenance and fiscal agent operations services include; claims processing, payment, and management; beneficiary services including call center and transportation services; provider services including outreach, credentialing, and Web portal; full-service provider relations, including call center, seminars, training, and publications; program integrity including electronic fraud and detection solution, full-service third party liability (TPL) including subrogation, estate recovery, Medicare buy-in, and J-code rebate; maintenance of a state Web portal for providers and beneficiaries; and services to support the state's dental program.

Table 7-10. New Hampshire Medicaid

Organization: New Hampshire Department of Health and Human Services		
Contact Information/ Project Administrator	Name:	Ms. Diane Delisle, Director, MMIS
	Address:	2 Pillsbury Street, Suite 200, Concord, NH 03301
	Telephone:	(603) 223-4744; (603) 223-8125 (f)
	Email:	ddelisle@dhhs.state.nh.us

Description of Services Provided

In December 2005, the State of New Hampshire Department of Health and Human Services awarded ACS a contract to replace the existing New Hampshire MMIS with ACS' Health Enterprise solution customized to meet State-specific requirements and to provide full fiscal agent services. ***In December 2011, ACS successfully launched the Provider Enrollment (PE) module of Health Enterprise for our New Hampshire Medicaid client.*** Prior to go-live, the PE module passed a multi-level user acceptance test (UAT) process that required 95 percent of the total solution structure/architecture to be in place and ready for use. We also ***recently underwent rigorous independent third-party system architecture and design reviews of the Health Enterprise system architecture, code, and functionality that confirmed the system's flexibility, transferability, scalability, and alignment with MITA 2.0 guidelines and standards.*** Significantly, the ***code review returned a rating of Superior Quality*** for the over five million lines of code contained within Health Enterprise. When DDI is completed, New Hampshire will have a fully operational and certifiable Web-based system that follows the federal MITA initiative, automates manual processes, creates administrative efficiencies, and optimally positions the State for anticipated Medicaid Reform initiatives.

As part of our Health Enterprise solution, ACS is providing New Hampshire with a feature-rich Web portal for providers, clients, internal end users, and the public. Each application component of the Web portal's user interface is HIPAA-compliant. The Web portal also gives providers and clients the benefits of self-service functionality and 24/7 access to the MMIS, while creating a reduction in operating costs for the State by diminishing the reliance on call centers, allowing providers self-service through the Web portal for services previously requiring call center assistance. These self-services include online provider enrollment, eligibility verification, computer-based training (CBT), claim submission and correction, claims inquiry, prior authorization submission and inquiry, and correspondence training.

DDI services include project and quality management; data conversion; testing; State, ACS, and provider training; provider re-enrollment; MMIS federal certification preparation/planning; and post implementation review.

Fiscal agent services will include claims processing, management, and payment; provider and recipient services; third party liability (TPL); EPSDT; MMIS maintenance and support; decision support system/ad hoc reporting; management and administrative reporting (MARS); surveillance and utilization review (SUR): care management; case tracking; county billing; acuity rate setting; benefit package; training; quality assurance; ZPerformance measures; and federal certification.

8 Staff Capacity, Qualifications and Experience

REQUIREMENT: RFP Section 4.1.8, pgs.102-103 of 115

4.1.8 Staff Capacity, Qualifications and Experience. The purpose of this section is to provide the Bureau with a comprehensive description of the Vendor's proposed project team. Section 4.1.8 should demonstrate the Vendor's ability and capability to provide knowledgeable, skilled, and experienced personnel to accomplish the Scope of Work as descr bed in Section 3.

The following components should be included in the Vendor's proposal Section 4.1.8:

- A detailed proposal for providing all resources necessary to fulfill the requirements as specified in this RFP, as detailed in Section 3.2.3 Staffing. The Vendor's proposal should clearly identify Key Staff (e.g., represented in bold font in the organizational charts). Attachment III - Staff Matrix should be completed, and include the percentage of time each Support Staff and Continuously Dedicated Staff role is to be dedicated to this project.
- Resumes (not to exceed two pages each) for the Key Staff members assigned to this project, including their licenses, credentials and experience.
- A letter of intent for each proposed staff member not currently employed by the Vendor. Each letter of intent should be signed by the named individual, indicating that they are to accept employment if the Vendor is awarded the contract.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

9 Project Approach and Solution

REQUIREMENT: RFP Section 4.1.9, pg. 103 of 115

4.1.9 Project Approach and Solution. The purpose of this section is to provide the Bureau with a thorough understanding of the Vendor's proposed approach and methodologies for completing the work of this project...

ACS' proposed replacement MMIS—Health Enterprise—offers the flexibility, scalability, reusability, and adaptability to support BMS' current vision and evolving requirements for West Virginia's Medicaid Program.

In these uncertain economic times, the West Virginia Medicaid Program is challenged as never before to deliver high-quality health services while remaining cost conscious. With the right solution and vendor, West Virginia's MMIS Re-procurement Project will increase administrative efficiency, improve service delivery to members and providers, support access to quality care, and encourage members to maintain and improve their health.

The ACS Advantage

- 4th generation Medicaid-specific solution delivers 91%+ of West Virginia's requirements without customization
- Highly configurable system reduces ongoing maintenance costs while enabling rapid change
- Proven project management approach and methodologies achieve BMS' objectives on time and within budget

ACS offers West Virginia more than 40 years of Medicaid experience, including 12 years as West Virginia's fiscal agent. When ACS was awarded the West Virginia MMIS contract in 1992, we refreshed the MMIS, replacing the provider, reference, recipient, and claims processing subsystems, along with the POS system used to adjudicate drug claims. We increased the capabilities of the system by implementing new long term care, managed care, and eligibility verification components. After the turnover to Molina in 2004, BMS commended ACS for our cooperation and efforts to facilitate a smooth transition. ACS is fully dedicated to working with BMS and its stakeholders to deliver a successful MMIS Re-procurement Project.

To meet West Virginia's requirements, we propose our Health Enterprise solution. Built on a service-oriented architecture (SOA) that thoroughly incorporates Medicaid Information Technology Architecture (MITA) principles, Health Enterprise is the most advanced information technology solution available. In 2011, a team of independent, third-party reviewers from IBM assessed 40 Health Enterprise design documents, five million lines of code, and 116 unique rules. The reviews confirmed that Health Enterprise has an extremely flexible and firm foundation and is ready to help states manage their Medicaid programs. In December 2011, ACS successfully launched the Provide Enrollment (PE) module of Health Enterprise for our New Hampshire Medicaid client; this phase includes all of the functionality needed for providers to re-enroll using the new system, the security infrastructure and contact management. The Provider Enrollment module represents 20 percent of Health Enterprise's base code and 95 percent of its architecture. The remainder of the Health Enterprise base code has been developed and system tested with parallel and integration testing in progress. New Hampshire will begin UAT within the next 60 days. The successful go-live of Provider Re-enrollment in New Hampshire coupled with the completion of the base system code demonstrates that Health Enterprise is a very low risk solution for West Virginia. ACS is ready to provide Health Enterprise to BMS.

Our disciplined project management approach and methodologies are based on industry best practices and lessons learned from working successfully with several other states to design, development, and implement (DDI) MMIS replacement systems. Our proven methodologies control scope, manage change, and deliver the highest-quality results throughout all project phases. Our approach reflects the high

priority BMS has placed on integrating quality and schedule management throughout all project activities and enables ACS to meet or exceed West Virginia's MMIS Re-procurement Project requirements.

Health Enterprise was designed to meet Centers for Medicare and Medicaid (CMS) certification requirements defined in the Medicaid Enterprise Certification Toolkit (MECT). The core design of Health Enterprise incorporates all of the 20 CMS Certification Checklists' business requirements. In January 2012, the DC MMIS became the first ACS MMIS certified under the MECT. CMS was so impressed with our certification management that they want to recommend our best practices for future certifications. We will work closely with BMS to achieve Federal MMIS certification and approval for the highest available Federal Financial Participation (FFP) rate retroactive to the first day of operations.

Our project staffing approach offers a project team with the necessary Medicaid fiscal agent leadership, management, technical, and operational skills to meet or exceed the Bureau’s requirements for all project phases. Our DDI team leaders and technical resources bring a wealth of knowledge and lessons learned from previous MMIS implementations. Our Operations team leaders understand Medicaid’s mandatory and optional services and how to implement, manage, and optimize business processes for accurate and timely service delivery. Additionally, our leadership team fully understands and supports the State’s legal and economic needs to acquire the right MMIS and fiscal agent solution at the right cost. Our staffing approach results in professional, efficient, and timely completion of all project phases.

In this proposal section, we provide a detailed description of how we plan to commence providing services upon contract award and deliver solutions to meet BMS' project objectives. This section includes:

- 9.1 Statement of Understanding
- 9.2 Proposed Approach and Methodology
- 9.3 Project Management
- 9.4 Project Facilities
- 9.5 Phase 2: Fiscal Agent Operations
- 9.6 Phase 3: Turnover and Close-Out
- 9.7 Drug Rebate Solution
- 9.8 Timeline/Gantt Chart
- 9.9 Attachment II - Requirements Checklist
- 9.10 Response to Mandatory Requirements

9.1 Statement of Understanding

- A "Statement of Understanding" (not to exceed 3 pages) that provides a high-level summary of the work requested by the Bureau for Medical Services in this RFP.

With the right technology solution and business processes, BMS will increase provider and member satisfaction, facilitate greater access to care, and reduce administration and program costs.

The acquisition of a new transaction processing and financial management system—even with today’s modern technology—will not achieve the Bureau’s ultimate objectives for the West Virginia Medicaid Program. The MMIS Re-procurement Project represents a significant investment by BMS to attain much greater goals—the type of goals that will make a lasting difference in the West Virginia healthcare environment and, most of all, in the lives of its most vulnerable citizens. BMS requires a partner that

brings true Medicaid thought leadership, a combination of time-tested and innovative business processes, and a highly qualified team. ACS is that partner.

BMS' broad goal for the West Virginia MMIS Re-procurement Project is to implement a replacement MMIS that meets all criteria for CMS certification; aligns with the business, information, and technical architectures of the Medicaid Information Technology Architecture (MITA); and complies with the Health Insurance Portability and Accountability Act (HIPAA) standards for electronic transactions, code sets, privacy, and security. The system must also be capable of supporting and ultimately integrating with a statewide Health Information Exchange (HIE) to exchange standardized clinical data among stakeholders in a secure environment. Inherent in this broad set of expectations is the incorporation of modern technologies required to support healthcare business transactions and program administration. These required technologies include:

- A solution aligned with the business, information, and technical objectives of MITA, with the ability to support levels of MITA maturity expressed in the West Virginia SS-A
- A service-oriented architecture (SOA) that aligns technology with business needs and supports all HIPAA 5010 and ICD-10 requirements
- A commercial off-the-shelf (COTS) rules engine that allows changes to be made quickly and easily in response to program changes without the need for technical programming
- Enhanced workflow management to increase automation and decrease manual processes
- Web functions for service authorization, eligibility verification, claims submission and correction, and provider enrollment to promote self-service and increase provider program participation
- Services capable of integration with statewide HIE to support the goal of effective health outcomes and increased member participation in healthy initiatives
- Increased ability to plan and analyze proactively based on enhanced reporting capabilities

In replacing HealthPAS, BMS has a tremendous opportunity to fulfill its vision for the West Virginia Medicaid Program. ACS offers the right people, processes, and technology solutions to achieve BMS' goals for streamlined administration, tailored services, coordinated care, and increased opportunities and incentives for members to maintain and improve their health.

Our solution provides a fully Web-based, MITA-aligned, and SOA-compliant MMIS solution—Health Enterprise—that increases automation, reduces manual processes, and already incorporates 91 percent of West Virginia's current business requirements without customization. Health Enterprise also meets all CMS certification requirements defined in the Medicaid Enterprise Certification Toolkit (MECT). We will work with BMS to ensure that the West Virginia Health Enterprise MMIS receives CMS certification retroactive to the first day of operations.

The key components and functions of the replacement MMIS, as defined in Appendix E, include member management, provider management, operations management, program management, care management, program integrity management, pharmacy point-of-sale (POS), and a drug rebate component. To address BMS' business and technical components, our solution includes:

- **A Web Portal** that provides information and functionality to members, providers, BMS, and other key MMIS stakeholders through a single sign-on governed by robust role-based security. Health Enterprise provides full Web-based access for all users, including online, real-time claims processing, the submission of claims attachments, and service authorization functionality.

- **Operations system and program performance monitoring and reporting** that enhances BMS' ability to analyze operations and improve program management as needed. Health Enterprise has a fully integrated, enterprise-wide information repository that consolidates BMS' reporting and analysis needs onto a single reporting platform. Our Cognos business intelligence tools provide flexible and comprehensive operational reporting, ad hoc reporting, and performance monitoring and reporting.
- **Financial management**, including an integrated accounting system that promotes tracking of financial transactions, enhances collections of outstanding accounts receivable, and provides a flexible and thorough reporting suite. Health Enterprise's financial management component processes all claims, credits, adjustments, voids, and fiscal transactions through the final payment process, producing provider checks and electronic fund transfer (EFT) transactions.
- **Call Center operations** include an Automated Voice Response System (AVRS) and live representative customer service to assist providers, members, BMS, and other MMIS users. Our Call Center Supervisor and Customer Service Representatives handle inquiries in a professional, courteous manner, listening carefully to callers and providing information to assist them. ACS call centers are certified and nationally recognized for excellence.
- **Electronic Document Management System (EDMS)** integrates document, content, and records management; document capture and imaging; document-centric collaboration; and workflow management into the MMIS. Our solution provides the ability to integrate and make readily available all service authorization, payment management, member payment information, and related correspondence, reports, and associated documents with the EDMS component.

BMS has also requested that we propose a range of optional services and additional available offerings that would enhance the Bureau's ability to meet its broader goals of care management and population health management, among other objectives. We are pleased to offer details of our HIE/EHR solutions and our URAC-accredited care management services, all of which are fully compatible with and capable of integration into Health Enterprise through our SOA architecture and single sign-on Web interface.

ACS has the resources, processes, and capabilities to meet or exceed BMS' requirements for the MMIS Re-procurement Project. To achieve the scope of work objectives outlined in the RFP, ACS will:

- Provide a state-of-the art technical solution that meets or exceeds RFP requirements
- Employ methodologies and a design, development, and implementation (DDI) approach that minimizes risk throughout every phase of the project
- Ensure the timely completion and deployment of provider services, including the self-service Web portal and automated provider enrollment
- Assume fiscal agent operations without disrupting provider payments or member access to care and services
- Achieve Federal Centers for Medicare and Medicaid Services (CMS) certification and approval, retroactive to the first day of operations, within 12 months of cutover to the replacement system
- Comply with all HIPAA requirements including privacy and security standards
- Reduce manual processes, increase automation, and enhance workflow capabilities to improve efficiency and convenience for BMS staff
- Provide opportunities and recommendations to help BMS achieve stated MITA maturity goals
- Effect an efficient and professional turnover of the system and fiscal agent operations to a successor contractor at the end of the project

Our program management approach is transparent to BMS and supports full and open communication. ACS and our team of proven subcontractors and vendors fully support BMS' vision and stand ready to provide the forward thinking solution BMS requires. Our solution is driven by strong, proven methodologies that consistently produce the highest quality results on time and within budget. Our corporate experience, commitment, and culture fully support BMS in achieving its Medicaid goals.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Our MITA-aligned solution provides the technical and architectural foundation for achieving the Bureau's short-term and long-term goals. Our proposal provides the details of the services and solutions we offer BMS in each of the project's three major phases: Phase 1, MMIS Replacement DDI and Certification Planning; Phase 2, Fiscal Agent Operations; and Phase 3, Turnover and Closeout. From project initiation through closeout, we will work in partnership with BMS to provide a certified MMIS and the staff required to reduce the Bureau's administrative burdens, enhance member access to care, accommodate evolving program needs, and leverage current Health Information Technology (HIT) and Health Information Exchange (HIE) solutions to enhance service levels to members, providers, and other MMIS stakeholders.

9.2 Proposed Approach and Methodology

REQUIREMENT: RFP Section 4.1.9, pg. 103 of 115

4.1.9 Project Approach and Solution. The purpose of this section is to provide the Bureau with a thorough understanding of the Vendor's proposed approach and methodologies for completing the work of this project. Section 4.1.9 should exhibit the Vendor's understanding of the Scope of Work, the project objectives, and the project timeline.

Our proven planning and implementation approach brings a strong, repeatable methodology to program management that allows West Virginia to transition to a new MMIS and fiscal agent contractor while minimizing risk.

ACS' Standardized Process and Resource Kit—Implementing Technology Solutions (SPARK-ITS©) Quality Management System (QMS) guides the smooth execution of work during the three phases of the MMIS Re-procurement Project and includes our project management, system development, operations and maintenance, and training methodologies. Exhibit 9-1 provides an overview of how our SPARK-ITS QMS methodology aligns with the project phases defined in the RFP. As shown, we execute nine workflows to analyze requirements, design, develop/configure, test, and implement Health Enterprise. We provide additional development, testing, and implementation tasks to accomplish the early deployment of provider enrollment functionality.

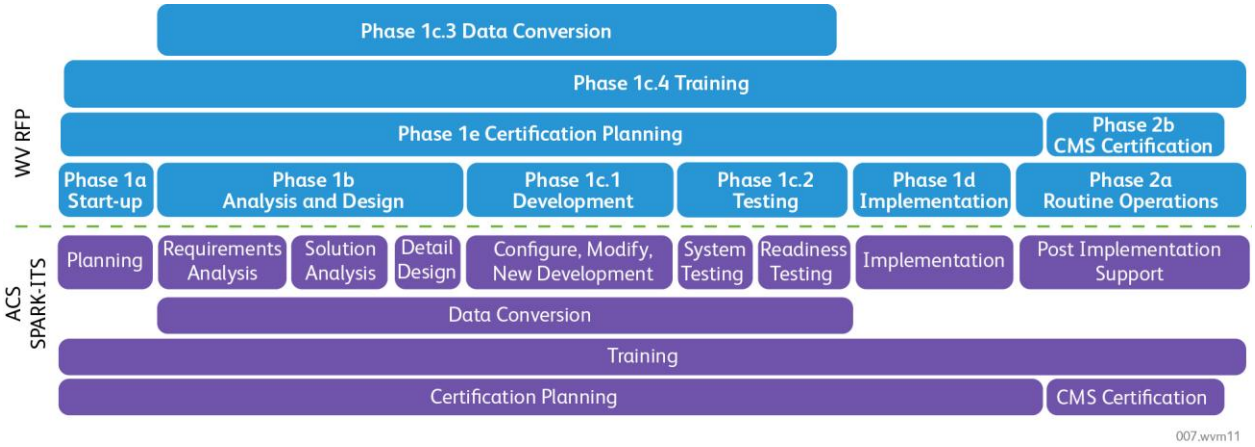


Exhibit 9-1. Methodology Comparison
The SPARK-ITS QMS aligns with the project phases listed in the RFP.

Our systematic approach provides process efficiency, reporting consistency, execution accuracy, and performance excellence. This approach has earned ACS an appraisal rating of the Software Engineering Institute's Capability Maturity Model Integration (CMMI®) Maturity Level 3—recognition of our capability to create and deliver sophisticated information technology solutions. ACS received the CMMI Maturity Level 3 rating after a comprehensive independent appraisal of eight ACS government healthcare projects, all of which used our SPARK-ITS QMS.

Health Enterprise projects use a version of SPARK-ITS QMS that is tailored for government healthcare deployments and customizable to address the unique needs and requirements for Health Enterprise deployment in West Virginia. As described throughout the proposal, and specifically in Proposal Section 10.1, Proposed West Virginia MMIS, Health Enterprise projects begin with the base system that integrates common functionality, custom processing, Internet capabilities, a variety of commercial off-the-shelf (COTS) products and software, and telecommunications into a system designed to meet Medicaid information processing needs. Our initial gap analysis indicates that Health Enterprise delivers 91 percent of West Virginia's requirements without customization. The SPARK-ITS QMS takes advantage of the fact that we are configuring and modifying a solution, rather than making significant programming changes to a legacy transfer system.

As shown in Exhibit 9-2, the SPARK-ITS QMS comprises our project management methodology (PMM), system development methodology (SDM), operations and maintenance methodology, and training methodology. The SPARK-ITS QMS includes repeatable, consistent, and documented processes that ACS tailors to meet West Virginia's specific needs and requirements. The SPARK-ITS QMS ensures that the project maintains a consistent approach, leverages proven practices, and maintains alignment with important industry standards. As a result, the SPARK-ITS QMS solution implementation is standardized, consistent, and optimized, yet specifically addresses the needs of West Virginia.

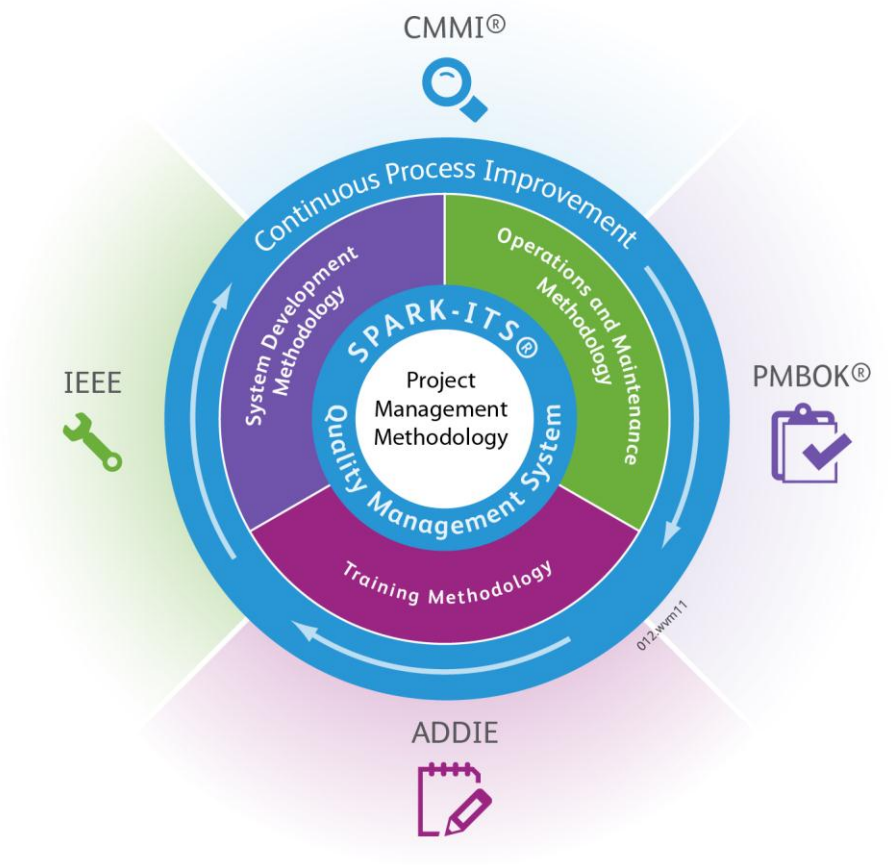


Exhibit 9-2. SPARK-ITS QMS Components
The components of the SPARK-ITS QMS provide a comprehensive framework for project initiation and implementation.

Project Management Methodology (PMM). We execute the PMM throughout Phases 1, 2, and 3 to provide oversight and monitoring of all project activities. Among other things, the PMM ensures the project is staffed with appropriate resources, anticipates and mitigates risks, and proactively manages scope and functional requirements. ACS staffs an Enterprise Project Management Office (EPMO) to adopt, tailor, and execute the PMM. The PMM component of the SPARK-ITS QMS, as used in the DDI and Certification Phase of the project, is discussed further in Proposal Section 9.3, Project Management. The PMM includes plans, procedures, and supporting tools for more than a dozen process areas, including communication management, scope management, schedule management, and risk management.

System Development Methodology (SDM). Our SDM includes a life cycle that comprises four Rational Unified Process (RUP)-based phases and nine workflows. It includes plans, processes, templates, and supporting tool standards for requirements validation, gap analysis, detailed system design, development, testing, data conversion, implementation, and post-implementation support. The SDM allows each MITA business area and business process to move at its own planned pace through the system development life cycle. Our methodologies include iterative development to foster collaboration, identify and correct defects early, and show progress through prototyping, working with early versions of deliverables, and implementing functionality incrementally. We balance the iterative approach with more traditional waterfall concepts to ensure we establish a baseline for requirements, finalize and submit design

deliverables, and apply strong change and configuration management principles for the life of the contract.

We execute the nine workflows to configure and implement the system in Phase 1, and then we reuse the workflows to design and develop enhancements during operations in Phase 2. As an example, Table 9-1 identifies these nine workflows and describes the activities that occur during Phase 1.

Table 9-1. Workflows for Phase 1: Replacement DDI and CMS Certification Planning

Workflow	Description
Planning	Includes the activities to set the stage for the MMIS Re-procurement Project's success, tailoring processes for communication, staffing, risk assessment and mitigation, and other management topics
Requirements Analysis	Defines, documents, and approves the requirements that will represent the scope of the project
Solution Analysis	Compares the requirements defined in the Requirements Specification Document (RSD) against Health Enterprise's baseline functionality; guides development of West Virginia Health Enterprise system design
Detail Design	Includes tasks to develop the detailed system design
Configuration, Modification, and New Development	Encompasses tasks to install, configure, modify, or enhance functionality from Health Enterprise to align with BMS requirements
System Testing	Includes processes for system testing within each business area, across business areas, and across interfaces to ensure functionality aligns with specifications
Readiness Testing	Addresses testing to confirm that the system is ready for operation
Implementation	Includes activities detailed in the Implementation Plan to be performed when the system goes live
Post-implementation Support	Describes follow-up activities to review the DDI effort, evaluate BMS satisfaction, collect final metrics, and transition to operations

Proposal Section 10.2, Phase 1: MMIS Replacement DDI & CMS Certification Planning describes how our SDM aligns well with the five DDI tasks required by BMS in Phase 1. We extend our SDM for use in operations to accomplish the project-based and operations-based activities within the three operations tasks required by BMS in Phase 2. The result is an implementation that meets BMS' requirements and schedule and provides high-quality deliverables and a feature-rich, user-centric solution.

Operations and Maintenance Methodology. We extend our PMM and SDM processes for re-use in maintenance and fiscal agent operations. By providing guidance for re-use of existing procedures during operations, our operations maintenance methodology creates a systematic approach to handling enhancements, system maintenance, and account management.

Training Methodology. SPARK-ITS QMS includes a comprehensive, user-centric learning approach within its training methodology. Our training methodology provides a methodical training approach specific to the needs of each learner and learner group, including project team staff and end users. Furthermore, our training methodology includes practices aligned with the foundational standard for instructional systems design—Analysis, Design, Develop, Implement, and Evaluate (ADDIE)—to develop, deploy, and continuously improve training. We provide more information in Proposal Section 10.2.3.4, Training Task.

9.3 Project Management

REQUIREMENT: RFP Sections 3.2.2 and 3.2.2.1, pg.53 of 115

3.2.2.1 Vendor Response Requirements: The Vendor should propose the use of an industry standard project management methodology and describe in detail their plans to apply that methodology to complete all project phases as identified in Section 3.2.5, including integrating with the MMIS Re-Procurement Project Team.

The Vendor should describe the controls, tasks, procedures and communication mechanisms to be used to manage the tasks identified in this RFP, as well as their approach to practicing project management disciplines.

The Vendor should state in writing that their methodology and approach interacts effectively with the overarching BMS Project Plan, which was developed as per industry recognized project management methods, and that the Vendor works cooperatively with the MMIS Re-Procurement Project Team.

The Vendor should propose a process for acquiring deliverable acceptance by BMS and should include (but not necessarily be limited to) the following:

- Establishing a process for agreeing upon measurable acceptance criteria for each deliverable;
- Documenting that those criteria have been met;
- Providing adequate time for BMS review of deliverables; and
- Establishing a timeline and process for remediating deficiencies and the format to be used for BMS signatory approval.

The Vendor should include sample reports, forms and deliverable formats in a separate section at the back of their proposal. Specific reports, forms and deliverable samples should include a representation of the standard items associated with the Vendor's project management approach.

BMS benefits from the proven ACS project management methodology (PMM), an experienced Enterprise Project Management Office (EPMO) with extensive and successful healthcare industry project experience, and effective control and management throughout implementation and ongoing operations.

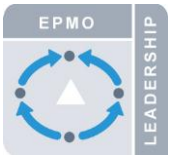
BMS clearly has a long-term view of the West Virginia MMIS Re-procurement Project—a view that it expects the successful contractor to share. To support this view, we apply repeatable management processes throughout the life of the contract, with project management activities being integral to each project team member's responsibilities. Our PMM correlates well with West Virginia's preferred methods and deliverables for project management and interacts effectively with the overarching BMS Project Plan. ACS is committed to applying the appropriate level of project management in performing the scope of work under this contract. Our Charleston-based EPMO oversees the execution of our PMM processes and serves as a critical interface point for the Bureau to monitor and participate in the project.

One of the most daunting challenges of information technology today is the creation of an effective project management methodology that can successfully manage the definition, development, and delivery of complex IT solutions on time, within budget, and with high quality, while at the same time meeting sophisticated requirements such as those for the West Virginia MMIS Re-procurement Project. ACS is committed to providing the best tools and capabilities as we develop, implement, and operate such a critical and comprehensive system.

Proven Methodology with Experienced Resources

- Project management methodology based on industry standards of excellence for project management. PMM aligns with PMBOK and West Virginia Office of Technology PM guidance
- Processes and tools promote transparency and cooperative partnership between BMS and ACS
- EPMO oversees methodology, keeping activities aligned with Bureau business needs
- Quality management and control driven into project processes from DDI through operations
- Skilled resources successfully manage delivery and mitigate risks to meet schedule commitments and produce high-quality work products

9.3.1 SPARK-ITS Quality Management System



We built our first MMIS solution nearly 41 years ago and, consistent with the growing sophistication of IT systems, we have grown and constantly evolved our SPARK-ITS (Standardized Process and Resource Kit - Implementing Technology Solutions) Quality Management System (QMS). Comprising a project management methodology, a system development methodology (SDM), and training methodology components, our SPARK-ITS QMS leverages recognized leading project management standards and practices such as the Project Management Institute's *A Guide to the Project Management Body of Knowledge (PMBOK®)*–Fourth Edition and the Software Engineering Institute's Capability Maturity Model® Integration (CMMI). In addition, the methodology includes use of the latest technologies and Internet capabilities and a variety of commercial off-the-shelf products to efficiently and effectively integrate the project management processes.

While the SPARK-ITS QMS is an ACS corporate-wide methodology, the version of our PMM we propose to the Bureau is tailored to Health Enterprise implementations. We further adapt our plans, procedures, training, and supporting tools to align with BMS' needs as stated in the RFP. This tailoring takes place during the Planning Workflow of our life cycle (equivalent to the Start-up Phase from the RFP), at which time we modify and submit for Bureau review, comment, and approval plans for all RFP-required PMM deliverables. These tailoring activities take place during Phase 1a, Start-up, and set the stage for the project's success. Our EPMO then provides oversight of these practices for the remainder of the life cycle. The nine workflows of our development life cycle and their mapping to the RFP phases are depicted in Exhibit 9-3.

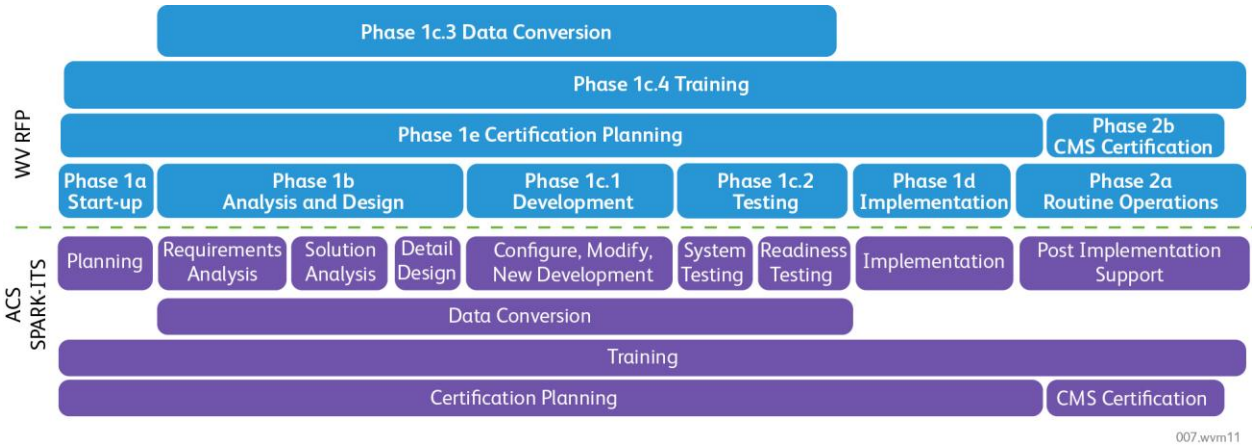


Exhibit 9-3 Mapping of the Nine SPARK-ITS QMS Workflows to the WV RFP Phases
SPARK-ITS QMS workflows and phases correspond to those established by West Virginia in the RFP.

We execute the nine workflows to analyze requirements, design, develop/configure, test, and implement Health Enterprise. In addition to the life cycle depicted in Exhibit 9-3 above, we provide additional development, testing, and implementation tasks in our Project Schedule to accomplish the early deployment of provider enrollment functionality.

The SPARK-ITS PMM has been institutionalized for several years on multiple MMIS replacement projects, most recently in the completion of the Washington DC MMIS Design, Development, and Implementation (DDI) project (CMS certified in January 2012). It is currently used across ACS State

Healthcare projects, from MMIS to electronic data interchange (EDI) to pharmacy benefit management (PBM).

Our proposed PMM is based on industry best practices, primarily the PMBOK® Guide, Fourth Edition. Our PMM maps to the nine PMBOK knowledge areas: Project Integration Management, Project Scope Management, Project Time Management, Project Cost Management, Project Quality Management, Project Human Resource Management, Project Communications Management, Project Risk Management, and Project Procurement Management. Furthermore, we have refined the project management processes within each PMBOK knowledge area to better align with the needs of Medicaid projects. For example, in addition to an Integration Management Plan to address project integration management, we provide specific plans to address Change Management, Configuration Management, Issue Management, etc.

Table 9-2 indicates how the SPARK-ITS PMM is aligned with the PMBOK areas. Items in bold align to West Virginia RFP deliverable requirements. We provide the non-bolded plans, either individually or packaged to form a Project Management Plan, to the Bureau for informal review.

Table 9-2. Alignment of SPARK-ITS PMM to PMBOK®

PMBOK® Guide Knowledge Areas	SPARK-ITS PMM Plans
Project Integration Management	• Action Item Management Plan • **Change Management Plan** • **Configuration Management Plan** • **Issue Management Plan** • **Problem Management Plan** • Metrics Management Plan • **Integration Management Plan**
Project Scope Management	• Requirements Management Plan • **Scope Management Plan**
Project Time Management	• **Schedule Management Plan** • **Project Schedule**
Project Cost Management	• **Cost Management Plan**
Project Quality Management	• **Quality Management Plan (includes peer review, Quality Assurance, Quality Control, and Continuous Process Improvement sections)**
Project Human Resource Management	• **Human Resource Management Plan** • **Staffing Plan**
Project Communications Management	• **Communication Management Plan**
Project Risk Management	• **Risk Management Plan**
Project Procurement Management	• Supplier Agreement (Contract) Management Plan

ACS provides additional PMM plans, processes, and best practices that are not mandated by PMBOK or the RFP but instead map to other industry best practices, such as CMMI. CMMI is an internationally recognized process improvement model that provides organizations with a framework to build and continuously improve effective processes. In May 2009, ACS completed an independent, standard CMMI appraisal for three groups in our Government Healthcare Solutions Group (GHS): GHS Technical

Solutions for Medicaid Management Information Systems (MMIS), GHS Product Service and Delivery (GPSD), and Electronic Data Interchange (EDI). These organizations were appraised at CMMI Maturity Level 3, meaning that project management and system development processes are well characterized and understood; are described in standards, procedures, tools, and methods; and are performed consistently across the organization.

9.3.2 Controls, Tasks, Procedures, and Communication Mechanisms

The purpose of project tracking and oversight is to ensure that the project is executed according to schedule and budget and that work products, software, and services are at the level of quality the Bureau requires in order to meet its business objectives of an improved Medicaid program for its citizens. During project start-up, we meet with the Bureau to review the PMM plans and any additional PMM standards and practices established by the West Virginia Office of Technology (WVOT), and confirm expectations for the project. As both WVOT guidance and the SPARK-ITS QMS are based on PMI's PMBOK best practices, we anticipate a high degree of conformity.

The EPMO creates and baselines the Project Management Plan and sub-project plans and continually monitors and reports on project progress. Progress is monitored primarily by measuring actual performance against planned performance. Throughout the project life cycle, we also identify and mitigate risks early to keep the project on track. The BMS Project Team can easily access the dedicated project SharePoint site to view the Project Management Plan and other plans and reports.

ACS posts all project plans, artifacts, guidance documents, and procedures to the project SharePoint site for easy, secure access by all project team members and BMS stakeholders. The ACS EPMO is responsible for securing the baseline of each item, controlling changes to the baseline, and communicating those changes to the project team and stakeholders.

While our Communication Management Plan provides a framework for regular and dependable message development and information sharing, it does not replace the daily informal communication that occurs between the ACS and BMS staff. ACS commits to an "open door" approach. We believe that for project success, we need to truly partner with the Bureau and share as much as we can, both formally and informally.

In our view, communication is a continuous process that plays a vital role throughout the life of the project. In the early stages, communication focuses on garnering mutual understanding, establishing agreement on goals, objectives, requirements, and approach, and forming a vision for long-term success. It continues as we work to inform and empower stakeholders to embrace the new system, helping them understand the program, its impacts, and their role in its success.

The complexities of developing and operating a new MMIS make it imperative to continuously maintain the highest degree of alignment among all stakeholders. To support this, we focus on developing strong partnerships, moving beyond a client/vendor relationship into a relationship founded on trust, open communication, and alignment with our client's goals.

In order to most efficiently and effectively manage the alignment of BMS and ACS project goals and objectives, we have turned to SchellingPoint, the industry leader in establishing and optimizing alignment in complex environments. The SchellingPoint service combines analytic measurement techniques and a deep understanding of group dynamics to execute discrete alignment cycles. The first cycle is conducted

at the beginning of the project to firmly establish our common focus. Each cycle uses powerful software to identify, refine, and quantify potentially nebulous conceptual objectives, such as "improved healthcare" or "streamlined processes." By guiding us to the level of specificity needed to successfully plan and execute an effective MMIS project, the SchellingPoint process helps BMS and ACS accurately concur on the outcomes we strive to achieve and the consequences to avoid. This rapid, rigorous activity turns a traditionally subjective, heavy, meeting-based approach into a process that is far more objective, efficient, and action-oriented. Alignment cycles are repeated annually in order to manage any drift in alignment throughout the project. See Proposal Section A38, Vendor Proposed Services, in the Appendix for more information about SchellingPoint.

9.3.3 Process for Acquiring Deliverable Acceptance by BMS

As part of our PMM, we have a structured, documented process for preparing, reviewing, remediating deficiencies, and obtaining BMS signatory approval of all deliverables, as indicated in Exhibit 9-4.

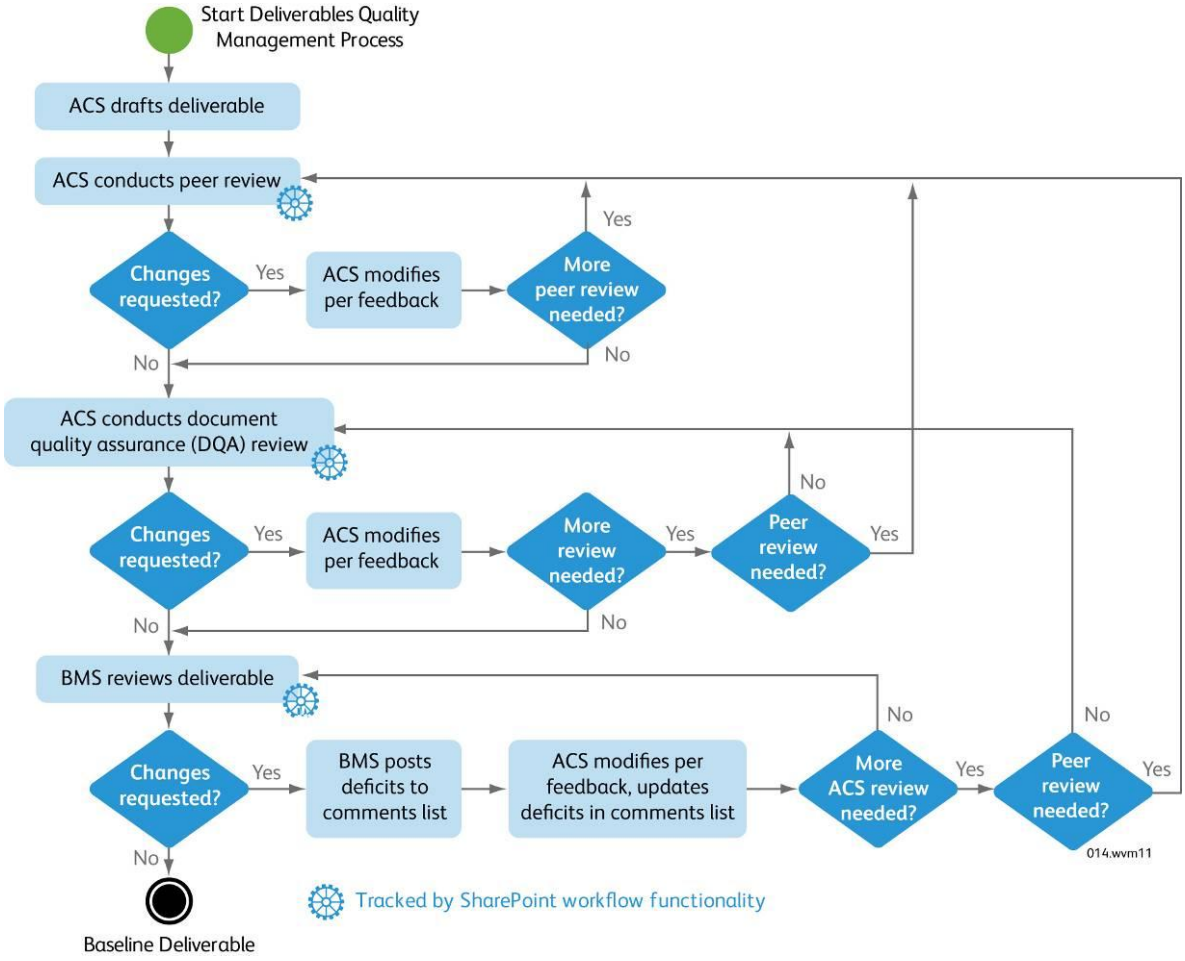


Exhibit 9-4. Deliverable Review Process
Rigorous quality reviews precede deliverable review and approval by BMS.

During the Start-up Phase, ACS team members work with the BMS MMIS Re-procurement Project Team and other stakeholders to create a Deliverables Expectations Document (DED) that details the content,

location, constraints and assumptions, and key stakeholders for all contractual deliverables. The DED, which serves as our Deliverables Dictionary, also captures and affirms our mutual understanding of the approval process and acceptance criteria for the work products delivered throughout the project. Our quality reviews before delivery of work products affirm that the corresponding acceptance criteria have been met. Based on our best practices, ACS generally designates 10 days for BMS review of initial drafts of deliverables and 5 days for BMS review of final deliverable versions, with time allotted for any remediation necessary following reviews. We conduct walkthroughs of key deliverables with BMS staff and other stakeholders as needed, as well. ACS works with BMS during the Start-up Phase to adjust these durations as necessary based on BMS needs, deliverable type, frequency of delivery, and deliverable complexity. Review period agreements are captured in the DED and specified in the Project Schedule.

Use of Enterprise Project Management (EPM) tools and the SharePoint document management system enables us to create, revise, and submit the highest-quality project deliverables for BMS approval. SharePoint's workflow management capability allows ACS and BMS team members to efficiently and easily track the progress of deliverables throughout the review and approval process. BMS and ACS reviewer feedback is submitted and managed by using the interactive Deliverable Comments Form on SharePoint, as shown in Exhibit 9-5. Formal sign-offs of all deliverables are maintained on the project's SharePoint site, as well.

Deliverable Comments for XYZ

New | Actions | Settings | View: All Items

ID	Initial Document Version	Status	Chapter	Section	Category	Description	Document Version With Fix
1	1.00	Drafted by BMS	1 - Care Management	1.1 Functional Requirements	Not Aligned with Requirement	Please fix 1.1 #15 to align with RFP Req #CM-3	
2	1.00	Drafted by BMS	2 - Client Management	2.2 User Interfaces	Grammatically Incorrect	Please change heading on screenshot to say Client not Member	
3	1.00	Submitted by BMS	4 - Program Management	4.5 External Interfaces	Functionally or Technically Incorrect	Interface with System Y should not include Client's SSN	
4	1.00	Assigned to ACS Team Member	3 - Operations Management	3.4 Interfaces	Not Aligned with Requirement	Interface with financial system should run at 5 PM MT, not 5 PM ET	
5	1.00	Resolved by ACS	4 - Program Management	4.5 Business Rules	Not Aligned with Requirement	Need to add another benefit plan to the drop-down list	1.10
6	1.00	Confirmed Resolved	5 - Provider Management	5.2 User Interfaces	Grammatically Incorrect	Replace "DPPHS" with "DPHHS" on all screens in this section	1.10
7	1.00	Drafted by BMS	1 - Care Management	Section 1.2 page 4	Functionally or Technically Incorrect	Found a misspelling on page 6	

Exhibit 9-5. SharePoint Deliverable Comments Form
Capturing and managing feedback on deliverables is easy and efficient using the Deliverable Comments Form on the project's SharePoint site.

9.3.4 Comprehensive Initial Project Management Plan

The Vendor should also propose a comprehensive initial Project Management Plan that describes how they intend to complete each phase of the project. The Plan should include (but not be limited to) the following:

The EPMO adopts, tailors, monitors, and controls all PMM processes such as requirements and scope management, change and configuration management, schedule management, and risk management. The EPMO ensures that progress is made according to schedule, within budget, and with work products that contain the highest level of quality. Proactive, risk-averse, and quality-centric control by the EPMO

includes the development of informative and clear status reports, regular meetings to discuss issues and risks, and comprehensive resource planning, development, orientation, and training.

The Project Management Plan is one of the EPMO's key deliverables. Through the Project Management Plan, the EPMO facilitates the effective coordination of resources and manages the interdependencies that exist among them. The EPMO is responsible for ensuring that all project team resources have formulated detailed plans, are focused on the right priorities, are making the expected progress, have a vehicle for escalating issues and identifying risks, and have a robust process for managing scope and changes. In addition, the EPMO is responsible for the quality of deliverables, for the integrity of reported project status, and for the overall project governance.

The elements of our Project Management Plan, as defined in the RFP, are summarized in the following subsections and further described in the Appendix. Taken together, these elements constitute the comprehensive initial Project Management Plan.

9.3.4.1 WBS and Deliverable Dictionary

REQUIREMENT: 1. Work Breakdown Structure (showing all project deliverables) and Deliverables Dictionary.

ACS prepares the Project Schedule based on our Work Breakdown Structure (WBS) that defines each task, activity, and the scheduled dates and resources for each. The Project Schedule includes both BMS and ACS assigned tasks, durations, and resources. The WBS reflects preparation, review, and submission of the project deliverables listed in our Deliverable Expectations Document (our equivalent of the Deliverables Dictionary).

The WBS is presented in Proposal Section A8, Work Breakdown Structure and Deliverable Dictionary, in the Appendix. Table 9-3 summarizes the high-level structure of the project's WBS.

Table 9-3. High-level summary of the project's WBS

WBS#	Task Name	Description
1	Project Administration	Ongoing Project Management Tasks that last the duration of the WV MMIS Re-Procurement Project. Also includes transition management.
2.1	Phase 1a - Project Startup	Activities allowing the project team to understand the process of the client and to plan project activities.
2.2	Phase 1b - Analysis and Design	Planning the configuration and development activities of the tasks necessary for matching the solution to the BMS requirements.
2.3.1	Phase 1c.1 - Development and Unit Testing	Incremental process allowing functionality to be configured or constructed, unit tested, and prototyped.
2.3.2	Phase 1c.2 - Testing	System testing, regression testing, integration testing, user acceptance testing, and operational readiness testing are all performed during this phase, to catch defects as early as possible to minimize impacts.
2.3.3	Phase 1c.3 - Data Conversion	Taking existing data and converting it to work with the new system, including mapping of data and processes.
2.3.4	Phase 1c.4 - Training	Train BMS, providers, and ACS staff how to use the system effectively and efficiently so they can start on day one. Includes documentation, online help, classroom instruction, and Learning Management System (LMS).
2.4	Phase 1d - Implementation	Process in which we package the system and prepare it for "Go Live" and transition the operational staff so they can be ready on day one.

2.5	Phase 1e - Certification Planning	Preparatory tasks leading up to CMS Certification, such as collecting all required documentation and completing all MECT checklists.
3.1	Phase 2a – Routine Operations	All tasks associated with performing routine fiscal agent operations in accordance with BMS directives.
3.2	Phase 2b – CMS Certification	All tasks associated with working with CMS reviewers to confirm that Health Enterprise performs as required and that all documentation and data is correct.
3.3	Phase 2c – MMIS Modifications and Enhancements	All tasks associated with updates to the system over its period of operations.
4	Phase 3 - Turnover and Closeout	Planning to ensure that the new contractor has everything needed to work in our environment, such as processes and procedures. Includes turnover of equipment, a complete inventory, and backup of data software files. Done to avoid disruption of Medicaid services and any other impact to the State.

9.3.4.2 Project Schedule

REQUIREMENT: 2. Project Schedule: It is recommended that the Vendor propose interim and draft deliverable due dates to facilitate BMS's review of project deliverables. The Vendor may propose additional deliverables to the deliverables specified by this RFP; however, those new deliverables do not have payments associated with them.

Effective schedule management is dependent upon current, accurate information regarding resource allocation, availability, progress on assigned tasks, and remaining work. ACS' approach to schedule management encourages dynamic, effort-driven, and predictive schedule development, as well as proactive identification of slippage and scheduling conflicts to ensure early mitigation of scheduling issues and resource constraints.

The detailed West Virginia MMIS Re-procurement Project schedule is created using Microsoft Project and stored on a shared server, rather than on local desktops. Project tasks are pushed to the team's Web browsers via Project Web Access (PWA). Team members simply log on to their PWA site and review their current and upcoming tasks, durations, work, and deadlines in live mode. Team members submit their actual and remaining work on each task using PWA on a weekly basis, providing detailed information on task progress and remaining work so that the EPMO can manage the tasks, deadlines, and resource allocations effectively and comprehensively. Because individual team members submit their work data via PWA, the EPMO is able to focus on managing the schedule and best use of project resources rather than entering actual and remaining work into each task.

We have allowed for Bureau reviews of deliverables in our Project Schedule. We work with the MMIS Re-procurement Team during the Start-Up Phase to adjust these durations based on BMS needs, deliverable type, frequency of delivery, and deliverable complexity, as appropriate.

Our schedule management processes include standards to ensure consistency of task naming, effective and informative decomposition of tasks, and proven estimation techniques to improve the accuracy and predictability of the project schedule. Some of these standards include:

- Milestones, BMS tasks (including reviews), and deliverable submission task names are indicated by the prefixes "M:," "C:," and "D:", respectively, in order to highlight these tasks and allow for enhanced reporting.

- Normally we use Fixed Work, Effort Driven tasks (where assigning additional resources shortens the duration of the tasks). BMS responsibilities are set to Fixed Duration (where the durations of tasks remain as set, regardless of the number of resources assigned). This is because ACS only indicates in the work plan that BMS is responsible for particular activities; it is up to BMS to assign specific members of their own staff to those tasks and monitor that their tasks are completed within the designated time period.
- Resources are manually leveled to allocation levels between 80 and 125 percent in a given month.
- Tasks occurring within 90 days must be between 8 and 80 hours of work per resource; larger tasks must be divided into smaller increments to align with this standard.
- All schedule assumptions and constraints are documented in the Schedule Management Plan.
- All tasks should include at least one predecessor and successor to ensure correct identification of the project's critical path.
- Task constraints are set to "As Soon As Possible," unless there is an absolute need to set a fixed date for a task.

Adherence to these and other standards allows for clarity of assignments, ease of reporting, effective management, and reliability of a well developed, predictive schedule. ACS offers custom-built reporting that allows for dynamic and robust reports on deliverables, milestones, resource allocation, and project health.

9.3.4.3 Staffing Plan

REQUIREMENT: 3. Staffing Plan as described in Section 3.2.3.

The purpose of the staffing plan is to make certain the project has sufficient staff with the right skills and experience to ensure successful project completion. Our Staffing Plan comprises two parts: the Staffing Allocation Matrix and the Human Resources Management Plan (the latter referenced in Proposal Section 9.3.4.8, Project Management Sub-Plans). The Staffing Allocation Matrix is a staff resource loading chart used to identify the positions required on the project and the months in which the positions are needed. The Staffing Allocation Matrix is continuously maintained by the project manager to accurately reflect the names, rates, and other pertinent information about resources assigned to project positions. It is tied closely to the Human Resources Management Plan and the Cost Management Plan.

We have a large pool of experienced ACS resources to draw upon, including several key personnel who served BMS during our previous successful West Virginia MMIS engagement. Please refer to Proposal Section A5, Key Staff Resumes, in the Appendix for the detailed resumes of our proposed key personnel and Proposal Section 8, Staff Capacity, Qualifications and Experience, for the details of our plan for hiring, training, and retaining fully qualified staff to perform all requirements of the MMIS Re-procurement Project.

9.3.4.4 Facility Plan

REQUIREMENT: 4. Facility Plan as described in Section 3.2.4.

The MMIS Re-procurement Project requires sufficient facilities to meet the needs of the project during development, as well as for system implementation and ongoing operations activities. Dedicated members of the ACS Team prepare the comprehensive Facility Plan as part of the project start-up activities. The Facility Plan is submitted to BMS for review and approval. Stemming from the Facility Plan, additional start-up activities include establishing the following:

- Facility description and build-out plan
- Floor plan
- Seating chart
- Electrical systems
- Telecommunications systems
- Internet systems
- Fire and smoke detection systems
- BMS, contractor, consultant, and other
- Security system
- Parking plans
- Conference rooms
- Archival facilities

Please refer to Proposal Section 9.4, Project Facilities, for additional details regarding our planned facilities in Charleston, West Virginia, as well as existing ACS facilities in Pittsburgh, Pennsylvania; Atlanta, Georgia; Tarrytown, New York; Ridgeland, Mississippi; and Tallahassee, Florida, which will provide supplemental support to the MMIS Re-procurement Project.

9.3.4.5 Documentation Management Plan

REQUIREMENT: 5. Documentation Management Plan.
Appendix F: Develop, produce, and distribute system, Provider and user manual sections and other documentation as specified by BMS. Perform version control of all documentation, including archiving per BMS policy/specification.

The ACS EPMO is responsible for developing and managing the overall Documentation Management Plan. The Documentation Management Plan establishes how documents—including system, provider, and user documentation—are developed, tested, reviewed, approved, stored, and updated. The EPMO manages the documentation repository throughout the life of the project. Documentation leverages SharePoint for optimal information management and collaboration, including version control and archiving.

9.3.4.6 Training Plan

REQUIREMENT: 6. Training Plan.

The Training Plan is created in the Start-up Phase and covers all phases of the project. It covers our overall training approach, including methods for assessing training needs, developing training, implementing learning events, and evaluating their effectiveness. That framework is applied to the various learner groups, including providers, users, and project staff. We develop matrices that show learning events/courses for each learner type. The Training Plan comprises a master plan that provides the training strategy, methodology, delivery, and expected outcomes, and a set of targeted plans that address specific techniques and recommended courses for various learning audiences and areas.

Please refer to Proposal Section 10.2.3.4, Training Task, for details regarding our Training Plan.

9.3.4.7 Testing Plan

REQUIREMENT: 7. Testing Plan.

Effective testing plays a crucial role in the successful implementation and subsequent CMS Certification of Health Enterprise in West Virginia.

The Testing Plan describes the test levels identified by BMS for the project. These test levels are Unit, Integration, System, User Acceptance, Load/Stress, Regression, Parallel, and Operational Readiness. The Testing Plan, which the SPARK-ITS QMS refers to as the Master Test Plan (to align with IEEE terminology), also describes the overall strategy for testing and the processes and tools used for test execution, management, and reporting.

To supplement the Testing Plan, we develop test plans for each of the test levels in accordance with the Project Schedule. These plans describe the approach taken for each test level and describe the test methods to meet both the business and technical elements of the project. The plans identify the items to be tested, test objectives, testing to be performed, test schedules, entry/exit criteria, personnel requirements, reporting requirements, evaluation criteria, defect resolution, data management requirements, environment requirements, test levels to be run (e.g., regression and performance/stress testing), and any risks requiring contingency planning. We describe the development methods of the test case scenarios, test case traceability, automation capabilities, and reporting of test results specific to each test level. These test plans provide a basis for detailed test design.

Please refer to Proposal Section 10.2.3.2, Testing Task, for additional details.

9.3.4.8 Project Management Sub-Plans

REQUIREMENT: 8. Project management sub-plans to include:

a. Scope Management Plan
b. Schedule Management Plan
c. Cost Management Plan
d. Quality Management Plan
e. Human Resources Management Plan
f. Communications Management Plan
g. Risk Management Plan
h. Issue Management Plan
i. Change Management Plan
j. Integration Management Plan

The EPMO makes certain that the individual plans define how the integrated MMIS team performs its tasks of planning, organizing, staffing, directing, coordinating, controlling, measuring, reporting, and evaluating work. Table 9-4 lists and describes the Project Management Sub-plan deliverables identified in the RFP. Reviewed and finalized in the Start-up Phase, these are living documents, used and updated as needed throughout the project.

Table 9-4. Project Management Sub-Plans

Deliverable	Description
Scope Management Plan	The Scope Management Plan provides guidance on how to define, document, verify, manage, and control project scope.
Schedule Management Plan	The Schedule Management Plan is a critical project asset for developing a predictive project schedule, monitoring schedule performance, and tracking the incorporation of approved changes. The plan provides guidance on how to define, document, verify, manage, and control the project schedule.

Deliverable	Description
Cost Management Plan	The Cost Management Plan defines the strategy to achieve the cost objectives for the project. The plan identifies and defines the framework for ensuring effective management of cost, including estimating and budgeting, as well as the processes and procedures used for cost control.
Quality Management Plan	The Quality Management Plan identifies and defines the framework for ensuring effective management of quality, as well as the processes and procedures used in the Routine Operations Phase. Quality management is a combination of quality planning, assurance, control, and continuous process improvement. Quality planning includes identifying the relevant quality processes, measurements, and performance standards.
Human Resources Management Plan	The Human Resources Management Plan defines the strategy for acquiring, developing, and managing the project team. It includes roles and responsibilities, reporting relationships, and a staff management plan necessary for project success. The plan identifies and defines the framework for ensuring effective management of project staff, as well as the processes and procedures used in hiring, training, and retaining sufficient fully qualified staff to perform all contract functions.
Communications Management Plan	The Communications Management Plan includes the PMI knowledge areas of communications planning, information distribution, performance reporting, and stakeholder management. The plan provides a framework for information exchange, both internally and externally, that accommodates project and stakeholder information needs.
Risk Management Plan	The Risk Management Plan establishes a structured, repeatable risk management process that effectively identifies and manages the impact of risks. It defines the strategy and systematic process for identifying, analyzing, mitigating, monitoring and controlling, and reporting project risk. Effective risk management is essential to ensure project success. It includes risk identification, risk assessment, risk response planning, and risk monitoring and control. ACS provides a proactive process for identifying potential risks and assessing the probability and potential consequences of identified risks.
Issue Management Plan	The Issue Management Plan focuses on identifying, communicating, tracking, and resolving issues throughout the project life cycle. The plan describes the processes for categorizing and prioritizing issues and for determining the escalation path for issues unresolved within a predetermined length of time.
Change Management Plan	The objective of the Change Management Plan is to establish a structured, repeatable change management process to ensure that project changes are effectively managed. Changes to all configuration items, such as documents and software, are monitored and controlled to ensure the product aligns with requirements, design, and testing, and that updates to the items are governed by the change request and approval process and are implemented in a formal and controlled manner.
Integration Management Plan	The Integration Management Plan addresses the processes and activities needed to identify, define, combine, unify, and coordinate the various processes and project management activities. It talks about our approach to making choices about where to concentrate resources and effort on any given day, anticipating potential issues, dealing with these issues before they become critical, and coordinating work for the overall project good. Integration management becomes particularly evident in situations where individual processes interact. For example, in the course of monitoring and controlling the project, we may identify risks that have occurred and become issues, and need to communicate these items to the appropriate stakeholders for resolution. Executing this oversight requires the application of multiple project management plans, including but not limited to the Risk, Issue, Problem, Change, and Communication Management Plans.

9.3.4.9 Workflow Management Plan

REQUIREMENT: 9. Workflow Management Plan.

Our Workflow Management Plan is tailored and finalized during the Start-up Phase. It describes the System Development Life Cycle (SDLC) that is used throughout the project. The SPARK-ITS SDLC,

already tailored for government healthcare implementation projects, consists of four phases and nine workflows, as illustrated in Exhibit 9-6. The diagram depicts some of the key work products of the SDLC and also presents some of the "coordinated tasks" that parallel the main life cycle.

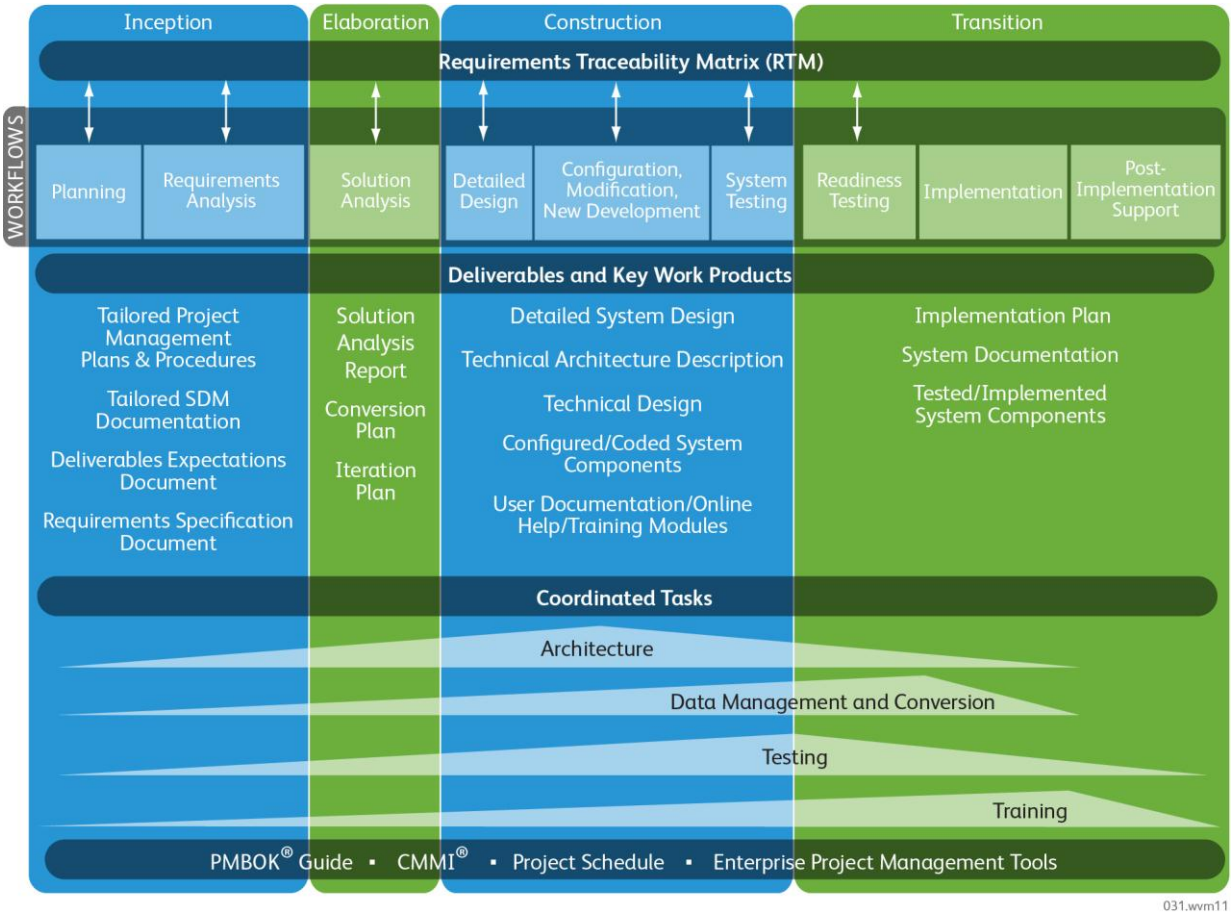


Exhibit 9-6. SPARK-ITS QMS SDLC phases and workflows
SPARK-ITS QMS SDLC adapted for Health Enterprise.

9.3.4.10 Problem Management Plan

REQUIREMENT: 10. Problem Management Plan. The Problem Management Plan is the plan for addressing problems that impact operations or systems processing in accordance with approved requirements and performance service level expectations.

The Problem Management Plan outlines the processes for solving problems that may affect operations or systems processing at the closest point of concern. The plan addresses how to identify the project's critical problems; establish tolerance or variance levels for these problems; and establish and implement specific corrective action plans should a tolerance level be exceeded.

9.3.4.11 Transition Plan

REQUIREMENT: 11. Transition Plan. The Transition Plan is the plan developed by the awarded vendor to be used for the transition from the current system and operations to the new system and operations at the conclusion of the expiring contract.

As a previous West Virginia MMIS fiscal agent, ACS knows both sides of transition and turnover. Once operational readiness testing and implementation are complete, it is time for the project to progress in an orderly, planned manner to assume fiscal agent operations with the new MMIS from the incumbent's operations using the legacy system. The purpose of the Transition Plan is to define and monitor the activities related to handing over the operations deliverables and functions to their next owners. It is established in partnership with those responsible for ongoing operations. Addressed in the Transition Plan are activities such as release and/or reassignment of resources from current systems operations, adjustment of security (such as the activation or deactivation of staff access to facilities and systems), transfer of equipment and other fixed assets, turnover of documentation libraries, and any other final transition activities agreed upon by BMS and ACS. All final transition activities are planned to accomplish the transition with minimal disruption of ongoing operations, and emphasis is placed on providing BMS and ACS executives with timely information regarding the transition progress and status.

9.3.4.12 Weekly and Monthly Project Status Reporting

REQUIREMENT: 12. Weekly Status Report Template and
REQUIREMENT: 13. Monthly Status Report Template.

We work with the Bureau to agree upon the templates for weekly and monthly status reports and document the deliverables expectations, approvers, and other information in the Deliverables Expectations Document. ACS produces weekly and monthly status reports throughout the MMIS Re-procurement Project. We review the status reports with BMS during project status meetings. We document the frequency of these status meetings in the Communication Event Schedule. We anticipate that the BMS Project Manager identifies BMS resources who attend project status meetings. Executive management meetings use the monthly status reports for discussion points. Written status reports include the following information, at a minimum. Items in bold are captured with, or supported by, our EPM reporting tool.

- A general status report
- **Activities and deliverables completed in the preceding reporting period**
- **Activities and deliverables planned for the next reporting period**
- Problems encountered and proposed/actual resolutions
- **Status of risks with special emphasis on change in risks**
- **Status of each task in the Project Schedule that is in progress, overdue, or planned to begin in next reporting period**
- Status of active issues and/or action items
- Quality assurance status
- **Identification of schedule slippage** and strategy for resolution
- Status of staff including planned and unplanned departures, vacancies, vacations, absences, and new staff additions

Monthly status reports summarize data from weekly reports and include clear identification of new or changed items, financial information related to expenses and billings for the project, and executive summaries for presentation to management and oversight bodies.

9.3.5 Sample Reports, Forms, and Deliverable Formats

Sample reports, forms and deliverable formats are presented in the Appendix.

9.3.6 Integrated Project Management Tools

REQUIREMENT: The Vendor should apply integrated project management tools or (COTS) products to consolidate reports required for the management of Projects.

EPM Solution

We use Microsoft's comprehensive and advanced suite of project management support tools, referred to as the EPM Solution. EPM consists of Microsoft Project Professional, PWA, and Microsoft Project Server 2007. The suite enables dynamic scheduling, enhanced reporting, and constant communication across project resources regarding the project schedule and overall project health.

The project schedule is created using Microsoft Project Professional and stored on a Microsoft Project Server, rather than on local desktops. Individual team members do not need to have the desktop version of Microsoft Project software installed on their computers in order to access their tasks on the schedule. Instead, they simply log on to PWA using a Web browser to review their current and upcoming tasks in live mode. Team members submit their actual and remaining work on each task using PWA (shown in Exhibit 9-7) on a weekly basis. This frees the EPMO to comprehensively manage the project tasks, deadlines, and resource allocations.

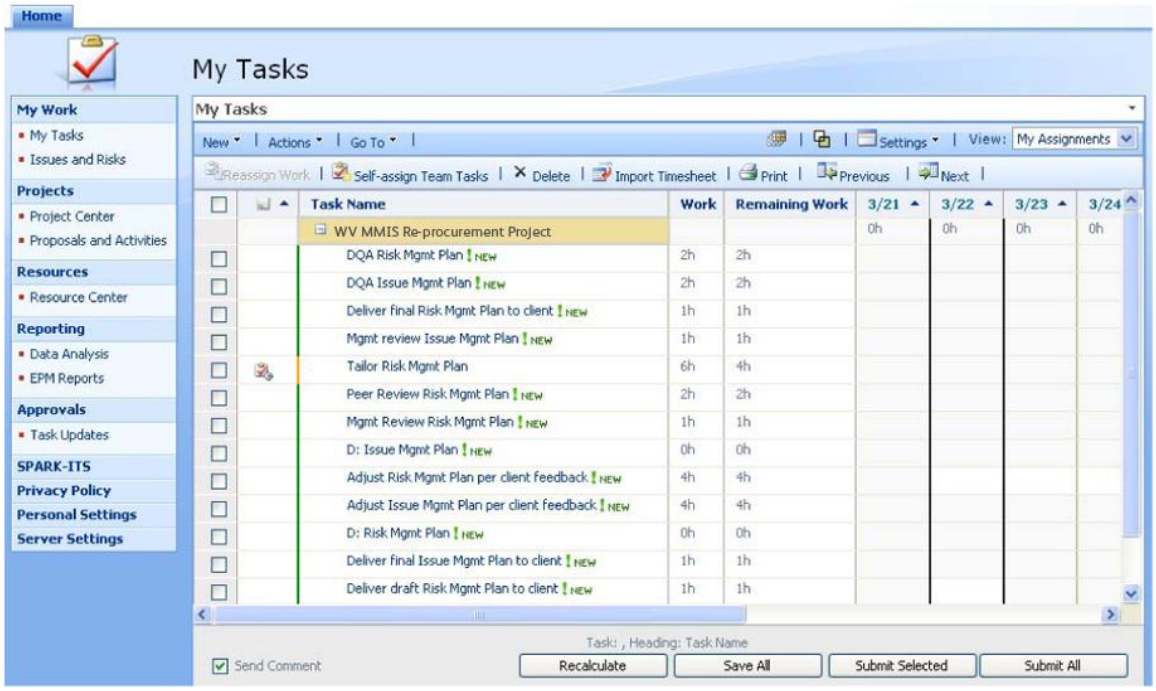


Exhibit 9-7. PWA: My Tasks

Team members can simply log on to their PWA site to review and update their current and upcoming tasks, durations, work, and deadlines in live mode.

Once the schedule is updated for the week, EPM provides a range of reporting options. Basic reports are built into PWA and are accessible via the Web at any time. Other reports can be exported to Excel in seconds; they include stoplight indicators (red, yellow, green) on project health, deliverables and milestones progress, and resource allocation.

SharePoint

SharePoint is our standard documentation, information management, and collaboration tool. During project initiation, the ACS Team establishes the project's SharePoint site using a baseline SPARK-ITS QMS template. The site is complete with document libraries, baseline schedules, templates, and procedures, and is set up with list functionality to track and report on risks, issues, action items, and change requests in accordance with the SPARK-ITS PMM. The site also has an event calendar, wikis, discussion boards, a contact list, and announcements functionality to facilitate team collaboration and communication. SharePoint's workflow functionality provides automation, tracking, and notification of work product review and approval processes. Exhibit 9-8 shows the home page of the project site.

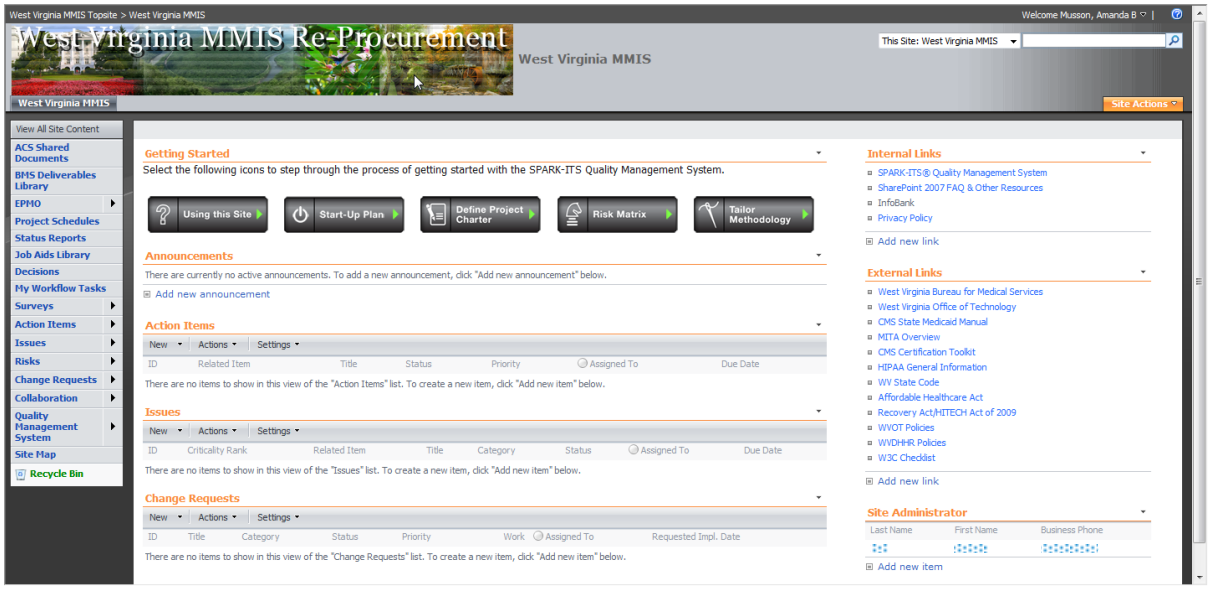


Exhibit 9-8. West Virginia MMIS Re-procurement Project SharePoint Site Example
SharePoint holds project documents and facilitates project communication and workflow.

9.4 Project Facilities

REQUIREMENT: RFP Section 3.2.4, pg, 78 of 115 and 3.2.4.1, pg.78 of 115
3.2.4.1 Vendor Response Requirements: The Vendor's proposal should describe its approach to securing all workspaces and meeting the facility requirements, by project phase and activity as described above including….:

Our newly renovated primary office site in Charleston, along with secure ACS support facilities, provides modern accommodations to support necessary business functions and resources.

Our proven approach to facility implementation and management ensures that all aspects of the MMIS Re-procurement Project are fully supported by well-planned, scalable facilities that meet or exceed RFP requirements and provide the foundation for future project needs. ACS proposes a combination of a newly leased, renovated facility in Charleston along with secure ACS support facilities to provide the high-

quality services BMS expects. Initially, we will lease 6,000 square feet of space for our DDI staff at our Charleston site, supplemented by additional space at the same location once we move into the Operations Phase of the project. All other ACS sites where we will perform work for BMS are currently in operation and are expected to remain so throughout the duration of the contract. We welcome site visits from BMS at any time.

9.4.1 Proposed Worksites

- Description of the work site(s) proposed, inclusive of offsite facilities, for work during each of the three project phases listed in Section 3.2.5.

Table 9-5 lists our proposed work sites along with a description of the work we will perform at each for each project phase, including: 1. MMIS Replacement DDI and Certification Planning Phase; 2. Fiscal Agent Operations Phase; and 3. Turnover and Closeout Phase. We describe the critical sites in detail following the table.

Table 9-5. Work Sites for Each Project Phase

Location	Work Performed	Phase		
		1	2	3
Project Office Charleston, West Virginia	MMIS Replacement DDI and Certification Planning	✓		
	Fiscal Agent Operations including: • Business operations • Claims receipt (hard copy) and pre-screening • Mail room • Data entry • Imaging operations • Exception claims processing • All call center operations • Provider enrollment and re-enrollment • Provider relations • Member relations • Account management • Quality assurance, EPMO, and Training • Designated system modification and enhancement • Financial management • Printing		✓	✓
Data Center Pittsburgh, Pennsylvania	• Data center operations • Capacity planning • System maintenance • Production control • Network monitoring • Network management	✓	✓	✓
Secure Backup Storage Moon Township, Pennsylvania	Secure storage of Pittsburgh Data Center backups	✓	✓	✓
EDI Gateway Tallahassee Florida	Electronic data sharing gateway (EDSG) system supplemental support – used to support all incoming and	✓	✓	✓

Location	Work Performed	Phase		
		1	2	3
	outgoing interface files, including X-12 transactions			
Data Center Business Continuity and Disaster Recovery Site Tarrytown, New York	Data center disaster recovery	✓	✓	✓
Support Center Atlanta, Georgia	Corporate support location for supplemental staff required during the DDI and operations phases of the contract	✓	✓	✓
Operations Business Continuity and Call Center Disaster Recovery Ridgeland, Mississippi	Operations business continuity and call center disaster recovery site		✓	✓
Printing Business Continuity and Disaster Recovery North Wales, Pennsylvania	Print fulfillment business continuity and disaster recovery site		✓	✓

Project Office – Charleston, West Virginia

ACS worked closely with a local Charleston real estate broker and our corporate real estate representative to identify and select our primary office site located in downtown Charleston in the Chase Tower at 707 Virginia Street East, as shown in Exhibit 9-9. In selecting this site, we considered the following criteria:

Exhibit 9-9. ACS' Charleston Project Office
Our location offers comfortable and secure office space for ACS and BMS personnel.

- Located within five miles of BMS
- Single location with flexibility to start with a smaller footprint for DDI, expand for fiscal agent operations, and provide room for growth, if needed
- Modern, clean, and well-maintained facility with
  - Up-to-date emergency preparedness for fire and environmental disaster
  - Ability to upgrade security features to meet our stringent requirements
  - Sufficient conference room space for project team meetings, work sessions, and training, as well as meetings with BMS staff
  - Potential to provide a comfortable and pleasant work environment for our personnel and the BMS staff member on site
  - Proximity to food service
  - Sufficient parking

We effectively plan and maintain the facilities to support services critical to fiscal agent operations. We apply our experience in implementing facilities nationwide to install and maintain the appropriate facilities and resources necessary to successfully perform the scope of work required for this project. Exhibits 9-10 and 9-11 are illustrative of ACS' approach to configuring office space and resources to ensure functional, comfortable surroundings for employees and visitors. Please note that these and subsequent exhibit photographs are samples and do not depict all business office components.

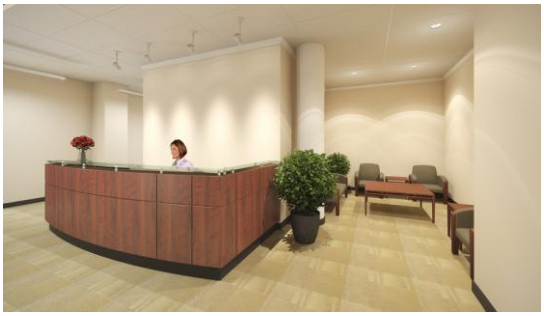


Exhibit 9-10. Charleston Facility – Reception
The reception area, where visitors are greeted and sign in, has a secure entrance to the side of the receptionist's desk to prevent unauthorized individuals from entering.

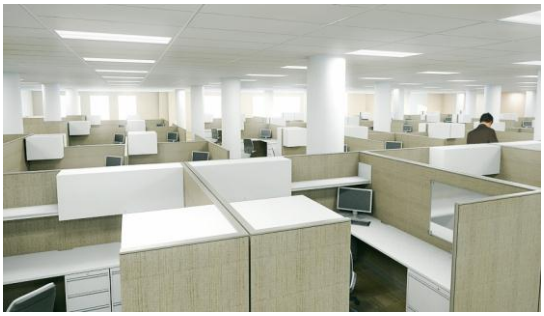


Exhibit 9-11. Charleston Facility – Overall View
Modern cubicles provide efficient workspace for staff, based on their job responsibilities.

The BMS staff located in our facility will have an office that can be individually locked and is equipped with furniture; telephone service; a personal computer with access to the MMIS, Microsoft Office™ Suite, and the internet; and access to a printer and copier. We will also provide one reserved parking space to accommodate the designated BMS staff and six general visitor parking spaces. Exhibit 9-12 is indicative of the typical office configuration we will provide.

Conference space at our facility will be accessible by BMS, fully furnished, and equipped with a computer, a projector for displaying Internet-based and Windows PowerPoint™ presentations, and a high-quality speakerphone for multiple remote staff to attend meetings by telephone. The space will be large enough for DDI review, planning, testing, and training sessions. Additionally, the conference space will accommodate video conferencing and Web-based application sharing for attendees. Exhibit 9-13 is indicative of a proposed conference space.

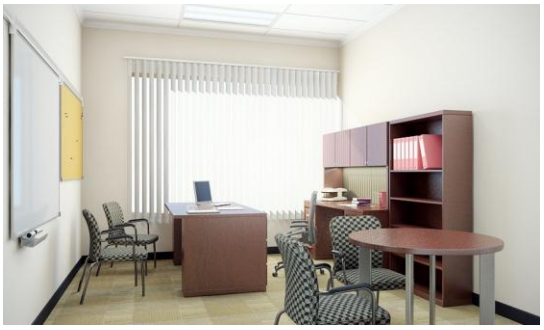


Exhibit 9-12. Charleston – BMS Office
The office provided to BMS staff is a modern and attractive space that provides an efficient and functional work area.

Exhibit 9-13. Charleston – Conference Room
Conference rooms, equipped as required by BMS, are available for BMS to use as needed.

Data Center – Pittsburgh, Pennsylvania

Providing a safe and secure location for computer hardware, software, and associated ancillary equipment necessary for the successful ongoing operation of the Health Enterprise solution is important to meeting BMS' objectives. Foremost is the successful implementation of Health Enterprise with no disruption in services to program stakeholders and continued ongoing smooth operations. To help achieve this, the MMIS Re-procurement Project hardware and software is housed in a secure, environmentally stable data center and is supported for disaster recovery through ACS' back-up data center located in Pittsburgh, Pennsylvania, 10 miles south of the Pittsburgh International Airport. Please see Exhibit 9-14, ACS Pittsburg Data Center.

Threats to the data center from surrounding businesses or from natural disasters, such as flooding, are minimal. This 133,000-square-foot facility, which includes nearly 64,000 square feet of raised floor, is designed exclusively for data center processing activities. The facility is surrounded by an eight-foot chain-link fence topped with layers of razor wire and equipped with sonar detectors that alert a central security command center if anything touches the fence. A closed-circuit television system constantly scans the entire campus on a 24/7/365 basis. Security guards observe these monitors around the clock. The data center operates on the basis of redundant telecommunications services using multiple vendors to ensure communications continuity for the new Health Enterprise solution.

Exhibit 9-14. ACS' Pittsburgh Data Center
This center houses the equipment, systems, and personnel necessary to provide world-class quality and cost-efficient services.

Doors to the Pittsburgh Data Center are kept locked at all times. Access into and within the Data Center is controlled by a multi-level security system. Picture identification badges limit employee, vendor, and visitor access to sensitive areas. Visitors to the facility must sign in and out, must wear a badge, and must be escorted by an ACS employee at all times. The security system automatically monitors and records the movement of all building occupants and records unauthorized access attempts.

The Data Center is segmented into zones fully equipped with fire-, smoke-, and moisture-detection systems to protect against environmental hazards. The facility is protected by a fire protection "Pre-Action" sprinkler system and is monitored by a security protection vendor on a 24/7 basis. Critical support systems are monitored by our site monitoring system. A remote annunciation monitor is located in the Data Center Command Center and is also monitored 24/7.All computer, data communications, and environmental equipment are served with sophisticated power conditioning equipment to minimize disruptions in service due to exterior power fluctuations. Electrical power to the facility is supplied by a single utility feed entering at two separate locations to the Data Center and is backed up by a secondary circuit that is used only in the event of an extended outage to the primary feed. Six emergency generators provide emergency power. In addition, the facility also has three separate uninterrupted power supply (UPS) systems. Batteries attached to these UPS systems provide support for critical processing loads for up to 15 minutes in the event of a total outage. The emergency generators are programmed to start after

seven seconds of power interruption. The entire process of going from loss of utility to an environment totally supported by emergency generators takes 15 to 17 seconds.

Data Center Business Continuity and Disaster Recovery Site – Tarrytown, New York

ACS occupies two floors in an office building with 18,000 square feet of raised floor data center space and 50,000 square feet of office space, which accommodates approximately 46 support services personnel. The facility owner, Biomed, provides 24/7 physical security for the site. This state-of-the-art facility has redundant power supplies, multiple air conditioning systems, fault detection and communication systems, and strong physical security. Network architecture between the Pittsburgh and Tarrytown facilities is based on high availability, redundancy, scalability, and security. Our wide-area network (WAN) employs multiprotocol label switching (MPLS) topology, with redundant telecommunications providers and permanent virtual circuits (PVCs), and industry-leading WAN security, equipment and software, such as Cisco routers, switches, network intrusion detection devices, and firewalls.

Other Locations

The other locations from which ACS provides services offer similar levels of physical and data security, fire protection, heating and air conditioning systems, and attention to the work needs and comfort of both ACS and client personnel.

9.4.2 Description of Work to be Performed Off Site

- Description of any work to be performed off site. If any of the work is performed offsite, including work of subcontractor(s), the bidder should describe the assurance of quality and timeliness of work.

As noted earlier in this section, our primary office location is the Chase Tower at 707 Virginia Street East, Charleston, West Virginia. Additionally, we leverage other existing locations to support the MMIS Re-procurement Project, as shown in Table 9-6 below.

Table 9-6. Offsite Work Locations

Location	Tasks Performed
Existing ACS location in Pittsburgh, Pennsylvania	Primary data center operations
Existing ACS location in Moon Township, Pennsylvania	Secure storage for backup copies from our Pittsburgh Data Center
Existing ACS location in Tarrytown, New York	Business continuity and disaster recovery data center
Existing ACS location in Atlanta, Georgia	Specialized resources to provide supplemental support to Charleston-based personnel as needed
Existing ACS location in Tallahassee, Florida	Supplemental electronic data interchange (EDI) support as needed
Existing ACS MMIS location in Ridgeland, Mississippi	Operations business continuity and call center disaster recovery
Existing ACS facility in North Wales, Pennsylvania	Disaster recovery and business continuity for print fulfillment

Assurance of Quality

All work performed to support the MMIS Re-procurement Project both at our primary facility in Charleston and at offsite work locations will be under the direct oversight and management of ACS

Charleston-based personnel. Our sites consistently employ the ACS quality management system described in Proposal Section 9.3.1SPARK-ITS Quality Management System to ensure the quality and timeliness of business functions and services. We are highly experienced in managing subcontractors on large-scale projects and employ best practices for reviewing subcontractor plans, monitoring progress, and reviewing work products to ensure adherence to performance requirements and quality standards.

9.5 Phase 2: Fiscal Agent Operations

REQUIREMENT: RFP Section 3.2.7, pg. 93 of 115

ACS has the resources, proven procedures, Health Enterprise solution components, and infrastructure to ensure the smooth delivery of West Virginia's MMIS fiscal agent services—complete with CMS Certification activities and the effective management of ongoing modifications and enhancements.

Our Fiscal Agent Operations solution offers unmatched benefits for the West Virginia Medicaid program. We provide a highly flexible system that is MITA-aligned and—without customization—already meets 91 percent of the Bureau's RFP requirements. Our knowledgeable leaders are experienced in developing the proposed information technology solutions; use effective and streamlined procedures; and have an approach to quality that focuses on defined, measurable transaction-processes, positive operational outcomes, and continuous quality improvement. We continually refine our approach to operations, building upon proven best practices, while providing innovative solutions for the ever-changing requirements of West Virginia's evolving healthcare environment.

Key Features of our Phase 2 Approach

- Dedicated operations management team with extensive Medicaid program experience
- Proven technical team for successful management of system modifications and operational improvements
- Dedicated Certification Support Team and a Certification Manager who is experienced with the CMS MECT

Within this proposal section, we discuss our approach to the operations phase of Health Enterprise and its associated fiscal agent responsibilities. We also explain how our system supports the business functions that underlie the ongoing management and future development of West Virginia's healthcare programs. Due to page limitations, we have selected topics from the West Virginia MMIS Re-procurement RFP Section 3.2.7 that we believe are the most compelling to BMS and the new MMIS Re-procurement Project. To that end, we address the three sub-phase requirements in the following manner:

9.5.1 Phase 2a: Routine Operations – This section describes our approach to performing the fiscal agent services necessary to manage the West Virginia Medicaid Program as follows:

- The automated capabilities of our MITA-aligned Health Enterprise components streamline the business processes of West Virginia's Medicaid program in accordance with RFP Appendix F.
- ACS methods and tools support all MMIS operations according to service levels defined in the RFP; industry-leading Cognos delivers enterprise-wide operational reports, gathers performance statistics, and self-reports to a West Virginia Executive Dashboard; and an ACS Quality team conducts ongoing analyses and reporting to verify that service delivery meets or exceeds BMS standards.
- Dedicated staff maintains a quality focus and partnership approach to support BMS goals, while the ACS Learning Management System and our blended learning approach deliver effective training for providers and operational system users.

- Proactive system monitoring tools, quality control solutions, and report procedures verify MMIS operations and keep BMS consistently informed during the post-implementation period.

9.5.2 Phase 2b: Center for Medicare and Medicaid Services (CMS) Certification – This section presents our approach to completion of Phase 2b deliverables and milestones in accordance with RFP Appendix C as follows:

- Experienced staff with expertise related to the CMS Medicaid Enterprise Certification Toolkit (MECT) support completion of deliverables and milestones to achieve the highest eligible Federal Financial Participation (FFP) rate retroactive to the first day of operations.
- Planning and preparation during Design, Development, and Implementation (DDI), as well as the use of ACS requirements management tools, ensure swift and efficient completion of post-implementation certification activities; checklists are completed, the Certification Readiness Plan is updated, and procedures are in place to gather and maintain certification documentation and reports from day one of operations (as was done for the recent certification of our OmniCaid MMIS in the District of Columbia using MECT).

9.5.3 Phase 2c: MMIS Modifications and Enhancements – This section addresses our approach to managing ACS system/process modifications as needed and agreed upon throughout Routine Operations, as well as enhancements requested and approved by BMS following Phase 2b.

- ACS' proven change control process provides a framework to manage modifications from identification through implementation for seamless integration, while procedures, tools, and staff structure maximize efficient use of allocated hours and dollars.
- A Change Control Board promotes collaborative change request review, assessment, and analysis.
- Our centralized SharePoint project repository supports transparent tracking, monitoring, and reporting of change requests, thereby providing BMS with any-time work review and approval capabilities.

9.5.1 Phase 2a: Routine Operations

REQUIREMENT: RFP Section 3.2.7.1 to 3.2.7.1.1 pg. 93 of 115

The streamlined business capabilities of Health Enterprise, our experienced leaders, and ACS' extensive Medicaid industry knowledge combine to deliver a peerless fiscal agent operations solution for the administration and management of West Virginia's Medicaid program.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal..

Operational Success Built on People, Processes, and Technology

- Unsurpassed relevant experience in MMIS and fiscal agent services
- Staff commitment to service excellence
- Processes and procedures proven across the country
- Health Enterprise—the industry's newest MITA-aligned MMIS

9.5.1.1 Methodology and Approach to Routine Operations Support

3.2.7.1.1 Phase 2a: Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Routine Operations Phase, including the Vendor's proposed: 1) Methodology and Approach

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

9.5.1.1.1 Supporting Appendix F Operations Requirements

1a. Supporting operations as indicated in Appendix F (Vendor Operations Requirements), from the date of implementation of each component until each function is turned over to a successor Fiscal Agent at the end of the contract period, including any optional additional periods or extensions.4

The operational scope of work defined in Appendix F of the RFP comprises a broad range of operational requirements. As previously noted and in accordance with RFP instructions, we have not responded to each individually numbered operations requirement. However, we acknowledge our responsibility for each listed requirement and fully commit to operations of the West Virginia MMIS project in accordance with all requirements contained in RFP Appendix F. Our discussion highlights key features and benefits of the Health Enterprise system, commercial off-the-shelf (COTS) products, and business services that streamline our operational activities—providing a MITA-aligned solution for each component area required by the Bureau to manage the West Virginia Medicaid program.

General

Our operational and technology experts have combined ACS best practices with a MITA-based framework to develop a new, ground-up Health Enterprise solution where business needs drive enterprise processes supported by the underlying technology architecture. In other words, our Health Enterprise components serve BMS business needs by aligning our workflows, processes, and interfaces with specific MITA business processes to achieve maturity goals. On the following pages, we highlight several general Health Enterprise solutions that demonstrate this alignment: Reporting, Training, Documentation and User Manuals, and Customer Support Services.

Reporting

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Training

Each stakeholder group must know how to interact with Health Enterprise to use its functionality effectively in the performance of specific job responsibilities. The ACS Training Team carries out the project's principal training responsibilities and works under the direction of our EPMO Director. This team works collaboratively with operations, technology, and BMS stakeholders to design and develop training materials for ACS staff, designated BMS representatives, and the provider community. Our functional area leaders share responsibilities with the Training team for ongoing refresher and performance improvement training.

To reach the broadest audience possible, we use a blended learning approach that includes traditional classroom training and interactive Web-based training. ACS began early using computer and Web-based training to support our customer's training needs and, in 2008, won the Brandon Hall Gold Award for Excellence of Best Blended Learning Programs. Using one Training Plan with separate components for different audiences and a cross-functional/matrix approach for training development and delivery, we ensure that training materials are consistent and coordinated for all user communities during times of change. For example, when system or program enhancements are developed, we create training that uniformly explains the change but specifically addresses how the change affects individual user groups. Based on member feedback and technology advancements, our processes continue to evolve—using lessons learned and industry best practices for the advantage of all users. Throughout Fiscal Agent Operations, West Virginia will benefit from our strong emphasis on training and our continuous search for ways to enhance the learning experience.

Learning Management System (LMS)

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Documentation and User Manuals

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Customer Support Services

ACS recognizes that successful health and human service programs revolve around effective communications and excellent customer service. We deliver that service through a customer support services team that is friendly, well-trained, and sensitive to the values and concerns of Medicaid members and providers as well as MMIS users, BMS staff, and other program stakeholders. We back our communication approach with proven, consistent, and repeatable processes and use a variety of tools and technology to support all aspects of customer service operations. We accurately convey requested and necessary information through delivery methods and formats that enable the caller to receive and process the information most efficiently. For example, to meet customer needs we may provide direction to the Web portal, printed program information, phone calls, faxed information, emails, provider manuals on CD/DVD, or a personalized onsite visit from a provider field representative.

We also provide multiple channels of effective communication that fit the schedules and time constraints of providers and other program stakeholders. Our integrated call center, Web portal, correspondence, inquiry business functions, and other customer services encompass a broad range of activities that help ease provider administrative burdens and support member access to care. These communication venues also support the business and informational needs of a wide range of West Virginia MMIS users. Under the expert management of Chris Bryan, Provider/ Member Services Manager, we provide a fully staffed call center for provider and member services, Pharmacy Point of Sale (POS) provider help desk, technical support desk, provider enrollment unit, provider field representatives, quality and business analysts, and a trainer—all dedicated to West Virginia's Medicaid program. For details about our organization, please refer to Proposal Section 8, Staff Capacity, Qualifications, and Experience.

Member Management

Member – General. Health Enterprise supports all required baseline member data maintenance capabilities for improving access to member data, effective and timely communication, and support for health management goals. Health Enterprise receives member change transactions from external interface batch file processes or via real-time Web services. For control, balance, and audit purposes, the automated data management features of our Health Enterprise platform and components enable MMIS member change transactions received from BMS or its designees to be retained in the format received. Using our Health Enterprise Electronic Data Sharing Gateway (EDSG) component, we process member eligibility files, including those received nightly from the Recipient Automated Payment and Information Data System (RAPIDS) and Families and Children Tracking System (FACTS), as well as other scheduled interfaces from specified Third Party Liability (TPL) vendors/enrollment brokers, Vital Statistics, and the Department of Corrections. We also use this same platform to exchange files with other trading partners, such as CMS or other authorized entities. The EDSG supports the Bureau's identified MITA goal to

enhance the security, timeliness, and accuracy of data exchanged with authorized and authenticated business partners. For additional details, please refer to Sub-sections Claims Processing, Electronic Data Interchange (EDI) Transactions, within this Proposal Section.

Member Services. We operate and maintain a member services unit within customer support services to receive and respond to all member eligibility and benefits questions received through email, letter, phone, fax, Web portal, and Interactive/Automated Voice Response System (IVR/AVRS). We use customer satisfaction survey data and reports to evaluate customer service effectiveness and to identify areas for improvement. Integrated into the IVR is a Caller Satisfaction Evaluation Tool that captures voluntary caller feedback immediately after the caller-IVR interaction is completed. Callers are asked at the beginning of the call if they wish to complete a survey, and, if the answer is yes, the call remains connected until the survey is completed. We also post customer surveys on the Web portal to provide 24/7 access to members and other customers, allowing them to complete the survey at their convenience. BMS, the quality team, and customer service management staff use this information to identify and resolve customer concerns and improve the effectiveness of our call services. Surveys help us identify customers who may need extra attention to work through perceived issues or areas of dissatisfaction. The description of our processes for receiving and responding to member inquiries and delivering member communications is included in this Proposal Section under the following Subsections: Customer Support Services, Contact Management, and Customer Support Services Call Center.

Dental and Vision Outreach.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Benefit Administration

Health Enterprise includes a key concept that aligns with MITA guidelines, which is managing programs and services using the benefit plan structure. Benefit plans are tied to a Line of Business (LOB) that identifies its base funding source (e.g., Medicaid or State). Benefit plans can be established for a broad program group, such as one that includes all categorically eligible members who are eligible for mandatory Medicaid covered services provided by enrolled providers. At the same time, the Bureau can establish special benefit plans to cover specific types of care to certain eligible persons.

The Health Enterprise Benefit Administration component has the flexibility necessary to efficiently and effectively support the administration and claims processing of West Virginia's multi-faceted and dynamic program environment, including its future needs for the addition of any other West Virginia agency, other state, US Territory, or political subdivision benefit program. Health Enterprise not only supports the administration and processing of Medicaid claims, but also claims for non-Medicaid programs such as Ryan White, Tiger Morton, and Juvenile Justice Services programs.

Rates for services provided under unique benefit plans can be defined by provider or member location codes, can be set up with incentive rates for specific services, and can track provider or member enrollment in benefit plans linked to specific agencies. Benefit plans include fund code map sets that allow tracking expenditures for covered services and payment rates provided in any Bureau-approved benefit plan. Therefore, beyond the traditional historical record of rate changes, Health Enterprise gives BMS the flexibility to establish and modify rates for specific programs/services for specific periods and accurately monitor allocations to funding sources.

Health Enterprise's benefits administration model supports assignment of members in benefit plans that control eligible services, coverage limitations, associated provider contracts, and reimbursement rates. Members can be assigned to multiple benefit plans concurrently. Additionally, Health Enterprise can apply multiple plans to one claim, based on different services on the claim lines. As defined in the benefit plans, limits can be established based on services or dollar amounts and for different periods, by day, week, month, quarter, and year. The benefit plan structure of Health Enterprise also allows special programs to be set up in a separate plan, so that only limited services are allowed.

The system's rules-based approach to principal functions enables each special healthcare program to operate independently of one another within the same infrastructure in a business process similar to a commercial insurer with multiple products or employer-benefit plans under a line of business. One example of several premier COTS products integrated into Health Enterprise is the FICO™ Blaze Advisor® rules engine. The rule engine is critical to benefits administration functions, which govern the rules for assignment of members, providers, and services to each benefit plan, thereby ensuring that claims pay correctly.

Provider Management

Provider Services. Our provider services team serves as the primary point of contact for Medicaid providers. Provider/Member Services Manager Chris Bryan leads a skilled team of provider customer service representatives (CSR), provider field representatives, quality/business analysts, trainers, and enrollment specialists who build proactive and responsive working relationships with West Virginia's Medicaid provider community. We fully recognize that the provision of exemplary customer service requires a well-trained staff, proven business processes, continual performance monitoring, and advanced technology, all of which are supported through ongoing analyses of current and projected operations metrics for the MMIS Re-procurement Project.

Provider Outreach. Our provider field services outreach staff identifies, documents, researches, and prepares problem-resolution plans for situations that relate to ongoing customer service activities, such as targeting outreach for providers with high claim rejection rates or frequent call center contacts. Equipped with laptops and wireless AirCards, our field representatives reach out to both current and prospective providers throughout the state of West Virginia. Activities may include program education; support in rural communities; the targeting of specific issues, such as incorrect billing practices; or recruiting providers to serve specific member populations.

Provider 1099 Production. Health Enterprise's payment process maintains provider financial summary information—including claim activity counts/amounts for the current period, month, calendar year, and fiscal year—as well as information related to 1099 issuance and provider accounts receivable balances.

Using the convenient self-service features of the Health Enterprise Web portal, enrolled providers can inquire about a wide range of topics, including their 1099 data.

Provider File Maintenance, Update, and Edit. Health Enterprise receives provider data from external interface batch file processes or via real-time Web services. To enhance the security, timeliness, and accuracy of exchanged provider information, Health Enterprise maintains and closely guards provider data, including online inquiry and update capabilities. As described in the Member Management subsection, the EDSG interface collection component of Health Enterprise receives and transmits data to and from entities that wish to communicate with the system. After performing preprocessing activities—such as virus scans, archiving, initial responses, decompression, file-type identification, merging, and so on—EDSG passes the interface data to a Health Enterprise process for the purpose of appropriately editing, formatting, and applying incoming data. During the Design, Development, and Implementation (DDI) Phase, we will work closely with BMS to confirm the approach for processing provider files and determine specific edits and business rules that apply to data from the file. Additionally, we work with participating Managed Care Organizations to confirm file approaches for mass enrollment of Managed Care network providers.

Provider Enrollment. Health Enterprise provides the opportunity for providers to submit their enrollment application by one of four methods: mail, email, fax, or via the Health Enterprise Web portal. The Web portal offers an intuitive, step-by-step approach to enrollment in which users enter application information into a series of secure Web pages. The system guides the provider through the application process, even allowing a partially completed application to be saved and accessed for completion at a later date. Online edits ensure that the application is accurate and complete when submitted, thereby reducing requests for missing information when the application is reviewed for approval. Health Enterprise workflow capabilities support the routing of enrollment transactions through all steps of the business process, regardless of the entry media (paper, fax, phone, electronic, or Web). This flexibility allows ACS to support process flows based on BMS policies and business needs. The routing of tasks to the appropriate staff is achieved by rules defined for specific tasks and can include steps for management review and approval, as well as manually assigned tasks such as additional research or special handling.

Our Provider Enrollment team conducts initial re-enrollment of all providers prior to the start-up of operations. They also perform routine provider enrollment and disenrollment, re-enrolling providers every five years (three years for DME) in accordance with the processes defined and approved by BMS. We maintain provider profiles on an ongoing basis by receiving, processing, and maintaining all provider file data needed to verify accuracy.

ACS also offers enhanced enrollment and program integrity activities with the LexisNexis® provider identity management, evaluation, and risk assessment solutions. The LexisNexis solution supports an enterprise-wide "true" identity management approach to verify and authenticate the identity of providers and evaluate their background. LexisNexis leverages its data repository with over 585 million unique identities from 20,000 data sources across 33 billion records—a process that cannot be effectively duplicated manually. This unique ability to aggregate such data and accurately associate and link it to the appropriate individual results in a unified provider view, enhanced entity resolution, and the elimination of redundant manual data checks.

CMS recently published the Final Rule on provider enrollment and screening standards (referred to as CMS 6028-FC), as required by the Patient Protection and Affordable Care Act (PPACA). Among other

requirements, this rule requires all providers, fiscal agents, and managed care organizations to disclose the name, address, date of birth, and billing identification number for any individual or corporation with an "ownership or control interest" in the disclosing entity. States are now required to check the exclusion status of every officer, owner, and managing employee for every applicant, fiscal agent, and managed care organization prior to enrollment. Even with the Bureau's ability to rely on previous Medicare screenings, this task will result in large screening increases.

With our partner LexisNexis, ACS offers—as a part of our core services—a solid solution that meets the requirements of CMS 6028-FC for provider identity management, evaluation, and risk assessment. Information is delivered in an automated manner, which increases current efficiencies, reduces labor, and ensures greater knowledge and accuracy. These services also reduce the burden on legitimate providers, comply with new federal provider screening mandates, and reduce duplicative costs and efforts. With comprehensive identity management, BMS can have full confidence in its program providers, while streamlining and improving the enrollment process for end users.

Provider Training. To enhance ongoing educational initiatives, ACS offers providers a multitude of venues and training topics from which to choose. These include notifications and schedules for training seminars, association meeting workshops, in-house bi-weekly training sessions, regional meetings, and annual provider and Bureau-designated organizational meetings. To help reduce errors, denial rates, and resulting provider frustration, we provide on-site training for providers, their office staff, and third-party billers. We can also assist providers in managing staff education records by tracking their staffs' participation in training courses through our Learning Management System (LMS). We work with both front- and back-office staff to determine which training modules, curricula, and tools are most effective. Newly enrolled providers also receive special training, including initial online and webinar training, with follow-up on-site training by a provider representative. Our Provider Field Representatives are equipped with laptop computers and wireless AirCards to conveniently bring training to those providers located in remote rural communities. Wireless Internet capabilities will also benefit providers by allowing them to access and enter data exactly as they would in a production environment and to execute multiple scenarios in a system that mirrors production.

Prior Authorization

In 2002, ACS implemented SmartPA, which was the very first fully integrated and automated drug prior authorization solution in the Medicaid market. Since that time, we have implemented SmartPA in 18 states and currently support the product in 13 of those states. Building upon the success of this game-changing innovation, we also implemented SmartMA for non-pharmacy, medical authorization processing in 2006. Both products are fully integrated system components of Health Enterprise and are invoked when processing claims and prior authorization requests through all submission channels—including Pharmacy Point-of-Sale, the Web portal, and batch. Our prior authorization's table-driven platform is flexible and highly responsive to the changing nature of pharmacy and medical guidelines—accommodating changes to existing criteria easily and accurately without requiring hard coding and system updates. Authorized provider/member service staff, at the direction of BMS, can make quick changes to the system's criteria tables.

Pharmacy Point-of-Sale (POS)

The ACS integrated Pharmacy component of Health Enterprise completely adjudicates all POS drug claims in real-time. It also fully supports the National Council for Prescription Drug Providers (NCPDP) D.0 standard responses to pharmacy providers, including customized free-text messaging capabilities for Prospective Drug Utilization Review (ProDUR) to accompany standard NCPDP reject codes. Our POS component leverages Health Enterprise for member eligibility and provider data. Pharmacy providers may submit POS claims via switch vendors using their own Pharmacy POS software, or through the Health Enterprise Web portal.

We provide dedicated pharmacy staff, including our Pharmacy Manager Leslie Leon and pharmacy benefit technicians, to support our West Virginia Pharmacy Benefit Management (PBM) services. Our Pharmacy team uses the Health Enterprise Web portal for member eligibility lookup, prior authorization submissions, and other operational functions. The West Virginia MMIS RetroDUR contract was awarded to ACS last year and is operational, which provides BMS with an increased opportunity to improve the effectiveness of pharmacy services through the synergy of these two contracts.

ePrescribing. ACS has more than seven years of ePrescribing experience and offers BMS the most comprehensive electronic solution for today's generation of prescriptions. The ePrescribing application has already been developed by ACS and is housed within the Electronic Clinical Support Tool (ECST) platform of Health Enterprise. Authorized providers use a secured Web connection between their software vendor and ACS to prescribe drugs electronically via the nationwide Surescripts® pharmacy network. We manage all ePrescribing transactions in accordance with the CMS Final Rule. To prevent fraudulent use of Drug Enforcement Agency (DEA) numbers, we validate DEA and National Provider Identifier (NPI) numbers for each user against a nationwide master list of prescribers. ACS currently maintains a relationship with Surescripts® in other states and will use this industry knowledge and experience to obtain Surescripts® certification for ePrescribing in West Virginia.

Reference Data Maintenance

Health Enterprise maintains a database of current and historical benefit/reference code sets, pricing, text, edits, and prepayment utilization review criteria. Access to the database is provided through user-friendly Web pages, making the information immediately available for claims and prior authorization processing. Batch file updates are also processed from external entities such as CMS, First Databank (FDB), and MediSpan to update benefit/reference data automatically. Secure system access, accurate file updates, and effective management of internal and external interfaces are in place to maintain benefit/reference data in an accurate and timely manner.

Claims Processing

Claims transactions process daily in real-time to a ready-to-pay status every day, all day, supporting direct entry of claims as well as batch submission. Claims correction also occurs in real-time. We accept paper and electronic claims, adjustments, and voids according to HIPAA standards and BMS transaction standards. Through the Health Enterprise solution, ACS supports the processing of claim transactions through multiple access channels including Web portal, electronic data interchange (EDI), paper forms, and point of sale (POS), implementing common services that provide interoperability (system-to-system) and access (system-to-person) across all venues. Through its enterprise service bus (ESB) and Web services capabilities, Health Enterprise easily supports access channels that use both mechanisms.

Electronic Data Interchange (EDI) Transactions.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Claims Adjudication Services.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Financial Management

Accurate handling of Medicaid dollars is critical to the success and sustainability of the West Virginia Medicaid program. Our fully integrated financial service components within Health Enterprise are backed by time-tested solutions and nearly three decades of experience providing Medicaid fiscal agent services. Health Enterprise processes all claims, credits, adjustments, voids, and fiscal transactions through to the final payment process. We render provider reimbursements promptly and correctly in accordance with RFP Appendix G, Service Level Agreements; specified contracts; 42 CFR Part 447.45(d)–Payment for Services; and all other RFP requirements. We fully support BMS policies with functions such as HIPAA-compliant remittance advices, financial transactions, mass adjustments, accounts payable, accounts receivable, accounting, IRS 1099 production, extensive and flexible financial reporting options, and, if desired by BMS, electronic debit cards (please refer to Proposal Section A37, Additional ACS Offerings, for details). Health Enterprise also provides the extracts necessary for Data Warehouse/DSS contractor

Thomson Reuters to support their Management and Administrative Reporting (MAR) solution and provide the Bureau with a full set of CMS-required reports.

Our proposed financial services organization, led by Financial Manager David Fontalbert, facilitates ongoing effective communication with the Bureau and promotes efficient decision-making in response to BMS needs. Our experienced staff, coupled with Health Enterprise technology, offers the Bureau a proven financial services solution that improves system efficiency, provides vigilant tracking of financial transactions, enhances collection of outstanding accounts receivable, and supports a flexible and comprehensive reporting suite.

Drug Rebate

ACS' proven Drug Rebate Analysis and Management System (DRAMS) is currently used to administer all rebate activities for 13 Medicaid programs. Using point-and-click navigation and drill-down features, it provides a comprehensive online architecture that places all key program data at the fingertips of the user. The drug rebate team uses the DRAMS streamlined functionality to perform invoice analysis and dispute resolutions. Health Enterprise's service components for the Contact Management System, data capture, workflow, and automated letter generation receive, log, process, and manage drug rebate documentation and conduct business activities. DRAMS' portal feature, RebateWeb, facilitates the electronic transfer of rebate information and supports HIPAA-compliant access for authorized rebate personnel and registered manufacturers to view and retrieve electronic invoices, transfer electronic payment information, and view/mark claims for dispute. The use of RebateWeb reduces the cost of mailings and allows for more timely receipt of invoices, payments, and dispute information. The exchange of data uses CMS standards for invoicing. Please refer to Proposal Section 9.7, Drug Rebate Solution, for a complete description of related services.

Contact Management

Our contact management solution for West Virginia maximizes industry-leading technical systems and support services to handle communication through various channels including telephone calls, in-person interactions, email, fax, Web application interfaces, and paper correspondence. We receive customer inquiries through the mail, email, fax, and the IVR, as well as calls to the call center and interactive chat via the Web portal. We track and report on all inquiries received in our Health Enterprise Contact Management System (CMS), promptly respond to inquiries, and appropriately route inquiries for further research or resolution.

Our solution is a unique combination that includes the CMS and integrated Health Enterprise system components, the Avaya telephony solution, and other industry-leading COTS products. This integrated solution offers our CSR staff a comprehensive user interface (UI). With a single sign-on, they can access Health Enterprise data, the Contact Management System, the electronic document management system (EDMS), the automated letter generation system, and the online Project Repository, which houses West Virginia's Medicaid program policy manuals, procedure manuals, user guides, quick references, and other informational documents. Navigation-links quickly take CSRs to the information needed for all inquiries.

Providers can substantially improve their administrative efficiency through the enhanced online, self-service features that Health Enterprise offers. We have taken a leadership role in bringing Web portal self-service, convenience, and real-time information to Medicaid programs in the states we serve, with notable successes in Virginia, Mississippi, and Texas. Each Web portal implementation demonstrates two

important points: 1) that providers are eager to begin taking advantage of expanded electronic services in their Medicaid business; and 2) our team has the initiative, knowledge, and commitment to achieve the desired results. Through our expanded Web-based capabilities, we support providers, members, and other program stakeholder's participation in West Virginia's Medicaid program.

Communication and Correspondence Distribution.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Automated Letters.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Customer Service Support Call Center

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Mail Room

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Web Portal

An intuitive Web interface provides user access around the clock from any Internet-enabled computer. Rather than a bolted-on front-end Web portal, the user interface is actually the MMIS itself—fully deployed for access using any standard Web browser. For all functions, Health Enterprise requires only one point of entry that is controlled through unique user IDs and passwords. This design requires the user to enter an ID and strong password only once for the entire visit. ACS develops and maintains a Roles Privilege Matrix, which defines the default set of portal functions that each user type is allowed to access. Users can be assigned one of these default profiles—or a combination of profile and unique access privileges—down to the field ID level.

Within the Web portal, users benefit from online Help, drop-down menus, hot links, hover capabilities, and simple point-and-click technology to facilitate finding needed information. Our system is designed with general public access that does not require a user ID, as well as secure access for three specific user populations: providers, members, and internal users. Internal users include BMS representatives, ACS users, and other specified stakeholders who have a need to access MMIS functions. Public, non-registered users have access to program descriptions, manuals, eligibility criteria, forms, and provider relations materials such as manuals, fee schedules, bulletins, and training materials. In most cases, information is available for viewing online or in a downloadable format.

The flexibility of the system allows for fast and easy additions of links to other helpful websites such as certifying agencies, SSA, public healthcare, and other BMS-requested sites. Using a unique user ID and password, members can view their eligibility information, a history of their claim and provider visit activity, a history of service authorization activity, and—if implemented—their Personal Health Records (refer to Proposal Section A36, Other Optional Services, for details). In addition, members can search for and select an enrolled healthcare provider using various parameters, such as distance from home address, provider type, provider specialty, provider gender, or provider languages spoken.

The Health Enterprise Web portal expands the capability for provider, pharmacy, and trading-partner interaction with BMS. This is accomplished through provider enrollment and information maintenance; claims submission; claims inquiry; eligibility verification; service authorization and referral request and response; remittance advice retrieval in PDF format; payment inquiry; manuals and bulletins; and self-administration of security access by provider office staff. The system integrates services related to the processing of HIPAA-standard transactions with a variety of sources. This includes, but is not limited to, the ability to receive HIPAA-standard transactions and to send corresponding response acknowledgements via multiple methods including HTTPS, SFTP, third party EDI, and batch files. The system also allows providers to key and submit all claim types via the Web portal, adjust and void previously paid and denied claims, correct and resubmit claims online via HIPAA data content-compliant Web pages, and view the real-time claim adjudication results.

The provider home page displays provider quick links, a news portlet, and the provider message center inbox. Quick links include access to frequently asked questions, provider and billing manuals, training registration, and other provider resources. Providers may receive messages for the general provider community or specific provider types, as well as answers to provider-specific inquiries. New messages appear in bold text, and providers can delete previously received messages if desired. In addition to online Help and tutorials, the system also contains a secure “Contact Us” feature in the top right corner of the page. A sample ACS Web portal provider home page is depicted in Exhibit 9–17.

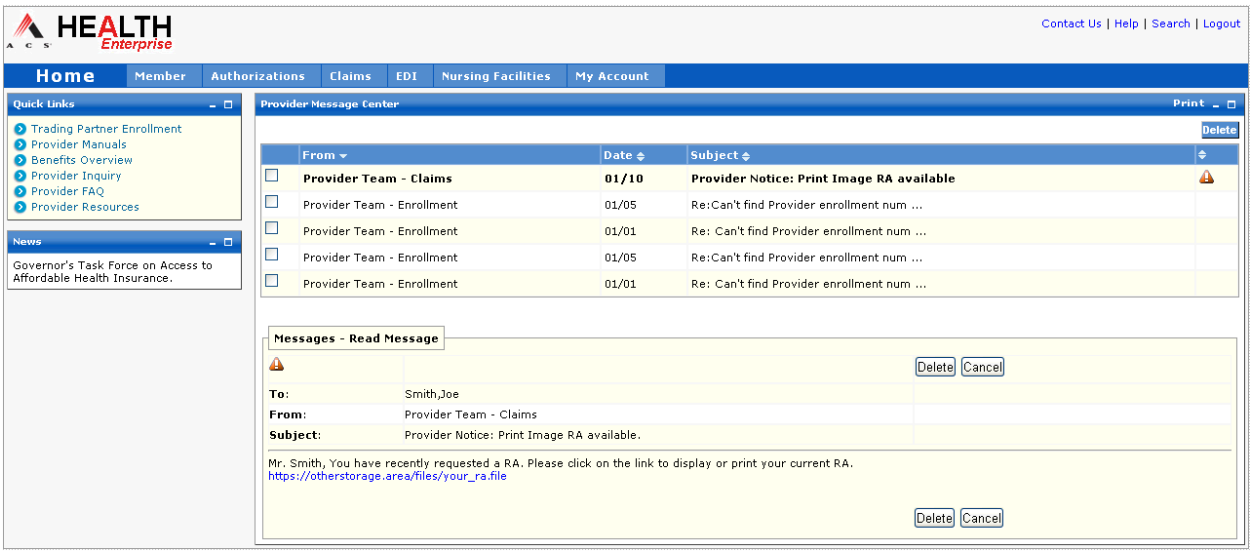


Exhibit 9-17. Sample Web Portal Provider Home Page

Through the ACS Web portal, providers gain access to the secure Provider Message Center, along with easy access to Medicaid program and patient information via drop-down links at the top of the page.

To provide BMS with a powerful tool that can influence best practices and promote preferred prescribing patterns, we also provide a patient care Web portal that registered providers can access to help make important medical and pharmacy decisions regarding their patients. DirectPatient is a user-friendly, intuitive web application that offers an enhanced Continuity of Care Document (CCD) viewer to display member demographics and medical information, which can only be accessed with the correct combination of the member's name, Medicaid number, and birth date. Today, ACS successfully operates DirectPatient in Kentucky, Wyoming, and Missouri.

To manage data quality, we use MultiVue to appropriately identify, link, and merge claims data. Information is presented via a tabbed interface, with each tab comprising one or more data sections that display related information including family medical history, drug allergies/alerts, current medications, administered immunizations; diagnoses and medical problems; vital signs; treatment results; and encounters. Information in each section can be sorted (ascending and descending) simply by selecting the column heading. If more records are available than will fit within one data section, additional records can be viewed with the use of navigation controls. Additionally, providers can search each section for quick access to specific member information.

The Web portal not only provides contact information for all users, but registered users may send secured messages to ACS for resolution or for escalation to BMS. Our contact management function tracks all such inquiries and tracks replies made to the user who submitted the initial request. Using data encryption, the Web portal ensures that the sensitive data transmitted over the public Internet is protected from interception and viewing by unauthorized parties. ACS uses 128-bit Secure Socket Layer (SSL) data encryption to safeguard private information including protected health information, login IDs, and passwords as it is transmitted from the portal's Web pages to our servers over the public Internet. The system is fully HIPAA-compliant for access, privacy, and security requirements.

Technical

System Availability. ACS meets all system availability, failover and reliability requirements as specified in RFP Appendix G, Service Level Agreements. Please also refer to Proposal Section 10.2.1.7, Initial Disaster Recovery and Business Continuity Plan, for additional details about system availability. Technical help desk specialists within our provider/member services unit respond to inquiries from providers and submitters regarding EDI submissions and provide troubleshooting assistance related to technical issues. These highly trained staff members work closely with telecommunications specialists responsible for ongoing maintenance and operation of the EDI application software and systems. All calls regarding EDI are captured and tracked in the Health Enterprise Contact Management System.

Security and Privacy. Our security approach aligns fully with HIPAA's three-fold security objectives of integrity, confidentiality, and availability. To meet these objectives, we continually assess security risks, monitor data and employee access, train personnel, implement physical security, and respond quickly and decisively to security issues and changes. Please refer to Proposal Sections 10.2.1.4, Initial Security, Privacy, and Confidentiality Plan; and A30, Security, Privacy, and Confidentiality Plan, for an in-depth explanation of our security and privacy procedures.

9.5.1.1.2 Maintain Adequate Staff and Infrastructure Support

1b. Maintaining adequate staff and infrastructure to manage and support ongoing operations.

The extensive MMIS project staffing experience that ACS has garnered over the years provides us with the detailed task-level knowledge needed to maintain skilled, well-trained staff to support MMIS project implementations and ongoing operations. We combine this experience with the use of effective and efficient tools to gauge workloads and efficiency factors and to assign appropriate resources and skill sets to each technical and operational task. To ensure staffing levels are adequate to meet and exceed contract requirements and BMS expectations, our project management and senior management teams conduct iterative reviews throughout Phase 2 of the MMIS Re-procurement Project. We measure and monitor service delivery using automated tools such as our Avaya Call Management System and Impact 360 Full Time Recording by Verint for customer/caller interactions. We also analyze program changes over the life of the contract that may have measurable impacts on historical patterns of administrative service volumes. For example, as providers become accustomed to using expanded Web-based services, we have learned that our call centers experience a corresponding decrease in provider calls. Likewise, changes in business processes producing advancements in MITA maturity levels can have measurable impacts on staffing levels. Our staffing plan incorporates contingency planning, and we adjust staff as needed for work volumes, contract adjustments, and situations that affect productivity or staffing levels.

We use our continuous improvement and business reengineering methodologies to assess processes and infrastructure to improve the services delivered to our customers. Throughout the MMIS Re-procurement Project, we constantly monitor current operational metrics as well as feedback mechanisms from interactions with State agencies, members, providers, and other customers expressed through surveys, feedback, and training evaluations. Knowledge experts from our corporate ACS Operations Consulting Group (OCG) support fiscal agent account initiatives, conduct operational assessments, and recommend performance improvements. This background allows OCG to share best practices across fiscal agent accounts to ensure we continue to maintain appropriate staffing levels and infrastructure throughout the entire time span of the contract. If needed, we have the benefit of using recruiting firms with corporate ACS agreements to supplement our staffing efforts and quickly fill both temporary and full-time positions

with quality personnel to meet operational needs. Our human resources planning includes formal and structured staff retention, development, and recruiting processes. Please refer to Proposal Section 8, Staff Capacity, Qualifications, and Experience, for additional details about our staffing methodologies.

9.5.1.1.3 Operating the MMIS with Minimal Disruption

1c. Operating the MMIS with minimal disruption to all supported end users.

MMIS Account Manager Paul Harvey meets at least weekly with his leaders. Our entire leadership team encourages open and honest discussion of all project issues to ensure that problems are identified early on and solutions are quickly implemented to prevent work disruptions. We communicate frequently and effectively with BMS to jointly identify risks and implement solutions before risks become issues. Each team member is encouraged to identify problems and make recommendations that will improve performance and provide quality service for members, providers, BMS, and other stakeholders.

We use our project planning and quality management tools to operate and control Health Enterprise with minimal disruption to end users. All modifications to Health Enterprise are carefully managed by our Enterprise Project Management Organization (EPMO) through a structured change management process. We distribute information and conduct staff training to ensure that both system and operational changes are effectively managed and appropriately communicated to affected groups, identifying resources, modifying schedules, and adjusting priorities and contingencies as needed. Additionally, our Medical/Dental Quality team, managed by Greta Dennis, focuses on the systematic review, monitoring, and evaluation of all project processes and procedures. All ACS systems and projects are managed to provide our clients with continuous availability, open channels of communication, and superior service levels with no service disruption for program stakeholders.

9.5.1.1.4 System Performance Monitoring and Maintenance

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

9.5.1.1.5 Ongoing Training Support

1e. Providing ongoing training throughout the operations and maintenance stage for new staff and staff who change positions.

Initial training is provided for all newly hired employees and any staff members who have changed positions. We also provide ongoing refresher and as-needed training to keep employees abreast of recent changes and to help them achieve individual performance objectives. New staff members are often partnered with a senior employee to review the processes and procedures of their assigned functions. Once an employee has completed training and is working independently, seasoned staff remains available for ongoing mentoring and coaching. Training is also made available to both ACS and BMS designated employees through the Web portal and our Learning Management System (LMS). Our Training team uses knowledge resources such as program information, business and technical operating manuals, and user procedure manuals to support professional training sessions. Training materials are developed in collaboration with BMS and integrated with our online procedure and user manuals to support the operating environment for all business and technical functions required by this RFP. Please refer to

Proposal Sections 10.2.3.4, Training Task; 10.2.3.4.1, Approach to Completion of Deliverables; and A13, Training Plan for additional details.

9.5.1.2 Approach to Post-implementation Monitoring and Quality Control

2. Post Implementation Monitoring and Quality Control: Approach to monitoring and quality control activities immediately following implementation, for a time period to be determined by the Bureau, including, but not limited to:

Although we have designated a medical/dental quality team for the MMIS Re-procurement Project, our philosophy is that quality remains the responsibility of every employee. We gladly provide post-implementation monitoring and quality control for any period determined by the Bureau. Indicative of the importance we place on this period, our SPARK-ITS QMS includes a ninth and final workflow called the Post-Implementation Support Workflow (described in Proposal Section 10.2, Project Management). This workflow includes guidelines for post-project tasks, along with a survey to measure our performance and customer satisfaction, for the express purpose of identifying opportunities for ACS process improvements. To resolve identified problems in a timely manner, we also adhere to a BMS-approved Problem Management Plan, an example of which we provide in Proposal Section A26 of the Appendix. Expert staff members are available to make needed adjustments to Health Enterprise, conduct system monitoring, and provide emergency maintenance/assistance in computer and data resource management (please refer to Proposal Section 10.2.4, Phase 1d: Implementation Readiness). Our EPMO ensures that problem resolutions are on schedule, and MMIS Account Manager Paul Harvey is ultimately responsible for ensuring that all products and deliverables meet or exceed BMS requirements.

9.5.1.2.1 Monitoring the Implemented MMIS for Quality Control

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

9.5.1.2.2 Remedy, Repair and Notification Procedures

2b. Expeditious repair or remedy of any function that does not meet standards set during system definition and the quality planning process including notification of significant issues to BMS.

The availability of expert staff during the post-implementation period, our testing and source control tools, plus project controls ensure the expeditious remedy or repair of any function that does not meet the standards determined during system definition or the quality planning process. Our priority is to minimize any negative impact to West Virginia's MMIS stakeholders, and we consider any disruption in service as critical. Our IBM Rational Quality Manager toolset streamlines system testing and connects our support teams to increase individual and team productivity and to compress the remedy lifecycle. We closely monitor all lifecycle changes and will add any required "fix" in the next viable release according to change control procedures, while keeping BMS fully informed. We retain key Implementation Phase employees through the post-implementation period to ensure skilled resources are available for swift

repair of any function that does not meet standards. Additionally, a number of our Implementation Phase staff members will transition to the Operations Phase. This continuity of staff ensures knowledge retention and efficiency of operations, and, if necessary, the rapid resolution of any identified defects.

9.5.1.2.3 Post-implementation Problem Identification, Resolution, and Reporting

2c. Weekly reporting of any problem identified, the proposed repair or remedy, and impact of the repair or remedy and the scheduled implementation date.

In the period immediately following implementation, we continue to produce weekly status reports and meet at least weekly with BMS to discuss any problems identified. Our reports include the proposed repair/remedy, impact of the repair/remedy, and the scheduled implementation date of the remediation. We manage Health Enterprise problems, classify, communicate, and document any issue per the BMS Operational Problem Management Policy, categorizing errors as critical, serious, significant, or minimal. All defects are tracked from identification through correction using our IBM Rational Team Concert toolset, which tracks problem history and traces impacted functionality to the approved system remediation. We document these issues, per BMS request, in the form of an Impact Statement Report. Our EPMO Director maintains oversight of the deliverables and scope of work to repair any problem during this critical phase and manages, monitors, and reports on all deliverables and schedules. We produce reports in any format requested by BMS (electronic, hardcopy, or other) and maintain the reports in our online Project Repository for 24/7 access by the Bureau. Please refer to Proposal Sections 9.5.3, Phase 2c: MMIS Modifications and Enhancements; 10.2, Phase 1: MMIS Replacement DDI & CMS Certification Planning; and A26, Problem Management Plan, for additional information about this topic.

9.5.1.2.4 Post-implementation Customer Service Survey

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

9.5.1.2.5 Archiving CMS Certification First-run Reports

2e. Archiving all first-run Federally required reports for inclusion in the CMS Certification documentation (see Phase 1e: CMS Certification Planning and Phase 2b: CMS Certification).

Immediately following implementation, ACS business analysts gather and prepare the documentation required for CMS Certification. Planning for this task begins during DDI (for details, please refer to Proposal Section 10.2.5, Phase 1e: CMS Certification Planning). These analysts ensure that all first-run federally required reports for production operations are generated and archived in our Project Repository. A specific repository location is designated for CMS Certification documentation, thereby providing a centralized store, day one and onward, for Health Enterprise reports, operational and technical artifacts, and project-related information. Documents are appropriately identified, collected, indexed, and stored (please refer to Proposal Section 9.5.2, Phase 2b: CMS Certification).

9.5.1.2.6 Post Implementation Report

2f. Producing a Post Implementation Report detailing the results of all implementation activities

ACS produces a Post Implementation Report detailing the results of all implementation activities at the end of the post-implementation period. This report, maintained in the Project Repository, includes implementation performance results and analyses for a checklist of items. The items are similar to those identified during implementation readiness and include hardware and software, telecommunications, phone lines, interfaces, training, operational procedures and documentation, mailroom processes, document capture, security and confidentiality, report generation and distribution, system backup and recovery, testing, and customer support (please refer to Proposal Section 10.2.4, Phase 1d: Implementation Readiness for more information). The Post Implementation Report also includes system modifications such as performance enhancements, defect resolutions, documentation updates based on the resolution of defects that were outstanding at the time of go-live, as well as documentation and decisions resulting from meetings with BMS. All activities are recorded in the report for an accurate accounting of work performed by ACS.

In summary, ACS looks forward to working with BMS representatives to produce a successful Fiscal Agent Operations Phase. We bring a highly flexible Health Enterprise solution that serves as the foundation for streamlined business processes, reduced administrative burdens, increased communication channels, total transparency, and the capability to quickly accommodate the seemingly never-ending changes within the healthcare arena. Our experienced leaders use proven methodologies for identifying, assessing, monitoring, and mitigating risks. Throughout the life of the project, we provide BMS with a 24/7 window into the project's status/progress and, if needed, keep the Bureau fully apprised of any issues and resolutions.

9.5.2 Phase 2b: CMS Certification

REQUIREMENT: RFP Section 3.2.7.2 to 3.2.7.2.1, pg. 94 of 115

Our highly qualified staff, experienced in CMS Medicaid Enterprise Certification Toolkit (MECT) criteria and equipped with specialized West Virginia experience and ACS' proven processes, supports timely completion of the CMS Certification Phase to ensure the West Virginia Health Enterprise qualifies for the highest eligible FFP rate retroactive to the first day of operations.

ACS Health Enterprise was designed to meet all MITA alignment and CMS certification requirements defined in the MECT. The core design of Health Enterprise incorporates the business requirements in each of the 20 CMS Certification Checklists, and we map these requirements to the Health Enterprise functional requirements during the requirements validation stage of the MMIS Re-procurement Project. Our team ensures requirements for certification are incorporated and tracked throughout the entire system development lifecycle, as well as throughout ongoing operations. We work diligently and in close collaboration with BMS to ensure that the new West Virginia Health Enterprise receives CMS certification and qualifies for the highest available FFP rate retroactive to the first day of operations.

A Flawless Certification Record

- ACS has a proven track record of 100% successful CMS certifications
- Certification Manager Judith Hanson experienced with the CMS MECT
- BMS Liaison Leonard Kelley chaired two successful CMS certification efforts for West Virginia
- ACS response to MECT protocols praised as best practices by CMS during recent certification of DC MMIS

No ACS MMIS implementation has ever failed to receive federal certification, proving the effectiveness of our development and certification approaches. In January 2012, the DC MMIS became the first ACS MMIS certified under the MECT. Indeed, CMS was so impressed with our certification management that they want to recommend our best practices for future certifications. ACS also is using the MECT for the Health Enterprise systems that we are implementing in Alaska, New Hampshire, and North Dakota.

Our proposed Certification Manager for West Virginia Health Enterprise is Judith Hanson, who has participated in eight previous certifications and is currently advising the New Hampshire MMIS project. Our proposed certification team also includes BMS Liaison Leonard Kelley, who brings both West Virginia Medicaid institutional knowledge and previous West Virginia CMS certification experience.

9.5.2.1 Approach to Completion of the CMS Certification Phase

3.2.7.2.1 Phase 2b: Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the CMS Certification Phase, including the Vendor's proposed:

Our organized preparations throughout Phase 1 expedite the completion of CMS certification activities at go-live. Updated certification checklists, confirmed certification artifacts, an inventory of Health Enterprise reports, and staff resources are ready for efficient completion of post-implementation certification tasks. (See Proposal Section 10.3, Phase 1: MMIS Replacement DDI and CMS Certification Planning). We understand the BMS certification team's role in CMS Certification is paramount to success, and we provide efficient tools, well-organized material, and expert training to ensure the team is well-equipped for all certification activities.

9.5.2.1.1 Completion of Phase 2b Deliverables and Milestones

1. Approach to the completion of the Phase 2b Deliverables and Milestones (as listed in Appendix C) within the specified time period.

ACS streamlines the CMS Certification task by continuously updating the checklists throughout Phase 1 of the MMIS Re-procurement Project to reflect new artifacts and West Virginia business rules that address specific system review criteria. With completed checklists, MMIS report inventory, and updated readiness schedule at go-live, we immediately begin to collect the required certification documentation. During the certification task, we also build storyboards and demonstration scripts for BMS staff

presentations of the system for CMS reviewers. Completion of certification activities follows the schedule developed in coordination with the BMS Re-procurement team and our Certification Manager during Certification Planning (Proposal Section 10.3, Phase 1: MMIS Replacement DDI and CMS Certification Planning). To ensure the West Virginia Health Enterprise system obtains certification within 12 months of the production start date, we integrate each CMS-prescribed step of the certification process into our project schedule for EPMO oversight of the deliverables and milestones as described in Appendix C of the RFP. Exhibit 9-19, CMS MMIS Certification Process Flow, summarizes the certification process.

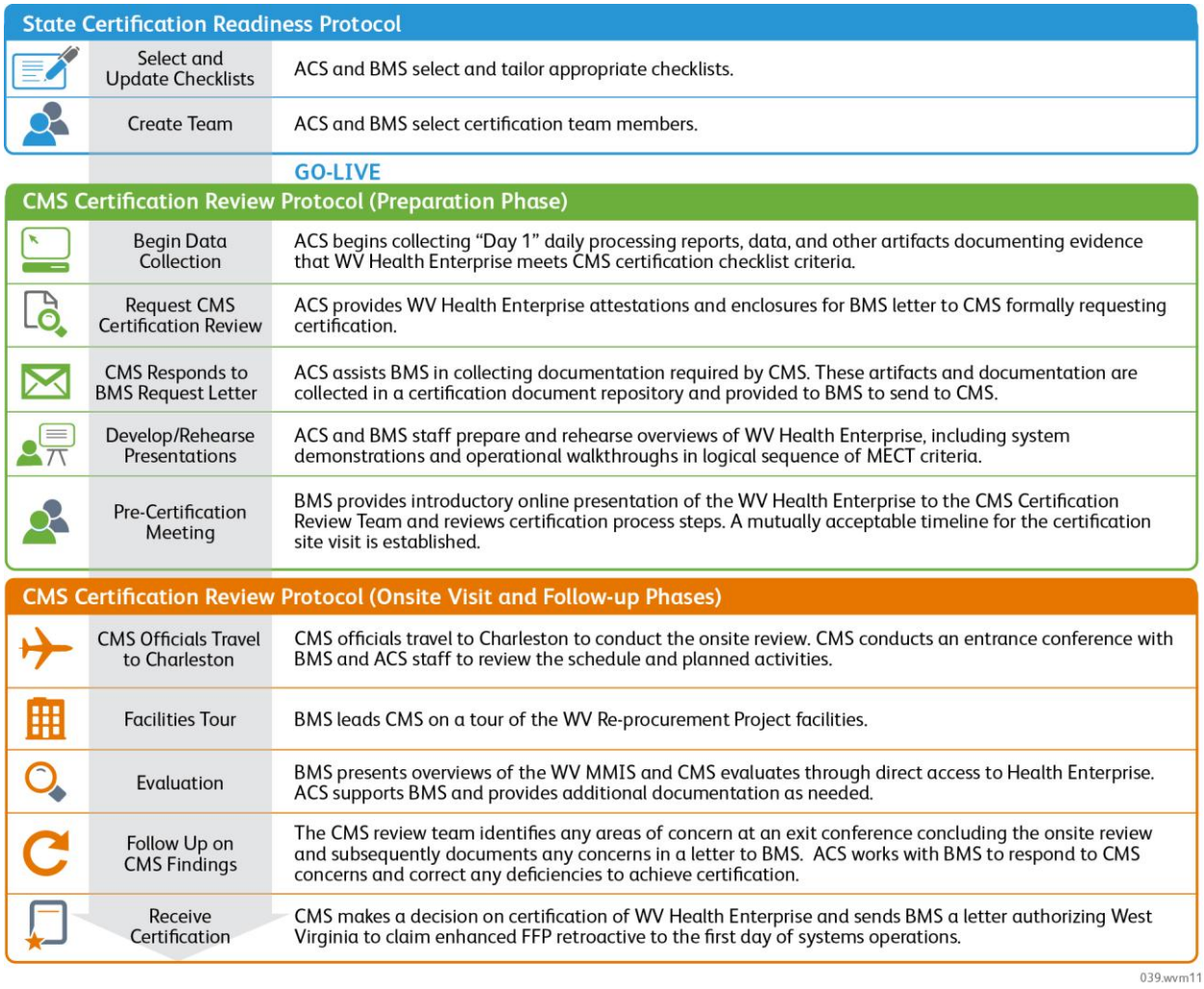


Exhibit 9-19. WV MMIS Certification Process Flow

MMIS certification process flow for West Virginia is aligned with the new CMS MECT Protocol Steps.

9.5.2.1.2 Obtaining BMS Approval of Phase 2b, CMS Certification Completion

2. Approach to obtaining BMS approval of the completion of Phase 2b, including proposed Acceptance Criteria for each Milestone.

ACS' CMS MECT experience, use of certification checklists, collaborative Certification Planning, and internal demonstrations of the system during testing all support the BMS approval process. Our analysts also prepare storyboards to demonstrate Health Enterprise functionality in a logical sequence, organized according to the system review criteria for each business objective of the CMS MECT. These storyboards

form the basis for BMS Re-procurement team member training to prepare for presentation of West Virginia Health Enterprise to CMS reviewers.

Knowledge and experience gained from the anticipated prior certifications of Health Enterprise in New Hampshire, Alaska, and North Dakota also are expected to streamline the West Virginia review process, allowing it to center on specific West Virginia Health Enterprise enhancements and spotlight State-specific business objectives and areas we know are of interest to CMS.

During weekly certification status meetings with BMS, we review certification artifacts, deliverables, and a certification progress dashboard that tracks review progress for each certification checklist. We track action items and any issues identified. This weekly meeting is also the primary communications channel for questions from ACS to BMS that may need to be raised with the CMS regional office.

Phase 2b CMS Certification Milestones and proposed acceptance criteria are shown in Table 9-10.

Table 9-10. Proposed Acceptance Criteria for Certification Phase Milestones

Milestone	Proposed Acceptance Criteria	Timeline
136 – Completion and BMS Approval of Certification Readiness Planning Meetings	• ACS submits updated Certification Readiness Plan. • ACS submits fully completed checklists showing all criteria which demonstrate that federal and State requirements have been satisfied. BMS reviews criteria checklists for Y/N compliance and identification of other stakeholders.	• 2-3 months after go-live
137 – Pre-Certification Meeting and/or CMS Call	• ACS submits collected daily processing reports, data, and other artifacts documenting evidence that Health Enterprise meets CMS certification checklist criteria for review. • ACS ensures all criteria are supplied to BMS for the Certification Readiness Checklist in preparation for BMS submission to the CMS Regional Office. • ACS completes participation in Regional Office Briefing and Approval of Checklist. • **CMS Certification Request Letter**. ACS delivers draft letter to BMS that includes a Declaration that West Virginia Health Enterprise meets all of the requirements of law along with other attestations. • ACS submits a data package in response to any CMS request for additional data needs and completes delivery of all compiled documentation outlined on Chapter 3, page 15 of the CMS MECT Protocol. These artifacts and documentation are collected in a shared certification document repository and provided to BMS to send to CMS. • ACS collects and maintains timely documentation for BMS in preparation for the CMS onsite visit. • ACS supports BMS participation in the Regional Office briefing. • ACS supports BMS participation in the Pre-Certification Meeting/Call with the CMS review team.	• 3-5 months after go-live • 6 months after go-live
138 – CMS Certification (This is considered the final deliverable for DDI)	• ACS develops training material and delivers BMS training and prepares and rehearses overviews of Health Enterprise, including system demonstrations and operational walkthroughs. Using the CMS MECT checklists as a guide, ACS prepares storyboards to facilitate the presentations. • ACS and BMS work together to schedule the onsite visit and conduct Health Enterprise walkthroughs. • All steps in the CMS onsite visit are completed, including ACS support of BMS in the entrance conference, evaluation of West Virginia Health	• 7-8 months after go-live

Milestone	Proposed Acceptance Criteria	Timeline
	Enterprise, and the exit conference debriefing. • ACS submits completed post-review analysis and follow-up: all CMS requests for analysis of data are met, issues are resolved, all checklist items are dispositioned, and Corrective Action Plans (CAPs) are completed. • BMS receives the CMS Certification Review Final Report concluding that the West Virginia Health Enterprise meets all State Medicaid Manual and other federal requirements for certification and a confirmation to certify the West Virginia Health Enterprise retroactive to the first day of operations of the MMIS Re-procurement Project to ensure full federal financial participation.	• 10 months after go-live

SharePoint's workflow management capability allows all BMS and ACS team members to efficiently and easily track the progress of deliverables throughout the review and approval process. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for additional information on the deliverable review process.

9.5.2.1.3 CMS Certification Methodology and Approach

3. Methodology and Approach

During the CMS Certification task, Judith Hanson meets weekly with the BMS certification team and MMIS Account Manager Paul Harvey to provide status updates and address any questions or issues. BMS Liaison Leonard Kelley also plays an active role in supporting the entire certification process.

We use our established proven project management methodology (PMM) standards to ensure continued success throughout Phase 2b. Our SPARK-ITS methodologies provide a framework for standardizing the entire spectrum of activities and help the certification team produce quality results, manage risk, and track progress (please see Proposal Section 9.3, Project Management).

Updating the Certification Readiness Plan

3a. Updating the Certification Readiness Plan, including contingencies for any system or business defects identified during system testing and UAT

After completion of UAT, the Certification Readiness Plan is updated to include any system or business operations defects that were identified, corrected, retested, and resolved during system testing and user acceptance testing. Our requirements management tool, Rational DOORS, supports efficient, accurate completion of this activity. We link RFP requirements, as well as MECT system review criteria, to the Requirements Specification Document, Detail Systems Design, and associated testing artifacts to provide evidence of full traceability. Rational DOORS produces the Requirements Traceability Matrix (RTM), which maintains linkages to alert us to any certification artifacts that need updating in preparation for CMS review. Maintaining accurate, current, and verifiable linkages between certification documentation and system functionality supports a smooth review process.

Supporting Certification System Remediation

3b. System remediation in the instance that CMS determines that the MMIS (including all component parts) does not meet certification standards.

After the CMS exit conference with BMS, the CMS MECT protocol steps allow a period for additional questions, requests for information, or identification of issues. During this period, ACS works with BMS to answer any questions, provide additional documentation, or establish corrective action plans for any

identified deficiencies. ACS also assists the BMS certification team in tracking a consolidated list of questions or issues. We maintain the list of issues and action items and work through all steps until the issues are resolved and certification is achieved.

CMS Certification Resource Support

3c. Maintaining appropriate resource levels to achieve CMS Certification while performing fiscal agent operations.

Certification Manager Judith Hanson, in conjunction with the ACS certification team, coordinates the technical and operational resources necessary to conduct certification tasks without disruption to ongoing fiscal agent operations. Judith oversees the capture of documentation to support the certification effort. Our staffing model provides business analysts and documentation specialists designated to perform these certification tasks. Prior to go-live, ACS business analysts begin gathering certification documentation, thereby reducing the certification work effort to be performed during fiscal agent operations. Our EPMO Director works closely with Judith and the BMS Re-procurement team to ensure that all preparation for the CMS onsite visit is completed on time and that appropriate resources are made available for each certification milestone.

9.5.2.1.4 Certification Support

4. Certification Support: Approach to providing support to BMS including (but not limited to):

ACS' experienced certification resources, effective tools, training, and proven processes support the BMS certification team for timely submission of the Certification Request Letter, certification documentation gathering, and electronic document storage activities.

Support for BMS' request for CMS Certification Review and Approval

4a. Preparing and submitting BMS' request for CMS certification review and approval.

The formal CMS certification review begins when BMS requests certification through a formal letter to CMS. The letter contains BMS' formal MMIS system acceptance, declaration that West Virginia Health Enterprise meets all requirements of law and regulation, date the system went live, and a suggestion of when the onsite visit could occur. This letter can be sent as early as two months after go-live and sets the wheels in motion for CMS to prepare for the onsite visit and Health Enterprise review. ACS assists BMS by preparing all enclosures and attestations, ensuring that all required statements regarding performance can be made by BMS in the certification request letter for West Virginia Health Enterprise.

Preparing CMS Certification Documentation

4b. Preparing all documentation and operational examples to demonstrate criteria are met and system and fiscal agent operations address all business functions and performance standards and business model expectations for certification.

ACS compiles all data and documentation required for BMS submission to CMS. This documentation is used to demonstrate full certification compliance back to the first day of operation. The list of certification data needs is extensive and includes such items as system documentation, network components, MMIS error code listings, records layouts, and MSIS data. A complete list may be found in Chapter 3, page 15 of the CMS Protocol.

Business operations and systems analysts begin the collection of this documentation during DDI and are assigned to each CMS MECT checklist for the duration of the certification process. Post-implementation,

ACS business analysts ensure that required Day 1 reports are generated to provide documentation of production operations on the go-live date. Documentation specialists also collect data and reports and coordinate delivery of supporting documents, process flows, and other certification data needs. These certification artifacts are migrated to designated electronic folders in the project repository certification directory where the entire CMS review package is stored throughout the certification period.

Certification Document Storage and Access

4c. Shared electronic document storage where certification materials and supporting documentation can be uploaded, organized and accessed by CMS during onsite review.

ACS establishes and maintains a designated electronic document storage location on our project repository for shared access to certification documentation by CMS reviewers during the onsite review. This location provides a centralized store for West Virginia Health Enterprise reports for Day 1 and onward, operational and technical artifacts, and project-related information. Documents are appropriately identified, collected, indexed, and stored. Updates are managed through electronic version control to help organize vast amounts of information and to simplify locating documents during the CMS onsite visit.

9.5.3 Phase 2c: MMIS Modifications and Enhancements

REQUIREMENT: RFP Section 3.2.7.3 to 3.2.7.3.1, pg. 95 of 115

3.2.7.3.1 Phase 2c Vendor Response Requirement: The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Modifications and Enhancements Phase, including the Vendor's proposed:

The expertise of ACS' dedicated management staff, the proven management processes of our SPARK-ITS® Quality Management System (QMS), and the flexibility of Health Enterprise combine to ensure that all system modifications and enhancements meet BMS' business needs.

BMS faces significant challenges to meeting continually changing federal and State mandates. We recognize the importance of a flexible MMIS that provides efficient, effective, and economical management of the State's Medicaid program in order to provide members with improved access to quality healthcare.

ACS offers a modern and innovative MMIS solution and broad Medicaid experience to help BMS meet its Medicaid goals. The component-based, Medicaid Information Technology Architecture (MITA)-aligned approach of Health Enterprise provides BMS with significant flexibility to include or exclude various functions driven by specific program requirements and provides greater ease in maintaining and modifying system documentation and functionality.

Rigorous Management of Ongoing Modifications and Enhancements

- Health Enterprise's component-based architecture allows modifications and enhancements to be incorporated quickly and easily
- EPMO uses well-defined processes to manage enhancement and maintenance resources
- Change management tools and processes provide flexibility to accommodate BMS requests
- Management team offers decades of experience managing changes in complex MMIS environments

We work closely with BMS staff to identify, develop, and implement enhancements specifically designed to comply with new regulations and policy changes and to achieve advanced MITA maturity levels over time. ACS built Health Enterprise from the ground up to support the unique requirements of the Medicaid program. Unlike users of shared commercial systems, ACS and BMS maintain direct control over the process for system changes, modifications, and

enhancements, supporting timely implementation. Through proper prioritization and scheduling, detailed tracking and status reporting, and constant communications with MMIS Re-procurement Project stakeholders, we minimize impact on MMIS users while implementing approved changes.

9.5.3.1 Methodology and Approach to Change Request Process

1a. Methodology and approach to Change Request process to provide a framework for submitting, reviewing, approving, prioritizing, and monitoring all modifications and enhancements.

Our methodology for managing changes from initial request to final implementation and closeout requires that changes to hardware, software, baselined documentation, and operational procedures occur only with approved change requests (CRs), and that CR releases occur only with appropriate configuration control. Requests for system enhancements and modifications are submitted in a format approved by BMS and include all necessary documentation identified in the Change Management Plan. This serves as the trigger for initiating, tracking, and controlling changes to the production system and contract scope of work. By limiting system change activities to those triggered by a change request, we ensure that no changes are made to the system without a rigorous process of review, assessment, and evaluation. The main components of ACS' approach to managing CRs are listed in Table 9-11.

Table 9-11. Key Components of Our Approach to Managing Change Requests

Change Management Components	Description
SPARK-ITS ® QMS, Configuration Management, Change Management, and Release Management Plans	These tightly integrated plans identify which project elements require what level of change control, how change control works, and how changes are released. Methodology processes and workflows are the same as those followed in the earlier phases of the project.
Microsoft® Office SharePoint®	SharePoint is our standard documentation, information management, and collaboration tool. Among other things, we use SharePoint to enter, track, and report maintenance support and system enhancement requests throughout the project and provide access to BMS to monitor performance and progress of all aspects of the project, including change requests during Phase 1c.
Change Control Board (CCB)	This joint team made up of BMS and ACS staff reviews and approves or rejects all change requests.
Rational DOORS	Our requirements management system, Rational DOORS, serves as a repository for functional and non-functional requirements not only during DDI, but also through the entire life of the MMIS. We use Rational DOORS to develop and trace change and enhancement deliverables, including the Requirements Specification Document, solution gap analysis, and Requirements Traceability Matrix (RTM). We export these from DOORS and publish them to the project's SharePoint site. DOORS is integrated with our source code library to require baselined components to be modified only via an approved change request.
EPM Solution, including Project Web Access (PWA)	We use the EPM suite of products to schedule the work for changes and enhancements and to ensure we have allocated the proper resources and time to accomplish the work. We then use these tools as we track and report on the progress of the changes or enhancements to make sure they stay on track.
Enterprise Project Management Office (EPMO)	ACS' dedicated project management staff administer, monitor, and report on all aspects of the MMIS Re-procurement Project, including maintenance and enhancement activities.

By adhering to our documented change management processes from change identification through implementation and final closure, we provide seamless integration and execution of all system enhancements and maintenance support requests approved by BMS. Our change and other project management tools provide both BMS and ACS with a ready, effective way to schedule, report on, and monitor all change requests from start to finish.

Our Configuration Management Plan (discussed further in Proposal Section 9.3.4.8, Project Management Sub-Plans and in Proposal Section A31, Configuration Management Plan, in the Appendix) identifies which project artifacts are subject to configuration management, the types of configuration management that the project has adopted (typically items can be under full configuration—meaning there is a written rule that defines how they are managed, or limited configuration—meaning they have an identified owner who is responsible for managing their configuration), and the associated processes and roles.

The Change Management Plan specifies the framework and processes for handling proposed changes to project artifacts. It addresses how to request a change; how changes are analyzed, prioritized, developed, implemented, managed, and reported; and the processes and roles pertaining to change management.

Approved CRs are traced to their affected contractual commitments through the Requirements Traceability Matrix. This ensures that each requirement can be linked to any and all CRs that affect the requirement's scope, intent, or consequence. (See Proposal Section 10.2.2.4, Approach to Development and Use of Design Documentation, for details regarding the RTM and other design documentation created during both initial DDI and subsequent modifications or enhancements.)

Throughout this process, we provide appropriate control through our EPMO. Our Medical/Dental Systems Manager, acting as our Technical Director/Chief Information Officer during operations, Tim Bastian, works with BMS leadership to discuss potential new capabilities, upcoming federal and State requirements, and system capabilities at other ACS projects that may be beneficial to West Virginia. Tim brings 24 years of experience in systems development and analysis, including management of large teams of technical and business resources crafting technical solutions for complex business needs, nine years of that in Medicaid. POS Systems Manager Ed Jingluski and Medical/Dental Application Manager Bill Schneider, supported by the Technical, Design, and Configuration teams, oversee the system maintenance activities using the knowledge of the West Virginia Health Enterprise system gained during DDI. Ed brings more than 20 years of management experience, including senior management roles and extensive experience with MMIS/POS solutions. Bill has 16 years of MMIS-specific experience, including current implementation experience in Health Enterprise. These three key roles, with EPMO oversight, are responsible for handling change management activities throughout Phase 2c, MMIS Modifications and Enhancements.

Change management staff in the EPMO work with staff in the systems group and other functional groups to analyze each CR and provide estimates for the change. Their findings are documented in SharePoint and reviewed by the CCB. Providing oversight of the process, the CCB is a leadership team that provides direction and business prioritization to the change control/management process. Composed primarily of BMS and ACS leadership, the CCB discusses proposed changes with regard to contract scope, reviews potential business and project impacts and risks, and approves or rejects proposed changes. Members of the BMS team actively participate on the CCB, providing visibility and control of the change management process. The EPMO works with subject matter experts from the operations team to analyze and document dependencies among changed functionality in order to avoid unintended consequences.

Based on our experience managing changes in the complex MMIS environment, we understand the need for coordination of the many change management activities. We provide a Release Analyst/CR Coordinator (part of the EPMO) who is responsible for maintaining the Change Request Log in SharePoint, preparing documents for CCB meetings, and communicating with change submitters about CR approval, scheduling, and completion. Exhibit 9-20 depicts our high-level change request process flow. Changes outside the contract scope requiring additional funding are submitted to the BMS Project Officer for review and approval prior to implementation. Approved CRs are returned to the EPMO, updated in SharePoint, and the work is prioritized and scheduled.

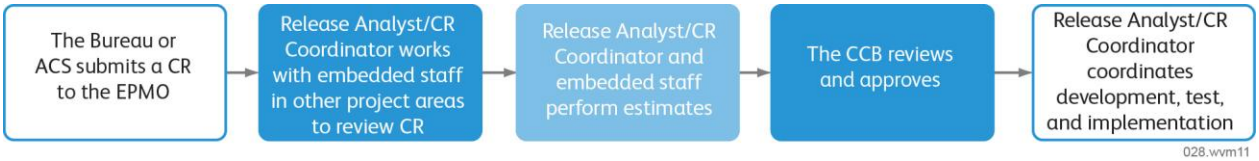


Exhibit 9-20. Change Request Process Flow
All changes follow strict procedures to maintain consistency and control throughout the project.

9.5.3.2 Methodology and Approach to Managing Development and Implementation of Modifications and Enhancements

1b. Methodology and approach to Managing development and implementation of modifications and enhancements…..

During Phase 2c, MMIS Modifications and Enhancements, we continue our strict adherence to the SPARK-ITS® QMS. The change management process provides the mechanism for defining, analyzing, estimating, and approving potential changes. Approved changes then go through the same design, development, and implementation process as the DDI Phase did initially. Exhibit 9-21 depicts the high-level process flow used to develop and implement modifications and enhancements.

We treat each CR as a mini-project, following the same System Development Methodology (SDM) SPARK-ITS workflows as during the earlier phases of the MMIS Re-procurement Project. Following approval of a CR by the CCB, the CR Coordinator works with the change requester regarding implementation dates, resolves any conflicts between on-going scheduled CRs, and notifies all affected parties of the final schedule for each CR. A team lead is assigned responsibility for each CR to coordinate the expected completion date with the EPMO and to monitor and control work on the CR. The team lead assigns the CR to a team member with the appropriate skill set who is available for work. The team member is responsible for designing, developing,

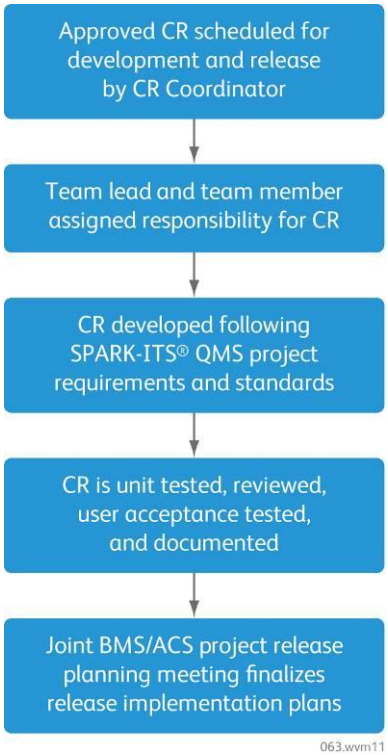


Exhibit 9-21. CR Development and Implementation Process
SPARK-ITS® QMS ensures all CRs are developed and implemented using the same processes and controls as the initial Health Enterprise system.

testing, and implementing the CR. The assigned team member also is responsible for preparing the CR for promotion and migration following our detailed release management process and for maintaining the CR Log information in SharePoint. The team lead is responsible for providing a weekly status report of all CRs to the project manager.

Just as we begin any project, the team lead and responsible team member conduct a thorough review of all the CR details assuring there are no ambiguities in the CR documentation. They prioritize release development activities, determine impacts of releases and their development on services, and ensure that all requirements have been incorporated into release designs and activities.

Following the SPARK-ITS® SDM, the team member develops the CR based on requirements, impact assessments, defect history, and successful release criteria, making all changes in compliance with the MMIS Re-procurement Project's documentation and technical standards. We perform unit tests, conduct informal code reviews or formal peer reviews, prepare Implementation Checklists, and conduct user acceptance testing prior to final approval of a CR for release. The CR team member creates a migration package encompassing all of the program elements of the change or enhancement slated to move from the development/test to the user acceptance test environments.

Prior to the release, the EPMO conducts a release planning meeting in which BMS and ACS managers and team leads associated with the CRs discuss and develop the release strategy and implementation details. ACS technical staff prepare and issue Preliminary Release Notes when the CR is introduced to the user acceptance test environment so teams are made aware of the functionality planned for delivery.

Once user acceptance testing is complete, ACS EPMO and technical staff create the migration package of all program elements to move from the user acceptance test to production environments. The ACS Release Analyst/CR Coordinator obtains the necessary approvals for code releases to go into production and handles non-technical aspects of the releases, such as coordinating the training and communications associated with the releases.

9.5.3.3 Implementing Modifications/Enhancements with Minimal Disruption to Users

1c. Methodology and approach to Implementing modifications and enhancements with minimal disruption to users.

One of the primary objectives of implementing a Change Management Plan is to ensure that changes are made with minimum disruption to the services committed to its users, providing additional functionality and performance enhancements to systems while maintaining an acceptable level of user service. The CCB reviews proposed changes, works with the ACS Release Manager to establish the contents of each release, and schedules appropriate release dates. In order to minimize disruption, the ACS Release Manager schedules change releases to go live during non-peak usage hours. ACS posts notices on the Health Enterprise project website a week in advance of any down-time for Health Enterprise scheduled maintenance or enhancement activities. Notices include information regarding Call Center support during the scheduled down-time so users have access to needed information and assistance.

9.5.3.4 Monitoring, Tracking, and Reporting on the Development and Implementation of Enhancements or Modifications

1d. Methodology and approach to Monitoring and reporting on the development and implementation of enhancements or modifications to the new West Virginia MMIS; and 1e. Methodology and approach to Tracking, reviewing and reporting.

Our methodology and approach to monitoring, tracking, and reporting change management activities ensures transparency of the development and implementation of enhancements and modifications to the West Virginia Health Enterprise solution. BMS and ACS members of the CCB review, approve, monitor, and report on all proposed and implemented changes to Health Enterprise throughout the project. BMS staff actively participate on the CCB, giving BMS direct visibility into and involvement in the change management process. During CCB meetings, ACS presents and reviews the status of each change with BMS. The meeting covers introduction and review of proposed or potential new changes, including business justification, assumptions, benefits, risks, and potential impacts associated with the decision to implement or not implement the changes. Those present review contract scope to determine if the change is outside the scope of the baseline project.

The CCB also reviews the progress and status of all changes being developed and implemented. After reviewing and approving the CR, the CCB confirms the change schedule and release dates. The CR Coordinator compiles a consolidated CR schedule for all approved changes, maintained in SharePoint, where BMS can monitor system change requests at any time. The CR Log also is maintained in SharePoint by the CR Coordinator and updated by assigned team leads and team members responsible for designing, developing, and implementing each CR. The CR coordinator prepares status reports that list all emergency, open (sorted by highest priority, oldest first), waiting, approved, and current week closed CRs. The status of each CR also is included in the weekly and monthly Project Status Reports submitted to BMS. Preliminary and Final Release Notes identify CRs expected and approved for each release. Once a CR is implemented, ACS marks the CR as "Complete;" however, we do not mark it as "Closed" until the next CCB meeting, during which we confirm with BMS that the change was indeed implemented successfully. This provides BMS with the assurance that ACS' work for the CR is not done until we have met BMS' expectations for the change.

9.6 Phase 3: Turnover and Close-Out

REQUIREMENT: RFP Section 3.2.8 to 3.2.8.1, pg. 96 of 115

The Bureau requires a trusted partner to conduct a smooth, orderly transition of all fiscal agent responsibilities to a successor contractor during the Turnover and Close-out Phase without jeopardizing the continued delivery or quality of services.

ACS' proven Turnover management, quality focus, and advanced reporting capabilities help lead to a successful low-risk transition.We recognize the competitive bid process is of great importance to the Bureau and essential to obtaining the best value for the citizens of West Virginia. Regardless of the outcome of the next procurement, we highly value our relationships with the Bureau and take seriously our responsibility to successfully transition knowledge and materials to the

Proven Partner for a Successful Turnover

- Close coordination with the Bureau and successor contractor
- No adverse impact on providers, members, or ongoing operations
- Experienced team with a long history of successful turnovers
- Comprehensive tools for efficient management tracking and reporting

successor. A successful turnover is a key element in preserving our relationship with the Bureau and our reputation in the marketplace.

The Bureau experienced first-hand ACS' commitment to a successful turnover during the 2003-2004 transition of the West Virginia MMIS to a successor contractor. At the conclusion of that effort, BMS expressed its appreciation in a Letter of Commendation to ACS for our level of professionalism and dedication to ensure the turnover was a success. We again bring you expert, trusted Turnover and Close-out leadership. Andy Fontalbert, Medical/Dental Deputy Account Manager/ Operations Manager, serves as our Turnover Coordinator, reporting directly to MMIS Account Manager Paul Harvey to plan and manage the transition in a cooperative and controlled manner. Our specific hands-on experience with West Virginia Medicaid and our dual experience as both an outgoing and—more often—as the incoming contractor on other successful turnovers and takeovers gives us a clear understanding of each party's responsibilities and the key factors that contribute to a successful MMIS Re-procurement Project turnover and close-out.

9.6.1 Approach to Completion of Phase 3 Deliverables and Milestones

3.2.8.1 Phase 3 Vendor Response Requirements: The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Turnover and Closeout Phase, including the Vendor's proposed: 1. Approach to the completion of the Phase 3 Deliverables and Milestones (as listed in Appendix C).

We have learned that flexibility, coupled with effective communication, is the most critical turnover success factor. We maintain flexibility within the schedule, understanding that it is driven by BMS' transition schedule for the successor contractor. Our plan includes a turnover checklist to ensure all components of the operation are addressed, and we work cooperatively with both BMS and the successor contractor to coordinate plans and synchronize transition activities. Our Enterprise Project Management Office (EPMO), guided by SPARK-ITS, remains in place throughout the Turnover Phase and through the last day of operations, ensuring that all schedules, requirements, and quality standards are met.

The project repository provides access to current copies of the Turnover Plan, project schedules, risk and issue logs, draft deliverables, and other documents to keep BMS continually informed regarding turnover activities and status. Before turnover activities are scheduled to begin, we submit a final update of the Turnover Plan to BMS that defines all tasks and deliverables required to effect a smooth, orderly turnover to the successor. Our Turnover Plan also includes the final delivery of a Turnover Results Report summarizing the completion of all turnover activities.

The Turnover Training Plan is developed to support the requirements for the successor's Implementation Plan following turnover coordination meetings with BMS and the successor (please refer to Proposal Section 10.2.3.4, Training Task). The plan is designed to facilitate consistency with the successor's implementation approach as approved by BMS.

9.6.2 Approach to Obtaining BMS Approval

2. Approach to obtaining BMS approval of the completion of Phase 3, including proposed Acceptance Criteria for each Milestone.

Our approach to obtaining BMS approval for Phase 3 includes weekly meetings to review turnover and close-out deliverables and track any issues identified. This weekly meeting is also the primary

communications channel for questions between BMS, ACS, and the successor contractor. ACS conducts walkthroughs of the key documentation and maintenance processes and procedures with BMS and the successor to allow an opportunity for questions and comments.

Specific proposed acceptance criteria for the Phase 3: Turnover and Close-out Milestones are shown in Table 9-12.

Table 9-12. Proposed Acceptance Criteria for Turnover and Close-out Milestones

Milestone	Proposed Acceptance Criteria
145 – Completion and BMS Approval of Turnover Training	• Completion of successor contractor(s) training as agreed in the Turnover Plan (Proposal section 10.2.3.4, Training Task)
146 – Completion and BMS Approval of Turnover and Contract Close-out	• Completed and approved Turnover Plan • Completed and approved Turnover Project Schedule • Completed Turnover Plan tasks and activities including: – Approved MMIS Requirement Statement – Approved MMIS Software, Files, and Operations and User Documentation – Approved MMIS inventory report • Submission of final operational reports • Submission of final Financial Reconciliation • Submission of final invoice and completion of the settlement/retainage assessment review • Submission of Turnover Results Report

The EPMO reviews all deliverables to ensure they comply with document format, structure, and content requirements. Quality reviews are also performed on all documentation before submission to BMS or the successor contractor to confirm that it meets project standards, and signatures are obtained to confirm receipt. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for additional information on the deliverables review process.

9.6.3 Methodology and Approach to Turnover and Close-out

3. Methodology and approach to:

Our turnover and close-out methodology and approach includes detailed project planning via the Turnover Plan, open and frequent communications as defined by the BMS-approved Communications Management Plan, quality reviews, and reports. We maintain careful control of activity against the Turnover Plan and the inventory of West Virginia Health Enterprise components transferred to ensure an orderly, complete, and controlled transition to a successor contractor.

We implement strategies to maintain staffing levels that allow us to continue to meet performance standards and work with BMS and the successor to ensure continued uninterrupted services. All components of the operation and all documentation are kept current and of high quality, ensuring complete availability of up-to-date materials throughout the project and at turnover.

9.6.3.1 Turnover and Close-out Management

3a. Turnover and close-out management.

Our Turnover Coordinator, Medical/Dental Deputy Account Manager/Operations Manager, Andy Fontalbert, assembles the turnover management team (please refer to Proposal Section 8.1.1.3, Phase 3 Organization and Staffing) and manages the final planning and detailed activities of the Turnover and Close-out Phase. Andy's in-depth knowledge of West Virginia Health Enterprise and project operations ideally equips him to serve as the ACS primary point of contact to accomplish a successful transition with no disruption of service operations. Andy works cooperatively with BMS and the successor contractor to direct and resolve all turnover-related issues with an approach that emphasizes flexibility and open and timely communication.

Andy oversees all resource planning and staff transition while maintaining a positive workplace environment, and manages the maintenance and turnover of an up-to-date inventory database of hardware, system and application software, network and communications components, deliverables, contract and operational documents, work-in-process, office equipment, and all other components of the operation.

> ***"During our extended transition to our new Medicaid fiscal agent, ACS exceeded our expectations in providing professional and courteous support to BMS and the State of West Virginia. ACS' account team provided the data and information necessary to support the new fiscal agent's conversion and ACS' leadership openly communicated with BMS to ensure that ACS was prepared and responsive to our needs."***
>
> *Pat Miller, Director MMIS Operations, Bureau for Medical Services (WVDHHR)*

9.6.3.2 Approach to Conducting the Transition

3b. Working cooperatively with the successor Fiscal Agent, other vendors, and BMS to create and carry out a plan that is designed to ensure a smooth and orderly transition to the new vendor.

We work cooperatively with BMS and the successor contractor's implementation plan to ensure our planned activities are synchronized with the successor's activities and that the products of our turnover activities are available to the successor when needed.

Our turnover management team, led by Andy Fontalbert with EPMO oversight, carefully tracks progress against the Turnover Plan. We provide weekly status updates to BMS that include our plans to correct any conditions that could jeopardize the turnover schedule or quality. We prepare a contingency plan for early identification and resolution of potential turnover schedule issues and, with the Bureau's approval, we amend the turnover project schedule as necessary. If needed, we add ACS resources or make other adjustments required to keep our activities on schedule.

We provide an understanding of the operational functions and facility requirements necessary to support operations. Issues surrounding equipment, program materials, and other operational components are identified early. We review all equipment, leases, and other components to ensure full readiness for the transition. We supply office layout diagrams, together with supporting diagrams depicting equipment locations, communications links, disaster recovery plans, and any other necessary information related to project facilities, and provide tours of our facility at BMS' request to help effect a smooth turnover process.

From the technical standpoint, our service-oriented architecture (SOA) also eases the turnover process. Our extensive use of industry-standard commercial off-the-shelf (COTS) products minimizes the learning curve related to Health Enterprise technology.

We conduct successor staff training so as not to adversely affect ongoing operational services. Most training activities, including Computer Based Training (CBT) classes, can be taken at any time—within or outside of normal working hours—in order to further help ensure that operations are not disrupted. Please refer to Proposal Section 10.2.3.4, Training Task, for more information on our Turnover Training Plan.

9.6.3.3 Transition Resource Planning

3c. Providing the necessary resources to ensure a smooth turnover while performing fiscal agent operations through the close-out of the Vendor's contract, including the development of a Staff Transition Plan.

The ACS management organization is designed to facilitate a successful turnover of project operations and provide continuing operations with no interruption in service. We avoid disruption by providing highly experienced staff to manage the planning and execution of turnover activities, leaving operations staff free to complete their ongoing operational responsibilities. We draw upon the experience and knowledge of our operations staff to help plan the Turnover and Close-out Phase, providing supplemental operational resources where necessary to ensure that continued operations are not disrupted. Any time-consuming activities that could distract operational staff from their day-to-day duties are scheduled outside of normal service hours.

Each submission of our Turnover Plan and its annual updates contains a detailed resource statement covering both the human and technical resources required for successful execution of the Turnover Phase. In addition to our turnover staff resources, we maintain a complete inventory of all technical components of the operation, including hardware, system and application software, network and communications components, and supporting office equipment.

Our Staff Transition Plan identifies the additional human resources necessary to plan and conduct the turnover process without draining operational resources. We add incremental staff if necessary to provide continuity of operational services. Our turnover team includes staff members who have been a part of the overall project organization and have an in-depth understanding of Health Enterprise, as well as hands-on experience with West Virginia's fiscal agent operations. Please refer to Proposal Section 8.1.1.3, Phase 3 Organization and Staffing, for an organization chart showing our turnover organization and a summary of the policies we employ to mitigate the impact of transition on our staff.

Our collaborative approach allows both ACS and the successor to establish guiding principles that support continuity and coordinate opportunities for staff to participate in job interviews, and to dedicate the resources to support and protect the interests of our respective teams. We believe a carefully planned process of transferring the right people at the right time works best. We work closely with BMS and the successor contractor to transition ACS employees hired by the successor on a timetable and schedule that ensures continued, uninterrupted operational services.

9.6.4 Approach to Financial Reconciliation

4. Approach to contract close-out financial reconciliation, including methodologies for:
   a. Final settlement of all Vendor invoices.
   b. Final reconciliation of all accounts receivable.
   c. Final assessment of payment for retainage and damages.

Our EPMO oversees the identification and tracking of all contract close-out financial reconciliation tasks and deliverables in our Turnover Plan. Our SPARK-ITS Quality Management System (QMS) continues to govern our overall approach to the Turnover and Close-out Phase, and our proven practices and standards for conducting contract close-out financial reconciliations guide us in these tasks.

ACS Financial Manager Dave Fontalbert maintains responsibility for all financial close-out activities, including settlement of all final invoices, bank and accounts receivable reconciliation, final assessment of payment retainage, and any outstanding liquidated damages. He also arranges the independent bank account audit and responds to any discrepancies discovered during the audit.

We generate and deliver to BMS a final series of financial reports, including reconciliation reports of bank accounts and accounts receivable. We use these final reports to identify any outstanding financial transactions and work with BMS, the bank, or any appropriate external parties to resolve these transactions.

We conduct a final settlement with BMS of all ACS invoiced amounts once final processing operations are complete. This assessment is conducted by BMS with Dave for final settlement of any payment retainage and damages. We are committed to continued adherence to all defined service levels and performance standards for both business operations and through completion of the Turnover and Close-out contract phase.

Following completion of Turnover to the successor, we deliver a Final Turnover Results Report to BMS. This report summarizes the outcome of the detailed project schedule activities against the Turnover Plan, including the results of the handover of fiscal agent operations and electronic data, necessary documentation, software and other components of the operation, successor training, and final settlement of all vendor invoices, accounts receivable, and payments.

ACS continues to support the Bureau in identifying and resolving any potential turnover-related issues following the completion of the turnover process. Our experienced turnover management team, including both Andy Fontalbert and Paul Harvey, and any other necessary resources including operations staff, business analysts, or technical specialists, are available for a mutually agreed-upon time after the turnover date to answer BMS questions about ACS system and project operations. The team answers questions or helps the Bureau and successor contractor troubleshoot any problems related to the turnover process. BMS can rest assured (and knows from experience) that ACS is professional and thorough throughout the turnover and closeout of a contract.

9.7 Drug Rebate Solution

REQUIREMENT: RFP Section 3.2.9 to 3.2.9.1 pg. 97 of 115

3.2.9.1 Drug Rebate System Vendor Response Requirements: The Vendor's proposal should include a detailed description of the Vendor's proposed Drug Rebate solution, including the following: 1. System features required to support the Drug Rebate, operations as indicated in Appendix F (Vendor Operations Requirements), including:

Our drug rebate solution has helped Medicaid programs around the country achieve up to 100 percent collection rates on rebates. Anchored by ACS' Drug Rebate Analysis and Management System (DRAMS), our solution is based on ACS' 12 years of drug rebate experience.

Key features of our rebate solution are outlined below and support the entire rebate cycle shown in Exhibit 9-22.:

- **DRAMS** is a Web-based system ideally suited to assist in administering West Virginia's rebate programs. Today, 13 Medicaid programs use DRAMS to help administer rebates.
- **RebateWeb** is a Web-based secure portal that allows participating manufacturers to access their specific drug rebate information—such as invoices—and view, download, and upload rebate information
- **Drug Rebate Manager Larry Howser** has expert knowledge of the Centers for Medicare and Medicaid Services (CMS) rebate requirements and has assisted 13 Medicaid programs with DRAMS implementation. Mr. Howser is a seasoned manager with 11 years of experience with DRAMS and RebateWeb.

Our drug rebate solution enhances BMS' rebate programs with:

- State-of-the-art Web-based rebate components
- Audits of claims and invoices to proactively reduce disputes
- Detailed tracking of disputes with labelers
- Drug rebate manager with 11 years of rebate experience

ACS has provided rebate administration services—including the RFP's drug rebate optional services discussed under heading 9.7.17—to Medicaid programs since 1999 and currently administers drug rebate services for 11 Medicaid programs. ACS also provides its DRAMS application to two states that administer most or all of their rebate programs using DRAMS and ACS' technical support.

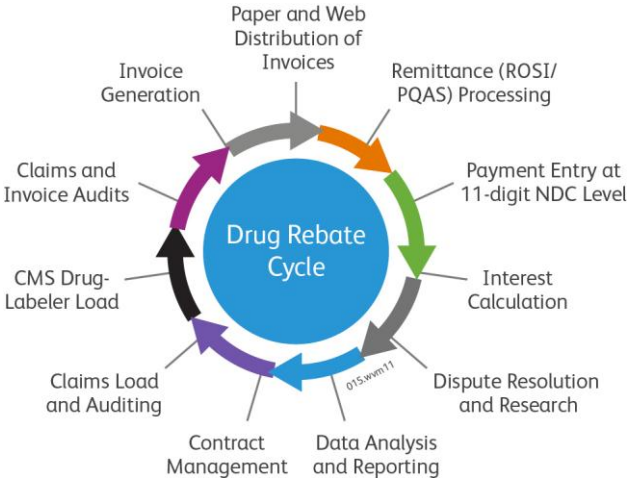


Exhibit 9-22. Drug Rebate Cycle

Our solution supports the entire rebate cycle for federal, state, supplemental, and commercial programs.

ACS acknowledges and commits to the provision of all RFP drug rebate requirements, specifically those listed in RFP Appendix F-XI, Drug Rebate. On the following pages, we explain how our solution supports the drug rebate cycle and provides many benefits to BMS.

9.7.1 Interface Capabilities

1a. Interface capabilities, e.g., CMS, MCOs, drug manufacturers, supplemental rebate vendor.

Our rebate solution includes interface capabilities with appropriate stakeholders approved by BMS to support the drug rebate cycle, as explained in the following text.

CMS. Once a manufacturer (labeler) is participating in the Medicaid drug rebate program, the labeler must provide CMS with current quarter pricing data, prior quarter updates, contact information, and any additions after the end of each calendar quarter. CMS processes the quarterly pricing data, generates unit rebate amounts (URAs) for each national drug code (NDC), and releases the files containing NDC and labeler data to state Medicaid programs after quarter end. CMS posts the latest drug and labeler data to the Medicaid drug rebate website. ACS downloads the data and loads it into DRAMS quarterly. Additionally, DRAMS supports the creation of the CMS outbound interface. After the invoice process is complete, a Bureau utilization file is created in DRAMS and sent to CMS.

Managed Care Organizations (MCOs). DRAMS is capable of accepting MCO encounter data that details claims paid by the MCO for medications. The MCO encounters are input to Health Enterprise, edited, and then loaded to DRAMS. The MCO encounters require separate invoices since they are for a different rebate program than fee-for-service claims.

Drug Manufacturers. RebateWeb is an important feature of our solution for pushing and receiving interfaces with drug manufacturers. Manufacturers can request their invoices be loaded to RebateWeb each quarter. ACS also loads claim level detail data, payment data, and statement of accounts to RebateWeb. Additionally, manufacturers can load their Reconciliation of State Invoice (ROSI) and Prior Quarter Adjustment Statement (PQAS) to RebateWeb for processing, along with information related to the payment associated with the ROSI and PQAS. Lastly, DRAMS produces collection letters and follow-up collection letters, at the direction of BMS, to notify manufacturers of late rebate payments.

Supplemental Rebate Vendor. ACS receives updated URA data from the supplemental rebate vendor via an electronic file in the standard DRAMS format each quarter. ACS then loads any updated URA information prior to each quarter's invoicing.

U.S. Department of Treasury. Each week, rebate staff accesses the U.S. Department of Treasury website to obtain the latest 13-week Treasury bill (T-Bill) rates. The latest interest rate is entered into DRAMS using the Maintain T-bill Rates function. This allows DRAMS to calculate interest due for each NDC invoiced.

9.7.2 Integration with Proposed MMIS Solution

1b. Integration with the proposed MMIS solution, including but not limited to access/use of claims data, drug data file, provider data, integration with system components, such as financial processing, and EDMS.

DRAMS is seamlessly integrated with Health Enterprise and our overall MMIS solution to ensure that rebates are calculated correctly. The text below describes the DRAMS integration features.

Pharmacy Claims Data. A weekly interface extracts paid pharmacy claims from Health Enterprise's Pharmacy Point of Sale (POS) component. This data is then loaded into DRAMS. As part of the claim load, a specific process traces each adjustment back to the original claim on which it is based. The paid date from the original claim is assigned to the adjustment, thus enabling the claim to be processed within the proper quarter. Additionally, at the time that claims are loaded into DRAMS, the claims are audited based on the settings defined by the Bureau. At the same time, predefined unit conversions for claims involving specific NDCs take place. Claims auditing is an automated process within DRAMS. After the audits have been performed, adjustments and modifications may need to be made to the claims or to the audit settings. ACS reviews these audits. If discrepancies are identified, unit corrections are made prior to invoice creation. This proactively reduces the number of manufacturer disputes.

Physician-Administered Drug Data. Physician-administered drugs submitted on CMS-1500 or UB-04 forms or via Accredited Standards Committee (ASC) X12 837 Professional or 837 Institutional claim transactions are calculated in the same manner as any other NDC, if a valid 11-digit NDC and valid NDC units are received for that physician-administered drug. If, however, a physician-administered drug is billed using a Healthcare Common Procedure Coding System (HCPCS) code, that HCPCS code is processed through the ACS J-code single source crosswalk module to ensure accurate NDCs are used for invoicing.

Drug Data File. Drug-level data used within the POS component is loaded into DRAMS on a weekly basis. The data loaded includes identifying information and data such as unit type, pricing, and specific therapeutic classes assigned to the drug. Drug data is used for research when determining unit conversions and sometimes when working disputes. Price data is used for supplemental rebate calculations.

Provider Data. Summary provider information is loaded into DRAMS on a weekly basis. The provider data is available for inquiry purposes via user-friendly Web pages. This data is not used for invoicing but is available for the user's convenience through the DRAMS Web pages. Additionally, DRAMS can exclude 340B provider drug claims from invoices. Our rebate staff works with BMS to identify those providers submitting 340B claims. Our staff then keys this information into DRAMS and DRAMS excludes 340B provider claims from invoices. As an alternative approach, if 340B claims are identified within Health Enterprise and this information is passed to DRAMS, such claims can be excluded.

Financial Processing. DRAMS extracts reversals and replacements (re-bills) as part of the weekly claims load. When DRAMS examines the reversal, it retrieves the original claim and uses the original claim's paid quarter for the reversal. The number of units on the original claim is also used in the reversal so that the number of units subtracted for the next invoice corresponds to the number for the original invoice. This information displays in section two of the invoice. The replacement (re-bill) processes like an original claim and links to the reversal and the original claim for tracking purposes. Additionally, if a claim was voided in the current quarter it is not included on the invoice. Authorized users can view the initial payment for the original claim, the reversal, and the possible subsequent re-bill in DRAMS.

Electronic Document Management System (EDMS). Upon receipt of hardcopy drug rebate information in the ACS mailroom, documents are prepped and scanned. Images from both scanned and electronically received data are uploaded into Health Enterprise's EDMS where a unique identification number is assigned to each document according to type and program. Images are indexed and stored in the EDMS, and our workflow management system automatically routes images to rebate staff for processing.

9.7.3 Data Conversion and Integration of Existing System Data

1c. Data conversion and integration of existing system data.

DRAMS can maintain a full history of drug rebate information—including invoice and payment data back to 1991 when the federal drug rebate program started or as far back as electronic data is available for conversion. Converted data and data created within DRAMS are both stored indefinitely. This data is available online via user-friendly Web pages. In providing drug rebate administration services for 11 Medicaid programs, ACS is well-versed in maintaining complete and accurate drug rebate data that adheres to federal and Bureau laws, rules regulations, guidelines and policies.

9.7.4 Integration of Supplemental Rebate Pricing and Utilization Data from Current/Previous Vendors

1d. Integration of supplemental rebate pricing and utilization data from current/previous vendors.

Supplemental rebate administration requires critical information from the supplemental rebate vendor to calculate rebates successfully. This includes the supplemental rebate contract information including covered NDCs, labeler contact information, term of the contract, and URA calculation methodology or the URA itself. ACS will receive this information initially during the implementation period and then throughout the contract duration as new labelers are added to the supplemental rebate program or as contracts are renegotiated. This information is most often provided to ACS via text files, Word, or Excel documents.

9.7.5 Integration and Maintenance of Historical Rebate Data

1e. Integration and maintenance of historical rebate data.

As mentioned earlier, DRAMS can maintain a full history of drug rebate information—including integration of invoice and payment data back to 1991 when the federal drug rebate program started. Converted data and data created within DRAMS are both stored indefinitely. Further, DRAMS Web pages allow authorized rebate staff to maintain historical rebate data such as unit adjustments, write-offs, resolutions, and corrected units. DRAMS maintains an audit trail of this maintenance by keeping a history of the user ID that changed a row in any DRAMS database table and also capturing the user ID who allocated payments, made URA changes, and changes to units.

9.7.6 Ensuring All Expenditure Data is Captured

1f. Financial reconciliation process to ensure all expenditure data is captured for invoicing.

To ensure that all expenditure data is captured for invoicing, an email is sent to our DRAMS support staff allowing them to monitor the success of the load programs. The email contains counts of claims loaded to DRAMS and how they were processed (originals, reversals that found originals, reversals that did not find originals, etc.). We compare these counts to the counts of claims included in the weekly extract from Health Enterprise. Our DRAMS support staff respond to any discrepancies to ensure that all expenditure data is captured for invoicing.

9.7.7 Electronic Document Management

1g. Electronic document management.

Our solution provides innovative capabilities to store and access electronic files and images of records.

Electronic Documents. Health Enterprise provides a workflow management system. Hardcopy documents are scanned and imaged upon receipt, after which images are indexed and stored. Images are assigned a unique document control number (DCN). Documents are easily viewed by authorized users and automatically routed to the appropriate workgroups. Our drug rebate information can be exported to electronic format and saved to Excel, Comma Separated Values (CSV), and Portable Document Format (PDF) file formats.

RebateWeb. RebateWeb facilitates the electronic transfer of rebate data. Authorized rebate staff and registered manufacturers are able to securely log in and conduct appropriate business functions such as viewing and downloading electronic invoices. The RebateWeb home page is shown in Exhibit 9-23.

Exhibit 9-23. RebateWeb Home Page
RebateWeb is a secure 128-bit encrypted e-commerce Web Portal.

9.7.8 Call Management

1h. Call management.

Manufacturers and their designated office staff may access the ACS call center using our toll-free number. Because manufacturers have unique questions, we maintain a separate drug rebate queue that can be selected from the call menu. After authenticating the caller our staff efficiently responds to and resolves inquiries with the use of information in DRAMS. We answer questions related to rebate invoices, provide program information, and have easy access to reference materials—including online procedure and program policy manuals. For each answered call, a "screen pop" provides our drug rebate staff with caller information such as manufacturer name, address, telephone number, and nature of the call. This information is automatically captured and stored by the system. During the call, we can enter notes including specific reasons for the call; any associated information, such as the invoice number from DRAMS; and the resolution or proposed next steps—all of which are stored in the Contact Management System. If we receive a call related to payment posting and reconciliation, dispute resolution, or any other

BMS rebate administration responsibility, our call center staff transfers these calls to BMS for resolution. BMS can store notes in the comments section of DRAMS to document the call and for future reference.

9.7.9 Interest Calculations

1i. Interest calculations.

Once invoices are printed or electronically transmitted, the mailed date is entered into the system. If for any reason an invoice must be re-printed and re-sent, it is important for the mail date to be updated, as it is used in the interest calculation process to determine lateness of payment. At the request of rebate specialists, DRAMS calculates interest-due amounts on outstanding accounts receivables. Interest calculations may be requested at any time and are performed according to all federal and BMS requirements. To calculate interest, specialists enter the criteria to be used and request that interest be calculated immediately or during our nightly processing. The system's ability to calculate interest at the 11-digit NDC level allows us to validate the interest remitted by a manufacturer and mark interest as settled for all drugs—or for only some if insufficient interest has been submitted. DRAMS currently supports two interest calculation methods: (1) T-bill rates based on the CMS interest rate calculation method and (2) fixed rates. The interest calculation method that was previously recorded at the program level determines which method is used for the calculation. Interest due amounts are identified by program, manufacturer, NDC, and rebate quarter.

9.7.10 System Query Capabilities

1j. System query capabilities.

DRAMS includes Web pages that accommodate the activities required for every drug rebate function, as well as access to multiple research and reporting screens that provide authorized users immediate access to the status of rebate invoices, payments, disputes, and related activities. Additionally, RebateWeb allows registered manufacturers access to current and past-quarter invoices. They can view a list of claims invoiced, and see details about each claim. Other information available through RebateWeb includes payment data and statement of accounts.

9.7.11 Reporting Capabilities

1k. Reporting capabilities, including Federally mandated and State defined and ad hoc.

DRAMS provides robust standard and ad hoc reporting capabilities with over fifty standard reports—including the CMS 64.9r, invoice register, batch totals, checks, accounts receivable, dispute codes, disputed amounts, and claims. We will work closely with BMS to develop monthly, quarterly, and annual reports that meet the specific needs of West Virginia's Medicaid program. Additionally, we have chosen the Cognos Business Intelligence suite that allows BMS to monitor all key aspects of each rebate program's performance. Cognos offers a stable and mature platform that is fully Web-based and produces reports that are exportable in PDF, Excel, or text format files. We use Cognos Metrics Manager to produce a set of dashboard reports for dispute reporting and related performance metrics.

9.7.12 Invoice Processing and Mailing Operations

1l. Invoice processing and mailing operations including Statement of Accounts.

Every quarter, ACS produces drug rebate invoices for our Medicaid accounts in order to collect federal and supplemental rebates. Today, ACS prepares and distributes approximately 10,000 invoices each quarter. Preparing and distributing accurate invoices per the CMS timetable is critical to the success of the West Virginia rebate programs. The rebate invoicing process includes the following steps, some of which are performed by BMS, unless BMS chooses to exercise the optional services under heading 9.7.17:

- Receive and load the quarterly CMS update data which includes URA and labeler information
- Receive and load all applicable pharmacy and medical claims and perform audits on loaded claims
- Perform initial invoice creation and run audits against initial invoices to detect and correct any issues
- Perform unit conversions
- Calculate interest due using DRAMS (BMS responsibility)
- Create invoices
- Distribute invoices within 60 days of the end of the previous quarter using DRAMS
- Receive, log and allocate payments for current and past quarters in DRAMS (BMS responsibility)
- Document and resolve disputes submitted by labelers using DRAMS (BMS responsibility)

Each invoice sent to a labeler includes a cover letter specifying the address where rebates should be mailed. The cover letter and optional section three of the invoice can include statement of account information. Multiple copies of the invoices may be printed, permitting BMS to retain a hardcopy of each invoice. If a labeler prefers to receive a paper invoice, then the invoice is printed and mailed as requested. Manufacturers requesting electronic invoices in standard CMS format can have the invoices burned to a CD and mailed or have their invoices uploaded to RebateWeb, where they are available to manufacturers.

When ACS' rebate staff has completed the process of generating invoices, DRAMS reads a parameter for each labeler to determine how the labeler should receive the rebate invoice, whether paper, electronic, or through RebateWeb. The rebate staff uploads the invoice files for the manufacturers choosing Web-based invoices. DRAMS stores the invoice data in its secure database and at the same time, the manufacturer's representative (as recorded within DRAMS) is informed by e-mail that invoices have been uploaded.

Distribution of Paper Invoices: ACS rebate personnel print an invoice register as a control to ensure all paper or CD rebate invoices are placed in envelopes and mailed. As each invoice is inserted into an envelope, a check mark is placed next to the labeler code on the invoice register. The invoices are mailed in bulk. Some individual invoices may be held for investigative purposes and mailed at a later date. Once invoices are delivered to the mailroom and the date of mailing is determined, ACS' rebate staff enters the mailing date into DRAMS to permit interest calculations. If an invoice is returned for any reason, the mailing date is reset to the date that the invoice is subsequently mailed to the labeler.

9.7.13 Payment Posting and Reconciliation

1m. Payment posting and reconciliation.

Manufacturers are required to send payments and/or dispute information for all invoiced NDCs within 38 days from the invoice mailed date. In addition to the payment, the manufacturers mail a ROSI and PQAS or electronically upload them to RebateWeb. We understand under the new contract that BMS will

continue to receive, post, and reconcile the rebate payments, ROSI, and PQAS unless BMS chooses to transfer those responsibilities to ACS as described under heading 9.7.17. Below we describe the DRAMS functionality that supports BMS in payment posting and reconciliation.

Logging Payments. DRAMS includes functionality that allows authorized BMS staff to manually log each rebate check or EFT (see Exhibits 9-24 and 9-25) and reconcile the payment against the payments posted to the DRAMS accounts receivable (AR) component. As BMS logs each payment, DRAMS places the payment on a list of payments waiting to be posted.

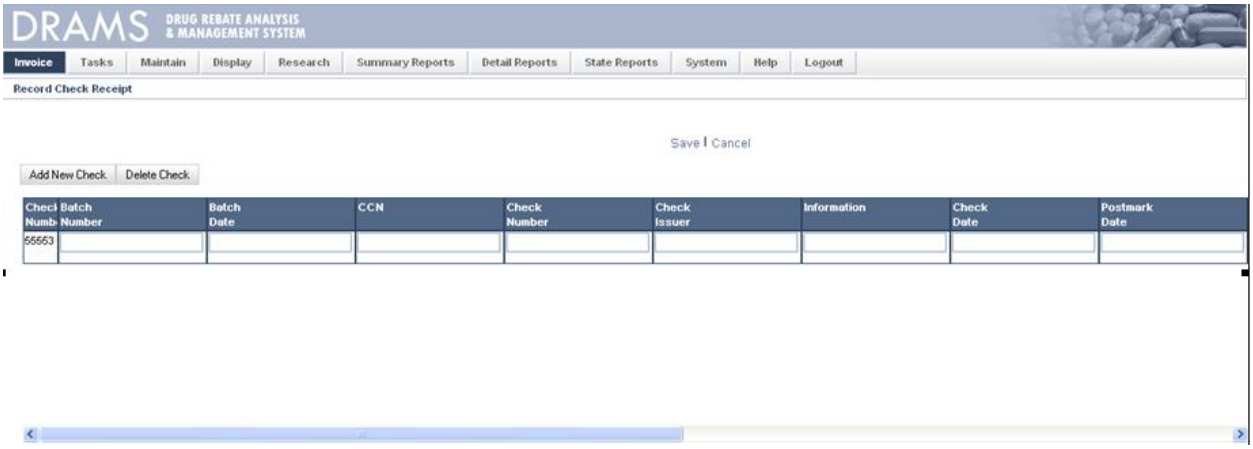


Exhibit 9-24. Check Log Web Page (left side of Web page)
DRAMS provides a Web page for the entry and review of received checks.

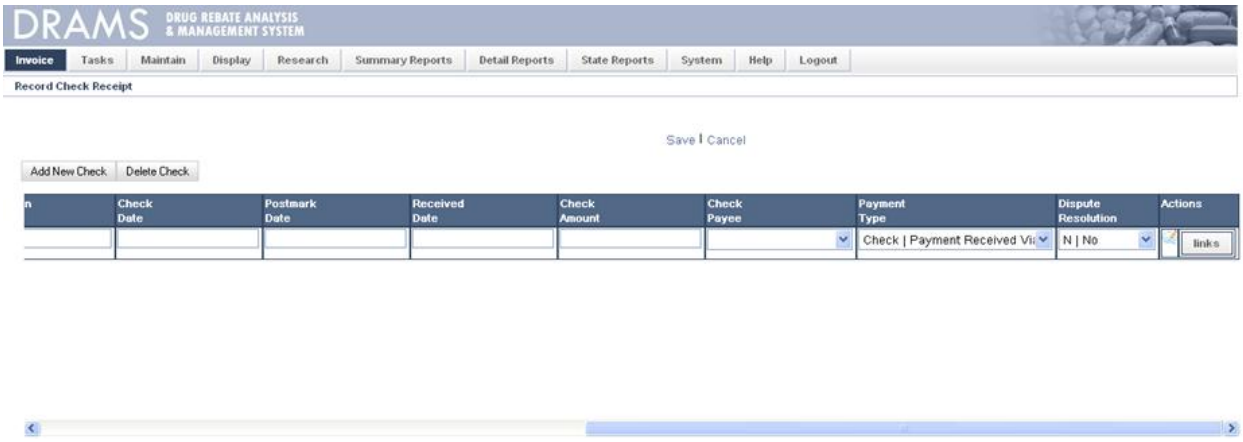


Exhibit 9-25. Check Log Web Page (right side of Web page)
The user can slide the bar at the bottom of the Web page to the left and right to see all check information.

Posting Payments. Once BMS begins the posting of payments, BMS selects a payment to allocate and then associates that payment information provided with a manufacturer code and quarter to which it should be allocated. This allocation is performed at the 11-digit NDC level for the selected quarter provided on the ROSI and any previous quarters for which there is a PQAS. Although the CMS-provided URA remains official within DRAMS, an adjusted URA submitted by the manufacturer can be entered during the allocation process, as well as a figure for disputed units and/or adjusted units. For ROSI and

PQAS forms uploaded to RebateWeb, DRAMS has functionality to automatically match the ROSI and PQAS forms to the payment log of received checks and EFTs.

Reconciling Payments. Throughout the payment reconciliation process, credits may be created when utilization or URAs change. Allocation of both credits and debits are entered individually. The system automatically sums payment amounts entered, keeping a running total of the money allocated from the payment. If more payments are allocated than available, then the allocated amount-field turns red as an alert that more monies have been applied than are currently available for allocation. If at the end of the allocation process there is an overpayment or a credit balance, the payment is suspended so that BMS can create an "unallocated balance." Allocations are made from this amount until it is at a zero balance. If the payment is fully allocated, the payment is declared "complete," and the payment no longer appears on the list of payments available for allocation. To support the payment allocation process, DRAMS generates a list of payments that have been logged but not fully allocated to an invoice.

9.7.14 Dispute Resolution/AR Management

1n. Dispute Resolution/AR Management.

Like the payment posting and reconciliation process, ACS understands under the new contract that BMS will continue to perform dispute resolution/AR management unless BMS chooses to transfer those responsibilities to ACS as described under heading 9.7.17. Below we describe the DRAMS functionality that supports BMS in dispute resolution/AR management.

DRAMS Dispute Resolution Functionality. In designing DRAMS, ACS created a powerful dispute resolution function based on input from our dispute resolution specialists and pharmacists across the nation. DRAMS supports all dispute resolution functions in accordance with OBRA 1990 drug rebate program guidelines, as well as those outlined in the CMS Best Practices guidelines. DRAMS functionality allows BMS staff to drill down to a list of disputed NDCs, claims data, and drug history for a particular program and quarter—including original invoices, unit changes, URA changes, payments, interest calculated, interest paid, and refunds.

Disputes are primarily initiated by a manufacturer through ROSI and PQAS forms. A dispute record is created once an entry is made in the payment allocations that an item is disputed. From this point, applicable dispute data and communications can be stored via easy-to-use Web pages. Each dispute may be assigned to a particular user. Additionally, there is a free text section for recording details of the dispute.

Dispute resolution can be initiated by BMS with a personalized system-generated letter. BMS staff and the manufacturer can communicate electronically or by mail. DRAMS compiles and summarizes dispute activities, including the date the dispute was initiated, assigned, resolved, and the date a recap letter was mailed—while a Dispute Activity Report provides information about the actions taken to resolve the dispute. All dispute correspondence is stored in DRAMS along with the correspondence date, time, contact name, and subject line information (for e-mails). Additionally, DRAMS produces a dispute report that details all outstanding disputes per manufacturer. If a dispute is resolved with the manufacturer owing additional amounts to BMS, a collection letter can be sent for the unpaid disputed amount.

DRAMS AR Functionality. DRAMS contains a powerful, easy-to-use AR component that tracks money owed to the Bureau from manufacturers. BMS staff can select a rebate program together with any range

of quarters (including a single quarter). A list of the total balance due to or from each manufacturer for the period selected is then shown. From this list, BMS can drill down to a list of each invoice within the period for any selected manufacturer. This list contains details such as the original invoice amount, the current invoice amount, the amount paid, disputed amount, interest amount, and current principal due. This list specifies the Bureau and federal share of the balance due, if appropriate percentages are supplied.

Further, from any selected invoice, BMS can drill down further into the data by going to the NDC-level AR page. This page includes the details for each of the NDCs included within the selected invoice. By default, NDCs with no current outstanding balance (principal or interest) are not included but they can be shown with a single click of the mouse. For each drug, current and original data including invoice amounts, units, URAs, number of claims involved, reimbursement amounts, and other payments can be shown. Additionally, a list of all the activities that have occurred for the drug can be shown for any selected drug. Examples of activities included are the original invoice, changes in URA or units, and payments received.

From within the AR component, additional control is available to BMS. When making the initial choice of rebate program and quarter range, BMS can also specify whether the reports should use the official URA (normally the CMS URA for Medicaid rebates) or the most recently reported URA—this starts off as the same URA used for invoicing but is updated at payment time to contain the URA at which the payment was made. In addition, BMS has the ability at the invoice level—or for any individual drug —to declare that the invoice or drug is "balanced," meaning that nothing is owed in either direction. Lastly, BMS can enter the current number of units for any drug from the NDC-level AR. This is a shortcut to changing the units on a large number of claims.

DRAMS produces several accounts receivable reports on request, including the Accounts Receivable Report and Drug Rebate Receivable Report. These reports allow BMS to view outstanding balances at the manufacturer level and a summary of the amount currently owed by a manufacturer for each quarter.

9.7.15 Providing and Updating User Guides

1o. Providing and updating user guides, including operational and technical documents.

As we work with BMS to understand drug rebate requirements, we document related policies, procedures, and processes. Once we finalize the documentation, we incorporate the policies and procedures into our training materials. We work closely with BMS to develop online support materials for manufacturers, such as manuals, forms, bulletins, and Help aids. When drug rebate policies/procedures change, we modify all affected materials. Additionally, we routinely re-review manuals/user guides to ensure that we have not overlooked needed changes. Automated tools within Health Enterprise send messages to alert employees that something has changed. Our leaders and trainers are responsible for informing and educating employees about policy/procedure modifications during team meetings and in training classes.

9.7.16 Methodology and Approach to Data Conversion

2. Methodology and approach to data conversion and integration of existing system data[5], including:
a. Integration of supplemental rebate pricing and utilization data from current/previous vendors.

Our methodology and approach to data conversion is based on ACS' Standardized Process and Resource Kit - Implementing Technology Solutions (SPARK-ITS) Quality Management System (QMS).

Comprising a project management methodology, a system development methodology (SDM), and training methodology components, our SPARK-ITS QMS leverages recognized leading project management standards and practices such as the Project Management Institute's A Guide to the Project Management Body of Knowledge (PMBOK®)–Fourth Edition and the Software Engineering Institute's Capability Maturity Model® Integration (CMMI).

The first step in conversion is to work with BMS in identifying the source of any drug rebate files/tables that need to be converted and integrated into DRAMS and Health Enterprise. We load the source data into our conversion source environment. We then perform statistical analyses on the data, discover and analyze anomalies, and create reports that provide information about values in need of resolution.

The next step is to identify conversion rules by field and then determine data relationships and index values. We also create conversion reports that provide us with checks and balances for the data conversion process. A gap analysis identifies current and existing data that has no corresponding location in the system—or instances in which DRAMS requires data that does not exist in the other system. We then construct conversion programs and sequences for the appropriate tables and run another conversion with a new copy of source data for user acceptance testing (UAT). We repeat this cycle until all issues have been identified and resolved—and only then conduct the actual conversion of drug rebate data. For additional details about data conversion/integration, please refer to Proposal Sections 10.2.3, Phase 1c: Development, Testing, Data Conversion and Training; 10.2.1.6, Initial Data Conversion Plan.

9.7.16.1 Integration and Maintenance

2b. Integration and maintenance of historical rebate data.

As mentioned earlier, DRAMS can maintain a full history of drug rebate information—including integration of invoice and payment data back to 1991 when the federal drug rebate program started. Converted data and data created within DRAMS are both stored indefinitely. Further, DRAMS Web pages allow authorized rebate staff to maintain historical rebate data such as unit adjustments, write-offs, resolutions, and corrected units. DRAMS maintains an audit trail of this maintenance by keeping a history of the user ID that changed a row in any DRAMS database table and also capturing the user ID who allocated payments, made URA changes, and changes to units.

9.7.16.2 Proposed Timeline for Loading Historical Data

2c. Proposed timeline for loading historical data.

ACS recommends that the timeline for loading historical data be driven by the timing of the quarterly rebate cycle. We recently used this approach when we implemented DRAMS for our Texas Medicaid account in 2011. Tables 9-13 and 9-14 show draft timelines for loading rebate and claims data.

Table 9-13. Timeline for Loading Historical Rebate Data

Date	Description
August 2014	Current vendor mails current quarter invoices
09/30/2014	Current vendor stops processing rebates
10/15/2014	Current vendor and BMS complete all end of quarter processing, such as the completion of posting payments, the CMS64.9r, and other reports

Date	Description
10/21/2014	Current vendor completes the extract of rebate data from their system including: invoice, payment, supplemental contracts, supplemental URAs, and pricing data
10/27/2014	ACS completes the load of rebate data into DRAMS
10/31/2014	ACS and BMS complete the validation of rebate data loaded to DRAMS
11/01/2014	DRAMS live, BMS staff would start posting payments that arrived after the 9/30/2014 cutoff
12/01/2014	Health Enterprise live

Table 9-14. Timeline for Loading Historical Claims Data

Date	Description
08/31/2014	Current vendor sends historical claims data through 6/30/2011 to ACS
09/30/2014	ACS completes initial load of historical claims data into DRAMS
10/07/2014	Current vendor sends historical claims data paid from 7/1/2014 through 9/30/2014 (claims with paid dates after 9/30/2014 are included in the claims data extract from Health Enterprise)
10/31/2014	ACS and BMS complete the validation of claims data loaded to DRAMS.

9.7.17 Optional Drug Rebate Services

3. Optional Drug Rebate Services: The Bureau is considering the transition of certain optional drug rebate operational services duties to the Vendor, including but not limited to, the following:

a. Program Management – Provide sufficient staff to perform current and historical drug rebate dispute resolution activities, including researching discrepancies by reviewing the claims level detail, contacting providers or BMS/vendor staff as necessary in regards to questionable claims or issues, and communicating with the drug manufacturers to resolve the disputes in a timely manner agreed upon by BMS. This would include managing aging of the accounts receivable balances as well as documentation of all rebate dispute resolution activities and keeping logs of all contacts.

b. Accounts Receivable Management – Provide sufficient staff to perform AR activities which include, but are not limited to, receiving, processing, posting, and reconciling drug rebate payments from drug manufacturers for the rebate programs, at the NDC level. This would include processing any documentation (i.e. ROSI (Reconciliation of State Invoice) or PQAS (Prior Quarter Adjustment Statement) sent by the manufacturers with the payments.

The Vendor's proposal should include a description of the Vendor's proposed approach and staffing capabilities to meet these operational services. The Vendor's proposed solution for the Drug Rebate system and operational services will be included in the Technical Approach evaluation. As described in Section 4.1.15, the costs of these services **will be excluded** from the cost bid evaluation scoring. Optional operational drug rebate services will be initiated through an approved Statement of Work.

Today, ACS provides rebate program management and accounts receivable management for Medicaid programs in Colorado, the District of Columbia, Hawaii, Indiana, Massachusetts, Maryland, Mississippi, Montana, Ohio, Texas, and Wyoming. ACS believes that it is in the Bureau's best interest to have one responsible party administering rebates because of how interconnected and interdependent the rebate administration components are. For example, the creation of accurate invoices is dependent upon the completion of allocating payments received to date. With ACS, the Bureau can be assured that it has a trusted partner who will work closely with BMS to understand the nuances of West Virginia's rebate programs, tailor our systems and work processes accordingly, and transition work assignments in a sensitive and fully coordinated manner. Below we briefly describe our overall approach to taking over these services.

Program Management Approach. Once invoices are submitted to manufacturers, ACS staff handles first-line questions or concerns arising from the manufacturers' review of the invoices. While ACS staff takes care to ensure accuracy of invoices, it is always possible that a dispute will occur. In cases of

disputes, ACS staff contact manufacturers for clarification and assist in dispute resolution by researching the issue.

When resolving disputes, ACS staff follows all federal and Bureau requirements relating to the dispute resolution process. All dispute information and correspondence is tracked and maintained in DRAMS. If an unpaid dispute amount remains following the dispute resolution process, a collection letter is sent to the manufacturer. For those manufacturers that are non-responsive, ACS proceeds with further collection efforts based upon collection guidelines approved by BMS. ACS also writes off any disputed amounts based upon guidelines established by CMS and BMS. ACS rebate staff furnishes manufacturers extracts containing claims level details and other documentation for dispute resolution. Once the dispute is resolved, ACS sends an adjusted invoice and/or collection letter to the manufacturer for the unpaid amount.

Accounts Receivable Management Approach. ACS uses the DRAMS AR component to manage rebates owed from manufacturers. ACS maintains receivables in accordance with CMS and BMS requirements. ACS works with BMS to finalize where payments and ROSI/PQAS information will be sent. Typically, we establish a lockbox bank account to receive check and EFT payment information and ROSI and PQAS forms. Bank personnel forward each day's deposit information to ACS via overnight courier. Upon receipt, we scan and image all documents. ACS rebate staff manually log each individual payment into the DRAMS Check Log page. Then, we allocate the payments with a manufacturer code and quarter to which it should be allocated. This allocation is performed at the 11-digit NDC level for the selected quarter provided on the ROSI and any previous quarters for which there is a PQAS. Rebate staff uses the accounts receivable reporting capabilities to track payment status and identify payer issues. We generate several accounts receivable reports to monitor receivables. Delinquent and subsequent delinquent letters are mailed based on federal and Bureau requirements.

Staffing Capabilities. As indicated by our proposed drug rebate staffing for current RFP requirements—outlined in Proposal Section 8, Staff Capacity, Qualifications, and Experience—our staffing level estimates are based on extensive ACS program experience in other states. During planning sessions for additional drug rebate services, we work closely with BMS to understand the work requirements and estimated volumes. We then refine our proposed staffing levels accordingly, with the recognition that additional staff and shifted responsibilities may be required not only for the specific tasks at hand, but also to handle associated mailroom, call management, technical, financial, training, quality assurance, and RebateWeb/Web portal activities. It is our commitment to provide fully trained and qualified staff at sufficient levels to ensure that we meet or exceed the Bureau's performance criteria.

9.8 Timeline/Gantt Chart

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

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9.9 Attachment II – RFP Requirements Checklist

REQUIREMENT: RFP Section 4.1.9, pg. 103 of 115

4.1.9 Project Approach and Solution.

Attachment II - Requirements Checklist completed to crosswalk each RFP requirement to where it is addressed in the Vendor's proposal...

Please see Proposal Section A6 Attachment II – RFP Requirements Checklist, in the Appendix, for the completed Attachment II.

9.10 Response to Mandatory Requirements

REQUIREMENT: RFP Section 3.1, page 44 of 115

ACS commits to the provision of all services as defined in the West Virginia MMIS Re-procurement Project RFP, Section 3.1, Mandatory Requirements. In Table 9-3, Mandatory Requirements, we list each requirement (shortened in some cases to conserve space) and indicate our commitment to provide the required service. We also identified several mandatory requirements that we believe are of special importance to BMS and for which our proposed solution provides added benefit for the Bureau. To help BMS fully understand how we propose to support these selected requirements, we have provided additional information in an easy-to-read format on the pages that follow Table 9-16.

Table 9-16. Mandatory Requirements

Req #	Mandatory Requirement	Agree
3.1.1	Establish a Charleston, WV-based facility within 5 miles of the BMS for DDI and Fiscal Agent operations, where all Key Staff Members designated in Section 3.2.3 will be located. The site will provide space for project team meetings and work sessions, and office space for one BMS staff member.	✓
3.1.2	Ensure the BMS staff member's office space in the Vendor's Charleston facility can be individually locked. This office space must be fully equipped with furniture; telephone service; a personal computer with access to the MMIS, Microsoft Office™ Suite, and the internet; and access to a printer and copier. The following reserved or paid parking spaces must be provided to accommodate designated BMS staff: one (1) BMS parking space and six (6) general visitor parking spaces.	✓
3.1.3	Provide one named Vendor staff member/position, to be approved by the Bureau, who will be located at the BMS to facilitate communication and coordination between the Bureau and the Vendor. This position requires system, technical/operational and program experience with the ability to facilitate and communicate Bureau needs effectively back to the Fiscal Agent. This position is envisioned to be located onsite at the Bureau 100% through the DDI phase. After DDI, the percentage of time will be determined by the Bureau and the Vendor. The position is not a member of the Key Staff.	✓
3.1.4	Provide the Bureau access to conference space at the Vendor's site that is adequately sized, for ten or more participants, furnished, and equipped to support the DDI review, planning, testing, and training sessions required of the Vendor. The conference space must have a computer and projector for displaying internet-based and Windows PowerPoint™ presentations, and a high-quality speakerphone for multiple remote staff to attend meetings by telephone. Conference space must also accommodate video conferencing and web-based application sharing for attendees.	✓

Req #	Mandatory Requirement	Agree
3.1.5	Provide facilities for the recovery of operations in the event of a disaster that disrupts operations as described in the Fiscal Agent's Disaster Recovery and Business Continuity Plan to be developed by the Vendor and approved by the Bureau. The Vendor will provide resources necessary to: recover critical services in accordance with the Recovery Time Objective and Recovery Point Objectives approved by the Bureau and documented in the Disaster Recovery and Business Continuity Plan; and meet the approved Service Level Agreements listed in Appendix G of this RFP.	✓
3.1.6	Assume all costs related to securing and maintaining the facility for the duration of the contract, including but not limited to hardware and software acquisition necessary to maintain approved performance requirements throughout the life of the contract, maintenance, lease hold improvements, utilities, office equipment, supplies, janitorial services, security, storage, transportation and insurance.	✓
3.1.7	Agree to incur all costs associated with accessing and acquiring Provider licensure and certification data.	✓
3.1.8	Comply with all current and future security policies and procedures of DHHR, BMS, and the WV Office of Technology, which can be found on the cited Web links.	✓
3.1.9	Perform all work associated with this contract within the continental United States or U.S. Territories.	✓
3.1.10	Host the MMIS and maintain a secure site and secure back-up site within the continental United States.	✓
3.1.11	Warrant that the proposed and implemented MMIS will meet CMS certification requirements and that certification will be available retroactive to the first day of operations of the new West Virginia MMIS to ensure full Federal Financial Participation (FFP).	✓
3.1.12	The Vendor will be responsible for lost enhanced Federal Medical Assistance Percentages (FMAP) for delayed certification due to system deficiencies or deficiencies noted during the certification process that extend beyond the claiming window. The Vendor will be responsible for only the portion of FMAP lost that is determined by BMS to be the fault of the Vendor. The MMIS Vendor will not be responsible for system certification of components that are not included in the scope of this RFP.	✓
3.1.13	Warrant that the proposed and implemented Pharmacy Point-of-Sale (POS) system will be certified with Surescripts to support all available ePrescriptions transaction types, including controlled substances.	✓
3.1.14	Ensure the point-of-sale drug file will be independent and not a shared file with other clients.	✓
3.1.15	Provide a system that will support multiple programs, e.g., Medicaid, Tiger Morton, BMS State Programs, Children with Special Health Care Needs (CSHCN), Behavioral Health and Health Families (BHHF)) and multiple Medicaid eligibility categories, including but not limited to the addition of any other State Agency, United States Territory or political subdivision. All programs, eligibility categories, and benefit plans are to be supported according to the service level agreements set forth in this RFP.	✓
3.1.16	Ensure all hardware, software and communications components installed for use by Bureau staff are compatible with the most current West Virginia Office of Technology (WVOT) supported versions of the Microsoft™ Operating System, Microsoft Office™ Suite and Internet Explorer™, and current technologies for data interchange which are listed on the below provided link. (http://www.technology.wv.gov/support/Pages/default.aspx)	✓
3.1.17	Ensure the entire system is installed on the Vendor's hardware and supported through staff at both the Vendor's data center and the Charleston, West Virginia, location.	✓
3.1.18	Align the proposed MMIS with MITA principles and employ service-oriented architecture.	✓
3.1.19	Develop any bridges and integration code necessary for the replacement MMIS to interface with other State software and systems, e.g., DW/DSS, HIE, HIX, and Enterprise Resource	✓

Req #	Mandatory Requirement	Agree
	Planning (ERP) – none of which are currently interfaced.	
3.1.20	Agree to incorporate all applicable current and future coding standards to ensure that the MMIS is current in its ability to accept and appropriately employ new standards and requirements as they occur, including, but not limited to, ICD-10, HIPAA v5010, NCPDP Claims Processing Standards D.0, the Patient Protection and Access to Care Act (PPACA) and the Health Information Technology for Economic and Clinical Health Act (HITECH). Agree to incorporate all requirements mandated through federal and state regulations, including current and future coding standards, to ensure that the MMIS is current in its ability to accept and appropriately employ new standards and requirements as they occur, such as, but not limited to, ICD-10, HIPAA v5010, National Council for Prescription Drug Programs (NCPDP) Claims Processing Standards D.0, the Patient Protection and Affordable Care Act (PPACA) and the Health Information Technology for Economic and Clinical Health Act (HITECH). Formalized change control will be used for all such changes, during all phases of the project. This provision extends to all court ordered services requiring system modifications.	✓
3.1.21	Adhere to the current (NCPDP version standards, or the most current HIPAA required version for single drug claims and compound prescriptions.	✓
3.1.22	Provide right of access to systems and facilities to the Bureau or its designee to conduct audits and inspections. Provide access to data, systems, and documentation required by auditors.	✓
3.1.23	Update deliverables at the request of BMS to align with major changes in approach or methodology, or to include new or updated information that was not available at the time the deliverable was submitted and approved.	✓
3.1.24	Meet all CMS Certification Requirements as described in Appendix D.	✓
3.1.25	Agree to operate the MMIS and perform all functions described in the RFP and continue all operations from the date of implementation of each component until each function is turned over to a successor Fiscal Agent (FA) at the end of the contract, including any optional additional periods or extensions.	✓
3.1.26	Agree to perform according to approved Service Level Agreements listed in Appendix G of this RFP.	✓
3.1.27	Forfeit agreed-upon retainage as described in Section 4 of this RFP if approved service levels are not achieved.	✓
3.1.28	Ensure the new system functions without interruptions or non-scheduled downtimes. The response time from the new system must be within acceptable limits as defined in Appendix G (Service Level Agreements) of this RFP.	✓
3.1.29	Provide project status information to the MMIS Re-procurement Project Manager in the timeframes and in the agreed-upon format.	✓
3.1.30	Actively use industry-standard professional project management standards, methodologies, and processes to ensure the project is delivered on time, within scope, within budget, and in accordance with the Bureau's quality expectations.	✓
3.1.31	Provide a software and hardware solution that is upgradeable and expandable to meet current and future needs.	✓
3.1.32	Employ a Relational Database Management System (RDBMS) or Object Oriented database management system (OODMS), to create a data infrastructure that is easily configurable, role-based with 24 X 7 access to data, and use best in class analysis tools.	✓
3.1.33	Ensure that the Pharmacy prior authorization system is available 24 hours per day, seven (7) days a week, except for scheduled maintenance.	✓
3.1.34	Agree that BMS retains ownership of all data, procedures, programs, and all materials developed during DDI and Operations, as well as the initial licensing for installed COTS.	✓

Req #	Mandatory Requirement	Agree
	Manufacturers' support and maintenance for the proprietary COTS software licensing subsequent to the initial install must be provided only for the life of the contract.	
3.1.35	Provide role-based access for authorized users, ensuring confidential access to the data at the individual and group security levels.	✓
3.1.36	Ensure that adjudicated claims cannot be changed outside an approved adjustment process. Once a claim is adjudicated and in a final status, the information must remain static while it is displayed, (e.g., users may not cut claim information from claim lines/data).	✓
3.1.37	Place the source code in a third-party escrow arrangement with a designated escrow agent who is acceptable to the Bureau, and who shall be directed to release the deposited source code in accordance with a standard escrow agreement approved by the Bureau…	✓
3.1.38	Provide increased staffing levels if requirements, timelines, quality, or other standards are not being met, based solely on the discretion of and without additional cost to the Bureau. In making this determination, the Bureau will evaluate whether the Vendor is meeting deliverable dates, producing quality materials, consistently maintaining high quality and production rates, and meeting RFP standards without significant rework or revision.	✓
3.1. 39	Develop, submit to BMS for approval, and maintain a comprehensive West Virginia MMIS Security, Privacy, and Confidentiality Plan (as described in Section 3.2.6.1.1) that meets or exceeds the current industry standards for such documents, and is compliant with any and all state and Federal mandated security requirements. The Security, Privacy, and Confidentiality Plan must be reviewed and updated annually during the operating period.	✓
3.1.40	Deliver systems and services that are compliant with Title II, Subtitle F, Section 261-264 of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), Public Law 104-191, titled "Administrative Simplification" and the rules and regulations promulgated there under.	✓
3.1.41	Ensure that all applications inclusive of internet, intranet and extranet applications associated with this contract are compliant with Section 508 of the Rehabilitation Act of 1973, as amended by 29 U.S.C. §794d, and 36 CFR 1194.21 and 36 CFR 1194.22.	✓
3.1.42	Ensure that data entered, maintained, or generated to meet the requirements of this RFP be retained and accessible according to Federal requirement 42CFR 431.17 and applicable BMS and State requirements	✓
3.1.43	Comply with prompt pay regulations in accordance with Federal Requirement 42CFR 447.45(d).	✓
3.1.44	Follow formalized change control procedures (as described in Section 1.21.13 Changes and the approved Change Management Plan named in Section 3.2.2.1) for all changes to project scope, including (but not limited to) changes arising during the DDI and operations phases of the project, and changes necessitated as a result of new and amended Federal and State regulations and requirements.	✓
3.1.45	Acknowledge that upon award the Bureau reserves the right to reject any staff proposed or later assigned to the project, and will require the successful Vendor to remove them from the project. In all circumstances, Key Staff shall be replaced only with persons of equal ability and qualifications. Similar to old requirement 3.1.40	✓
3.1.46	Designate one named individual as the Vendor organization's HIPAA compliance officer. Similar to old requirement 3.1.41	✓

As previously stated, we have elected to provide additional information regarding selected mandatory requirements that we believe to be of special importance to BMS.

9.10.1 Vendor Staff Member - BMS/ACS Liaison

REQUIREMENT:3.1.3 Provide one named Vendor staff member/position, to be approved by the Bureau, who will be located at the BMS to facilitate communication and coordination between the Bureau and the Vendor. ..

For the staff position of BMS/ACS Liaison, we are proposing an individual already well known to the Bureau—former BMS Deputy Commissioner Leonard Kelley. He is a West Virginia native who brings to this position an in-depth knowledge of the West Virginia Medicaid program, a history with the current MMIS, and a full understanding and appreciation of the West Virginia legislative process. Leonard has first-hand experience with the CMS certification process from the BMS side and was instrumental in working with BMS and ACS to create the first DSS for West Virginia. We believe one of his most important assets is his keen understanding of the challenges faced by the Bureau during these times of remarkable change in the healthcare arena. Mr. Kelley will be located at the Bureau to facilitate communications between the Bureau and ACS. His technical and program knowledge will be especially helpful to both ACS and BMS during the DDI and CMS Certification Phases. Additionally, Leonard's knowledge of the current HealthPAS system will augment that of ACS partners Oleen Pinnacle and Ninestone as they assist ACS during the DDI Phase with business rule evaluation, data conversion mappings, and parallel testing. His unique technical, operational, program/policy, and West Virginia perspective cannot be duplicated by other contractors and will be highly valuable in strengthening the ACS team while, at the same time, mitigating risk for BMS.

9.10.2 Business Continuity and Disaster Recovery

REQUIREMENT: 3.1.5 Provide facilities for the recovery of operations in the event of a disaster that disrupts operations as descr bed in the Fiscal Agent's Disaster Recovery and Business Continuity Plan to be developed by the Vendor and approved by the Bureau...

We have already arranged for the ACS Fiscal Agent project in Ridgeland, Mississippi, to be the operations recovery facility for the West Virginia MMIS Re-procurement Project, while the ACS Tarrytown data center in New York has been designated as our data recovery site. North Wales, Pennsylvania, will serve as our alternate site for print fulfillment processes.

Data and Files. All Health Enterprise data are stored on a high-speed Storage Area Network (SAN), which is configured as a redundant storage array and serves as the first level of protection against failure. Data is automatically and continuously replicated in near real-time to our disaster recovery facility SAN, so the data is available for the disaster recovery process. For additional data security purposes, we create complete back-ups at least weekly, with incremental back-ups on a daily basis. We then store back-up tapes in a secure off-site facility.

Operations. Should a disaster occur, our operational priority will be to re-establish call center activities with as little disruption as possible, while maintaining all related Service Level Agreements. We have a voice recovery service that restores all telephony venues, whether physical, mobile, or virtual/work from home. This cloud-based service is pre-provisioned for direct calls to targeted telephone numbers that are assigned and dedicated within our voice network. Information provided by callers is collected and passed to customer service representatives (CSRs), who may be stationed at the recovery site, at home, or in other established ACS facilities. The Ridgeland, Mississippi, site has technology solutions that are similar to those we plan to provide for West Virginia—thereby allowing us to more quickly restore work activities. We can provide fully configured work environments for business operations and transactional

processes, because data can be accessed by authorized users through our virtual ACS network. ACS has experience in supporting over 550 recoveries, including more than 55 clients that declared emergencies during Hurricanes Dennis, Katrina, Rita, and Wilma, as well as the Mt. Redoubt eruption. We will have access to PC workstations with program images, provide access to critical fax service and printers, deliver connectivity to the Internet, and provide data center applications through our dedicated network connectivity. The physical work area includes back-up mailroom facilities that are fully configured to handle postage, a variety of barcodes and envelope requirements, and document tracking capabilities.

9.10.3 Compliance with Current and Future Security Policies

REQUIREMENT: 3.1.8 Comply with all current and future security policies and procedures of DHHR, BMS and the WV Office of Technology...

For all ACS contracts, we rigorously adhere to corporate requirements for data security and privacy controls to prevent improper disclosure, access, modification, and deletion or destruction of program data. These controls are standardized, documented, clearly communicated to employees, persistently enforced, and continually re-evaluated. Our security policies comply with DHHR, BMS, and the West Virginia Office of Technology policies—and in many instances are more restrictive.

ACS Security Commitment. ACS has a corporate HIPAA Privacy/Security Officer who directs the company's HIPAA privacy program according to all appropriate federal and state laws and regulations, including Medicaid privacy regulations. EDI Manager/Web Portal Manager Erin Murphy will serve as our local HIPAA Privacy/Security Officer to ensure that we are following both corporate and West Virginia policies. ACS has precisely mapped our corporate policies to the HIPAA Privacy and Security Rules to ensure that we fully abide by the regulations. We also use automated tools that help us monitor, track, and report activities required by these rules. Our security policies, procedures, and training programs are documented and readily available for audit purposes. Additionally, all ACS facilities and systems supporting the West Virginia MMIS Re-procurement Project must pass an initial and routine audit/review conducted by our ACS corporate security team.

System Safeguards. Health Enterprise has controls that allow selected fields, Web pages, or portions of Web pages, to be protected from view and only seen by authorized users. Our system security approach includes safeguards at administrative and management levels, technical and operational levels, and within the application architecture itself. We also use standard security features, such as individual authentication via ID and password, functional access control, multiple firewalls, and virus protection.

9.10.4 CMS Certification Retroactive to the First Day of Operations

REQUIREMENT: 3.1.11 Warrant that the proposed and implemented MMIS will meet CMS certification requirements and that certification will be available retroactive to the first day of operations...

One of the most significant implementation and post-implementation activities for which we must plan is the Centers for Medicare and Medicaid Services (CMS) certification of the new MMIS. We have an excellent track record of obtaining CMS MMIS certifications retroactive to the date requested, including our previously successful certification experience in West Virginia.

MECT Embedded in Health Enterprise. To ensure that we achieve CMS certification, we follow the roadmap outlined in the CMS Medicaid Enterprise Certification Toolkit (MECT) for each of our Health

Enterprise implementations. The MECT business areas and business objectives are embedded in the conceptual design of our Health Enterprise system, and its artifacts and processing guidelines have already been mapped to these detailed checklists. Additionally, ACS recently completed the successful certification of our OmniCaid MMIS in the District of Columbia using MECT—at which time CMS indicated it is eager to incorporate our methods as best practices for future certifications.

Rational DOORS. We use a software product called Rational DOORS to provide a range of traceability options that not only trace the realization of requirements to designs and test cases, but also link related or interdependent requirements—such as RFP requirements to checklist items or design elements to related business rules. The Rational DOORS product includes a Web-based interface that provides BMS with anytime access to certification requirements and traceability data without the need for installed software.

ACS, BMS, CMS Partnership. While working with our District of Columbia customer during our first-time use of the new checklists, we found that a three-part partnership among the District, ACS, and the Regional CMS Office provided a highly effective learning process for understanding and using system functionality to manage the Medicaid enterprise. We recommend replicating this process for the certification of West Virginia's MMIS. Our proposed certification team includes BMS Liaison Leonard Kelley, who will play an active role in supporting the entire certification process. We believe his West Virginia Medicaid institutional knowledge and previous West Virginia CMS certification experience will highly valuable to both ACS and BMS throughout the process.

9.10.5 Certify Pharmacy POS for ePrescribing with Surescripts®

REQUIREMENT: 3.1.13 Warrant that the proposed and implemented Pharmacy Point-of-Sale (POS) system will be certified with Surescripts to support all available ePrescriptions transaction types, including controlled substances.

ACS has more than seven years of ePrescribing experience and uses a tool that allows authorized users to electronically prescribe drugs—including controlled substances—via the nationwide Surescripts® pharmacy network. Providers connect to the application through a secured Web connection between their software vendor and ACS. To provide the Bureau with a brief overview of the certification review process, we will incorporate and cite key information within our ACS Certification Plan. We also invite designated BMS representatives to participate with us in a preliminary walkthrough of the checklist.

Surescripts®. Once an electronic prescription is created, Surescripts® routes the prescription to an appropriate pharmacy through a transmission that is secured with the use of provider-specific information. Surescripts® certification is based on network/application requirements, transaction standards organizations, connectivity requirements, and Certification Policy Foundational and Guiding Principles. Currently, ACS maintains a relationship with Surescripts® to support ePrescribing and real-time pharmacy Third Party Liability services for CMS on behalf of the Federal Emergency Management Agency (FEMA) Emergency Prescription Assistance Program. Surescripts® is also used in several ACS state Medicaid projects—including Florida, Missouri, and New Mexico—where we are currently a certified solution provider. With this extensive background experience, ACS is well-prepared to obtain Surescripts® certification for West Virginia.

ePrescribing Application. The ePrescribing application has already been developed by ACS and is housed within the Electronic Clinical Support Tool (ECST) platform of Health Enterprise. Before writing a prescription, physicians who use ePrescribing tools at the point of care can retrieve and review member data to obtain essential information that helps determine the best treatment for Medicaid members. We

manage all ePrescribing transactions in accordance with the CMS Final Rule published in the April 2009 Federal Register for electronic prescriptions. We validate Drug Enforcement Agency (DEA) and National Provider Identification (NPI) numbers for each user against a nationwide master list of prescribers to prevent fraudulent use of DEA numbers.

9.10.6 System Support of Multiple Programs and Plans

REQUIREMENT: 3.1.15 Provide a system that will support multiple programs...

Health Enterprise not only handles multiple programs and plans with ease, it also serves as a multi-payer system. It is designed to provide separate funding, payments, benefit controls, and reporting to support the addition of any other State agency, United States territory, or political subdivision—as directed by the Bureau and in accordance with all related Service Level Agreements.

Multi-payer System. Using a set of parameters that are housed in Health Enterprise's program management tables and rules, separate pricing and system code-controls are maintained within the Reference component for each payer. A Line of Business (LOB) attribute supports this functionality, thereby ensuring accurate fiscal responsibility and providing multi-payer flexibility. Service authorization and claims processing edits and rules are also separate and independent. The Health Enterprise rules engine allows business rules to be tailored by payer, program, or benefit plan. Additionally, we use provider networks within the Benefit Administration component of the system to differentiate between payers and programs.

Multi-program System. Health Enterprise provides multi-program flexibility to support the payment of current state-funded eligibility programs, claims from other State agencies, and future expansions required by healthcare reform. It can support rate-setting development for many different programs, including Home and Community Based Services (HCBS) and Physician Assured Access System (PAAS) waivers, as well as the Mountain Health Trust program. The Benefit Plan Administration component carries program-specific and provider-specific rates, as well as program-specific benefit limits. When a member is active in more than one plan, applicable coverage is determined through a hierarchy established by BMS during implementation. Benefit plans can be defined for certain provider types or for member populations based on age, eligibility category, and location codes.

9.10.7 MITA-aligned MMIS with Service-Oriented Architecture (SOA)

REQUIREMENT: 3.1.18 Align the proposed MMIS with MITA principles and employ service-oriented architecture.

To fully support the Bureau's future MITA maturity-level goals—including a seamless transition to MITA Maturity Level 3 for most business processes—Health Enterprise is aligned with the MITA 2.01 framework, highly flexible and adaptable, and quickly integrates new functionality in a modular fashion. The system includes interoperable software components, the use of Internet and Web-based technologies, externalization of business rules, and an emphasis on the use of commercial-off-the-shelf (COTS) components. The business architecture contains models of typical Medicaid business processes, with a Maturity Model that shows how business capabilities can evolve. Instead of adding SOA to an existing procedural language-based or object-oriented legacy system, we developed a new MMIS solution and deployed it with the use of SOA to better serve our state clients.

9.10.8 Integration Code for Other State Software/Systems Interface

REQUIREMENT: 3.1.19 Develop any bridges and integration codes necessary for the replacement MMIS to interface with other State software and systems…

BMS can be assured that we have the bridges and integration codes required to easily interface with other State software and systems. Through the support of Simple Object Access Protocol (SOAP), Health Enterprise can communicate with other applications that have different technologies and/or different programming languages—even if they are running on different operating systems. SOAP is an XML-based approach for implementing Remote Procedure Call (RPC) interactions between disparate systems and is the preferred mechanism for use with remote systems. Our interface process is described below.

Electronic Data Sharing Gateway. The Electronic Data Sharing Gateway (EDSG) component of Health Enterprise serves as a "capture zone" for external interfaces. It employs data transformation COTS products from Informatica Corporation to manage each step in the data receipt, transformation, and delivery process. As files are received by EDSG, Informatica tools validate—through the use of user IDs, passwords, digital certificates, and other keys—that the file was submitted by an authorized trading partner. Once authenticated, files are processed either immediately (via Web services) or via batch mode at pre-scheduled timeframes.

Managed File Transfer and Enterprise Service Bus. EDSG exchanges data files with external systems via the Data Exchange Managed File Transfer (MFT) applications, which move files regardless of their source. As data files pass through the MFT proxy, the transmission protocol and port are changed to prevent unauthorized access to internal applications. For data exchanges where MFT is not well suited or appropriate, the Informatica PowerExchange® application can be used when communicating with remote data sources, such as a mainframe-based Virtual Storage Access Method (VSAM) or Generation Data Group (GDG) files. Our system delivers interoperability using an Enterprise Service Bus (ESB) that provides the open, standards-based connectivity infrastructure for a service-oriented architecture. It enables applications to quickly and flexibly exchange structured information about business events, including messages, documents, and "business objects."

Data Transformation. Once a transaction is accepted from MFT or the ESB, it enters the translation engine—Informatica Data Transformation® (DT). This translator tool allows for easy mapping to a common format, such as Service Data Object (SDO), X12, or to an internal format used within another application. Informatica DT incorporates an Informatica Business-to-Business (B2B) DT tool for HIPAA compliance checking, data validation, and compliance reporting. The same facility and tools are used for outgoing interfaces, with basically the same processes—but in reverse. The data finally is transmitted to the target system using the MFT application.

9.10.9 Incorporation of Current and Future Coding Standards

REQUIREMENT: 3.1.20 Agree to incorporate all requirements mandated through federal and state regulations, including, current and future coding standards...

To accommodate all BMS-required system changes and ensure that West Virginia's Medicaid program stays abreast of future regulations and coding standards, Health Enterprise uses a rules engine to control system processing—as well as parameter tables that can be easily modified to adapt system capabilities to ensure compliance. Business Process Execution Language (BPEL), SOA, use of COTS products, and other architectural features enable the enhanced flexibility of Health Enterprise, while its architecture provides both horizontal and vertical scalability to meet processing demands. Throughout the life of the

contract, we use a BMS-approved change control process for all system changes. Please refer to Proposal Section 9.5.3, Phase 2c: MMIS Modifications and Enhancements, Change Requests, for details.

ICD-10 Changes. ICD-10 coding changes will be challenging, as today's ICD-9 contains fewer than 18,000 codes—while the ICD-10 version contains more than 141,000 codes and accommodates a host of new diagnoses and procedures. However, Health Enterprise is already designed to support ICD-10 changes through the claims engine that is controlled by the rules engine, BPEL, and parameter tables. In addition to the new ICD-10 codes, our system retains the ICD-9 codes and related crosswalks to make historical data analysis meaningful. Batch file updates are processed from external entities, such as CMS, to automatically update benefit/reference data, and the system allows entry into the reference database via user-friendly Web pages. These processes make information immediately available for claims processing.

HIPAA v5010 Changes. HIPAA has upgraded transaction standards to ASC X12 version 5010. Because we use common services for many of our customers and a COTS product designed for electronic data interchange (EDI) transactions, Health Enterprise supports version 5010.

NCPDP D.0. Changes. With the implementation of the NCPDP 5.1 Transaction Standard, ACS developed a Software Vendor Management Program to ensure that network provider software is compatible with the required operating NCPDP format. Again, our use of common services and COTS products designed for EDI transactions means that we can easily adopt the new NCPDP D.0 standards.

PPACA Changes. Health Enterprise provides the flexibility needed to help BMS plan for, develop, and implement the PPACA requirements. We also offer expertise and services related to the areas of: Health Insurance Exchanges (HIX); Health Information Exchanges (HIE); Electronic Health Records (EHR); Accountable Care Organizations (ACO); Long-Term Care and Risk Stratification Technology; Strategic Planning and Policy Development; Client-specific Consulting Projects; Actuarial Analysis and Forecasting; and Care Management Support.

HITECH Changes. Health Enterprise is designed to comply with provisions in the HITECH Act. We have extensive experience with the implementation and updating of HIPAA-mandated code sets, and our HIPAA compliance approach directly aligns with HIPAA's data security objectives.

9.10.10 Update Deliverables Requested by BMS

REQUIREMENT: 3.1.23 Update deliverables at the request of BMS to align with major changes in approach or methodology, or to include new or updated information that was not available at the time the deliverable was submitted and approved.

ACS knows that BMS operates in a dynamic regulatory environment. New and changing laws, regulations, policies, and court orders can significantly affect the Bureau's operations—sometimes on very short notice. When program-related modifications are required, we initiate a BMS-approved change control process, working closely with Bureau representatives to fully understand the details of the change, update our policy/procedure manuals and training materials, provide employee training for all affected staff, and closely monitor the successful execution of the modified procedures, including the ongoing quality of our performance.

9.10.11 Meet All CMS Certification Requirements

REQUIREMENT: 3.1.24 Meet all CMS Certification Requirements as described in Appendix D.

In a Requirements Traceability Matrix that is stored in our document repository, we have mapped every MITA-aligned Business Objective to Health Enterprise functional requirements for the purpose of validating that Health Enterprise fully satisfies all CMS business requirements.

ACS Experience. While CMS certification is tailored specifically to each state, we have found there are benefits to working collaboratively across our state implementation teams to share lessons learned and best practices. By the time the West Virginia MMIS Re-procurement project goes live, ACS anticipates that we will have successfully achieved Health Enterprise certification in three other states—while planning and preparations will be underway in a fourth. Our ACS team will have the advantage of debriefs from those states. Additionally, because we previously have demonstrated Health Enterprise compliance in other states, CMS will be able to focus on the State-specific requirements for West Virginia's Medicaid program.

On-site Visits. In our very first project using MECT protocols, we learned from CMS that it is advisable to take advantage of opportunities to attend another state's certification assessment to confirm how well-prepared we are for our CMS site visits and online demonstrations. The timing of the MMIS Replacement DDI and Certification Planning Phase in West Virginia will coincide with certification site visits in other states with ACS Health Enterprise implementations. We will work with our other state customers to arrange a visit during one of these MECT experiences and welcome the attendance of designated BMS representatives.

9.10.12 Continue Operations through Turnover

REQUIREMENT: 3.1.25 Agree to Operate the MMIS and perform all functions described in the RFP and continue all...

Throughout our history, ACS has proven its dedication in helping our state customers by going above and beyond the mere provision of systems and services. We work in unison with BMS to improve program services and achieve common goals. To ensure the ongoing success of West Virginia's Medicaid program, we will stand beside BMS throughout the Turnover and Closeout Phase of the project, providing high-quality services, working cooperatively with the successor contractor, and remaining flexible until each business function is turned over—just as we did for BMS during the Turnover Phase of the MMIS project in 2004. Not only did we stand by the Bureau to the very end of the contract, we also continued to process Pharmacy claims when the new contractor experienced implementation difficulties. For the West Virginia MMIS Re-procurement Project, our commitment remains the same.

9.10.13 Project Management

REQUIREMENT: 3.1.30 Actively use industry-standard professional project management standards, methodologies and processes to ensure the project is delivered on time, within scope, within budget, and in accordance with the Bureau's quality expectations.

By following structured methodologies that use repeatable processes—monitored by multiple teams using project management tools—we ensure that project artifacts are accurate, on time, within budget, and easily understood by all parties.

PMM. Our Project Management Methodology (PMM) is based on industry-leading standards, including the Project Management Institute's (PMI's) Project Management Body of Knowledge® (PMBOK) and

the Capability Maturity Model® Integration (CMMI). It also includes a system development methodology (SDM), as well as training methodology components. To efficiently and effectively integrate the project management processes, we use the latest technology tools and Internet capabilities, with a variety of commercial off-the-shelf products

SPARK-ITS. For all projects, we adhere to the same Standardized Process and Resource Kit - Implementing Technology Solutions (SPARK-ITS) Quality Management System (QMS) methodology described in Proposal Section 9.3, Project Management. The Enterprise Project Management solution equips our project managers with the tools and features to manage schedules, anticipate issues, conduct what-if analyses, and manage resource allocation across phases, projects, and programs. Project tasks are automatically loaded to the project tool so that project managers can review them using a Web browser. On a weekly basis, team members document their actual and remaining work for each task, thereby providing schedule-administrators with detailed information about task progress and remaining work. This process allows ACS to effectively and comprehensively manage all tasks, deadlines, and resource allocations with tools and methodologies that adhere to—and in some cases exceed—the Bureau's project management standards and requirements.

9.10.14 Upgradeable and Expandable System

REQUIREMENT: 3.1.31 Provide a software and hardware solution that is upgradeable and expandable to meet current and future needs.

Health Enterprise incorporates the best of ACS' proven Medicaid systems and products surrounded by best-in-class commercial-off-the-shelf (COTS) products that are chosen for their power, effectiveness, and integration capabilities. Health Enterprise is designed with leading-edge service-oriented architecture (SOA) that supports the MITA business areas, providing increased flexibility, scalability, expandability, and interoperability to meet new and future State and federal requirements. These system characteristics mean that, with equal ease, Health Enterprise can meet the requirements of a small Medicaid program such as North Dakota, as well as those for the nation's largest program, California.

Virtualization. Health Enterprise leverages server virtualization to maximize flexibility and effective use of CPU processing power—allowing us to dynamically tune processing power for the changing needs of BMS. Virtualization allows ACS to create unique logical partitions (LPAR) on individual or a combination of servers, with their own version of an operating system and application software. Our use of multiprocessor servers in a load-balanced, clustered environment provides for high availability and stability of the system and allows expandability without interruption to normal processing. Please refer to Proposal Section 10.1, Proposed West Virginia MMIS, for additional information about virtualization.

Platform Independence. Because Health Enterprise is written in Java, it is platform-independent—meaning that it can be deployed on a variety of hardware and infrastructure configurations to meet the Bureau's specific needs. The SOA eliminates barriers between different applications and different data types, enabling system-to-system data sharing, efficient use of COTS products, seamless interoperability throughout the healthcare enterprise, and collaboration across disparate healthcare programs and agencies.

9.10.15 RDBMS for Configurable Data Infrastructure

REQUIREMENT: 3.1.32 Employ a Relational Database Management System (RDBMS) or Object Oriented database management system...

All Health Enterprise data is maintained in a Relational Database Management System (RDBMS). We have selected Oracle 11g Enterprise as the system's primary RDBMS component, because it provides best-of-breed tools that support high performance, availability, and scalability—in addition to database failover protection and disaster recovery capabilities. Since 2007, Oracle has been positioned in Gartner's Leaders Quadrant for Data Warehouse Database Management Systems. Examples of the system's technical components that provide easy configuration and 24/7 access are provided in Table 9-17, Oracle 11g Suite of Tools.

Table 9-17. Oracle 11g Suite of Tools

Oracle Product	Functions
Oracle Real Application Cluster (RAC)	A clustered database with a shared cache architecture that overcomes the limitations of traditional shared-nothing and shared-disk approaches to provide a highly scalable and available database solution
Oracle Recovery Manager (RMAN)	Backs up, restores, and recovers Oracle databases
Oracle Enterprise Manager (OEM)	Provides a one-stop shop for managing and monitoring every Oracle application or component present within Health Enterprise to collect status and performance data, which is then fed back to the OEM management server
Oracle Diagnostic Pack	A comprehensive set of automatic performance diagnostics and monitoring functionality built into the core database engine and OEM, providing reports, a centralized performance repository, and cross-system performance aggregation to simplify the task of managing large sets of databases
Oracle Tuning Pack	Automates the entire application tuning process, with real-time monitoring and SQL Advisors that provide a solution for automating the complex task of application tuning
Oracle Locator	Mapping needed to location-enable many business applications
Oracle Partitioning	Allows data to be managed in smaller "chunks," greater storage efficiency, and enhances query and ETL processing leading to exceptional application performance and availability.
Oracle Golden Gate	High-performance software application for real-time transactional change data capture, transformation, and delivery, offering log-based bidirectional data replication for 24/7 operations
Oracle Configuration Management	Captures and centralizes information about all hardware and software resources to facilitate the diagnosis of problems, using comprehensive reports and powerful analytics
Oracle Change Management	Automates the process of promoting planned schema changes from development to production and helps identify the impact of application upgrades on customizations
Oracle Advanced Security Option	Delivers database and network encryption with robust authentication for compliance and privacy requirements

Additionally, IBM's Tivoli products provide system security through integrated identity management and role-based authentication—while the database modeling tools of Embarcadero ER/Studio allow for the creation of multi-leveled sub-models within Health Enterprise.

9.10.16 Ownership

REQUIREMENT: 3.1.34 Agree that BMS retains ownership of all data, procedures, programs and all materials developed during DDI and Operations, as well as the initial licensing for installed COTS. Manufacturers' support and maintenance for the proprietary COTS software licensing subsequent to the initial install must be provided only for the life of the contract.

ACS agrees that BMS retains ownership of all data, procedures, programs and materials developed during DDI and Operations, including the customized West Virginia Enterprise System and all other proprietary software—as well as the initial licensing for purchased and installed COTS. Upon conclusion of DDI, ACS also grants BMS a nonexclusive, perpetual, non-terminable, irrevocable license to use, demonstrate, modify, and prepare derivative works based on the Health Enterprise base system previously developed by ACS with internal funds. Manufacturer's support and maintenance for the proprietary COTS software licensing subsequent to the initial install will be provided for the life of the contract. Additionally, ACS and its subcontractors own and will use proprietary software to perform services under this agreement, developed with internal funds, prior to, or independently of, the contract.

9.10.17 Role-based Data Access

REQUIREMENT: 3.1.35 Provide role-based access for authorized users, ensuring confidential access to the data at the individual and group security levels.

The Health Enterprise Security Architecture enforces role-based security access for all users of non-public portions of the system. The availability of menu functions—as well as the pages, portlets, and even the fields displayed on pages—are all tightly controlled by assigned roles. Based on business needs, users are assigned a role or combination of roles that determine their level of access, view, and update capabilities. Because modifications are easy for the security administrator to apply and do not require programming changes, we can easily modify roles to accommodate changes in job responsibilities or positions.

WebSphere Tivoli. Implementation of security is built, not as a bolt-on component at the application layer, but through the underlying integration of the IBM Tivoli suite, with the IBM WebSphere application server stack of products. IBM Tivoli Identification Manager (TIM) and Tivoli Access Manager (TAM) provide integrated identity management and role-based authentication, as well as authorization to individual system resources.

WebSeal. Tivoli WebSeal, a component of TAM, provides the gateway through which all Health Enterprise Web portal access passes. It is a high-performance, multi-threaded Web server that applies security policy as defined in TIM and TAM to all users attempting to access portal resources. It is a reverse proxy server. As such, it routes in-bound network traffic to the portal and back-end services, while presenting a single interface to users and external systems. WebSeal determines when a user has attempted to access a protected resource and prompts the user with a logon dialog. WebSeal validates the identity, roles, and privileges of users and provides a first line of defense. Further security is provided by firewalls at different layers of the architecture.

9.10.18 Key Staff Members

REQUIREMENT: 3.1.45 Acknowledge that upon award the Bureau reserves the right to reject any staff proposed or later assigned to the project...

We are proposing an exceptional leadership team with expert skills and the ability to remain flexible—while at the same time getting the job done within a structured plan. Our MMIS Account Manager Paul Harvey not only brings extensive leadership experience to the project, but also has more than 18 years experience in the field of information technology. Medical/Dental Deputy Account Manager/Operations Manager Andy Fontalbert has a wealth of Medicaid operational experience, and his previous West Virginia-specific experience ensures that he understands West Virginia's Medicaid program and knows how to work in unison with BMS to achieve its goals. We are also pleased that former BMS employee Leonard Kelley has joined our team and will serve as our BMS Liaison. Each of our proposed key leaders meets or exceeds all job requirements and is 100 percent dedicated to the MMIS Re-procurement Project. We acknowledge that the Bureau reserves the right to reject any proposed or later-assigned staff and will require ACS to remove BMS-rejected staff from the project. If for any reason a designated Key Staff position becomes vacant, we immediately notify BMS, begin the recruiting process, receive BMS' written approval to hire or re-assign key personnel, and fill the position with an individual of equal ability and qualifications.

9.10.19 Meet Contract Requirements and Performance Standards

REQUIREMENT: 3.1.38 Provide increased staffing levels if requirements, timelines, quality or other standards are not being met...

Throughout the life of the contract, it is our unyielding goal to meet and exceed BMS expectations. To that end, we are committed to the maintenance of staffing levels that allow us to perform all project responsibilities in an exemplary manner and to meet or exceed all contract requirements.

Cognos Metrics Manager. We closely monitor daily work outcomes and work production reports to proactively ensure that we are staffed appropriately to meet all contract deliverables, performance metrics, and quality standards. To help ensure project compliance, we use the Cognos Metrics Manager reporting tool, which constantly watches key performance measures and sends e-mail alerts when performance metrics are nearing unfavorable thresholds. Additionally, Cognos maintains historical data, scorecards, and diagrams in a central relational database. The product clearly depicts upward and downward trends, allowing potential problems to be proactively identified and quickly addressed. For decision-making purposes, authorized BMS representatives have anytime access to the project's status through an online view of the most current reports and important project data.

Staffing Approach. If unforeseen events create a situation in which we do not meet project requirements, we immediately identify root causes, work with BMS to quickly develop a corrective action plan, and increase our staffing levels as needed. In instances of unexpected high work volumes, we shift trained staff members from one area to another—continuously adjusting staff to ensure our workloads are balanced and that work progresses smoothly. In times of increased work volumes, we supplement our current staff by hiring part-time employees and have the benefit of using temporary staffing agencies that have partnership agreements with ACS. We have a team of seasoned corporate recruiters who are devoted to sourcing, screening, and hiring project staff with the right qualifications and skill sets. If needed, we also have the advantage of calling upon our Operations Consulting Group (OCG), which maintains a reserve of knowledgeable leaders with specialized expertise that can be deployed across projects to meet interim management staffing needs. After hiring and appropriately training additional staff, we always re-evaluate our work products and staffing levels to ensure we have successfully corrected any identified problems.

10 Solution Alignment with BMS' Business and Technical Needs

REQUIREMENT: RFP Section 4.1.10, pg. 103 of 115

The purpose of this section is to describe in detail how the proposed solution provides the functionality identified in this RFP as necessary to meet BMS' current business needs. Section 4.1.10 should describe in detail how the Vendor's proposed technical solution addresses the technical/architectural criteria as defined in this RFP. The Vendor should also describe how the proposed solution provides the foundation that enables BMS to move toward its vision for its future MITA-oriented Medicaid Enterprise.

Built on a SOA- and MITA-aligned modern architecture, Health Enterprise allows BMS' business and technical needs to drive the MMIS Re-procurement Project and delivers the proactive, efficient, user-friendly Medicaid program West Virginia requires.

The ACS Advantage:

- Web portal provides easy, intuitive, point-and-click navigation
- Proven quality management methodology aligns with WV IT standards and PMBOK
- Service-oriented architecture supports BMS' vision for MITA Maturity

In recent years, the Centers for Medicare & Medicaid Services (CMS) has recognized the need to dramatically reshape the systems that support government healthcare programs. To this end, CMS and states have adopted the Medicaid Information Technology Architecture (MITA) initiative to foster information technology (IT) transformation across the healthcare enterprise and improve overall program administration and efficiency.

ACS' proposed solution for West Virginia—the ACS Health Enterprise—offers BMS unmatched functionality, ease of use, and adaptability to meet BMS' current and evolving needs. ACS offers the right people, processes, and technology solutions to help BMS achieve its goals for the MMIS Re-procurement Project—streamline administration, tailor services to meet the needs of enrolled populations, coordinate care, and provide members with the opportunity and incentives to maintain and improve their health.

ACS provides the foundation that enables BMS to move toward its vision of a MITA-oriented Medicaid Enterprise in West Virginia. In its MITA State Self-Assessment (SS-A), BMS established goals, objectives, and targeted capabilities for West Virginia's Medicaid Program. BMS assessed the majority of its business processes at a MITA Maturity Level One. Health Enterprise provides the technical and architectural foundation to support BMS' goal to increase the MITA maturity of the 14 identified business processes from Level One to Level Two and supports continued growth along the MITA Maturity Model continuum. By providing a MITA-compliant solution designed specifically for Medicaid, ACS enables BMS to focus on the business functionality needed to achieve its program objectives.

Health Enterprise's service-oriented architecture (SOA) serves as the foundation of our solution and eliminates barriers between different applications and diverse data types. It also enables system-to-system data sharing, efficient use of commercial-off-the-shelf (COTS) products, seamless interoperability, and collaboration across West Virginia's healthcare programs and agencies. Because Health Enterprise is composed of reusable components that can be combined and configured to perform specific business functions or entire business workflows, the system's inherent flexibility allows ACS to implement BMS-initiated program and policy changes through the user interface. Health Enterprise delivers enhanced and expanded capabilities to BMS that meet all of the requirements set forth in the RFP and achieve the goals of the West Virginia MITA SS-A.

In December 2011, ACS successfully launched the Provide Enrollment (PE) module of Health Enterprise for our New Hampshire Medicaid client; this phase includes all of the functionality needed for providers to re-enroll using the new system, the security infrastructure, and contact management. The Provider Enrollment module represents 20 percent of Health Enterprise's base code and 95 percent of its architecture. The remainder of the Health Enterprise base code has been developed and system tested with parallel and integration testing in progress. New Hampshire will begin UAT within the next 60 days. The successful go-live of Provider Re-enrollment in New Hampshire coupled with the completion of the base system code demonstrates that Health Enterprise is a very low risk solution for West Virginia. We also recently underwent rigorous independent third-party system architecture and design reviews of the Health Enterprise system architecture, code, and functionality that confirmed the system's flexibility, transferability, scalability, and alignment with MITA 2.0 guidelines and standards. Significantly, the code review returned a rating of Superior Quality for the over five million lines of code contained within Health Enterprise.

Health Enterprise's core design incorporates the business requirements in each of the 20 CMS Certification Checklists. In January 2012, the DC MMIS became the first ACS MMIS certified under the Medicaid Enterprise Certification Toolkit (MECT). Drawing upon this experience, we will work with BMS to meet CMS certification requirements and achieve full Federal Financial Participation (FFP) retroactive to the first day of operations.

In this proposal section, we address the response requirements set forth in Section 4.1.10 of the RFP, Solution Alignment with BMS' Business and Technical Needs. We describe our proposed West Virginia MMIS and our solution's technical architecture. We identify our project facilities and proposed worksites. We address the MMIS Re-procurement Project's phased implementation, responding to all of the requirements for Phase 1, MMIS Replacement DDI and CMS Certification Planning. We conclude the section by completing the checklist required in the Appendix Volume (Proposal Section A2) and describing the unique ways our solution supports MITA maturity. This section includes:

- 10.1 Proposed West Virginia MMIS
- 10.2 Phase 1: MMIS Replacement DDI & CMS Certification Planning
- 10.3 Appendix E: Business and Technical Requirements
- 10.4 Support of MITA Maturity

10.1 Proposed West Virginia MMIS

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

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10.2 Phase 1: MMIS Replacement DDI & CMS Certification Planning

REQUIREMENT: RFP Section 3.2.6, pg. 79 of 115

Proven project management approaches and controls govern the design, development, and implementation (DDI) activities of Phase 1 and establish a solid foundation for a successful MMIS Re-procurement Project.

ACS' approach and methodologies for designing, developing, and implementing the West Virginia MMIS Re-procurement solution and fiscal agent operations are based on our proven MMIS experience and industry best practices. We incorporate leading project management standards and practices from the Project Management Institute's A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Fourth Edition and the Software Engineering Institute's Capability Maturity Model® Integration (CMMI). This practical and verifiable application of best practices and continued process maturity engages the tools, techniques, and resources that result in execution excellence, on-time delivery, quality assurance, and managed risk. It also ensures that CMS certification planning activities support qualification for the highest eligible Federal Financial Participation (FFP) rate.

Key Features of our Phase 1 Approach

- EPMO leads project planning and monitoring, process controls, accurate change management, and consistent reporting
- SPARK-ITS QMS provides project management, system development, and training methodologies founded upon Project Management Institute (PMI) principles
- Quality management, assurance, and control explicitly embedded into delivery and management channels
- Transparency and automation in reporting provided through the project's SharePoint site

Our Phase 1 approach combines market-leading technology with proven methodologies and tools to develop, implement, and operate the Health Enterprise solution. ACS has structured our team and solution to meet the current and future needs of BMS.

Proposal Section 10.2 includes five sections based on the requirements from Section 3.2.6 of the RFP:

- **10.2.1, Phase 1a: Start-up** – This section explains our approach to completing BMS' project initiation requirements. It describes our approach to completing initial risk identification and mitigation planning and introduces the initial plans required by BMS.
- **10.2.2, Phase 1b: Analysis and Design** – This section describes our approach to completing the analysis and design deliverables that will guide the configuration and development of the proposed West Virginia MMIS.
- **10.2.3, Phase 1c: Development, Testing, Data Conversion and Training** – This section addresses BMS' requirements for the development and thorough testing of the Health Enterprise solution and our approach to the data conversion and training tasks.
- **10.2.4, Phase 1d: Implementation Readiness** – This section describes the planning, preparation, and finalization of the activities ACS completes to gain BMS approval to implement Health Enterprise and assume West Virginia Fiscal Agent responsibilities.
- **10.2.5, Phase 1e: CMS Certification Planning** – This section describes the planning activities associated with obtaining Federal certification of the Health Enterprise solution.

10.2.1 Phase 1a: Start-up Phase

REQUIREMENT: RFP Section 3.2.6.1 to 3.2.6.1.1, pg. 79 of 115

3.2.6.1.1 Phase 1a: Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Start-Up Phase, including the proposed….

The planning that occurs in Phase 1a, Start-Up, establishes a collaborative partnership between BMS and ACS that results in agreed-upon deliverables, milestones, and deadlines.

ACS works closely with BMS during the Start-up Phase to make sure all project planning documents reflect BMS' intentions and that all deliverables meet or exceed BMS' expectations. By fostering open communication and addressing risk management from the first day of the project, ACS delivers a high-quality MMIS that responds to BMS' business needs on time and within budget.

Establish a Solid Project Foundation

- Create a common understanding of project objectives, processes, practices, tools, and responsibilities
- Lay the groundwork for open communication and trust
- Establish the physical facilities needed for project activities
- Update project plans designed for execution excellence, scope control, on-time delivery, and quality assurance

As discussed in Proposal Section 9.3, Project Management, our system development methodology includes nine workflows (or sub-phases) that are executed in sequence to complete design, development, and implementation (DDI) activities. The first workflow is called the Planning Workflow; it aligns with the RFP Phase 1a. This workflow sets the stage for the project's success by analyzing baseline processes, procedures, templates, and tools and tailoring them to the specific needs of the West Virginia MMIS Re-procurement Project. During the Planning Workflow, ACS establishes the Enterprise Project Management Office (EPMO) and on-boards initial project staff.

In Phase 1a, we conduct the project kick-off meeting, establish the project charter, perform stakeholder analysis, update our project management plans, establish the project site facility, and finalize report templates. The project kick-off meeting is essential for beginning the process of working together towards common goals, establishing shared expectations, defining roles and responsibilities, and providing an overview of the project management and system development methodologies.

During Phase 1a, we also conduct our first Alignment Cycle with SchellingPoint. SchellingPoint is the first company to research Alignment Management as a business process. Their goal is to integrate "soft" techniques such as brief interviews and surveys with an enterprise-class software platform, providing leaders and managers with tangible tools and metrics to optimize alignment. An Alignment Cycle:

- Provides the means to surface all explicit and tacit, positive and negative action drivers affecting people's behavior towards a topic
- Surfaces all known and unforeseen misalignments and constraints to ensure sustained performance over time
- Uses streamlined methodology to collapse the elapsed time of idea-to-action down to days from weeks and months
- Uses powerful technology to pinpoint the necessary conversations and minimize participant input to high impact hours only

An Alignment Cycle comprises three stages – Measure, Maximize, and Maintain, which can be conducted in just a few days with a small group of people or across all staff on the project. Unique analytics pinpoint

those alignment and misalignments requiring action, so meetings and interactions remain focused and fulfilling. All outcomes are captured automatically in the form of a Foundation Document of assumptions, a Scorecard defining success, Collaborative Designs comprising mitigating solutions to valid concerns, and an Action Roadmap of the sequenced set of activities required for the group to attain success.

SchellingPoint's approach to aligning ACS and BMS goals, objectives, and strategic vision is a driver of project success as well as a risk mitigation strategy and as such, begins during Phase 1a. Alignment Cycles continue every other year thereafter throughout the contract, with Delta Cycles in the intermittent years to monitor and minimize drift from outcomes and decisions resulting from prior Alignment Cycles.

10.2.1.1 Approach to Deliverables and Milestones

REQUIREMENT:

1. Approach to the completion of the Phase 1a Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

Within 45 days of contract execution, all of the Phase 1a start-up activities will be complete. Many deliverables will be submitted earlier, as required by BMS in Appendix C and noted in our Project Schedule found in the Appendix, in Proposal Section A9. The completion of the Phase 1a deliverables enables us to achieve Milestones 35 (Project Site Facility Established) and 36 (Completion and BMS Approval of Phase 1a) and advance to Phase 1b.

Our methodology for updating deliverables uses repeatable, collaborative processes to produce high-quality documents. Our standard includes the use of a SharePoint repository of deliverables and documentation. This repository enables authorized BMS users to access deliverables and provide feedback from virtually anywhere at any time. Included in our methodology are two internal review cycles—peer reviews and document quality assurance reviews—to verify that deliverables are accurate and complete before submitting them to BMS. These two reviews are the minimum required. Some deliverables may also require informal or formal walkthroughs, both of which are documented in our methodology. Once we have completed our internal reviews, we submit deliverables to BMS for review and comments. We modify the deliverable per BMS' direction, conduct an additional internal review if appropriate, and submit the final deliverable to BMS for approval.

For convenience, collaboration, and transparency, we use a Web-accessible Microsoft® Office SharePoint® site for storing deliverables and automating the assignment and tracking of editing and review responsibilities. Exhibit 10-4 shows the home page of the project site. Users are required to follow check-out/check-in procedures that support document version control. We have configured several workflows using SharePoint that contain rules for triggering automatic email notifications when a deliverable has been edited and is ready for review, either internally or by BMS. This notification prompts the recipient to review the deliverable and provide comments and notifies the original author/editor when comments are ready. Once comments are addressed and deliverables are ready for BMS review and approval, the EPMO uses SharePoint functionality to send an electronic notification to the BMS Project Officer for signature of acceptance. Our automated methodology enhances productivity and efficiency and reduces the need for maintaining hard copies of documents. Our file system and database backup process includes backing up the SharePoint site.

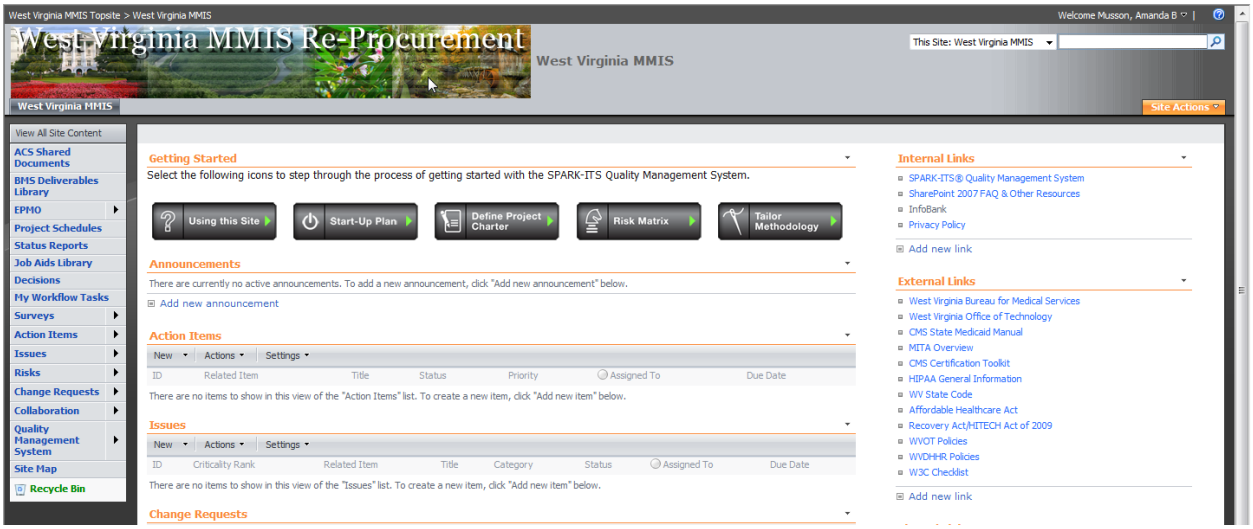


Exhibit 10-4. West Virginia MMIS Re-procurement Project SharePoint Site Example
The project's SharePoint site holds project documents and facilitates communication and workflow.

During Phase 1a, we coordinate with BMS to ensure that our SharePoint site is configured to meet BMS' expectations, and we train project team members on use of the site to optimize communication and collaboration.

10.2.1.2 Approach to Obtaining BMS Approval

REQUIREMENT:

2. Approach to obtaining BMS approval of the completion of Phase 1a, including proposed Acceptance Criteria for each Milestone throughout Phase 1a.

As discussed above, as part of our project management methodology, ACS has a structured, documented process for reviewing and obtaining BMS approval of all deliverables and milestones. Please see Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

During Project Start-Up, ACS works with BMS to create a Deliverables Expectations Document that details the description, location, constraints, assumptions, content, format, and approvers for each contractual deliverable. Additionally, we review the Project Schedule to gain BMS approval of its tasks, deliverables, milestones, durations, initial resources, and dependencies. The Project Schedule includes milestones, identified with the prefix "M:," and deliverables with the prefix "D:." Using the Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-4 contains the proposed acceptance criteria for the Phase 1a milestones that would be incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-4. Proposed Acceptance Criteria for Phase 1a, Start-Up Milestones

Milestone	Acceptance Criteria
1 – Contract execution	Contract signed
35 – Project site facility established	The following have been completed and approved: Facility Plan, Security, Privacy, and Confidentiality Plan, Data Records and Retention Plan The physical facility is established according to approved plans and ready for use
36 – Completion and BMS approval of Phase 1a	The following have been completed and approved: Contract Execution; Project Kick-Off Meeting; Project Charter; Stakeholder Analysis; Facility Plan; Staffing Plan; Documentation Management Plan; Training Plan; Workflow Management Plan; Problem Management Plan; Integrated Test Environment (ITE) Plan; Testing Plan; Scope Management Plan; Work Breakdown Structure (WBS); Project Schedule; Schedule Management Plan; Cost Management Plan; Quality Management Plan; Human Resources Management; Communication Management Plan; Risk Management Plan; Issue Management Plan; Change Management Plan; Integration Management Plan; Security, Privacy and Confidentiality Plan; Configuration Management Plan; Data Conversion Plan; Disaster Recovery and Business Continuity Plan; Data Records and Retention Plan; Transition Plan; Weekly Project Status Report Template; Weekly Project Status Report; Monthly Project Status Report Template; Monthly Project Status Report; Project Site Facility Established

10.2.1.3 Approach to Initial Risk Assessment and Mitigation

REQUIREMENT:

3. Approach to initial risk assessment and mitigation during the Project Start-Up Phase.

ACS provides transparency to BMS in every aspect of our operations. The key to our risk management approach, starting with initial risk assessment, is to communicate openly with BMS about any risk issues that arise. We have an established process for identifying risks and tracking risks from identification through closure.

All project team members are responsible for identifying and communicating potential project risks. Risks are documented in the risk list in the project's SharePoint site. Critical information required to document risks includes a detailed description, category, severity, probability, control level, exposure, owner, and trigger. The project's SharePoint site provides BMS and ACS with an at-a-glance view of the project's risks and produces standard reports and user-defined ad hoc reports to aid in the management of project risks.

As part of Deliverable 22, updating the Risk Management Plan, we work with BMS to formalize procedures for identifying, analyzing, and mitigating risks and communicating with the appropriate BMS staff when there are risks that may affect the project. We also work with BMS to update our Issue Management Plan (Deliverable 23) and Problem Management Plan (Deliverable 10). Initial versions of these deliverables are contained in the Appendix, in Proposal Sections A22 and A26 respectively.

During Phase 1a, we begin identifying risks on an ongoing basis and develop mitigation and response strategies to eliminate, control, or resolve risks before they can adversely affect the project. We start by populating our risk list, guided by a Risk Category Guideline, an element of our standard Risk Management Plan that presents typical risks based on project complexity, type, and other factors. For each risk, we develop a risk mitigation plan that identifies the risk owner, the specific steps that will take place to address the risk, any assignment of these steps to specific individuals, contingency plans (where

appropriate), and the specific timing of the mitigation plan along with the timing of projected risk closures. We track each risk from identification through closure.

10.2.1.4 Initial Security, Privacy, and Confidentiality Plan

REQUIREMENT:

4. Comprehensive, initial Security, Privacy, and Confidentiality Plan which addresses potential security issues and the steps to be taken to ensure these issues do not compromise the operation of the MMIS and the data stored therein. The Plan should be an overarching plan for all levels of security. It is expected that data is only viewable by those who are explicitly permitted to view or receive it. The security model developed to support the MMIS should be one that is based upon security access roles and organizational affiliation. It is critical that the BMS have a method for tracking access to, use of, and changes to data. Data should be physically safe and adequately protected at all times. The Plan should detail how the Vendor is fully compliant with HIPAA requirements, including Administrative, Physical and Technical safeguards, and how the Vendor is compliant with National Institute of Standards and Technology (NIST) security controls. At a minimum, the security plan should include…:

The initial Security, Privacy, and Confidentiality Plan, contained in Proposal Section A30 in the Appendix, addresses the steps ACS takes to provide a physically and technically secure environment for the MMIS, data stored in the system, and data and materials archived as required. As part of Phase 1, ACS refines and updates the initial plan and submits it to BMS within 30 calendar days of contract execution. The updated Security, Privacy, and Confidentiality Plan is a living document that we review and update as needed throughout the project. The plan is rooted in ACS' extensive experience in developing security plans for our MMIS and information technology outsourcing customers, assuring BMS that the result will be sound, compliant, and detailed. In addition, inherent in Health Enterprise is the ability to provide a secure technical environment.

ACS is responsible for security and privacy activities for the MMIS Re-procurement Project throughout the term of the contract. These responsibilities include safeguarding MMIS technology, facilities, and employees. Our Security and Facilities Coordinator, working with the EDI Manager/Web Portal Manager (who serves as our HIPAA Compliance Officer), provides the overall approach and strategies to secure Protected Health Information (PHI) and other confidential information. To protect the privacy, integrity, and availability of information that is created, processed, stored, and transmitted by ACS, we make data viewable only by those who are explicitly permitted to view or receive it. We provide security and privacy for all data, regardless of transmission method or medium, and all facilities, equipment, and staff associated with ACS.

Our plan details how we adhere to State and federal statutes and regulations—including the Health Insurance Portability and Accountability Act (HIPAA) regulations regarding security and privacy of PHI; Exhibit D(F), Provision 13; OMB Circular A-130, National Institute of Standards and Technology (NIST) SP; and Exhibit H, HIPAA Business Associate Addendum—and are consistent with Payment Card Industry (PCI) standards and security industry best practices. We comply with the International Organization for Standardization (ISO), using NIST special publications, and all current and future security policies and procedures of DHHR, BMS, and the West Virginia Office of Technology, as well as ACS corporate security and confidentiality standards. We also update and maintain the Security, Privacy, and Confidentiality Plan to comply with evolving regulations and BMS directions.

10.2.1.4.1 Security Administration

a. Security Administration for All Proposed Networks and Platforms.

i. Computer and Data Security Policies and Responsibilities.

ACS conducts annual reviews and updates computer and data security policies, including an Identification and Authentication policy, and the procedures that implement the those policies. The Security and Facilities Coordinator, who is responsible for physical security, leads the process of ensuring that all proposed networks and platforms are secure and is responsible for updating and disseminating documents related to physical, system, and network security. Additionally, all ACS personnel are required to take annual training in security policies and their related responsibilities.

Physical Security Policies, Equipment Use, Inventory and Audit, and Network Access

ii. Physical Security Policies, Equipment Use, Inventory and Audit, and Network Access.

ACS develops, disseminates, and annually reviews and updates as necessary policies on physical security and safety, equipment use, inventory control and audit, and network access. Concurrently, we review local physical security and safety procedures to verify that BMS and ACS physical security and safety policies are implemented consistently. Our physical security and privacy policies are appropriate for the MMIS and fiscal agent services and include proposed equipment, sites, processing areas, mailroom and storage areas at our proposed sites. To protect BMS' data, we implement precautions such as key card access and visitor sign-in procedures that comply with HIPAA regulations. We monitor security compliance of our facilities through internal audits, reviews, and key process control measurements.

Software Policies, Copyright, COTS Change Management Controls, Platform Systems Software, Distributed Systems

iii. Software Policies, Copyright, COTS Change Management Controls, Platform Systems Software, Distributed Systems.

Our plan contains details of our software policies, including license maintenance for compliance with copyright laws for all ACS computer environments. The plan details hardware, operating system, and system software maintenance controls for COTS products, platform systems software, and distributed systems. The policies and controls apply to all computer environments and include hardware, software, firmware, and documentation. The Systems Management Lead (Network/Infrastructure) would provide input to the Security and Facilities Coordinator to enforce copyright restrictions on all non-ACS software. Changes to both Health Enterprise and COTS software are made using the change management controls described in Proposal Section 9.5.3.1, Methodology and Approach to Change Request Process.

ACS establishes and maintains baseline configurations and inventories of organizational information systems. We establish and enforce security settings for information technology products. Throughout the contract, we monitor and control changes to the baseline configuration and system components.

10.2.1.4.2 Key Positions

b. Respons bility of Key Information Security Positions:
i. Details of Security Roles and Responsibilities.

The ACS plan describes the security roles and responsibilities of our privacy and security team. The team is led by the Security and Facilities Coordinator and supplemented as needed by other ACS resources with expertise in physical, administrative, and technical security policy development, implementation, and compliance and security analysis. The full-time, on-site Security and Facilities Coordinator, who is dedicated to the project and located in the Charleston Project Office, coordinates with BMS to develop, implement, and enforce compliance with privacy and security policies and procedures that safeguard all protected or confidential material associated with the project, including PHI and ePHI. The Security and Facilities Coordinator also establishes security guidelines and policies for each component layer of the system, as well as all potential entry points into the Health Enterprise environment. For site security administration, system penetration testing, system security monitoring, and security tools installation and maintenance, the Security and Facilities Coordinator is supported by the EPMO and supplemental corporate expertise. Beyond the key positions, however, we train our employees to understand that every employee—from the account manager to the mailroom courier—has an obligation to adhere to security protocols. The entire team works with the Security and Facilities Coordinator to maintain complete compliance with security policies.

10.2.1.4.3 Incident Monitoring and Reporting

c. Incident Monitoring and Reporting:
i. Incident Monitoring, Violation Reporting and Notification.

ACS' operational incident monitoring, violation reporting, notification, and response capability includes adequate preparation, detection, analysis, containment, recovery, and user response activities. We train employees to recognize and report security incidents immediately. We track, document, and report security incidents as appropriate to higher level ACS officials, BMS, and/or law enforcement authorities. The Incident Response policy and the procedures that implement the policy are included in our updated Security, Privacy, and Confidentiality Plan and are annually reviewed and updated. To increase compliance with the procedures, we train employees in security incident response roles and responsibilities and provide refresher training at least annually. The plan is validated by testing our incident response capability for information systems at least annually using tests and exercises that determine incident response effectiveness. We document the results of our testing and use those results and data from an annual IT security vulnerability assessment to identify and help correct potential security incidents specific to the location.

In addition, our plan addresses how we identify and respond to accidental or unauthorized disclosure, modification, or destruction of PHI or confidential information by ACS employees, subcontractors, or vendors, as well as through criminal acts and/or natural disasters.

Management of Responses and Security Follow-up

ii. Management of Responses and Security Follow-up.

ACS' plan contains details of our management of responses and security follow-up to incidents. We immediately investigate each security incident, breach, or unauthorized use or disclosure of PHI or

confidential data and provide an initial report to BMS within 72 hours of discovery. ACS submits a final investigation report to BMS within 10 working days of discovery; the report includes detailed corrective actions. The ACS Security and Facilities Coordinator logs security incidents and retains all documentation for at least six years to satisfy HIPAA Security Rule requirements.

10.2.1.4.4 Physical Security

d. Physical Security for All Proposed Facilities:
i. Facility Access Controls To Buildings and Spaces; Power, HVAC (Heating Ventilation Air Conditioning), and Fire Detection/Suppression.

Facility Access Controls to Buildings and Spaces. The ACS Security and Facilities Coordinator works with BMS management to develop security protocols addressing access of ACS and BMS personnel to the facility and sensitive interior locations. We maintain a single point of entry and reception for visitors, which is staffed and secured separately from any work area. Unmanned doors remain locked at all times. ACS has strict visitor and vendor control procedures and a program to train/educate personnel in complying with those procedures.

Power, HVAC, and Fire Protection. Each facility's requirements for power and HVAC are assessed and arrangements made for services that meet peak needs. Backup systems exist at each facility to maintain the safety of employees and equipment. The Charleston facility complies with existing local, West Virginia, and federal fire safety regulations. Other ACS facilities supporting the West Virginia Re-procurement project comply with their local, state, and federal requirements. ACS employs and maintains fire detection and suppression devices/systems that activate automatically in the event of a fire. We also place manual fire extinguishers in break rooms, server/data rooms, and other strategic locations, and we recertify each device annually.

Physical Access Management

ii. Physical Access Management.

As part of physical access management, ACS requires photo identification badges that control employee, BMS, vendor, and visitor access based on job requirements, restricting access to the minimum required for the individuals to perform their job functions. Badges are color-coded to differentiate ACS employees (green) from contractors (blue), visitors (orange), and business partners (gold); and staff is trained to recognize the various badge colors. We strictly limit access to server/data rooms to only those personnel with a business need to enter. Everyone entering server/data rooms must sign in and out on a server room access log in addition to using a badge.

Each employee's manager, working with the Security and Facilities Coordinator, establishes the appropriate level of access privileges during on-boarding and reviews them regularly, including each time the employee's job responsibilities change. We immediately cancel physical and application access when an employee's employment is involuntarily terminated or when an employee resigns or retires.

Visitors are issued a color-coded badge clearly identifying them as such and must be escorted by an ACS or BMS employee or a security guard at all times. Vendors also are clearly identified; escort requirements for vendors vary depending on the nature of business to be conducted. Upon entry, each visitor or vendor must sign a visitors' log and is issued a badge that limits access to specific areas of the facility. Visitors are required to return badges upon departure.

ACS' comprehensive physical security policies, maintained by the Security and Facilities Coordinator, define our processes for the physical security of documents and define how we handle labeling, storing, handling, and destroying proprietary and confidential information. We properly label and identify proprietary and confidential electronic and removable magnetic media, as well as hard copy, and we train our personnel on the proper handling of proprietary and confidential information.

Environmental Controls

iii. Environmental Controls.

Environmental controls for our facilities are designed with equipment performance, media preservation, and employee comfort and efficiency in mind. We provide the appropriate levels of temperature and humidity control for various locations within each facility based upon the primary function of the location. Our updated Security, Privacy, and Confidentiality plan contains specific details of environmental control.

10.2.1.4.5 Information Security/Access Control

e. Information Security/Access Control for All Proposed Applications:
i. Security Software for All Proposed Platforms.

As a critical part of maintaining overall security, ACS uses security software on all proposed platforms based upon their function. For our Health Enterprise solution, we use IBM's Tivoli Identity Manager (TIM) and Tivoli Access Manager (TAM) to provide the strong level of security necessary for safeguarding BMS' data. TIM, TAM, and WebSeal protect Health Enterprise and associated COTS components. Exhibit 10-5 illustrates how we use these products to provide multiple layers of security. Our updated Security, Privacy, and Confidentiality Plan details the specific security used on each platform.

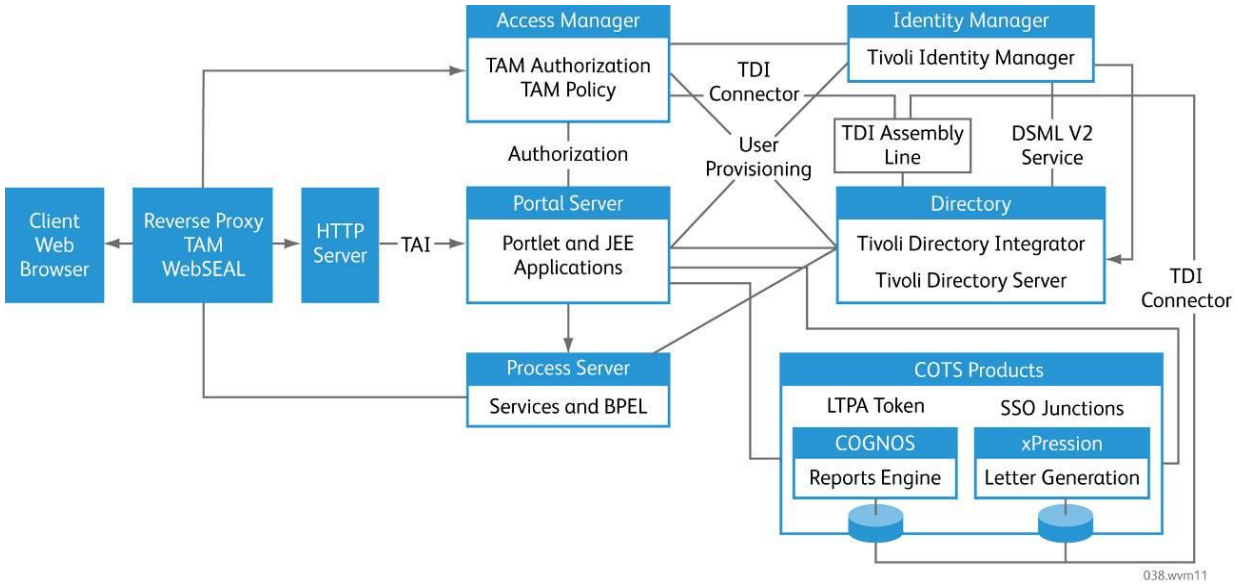


Exhibit 10-5. Health Enterprise Key Security Components
Health Enterprise is protected by multiple layers of application security.

We use 128-bit SSL encryption, which prevents hackers from "sniffing" data in transit. Firewalls prevent unauthorized access to the Web servers, and the Health Enterprise's distributed architecture imposes more firewall constraints on access to the application servers and database servers. The system is further protected by a network intrusion detection system (NIDS) that monitors the network.

Health Enterprise data resides in an Oracle database, which maintains a full audit trail of all transactions by user ID and system process. Data audit trails are critical to identifying any security breaches and providing information on system access. All updates, insertions, or deletions of data are monitored and audited by an Oracle background process, which dates and time stamps field-by-field additions and changes.

Information Access Management

ii. Information Access Management (Logon ID Procedures).

To manage access to information, the Health Enterprise portal provides a single sign-on point for all users, simplifying use and improving security by reducing the number of logins a user has to manage. Role-based authentication limits user access to only that data and those functions for which the user is approved.

All users are properly authenticated prior to accessing any restricted and/or confidential information. Each user with access to a system or network has a unique ID and password. Shared and generic logons are prohibited. We conduct a review for unused accounts every 30 days. Accounts not used within a 90-day period are disabled. We promptly disable accounts of terminated employees upon notification of their termination. Archival of disabled accounts occurs after 120 days of inactivity. ACS securely distributes passwords in a way that includes validation of user identity. We enforce password policies regarding length, use of special characters, and mandatory expiration unless changed. To secure administrative passwords, we implement an exact process by which they can be changed, logged, distributed, and stored.

For remote users, information systems identify and confirm the authorization of specific devices before establishing a connection. ACS employs a Virtual Private Network and RSA SecurID two-factor authentication uniquely assigned to each user requesting connections to ACS systems before granting access.

10.2.1.4.6 Education and Training

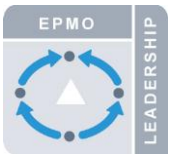
f. Education and Training for Vendor and BMS Staff and Users.

Supported by our Adobe® Connect™ Learning Management System (LMS) and MediaWiki-powered Work Instruction Wiki (both of which are described in Proposal Section 10.2.3.4, Training Task), we provide comprehensive, mandatory initial and ongoing security, privacy, and safety training and education for BMS staff, ACS full- and part-time staff, consultants, and subcontractors, including how to access and use online user security manuals. Structured training is part of a mature and complete awareness program that emphasizes maintaining continual vigilance regarding all aspects of security, privacy, and safety in our project facilities. We are committed to providing a safe and secure project operational and technical environment.

10.2.1.5 Initial Configuration Management Plan

REQUIREMENT:

5. Comprehensive, initial Configuration Management Plan, which describes the following components…



Effective configuration management ensures that staff members perform work according to the most current design specifications and use proper versions of code, policies, procedures, and other controlled artifacts in a correctly configured environment to minimize defects and rework. ACS' configuration management approach, a component of our SPARK-ITS Quality Management System (QMS), uses standard, proven business processes and tools to provide an effective configuration management structure that integrates with related change and release management activities for the MMIS Re-procurement Project. Proposal Section A31, in the Appendix, contains our proposed Configuration Management Plan. During Phase 1a – Start Up, we tailor the initial Configuration Management Plan to West Virginia, providing the updated plan to BMS within 30 calendar days of contract execution to comply with the requirements of Appendix C of the RFP, Deliverable 27.

10.2.1.5.1 Methodology

a. Configuration Management Methodology.

ACS' Configuration Management Plan, developed based on guidance from the PMBOK Guide and CMMI practices, governs our configuration management activities and incorporates industry standards and best practices. Our configuration management process, which is tightly integrated with our release and change management processes, documents how we identify and manage configuration items. Configuration items are typically software or hardware components but can also be work products such as requirements, design deliverables, and process documents. The process includes stringent check-out/check-in procedures, testing, and migration readiness reviews to manage changes and verify that configuration activities contribute to high-quality work products. We require that changes to hardware, software, baseline documentation, and operational procedures occur only with approved change requests, and releases occur only with appropriate configuration control.

Our configuration management methodology includes steps to establish a Configuration Management Authorization Group, identify and manage configuration items according to documented configuration rules, and conduct configuration audits to verify compliance. Our Configuration Management Plan also references release processes so code and documentation are configured and released in a controlled manner. Refer to Proposal Section A31 in the Appendix for a sample Configuration Management Plan.

10.2.1.5.2 Integrated Test Environment

b. Development, implementation and use of an Integrated Test Environment (ITE) that includes multiple isolated test environments (e.g., development, test, UAT, training, production, and business continuity). The Vendor should describe the separate test environments to be used during the testing phase of DDI and during production.

ACS' Configuration Management Plan supports the development, implementation, and use of an Integrated Test Environment (ITE) that includes multiple isolated environments. These environments are documented in the ITE Plan, also included in the proposal Appendix. All changes to Health Enterprise undergo a series of required testing stages before they are promoted into the production environment.

ACS uses integrated processes for configuration, change, and release management as we modify and release code from development to testing to production.

Following is a brief description of the separate environments used during DDI and production:

- **Development and Unit Test Environment** – Changes to Health Enterprise components are performed initially in the development environment. Unit testing is required whenever any code enhancements or modifications are made. This environment has logical partitions to facilitate efficient and parallel code development.
- **System and Integration Testing Environment** – In the system and integration testing environment, ACS affirms the end-to-end quality of the solution. System testing validates that related groups of functionality have been modified to align with design specifications. Integration testing validates end-to-end processes. Also in this environment, we perform regression testing to validate that changes—such as functional enhancements, patches, or configuration changes—work correctly with previously functional code.
- **User Acceptance Testing (UAT) Environment** – The UAT environment supports several different types of tests, including user acceptance testing and operational readiness testing (ORT) during DDI. UAT provides the users of the Health Enterprise solution an opportunity to review and accept system components prior to production.
- **Training Environment** – Once a change is made and fully tested, it is migrated to production and mirrored in the training environment. This ensures that the training that occurs throughout the life of the project remains current with any changes that occur to Health Enterprise's configuration or code.
- **Production Environments** – Once West Virginia Health Enterprise goes live, we maintain production, development/unit test, system, integration, and UAT environments to support the live solution as well as full life cycle testing of changes and enhancements made during operations.
- **Disaster Recovery/Business Continuity Environment** – Once changes are migrated to production, the fully tested changes are mirrored in the disaster recovery/business continuity environment to provide a full backup of all changes in the event that any of the testing or production environments experience interruption. This enables us to comply with BMS' system downtime and failover requirements specified in the RFP.

If defects are discovered during testing, the component in question is returned to the development team for evaluation and correction. Components are retested at each of the defined test stages. Our migration procedures coordinate and communicate changes while maintaining the quality and stability of the receiving environment.

10.2.1.5.3 Promotion and Version Control Procedures

c. Promotion and version control procedures that include the performance of regression tests whenever a code change or new software version is installed, including maintaining an established baseline of test cases to be executed before and after each update to identify differences.

As part of our promotion and version control procedures, ACS applies consistent and repeatable processes supported by the IBM Rational suite of products. The Rational design and development tools allow developers to create and test individual components during all facets of the MMIS Re-procurement

Project—from requirements gathering through testing—while maintaining version integrity and control of code across multiple environments.

ACS uses Rational Team Concert (RTC), IBM Rational's newest integrated configuration and test management solution, to manage concurrent checkout, modification, and merging of updated code components. RTC provides controlled access to software development assets and version control to align with the SPARK-ITS Configuration Management Plan.

Our promotion and version control procedures include the execution of regression tests when code is migrated from one environment to the next and when a code change or new software version is installed. Regression testing provides a consistent, repeatable validation of each new release of Health Enterprise as West Virginia-specific requirements are built or configured. Initially, we use an existing test bed to validate that we have successfully installed the base Health Enterprise solution in the West Virginia DDI environment. Each time we integrate new functionality, we execute regression testing to confirm new components work correctly with previously functional code.

During fiscal agent operations, regression testing takes place prior to implementation of software enhancements or updates to validate that no unexpected results or conditions have been introduced into Health Enterprise. We establish a baseline of test cases to be executed before and after each update to identify differences. We compare new regression test results to the previous version's results to confirm that differences between the previous production version and the new version reflect the intended upgrades or enhancements. During this process, we identify, track, and resolve defects and conduct additional regression testing on any test cases or scripts that detected an error.

As discussed in Proposal Section 10.2.3.2, Testing Task, ACS' Master Test Plan identifies the regression test requirements and standards as well as a reuse strategy for new test cases.

10.2.1.5.4 Environment Controls

d. Multiple environment controls including the management of simultaneous activities across multiple environments.

ACS uses proven controls in RTC for managing simultaneous activities across multiple environments. These controls enable the concurrent development of functionality across multiple environments while maintaining version control and system integrity. Our process and supporting tools also control code across environments and maintain a history of how the version of the build/code moves from one environment to the next. We use RTC to manage code and Concurrent Versions System (CVS), which is built into the FICO™ Blaze Advisor, to integrate changes into the business rules engine.

ACS uses IBM Rational Build Forge to automate steps in our build process, including updating views, creating symbolic links, baselining code, checking out code, executing build scripts, packaging the build, and copying the compiled packages to the vault (the location of all our build/releases) for deployment. Using Health Enterprise install/deploy scripts, we can then deploy code to the appropriate environment(s). Following the successful deployment, Build Forge initiates an automated regression test of the build to test the new version of Health Enterprise. Upon completion of this test, Build Forge sends an email notification regarding the successes and failures of the test to the deployment team, test team, development leads, and environment owners.

Health Enterprise also uses BMC BladeLogic tools to support automated pushing of operating system patches, WebSphere tool patches, COTS products patches, and other system/configuration patches. This information is also stored in a centralized BladeLogic repository. BladeLogic also provides discrepancy reports of any configuration and version level mismatches across all environments.

Using the above processes and tools, ACS' multiple environment controls enable us to control simultaneous activities across multiple environments. ACS maintains a history log of how the version of the build/code moved from one environment to another, which helps ensure fidelity across code environments. To support this important aspect of configuration and release management, Health Enterprise maintains a database that provides the information about all the environments and the version of the build in each environment.

10.2.1.5.5 Tools and Business Processes

e. Tools and business processes to control software development, including check in/checkout procedures and a responsibility audit trail.

ACS uses proven tools and processes that include check-in/check-out procedures, responsibility audit trails, and version histories to control software development. Just as ACS conducts requirements validation and system design incrementally by MITA business area and process, we execute development tasks in the same manner. Developers configure, modify, and enhance baseline functionality for individual business processes as each process completes its business and technical design. As subsequent business processes are designed and developed, they are integrated with each other to support the development effort.

As dictated by our Configuration Management Plan, developers and analysts must check out work products before making modifications and check them back in using the SharePoint repository (for documentation deliverables) or RTC (for code). These configuration management control databases track version history and trace impacted functionality to the approved change requests. Additionally, we use the tools described in Table 10-5 to control software development.

Table 10-5. Tools to Control Software Development

Tools	Applicable Features
BMC BladeLogic	• Automates application release management • Provides preview and rollback of changes • Enforces configuration management policy through audits, reporting, and error detection
CVS within FICO Blaze Advisor	• Provides integrated version control for the Health Enterprise business rules engine
IBM Rational Build Forge	• Automates the development and build process • Provides error reporting
IBM Rational DOORS	• Includes version history and change tracking of all requirements • Integrates with RTC to require that baseline components are only modified via an approved change request
IBM Rational Quality Manager (RQM)	• Enables comprehensive test case management • Integrates with DOORS and RTC so test cases can be traced to change requests and requirements

Tools	Applicable Features
IBM Rational Team Concert (RTC)	• Serves as a source code library • Provides controlled access to software development assets and version control to align with the Configuration Management Plan
JUnit	• Acts as a framework to write repeatable unit tests

10.2.1.5.6 Controlling Migration Code

f. Business processes and procedures for controlling the migration of code from design through coding, testing phases (e.g., unit, integration, acceptance) and promotion into production.

ACS' change, configuration, and release management processes are tightly interrelated and integrated to control the migration of code from design through coding, testing, and into production. The integration of tools from the Rational suite enables us to manage requirements (in DOORS), source code (in RTC), and track testing back to requirements (via RQM). In the Configuration Items List, each document and software work product is assigned a level of configuration and a method for configuration management. These items are guided by configuration rules, which indicate the process, tracking, and documentation requirements for modifications. The SPARK-ITS QMS contains a Configuration Management Plan that includes business processes to control the release of code from the testing environment(s) to production.

As components of the Health Enterprise system are successfully developed and unit tested, they are migrated from the development and unit test environment to the system and integration test environment, then to subsequent environments. All software components within Health Enterprise are managed through a defined migration process integrated with testing and problem tracking. Each level of migration requires signoff by the owner of the receiving environment through the RTC tracking system. Migration is performed through an automatic managed process by the use of RTC, Ant with Cruise Control/Anthill, JUnit, and Build Forge to engage in the industry best practice of continuous integration. All migrations are recorded and documented through the configuration management software including change delta reports. Migrated changes can be backed out, if necessary, through managed processes within the configuration management systems.

To further control the migration of code, ACS conducts periodic configuration audits. During configuration audits, we gather information about the production environment (or status of a release), compare it to the registered information in the configuration management database, and create a list of the differences. The SPARK-ITS QMS includes a Configuration Audit template to document audit results.

10.2.1.5.7 Organizational Structure

g. Organizational structure to control all system development and maintenance

The primary work of configuration management lies with the systems team. During Phase 1a: Start-Up, ACS establishes a Configuration Management Authorization Group and Migration Team that include select staff from the development, migration, and implementation teams. The Configuration Management Authorization Group guides, documents, and provides oversight to configuration management activities. This group is responsible for updating the Configuration Management Plan and verifying that all team members adhere to the standards and processes that are defined in the plan. The Migration Team coordinates and participates in release meetings and approves software, hardware, and documentation

configuration items for release. The Migration Team is responsible for managing and maintaining configuration items, ensuring processes have been followed prior to migrating code from one environment to the next, and releasing documents or other configuration items in a controlled manner.

These teams direct and execute configuration management activities and form the primary organizational structure to control all system development and maintenance activities for the MMIS Re-procurement Project. They are supported by the project leadership, project documentation and training professionals, and members of our technical and systems teams.

10.2.1.5.8 Promotion Procedures

h. Approach to maintaining documented, proven code promotion procedures from the initiation of unit testing through the final implementation to production.

The SPARK-ITS QMS provides a systematic approach to maintaining documented, proven code promotion procedures from the initiation of unit testing through final implementation to production. The project maintains a Configuration Items List in the project's SharePoint site that identifies the work products, such as a code module or document, which have been identified for management of their configurations.

In the Configuration Items List, each work product or category of work products receives a level of configuration and a method for configuration management. Items under full configuration have a rule that defines what, when, where, why, and how they are to be configured. Items under limited configuration have an owner who is responsible for management of the item. A member of the Configuration Management Authorization Group verifies that the specified configuration items are managed as defined in the Configuration Items List. The team member validates changes, updates approved changes, and creates relationships between configuration items as necessary.

10.2.1.6 Initial Data Conversion Plan

REQUIREMENT:

6. Comprehensive, initial Data Conversion Plan which details, at a minimum, the following…

ACS follows a proven conversion approach used successfully in MMIS conversion projects for New Mexico, Mississippi, and Washington D.C. and current data conversion projects in Alaska, North Dakota, New Hampshire, and California. Our methodologies are based on industry best practices that require converted data to go through several validation checks to ensure that it has been converted correctly. We complement our data conversion experience by including two subcontractors on our team—Oleen Pinnacle and Ninestone—that bring 15 years of experience each with TriZetto QNXT-based products and are familiar with the underlying data structure of West Virginia's legacy system. Together, we offer the experience required to evaluate current data, identify any data anomalies, and move data efficiently and accurately from the legacy system to Health Enterprise.

10.2.1.6.1 Methodology and Approach

a. Methodology and approach…
i. Updating the Data Conversion Plan as necessary to meet the current BMS business and technical environment.

Our initial proposed Data Conversion Plan is contained in Proposal Section A32, in the Appendix. During Project Start-up and throughout the project as necessary, ACS updates the Data Conversion Plan to meet the current BMS business and technical environment. This plan describes our conversion methodology and summarizes the approach and tasks necessary to convert source data to use in the Health Enterprise database structure. It describes the conversion of all necessary tables, data validation, and final conversion requirements. It includes details about the conversion schedule, files available for conversion, legacy data analysis, metrics for monitoring data quality, conversion testing, contingency planning strategies, data reconciliation procedures, process verification, procedures for tracking and correcting conversion problems, deliverable documentation, and process for creating updates. The Data Conversion Plan is enhanced over the course of the contract and validated during the systems and integration testing activities. The updated plan is delivered to BMS within 30 calendar days of contract execution to satisfy Deliverable 27 in Appendix C of the RFP.

Conversion Programs, Tools, or Existing Extract Routines

ii. Development and/or use of conversion programs, tools, or existing extract routines….

During requirements workshops, our Data Conversion Specialist, data analysts, and functional area subject matter experts (SMEs) work with BMS SMEs to identify the source files/tables that need to be converted to use in Health Enterprise and discuss system key structures and source file layouts. Once layout documentation and sample files/tables are received, we load the source data into our conversion source environment and analyze it to determine organization, referential integrity rules, and adherence to data definition, as well as to look for data anomalies.

We use Informatica PowerCenter tools as the foundation of our data profiling approach. These browser-based tools enable us to perform statistical analysis on the data, discover and analyze anomalies across data structures, and create reports on all data in a source file or table. The resulting reports provide all of the values used in a particular field, identify fields with no data, find duplication, assess high/low values or ranges of unexpected values, and determine when fields contain invalid types. Data profiling identifies source data issues before the data is converted and allows time for the data analysts to work with BMS and the current vendor to determine how to resolve potential data anomalies.

The next step in the conversion process is the identification of conversion rules by field. Many decisions are made for each data element: whether the field will be converted from legacy, manually loaded, or set to default or null values. Data relationships and index values are determined in the data design step. Analysts begin the process of mapping source data to target fields, documenting the detailed conversion rules in our Mapping Analysis and Tracking Tool (MATT). MATT captures the source and target data elements, the relationships between them, and their respective metadata; it also creates various conversion reports. The analysts create conversion rules to identify the transformation requirements and source(s) of data for all of the fields that we need to populate Health Enterprise. Oleen Pinnacle and Ninestone's familiarity with the existing database structure streamlines and expedites this process. In some cases, we may recommend that anomalous data be repaired in the legacy data structure prior to final conversion. We work with BMS during conversion design to evaluate the need for this remediation.

After the data mapping process, we conduct a data gap analysis to identify current and existing data that does not have a corresponding location in Health Enterprise or where Health Enterprise requires data in a column with no counterpart in the legacy system. Through this process, our functional teams define data transformation requirements for each functional area, ensuring that "downstream" components of Health Enterprise have the data necessary for each respective functional process. Based on the files identified, and once conversion rules and source-to-target maps have been documented, our data management team constructs conversion programs and sequences for each Health Enterprise table requiring converted data.

Validation of the Data Conversion Software

iii. Validation of the data conversion software, including description of a system test of all conversion software to demonstrate its functionality and performance before conversion.

Each conversion program and procedure goes through multiple peer reviews and extensive testing to demonstrate its functionality and performance before executing conversion using our selected and proven COTS solution, Informatica. Peer reviewers use a variety of toolsets to verify accuracy and completeness of conversion, including reports produced as a result of the conversion process, SQL queries, data access and manipulation utilities, and viewing data via Health Enterprise Web pages. Testing includes:

- **Conversion Unit Testing** – Developers are responsible for running their code with real data and loading it into the development target schema. Developers view the code to verify that it meets the specifications documented in MATT. Any anomalies are addressed, corrected, and unit tested again.
- **Functional Unit Testing** – Once the data management team has completed unit testing, conversion load files are created and uploaded to the functional area database schema in the developer's environment. We validate that the data meets the database constraints and requirements of the functional components for the area. Any issues/anomalies are documented and reviewed with BMS.
- **System and Integration Testing** – We run the conversion process with updated code and load the converted data into the system and integration environment. We do a "side-by-side" walkthrough of converted data with BMS to compare the data in the source system with the data in Health Enterprise.

Once we have completed system and integration testing, identified and corrected data anomalies, and BMS has reviewed and approved the mapping rules, our data management team runs another conversion with a new copy of source data for user acceptance testing (UAT).

Contingency Planning

iv. Contingency planning to mitigate data conversion risks, including development of a Data Conversion Risk Identification and Contingency Plan.

Part of our Data Conversion Plan, the Data Conversion Risk Identification and Contingency Plan describes strategies for identifying and mitigating conversion risk and identifies backup strategies for dealing with possible scenarios that have an impact on data conversion. The plan poses questions that might be asked to help troubleshoot possible conversion risks, such as:

- Can the source system data be provided earlier in the project to lower risk and improve effectiveness of testing?
- Can specific tables be loaded prior to the legacy system freeze?
- Can the conversion jobs be modified so that they run quicker?
- Does all of the source data need to be converted prior to implementation?

- How does early deployment of provider enrollment functionality affect conversion?
- Have there been any data definition changes in the legacy system between the times of establishing conversion requirements and implementation of Health Enterprise?
- Can different conversion jobs be run in parallel as opposed to in sequence?

The Data Conversion Risk Identification and Contingency Plan abides by our proven risk management processes to identify, mitigate, and develop contingency plans for risks related to conversion.

Parallel System and Subcomponent Runs

v. Conducting parallel system and subcomponent runs to validate data conversion results.

We conduct parallel system and subcomponent runs in two ways. First, we use production data converted from the legacy environment whenever possible during system and integration testing to validate the data conversion results. Second, we conduct a formal parallel test to compare legacy system data, inputs, outputs, and results with replacement system outputs under similar business conditions. We document, research, and correct discrepancies and variances. This is an iterative process, with corrections being made and testing repeated, until all results are validated.

Data Cleansing

vi. Data cleansing, including development of a Data Conversion Specifications Document containing the specific data cleansing and conversion criteria for all data elements.

The Data Conversion Specifications Document describes the process for identifying and resolving errors, inconsistencies, and abnormalities in the data. For example, if the values “M” or “F” are expected in the gender field, but values other than these are discovered, there is an anomaly in the source data that must be corrected. We report these anomalies to BMS and determine the appropriate course of action to ensure that we load Health Enterprise with valid data that supports successful operations. We use Informatica PowerCenter Advanced Edition to support data profiling and cleansing.

Data Conversion Test Scripts

vii. Development and use of data conversion test scripts.

As part of our conversion methodology, we create test plans for each functional area that contain the test scripts included in the conversion process. In addition to the test scripts, the document contains instructions on how to load the tables for each functional area in the correct order, dependencies on other functional areas, data validation instructions, balancing instructions, and procedures for verification of data integrity. The conversion testing follows the standard protocols, reviews, approvals, and retesting called for in our standard testing methodology.

ACS performs data conversion test scripts to ensure that conversion mappings are correct before the actual full conversion begins. We prepare the test scripts, including the test data and the expected results for each conversion test scenario summary. We develop test scripts through the use of IBM Rational Functional Tester Plus (RFT+), an advanced functional and regression testing tool for test script customization, editing, and debugging. Using RFT+, our data conversion process automates conversion jobs to run and re-run throughout the conversion effort to support all of the testing of converted data.

We run a sample set of data through a conversion script to validate the accuracy of the mappings before starting the actual conversions. For example, if we have 40 million claim records to covert, we run a small

subset to validate the conversion. If there are errors, we fix them, and re-run the test scripts. We repeat this process until the mappings are accurate and we are ready to convert all of the records.

Support for User Acceptance Testing

viii. Support for User Acceptance Testing (UAT) of converted data.

Once BMS has reviewed and approved the mapping rules and has seen the converted data working successfully in Health Enterprise during system and integration testing, we load converted data into the UAT region. In addition to providing converted data, ACS supports UAT by providing balancing and reconciliation reports to BMS both before and after UAT to track all data records and demonstrate that key fields reconcile between the source system and Health Enterprise. We correct conversion problems identified during UAT to ensure that data is converted accurately and to BMS' satisfaction.

Updating the Data Conversion Requirements Document

ix. Updating the Data Conversion Requirements Document, including the use of the MMIS RSD and the DSD documents to determine which data elements are required for the conversion process, and working with BMS to establish the requirements for data conversion.

We use the MMIS Requirements Specification Document (RSD) and Detailed Systems Design (DSD) document to determine which data elements are required for the data conversion process and work with BMS to establish the requirements for data conversion. ACS analysts thoroughly review legacy data definitions and sample data, the RSD, and the DSD to assess support data mapping. Their analysis describes how the data will be used during configuration and how it will be converted into the solution. Using this information, we work closely with BMS to establish the project's data conversion requirements, which are recorded in our Data Conversion Requirements Document. Conversion business rules are refined, modified, or added as we progress further into the development and testing efforts. We work with BMS to update business rules and requirements documentation as needed throughout the conversion effort. This information will be maintained on the project's SharePoint site.

10.2.1.6.2 Approach to Data Conversion Reconciliation

b. Approach to data conversion reconciliation…
i. Trial conversions.

To provide an additional level of confidence in the conversion effort, our data management, functional, and development teams and representatives from BMS perform trial conversions of small samples of data prior to converting the entire database. We provide converted data to the functional teams for their unit testing. If an error occurs within the source data, (e.g., ACS received a non-numeric value in a numeric field), the data analyst documents the error, works with the functional area team to identify possible solutions, and coordinates with BMS to determine the best solution to resolve the error. Once the issue is resolved, the data analyst runs another conversion and provides the source data to the functional team for re-testing. This cycle repeats until all issues have been identified and addressed.

Results Reporting and Analysis

ii. Results reporting and analysis, including reports to assure that there are adequate checks and balances in the data conversion process.

We use MATT to document the mapping rules for conversion. Reports from MATT assist in the conversion effort and provide checks and balances in the data conversion process, including:

- **Conversion Specification Mapping Report** – Compares source fields/tables to target fields/tables and identifies the default values and applicable business rules.
- **Source Gap Report** – Lists all the fields in the source data that are not being converted for use in Health Enterprise. We review this report with BMS to determine if the field is needed, where it should be housed in Health Enterprise, or if this is a field that is no longer required.
- **Target Gap Report** – Identifies target fields in Health Enterprise that do not have a business rule or default value assigned to them. Our data management team works with the functional team and BMS to determine the values that need to be moved into each Health Enterprise field.
- **Target Table Analysis Report** – Provides an inventory of each table in Health Enterprise and how that table is going to get populated during the conversion effort.
- **Balancing Report** – Tracks the amount of records during the conversion process, from the time we receive the original source data until the converted data is loaded into Health Enterprise.

In addition, our data management team performs trial reconciliations of key data fields. This information is documented in our reconciliation reports. For example, when we convert the member data, we perform counts on the number of members living in each ZIP code and the number of members per aid category and compare the numbers between the legacy MMIS and Health Enterprise.

Verification of Pilot Implementation Data

iii. Verification of pilot implementation data.

We conduct a pilot test as part of the ORT period. A selected group of providers submits actual claims via paper, EDI, and the Health Enterprise Web portal, and we test the full process—from accepting the claim to claims adjudication, payment, and all supporting operational processes. We analyze results and feedback from pilot testing to validate the accuracy of converted data and determine if any rules need to be adjusted or if any reconversion must occur. Proposal Section 10.2.3.2, Testing Task, provides details about pilot testing.

Verification of System-Wide Implementation Data

iv. Verification of system-wide implementation data.

During data reconciliation, ACS verifies system-wide implementation data by running balancing and reconciliation reports to confirm that the final conversion was executed appropriately. By tracking the number of records from the start of the process (receiving the data from the legacy system) through loading into Health Enterprise, the balancing report accounts for all records and validates that the number of records in Health Enterprise aligns with the mapping rules. We run reconciliation reports to provide an additional level of validation. We choose a minimum of five checkpoints per functional area to reconcile against. When the reconciliation numbers balance, we know that we can account for all the data. Another method we use to verify the converted data across the Health Enterprise system is the use of this data during systems and integration and user acceptance testing. Using converted data as a baseline for these testing phases verifies that the converted data works as expected with the Health Enterprise system.

Strategy for Data That Does Not Convert

v. Strategy for any data that does not convert.

As a preventative measure, during source gap analysis, we identify data fields from the legacy system that do not convert. We create a Source Gap Report to share with BMS. As we work through our analysis and map source data to its proper place, items are removed from the Source Gap Report. By the time we are at the end of data conversion, all data is accounted for and is either moved into its appropriate Health Enterprise field, disposed of per BMS request, or kept in a staging repository until a mutual resolution is identified. Any records that are unexpectedly rejected by the conversion process are identified by our balancing reports. If need be, after data anomalies and/or business logic are remedied, this data can be re-processed.

Data Conversion Test Scripts

vi. Approach to development and use of Data Conversion Test Scripts.

ACS verifies conversion data using a variety of strategies, including the use of data conversion test scripts. After conversion, we re-run the data conversion test scripts, described earlier, to confirm that data has converted accurately.

10.2.1.7 Initial Disaster Recovery and Business Continuity Plan

REQUIREMENT:
7. Comprehensive, initial Disaster Recovery and Business Continuity Plan, which details, at a minimum, the following:

Because we view Disaster Recovery and Business Continuity as separate processes, ACS provides two comprehensive, initial plans to fulfill the requirement: a Disaster Recovery Plan and a Business Continuity Plan. Should a disaster occur that made it impossible to continue any operations for a prolonged period at the Charleston facility, we would implement both the Disaster Recovery Plan and Business Continuity Plan; however, if there were a temporary condition that made business processing impossible (for example, a power outage), we would implement only the Business Continuity Plan. Having two plans allows us to focus the scope of our response and provide the services required to resolve the situation. Initial versions of these deliverables are contained in Proposal Section A33, Disaster Recovery and Business Continuity Plans, in the Appendix.

Disaster Recovery and Business Continuity Focus

- Instantaneous failover inherent in the design of Health Enterprise solution
- Dedicated disaster recovery environment provides the same processing capacity as the production environment
- Experience supporting more than 550 recoveries, including more than 55 clients that declared emergencies during Hurricanes Dennis, Katrina, Rita, and Wilma and the Mt. Redoubt eruption

ACS develops, implements, and maintains the updated versions of the plans based on our proven corporate templates and tools. We deliver the updated plans to BMS within 45 days after the start of the contract. Based upon our hands-on experience and corporate best practices, these plans incorporate industry disaster recovery and business continuity best practices and standards as these evolve across time. Throughout the life of the contract, ongoing reviews help ensure that we update our plans as necessary to reflect changes to business continuity needs and that the disaster recovery configuration remains compatible with the production environment.

ACS' Disaster Recovery Plan presents a strategy and detailed steps for safeguarding the West Virginia Health Enterprise solution and restoring operations in the event of a disaster. Upon contract award, ACS meets with BMS to update this initial plan to cover disaster recovery contingencies specific to the West Virginia MMIS. We present the final plan to BMS for review and approval prior to the start of operations. Additionally, we review and update the plan throughout the life of the contract to reflect operational, system, or personnel changes, or upon request of BMS. We submit aall changes to BMS for review and approval before final publication.

ACS' disaster recovery solution has been designed and developed using methods based on industry best practices and the valuable practical experience gleaned through supporting disaster recovery efforts for Medicaid programs during major crises such as Hurricanes Dennis, Gustav, Ike, Katrina, Rita, and Wilma and the eruption of Mt. Redoubt in Alaska, which caused earthquake tremors for more than 100 miles from the site of the volcano. Our goal is to identify and mitigate risks as early as possible and reduce the potential operational impact to the business, ensuring that providers can continue to serve members' medical care needs should a disaster occur.

As a part of our approach to disaster planning and recovery, ACS identifies areas or situations that might cause or contribute to a disaster and takes action to eliminate or minimize those threats. By safeguarding our facilities and equipping them to handle threats caused by fire, sabotage, or environmental hazards, we minimize service disruptions.

Our Business Continuity Plan outlines the decisions, tasks, and actions we will perform to prevent or respond to a situation that disrupts normal business processes. To enable us to respond to a disruptive event in a manner that ensures critical business functions can continue effectively, our Business Continuity Plan documents our advance arrangements and procedures. Our plan identifies key system processing functions, such as claims processing, network connectivity, and call center operations, then presents solutions for backup processing or relocation to alternative worksites. Execution of the Business Continuity Plan ensures continuation of BMS' business processes in case the primary business site becomes unsafe or inoperable.

10.2.1.7.1 Backup Plan and Procedures

a. Backup and protection plans and procedures, to include files, software, hardware, and network backup.

Rapid recovery is crucial after a catastrophic event. Not only is it important that backups of critical data and functionality be maintained, it is also imperative that operations continue effectively through a service disruption. To accomplish this goal of operational resiliency for the MMIS Re-procurement Project, ACS implements plans and processes to support the continuity of business operations. We build redundancy into key points of our architectural solution, minimizing the risk of hardware, network, or other system failures. ACS has designed our solution to include a full failover primary data center and a disaster recovery data center with parallel hardware and continually replicated data. These centers are available within the proposed recovery time objective and recovery point objective in case of disaster. Recognizing that the security of hardware and data files alone cannot guarantee business continuity, we also back up the processes and procedures contained in the SharePoint project repository and make those backups available quickly, enabling us to continue operations.

b. Description of Alternate Hot Sites, including proposed plans and procedures for failover testing.

To reduce the risk of lost data and to enable effective recovery, ACS establishes and maintains adequate and secure backup for all system software, servers, data, and user documentation (in magnetic and non-magnetic form) on a daily basis. The backups are maintained at two secure off-site locations, one near the Pittsburgh data center at the ACS vault in Moon Township, Pennsylvania, and one near the disaster recovery data center in Tarrytown, New York. During DDI, we use the development and test sites housed at our Disaster Recovery location in Tarrytown, so we are connecting to it on a regular basis and can be reassured the connections will be viable in the event of a disaster. We are also reassured and prepared based on the disaster recovery exercise we conduct each year, discussed in Proposal Section 10.2.1.7.5, Processes and Procedures for Testing and Reporting.

In the event of a disaster at our Charleston facility, ACS provides backup operational capabilities at an alternate operational site, ensuring that normal claims processing services can continue. A full-featured fiscal agent office in Ridgeland, Mississippi, which is currently providing services similar to those BMS requires for the West Virginia MMIS, provides a compatible environment and a secure location for continued operations. Our load-balanced, clustered system in Pittsburgh has built-in redundancy to provide immediate failover.

10.2.1.7.2 Description of Off-site Storage Procedures

c. Description of off-site storage procedures, including a detailed schedule for file backup.

Backup Schedule. ACS replicates data from the West Virginia Health Enterprise solution in near real-time to our disaster recovery site in Tarrytown, New York. Using procedures described below, we also perform regular file backups on all data and systems. Daily incremental backups are taken of all data; full backups occur once a week. We back up software and operating system updates immediately upon update and include all software in our weekly backups.

Off-Site Storage Procedures. Health Enterprise makes use of Oracle Hot Backups to allow for continued use of the system during system backups. For recovery processing requirements, we use Oracle's Recovery Manager (RMAN), a component of the Oracle database that provides a tightly integrated method for creating, managing, restoring, and recovering Oracle database backups.

Nightly incremental backups for all files and databases capture changes to data that have occurred since the last backup. Incremental backup tapes are stored on-site, while copies are rotated to the off-site storage facility. Full backups are taken weekly and are sent off-site to the vault in Moon Township, Pennsylvania immediately upon creation.

ACS uses VERITAS NetBackup to manage our backup processes on UNIX and Windows servers. The NetBackup product features a centralized Administration Console, which gives system administrators the capability to manage all our servers from one administrative control window. System administrators can review logs of previous backups, analyze backup performance and speed, and optimize the backup process if necessary (change backup job priority, change backup frequency, etc.). In addition, if either a backup or recovery job fails, the failed backup or recovery job can be resumed from the last checkpoint. ACS also uses VERITAS Storage Foundation to manage our storage environment and automate storage management tasks. Storage Foundation also mirrors data for redundancy and automatically migrates data from failing disks to healthy disks to reduce downtime from unplanned events.

We regularly back up master files and databases and archives, and we store a minimum of two copies in the Pittsburgh data center for immediate recovery. A full copy of the backed up data is also kept in the Tarrytown data center for disaster recovery. We store tape backups, CDs, DVDs, and other required media in the off-site vault.

All Pittsburgh data center production servers are subject to either daily or weekly backups, depending on the server's function. Tape librarians perform scheduled full file backup procedures on a weekly basis, including tape file rotation for the off-site vault in Moon Township, Pennsylvania. The tape librarians use a tape management system to log and track all tapes entering and leaving the data center. All remaining computer software, operating programs, databases, files, and documentation are backed up and sent to an off-site storage facility at least once a week.

10.2.1.7.3 Proposed Recovery Time and Recovery Point Objectives

d. Proposed recovery time and recovery point objectives.

ACS proposes a recovery time objective of no more than 72 hours and a recovery point objective of no more than four hours.

10.2.1.7.4 Risk Analysis and Risk Mitigation

e. Risk analysis and risk mitigation for each core business process.

As part of our standard risk management process, we analyze the potential risks for each core business process, determine the probability of each risk, define a risk mitigation strategy to prevent occurrence, and define a contingency plan to be followed should the risk occur. Using that assessment, we incorporate any mitigating strategies applicable to disaster recovery or business continuity into the appropriate plan. Please see Proposal Section 10.2.1.3, Approach to Initial Risk Assessment and Mitigation, for a description of our initial risk assessment and mitigation approach.

10.2.1.7.5 Processes and Procedures for Testing and Reporting

f. Processes and procedures for testing and reporting of the DR/Business Continuity Plan to include:

As part of our standard corporate procedures, ACS annually simulates a disaster recovery to check the efficiency of our recovery and backup procedures once operations begin. The first annual disaster recovery exercise is performed during UAT. During each exercise, disaster recovery personnel test their ability to bring up backup systems and ensure that the West Virginia Health Enterprise solution can be accessed from the existing fiscal agent operations office.

For each test, ACS creates a testing document and submits this document to BMS for review and approval. This document outlines the scope of the test exercise, sets the test objectives and estimated timelines for completion including the schedule of all test-planning activities, and includes a detailed task plan for all test activities, outlining where BMS participation is needed. Each component of the Disaster Recovery Plan and Business Continuity Plan is evaluated during this exercise. We measure test results against the originally defined test objectives and determine the actual times required for completion of each task. Within 10 days after testing is complete, we deliver the results of the tests to BMS for approval. Included with the test results is a description of issues we encountered and recommendations for improvement.

An example of a typical disaster recovery test is one we conducted in September 2010. We successfully completed a multiple-client, annual MMIS/PBM/EDI disaster recovery exercise, which included a full MMIS/PBM mainframe/server operating system, systems and applications software DB2 and VSAM database recovery, based on a simulated total loss of the ACS data center. The 128-hour exercise included restoration of the mainframe operating system and software; recovery of four client DB2-based MMIS applications and databases; recovery of five client legacy VSAM based MMISs; recovery of the DB2 POS application for a PBM multi-client application; establishment of network connectivity between disaster recovery vendor facility and ACS networks; and restoration of connectivity to client Web servers, the automated prior authorization environment in Richmond, Virginia, and the PowerBuilder Windows database and middle-tier environment in an alternate ACS facility.

These tests help us identify potential problems in processes, equipment, or connectivity. Issues identified in the testing phase are far easier to resolve than those discovered during an actual disaster. We document all issues discovered during each exercise and track resolution tasks through to completion.

Failover/Fallback

i. Failover/Fallback functionality.

Testing of our Disaster Recovery Plan and Business Continuity Plan includes verifying that failover and fallback functionality performs as expected, so we can recover from a disaster or business disruption.

Backup/Recovery

ii. Back Up/Recovery functionality.

As described in our response above, we regularly test our backup/recovery functionality to validate that it will function correctly in an emergency. Our updated Business Continuity Plan contains details of how we perform backups and recoveries.

Business Continuity

iii. Business Continuity.

We test business continuity as agreed upon with BMS in our test plan. Typically, testing includes simulation of a takeover by the recovery site rather than actual relocation of personnel and complete takeover by the recovery site.

The recovery process emphasizes the continuity of operations during a highly disruptive event. The Business Continuity Plan includes the information needed to make the decision-making processes as efficient as possible during an incident. Because our business continuity site in Ridgeland, Mississippi, uses similar operational and business processes as the Charleston facility and has connectivity to both the Pittsburgh and Tarrytown locations, ACS personnel in Ridgeland are able to assume temporary responsibility for West Virginia's system with minimal training. Select personnel assigned to Charleston relocate as needed to Mississippi to resume support for West Virginia's MMIS until the incident is resolved, and the Charleston facility can return to operation.

The plan contains specific guidance to the recovery teams in executing comprehensive, documented procedures to recover the production environment in the predefined recovery time objective. Throughout this process, it is essential that communications flow freely among BMS, ACS leadership, the recovering site, and the backup sites.

Plan Update Process

iv. Process for updating the plan (as necessary) through the life of the contract.

Throughout the life of the contract, ongoing reviews of the Business Continuity Plan provide updated information required for recovery of business processes to reflect changes to business continuity needs. Our review of the Disaster Recovery Plan verifies that the disaster recovery configuration remains compatible with the production environment. At a minimum these reviews take place on an annual basis. In addition, should results of Disaster Recovery and Business Continuity testing or information from the change management process indicate changes to the plans are necessary or the system architecture or configuration has been altered, we update the plans as necessary to support BMS' environments.

10.2.1.8 Initial Data and Records Retention Plan

REQUIREMENT:

8. Comprehensive, initial Data and Records Retention Plan, which includes the following:

BMS' confidence that program records are consistently received, maintained, and readily available for review to support the uninterrupted access to healthcare services for members is critical. Through the use of proven technology and rigorous quality management, ACS handles BMS' electronic and paper records in a secure manner from initial receipt through destruction in accordance with BMS, West Virginia, and federal requirements to ensure the privacy, reliability, and accessibility of data. ACS provides access to archived records through proven processes that are user-friendly and efficient. Whether seeking a claims record or correspondence, the proposed solution emphasizes the critical nature of maintaining archived records.

Our integrated approach to archiving provides a solid foundation from which to deploy the records retention functions for the West Virginia MMIS. Using best practices and industry standards for records management, we continually refine our approach, drawing on experience from other Medicaid fiscal agent accounts to deliver the best solution for West Virginia.

The updated Data and Records Retention Plan that ACS delivers to BMS within 45 days after the start of the contract is based upon the initial plan provided in Proposal Section A34 in the Appendix.

10.2.1.8.1 Detailed Schedules

a. Detailed schedules, to ensure that data maintained on the MMIS or in other system/manual files is properly and routinely purged; archived; and protected from loss, unauthorized access, or destruction in accordance with all relevant State policies and procedures.

ACS' Initial Data and Records Retention Plan is based upon BMS (Draft) Policy #104: BMS Records Retention and Destruction Guidelines, dated February 09, 2011. ACS follows the schedules contained in Tables 2 and 3 of Appendix A Records Retention V2 02092011.doc to maintain records on the MMIS or in other system/manual files; to properly and routinely archive both electronic and paper files; and to protect records from loss, unauthorized access, or improper destruction in accordance with all relevant State policies and procedures. We also comply with the requirements to purge files.

Within 45 calendar days after contract execution, ACS delivers an updated version of the plan to BMS. We review and update the plan on at least an annual basis. Should the policy or requirements change, ACS updates the Data and Records Retention Plan to reflect the new requirements.

10.2.1.8.2 Retention Methodology

b. Retention methodology for all data and records associated with each of the project phases described herein.

ACS' Data and Records Retention Plan, based upon the criteria provided by BMS, directs the storage, retrieval, and long-term preservation of records during every phase of the project for which we are responsible for handling data and records.

During Phase 1: MMIS Replacement DDI and CMS Certification, we meet with BMS and the current contractor, as directed by BMS, to determine the appropriate disposition of West Virginia's Medicaid records. BMS and ACS determine which data should be retained, how much data should be retained, the retention and retrieval time periods, and who should have access to the data and records. Disposition of records includes the transfer of specific records and documents to ACS as approved by BMS.

During Phase 2: Fiscal Agent Operations, we retain data and records as defined in the following four subsections.

During Phase 3: Turnover and Close-Out, ACS works with BMS and the incoming fiscal agent, as directed by BMS, to track and maintain a written record of paper and electronic data, which is securely transferred to BMS and the incoming Fiscal Agent. ACS purges the data and records from our files once confirmation of receipt has been received from BMS and the incoming fiscal agent.

Document Support and Maintenance

The Document Control Team is lead by the Mailroom/Document Control Team Lead, who reports directly to the Medical/Dental Deputy Account Manager/Operations Manager. This team is responsible for administering the records retention program for BMS and making certain that all records are maintained in accordance with requirements for:

- Preserving original hard copy documents
- Maintaining electronic and magnetic media records
- Creating high-quality images of all records received
- Providing timely access to and reproductions of records to authorized users
- Extended retention for lifetime claims, records involved in litigation, and other circumstances identified by BMS
- Purging and confidentially destroying records per BMS, State, and federal requirements

Electronic Files

During the monthly history archive cycle, all eligible claims are removed from history and migrated to the archive files. Typically the data is migrated to archive files when the payment date is more than three years old and purged when the date is more than seven years old. However, as required, some claims and transactions are retained in the history tables for longer periods of time to ensure accurate processing. Cost reports are maintained until audited and resolved. Lifetime claims are stored indefinitely.

Data archives are indexed and have search capabilities, so files and parts of files can be easily located and retrieved. All claims on the history tables are accessible for making online inquiry, audit processing, adjustment processing, and generating printed responses to claims inquiries. The history tables are the primary source of historical claim information in Health Enterprise and contain all data originally submitted on the claim, attached to the claim, or derived or retrieved during the adjudication of the claim.

Based upon BMS criteria, Health Enterprise moves data that is no longer needed for online access to a separate data storage device for long-term retention. Even though the data is no longer required to be accessible online, it is important and necessary for future reference. Certain data must also be retained for regulatory compliance. The system manages the document locations and any possible electronic document archive or purge requirements defined by BMS. It is a configurable, rules-based module that can move older documents from real-time to near-time retrieval status based on BMS' criteria.

To facilitate easy access for BMS users, Health Enterprise provides innovative capabilities to store and access electronic files and images of records from a single, organized project repository. Each image is assigned a document control number (DCN). Once assigned, the DCN allows the retrieval of the document electronically for viewing by authorized users via a Web browser at any workstation.

Within Health Enterprise, reports, claims, authorizations, other documents, and related attachments are associated with the designated control number. Users from functional areas are able to request and retrieve copies of images directly from the system without requiring the user to stop and access another system. The fully integrated records retention function supports linking document(s) to the correct Health Enterprise file records, allowing access to all information related to a case, provider, member, or other functional area from the accessed record. The system provides the capabilities BMS and ACS staff need to support the Medicaid program, while introducing automation and operational efficiencies to reduce or eliminate paperwork and streamline tasks.

Paper Files

Document storage is also included in the archival and retrieval process. Once imaged, original paper documents are stored in the primary facility following BMS-approved procedures for retention and destruction of stored documents. After the hardcopy claims/documents have been scanned, they are prepared for filing and storage by the Document Control area using a batch control process that is integrated into Health Enterprise. This process facilitates filing and retrieval of documents and also enables ACS to manage record retention efficiently based upon the retention periods established by BMS. We will request BMS approval for records destruction as retention expiration dates approach. Based on BMS' directives and policy, the retention period for the batch can be reset or the batch scheduled for confidential destruction.

Storage boxes are cataloged by batch number in an archive room that is located in the primary facility in Charleston, West Virginia. Should the volume of retained paper documents exceed the capacity of the archive room, we will use a second archive facility to store documents that must be retained for longer periods of time. Both of these secured facilities have temperature and humidity controls as well as fire detection and suppression protection. Only authorized personnel have access to these storage facilities.

BMS employees and other authorized program stakeholders sometimes need original documents. When we receive a request for an original document, whether by email or as a workflow task, we log the request and review it to verify the nature of the request, such as a legal or appeals investigation; validate that the requester is authorized; and determine whether the request is specific enough to retrieve the records from storage. If we need additional information, we obtain it from the requester.

Once we retrieve the appropriate box of records from the archive facility, we pull the document and any associated attachments. The document control specialist makes clear, readable photocopies of the originals. Copies are stamped with the word "copy" and labeled with the date and the name of the

requester. Copies are then filed in the storage box from which the original document was extracted and returned to secure storage.

To complete the process, the document control specialist updates the retrieval request log, including the disposition of the hard copy document(s). When the originals have been returned, we retrieve the box from storage and re-file the originals. Based on best practices and hands-on experience, our record retrieval process ensures that retrieved documents are secure, tracked, and accounted for at all times.

Disposal

ACS takes necessary precautions to ensure that paper documents containing PHI remain confidential. Using the instructions provided in Table 3: Medicaid Management Information System (MMIS) Paper Retention of Appendix A Records Retention V2 02092011.doc, we determine the retention and destruction schedule for each document.

Paper document destruction after scanning is handled by an authorized ACS employee, using procedures jointly developed by BMS and ACS to meet HIPAA, PHI, and other applicable security requirements. This procedure includes temporary storage of paper documents until destruction approval has been received. Once that approval has been received, the documents are placed in a locked shred bin until they can be shredded. ACS contracts with a reliable, bonded, and insured secure document management company for the secure destruction of documents containing PHI.

In addition to the processes and tools we use to protect data during processing, transmission, and storage, we also implement strict guidelines for disposal and destruction of media containing confidential information, regardless of media type. We follow NIST Special Publication 800-88 policy, BMS policy, and applicable State and federal rules and regulations.

ACS sanitizes or destroys system information contained in digital media before disposal or release for reuse to prevent unauthorized individuals from gaining access to and using the information contained on the media. We purge all equipment containing electronically stored data and software in accordance with the DoD 5220.22-M, National Industrial Security Program Operating Manual (NISPOM) Clearing and Sanitization Matrix prior to disposing of such equipment.

10.2.2 Phase 1b: Analysis and Design

REQUIREMENT: RFP Section 3.2.6.2 to 3.2.6.2.1, pg. 83 of 115

3.2.6.2.1 Phase 1b: Vendor Response Requirements. The Vendor should propose an approach to review, validate and update requirements specified in this RFP. In their description, the Vendor should include the proposed approach to working with BMS staff to fully understand the scope, purpose, and implications of each requirement, and the thorough review of all appropriate BMS programs and policies. The Vendor should describe their process for identifying and resolving gaps between the proposed system and the BMS system in order to meet BMS's business and technical requirements. The Vendor should propose an approach descr bing how the MMIS Replacement design integrates with ancillary systems and activities as defined by BMS and how design decisions are coordinated across all functional areas. The Vendor's proposal should also present a narrative description of the Vendor's proposed approach to completion of the Analysis and Design Phase, including the Vendor's:

ACS works with the BMS Re-procurement Team to fully understand the business and technical requirements and confirm the alignment of our proposed solution.

BMS has invested significant time and resources in developing an RFP that accurately reflects State-specific functional and nonfunctional MMIS requirements, as well as comprehensive As-Is and To-Be business processes designed to achieve BMS' MITA goals and objectives. During Phase 1b: Analysis and Design, we work with the BMS Re-procurement Team to perform thorough requirements analysis and validation activities. Together, we come to a full understanding of BMS' requirements, business processes, rules, and policies, forming the critical foundation for delivering technical outcomes that fully align with the Bureau's business objectives. Subsequent to the Planning Workflow (equivalent to BMS' Phase 1a, Start-up) described earlier in this section, our SPARK-ITS System Development Methodology (SDM) includes three workflows to achieve the requirements and deliverables of the Analysis and Design Phase: the Requirements Analysis Workflow, the Solution Analysis Workflow, and the Detail Design Workflow. Exhibit 10-6 illustrates these workflows.

ACS' Health Enterprise solution meets 91% of BMS' requirements without customization, resulting in reduced analysis and design work

- Incremental, process-centric, policy-intensive analysis and design eliminates gaps between Health Enterprise functionality and BMS' requirements
- Experience live functionality during requirements sessions with demonstration of the baseline Health Enterprise system

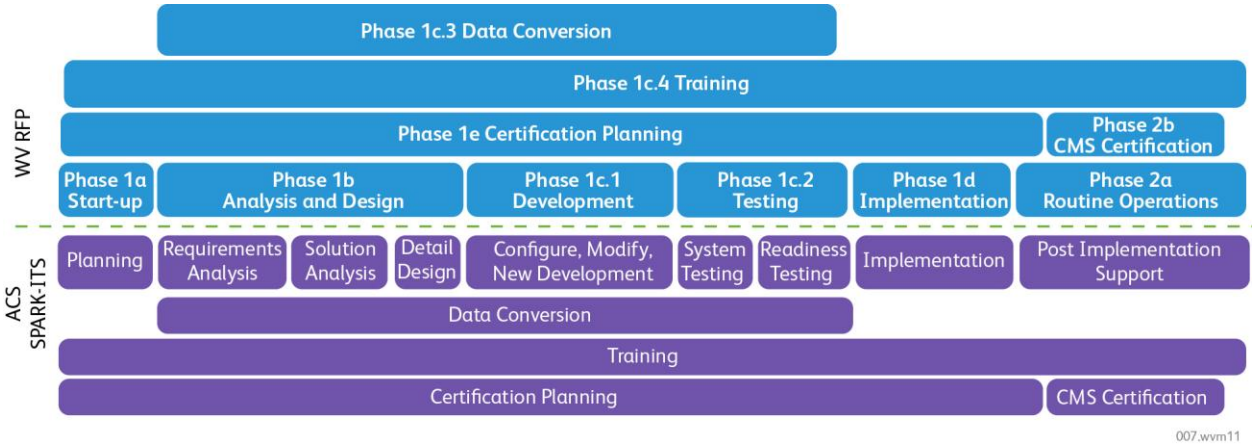


Exhibit 10-6. Comparison of WV RFP Tasks to the SPARK-ITS SDM

Phase 1b: Analysis and Design is represented as three distinct and documented workflows in the SPARK-ITS SDM: Requirements Analysis, Solution Analysis, and Detail Design.

ACS offers the only true service-oriented architecture (SOA) Medicaid-based product in the MMIS marketplace with the Health Enterprise solution. Our preliminary gap analysis has established that 91 percent of the BMS-mandated requirements are already met in the base Health Enterprise system without requiring code customization. The Bureau benefits from this exceptionally close alignment in several ways. During requirements analysis, we present our baseline system to demonstrate the vast majority of the desired functionality very early in the process. We offer a streamlined Analysis and Design Phase because we are installing a fully functional system, allowing us to focus requirements and design activities on the gaps remaining between Health Enterprise and required functionality. We also leverage existing Health Enterprise documentation applicable to the MMIS Re-procurement Project, reducing time and resources required for development of deliverables and enabling a higher level of quality within these deliverables.

In his renowned book, "Seven Habits of Highly Effective People," Stephen Covey names habit #5 "Seek first to understand, then to be understood." This is the primary purpose of the requirements analysis

process. Through interactive sessions with BMS at the outset of Phase 1b, we review, validate, and clarify functional and nonfunctional requirements, and we present our base system to confirm the alignment of our proposed solution with clarified requirements. We document our findings in our Requirements Specification Document and Gap Analysis Design Document. The resulting analysis and design approach, our decades of MMIS experience, and detailed validation processes enable us to collect accurate information necessary to configure and modify Health Enterprise to meet BMS requirements.

Approach to Review, Validate and Update Requirements

The Requirements Analysis Workflow within the SPARK-ITS SDM centers on open communication while maintaining a business process focus. The five tasks shown in Exhibit 10-7 provide an iterative approach to ACS' thorough and documented understanding of the requirements well beyond the content of the RFP. This multi-step approach includes demonstration of the base Health Enterprise system, clarifying discussions and walkthroughs, process reviews, and validation and clarification of legacy business rules, all leading to clear requirements and artifacts to be installed or configured in Health Enterprise. This strategic investment of time required to perform comprehensive requirements analysis returns benefits to BMS in the long run in the form of high-quality technical solutions, comprehensive and correct documentation, streamlined and automated business processes, and functionality that aligns with business objectives—all with fewer and less critical issues during implementation.

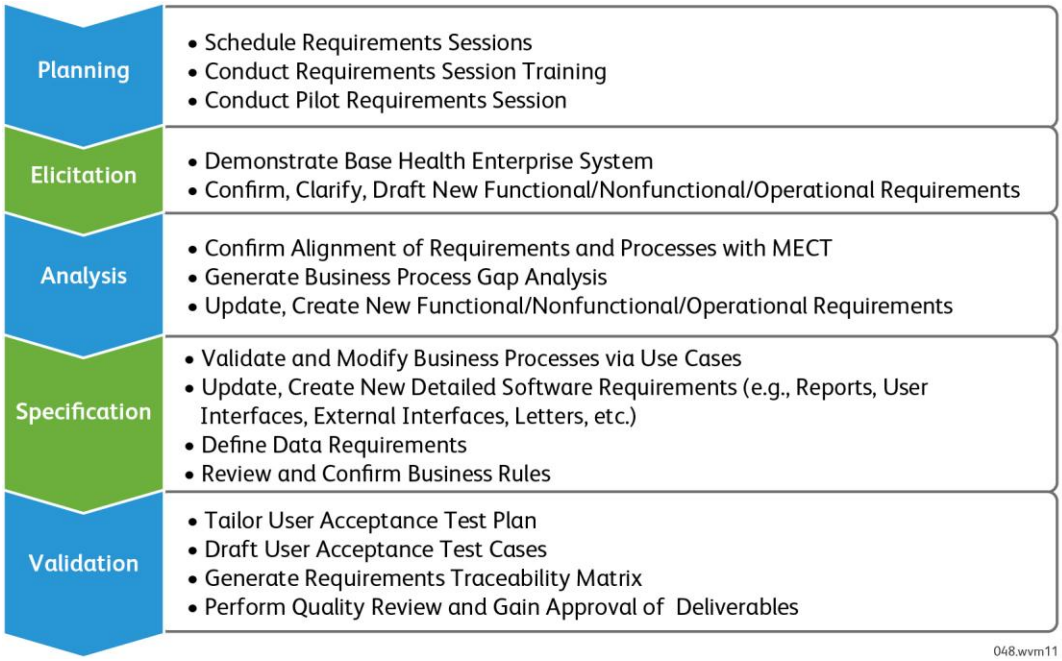


Exhibit 10-7. Five Major Tasks of the Requirements Process

This incremental, industry-standard approach is conducted for each functional area and yields specific, measurable, and testable requirements that align with BMS business objectives.

Through these progressive steps, ACS gains a keen understanding of the Bureau's current and desired processes and captures the clarified, updated, and validated needs in formal requirements deliverables, primarily the Requirements Specification Document (RSD). The steps are as follows:

Planning. Upon receipt of the Formal Notice to Proceed for Phase 1b: Analysis and Design, we schedule iterative and incremental requirements sessions, each based on a MITA Business Area or set of Business Processes. In developing the session schedule, ACS considers all stakeholders, their expertise, and their availability, along with the division of and dependencies among work for the phase of the contract. This approach to developing the session schedule ensures the right parties are present at requirements and design sessions to gain understanding and make decisions. Requirements and design sessions are carefully organized, multi-step efforts requiring attendance by team members from both BMS and ACS. It is critical that all participants adequately understand the entire process and the specific roles they play within each session. We provide training for BMS and ACS project members who participate in these sessions to ensure roles and responsibilities are understood and that all parties participate effectively. We also conduct a pilot requirements session to "test-drive" the session processes, to reinforce the training on the session best practices and processes, and to familiarize BMS stakeholders with the flow of activities and expected outcomes of the sessions. We provide expert facilitators for the workshops to provide for well-run meetings that optimize resources' time and maximize outputs, establish and confirm achievement of defined goals and objectives, and document remaining issues and action items.

Elicitation. We begin the interactive requirements workshops to jointly review, analyze, update, and validate RFP requirements and confirm the alignment of our proposed solution to confirm the end solution meets the Bureau's needs. During requirements workshops, ACS uses demonstrations as a pivotal technique for confirming requirements and presenting any related functionality in the Health Enterprise solution. While documentation review is critical to formalizing decisions, it has been our experience that demonstrations provide a more tangible, user-friendly, and interactive method for collaboration. ACS establishes a functional version of Health Enterprise that is used to confirm alignment of requirements, validate design decisions, and experience the live system. During requirements workshops, our primary focus is to validate the functional requirements that we currently believe to be "matched" functionality, (e.g., functionality that requires no code modification to be leveraged for West Virginia MMIS). For the remaining requirements, our focus will be to confirm, clarify, and validate our understanding of those requirements so that we document the requirements fully and clearly in the RSD for the benefit of ensuing design activities. In addition to the system demonstrations, we use prototypes/mock-ups, documentation review, surveys, interviews, and other techniques to develop deliverables and come to a mutual understanding of BMS' business goals and functional requirements. ACS' Business Analyst, supported by the IBM Rational DOORS requirements management tool, ensures each RFP requirement is covered in at least one session and categorized appropriately.

Analysis. Once all RFP requirements have been placed into the draft RSD, allocated to the right team, assigned owners, and clarified, ACS embarks on the next step of progressive elaboration to review BMS' business processes and how the requirements fit into each process. We also compare and trace the requirements to the MECT to confirm alignment with detailed federal certification criteria. To prepare for these activities, team members tailor use cases (structured process descriptions) to reflect requirements and processing needs. The teams review the clarified and validated RFP requirements and compare them to the processes documented in the use cases. The teams review and refine requirements, analyzing their priority, status, complexity, work estimates, and clarity. This data is updated within attributes in the DOORS requirements management tool.

Specification. The objective of specification is to define the detailed software requirements and data requirements. Now that the tailored use cases and functional and nonfunctional requirements are drafted, ACS reviews the existing design artifacts that comprise Health Enterprise to form detailed software

requirements. Design artifacts include user interfaces, reports, letters, and other items within the technical solution. We also review business rules, policies, and standards contained in policy documentation and the legacy system, to identify additional detailed software requirements. Detailed software requirements are written at a level to be translated later into design specifications. These requirements include but are not limited to user interface/Web page requirements, report requirements, letter/email correspondence requirements, external interface requirements, and business rule requirements.

ACS' approach to documenting the business rules during RSD enables the Bureau to modernize its MMIS and transition seamlessly from the legacy system to the replacement system. Along with our partners Oleen Pinnacle and Ninestone, we review legacy business rules to support accuracy and fidelity to current Medicaid law and program policy. At this requirements stage, the focus is on identifying which rules are to be kept, modified, or added. Later as part of the DSD, we develop Edit Rules Documentation to include a more detailed explanation of each rule, its purpose, dependencies, application, and logic.

Our approach reflects our experience transitioning MMIS programs, our long history supporting West Virginia Medicaid programs, and our partners' direct experience with HealthPAS and other TriZetto QNXT-based products. Our focus on business rules review during requirements supports a successful, streamlined transition from the legacy system to Health Enterprise and minimizes transition risks.

Validation. Validation activities allow ACS to collaborate with BMS to review and confirm all requirements documentation drafted to date, including the RSD and tailored use cases. The primary method for validating the work products is the requirements workshops. We provide our business analysts and subject matter experts with the autonomy to leverage additional techniques to maximize the efficiency of the requirements process, such as interviews, surveys, one-on-one meetings, and offline documentation reviews. At this time, we also perform other validation activities including preliminary UAT planning and requirements management using DOORS. At the conclusion of the validation workshops, we provide the RSD and related requirements deliverables and work products to BMS for review and approval.

Approach to Working with BMS Staff to Fully Understand Requirements

ACS knows from experience that requirements analysis exercises are most successful when a variety of participants from both BMS and ACS are involved. Even though design decisions are not being made during requirements analysis, it is critical to have both business (e.g., Medicaid, operational, and test planning) and technical (i.e., data management, conversion, development, and architecture) input so the requirements are documented sufficiently to allow downstream teams to execute the requirements accurately in system designs, user documentation, and testing. We conduct a stakeholder analysis during the Start-Up Phase to identify technical, business, and other stakeholders. By having a wide range of subject matter experts at the table, all aspects of a particular requirement or process can be considered.

We use the project's SharePoint site as the communication hub between BMS and ACS during Analysis and Design and throughout contract performance. Any deliverables produced by supporting tools are stored in the SharePoint site for the Bureau's review and approval. This approach defines one "system of record" for all deliverables, even though multiple tools are in use during the Analysis and Design Phase.

Process for Identifying and Resolving Gaps

Our process for identifying gaps begins prior to contract award, when ACS imports the RFP requirements into the DOORS requirements management tool. During this process, we establish an initial "solution analysis identifier" (match, modification, configuration, or enhancement) for each requirement.

After contract award, we work with BMS during requirements elicitation workshops, demonstrations and discussions, to review requirements in the context of the available functionality in Health Enterprise and confirm, clarify, and reword RFP requirements into standard and testable functional and nonfunctional requirements. This analysis helps us confirm or correct our initial gap analysis and adjust the solution analysis identifiers accordingly. We use the gap analysis to confirm or adjust our iterative design, development, and testing process that follows requirements analysis.

Our next step is to review the BMS To-Be business processes and compare these processes to Health Enterprise base processes and functions to identify gaps in required functionality. We then compare the gaps to the RFP requirements and, as needed, create new requirements and add them into DOORS. By including gaps as requirements, ACS ensures that the RSD, designs, tests, operational procedures, and solution incorporate all requirements identified during the workshops. ACS generates a Business Process Mapping Document and a Gap Analysis Design Document during this phase using DOORS data.

How the MMIS Replacement Design Integrates with Ancillary Systems and Activities

As our requirements analysis progresses, we continue to meet with BMS and representatives of functional areas in workshops to make sure cross-functional area impacts are identified and addressed. We work with BMS to verify interface and integration points between the legacy MMIS and ancillary systems, such as FACTS and RAPIDS and others identified in the RFP and procurement library; then we identify these same integration points where they occur with Health Enterprise to foster a smooth integration with the Bureau's systems. During requirements sessions, we clarify any requirements around Health Enterprise's interfaces with FACTS, RAPIDS, and other interfaces. We capture the external interface requirements in the RSD, which drives the DSD external interface specifications. At the end of Phase 1b, we meet again with the BMS Re-procurement Team and functional area representatives to make sure interfaces and integration points are properly designed and coordinated across all functional areas.

Health Enterprise provides multiple access channels for integration with external systems and COTS. We leverage the integration-rich framework of WebSphere Process Server (WPS), which includes an Enterprise Service Bus (ESB). Health Enterprise takes advantage of the inherent capabilities of the WPS and employs specific implementations for external and internal integration points. The ESB provides open, standards-based connectivity for processes and applications and acts as an intermediary through which reusable business services are made available within the system and to external systems. Health Enterprise uses the ESB to integrate with COTS and other external systems through Web Services and other real-time protocols in a transaction environment.

Health Enterprise's multi-protocol support also includes integration with external systems by exchanging files through its electronic data sharing gateway (EDSG). Through the EDSG, Health Enterprise supports multiple connectivity protocols as well as interoperability with a variety of third-party middleware products. The EDSG supports exchange of electronic data interchange (EDI) and non-EDI data transmissions between third parties and Health Enterprise in a secure, efficient manner providing transaction validation, transaction response, and any-to-any translation services. The EDSG provides

connectivity for the flow of data among providers, facilities, claims payment agencies, state offices, clearinghouses, and various other data trading partners that exchange data with Health Enterprise.

The EDSG uses the Informatica suite of COTS products to manage each step in the data receipt, transformation, and delivery process. Informatica Data Transfer serves as the translator tool for easy mapping. Part of the Informatica suite is the EDIFECS XEngine tool, a compliance check module that includes data validation and compliance reporting. Built into this process is a complete tracking and reporting component that allows the system to identify each file, record statistics for each file, and report file status at any point in time. This solution is captured in our Detailed System Design (DSD), which is specified in tandem with our Technical Architecture Description.

The DSD is divided into "chapters" according to the MITA business areas, so that functionality can be incrementally designed, tested, and developed. Analysts add detail and technical specifications in the DSD to address the detailed software requirements of the RSD. For example, where the detailed software requirement indicates a daily report on Provider Enrollment levels, the DSD lays out the report, lists the data presented on the report and its identifier within the data model, identifies any security restrictions, and describes sorting, filtering, calculations, or grouping on the report.

At the completion of the Analysis and Design Phase, the EPMO follows our internal workflow closure procedure and, in doing so, evaluates the exit criteria of each workflow to confirm the project's readiness to proceed to the next phase. The EPMO verifies that we have accurately executed processes, elicited feedback, and implemented continuous process improvements along the way. We collaborate with BMS to confirm that the BMS Re-procurement Team is also ready to proceed to the next phase.

Supporting Tools

We use Rational DOORS, our selected requirements management system, as a repository for functional and nonfunctional requirements. We use this tool to develop and trace deliverables required during Phase 1b, including the RSD, Gap Analysis Design Document, and Requirements Traceability Matrix (RTM). These are exported from DOORS and published to the project's SharePoint site.

We use Embarcadero ER/Studio to track data elements and validated data models, which we publish to the SharePoint site for BMS review as the project progresses.

We use the Microsoft Office suite, primarily Microsoft Word, for most deliverables, work products, agendas, meeting minutes, the DSD, and system documentation. The requirements and design workshops are included in a SharePoint calendar and also reflected as tasks in the Project Schedule. Action items, issues, risks, and decisions that may surface during the Analysis and Design Phase are stored and tracked to closure in the SharePoint project repository.

ACS prefers to have these tools running and work products editable in real time during the workshops so we can incorporate stakeholder feedback as it is provided by attendees.

10.2.2.1 Approach to Completion of Phase 1b Deliverables and Milestones

1. Approach to the completion of the Phase 1b Deliverables and Phase 1b Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

During Phase 1b, we follow the Requirements Analysis, Solution Analysis and Detailed Design Workflows of our standard systems development life cycle (SDLC), which have been tailored to meet BMS' requirements. This phase includes all requirements review, update, and validation activities, including performance of a gap analysis to determine the extent to which Health Enterprise meets BMS requirements. The MMIS Re-procurement Project's success is contingent on thoroughly analyzing baseline requirements, business processes and procedures, templates, and tools and tailoring them to the specific needs of the MMIS Re-procurement Project. During Analysis and Design, ACS lays the foundation for requirements traceability and management, which continues throughout contract operations.

For the Analysis and Design Phase, we initiate our iterative approach—performing requirements analysis and gap analysis—and documenting these concepts and decisions in the RSD, the Gap Analysis Design Document, and the DSD for each MITA business process, with each deliverable building on the decisions and designs of its predecessors. ACS relies on its extensive Medicaid experience to guide the sequence of iterations and the dependencies among them. The sequence of iterations is presented in the Project Schedule in Proposal Section A9, within the Appendix.

Our PMM, SDM, and Project Schedule accommodate the updating of deliverables throughout the life cycle of the project, with updates to deliverables subject to the same review and approval processes as the original submissions. As Phase 1b progresses, we keep deliverables current by documenting and updating the Business Processing Mapping Document, the Edit Rules Documentation (delivered with the DSD), Requirements Traceability Matrix (RTM), RSD, Gap Analysis Design Document, and DSD, which includes the design of BMS-specific reports and standard output reports. We maintain an MMIS Glossary in our SharePoint site for easy access and maintainability. We also maintain the linkages across these deliverables and keep them in sync using DOORS. Throughout the process, our EPMO oversees the development of weekly and monthly status reports.

10.2.2.2 Approach to Obtaining BMS Approval of Phase Completion

2. Approach to obtaining BMS approval of phase 1b completion

As part of our project management methodology (PMM), ACS has a structured, documented process for reviewing and obtaining BMS' approval of the Analysis and Design deliverables and milestones listed in RFP Appendix C. Our Documentation Management Plan includes quality review steps for peer review, quality assurance review by the EPMO, and BMS review. Formal reviews use a common, straightforward, and streamlined deficit-logging process in the SharePoint site that allows for simple logging, rapid remediation, and audit tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

During Project Start-Up, ACS works with BMS to create a Deliverables Expectations Document that details the description, location, constraints, assumptions, content, format, and approvers for each contractual deliverable. Additionally, we review the Project Schedule to gain BMS approval of its tasks, deliverables, milestones, durations, initial resources, and dependencies. The Project Schedule includes milestones, identified with the prefix "M:" and final deliverables with the prefix "D:." Using the

Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-6 contains the proposed acceptance criteria for Phase 1b, Analysis and Design, that will be incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-6 Proposed Acceptance Criteria for Analysis and Design Milestones

Milestone	Acceptance Criteria
Milestone 48 – Completion and BMS Approval of Phase 1b	The following have been completed and approved: Business Process Mapping Document; Edit Rule Documentation; Requirements Traceability Matrix (RTM); Requirements Specification Document (RSD); Gap Analysis Design Document (also called the Solutions Analysis Report); Detailed Systems Design (DSD) Document; List of All Standard Output Reports (part of the DSD); List of BMS-Specific Reports (part of the DSD); MMIS Glossary; Weekly Project Status Reports; Monthly Project Status Reports

10.2.2.3 Meeting MITA Requirements

3. Description of how the proposed solution meets the following MITA requirements:

At the heart of ACS' MITA Technical Architecture are shared services governed by a SOA that provides the flexibility, scalability, reusability, and adaptability necessary to support the current and evolving needs of Medicaid programs. Our MITA-aligned Health Enterprise solution provides the technical and architectural foundation to help BMS achieve its goal of increasing the MITA maturity of 14 business processes from Level One to Level Two, and for delivering a reliable transaction processing system that enhances existing processes and allows BMS to concentrate on its healthcare mission. The technical architecture of Health Enterprise aligns with the MITA 2.01 business framework and is based fully upon the MITA 2.0 technical architecture specifications. Table 10-7 shows how Health Enterprise meets MITA requirements.

Table 10-7. How Health Enterprise Meets MITA Requirements

Requirement	Health Enterprise Alignment
a. Industry-based open architectural standards	• Architected following MITA principles of an open, standards-based architecture
b. Modular components	• Modular components which can be combined and re-configured allowing rapid integration of new functionality
c. Relational or object-oriented database	• Uses Oracle's Relational Database Management System technology (Real Application Cluster, Recovery Manager, Enterprise Monitoring)
d. Web and real-time processing	• 100 percent Web-enabled, delivering real-time processing of transactions
e. Rules engine management	• Incorporates COTS business rules engine (FICO) • Provides Web-based entry and maintenance of business rules
f. Data privacy, security, and integrity with access limited by staff role	• Security framework provides single sign-on access to a Web portal through Tivoli WebSeal and WebSphere Portal through Secure Socket Layer

Requirement	Health Enterprise Alignment
g. Interoperable systems that support e-communication and processing between systems	• Separates applications to communicate even running on different operating systems with different technologies or programming languages • Interoperability using an Enterprise Service Bus (ESB)

10.2.2.4 Approach to Development and Use of Design Documentation

4. Design Documentation: Approach to the development and use of the following deliverables and their components.

The Analysis and Design portion of the SPARK-ITS SDLC is captured primarily within three successive, incremental deliverables: the RSD, the Gap Analysis Design Document, and the DSD. The RTM serves as evidence that we have maintained scope from one deliverable to the next. We refine and review these deliverables with BMS in requirements and design sessions. Then, we verify adherence to standards and requirements via peer review, walk-throughs, quality assurance review, and BMS approval. The contents of the RSD, RTM, and DSD are described in the sections below.

System Requirements Specification Document (RSD)

a. System Requirements Specification Document (RSD), including methodologies for:
   i. BMS review to finalize requirements;
   ii. Requirements updates, to include the evaluation of business model/process changes and approved changes to the current Medicaid system since the RFP release date and identification of corresponding requirements;
   iii. Means of measurement determining satisfaction of requirement.

The RSD is divided into "chapters" according to MITA business areas so that functionality can be incrementally analyzed, designed, tested, and developed. Each chapter includes the following contents:

- Narrative, Assumptions, Dependencies, Constraints
- Functional and nonfunctional requirements
  - Each RFP requirement becomes one or more functional or nonfunctional requirement in the RSD
  - We write each requirement according to a specific sentence structure so it is appropriately allocated and is clear, concise, unique, measurable, and testable
  - In some cases, requirements are simply copied from the RFP into the RSD. In other cases, requirements are split, modified, or combined to align with industry-standard sentence structure so the requirement meets all quality and testability criteria
- Detailed Software Requirements, including:
  - User interface Requirements – Captures the business purpose, information collected, options for user, and other requirements for the user interface
  - Report Requirements – Documents the business purpose, basic content, recipients, frequency, etc. for each report
  - Correspondence Requirements – Lists the purpose, recipient, trigger, and other attributes for letters, emails, and other correspondence
  - External Interface Requirements – Identifies the initiating system, protocol, and information transferred, for each external interface
  - Data Conversion Requirements – Identifies various data sources that will be extracted, transformed, and loaded into the new system
- Business Rule Requirements – Lists legacy business rules and policies that are to be implemented in the new system (as-is or with modifications) and identifies any new business rules necessary for implementation

- Preliminary use cases, which are structured process descriptions that place requirements into the context of business processes and user activities. At this time, the use cases are referenced to better understand the baseline business processes of Health Enterprise; how those processes may be affected by BMS requirements; and to give context and provide clarification of the functional requirements

The core of the RSD is the set of functional and nonfunctional requirements that form the basis for the project's design. By creating this concise, standard set of requirements that are measurable and testable, we enable the team—both ACS and BMS—to accurately determine and validate satisfaction of the requirement. Using this standard structure in the RSD allows us to clarify any requirements that may have changed since the RFP release date. Assuming the changes clarify the requirement or its context within a business process but do not affect the project schedule, cost, resources, or proposed solution, this update can be made right in the RSD template. ACS will work with BMS to triage any changes that have potential impact on time, resources, or proposed technical solution so the appropriate impact assessments and approvals can be gained prior to making such changes.

These artifacts are captured in the RSD and traced from the RFP requirements to verify full traceability to the final delivered system. As discussed earlier, we draft the RSD and review it with BMS in collaborative requirements workshops. We then conduct internal quality reviews prior to submitting it to BMS via the SharePoint repository for review and approval.

We have provided our standard RSD template in Proposal Section A40, Sample Requirements Specification Document, in the Appendix. We will review this template with BMS as a part of Deliverables Expectations Document discussions and tailor it to meet project-specific needs.

Requirements Traceability Matrix (RTM) and Requirements Management System

b. Requirements Traceability Matrix (RTM) to ensure that the RSD requirements are traceable back to the requirements specified in this RFP (including all Appendices).

c. Requirements Management and Tracking System to maintain and report on requirements throughout the development life cycle, from requirement specification through production deployment including CMS certification.

As shown in Exhibit 10-8, the team tracks the progressive elaboration of requirements throughout the life of the project. The RTM is a set of reports generated from DOORS data that demonstrates how requirements are realized, elaborated upon, and traced throughout the SDLC. The RTM depicts validated and updated RFP requirements and how they flow through to the RSD's and DSD's functional, nonfunctional, and detailed software requirements. We continually revise traceability information in the DOORS requirements management and tracking system so that the repository always reflects the current scope of the project. Tracing ensures all refined requirements link back to contractual commitments in the RFP. Any additions to scope are documented as change requests and trace back to the RFP requirements as well.

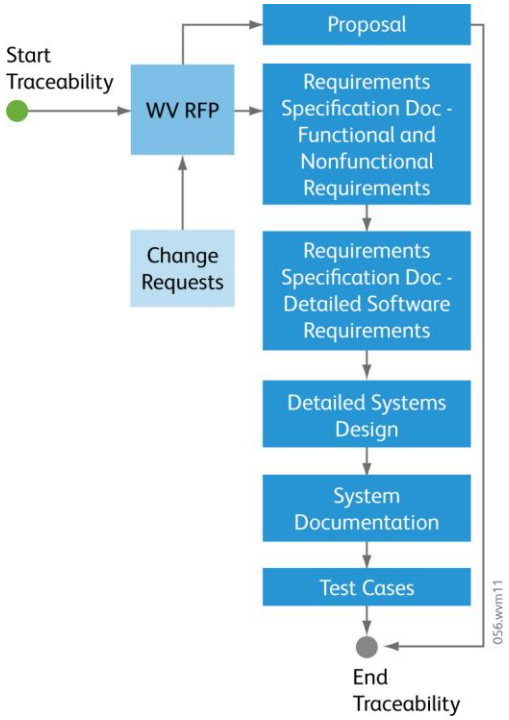


Exhibit 10-8. Requirements Traceability
RFP requirements are tracked throughout the entire development life cycle.

Detailed Systems Design (DSD) Document

d. Detailed Systems Design (DSD) document, including (but not limited to) the following components:

i. BMS review, including walkthroughs of the Design Documents and demonstrations during the development of the design specification to enhance BMS's understanding and to facilitate the approval process.

ii. Identification of system files and processing architecture.

iii. A general narrative of the entire system and the flow of data through the system.

iv. Detailed description and diagram of the system architecture identifying how components are integrated to meet RFP requirements.

v. General and detailed subsystem narratives describing each function, process, and feature.

vi. Security design description for each business area that defines access control including specifying roles, role locations, and a matrix of roles by inputs/outputs.

vii. Flow diagram of each subsystem, identifying all major inputs, processes, and outputs.

viii. Lists of all inputs and outputs by subsystem.

ix. Hardware/software detail.

x. High level data model and a detailed and physically specific data model.

In the DSD, analysts add detail and technical specifications to address the detailed software requirements of the RSD. Each requirement in the RSD is captured in at least one detailed software requirement (a screen, report, or other artifact), and then each detailed software requirement is specified in the DSD, generally with a detailed definition, layout/mockup, and field-by-field specification. The DSD provides the detail for technical analysts (developers) to perform technical design in system documentation and then to configure and enhance Health Enterprise to meet BMS requirements, identifying the sequence of interacting classes, methods, files, and other elements. While creating the RSD and DSD, we continually update the RTM in DOORS. Our standard DSD includes a description of the process used to develop the deliverable, an explanation of its contents, and a description of the overall system being designed. Individual chapters follow for each functional or topic area that includes the following artifacts:

- Narrative of all related processes
- Updated use cases, which depict how the user interacts with the system to accomplish business goals and allows for connection of the business processes to elements of the system such as user interfaces, reports, and letters
- User interface definitions, layouts, and field-by-field specifications
- Report definitions, layouts, and field-by-field specifications
- Correspondence (e.g., letters and emails generated by the system) definitions, layouts, and field-by-field specifications
- External Interface definitions, layouts, and field-by-field specifications
- Exhibits, such as calculations, UML analysis diagrams, other flow diagrams or supporting tables
- Business rules and error messages are delivered as complete catalogs that span the entire system

We have provided our standard DSD template in Proposal Section A39, Sample DSD Deliverable Format in the Appendix. We will review this template with BMS as a part of Deliverables Expectations Document discussions and tailor it to meet project-specific needs and any BMS requirements that are not part of our standard template.

We draft DSD contents and conduct design workshops to review the DSD chapters with BMS staff and gain feedback prior to making final updates, conducting quality reviews, and delivering the documents incrementally to BMS.

During DSD preparation and review, we also create several companion work products:

- Technical Architecture Description, which includes processing architecture, component integration, COTS product information, and hardware/software detail
- Security/Role Matrix
- High-level data model (which we call a Logical Data Model, or LDM) and physically specific data model (which we call a Physical Data Model, or PDM), described below

10.2.2.5 Demonstration of the Creation of Validated Data Models

5. Demonstration of the creation of validated data models

ACS uses Embarcadero ER/Studio to create and maintain all data models. ER/Studio is a powerful and innovative modeling tool for analyzing, visualizing, and communicating database and application designs for data architecture. The tool is used to create and maintain large and complex models. The primary outputs of ER/Studio include entity relationship diagrams, metadata reports, and Structured Query Language Data Definition Language scripts.

Health Enterprise data models, through the use of standard diagrams and textual reports, represent both the logical data requirements and the physical data structures of the enterprise. Data models provide a key component of the application design by providing a definition of the interrelationships and format of data. Combined with our data management strategy, the Health Enterprise LDM and PDM form primary components of our MITA-aligned information architecture. The information architecture describes the flow of information, internally and externally, to support our business architecture and technical architecture. The Health Enterprise information architecture is the product of decades of Medicaid

experience and continuous improvement. Our relational database strategy began over 15 years ago and has evolved into the optimized, efficient, effective model integrated into Health Enterprise today.

The LDM underlies the physical data model and communicates data structures with various stakeholders using entity relationship diagrams (ERDs). To aid in the area of communication, we publish the ERDs and textual metadata reports periodically as agreed to with the Bureau. In structure, the PDM matches the physical database. Where the LDM is the "source of truth" regarding data structures as they relate to functional requirements, the PDM is the "source of truth" for the physical database. In other words, the LDM is used to create the PDM and is manipulated as necessary to represent the eventual physical structures. Our approach to data modeling includes several points of review as changes move from requirements gathering and validation, to LDM, PDM, and database updates. LDM changes are identified and validated in business area design workshops and vetted as part of the review of design documents. LDM changes are also vetted by the business analysts and Database Architects, and then used to modify the PDM. The contents of the PDM are used to create the physical database ensuring that all aspects of the data model have been validated prior to the creation of the physical database.

10.2.3 Phase 1c: Development, Testing, Data Conversion, and Training

REQUIREMENT: RFP Section 3.2.6.3, pg. 85 of 115

With our proposed West Virginia solution already supporting a large percentage of BMS' requirements, development and testing activities can focus on configuration, modification, and validation of the base system. We apply a proven conversion methodology that takes advantage of our standard Health Enterprise data structure. Furthermore, we produce training materials that are reusable and adaptable to West Virginia's specific needs.

The Development, Testing, Data Conversion, and Training Tasks of Phase 1c begin upon BMS' issuance of Formal Notice to Proceed. In the subsections below, we describe the benefits of our approach to these tasks including the following:

- Configuration, development, and thorough testing of our functionally rich base application
- Configurability that allows BMS' policies to be applied to existing functionality
- Flexible methodology that accommodates both the DDI effort and modifications during operations
- Streamlined testing approach made possible by comprehensive, already-tested base system
- Best practices in conversion gained through knowledge and experience of our data management team
- Experienced training team with a history of successful system implementations and operations
- Methods and tools to deliver asynchronous, convenient training to users statewide
- Comprehensive tracking and reporting of learners' participation and training effectiveness

The subsections are as follows:

- 10.2.3.1 – Development Task
- 10.2.3.2 – Testing Task

- 10.2.3.3 – Data Conversion Task
- 10.2.3.4 – Training Task

10.2.3.1 Development Task

REQUIREMENT: RFP Section 3.2.6.3.1 to 3.2.6.3.1.1, pg. 85 of 115

3.2.6.3.1.1 Phase 1c: Development Task Vendor Response Requirements: The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Development Task, including the Vendor's proposed:

Of the nine workflows of the SPARK-ITS SDLC, the "Configuration, Modification, and New Development" Workflow maps directly to BMS' Development Task, as shown in Exhibit 10-9.

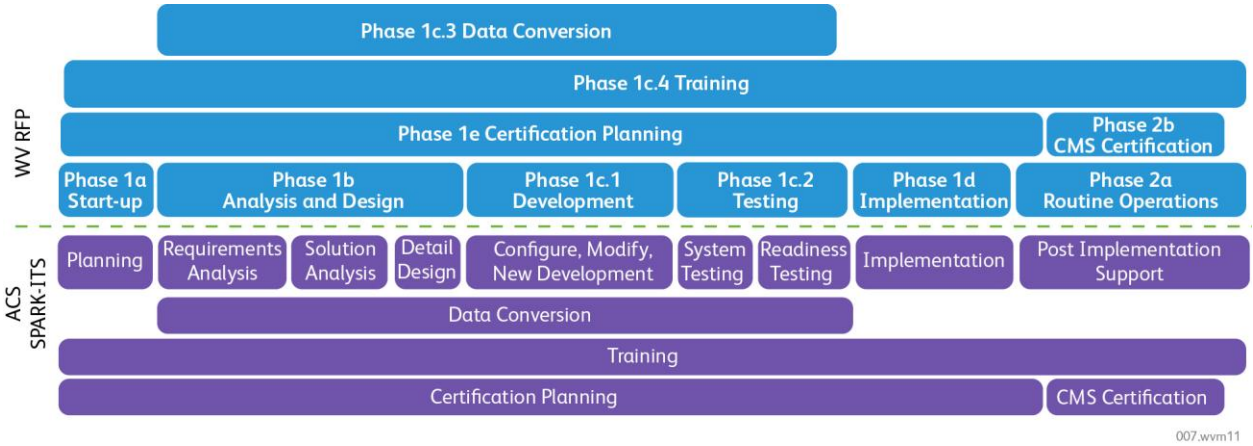


Exhibit 10-9. Comparison of West Virginia RFP tasks to the SPARK-ITS SDLC
Phase 1c.1: Development Task maps to the SPARK-ITS Configuration, Modification, and New Development Workflow.

The Configuration, Modification, and new Development Workflow reflects our goal to configure or modify code and documentation as much as possible in place of ground-up technical design and development. Reuse of functionality saves time and allows BMS to focus on confirming that the proposed solution meets requirements, provides improved service levels, increases fraud prevention, and streamlines operations. The Configuration, Modification, and New Development Workflow includes activities for transferring, configuring, modifying, and coding Health Enterprise to the specifications defined in the Detail Design Workflow. During this task, we configure and modify Health Enterprise based on which of the following solution identifiers we selected during requirements validation and design activities:

- **Matched Requirements**. A requirement deemed a "match" is one for which there is existing baseline Health Enterprise functionality that does not need configuration or coding in order to meet the requirement. The SPARK-ITS SDM promotes regression testing (automated when feasible) to validate the Health Enterprise code being leveraged to meet the West Virginia requirement.
- **Configuration**. A requirement categorized as "configuration" is aligned with functionality in the baseline Health Enterprise solution; however, that functionality must be configured (but no coding is needed) to meet specific West Virginia policies. The SPARK-ITS QMS includes processes and templates to establish and configure settings to align the base solution with BMS specifications.
- **Modification**. A requirement categorized as "modification" requires that ACS make minor coding changes to the baseline Health Enterprise solution to meet the requirement. Our SDLC includes

processes and standards to modify code in the base solution to meet BMS requirements and to validate the new functionality with unit, system, and integration testing.

- **Enhancement**. An enhancement identifies requirements for which functionality does not exist in the baseline Health Enterprise solution. We have processes and technical standards for the development of enhancements and execution of unit testing (and all subsequent test levels) to validate functionality of standalone components.

For functionality that is part of ACS' base system, the Development Task focuses on transferring, enabling, or configuring rules within the base functionality and conducting regression and user acceptance testing (UAT) to validate that it functions properly and according to user requirements. For functionality that requires code changes, the modifications are coded and followed by appropriate levels of testing based on the complexity and cross-functional impact of the change. For enhancements (i.e., functionality not offered in the base system), the full SDLC is invoked, ensuring that each enhancement's design is validated, programmed, and completely tested to integrate properly with the system as a whole.

10.2.3.1.1 Approach to Completion of Development Task Deliverables and Milestones

1. Approach to the completion of the Development Task Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

We use the Configuration, Modification, and New Development Workflow to convert the concepts and decisions captured in the Detailed System Design (DSD) into technical designs within System Documentation and into working system functionality. The processes of this workflow build upon the Requirements Specification Document (RSD), Gap Analysis Design Document (which the SPARK-ITS SDM calls the Solution Analysis Report), DSD, data models, and other artifacts. Developers use these deliverables to configure, modify, and unit test the technical solution. This is the period when BMS sees its business goals and functional requirements evolve into a customized and powerful technical solution.

For the Development Task, we continue our iterative approach—performing technical design, coding, and unit testing of each functional area or MITA business process—with each functional area building on the decisions and designs of its predecessors. ACS relies on its extensive Medicaid experience to guide the sequence of iterations and the dependencies among them, acknowledging that some functional areas such as provider and reference precede more complex, dependent processes such as claims processing. The sequence of iterations is presented in the Project Schedule in Proposal Section A9 in the Appendix.

As the Development Task progresses, we keep deliverables current by updating the business processing mapping, Edit Rules Documentation, Requirements Traceability Matrix (RTM), RSD, Gap Analysis Design Document, and DSD that includes the design of BMS-specific reports and standard output reports. Technical staff develops the System Documentation to reflect the technical design of the system. Documentation specialists prepare user documentation and provider documentation to reflect proper usage of the system. As developers modify code, they prepare unit test checklists and use JUnit to prepare unit test results. Throughout the process, our Enterprise Project Management Office (EPMO) oversees the development of weekly and monthly status reports.

10.2.3.1.2 Approach to Obtaining BMS Approval of Task Completion

2. Approach to obtaining BMS approval of the completion of Phase 1c, including proposed Acceptance Criteria for each Milestone.

As part of our PMM, ACS has a structured, documented process for reviewing and obtaining BMS' approval of the Development Task deliverables and milestones listed in RFP Appendix C. Additionally, our PMM and SDM plans and Project Schedule accommodate the updating of deliverables throughout the life cycle of the project, and updates to deliverables are subject to the same review and approval processes as the original submissions. Our Documentation Management Plan includes quality review steps for peer review, quality assurance review by the EPMO, and BMS review. Formal reviews use a common, straightforward, and streamlined deficit-logging process in the project's SharePoint site that allows for simple logging, rapid remediation, and audit tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

As with prior tasks, we use the Deliverables Expectations Document to jointly agree upon the description, location, constraints, assumptions, content, format, and approvers for each contractual deliverable. Additionally, we review the Project Schedule to gain BMS approval of its tasks, deliverables, milestones, durations, initial resources, and dependencies. The Project Schedule includes milestones, identified with the prefix "M:," and final deliverables with the prefix "D:." Using the Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-8 contains the proposed acceptance criteria for the Development Task that would be incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-8. Proposed Acceptance Criteria for Development Task Milestones

Milestone	Acceptance Criteria
61 – Completion and BMS Approval of Unit Testing	• Unit Test Plan's defined exit criteria met • Unit test summary results delivered to BMS
64 – Completion and BMS Approval of Standard Output Reports	• BMS review and approval of DSD, which includes definitions, layouts, and specifications of standard output reports • BMS review and approval of standard output reports configured in Health Enterprise
65 – Completion and BMS Approval of BMS-Specific Reports	• BMS review and approval of DSD, which includes definitions, layouts, and specifications of BMS-specific reports • BMS review and approval of BMS-specific output reports configured in Health Enterprise

10.2.3.1.3 Software/Hardware Configuration

3. Software/Hardware Configuration: Software/hardware solution, including a description of the solution's ability to accommodate the current and future needs of the West Virginia Medicaid Program (e.g., changes in the Program, changes in standards and transactions, and increased transaction volumes). The solution should also describe the methodology and approach for the following:
   a) Regular system maintenance, performance optimization, resource capacity utilization, capacity planning and capacity expansion.

ACS' hardware and software configuration provides several key benefits to the Bureau. It is a high-availability system through the use of clustering and load balancing. It is a flexible, scalable solution that can expand to meet the future needs of the West Virginia Medicaid Program. Its configuration has been

designed to optimize the performance of key system components, and it provides redundancy needed to eliminate single points of failure.

Health Enterprise incorporates the best of ACS' proven Medicaid systems and products surrounded by best-in-class COTS products that are chosen for their power, effectiveness, and integration capabilities. This combination of custom development and COTS usage means that we can expand capacity to keep pace with the growth and changes in the West Virginia Medicaid Program. Health Enterprise is designed with leading-edge service-oriented architecture (SOA) that supports the MITA business areas, providing increased flexibility and adaptability for future policy changes.

Through regular system maintenance, we adjust performance and sizing by monitoring and measuring user transactions and resource capacity utilization relative to the underlying infrastructure components, with the goal of assuring appropriate performance levels to meet business objectives. To be effective, performance planning and optimization must be a proactive, ongoing process that directly measures service performance in the context of the interdependent infrastructure elements that make up that service.

Health Enterprise provides a comprehensive performance measurement and management infrastructure, as well as tools that allow administrators to visualize and analyze performance data collected in real time from various areas of the business application environment. System monitoring provides both BMS and ACS with quantified analysis of the system's performance and adherence to response time requirements. These monitoring products support reporting on performance thresholds and provide critical information for administrators to intervene proactively, instead of reacting after an event has been reported. Monitors can be set to create alerts when specified thresholds are breached and used to highlight the source of issues before they become critical. The tools provide real-time problem detection and analysis to help maintain availability of the system and monitor viability and response times of transactions and sub-components. ITCAM for WebSphere provides a view of all Java Enterprise Edition (JEE) transactions as they execute to uncover the root cause of bottlenecks and memory utilization issues. It helps to correlate and profile transactions, even those that span across multiple components, and provides key performance metrics that allow support teams to spot trends and potential delays before they occur. The ITCAM monitoring products are used for low-level data gathering and diagnostics and to monitor response time of transactions and individual transaction components.

Health Enterprise has been architected so that it is scalable, with the addition of hardware and software, to a size capable of handling increasing transaction volumes. Rational Performance Tester uses realistic transactions and production loads to verify performance testing and to generate repeatable load test inputs and to monitor and track results. With Rational Performance Tester, tests are recorded that correspond to typical transaction volumes and types used on average. These tests can be played back to generate a load level that simulates as many simultaneous users as required. The tool delivers high-level and detailed views of tests with a rich, tree-based editor. It provides the means to execute load tests to provide inputs to capacity planning processes.

The ACS Operations Center provides 24/7/365 monitoring of the network for availability and performance. Additionally, our LAN/WAN staff perform many other LAN support functions so the Health Enterprise solution continues to meet or exceed BMS' operational needs.

Compatibility of Hardware, Software, and Communication Components

b) Compatibility of all hardware, software or communications components installed for use by BMS staff with WVOT currently supported versions of the Microsoft™ Operating System, Microsoft Office™ Suite and Internet Explorer™; and current technologies for data interchange.

Functions within Health Enterprise are accessed via a single user interface, the Web portal. The Web portal provides public access to program information and secure access to authorized and authenticated users. The only software required to access Health Enterprise functionality through the Web portal is a Web browser. No additional software has to be installed on the user's desktop PC. As such, Health Enterprise will be compatible with WVOT's currently supported versions of the Microsoft Operating System, Microsoft Office Suite, and Internet Explorer.

Any proposed interfaces or data interchanges between Health Enterprise and the BMS systems and environment will comply with BMS and State hardware, software, middleware, and telecommunications configurations and standards. ACS will work with BMS during design and development to confirm interface or data interchange requirements and adherence.

10.2.3.1.4 Systems Documentation

4. Systems Documentation: Methodology and approach for implementing and maintaining MMIS systems documentation, including data structures, Entity Relationship Diagrams (ERD), user manuals, business rules, and all other documentation appropriate to the MMIS platform, operating system and programming language.

As depicted in Exhibit 10-10, systems documentation marks the culmination of requirements, gap analysis, design, and testing activities during DDI and serves as the document of record that details the delivered Health Enterprise solution. Systems documentation is drafted during development, updated throughout testing, and delivered in final form at the end of the Implementation Task. ACS updates systems documentation throughout DDI and operations as changes are made, either through change requests, defect resolutions, or other approved change protocols.

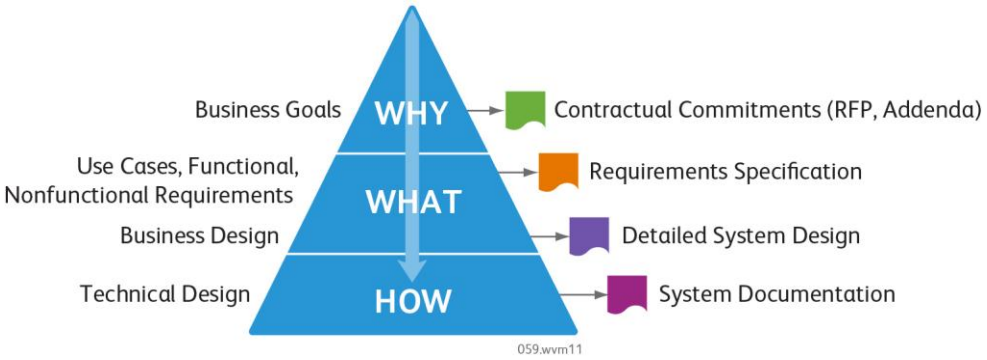


Exhibit 10-10. Progressive Elaboration

ACS' SDLC approach fosters progressive elaboration of requirements and design documentation, with each deliverable providing more detail than its predecessor, culminating with system documentation to reflect the completed and tested West Virginia Health Enterprise solution.

Systems documentation includes narratives, diagrams, and other business-focused and process-centric content, as well as technical content necessary for system maintenance and modification. Technical content in systems documentation is maintained in Rational Software Architect (for Unified Modeling Language diagrams and other design models) or Embarcadero ER/Studio (for data structures and Entity

Relationship Diagrams) and exported to or referenced within the deliverable; other content, such as narratives and specifications, is maintained directly in the Microsoft Office Word document. Business rules that were validated during requirements sessions and formally specified within the Edit Rules Documentation are tracked in the system documentatiosn in their final form. User manuals and operating procedures can be referenced from systems documentation but are maintained in separate documents due to their different audience (as described below under the response to Requirement #5, User Documentation). The Microsoft Office Word version of the current system documentation is stored in the project's SharePoint site for ease of reference and accessibility.

10.2.3.1.5 User Documentation

5. User Documentation: Methodology and approach to preparing, maintaining and distr buting user documentation for each business process including a description of how it is be used as the basis for user acceptance testing and training, as well as the use of final versions for training before the start of operations.

ACS produces a range of user documentation, with the primary outputs being online help built into the Health Enterprise user interface and operating procedures developed using MediaWiki®.

Developed by documentation specialists using MadCap Flare, Health Enterprise's online help provides context-sensitive help with step-by-step instructions for sequential functions, tasks, creating reports, fixing errors, and troubleshooting. MadCap Flare facilitates the development of "single source" content, meaning that a single set of content can be exported to multiple "targets." A target is defined as an output for a specific audience with a specific format and tailored content. For example, we can generate content for document-based review of the complete online help materials for BMS review and approval. We can separately generate a standalone help file that is specific to Fiscal Agent staff. We also generate integrated online help that is incorporated into the Health Enterprise user interface and linked to system functions to provide context-sensitive help. The integrated online help is the primary vehicle through which users access help documentation; not through traditional printed paper help documents, but through online topics that are directly related to the function the user is currently performing.

Our online help covers system functions and is supplemented by Microsoft Word-based operating procedures, which address end-to-end business processes including non-system functions and are made available to users within the project's SharePoint site. We provide these documents to users during UAT to not only validate the system but also the supporting documentation and related training. Our training specialists use the operating procedures as a basis for and reference within training materials, and they instruct users to use the online help as a main source of system usage information.

Our Work Instruction Wiki is created with MediaWiki, the same application that powers Wikipedia®. This dynamic tool allows ACS to develop pages, sub-pages, categories, and templates so information presented on multiple Web pages only needs updating once. Content is tagged so procedures can be accessed from multiple venues based on the users' role, the task underway, or the related system function. Using our Work Instruction Wiki, users can quickly find the procedure they need and link to other related procedures. The Work Instruction Wiki is easy to update, ensuring the information is current and has comprehensive version tracking. Operational managers can also use the MediaWiki application to notify affected staff of content changes. With minimal training, our fiscal agent staff can depend on the Work Instruction Wiki to guide them in the effective execution of their day-to-day tasks. Exhibit 10-11 shows a screen from a live Work Instruction Wiki in use at our Alaska fiscal agent account.

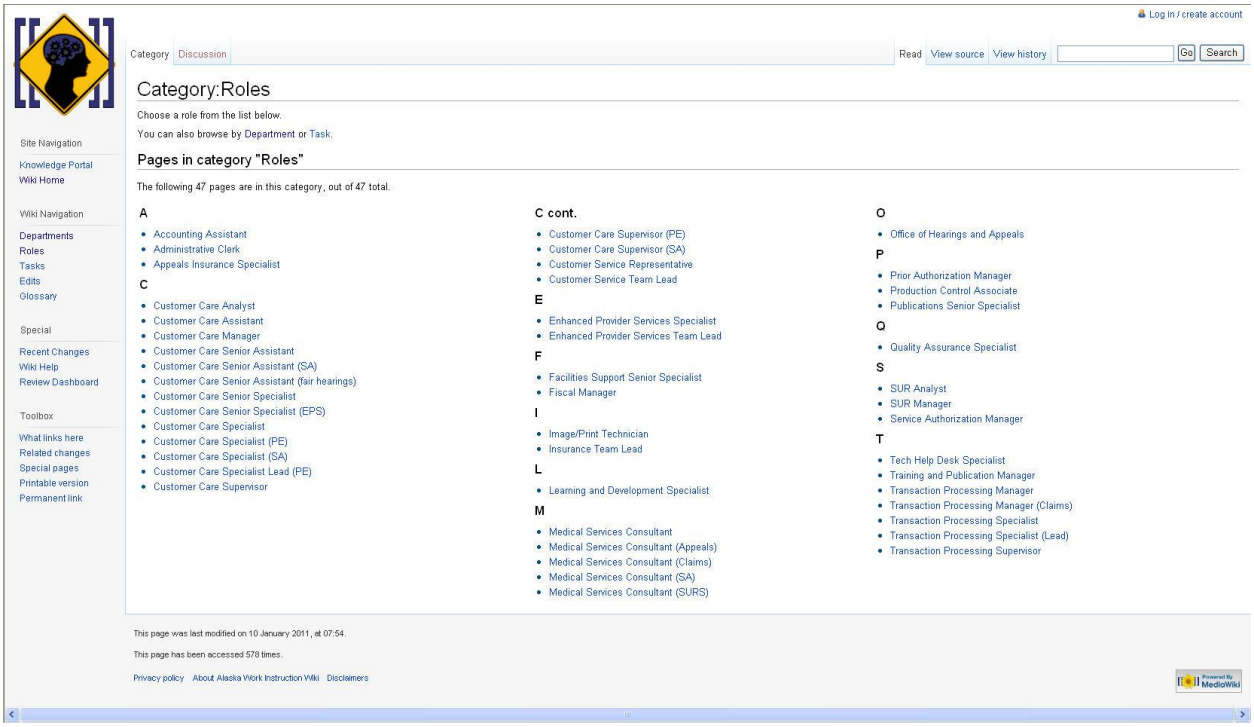


Exhibit 10-11. ACS' Work Instruction Wiki

Our proven Work Instruction Wiki, powered by MediaWiki, allows the operations team to access detailed and easily updated procedures by role, department, or task.

10.2.3.1.6 Provider Documentation

6. Provider Documentation: Methodology and approach to preparing, maintaining, and distr buting Provider documentation, including a description of how the documentation is to be used in conjunction with provider training.

As the West Virginia MMIS Re-procurement Project enters the Development Task, the required functionality of West Virginia Health Enterprise is defined and serves as input to the creation of accurate and thorough provider documentation. We create provider documentation and ongoing communications such as bulletins, flyers, quarterly newsletters, handouts for provider conferences, and manuals so that providers have the most current program and system information to submit claim records accurately.

We ensure that all published provider information is current, complete, and accurate by:

- Creating production schedules that give BMS and designated stakeholders adequate time to review and revise materials
- Working with BMS and specific program subject matter experts (SMEs) to research, recommend, and revise program information
- Coordinating the publication of materials related to implementation of new and revised policies so information is disseminated in the appropriate bulletins, manuals, and training materials
- Reviewing and editing all materials to check that the text is clear, concise, and meets all style guide and program standards

- Drafting the provider documentation during development and updating it when affected by testing or other activities
- Working with training staff so they can use provider documentation as a source and supplement for training materials

Provider documentation is a visual representation of the West Virginia Medicaid Program and, as such, it influences how providers perceive the program and how it operates. Our goal is to make sure that providers have the information they need to understand program policies and to correctly submit claims records in the proper format and receive appropriate reimbursement. Manuals serve as important resources for providers—not only for information about the program, but also for complete step-by-step billing instructions.

Provider communications (e.g., bulletins, flyers, monthly newsletters, handouts for provider conferences, and blast emails) are written, updated, and distributed on an as-needed basis, as directed by the BMS-approved publication schedule. We provide access to the provider manuals and other communications on the provider Web portal of Health Enterprise.

Exhibit 10-12 depicts how registered providers can access a full complement of policy, procedural, and educational materials, including manuals and frequently asked questions. High-priority messages and links are identified in the right-most column with a red icon. The "Provider Resources" link on the left side provides quick access to training, manuals, downloads, and contact departments and numbers.

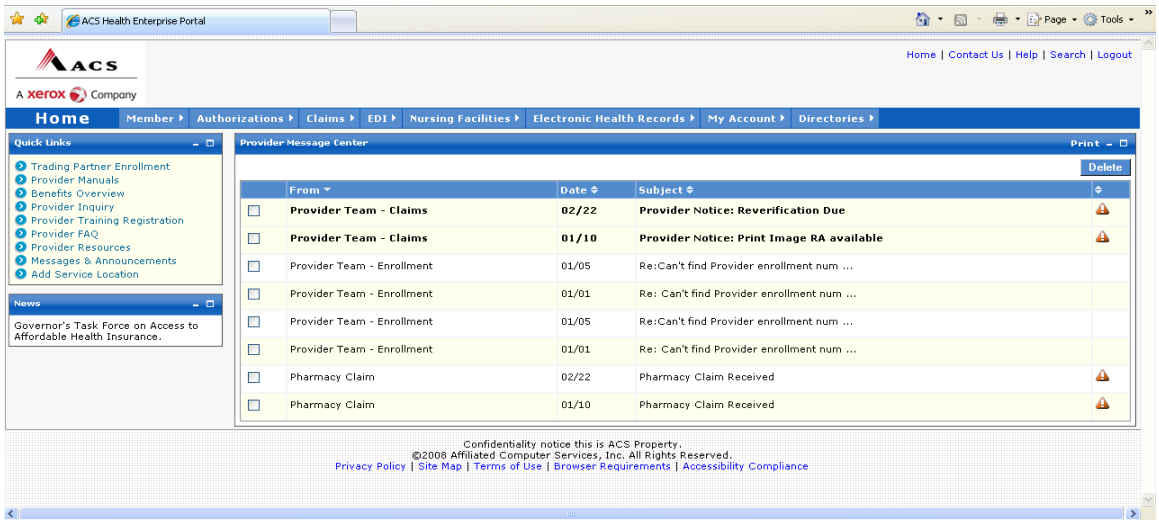


Exhibit 10-12. Health Enterprise Provider Web Portal

The provider Web portal gives the provider community access to announcements, training materials, billing and policy manuals, and other relevant documentation.

During requirements validation, we work with the Bureau to validate the desired content (e.g., policy and education documents) and location (e.g., secure/non-secure) for document distribution through the Web portal.

10.2.3.1.7 Development and Unit Testing

7. Development and Unit Testing: Methodology and approach to programming and unit testing on all system functions to ensure that a single component is resilient and can function correctly on a standalone basis.

A benefit ACS brings to the MMIS Re-procurement Project is the fact that development and unit testing are limited to a small percentage of requirements identified as "modifications" or "enhancements" to our base system. As shown in Table 10-9, the system development task continues the streamlined approach based on the gap analysis between BMS requirements and Health Enterprise base functionality. Note that the only tests conducted in this workflow are unit tests by the developers. Other test levels are covered in the next section, 10.2.3.2, Testing Task.

Table 10-9. Development Efforts Driven by Requirements Alignment with Health Enterprise

Solution Identifier	Design Effort	Development Effort	Unit Testing Effort
Match	Pull existing system documentation for these features directly into the DSD and System Documentation.	None	None
Configuration	Take existing documentation and update DSD and data models to align with BMS rules, policies, and standards.	Adjust configuration of the system without modifying code, such as rules in the Reference Web pages.	None
Modification	Take existing Health Enterprise documentation, copy into the West Virginia DSD, and modify it to align with requirements. Highlight modifications so technical staff can pinpoint customizations for the West Virginia implementation.	Customize code and architecture to align with design specifications.	Technical staff conducts unit testing as needed.
Enhancement	Use design templates to document the enhancements from inception and illustrate relationships between the enhancements and existing functionality.	Perform full coding of enhancements based on new or modified design specifications.	Technical staff conducts unit testing.

During the Development Task, developers perform technical design and update system documentation in accordance with DSD specifications. They install and enhance or modify components of the proposed system according to the DSD and system documentation specifications. System development activities and work products are subject to rigorous standards that ACS has created through many years of successful systems development. Developers adhere to these standards so programs are well documented, are easily maintained, and can handle projected production volumes.

Through inspection and unit testing, developers work in the development and unit test environment to verify that each single component can function correctly on a standalone basis. Unit testing for software modifications and enhancements to the existing base system consists of the developer verifying the accuracy of each executable program or module before turning it over for system testing. In conducting a unit test, developers follow the procedures and standards documented in the Unit Test Plan. Statements and paths are tested for all possible sets of input data, and the unit is tested against a unit test checklist. Developers demonstrate that each planned condition processed correctly and produced the correct results. For each program they develop, analysts complete checklists for management review to ensure that all functionality for the program has been evaluated. If a program fails the unit test, the developer identifies

the root cause of the defect, makes the fix in the development environment (or, if applicable, works with the business analyst to correct the documentation), and performs unit testing again to validate the fix.

We perform internal technical reviews and formal and informal peer reviews to demonstrate progress and how the code aligns with requirements. ACS uses quality reviews by the EPMO and technical peer reviews by various team members and SMEs to check for adherence to standards. Concurrently, test analysts modify existing or create new test scenarios, test cases, and test scripts for subsequent system and integration testing.

We use RTC to execute our configuration management methodology. RTC allows concurrent checkout, modification, and merging of updated code components. Base code and code changes are kept isolated during maintenance. Concurrent code changes are resolved through a manual merge process facilitated by the RTC. This is provided on demand and is automatically enforced by the tool as developers check in code modules for which other changes have been made since their code was initially checked out.

In addition to RTC, ACS uses the following tools in the development effort:

- **Apache Ant™.** Ant is an open-source Java tool released by Apache Software that automates Java build processes. It allows the developer to compile, assemble, test, and run Java applications.
- **FICO Blaze Advisor.** Blaze Advisor is a COTS tool integrated into the core of Health Enterprise to allow for rules creation and configuration.
- **IBM Rational Build Forge.** Build Forge automates software assembly processes with job process optimization, efficient use of hardware for fast build cycles, error detection, and more.
- **IBM Rational Software Architect.** This comprehensive modeling and development environment leverages the UML for designing architecture for Java applications and web services.
- **IBM Rational Application Developer.** This tool provides a visual construction environment to design, develop, assemble, test, and deploy Java applications, portal, Web services, and SOA applications.
- **IBM WebSphere Integration Developer.** This is an integrated development environment, authoring, and process modeling tool for building applications by assembling SOA components using Business Process Execution Language (BPEL).
- **JUnit.** JUnit is a simple framework to write repeatable unit tests for each required configuration, modification, or new development activity for Health Enterprise.
- **Toad® for Oracle.** Toad, by Quest Software, is an Oracle database tool that allows developers to develop, administer, and view data before and after running their code to confirm results.

10.2.3.1.8 Meeting Design Criteria and Specifications

8. Ensure that the developed solution meets design criteria and satisfies the intended purpose.
9. Ensure installation and enhancement or modification of the components of the proposed system meets specifications developed and approved by BMS in the Analysis and Design Phase.

ACS applies the consistent and repeatable processes of requirements management, quality assurance, and quality control and conducts verification and validation activities with the support of IBM Rational tools and testing processes to confirm that 1) the enhanced and modified code and configurations meet design specifications approved by BMS and 2) the solution satisfies the intended purpose. We ensure that the installation and enhancements or modifications of the system meet the specifications developed and approved by BMS during the Analysis and Design Phase through the following practices:

- Prior to delivery, ACS business analysts and developers perform peer review of work products to check for alignment with requirements and design as well as business accuracy and correctness.
- The EPMO oversees quality reviews of code modules to ensure alignment with applicable coding and technical standards and other deliverables expectations prior to delivery.
- ACS conducts internal walkthroughs of source code, particularly for requirements identified as enhancements or modifications to the baseline product where the source code has been altered.
- We use Rational DOORS to produce an RTM that validates end-to-end traceability from requirements to design and test cases and to maintain scope adherence throughout the SDLC.
- We execute unit, system, and integration testing to validate the system aligns with specifications. System and integration testing are discussed in Proposal Section 10.2.3.2, Testing Task.
- We report on and monitor defects, their resolution, and their root cause with the support of RTC and RQM.

Using the integration between RTC, RQM, and DOORS, ACS traces defects back to specific resources, documents, business processes, or requirements. If indicated, we use this information to communicate improvement opportunities to team members. We also review root cause analysis of defects and implement corrective actions and process improvements, lowering risk for subsequent development and testing activities. These activities are performed to ensure the developed solution meets design criteria and satisfies the intended purpose and objectives of the MMIS Re-procurement Project.

10.2.3.1.9 Standard Output Reports

10. Development of all standard output reports.

Timely access to complete and accurate reports is crucial to the administration of the Program. Health Enterprise has an Online Analytical Processing (OLAP) reporting repository and a leading COTS reporting tool to meet reporting and data analysis needs. This MITA-aligned solution is built around the Cognos suite of business intelligence tools. We have also subcontracted with Thompson Reuters, whose Advantage suite supports federal reporting and selected MARS reports. Our complete set of reporting capabilities provides the flexibility, scalability, and extensibility to support the evolving needs of BMS. Our Health Enterprise reporting solution consists of three major components:

Enterprise Operational Reporting (EOR). This component provides a robust online library of over 500 predefined operational reports to monitor the day-to-day activity of Health Enterprise. Enterprise Operational Reporting is a valuable tool not only for a casual user who occasionally runs a prepackaged report, but is also a resource for Bureau users who are experienced in building their own complex reports for addition to the West Virginia report library.

Ad Hoc Reporting. We use the Cognos suite to provide ad hoc reporting capabilities. Our solution includes Query Studio, an intuitive reporting tool that is simple enough for basic users and robust enough for advanced users, and Reporting Studio, a tool for very advanced users. Reporting Studio provides the same functionality of Query Studio, but also allows for advanced reporting concepts (sub-queries, complex filters and calculations, etc.) and advanced formatting capabilities.

Performance Reporting. We monitor and report on service level agreements and other key performance indicators with the help of Cognos Metrics Manager. The integrated scorecards and dashboards provide senior management with insight into critical performance metrics (e.g., enrollment statistics, expenditure

trends, etc.). The easy-to-use interface supports the ongoing monitoring of program performance by analyzing events that have already occurred to anticipate the impact on events that have not yet occurred. It allows stakeholders to communicate goals consistently, manage strategy, and assign ownership for each metric to drive accountability.

Our solution also incorporates experienced and highly-knowledgeable staff to assist the Bureau in taking maximum advantage of the reporting capabilities provided. During the Operations Phase, for example, we provide staff to train Bureau users how to develop their own queries and analyze data.

During the Analysis and Design Phase, we confirm the list of standard output and BMS-specific reporting requirements in the RSD, and we design specifications of custom reports using the DSD. During the Development Task, we develop or configure reports to align to the approved specifications.

10.2.3.2 Testing Task

REQUIREMENT: RFP Section 3.2.6.3.2 to 3.2.6.3.2.1, pg. 86 of 115

3.2.6.3.2.1 Testing Task Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Testing Task, including the Vendor's proposed:

A cornerstone to build BMS' confidence in a successful replacement system implementation is rigorously planned and executed application testing. Comprehensive testing reduces application defect risk and leads the way to successful implementation of Health Enterprise in West Virginia.

ACS' System Testing and Readiness Testing Workflows align with the Testing Task of the West Virginia RFP. The System Testing Workflow includes activities to execute system testing of the solution, both within each component and end-to-end. The Readiness Testing Workflow includes several forms of acceptance testing—UAT, ORT, and pilot tests. Completion of the test levels that comprise readiness testing is the primary indicator of implementation readiness.

The SDM employs the V-Model approach to testing. The V-Model approach is a widely accepted best practice used to infuse quality throughout the project life cycle. The primary tenet of this approach is that it combines verification activities (e.g., requirements specification, quality assurance) directly with appropriate validation activities. For example, because acceptance testing validates that the system aligns with the user and business requirements, we propose development of the User Acceptance Test (UAT) Plan and UAT criteria during development of the Requirements Specification Document (RSD).

ACS has adapted the V-Model approach for Health Enterprise implementations. Our adapted model benefits from a streamlined approach that is tailored based on the solution identifier (gap analysis) for each requirement.

The required testing varies based on the solution identifier documented in the Gap Analysis Design Document. For matched functionality (functionality already present and tested in Health Enterprise), existing documentation is transferred to client-facing documentation, and only regression test (automated when feasible) and UAT are executed. We use traceability information in our requirements management tool, IBM Rational DOORS, to help determine linkages between functions to confirm that testing is comprehensive enough so that matched functionality, when integrated with changed functionality, works as intended. At the other end of the spectrum, newly built enhancements are fully designed, coded, and tested across the entire SDLC.

Exhibit 10-13 depicts ACS' modified V-Model approach.

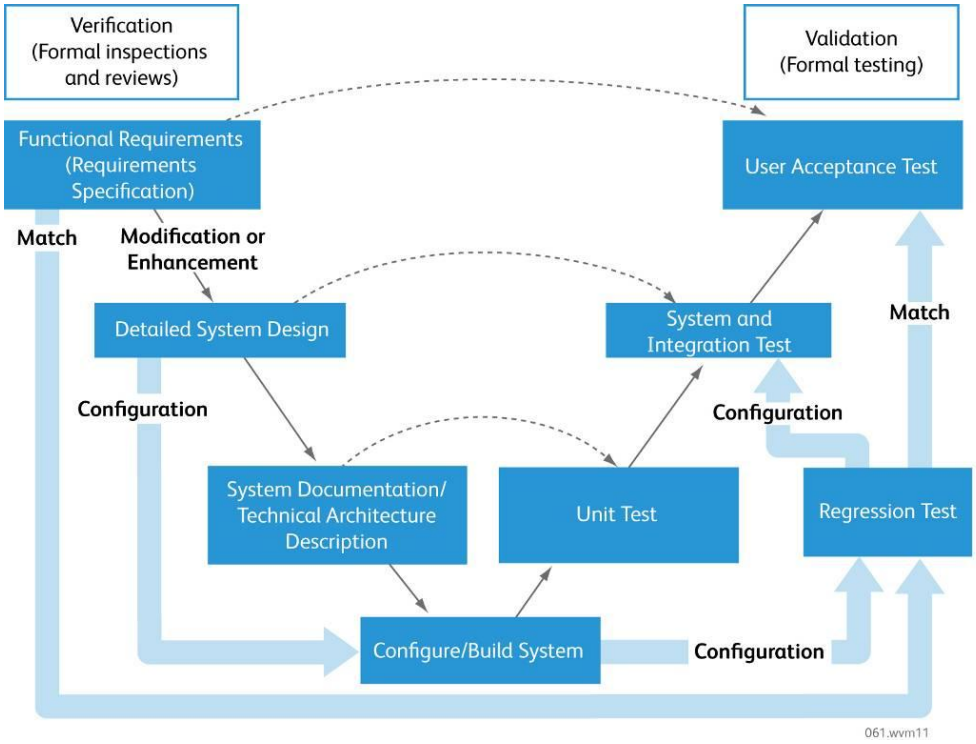


Exhibit 10-13. Modified V-Model Based on Solution Identifier

The Modified V-Model depicts the industry-standard V-Model approach with streamlined processes made possible when similar functionality is already present in the base system.

10.2.3.2.1 Approach to Completion of Deliverables

1. Approach to the completion of the Testing Task Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

Following a structured methodology for building test plans and conducting tests, we design and execute each type of test according to the overarching approach in the Master Test Plan and test plans for each test level. The Master Test Plan meets West Virginia RFP deliverable requirements as follows:

- It aligns with Appendix C deliverable #12, Testing Plan
- It references test-specific risks, exported from our SharePoint site to form the Test Risk Identification and Contingency Plan in accordance with IEEE and RFP Appendix C deliverable #66
- It references test environment specifications per RFP Appendix C deliverable #67, Integrated Test Environment Plan

We develop the Master Test Plan during Project Start-Up and maintain it as needed throughout the life of the project. Subsequent to tailoring the Master Test Plan for the West Virginia MMIS Re-procurement Project, we develop test plans, test cases, test scripts, and test results for each of the following test levels:

- System and Integration Testing (Appendix C deliverables 68, 69)
- Regression Testing (deliverables 71, 72)
- Load/stress Testing including capacity analysis (deliverables 74, 75, 76)

- User Acceptance Testing (deliverables 78, 79, 80)
- Operational Readiness Testing (deliverables 82, 83)

We also produce weekly and monthly status reports that include test progress, results, and metrics.

10.2.3.2.2 Approach to Obtaining BMS Approval of Completion of Testing Task

2. Approach to obtaining BMS approval of the completion of Testing Task, including proposed Acceptance Criteria for each Milestone.

As part of our project management methodology (PMM), ACS has a structured, documented process for reviewing and obtaining BMS' approval of the test plans (including exit criteria for each test level) and all other Testing Task deliverables listed in RFP Appendix C. Additionally, our PMM and SDM plans coupled with the Project Schedule support the updating of deliverables throughout the life cycle of the project. Our Documentation Management Plan includes quality review steps for peer review, quality assurance review by the EPMO, and BMS review. Formal reviews use a common, straightforward, and streamlined deficit-logging process in the project's SharePoint site that allows for simple logging, rapid remediation, and audit tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

The testing task deliverables are listed in the Deliverables Expectations Document. By reviewing the Deliverables Expectations Document and milestones and deliverables in the Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-10 contains the proposed acceptance criteria for the Development Task that would be incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-10. Proposed Acceptance Criteria for Testing Task Milestones

Milestone	Acceptance Criteria
70 – Completion and the Bureau Approval of System Integration Testing	• System and Integration Test Plan's defined exit criteria met • System and integration test summary results delivered to BMS
73 – Completion and the Bureau Approval of Regression Testing	• Regression testing is ongoing throughout the life of the contract. ACS will work with BMS to determine an acceptable approach to meeting this milestone.
77 – Completion and the Bureau Approval of Load/Stress Testing	• Load/stress Test Plan's defined exit criteria met • Load/stress test summary results delivered to BMS
81 – Completion and the Bureau Approval of User Acceptance Testing	• User Acceptance Test Plan's defined exit criteria met • User acceptance test summary results delivered to BMS
84 – Completion and the Bureau Approval of Operational Readiness Testing	• Operational Readiness Test Plan's defined exit criteria met • Operational readiness test summary results delivered to BMS

10.2.3.2.3 Approach to Partnership, Development, and Documentation of Testing

3. Approach to:
   a. Working with the BMS MMIS Re-procurement team during all testing phases.
   b. Development of test cases and test scripts to thoroughly test system functionality and contingency planning to address risks that may be encountered during MMIS testing.
   c. Providing documentation of each test phase.

Our testing framework follows a logical sequence of planning, design, and execution and reporting, with plans and artifacts reviewed with BMS at each stage. We address the requirements above, as well as our interaction with BMS, within the context of this framework.

Planning. Our SDM emphasizes planning, monitoring, and the use of best practices in all activities related to testing. Our SDM includes a Master Test Plan that addresses the overall testing effort, roles, defect tracking and resolution procedures, risk identification and contingency planning, environments, and definitions for each test level. The Master Test Plan ties together all levels of testing—unit, system, integration, user acceptance, load/stress, regression, pilot, and operational readiness.

The Master Test Plan includes a process for test readiness review. The test readiness review is used to formally assess our readiness to progress from one test level to the next. We lead a test readiness review before executing each test level to verify that all critical components are ready to support test execution and all activities from the prior test level are completed. During the test readiness review, test team members present evidence to BMS and ACS management that the test level entry criteria for that test have been met, or that deviations, if any, pose an acceptable risk to proceeding with the test. The entry criteria are documented in the test level test plan. To complete the test readiness review, BMS and ACS management jointly agree that the test activities should proceed.

We work with the BMS MMIS Re-procurement team to finalize the Master Test Plan (Deliverable #12, Testing Plan) during the Start-Up Phase to prepare BMS and ACS for the test activities that will occur throughout the project life cycle. To supplement the Master Test Plan, and in accordance with SPARK-ITS SDM and Institute for Electronics and Electrical Engineers (IEEE) standards, we produce test plans for each test level. The plans identify the items to be tested for that test level, test objectives, entry/exit criteria, personnel requirements, reporting requirements, evaluation criteria, defect resolution, data management requirements, and any risks requiring contingency planning. Any test plans included in Appendix C of the RFP are delivered to BMS for formal review and approval. We provide any remaining, non-required test plans to BMS for courtesy review. This documentation is not contractually required, so we list such test plans in the Project Schedule as work products instead of deliverables.

Design. Test design comprises two main activities – detailed test planning in RQM and test case design and automation. The initial step in accomplishing test design is performing detailed test planning in RQM, including identifying test scenarios. Each identified feature or scenario will become one or more test cases. We use the integration between DOORS and RQM to trace scenarios and test cases to requirements in order to confirm test coverage of requirements.

Once the necessary test cases and their priorities and dependencies have been identified, we begin test case design and automation. Reuse of test cases is an important consideration in test case design. Health Enterprise's development environment already contains thousands of test cases which can be used for West Virginia Health Enterprise testing. We will also design new test cases that are specific to functionality developed for West Virginia. We review the documentation, including test scenarios, cases,

and scripts, with the BMS MMIS Re-procurement team regularly to build confidence in our approach and test coverage. Many of our system and integration test scripts can be reused for UAT, so BMS input into these cases and scripts will help streamline the test planning and design during UAT.

Execution and Reporting. The test execution and reporting stage involves the execution of test cases and scripts using specific test data as defined during test design. The testing of each component includes:

- Verifying all edits, audits, and creation of data
- Assuring that the system conforms to requirements and specifications
- Validating that links between programs and subsystems are working as designed
- Validating the operating environment
- Validating the accuracy of the processing logic
- Confirming operating performance
- Verifying that response times meet BMS requirements under load (full production volume, stress test)
- Validating the accuracy of the converted data

The test analyst executes the test cases and captures test results in RQM. The test analyst verifies the test results against the expected results of the test cases. Any known defects or issues associated with the execution are identified, documented, and tracked in RQM. ACS utilizes RTC for defect tracking to manage and report on defects and to perform root cause analysis. The process involves compiling information on defects found during testing or system operation, analyzing that information, and reporting on it so that trends and significant events are recognized. We develop summary reports using RQM and RTC and export them to the project's SharePoint site for BMS review at regular intervals and for approval at the conclusion of each test level.

10.2.3.2.4 Methodologies for Individual Test Levels

4. Methodologies for the following testing activities:
   a. Data Validation Test.
   b. System Test.
   c. Integration Test.
   d. Regression (Baseline) Test.
   e. Load/Stress Test, including testing to the point of system failure.
   f. Parallel Testing
   g. User Acceptance Test (UAT) including support of UAT activities for users as defined by BMS.
   h. Operational Readiness Test, including pilot testing of actual claims processing in a full operational environment, and disaster recovery processing.
   i. Pilot Tests, including testing of system components that affect external users, such as Web Portals, Web-based claims submission, claims software, and data entry by other vendors. Pilot Testing is a part of the Operational Readiness Testing Period.

Data Validation Test. Converted data from the legacy system are used to perform the system test. We include production data converted from the legacy system such as claims, provider, reference, and member data so that they can be processed through the Health Enterprise adjudication cycle to yield accurate and representative test results for system and integration testing. We also use converted data for other test levels such as UAT and pilot testing to validate data quality. Furthermore, during integration testing we review data transmissions from incoming interfaces to validate that both the incoming data formats as well as our translation business rules and mappings are accurate.

System and Integration Test. System testing includes validation of functionality that is related because of the underlying business problem it solves or based on functionality that is technically related such as elemental utilities (e.g., data access, logging/auditing, and error handling). This process verifies that related groups of functionality have been coded and configured to align with design specifications. System testing also verifies the requirements for an iteration or release. We tie test cases and scripts to requirements to confirm coverage. We use DOORS to manage traceability and RQM to report test results.

For the configuration and development of West Virginia Health Enterprise, ACS conducts system testing in an iterative and incremental manner similar to the sequencing used during requirements and design activities. As demonstrated in the V-Model exhibit earlier in this section, system testing is conducted for requirements defined as modifications, configurations, or enhancements (plus selected matched requirements depending on their integration with and dependencies on other functions). Test cases and scripts are stored in RQM and linked to the requirement(s) that they validate.

We conduct system test in a staggered and incremental fashion concluding with an overall integration test. The benefits of this staggered, incremental approach are as follows:

- The system is tested in a logical processing sequence
- The early functional areas tend to require less development and test effort; testing these areas immediately upon completion of development and configuration allows ACS and BMS to begin testing sooner, and then to move on to other complex and dependent system functions
- Early testing allows BMS and ACS to validate that the testing infrastructure, processes, and staff are ready to test the more complex functions
- This approach aligns with the natural dependencies within the system

Once the functional areas are system tested, we conduct integration testing across functional areas. While system testing validates that the system functions properly as defined in the project artifacts for modified or new functionality, integration testing validates the solution from an end-to-end, or business life cycle, perspective. For example, integration testing validates the end-to-end testing of a claim (process flow) through the system, as well as return processing and error messages to the submitter. Integration testing often involves interfacing with other systems and partners/vendors' external systems to confirm the systems are exchanging data correctly, that requirements are met, and that interactions between them are working as designed.

Regression (Baseline) Test. Regression testing is considered a test type and is executed as part of testing across the test levels. Regression testing is the repeated running of test cases to verify a software modification has not broken previously functional code, ensuring that defects found are relevant to the new code. The SPARK-ITS Master Test Plan clarifies conditions under which regression testing should be conducted.

We execute regression testing throughout DDI and operations. We execute our first critical set of regression tests to validate that we have successfully installed our base system into the West Virginia environment. Subsequently, we execute regression testing each time we integrate or release new functionality to check that previously functional code continues to perform correctly after the introduction of new components. We conduct regression testing when new code builds are delivered from the development team. The regression test validates that the essential features of the system work. This is internal testing that is conducted immediately after a new code base has been installed in the system test environment, testing the stability of the newly applied code release.

Load/Stress Test. We perform load and stress testing with IBM Rational Performance Tester to confirm that the technical, application, data, storage, network utilization, and network architectures are sufficiently designed and sized to meet the anticipated transaction volume or workload as defined by the traceable performance requirements documented in DOORS. Load/stress testing demonstrates that the software and hardware will provide the intended functionality and meet performance requirements under production conditions. Stress testing introduces greater and greater loads on the hardware and software until it fails, while performance testing measures software response time under light, average, and heavy loads. ACS focuses load and stress testing on three business-critical and transaction-intensive areas: user interfaces, claims processing, and data exchange. Test results are incorporated into RQM to support automated reporting.

Parallel Test. Parallel testing confirms that Health Enterprise provides results that are consistent with the legacy system and current BMS policies given the same or similar business conditions. This confirmation occurs by executing transactions in both systems using the same input data and then showing, through inspection, that the actual results from Health Enterprise match the expected results based on results of processing the same data in production. ACS works with BMS to select claims that have been processed through the legacy system and process them through the replacement system. Data converted from the legacy system—for example, member, provider, and reference data—will be used for the parallel testing database. We expect to be able to use production reports produced by the claims processing components as well as Remittance Advices to confirm these results. Our partnership with Oleen Pinnacle and Ninestone, who have an in-depth understanding of the QNXT platform and HealthPAS, as well as our BMS Liaison Leonard Kelley's understanding of BMS policy, will both contribute to an efficient, effective, and successful parallel test.

User Acceptance Test. The purpose of UAT is for testers –who are defined by BMS as representatives of the user population—to test the system in a production-like environment to verify that the system is performing according to the RFP requirements. UAT provides BMS and other stakeholders an opportunity to review and accept system components prior to production implementation of the West Virginia MMIS. It allows BMS to confirm, through hands-on testing in an environment closely simulating production, that the developed system meets business functional requirements and can be accepted for implementation and commencement of operations.

Operational Readiness Test. This important test level executes and validates the critical business functions that characterize our fiscal agent operations. Preparation for ORT requires not only establishment of the infrastructure for executing all operational procedures, but also the preparation of operations staff members to perform their business tasks. Training courses, training materials, user documentation, and other forms of instruction are utilized and validated during execution of ORT.

For ORT we prepare extensive checklists and test operational components against the checklists. Checklists address implementation management, system functionality, data, and interface readiness. More importantly, they include scenarios to analyze the user and organizational readiness of our operations staff and supporting business functions. They include steps to analyze whether users are trained and ready and if procedures are in place to support the staff members' accurate execution of business processes. Scenarios assess the technical infrastructure, operating procedures, and integrated support functions such as the mailroom and phone systems to be sure they are ready to support the application and users. Checklists also include steps to review whether external interface partners, providers, and members are

prepared for the system change. ACS reviews the set of ORT checklists with BMS stakeholders who will participate in the readiness tests.

Operational readiness tests are essentially "dress rehearsals" of end-to-end business functions performed by actual operations staff and observed by a tester. We execute a range of business processes with each team, department, and business function. Scenarios include accepting inquiries by phone, imaging documents that are received by the mailroom, returning invalid claims to providers via mail, and transferring calls from one department to another. The checklists detail each scenario planned for execution. As each business function is carried out, the tester records any potential problems or areas of improvement. We review identified defects and determine with BMS necessary corrective actions. Corrective actions might include items such as changes to procedures, modifications to the training approach or materials, or equipment changes. We discuss defects and their corrective actions at regular and frequent operational readiness status meetings with BMS.

Because disaster recovery is an operational function, we conduct a disaster recovery test as part of ORT. This ensures our procedures, facilities, and personnel are ready from day one of operations to handle a disaster and provide business continuity in the event of a serious interruption.

Pilot Test. We conduct pilot testing as part of ORT to allow users to experience the system and to test new capabilities, as well as provide feedback on the effectiveness and user-friendliness of the traditional and new functionality of the West Virginia Health Enterprise solution. During pilot testing, we identify a cross-section of provider types to submit actual claims using Health Enterprise. They test their ability to submit claims through electronic data interchange (EDI), via paper claims (processed through FormWorks for OCR), and entered directly on our Health Enterprise Web portal. The pilot test validates our ability to accept, adjudicate, and pay claims and to provide supporting operational processes. ACS develops a Pilot Test Plan that identifies the approach, timing, users involved, steps, and necessary communications to prepare for the pilot test.

10.2.3.2.5 Test Environments and Data

5. Test Environment(s), including approach to creating data to drive load/stress testing, UAT, and operational readiness testing, as well as data for user training prior to implementation.

ACS follows rigorous, documented, and tightly controlled configuration and release management processes to migrate code and configurations from the development environment to the various test environments for validation. We document the configuration of our integrated test environment in the RFP-required Integrated Test Environment Plan, and we capture our planned release path in the Configuration Management Plan. We staff a migration team to approve the release of code from one environment to the next by performing test readiness reviews, evaluating exit criteria for completed test levels, and reviewing entry criteria for upcoming test levels. Our configuration management authorization group verifies the test environments such as the development test and UAT environments are properly configured and ready for use in testing, and that data are populated for use in test script execution. Our data management team provides converted data from the legacy environment to maximize effectiveness and accuracy of load/stress, UAT, ORT, and other test results and also for user training prior to implementation.

10.2.3.2.6 Test Plan Methodologies

6. Test Plan methodologies for:
   a. Management of the testing processes

Our test management processes are documented in the Master Test Plan and are applied to all test levels and resulting test plans. Our management approach dovetails with our project management process areas such as risk, issue, schedule, and human resource (staffing) management so we can properly handle delays, defects, backup plans and personnel, and other potential events that may have a negative effect on test progress. Furthermore, our test plans for each test level include management activities to oversee test progress. For example, we execute test readiness reviews to evaluate entry criteria to begin each test level. At the conclusion of each test level, we evaluate the exit criteria stated in the test plan to gain consensus to conclude test execution activities.

Our methodology for system development and testing conforms to standards such as IEEE 829, 12207, and other applicable standards. Our practices for project management, design, development, and testing are not only based on industry standards and benchmarks such as the PMBOK Guide, IEEE, the Rational Unified Process (RUP), and Capability Maturity Model Integration (CMMI); but are also tailored based on ACS' 41 years of MMIS DDI experience. These practices are consistent, repeatable, and quality-infused, and they are captured in our SPARK-ITS PMM and SDM plans, procedures, templates, training, and supporting tools. In our Project Schedule, we include tasks to review and gain BMS approval of test plans and related deliverables. We have scheduled these tasks to occur during project start-up, and we review them with BMS at the outset of each SDLC workflow and adjust as needed based on project progress, identified best practices, and other factors.

Validation

   b. Use of the Requirements Traceability Matrix (RTM), Requirements Specification Document (RSD), and Detailed Systems Design document (DSD) to validate linkage from testing to requirements.

Once we complete each test plan and identification of test scenarios, we conduct detailed test planning in RQM to define the test cases, sequence them, and trace them from the RSD and DSD to verify complete and adequate coverage. This coverage is depicted in our Requirements Traceability Matrix (RTM), which shows the growth and progression of requirements through design and testing across the SDLC.

Automation of Functional Tests

   c. Automation of functional tests.

We continually evaluate manual test cases to determine if they are suitable for automation and if so, we enter them into our automation tool, Rational Functional Tester Plus. Care must be exercised in determining which test cases to automate. Considerations in determining manual test case candidates for automation include:

- Test cases that need maximum effort
- Test cases that require a high number of test data inputs
- Test cases that are likely to be executed during the later release cycles
- Test cases that have pre-requisites related to test environment setup
- Test cases with a significant amount of reuse and high frequency of test case re-execution
- Technical system test cases with little or no user interaction

Test Data Development

d. Test data development though the use of a sample of preliminary converted files.

To accommodate all data scenarios, test cases and test scripts use data from three primary source areas: converted data, manipulated data, and created data. The main repository for test data is an Oracle® relational database system. Each test environment has its own schema within this database so the test data for each test level remains independent. Test data is distributed among test analysts within the various functional areas. This segmenting of test data allows multiple test analysts to test in the same environment without adversely impacting one another.

COTS Products Testing

e. COTS products testing (if applicable).

We integrate COTS testing into all test levels, with the emphasis on integration testing. As we begin integration testing, West Virginia Health Enterprise functionality has been validated through system testing, demonstrating our readiness to integrate with COTS products and external interfaces. Therefore, the Integration Test Plan includes approach and schedule for testing COTS products.

Defect Identification

f. Defect identification, tracking and resolution.

ACS' procedures for tracking and correcting deficiencies are captured in the defect management component of our Master Test Plan. We use RTC to support defect reporting, monitoring, updates, and tracking to closure including a defect dashboard for the management with root causes of defects.

The development and test leads make sure the status of each defect is understood and the defect is quickly moved through the analysis and resolution process. We generate weekly defect reports to inform BMS and ACS of defect resolution progress and to drive weekly defect review meetings. Throughout test execution, ACS recommends conducting periodic (e.g., weekly) defect review meetings to review the status of outstanding and recently resolved severity one and two defects, discuss aging defects, identify any cross-functional issues or escalation items, prioritize new defects, and analyze defect trends.

Exhibit 10-14 outlines the typical defect management process applied by ACS.

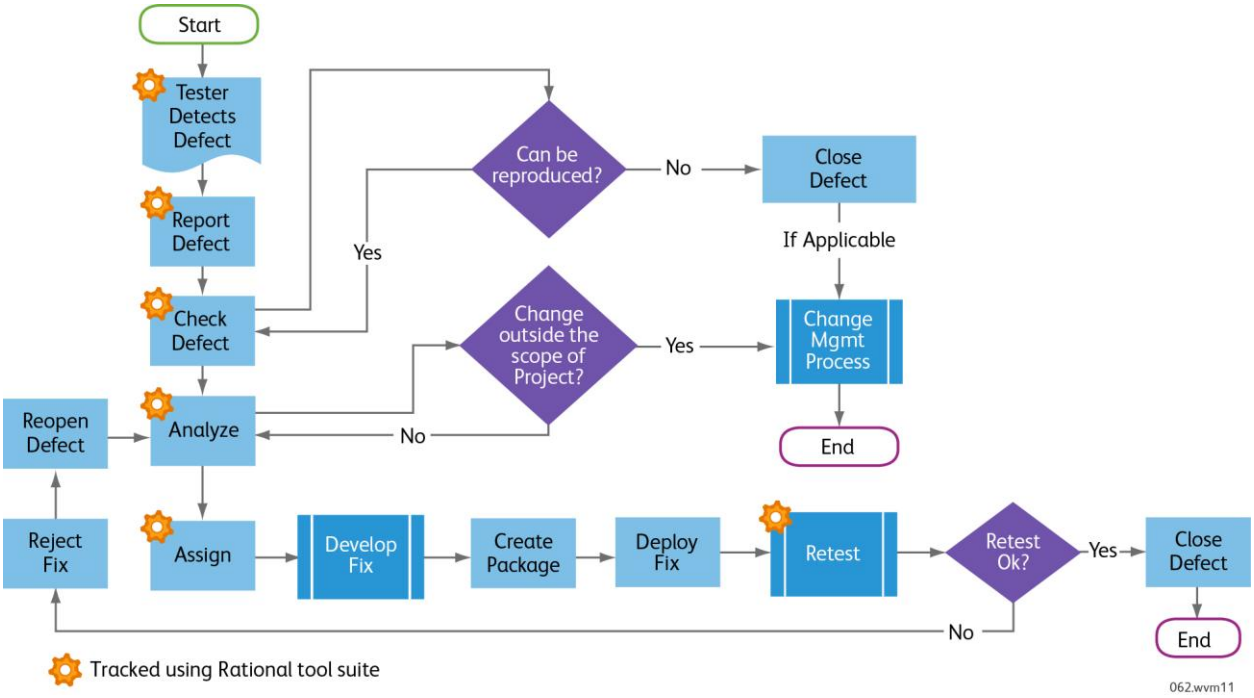


Exhibit 10-14. Defect Management Process Flow

All defects move through a consistent identification, management, and resolution flow regardless of the test level that surfaced the defect.

Documentation Updates

g. Documentation updates.

Once the development team member (developer, database analyst, configuration analyst, etc.) corrects and unit tests the defect and works with the business analyst to update the related design documentation, they schedule the update for the next release to the system test environment. Our migration team is responsible for overseeing the simultaneous release of code with its related documentation, whether it be system documentation, online help, the Work Instruction Wiki, or other document-based artifacts. The fix is migrated using our software configuration processes into the system test environment so the tester can validate that the code works correctly, and the migration team ensures migrations to subsequent environments such as UAT and production are controlled, consistent, and accurate.

Problem Handling

h. Problem handling, including procedures for notifying BMS of problems discovered in testing, testing progress, adherence to the test schedule, etc.

Our Master Test Plan includes processes for problem handling, escalation, contingency planning, and other activities integrated with our PMM processes such as risk, issues, and action items management in order to escalate and resolve issues in a timely manner. We also have the RFP-required Problem Management Plan, which references processes for resolving outstanding issues, defects, and other problems. These documents, in conjunction with the SPARK-ITS QMS and our supporting tools, provide BMS with transparency in every phase and for every event throughout the entire project.

Test Results Reporting

i. Test Results Reporting

The test plans indicate that ACS test analysts are responsible for documenting test results as the tests are executed. Detailed test results are maintained in RQM with ACS generating reports regularly and storing them in the project's SharePoint site for stakeholder review. We also generate status reports to provide statistics on test cases executed, passed, and failed; and defects identified and fixed. The test plan captures the frequency for this reporting, and we share results with BMS at these predetermined intervals.

10.2.3.2.7 UAT Support

7. UAT Support: Approach to providing BMS User Acceptance Testing support, including methodologies for:
   a) User Acceptance Test (UAT) Plan development, including documentation of UAT scripts, procedures, timelines, and processes.
   b) Test data development, including formal notification that all data necessary to perform UAT has been provided.
   c) Results analysis, including identification of necessary corrections.
   d) Defect tracking and repair, including the use of a defect-tracking tool, UAT reporting, and RTM updating.
   e) UAT Final Report development, including a summary of results, a written certification letter certifying that UAT was successfully completed, and a list of all issues ranked as critical by the Bureau have been corrected.

In executing User Acceptance Testing, ACS and BMS collaborate with the common goal of validating that the West Virginia Health Enterprise solution meets the requirements of the West Virginia MMIS Re-procurement Project. We support the Bureau throughout all acceptance testing activities including providing test documentation and procedures, supplying or helping to develop test cases, defining test data, and evaluating unexpected results to determine if changes to the system, documentation, training, or procedures must ensue. UAT follows the standard stages of planning, design, and execution and reporting; and we support BMS across the stages of UAT as follows:

Planning. Provide subject matter experts, business and test analysts, and technical staff to help BMS plan the effort and to support UAT ongoing. The ACS testing manager works with BMS during UAT planning to detail all necessary components of acceptance test in the UAT Plan. This includes defining the approach, scope, entry and exit criteria, roles (BMS, ACS, and IV&V), traceability, procedures, timelines, processes, tracking, and monitoring. ACS recommends that UAT planning be completed concurrently with requirements analysis activities so UAT criteria are adequately defined and requirements' testability may be confirmed. Prior to the start of acceptance testing, ACS trains both BMS and IV&V staff responsible for the UAT process.

Design. Provide system and integration test cases for use during UAT if desired by the Bureau, and we train and support the Bureau in designing test cases, scripts, and procedures for executing UAT. We notify BMS when we have provided needed data so testers can finalize their test scripts and begin execution.

Execution and Reporting. We support testers in executing the tests, and we perform triage and analysis on identified problems. If we determine a problem found during UAT is a defect, we log it in RTC, our defect-tracking tool, and we execute our normal defect resolution process including analysis, correction, repair, migration, and retesting. As with all other test levels, we maintain the RTM throughout the UAT process to ensure requirements are traced to test cases, scripts, and relevant defects. We prepare a UAT Final Report that includes a summary of results, a written certification letter indicating UAT was successfully completed, and a list of issues ranked as critical by BMS and their resolution.

10.2.3.2.8 Operational Readiness Test Approach and Reporting

8. Operational Readiness Test Reporting: Approach to Operational Readiness Test reporting, including details of the results of the operational readiness assessments, and certification that the MMIS, its subsystems, functions, processes, operational procedures, staffing, telecommunications, and all other associated support is in place and ready for operation.

To demonstrate operational readiness to the Bureau and provide a smooth transition into the production environment, ORT validates that production methods, procedures, hardware, and software are correct and understood sufficiently by operations staff to allow a smooth transition to Health Enterprise. ACS works closely with the Bureau to plan the ORT schedule, identify or modify ORT scenarios, and confirm reporting needs. Working with the Bureau in a series of ORT planning meetings, we tailor our baseline Operational Readiness Test Plan that describes the strategy and procedures followed during ORT, roles and responsibilities of those involved, scenarios employed, test readiness criteria, and exit criteria.

We prepare checklists for ORT under the six areas that were described earlier in this section: implementation management, Health Enterprise functionality, user and organizational readiness, data readiness, production operations readiness, and external interface and customer readiness. ACS reviews the checklists with BMS stakeholders who will participate in ORT.

To execute ORT, we confirm that the system and operations components listed on the checklist are production-ready. The evaluator logs and assesses any problems encountered by the tester. Problems can be logged as defects, issues, action items, or change requests depending on the nature of the finding. Corrective actions could include making a configuration change in the system, changing an operations procedure, adding a new training module or topic, or updating systems documentation to more accurately reflect a function in the system, among other solutions. We review defects and corrective actions taken at regular and frequent operational readiness status meetings with BMS. At the conclusion of each operational readiness test, ACS prepares results and records progress on status reports including the status of corrective actions.

10.2.3.2.9 Validated Traceability

9. Validated traceability of requirements throughout the full testing process.

The SPARK-ITS QMS includes a Requirements Management Plan that drives and enforces the traceability path from RSD to DSD to testing. Not only does our EPMO make sure our deliverables are fully traced according to the path, we also trace defects to requirements for purposes of impact analysis, root cause determination, and detection of problems and patterns.

With the assistance of DOORS and RTC, ACS tracks requirements from analysis to design and to each test level. Our RTM provides evidence of validated and complete traceability of the Bureau’s requirements. Our EPMO uses DOORS to check requirements for completion of attributes, ownership, and enforcement of traceability rules. When we import the RFP requirements into DOORS, we set an attribute called “Planned Test Level.” Via this attribute, business analysts associate each requirement with one or more test levels so testing is planned in advance, executed to verify the right set of requirements, and traceable as appropriate to the type of requirement.

10.2.3.3 Data Conversion Task

REQUIREMENT: RFP Section 3.2.6.3.3 to 3.2.6.3.3.1, pg. 88 of 115

3.2.6.3.3.1 Data Conversion Task Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Data Conversion Task, including the Vendor's proposed:

The ACS SPARK-ITS Quality Management System (QMS) defines conversion as a "coordinated task" rather than a standalone workflow due to the complexity of the tasks. The result is that data conversion consists of its own life cycle and touch points to the primary system development life cycle. ACS begins conversion efforts early—during the requirements analysis workflow—in which data analysts are involved in requirements workshops to gain an understanding of data conversion requirements for each functional area. These discussions drive updates to the Data Conversion Plan and the formation of the Conversion Requirements Document, Data Conversion Specifications Document, and conversion development and testing. Data conversion programs are completed prior to system testing so that Health Enterprise can be tested with converted production data from the legacy system. This provides the opportunity for more meaningful results during user acceptance and operational readiness testing.

ACS converts data in accordance with the requirements of the RFP, including two years of historical and active data elements for operations in the current system needed to support the MMIS Re-procurement Project requirements.

Our Experienced Team

ACS is well positioned to support data conversion for the MMIS Re-procurement Project. The ACS Data Management Team members assigned to the MMIS Re-procurement Project conversion team are 100% dedicated to ensuring that data elements currently stored in the legacy system are successfully extracted, transformed, and loaded into Health Enterprise. Our conversion team members bring experience with our conversion methodology and in-depth knowledge of the data structures of Health Enterprise. Furthermore, we have partnered with Oleen Pinnacle and Ninestone, who both have an in-depth understanding of the QNXT platform. With their in-depth understanding of the database structure, they will provide subject matter expertise on the data structures of the existing legacy system.

Our joint team will execute conversion according to BMS requirements using our standard conversion approach. This approach is reflected in the Data Conversion Plan located in Proposal Section A32 in the Appendix. Our approach has proven successful in New Mexico, Mississippi, and Washington, D.C.; and it is in use in our active Health Enterprise implementations. This knowledge uniquely positions ACS to support data conversion for the MMIS Re-procurement Project in extracting, transforming, and loading data from the legacy system into Health Enterprise.

Approach to Health Enterprise Transition

Health Enterprise provides new functionality and capabilities to BMS through innovative use of data-driven and configurable business rules. Accurately converted data from the legacy system helps streamline the transition to West Virginia Health Enterprise. We review and analyze the source data, evaluate and understand the uses of each data element, carefully map source to target, construct conversion with stringent referential integrity rules, test conversion programs, test the conversion loads, and then test West Virginia Health Enterprise with converted data. In addition to conversion of data, we construct tables of data that have no direct corresponding source. These additional tables hold valid value lists, system parameters, or reference metadata that are required for the first day of operations.

Our high-level approach is discussed in the paragraphs below This summarizes the approach that was discussed earlier in Proposal Section 10.2.1.6, Initial Data Conversion Plan.

Requirements Gathering. The first step is to determine which source tables and files are to be converted. ACS conversion data analysts attend requirements elicitation sessions in which we review, confirm, and clarify functional and nonfunctional requirements and present Health Enterprise functionality to BMS to verify alignment with requirements. The conversion data analyst gains a firm understanding of the Bureau's data requirements and how they relate to the data structure of Health Enterprise.

Analysis. Early evaluation of data is vital to executing a well-planned, successful conversion effort and to preparing ACS for meaningful discussions with BMS during solution demonstrations. ACS analysts review legacy data and provide data assessments that assist us in mapping the data, determining how the data will be used during configuration, and deciding how the data will be converted into Health Enterprise. We gain a better understanding of the Bureau's data and how it is currently used, uncovering any potential data challenges that might exist early on. This approach has the following benefits:

- It allows us to discover additional details about the data that were not mentioned in the RFP
- It allows BMS and ACS to identify data anomalies beyond those mentioned in the RFP
- It contributes to the quality of the information we receive as well as to our understanding of the Bureau's business processes

Information obtained through data analysis serves as the basis for identifying gaps between source data files and the new system's data needs, as well as identifying conversion rules by field. Many decisions are made for each data element, i.e., whether the field will be converted from the legacy system, manually loaded, or set to default or null values. Data relationships and index values are determined in the data design step. For each Health Enterprise functional area, analysts research each field and identify and document the detailed conversion rules in our Mapping Analysis and Tracking Tool (MATT). MATT is used by the conversion team to capture the source and target data elements, to document the relationships between the elements, to record their respective metadata, and to create various conversion reports and the Data Conversion Specifications Document.

Gap Analysis. Gap analysis exposes differences in data models where legacy data has no counterpart in Health Enterprise, or where Health Enterprise has a table and/or column with no counterpart in the legacy system. Through this process, our functional teams identify new columns on the Health Enterprise database, and the developers define their data transformation requirements. Information obtained through data gap analysis serves as the basis for developing the Data Conversion Specifications Document.

Design. Data analysts define the initial load strategy immediately following table-level mapping, make necessary modifications, and maintain the load strategy detail throughout the conversion effort. MATT produces a Target Table Gap Analysis Report, which documents a load strategy for each target system table broken out by MITA business area. The load strategy for a given table includes tables loaded with converted data, manually entered or configured data, data acquired through an interface, data transferred from the baseline system, or tables that remain empty at go-live. Once data elements are defined and cataloged, the data conversion team works with the MITA business area functional and BMS teams to define conversion business rules for each field. These rules describe either the transformation required to migrate a legacy system value to a Health Enterprise field, or the calculation or process required to derive a value for a Health Enterprise field. We define rules in the data element business rules catalog to be reused across multiple system tables and fields.

Construction. Extract, Transform, and Load (ETL) developers develop code based on mapping specifications and test the code at the unit level. The data conversion team works closely with the various MITA business area functional teams to have a clear understanding of the mapping rules and the target database layout. They also make use of data profiling, assisted by Informatica PowerCenter® Data Profiler, to analyze data files to identify erroneous data and valid values and to obtain data statistics. Informatica PowerCenter is also an important tool for ETL developers to use when building their conversion jobs. The tool allows an engineer to visually map legacy system data to Health Enterprise structures and to perform data manipulation using a real-time and batch data-mapping user interface. It allows users to define rules for record filtering, error and reject record handling, and error logging. ETL developers perform coding to the mapping specifications documented in MATT, unit test their code, resolve discrepancies identified during testing, and run coding error, balancing, and reconciliation reports. These reports assist the test team and BMS in validating converted data.

Conversion Testing. We thoroughly unit and system test each of the conversion programs described above. Each of the programs provides detailed record counts for each file being converted and generates associated error reports. Our staff validates conversion data using a variety of tools, including reports produced as a result of the conversion process, SQL queries, other data access and manipulation utilities, and Health Enterprise Web pages. These tools allow our data management team to capture before and after images of data for verification and validation.

Provide Converted Data for System and Integration Testing. The data conversion team provides converted data for functional teams to use during system and integration testing. The conversion effort is iterative, meaning conversion business rules will be refined, modified, or added as we progress further into the development and testing efforts. We work with the Bureau and within the change management guidelines to update business rules as needed throughout the conversion effort.

Validate Data during UAT. We start with the data extraction jobs and run them in the same sequence as planned for go-live. The conversion jobs run in the correct order and are timed. If any unexpected defects or conversion timing issues are encountered, we have the time to correct the defects prior to go-live, while still delivering converted data for UAT and ORT.

Execute Final Conversion. The data conversion team coordinates final conversion with many other tasks in the days and weeks before Health Enterprise goes live. Tasks specific to final conversion development and migration include reviewing the go-live portion of the Conversion Plan, executing conversion, and verifying conversion. The team runs reports to verify record counts and samples the data to verify the accuracy of the final conversion process. A final "go" decision is made based on whether any errors are encountered during final conversion. The data conversion team uses the statistics to plan for the final conversion production run. The data conversion team works with the Bureau to establish contingency plans in the event source data is not received on schedule or a table load has not completed within expected timeframes. Because of the trial conversion runs during UAT, we will know far in advance the necessary timeframes to achieve timely table loads.

10.2.3.3.1 Approach to Completion of Conversion Deliverables and Milestones

1. Approach to the completion of the Data Conversion Task Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

As noted in our approach discussed above, we produce and update the conversion deliverables listed in Appendix C as follows:

- Provide an initial Data Conversion Plan with this proposal in Proposal Section A32, Data Conversion Plan in the Appendix. During the Project Start-up Phase, we update the plan specifically for West Virginia and submit it for BMS approval. The plan includes a Conversion Risk Identification and Contingency Plan
- Participate in requirements sessions to understand the requirements that affect data or the conversion effort and document these requirements in the Data Conversion Requirements Document.
- Perform analysis, gap analysis, and design of conversion rules and mappings to form the Data Conversion Specifications Document, which is delivered for BMS approval and maintained under full configuration management throughout the life cycle to ensure it captures all business rules for conversion.
- Use Informatica, a leading industry-standard COTS tool, instead of developing customized conversion software to convert data. Informatica has been tested by ACS and proven effective in previous ACS MMIS conversion projects. We test the mappings and conversion rules developed in Informatica and provide a Conversion Software Readiness Certification Letter confirming the tested mappings and rules.
- Plan for conversion testing and develop Conversion and Reconciliation Test Cases/Scripts.
- Test the conversion and provide summary-level results and balancing and reconciliation reports in the Conversion and Reconciliation Testing Results. The reports are discussed in Proposal Section 10.2.1.6, Initial Data Conversion Plan.
- Provide data for UAT execution and document the test results to form the User Acceptance Testing of Converted Data deliverable.

While not listed as a contractual deliverable, our typical practice advocates reviewing the results of conversion with BMS to gain approval of an accurate and complete final conversion effort. Additionally, our PMM and SDM plans and Project Schedule accommodate the updating of deliverables throughout the life cycle of the project, and updates to deliverables are subject to the same review and approval processes as the original submissions. This means that if conversion decisions have an impact on other deliverables such as the RSD or DSD, we have a structured process to update those documents as needed.

10.2.3.3.2 Approach to Obtaining BMS Approval of Task Completion

2. Approach to obtaining BMS approval of the completion of Data Conversion Task, including proposed Acceptance Criteria for each Milestone.

The SPARK-ITS PMM has a structured, documented process for reviewing and obtaining BMS approval of the Data Conversion Plan and related conversion deliverables and milestones listed in RFP Appendix C. Our Documentation Management Plan includes quality review steps for peer review, quality assurance review by the EPMO, and BMS review. Formal reviews use a common, straightforward, and streamlined

deficit-logging process in the project's SharePoint site that allows for simple logging, rapid remediation, and audit tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

Joint agreement on the Deliverables Expectations Document is critical to attaining mutual agreement on expectations and acceptance criteria for Data Conversion Task deliverables. Likewise, we aim to review and confirm the accuracy of milestones and deliverables in the Project Schedule related to this task. Using the Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-11 contains the proposed acceptance criteria for the Data Conversion Task that is incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-11. Proposed Acceptance Criteria for Data Conversion Task Milestones

Milestone	Acceptance Criteria
93 – Completion and BMS Approval of Data Conversion and Reconciliation for Implementation	The following have been completed and approved: Conversion Risk Identification And Contingency Plan, Data Cleansing And Conversion Specification Document, Data Conversion Requirements Document, Conversion Software Readiness Certification Letter, Conversion and Reconciliation Test Cases/Scripts, Conversion and Reconciliation Testing Results
95 – Completion and BMS Approval of User Acceptance Testing	Completed and approved UAT using converted data

10.2.3.3.3 Process to Update the Data Conversion Plan

3. Process to update the Data Conversion Plan as defined in Section 3.2.6.1.1.

The Data Conversion Plan describes our conversion methodology and the steps taken to complete a successful conversion. We have developed our conversion methodology using lessons learned from past experience, and we continue to refine the conversion methodology with each implementation. During Project Start-up, we work with BMS to further adapt it to reflect the needs and requirements of the West Virginia MMIS Re-procurement Project. We submit it for BMS review and approval, and update it thereafter as specified in the Project Schedule and additionally if needed through approved change management processes. For more information on the Data Conversion Plan, please refer to Proposal Section 10.2.1.6, Initial Data Conversion Plan.

10.2.3.4 Training Task

REQUIREMENT: RFP Section 3.2.6.3.4 to 3.2.6.3.4.1, pg. 88 of 115

3.2.6.3.4.1 Training Task Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Training Task, including the Vendor's proposed:

At the heart of any program's success is a well trained and committed work force. We bring the training processes, technology, and subject expertise the Bureau needs, ensuring positive results. During our more than 40 years of experience as an MMIS contractor and our history of successful MMIS implementations, we have developed training methodologies centered on the requirements for every critical role in fiscal agent operations. Our experience in planning, developing, and delivering large-scale training programs tells us that effective training during implementation lays the foundation for success in the operations phase. We use training time wisely to focus on what each stakeholder needs to know to do their job.

Our training approach combined with our implementation experience enables us to deliver high-impact training programs tailored to meet the unique needs of BMS, which leads to improvements to productivity and performance. We base our methodology on the Analysis, Design, Develop, Implement, and Evaluate (ADDIE) best practice for instructional systems design, focusing on creating process-based, role-based training that is conscious of learners' schedules, learning habits, and current and needed skill sets. We implement the comprehensive eLearning suite, Adobe Connect, which includes a range of tools including Captivate®, Dreamweaver®, and Flash® to develop materials, create computer-based training, and track learning needs and learning history across learner types.

During Phase 1, we show stakeholders—including BMS, providers participating in pilot activities, Health Enterprise users, trainers, administrators, managers, test teams, and others—how to interact with the system. During subsequent phases, we provide training on how to support ongoing operations and provide a seamless transition to a new contractor, when required. We produce positive results by developing training curricula that provide the specific skills stakeholders need.

When change occurs, effective communication and training are critical, and we make that a priority. Training helps providers and their staff, BMS personnel, and ACS adapt to changes in health care programs, improve service, and promote efficiency. The Health Enterprise Web portal provides immediate access to information, which stabilizes provider services and program operations. Well-designed and presented training helps promote acceptance of the West Virginia Health Enterprise system by providers and provider staff, resulting in a smooth and seamless transition, reducing risk for BMS. We provide a sample Training Plan from our base Quality Management System in Proposal Section A13, Training Plan.

10.2.3.4.1 Approach to Completion of Deliverables

1. Approach to the completion of the Training Task Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

To complete the Training Task deliverables and milestones, we apply the SPARK-ITS Training Methodology, a comprehensive, learner-centric, and closely monitored learning approach, in concert with the ADDIE framework as shown in Exhibit 10-15. We first perform a training analysis (delivered as the Training Assessment and Gap Analysis of Pre-Implementation System User Training) to define the specific training needs of stakeholders and develop a learning matrix that describes the training modules needed to support those needs. We then develop a training strategy and learning plan (delivered as Final Training Plan/Schedule) and create the training modules and training database, which we deliver as Electronic Training Documentation and Training Database and Application Software. At that point, we create and deliver to BMS the Letter Certifying Training Database is Built and Software is Operational (deliverable #102) and baseline the training documents using the Document Version Control Plan (deliverable #103), which we deliver as a standalone document, or preferably as part of the Documentation Management Plan, Deliverable 7 in Appendix C of the RFP.

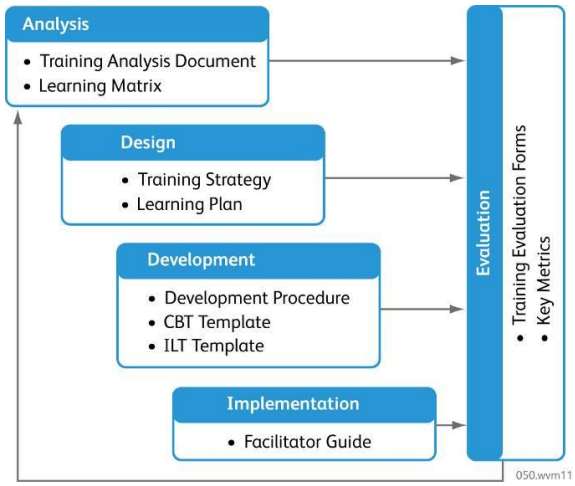


Exhibit 10-15. Training Life cycle: ADDIE and the SPARK-ITS QMS

ADDIE is a proven approach to developing and evaluating training programs. The SPARK-ITS Training Methodology offers structured processes and templates for standardization.

As part of the ADDIE framework, we develop training evaluation forms (delivered as Evaluation Survey Tools). During implementation, we deliver training to stakeholders and use the Adobe Connect solution to track and report on training participation to BMS on a weekly basis, forming the Training Report. We deliver a Letter Certifying Completion of Training (deliverable #104) when all user and provider training is agreed upon in the Training Plan is complete. Beginning at contract execution, we report on training status as part of our Weekly Project Status Report and Monthly Project Status Report deliverables.

Our methodology for updating deliverables uses repeatable processes for producing high-quality deliverables that meet or exceed BMS' expectations and provide an efficient means for BMS resources to provide feedback and request changes. Included in our methodology are two internal review cycles—peer reviews and document quality assurance reviews—to verify that deliverables are accurate and complete before submitting them to BMS. Once we have completed our internal reviews, we submit deliverables to BMS for review and comments. We modify the deliverables per BMS' direction, conduct an additional internal review if appropriate, and submit the final deliverables to BMS for approval. Additionally, our Documentation Management Plan provides a structured process to update deliverables throughout the life cycle of the project, and updates to deliverables are subject to the same review and approval processes as the original submissions.

10.2.3.4.2 Approach to Obtaining BMS Approval

2. Approach to obtaining BMS approval of the completion of Training Task, including proposed Acceptance Criteria for each Milestone.

As part of our Project Management Methodology, ACS has a structured, documented process for reviewing and obtaining BMS' approval of the Training Task deliverables and milestones listed in RFP Appendix C. Formal reviews use a common, straightforward, and streamlined deficit-logging process in the project's SharePoint site that allows for simple logging, rapid remediation, and audit tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

During Project Start-Up, ACS works with BMS to create a Deliverables Expectations Document that details the description, location, constraints, assumptions, content, format, and approvers for each contractual deliverable. Additionally, we review the Project Schedule to gain BMS approval of its tasks, deliverables, milestones, durations, initial resources, and dependencies. The Project Schedule includes milestones, identified with the prefix "M," client task with the prefix "C:," and final deliverables with the prefix "D:." Using the Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project.

Table 10-12 contains the proposed acceptance criteria for the Training Task that would be incorporated into the Deliverables Expectations Document and Project Schedule.

Table 10-12. Proposed Acceptance Criteria for Training Milestones

Milestone	Proposed Acceptance Criteria
109–Completion and BMS Approval of Provider Training	The following items have been completed and approved for provider training: Training Assessment and Gap Analysis, Final Training Plan/Schedule, Electronic Training Documentation, Training Database and Application Software, Letter Certifying Training Database is Built and Software is Operational, Document Version Control Plan, Letter Certifying Completion of Training, Evaluation Survey Tools, Training Report
110–Completion and BMS Approval of Pre-Implementation System User Training	The following items have been completed and approved for user training: Training Assessment and Gap Analysis, Final Training Plan/Schedule, Electronic Training Documentation, Training Database and Application Software, Letter Certifying Training Database is Built and Software is Operational, Document Version Control Plan, Letter Certifying Completion of Training, Evaluation Survey Tools, Training Report
111–Completion and BMS Approval of Phase 1c	The following items have been completed and approved: Training Assessment and Gap Analysis. Final Training Plan/Schedule, Electronic Training Documentation, Training Database and Application Software, Letter Certifying Training Database is Built and Software is Operational, Document Version Control Plan, Letter Certifying Completion of Training, Evaluation Survey Tools, Training Report
147– Completion and BMS Approval of Turnover Training	Training is complete as agreed upon in the Turnover Plan

10.2.3.4.3 Approach to Training Plan

3. Approach to development, maintenance and implementation of the Training Plan, including methodologies addressing:
   a. Assessment of internal and external training needs, including gap analysis

The assessment process begins by identifying the groups of people needing training. These groups may include BMS staff, providers, providers' staffs, ACS personnel, provider associations, and members. Because each user has access to only the information and features necessary to perform the tasks assigned to his or her role, our training approach is highly role-based. During DDI, ACS reaches out to stakeholders to determine their immediate and long-term training needs, including providers and their office staff. We work with front- and back-office management staff to determine what training modules, curricula, and tools are most effective in delivering training. We also offer training to office staff or third party billers who submit claims on behalf of third-party providers, to reduce errors and denial rates. This process allows us to collaboratively establish training goals that help create and deliver a dynamic training curriculum that meets the needs of all stakeholders, including BMS staff. Once operational, we will review quality assurance findings to continually improve our training materials and effectiveness.

During DDI, ACS develops an MMIS Training Course Matrix, which contains a list of recommended training courses for stakeholders. The matrix identifies those stakeholders for whom particular courses are most appropriate. We also provide a Training Course Content Overview that gives the intended audiences insight into course scope. We work with BMS early in Phase 1 to refine our training artifacts, customizing them for the stakeholders' needs, based upon the West Virginia Medicaid program.

BMS User Training

b. Approach to BMS user training, supporting all MMIS business processes as identified in the RFP

The development of BMS user training begins with the results of any relevant needs and gap assessments. These results allow us to tailor a training approach specific to the roles of each user group. We leverage project management best practices, such as project planning, by including activities to address the PMBOK Guide process groups of Initiate, Plan, Execute, Control, and Close. Our methodology is continually refined based on factors such as industry trends, project feedback, client satisfaction surveys, and internal improvement efforts.

Each stakeholder group must know how to interact with the Health Enterprise solution to maximize its functionality in the performance of specific job responsibilities. Our experience with comparable implementations across numerous Medicaid agencies allows for faster design, delivery, and implementation of training efforts. We build courses based on the privileges in the Health Enterprise role-privileges matrix, to ensure nothing is overlooked. We then build a curriculum that corresponds with each role to ensure that when BMS users receive their Health Enterprise credentials, a curriculum is available to cover all of the functions to which they have access. We also provide training that covers the associated business processes. For example, modules might cover the Provider Enrollment business process and details of screening providers for exclusions and sanctions. More detailed modules teach the Health Enterprise functions that support those processes.

Our industry-leading training solutions, such as the Work Instruction Wiki, provide online, on-demand performance support tools to stakeholders. We integrate video clips into courses to increase engagement, and we use computer-based testing to assess learning retention and identify users in need of additional support. Using a blended learning methodology increases benefits to BMS, as Table 10-13 demonstrates.

Table 10-13. Blended Learning Results in Tangible Benefits to BMS

Key Feature	Tangible Benefits to BMS
Learning Management System (LMS)	• Consolidated access to training content and courses • Consistent delivery of training content • Highly participatory, self-service experience • Reduction in costs • Consistent operational efficiency • Established training goals to monitor participants against plan • Efficient measurement and reporting capability • Tracking and reporting of participation and performance • Year-round access to initial and refresher training for providers
Computer-Based Training (CBT)	• Presented via computer at learner's location • Reduces travel costs and environmental impact • Available at learner's convenience, on demand (asynchronous learning) • Allows training to be paused, stopped, and resumed as needed • Uses video and software simulations
Training via Webinar	• Statewide delivery to reach dispersed audiences • Live instructor presenting content • Reduced travel costs

Key Feature	Tangible Benefits to BMS
Instructor-led Classroom Training	• Coaching, simulations, and at-elbow learning • Problem-centered instruction
Work Instruction Wiki (analogous to Wikipedia)	• Policy and procedure content always up to date • Search capability • Version history • Print as needed (in whole or in part) to reduce printing, shipping, and storage costs and environmental impact
Train the Trainer	• Provider field representatives are trained in methodology and content so they can present effective, up-to-date training at a provider's location, other training location, or remotely via computer • BMS staff can more readily transfer knowledge on a particular subject to a learner group
Provider Workshops	• Annual provider workshops • Special workshops to address major program changes • Online group tutorials • One-on-one training

Provider Training

c. Approach to provider training, including but not limited to training on the topics of claim submission, claim processing and edits, prior authorization, provider enrollment, and use of the Web Portal

Our goal is to ensure providers and their office staffs understand how to interact with Health Enterprise and are informed quickly about changes. We conduct training for providers and their staffs that includes topics such as claims submission, claims processing and edits, service authorization, provider enrollment, and use of the Web portal, to name just a few topics. Providers will be given an opportunity to choose the format of training that works best for them or is necessary for the training event based upon our interaction with the provider. This training, performed by regionally based provider representatives, can be done online with small or large groups. A regionally based provider representative may follow up with on-site training tailored to providers' specific needs and issues.

Through regular provider and BMS training seminars, provider association meeting workshops, provider training sessions, BMS meetings, and provider site visits, we offer providers a multitude of venues and topics to choose from for continuing development. We track provider, BMS, and ACS participation in learning activities using our proven LMS.

The LMS allows learners to take the training they need where and when they want, tracks their participation, and allows users to see their progress. When we host provider training seminars, providers may use the Web to gain access to these sessions. These online events are often referred to as webinars or synchronous online training. The Health Enterprise solution makes these training courses available on-demand through the LMS for those who could not attend or wish to review the information at a later date.

Ongoing Training

d. Delivery of ongoing training throughout the DDI and Operations phases

As with any new system, training is imperative for successful operation. Based upon the BMS-approved training plan, our skilled and knowledgeable training professionals provide initial and ongoing education

to BMS staff, providers, and other stakeholders during DDI and Operations phases. We integrate our LMS into Health Enterprise to allow providers to register for training online and to track their training completion. Our outreach program encourages training attendance, promotes tutorials and other digital media presentations to the Web portal for self-service access, communicates training schedules, and recommends additional relevant training. This training covers the range of job functions required for successful operations. Our provider field representatives also serve to supplement training as needed.

Our LMS allows us to schedule follow-up reminders to training participants, encouraging them to participate in additional courses that may be relevant to their needs and refer them to additional useful resources. In doing so, we build relationships with learners so they have the knowledge to effectively manage their respective programs or offices.

Development and Use of Training Materials

e. Development and use of on-line tutorials, on-line help, on-line policy and procedure manuals, and hard copy user manuals for the delivery of training

The ACS LMS is built on the award-winning Adobe Connect platform, one of the leading learning management platforms available. This system allows any user of a modern Web browser with Adobe® Flash® Player to access training materials on demand. In the LMS, BMS staff, providers, and other stakeholders access training schedules and learning information to meet their needs. Whether they want to participate in webinars, instructor-led classroom training, or on-demand courses, users find that the self-service registration makes registering for training easy.

Throughout our training process, we teach participants to use online resources, including the online help built into the Health Enterprise Web pages, and our Work Instruction Wiki, so they are comfortable with those resources and confident about their ability to perform their job functions when training is complete. The online help and wiki solutions were discussed in Proposal Section 10.2.3.1.5, User Documentation.

We also produce workbooks and other ancillary materials when helpful to accompany synchronous and asynchronous training, whether online or in person. These workbooks help expand upon and reinforce training concepts and also give training participants a document to take with them for future reference.

Web Seminar and Video-based Training

f. Development and use of Web seminar and video-based training for providers

We have developed and continue to develop a broad range of Web seminars (Webinars) and video-based training for providers and their office staff, supplemented by support from regionally based provider representatives. Our LMS allows users to sign up for courses through the Web portal and access them through their browsers. Training modules provide many of the same features of classroom training without the scheduling constraints of classroom-based training. We identify learning needs and develop Web-based courseware at different levels to meet the varied knowledge and needs of targeted learners.

Version Control and Maintenance of Training Documentation

g. Version control and maintenance of training documentation

Our training materials are stored in the Adobe Connect learning management system, which provides full version control capabilities. We update training materials based upon the changes to the Health Enterprise system, changes to Medicaid requirements and policy, and feedback from training surveys. This

disciplined approach continues through the life of the contract. When changes to the system, operations, or program occur, we identify the people affected and assess the need for training. We identify existing training materials needing revision and any knowledge gaps that need to be filled with new training materials. This process ensures BMS staff, providers, and other stakeholders will have the knowledge and skill to adapt as change occurs. When training materials are approved for distribution, we create an archival copy that is retained for future reference.

We maintain and control the Work Instruction Wiki for on-going training and reference. MediaWiki supports review tracking and scheduled re-reviews for policies and other content that needs (for example) annual review and update. It also supports development, review, and production environments for validation and verification prior to release.

Training Evaluation

h. Training evaluation, including the use of evaluation survey tools to determine whether the trainings produced the expected results

We know that training is useful only to the extent that it changes behavior and drives business results. Whether we address functionality, procedures, processes, interfaces, data structures, quality activities, reports, or other aspects of the system, the ACS training team's goal is to help BMS program operations, policy personnel, and other program stakeholders use the Health Enterprise system and other solution components effectively and efficiently to perform their day-to-day functions.

To ensure that participants understand and incorporate training class information into their daily work, we use an evaluation plan based in part on Donald L. Kirkpatrick's Evaluating Training Programs: The Four Levels (3rd Edition). As part of the course materials, we give assessments to participants to measure knowledge, skills, and/or attitudes about the course material at the beginning and end of each course. Immediately following each course, we issue a short survey to each participant that includes questions about the course, relevance of the course, the instructor, course materials, and the environment. We use results of these evaluations to continuously improve the overall effectiveness of future training sessions.

Training Results Reporting

i. Training results reporting, including information such as, but not limited to, the number of training sessions, type of training, training locations, number of trainees, and information regarding the actual training results and recommendations for follow up training

Record-keeping of the training sessions is critical, so we can document that stakeholders received training, provide a record of training for each individual that can be used in career plans or during performance evaluations, and track stakeholders' acquisition of skills and knowledge to perform well in the workplace. Our LMS serves as a repository for training completion records for each learner, regardless of delivery method. Sign-in sheet data is used for classroom training.

We follow up with trainees who need additional training with specific recommendations of training modules to assist in their skill development. In addition, we use an outreach program and follow-up emails to remind all users of training opportunities.

We review evaluation data to make sure we provide necessary training and that it is well comprehended. When warranted, we modify existing modules or develop new modules to improve training outcomes. By

beginning with needs assessments and then following through to assess how well those needs were met, our approach enables us to provide BMS with effective training throughout the life of the contract.

10.2.4 Phase 1d: Implementation Readiness

REQUIREMENT: RFP Section 3.2.6.4 to 3.2.6.4.1, pg. 89 of 115

3.2.6.4.1 Phase 1d Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the Implementation Phase, including the Vendor's proposed:

Detailed plans and checklists, early deployment of functionality, proactive risk mitigation, and strong contingency planning contribute to a successful implementation.

The collaborative effort that BMS and ACS have contributed to requirements, design, configuration, and testing comes to fruition with the implementation of Health Enterprise. Our implementation strategy focuses upon operating in a spirit of partnership with the Bureau that promotes transparency, accountability, comprehensive contingency planning, and control.

Achieving Implementation Phase Success

- Partner with BMS in implementation planning, decisions, and activities
- Start implementation and contingency planning at the beginning of the contract
- Provide visibility, accountability, and control through the EPMO and Account Leadership

While the Implementation Workflow is the eighth of nine workflows in the SPARK-ITS SDM, we plan for implementation throughout the project. Our phased implementation is driven by a common approach documented in the Implementation Plan, and we develop deployment-specific checklists for provider re-enrollment, deployment of functionality for pilot testing, and full MMIS implementation. Our Project Schedule includes tasks and dependencies to accomplish the phased deployment. Within the SPARK-ITS SDM, the Implementation Workflow is immediately followed by the Post-Implementation Support Workflow, which includes the processes critical to providing appropriate support and phase closure tasks after go-live.

The primary objective of the Implementation Phase is to design and execute a timely, efficient, and accurate transition from the legacy system to Health Enterprise without adversely affecting day-to-day operations and without disrupting BMS, member, or provider services. Our recent successful implementation of the Provider Enrollment portion of Health Enterprise in New Hampshire, as well as the successful, on-time takeover of the California MMIS and fiscal agent operations, both serve as inputs to best practices that are incorporated into implementation planning for West Virginia. Our shared goal is uninterrupted service to stakeholders, in particular, to the members who depend upon the West Virginia Medicaid Program for their healthcare and to the providers who deliver those services.

10.2.4.1 Approach to Completion of Deliverables and Milestones

1. Approach to the completion of the Implementation Readiness Phase Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

ACS tailors our baseline SPARK-ITS SDM Implementation Plan early in the project and updates it throughout the project. We develop checklists, specific to each deployment (provider re-enrollment, pilot test, and MMIS go-live), that supplement the reusable implementation process. Our Project Schedule details the timelines for ACS submission of the RFP Appendix C deliverables: the Implementation Plan, Report Distribution Schedule, Software Release Plan, Emergency Back Out Plan, Backup and Recovery

Plan, Business Continuity Plan, System Modification and Enhancement Plan, Final User Documentation, Final Provider Documentation, Implementation Checklist, Updated Project Management Plan, and Weekly and Monthly Project Status Reports.

As part of our project management methodology (PMM), ACS has a structured, documented process for reviewing and obtaining BMS approval of the Implementation Readiness Phase deliverables and milestones listed in RFP Appendix C. Furthermore, our PMM and SDM plans and Project Schedule accommodate the updating of deliverables throughout the life cycle of the project, and updates to deliverables are subject to the same review and approval processes as the original submissions. Our Documentation Management Plan includes quality review steps for peer review, quality assurance review by the EPMO, and BMS review. Formal reviews use a common, straightforward, and streamlined deficit-logging process in SharePoint that allows for tracking of deliverable deficits. Please refer to Proposal Section 9.3.3, Process for Acquiring Deliverable Acceptance by BMS, for details regarding this process.

10.2.4.2 Approach to Obtaining BMS Approval of Phase Completion

2. Approach to obtaining BMS approval of the completion of Implementation Readiness Phase, including proposed Acceptance Criteria for each Milestone.

During Project Start-Up, ACS works with BMS to create a Deliverables Expectations Document that details the description, location, constraints, assumptions, content, format, and approvers for each contractual deliverable. Additionally, we review the Project Schedule to gain BMS approval of its tasks, deliverables, milestones, durations, initial resources, and dependencies. The Project Schedule includes milestones, identified with the prefix "M:" and final deliverables with the prefix "D:." Using the Deliverables Expectations Document and Project Schedule, BMS and ACS agree upon measurable acceptance criteria for the outputs of each task of the MMIS Re-procurement Project. Table 10-14 contains the proposed acceptance criteria for the Implementation Readiness Phase that is incorporated into the Deliverables Expectations Document and Project Schedule. In addition to the Appendix C milestones, we also include a milestone in the Project Schedule to gain BMS approval and acceptance of the operational system after completion of go-live and transition to operations.

Table 10-14. Proposed Acceptance Criteria for Implementation Readiness Milestones

Milestone	Acceptance Criteria
Completion and BMS Approval of Provider Re- enrollment	• Provider components of Health Enterprise tested through User Acceptance Testing (UAT) and Operational Readiness Testing (ORT) and deployed • Provider Re-enrollment process completed as agreed
Completion and BMS Approval of Phase 1d (Replacement MMIS becomes the system of record)	• Implementation Readiness Phase deliverables submitted to BMS and approved • Replacement MMIS operational and verified by BMS

10.2.4.3 Approach to Implementation Plan

3. Approach to development and deployment of an Implementation Plan, including methodologies for:

Objectives of the Implementation Plan are to accomplish the following:

- Confirm that Health Enterprise is ready for implementation prior to operations
- Describe the approach to deploying the system, as well as roles and responsibilities for related tasks

- Proactively identify and mitigate risks that may cause implementation delays or issues
- Facilitate smooth and successful go-live and transition to operations, minimizing interruptions to provider and member services
- Provide executives and stakeholders with timely information regarding the implementation status

Implementation Scheduling

a. Implementation scheduling, including plan to phase in operations on a schedule to minimize risk.

The Implementation Plan includes a carefully orchestrated schedule; it is more detailed than the daily or weekly tasks in the Project Schedule. Tasks are assigned to individuals and scheduled on an hour-by-hour basis. The high-level schedule is included in our proposed Project Schedule, presented in Proposal Section A9 in the Appendix.

The Implementation Plan references detailed Implementation Checklists specific to each deployment. The checklists are categorized by functional area and include milestones for operational and technical preparation. The DDI and fiscal agent management teams perform a comprehensive walkthrough during ORT to validate the checklists for completeness. We review the checklists with BMS when they are created, as a part of the go-live decision making process, and during implementation.

The checklists include activities such as releasing software packages, opening the Web portal, implementing and verifying EDI, setting "day zero" parameters, performing final data conversion, and conducting any final training. They also include information on publishing any user, system, and provider documentation or preliminary communications specific to that release.

Assessment of Implementation Readiness

b. Assessment of Implementation (go-live) Readiness.

ACS' Implementation Plan includes a set of checklists to confirm that each component of Health Enterprise is ready to be implemented and that all necessary Bureau approvals have been obtained prior to beginning operations. Included in the checklists are items to check that deliverables such as final system documentation, user documentation, and training documentation have been approved. The implementation checklists include these critical project tasks and are approved as complete by BMS prior to the go-live date of each deployment as shown in the Project Schedule. We conduct a go/no-go meeting to confirm the system and operations are ready for go-live. Below are some of the factors that determine our readiness to proceed with go-live. Each item has one or more associated checklists so we can confirm readiness at a detailed level:

- Facility and infrastructure
- Telecommunications
- External interfaces
- State, user, and provider training
- Operations manuals
- Confirmation of UAT/ORT completion
- Mailroom operations
- Imaging operations
- System and building security

- Backup and recovery procedures
- Hardware and software installation

Once we determine we are ready to deploy, we generate the Implementation Certification Letter and seek BMS approval to begin deployment.

c. Preparation and delivery to BMS all documentation necessary to assess implementation readiness.

We include time in the Project Schedule to account for BMS review of all final deliverables to confirm readiness for go-live. We typically promote a best practice of ten days for initial client review and five days for subsequent client review of deliverables, but our methodology acknowledges that the duration necessary for BMS review varies based on the complexity of the deliverable as well as the context within the life cycle. Therefore, during Deliverables Expectations Document discussions, we determine with BMS which documentation we will use to assess implementation readiness and what the timeline will be for BMS review and approval of those documents.

Satisfaction of Requirements

d. Demonstration that the new MMIS satisfies requirements specified in the RFP (including all Appendices) and all requirements documented during the requirements analysis and systems design activities.

We use the Requirements Traceability Matrix (RTM) to show how project artifacts, requirements from the RSD, gap analysis information from the Gap Analysis Design Document, design elements from the DSD, and test cases with results are mapped back to original requirements in the RFP. The RTM verifies that requirements are met in system design and testing so they may be fulfilled in the implemented system and confirmed during CMS certification. We publish the RTM upon achievement of major SDM milestones (RSD, DSD, System Documentation, and completion of test levels) and at implementation.

Integrated Testing Environment

e. Creation of an integrated testing environment (ITE) as detailed in the Configuration Management Plan referenced in Section 3.2.6.1.1.

Once Health Enterprise is operational, we maintain (rather than create new) the ITE that was used during the DDI Phase, including the development test, system and integration test, and UAT environments. For details of the ITE, please refer to Proposal Section 10.2.1.5.2, Integrated Test Environment.

User Access

f. Demonstration that BMS users can access the new West Virginia MMIS according to the established system accessibility and performance requirements.

In addition to UAT and load/stress testing already completed, we validate user access to West Virginia Health Enterprise through pilot testing that immediately precedes implementation. Through pilot testing, we deploy our production environment to a select group of providers to submit actual claims, allowing us to validate system accessibility, performance requirements, and operational readiness, and allowing providers to experience the new system and provide critical feedback.

Cutover

g. Ensuring the cutover to the new MMIS is transparent to the member and provider communities.

We aim for a transition that is transparent to members and seamless to BMS and the provider community. While the Implementation Plan identifies procedures for system deployment and assumption of operations, the Transition Plan identifies processes to transition from legacy system operations to Health Enterprise operations and maintenance functions. It identifies cutover procedures and includes a calendar indicating dates for submittal of claim records on electronic media claims and hard copy. We work to keep the provider community informed of the upcoming process, how they are affected, and status of our progress.

Our cutover process involves working with BMS and the incumbent fiscal agent to set mutually agreeable cut-off and start-up dates for claims processing and other system and operational functions. We develop the schedule to minimize impact on the provider community. The cutover schedule, documented in the Transition Plan, identifies dates for accepting and processing claims in the legacy system and Health Enterprise, and it identifies a process for handling work-in-process and pended claims during this transition period. The Transition Plan also identifies other processes and best practices to minimize impact to the member and provider communities, including continuity of ACS staff (keeping a portion of DDI staff on board as we transition to operations, and likewise, having ACS fiscal agent staff ramp on during the DDI effort); continuous and informative provider communications; cooperation and collaboration with the incumbent fiscal agent in planning and executing transition activities; and proactive risk identification, mitigation, and contingency planning.

By reviewing the implementation checklist, we make sure each task is performed on schedule. Risk mitigation planning assesses potential breakdowns and provides contingency strategies to maintain service level agreements and to continue paying providers.

System Walkthroughs and Demonstrations

h. Conducting system walkthroughs and system demonstrations for BMS and designated staff.

The DDI and fiscal agent management teams perform walkthroughs during ORT to validate checklists for completeness. We review the checklists with BMS when they are created, as a part of the go-live decision making process, and during final implementation. As requested by BMS, and as necessary to supplement UAT and ORT activities already performed, we will conduct system walkthroughs and demonstrations so the Bureau can confirm system readiness for implementation. In addition to any requested walkthroughs and system demonstrations, we provide BMS and designated staff with access to a range of training opportunities via computer-based training tracked in our learning management system.

Readiness

i. Providing an Implementation Certification Letter that certifies that the system is ready for production.
j. Obtain written approval from BMS to start operations.
k. Begin operations (as described in RFP Part 3.2.7.1 Routine Operations).

ACS conducts a readiness meeting to confirm implementation readiness. Upon our own internal “go” recommendation, we submit our implementation certification letter for BMS review and approval certifying that the system is ready for production. Upon BMS approval, we execute the Implementation Plan and checklists and transition to operations according to our Transition Plan. Our Transition Plan was described in Proposal Section 9.3.4.11, Transition Plan, and our approach to operations can be found in Proposal Section 9.4, Phase 2: Fiscal Agent Operations.

10.2.4.4 Approach to Completing Deliverables Initiated Prior to Implementation Phase

4. Methodology and approach to completing and finalizing (per BMS' approval) the following deliverables initiated prior to the Implementation Phase:

During the Implementation Phase, we update or finalize deliverables that we initiated prior to the Implementation Phase. We store the updated documents in the project's SharePoint site and notify BMS when they are ready for review and approval. Table 10-15 below lists the required deliverables and our general approach for completion. Specific proposed dates can be found in the Project Schedule in Proposal Section A9 in the Appendix.

Table 10-15. Implementation Deliverables and General Approach for Completion.

Requirement	General Approach for Completion
a. Operational Readiness Testing, repeating portions of these testing activities as requested by BMS	Entry criteria for the Implementation Phase include completing and gaining approval of ORT. At the end of the readiness test period, we submit ORT results (deliverable #83 of RFP Appendix C) to BMS for review and approval and repeat any testing activities requested by BMS. We mutually agree that the exit criteria for these test levels have been achieved, and we proceed to the Implementation Phase.
b. Emergency Back Out Strategy	During the Implementation Phase and in preparation for go-live we make final updates to the Emergency Back Out Strategy (listed in Appendix C as the Emergency Back Out Plan, deliverable #115). This document is a component of the Implementation Plan, and updates may be the result of new information revealed, defects discovered and resolved, ACS peer review findings, or BMS feedback of the Emergency Back Out Plan or the overall Implementation Plan.
c. Pilot Testing	Entry criteria for the Implementation Phase include completing and gaining approval of the pilot test. At the end of the readiness test period, we submit pilot test results to BMS for review and approval. We mutually agree that the exit criteria for this test level have been achieved, and we proceed to the Implementation Phase.
d. System Documentation e. User Documentation f. Provider Documentation g. Standard output and BMS-specific reports	During the Implementation Phase and in preparation for go-live we make final updates to the System, User, and Provider Documentation (deliverables 56, 119, and 120 of RFP Appendix C). The system documentation includes specifications for standard output and BMS-specific reports. Updates may be the result of new information, defect fixes, ACS peer review findings, or BMS feedback.
h. Report Distribution Schedule	During the Implementation Phase and in preparation for go-live we make final updates to the Report Distribution Schedule, deliverable #113 of RFP Appendix C. Updates may be the result of new information revealed, defects discovered and resolved, ACS peer review findings, or BMS feedback.
i. Security, Privacy, and Confidentiality Plan	During the Implementation Phase and in preparation for go-live we make final updates to the Security, Privacy, and Confidentiality Plan, deliverable #25 in RFP Appendix C. Updates may be the result of new information revealed, defects discovered and resolved, ACS peer review findings, or BMS feedback.
j. Production environment including final production schedule	During the Implementation Phase and in preparation for go-live we make final updates to the production environment and final production schedule within the Implementation Plan. Updates may be the result of new information, defect fixes, ACS peer review findings, or BMS feedback of the production environment or overall Implementation Plan.
k. Business Continuity Plan including backup and recovery procedures	During the Implementation Phase and in preparation for go-live we make final updates to the Business Continuity and Disaster Recovery Plans including backup and recovery procedures (deliverables 28, 116, and 117 in RFP Appendix C). Updates may be the result of new information, defect fixes, ACS peer review findings, or BMS feedback.

Requirement	General Approach for Completion
l. Data conversion	As part of the Implementation Phase, we execute final data conversion and provide a report of the final conversion results for BMS review and approval.
m. Pre-Implementation training	During the Implementation Phase, we complete any pre-implementation training of providers, fiscal agent staff, or other stakeholders as documented in the Training Plan.
n. Update of Phase 1 Project Management Plans for Phase 2	During the Implementation Phase, we finalize plans for Phase 2, including any updates to the Project Management Plans. Because our project management plans are aligned with the PMBOK Guide and designed to provide appropriate and reusable oversight processes for all project tasks, we anticipate few adjustments to the project management plans as we enter Phase 2.
o. Modifications and Enhancements Plan is ready to implement, including BMS approval of management and staffing plan that includes detailed proposed staffing for managing future modifications and enhancements	During the Implementation Phase, we finalize the Modifications and Enhancements Plan including staffing. The Modifications and Enhancements Plan describes processes for modifying and enhancing the system during operations and is described in Proposal Section 9.5.3, Phase 2c: MMIS Modifications and Enhancements.
p. Confirmation of stakeholder readiness for new system implementation (where stakeholders are defined as the vendor, BMS, providers, and others determined by BMS)	Once ACS conducts an internal go/no-go meeting and determines we are ready to go live, we submit a Certification of Implementation Readiness Letter to BMS and seek BMS and other stakeholders' confirmation of implementation readiness. Upon stakeholder and BMS approval, we execute the activities documented in the Implementation Plan, Implementation Checklists, and related artifacts.

10.2.5 Phase 1e: CMS Certification Planning

REQUIREMENT: RFP Section 3.2.6.5 to 3.2.6.5.1, pg. 91 of 115

BMS can rely on our extensive experience with CMS certification, as well as our West Virginia-specific MMIS experience, to assure thorough preparation for a smooth, successful certification. ACS is committed to ensuring West Virginia Health Enterprise achieves CMS certification within 12 months of system go-live through detailed planning and our proven certification approach.

Timely certification of Health Enterprise by CMS ensures that the Bureau receives the maximum allowable Federal Financial Participation (FFP) for the MMIS Re-procurement Project and protects the ongoing funding of services for West Virginia members. By working with a contractor with an established record of successfully managing the certification process and experience working with the Medicaid Enterprise Certification Toolkit (MECT), BMS maximizes the likelihood of achieving timely certification. Health Enterprise, ACS' fourth generation MMIS, brings BMS the flexibility of a modern architecture specifically built for MITA alignment, combined with the lessons learned and best business process practices of three previous generations of 100% successfully certified ACS MMIS solutions. Drawing on ACS' experience and proven methodology in achieving successful CMS certifications in 10 states and the District of Columbia, with all certifications retroactive to the date requested, BMS can be confident in achieving timely certification of Health Enterprise retroactive to the first day of operations.

As an MMIS developer since 1972, and a Medicaid fiscal agent contractor since 1982, ACS has more industry experience than any other firm. Since the beginning, we have addressed federal mandates and appropriate state statutes and regulations as they have evolved during design and implementation of our Medicaid claims processing systems. We brought our experience and methodologies for meeting federal laws and regulations to our successful performance on West Virginia's MMIS and fiscal agent operations from 1992 to 2004, including implementation of Y2K upgrades to the system. As one of the first fiscal agents using the MECT, ACS was invited to present recommendations of best practices for certification preparation at the 2010 National MMIS Conference.

Proven Track Record of Successful CMS Certifications

- Successful CMS certifications in 10 states and the District of Columbia
- Certification planning from Day one of contract execution
- Proven process aligned with MECT
- Easy access to certification materials through the SharePoint repository

ACS has engaged the services of a consultant well known to BMS to assist in planning and coordinating the CMS Certification process as a benefit to the MMIS Re-procurement Project. Mr. Leonard Kelley, who served for 15 years as the Deputy Commissioner for BMS, is available in an exclusive arrangement with ACS to serve in this role for West Virginia. He will work closely with Judith Hanson, our proposed CMS Certification Manager who has more than 25 years of broad experience as a national MMIS and Medicaid subject matter expert, to help coordinate certification tasks and activities.

We follow a proven, documented, and repeatable approach to preparing for federal certification of the MMIS Re-procurement Project. We have aligned our approach to certification to match the MECT on our most recent MMIS projects: Alaska, North Dakota, New Hampshire, and the District of Columbia (which was certified in December 2011). The detailed system review criteria incorporated in the MECT checklists already have been mapped in these Health Enterprise implementation projects.

Our track record of successful certifications attests to the effectiveness of our project management oversight and organized approach to documentation collection. Three of our certification projects highlight our experience and effectiveness in CMS certification efforts. Our Mississippi MMIS received certification only eight months after system implementation. Our Georgia MMIS certification resulted in enhanced FFP with the level of eligible Medicaid administrative costs incurred by the State of Georgia increasing from the previous level of 50 percent to 75 percent. Most recently, our Washington, D.C., certification marked ACS' first MMIS certification using the MECT and garnered praise from CMS.

10.2.5.1 Approach to Completion of the Certification Planning Phase Deliverables and Milestones

3.2.6.5.1 Phase 1e Vendor Response Requirements. The Vendor's proposal should present a narrative description of the Vendor's proposed approach to completion of the CMS Planning Phase, including the Vendor's proposed:

1. Approach to the completion of the Certification Planning Phase Deliverables and Milestones (as listed in Appendix C), including methodology for updating deliverables throughout the life cycle of the project.

ACS begins Phase 1e, CMS Certification Planning, concurrent with Phase 1a, Start-up, with a one-month "deep dive" into all the supporting documents we need to review as part of our West Virginia focus. We confirm BMS' efforts in working with MECT and continue those efforts as a partnership with the Bureau, the CMS Regional Office in Philadelphia, and with the Berry, Dunn, McNeil and Parker Team. We

collect and review five key pieces of supporting material to develop the approach for Certification planning. These include the mapping of the Health Enterprise baseline system to the MECT checklists and to the RFP requirements, any mapping of the RFP requirements to the MECT checklists that BMS has performed, as well as any CMS updates to the MECT, and BMS' Yes/No responses on the checklists already submitted to the CMS Regional Office. These reviews provide the certification planning teams with a mutual understanding of how far along the project is in the certification planning process.

We use the outcome of these reviews to develop the initial Certification Readiness Plan, including West Virginia Health Enterprise-specific tailored checklists that are mapped to the RTM, to outline the process for tracking design changes to the CMS checklists and mutually determine go-forward steps to achieve certification within 12 months of go-live. Changes to the RTM can then be linked back to artifacts collected to support checklist assessments. The Certification Plan includes the detailed certification schedule, including planning and execution. During this phase, we identify the project resources that will be dedicated to the certification preparations and process, and we create the repository in the project's SharePoint site for all MECT materials, providing BMS visibility and access to these materials.

10.2.5.2 Approach to Obtaining BMS Approval of the Completion of Certification Planning Phase

2. Approach to obtaining BMS approval of the completion of Certification Planning Phase, including proposed Acceptance Criteria for each Milestone.

During the Certification Planning Phase, ACS continues its structured, documented process for reviewing and obtaining BMS approval of all deliverables. Through internal peer review, quality assurance review, and BMS review, we jointly confirm the deliverables meet the stated expectations and acceptance criteria documented in the Deliverables Expectations Document. Specific proposed acceptance criteria for CMS Certification Planning milestones are shown in Table 10-16.

Table 10-16. Proposed Acceptance Criteria for CMS Certification Milestones

Milestone	Acceptance Criteria
Completion and BMS Approval of Phase 1e	The following have been completed and approved: • Certification Readiness Plan with Initial Checklist and Reporting During Certification Planning • CMS Certification Planning schedule is approved by BMS and maintained up to date by the ACS EPMO and the Certification Planning team.

10.2.5.3 Adhering to MECT or its Successor in Preparing MMIS and BMS for Certification Review

3. Approach and methodology to: a. Adhering to the preparation guidelines in the MECT (MECT), or its successor, in preparing the MMIS and BMS for the Certification Review.

ACS has invested considerable effort in evaluating the current MECT released by CMS in September 2007 to gain an understanding of changes in the CMS certification practices over the past few years. Our certification in Washington, D.C., gave us hands-on experience and best practices for using the MECT, and our planning efforts in New Hampshire, Alaska, and North Dakota are giving us experience mapping the MECT to Health Enterprise system functionality and processes. As the toolkit evolves, we continue to integrate updates and changes into our functional requirements and processes. The detailed functionality

outlined in the 20 certification checklists is mapped to Health Enterprise's functional requirements to validate that it fully satisfies CMS business requirements. The effort goes beyond the initial mapping to track and link changes to requirements and artifacts to MECT System Review Criteria. The linkage among RFP requirements, the Toolkit, and Health Enterprise is maintained in the traceability matrix to support tracking and updates to documentation. Using these automated tools, documents are appropriately identified, collected, indexed, stored, and updated in the SharePoint repository. A special location is reserved specifically for certification documentation, artifacts, and project management information in order to facilitate access to information specific to certification.

Task Coordination

b. Coordinating tasks between the BMS Re-procurement Team and Vendor Certification Lead (SME) to plan to obtain CMS certification for the new West Virginia MMIS within 12 months of the production start date, in accordance with the following: Title 42 U.S.C. section 1996 b (a)(3)(B) provides seventy-five percent (75%) Federal financial participation (FFP) for operation of mechanized claims payment and information retrieval systems approved by CMS. Up to ninety percent (90%) FFP is available for MMIS-related development costs prior approved by CMS in BMS's APD and at contract signing.

A critical success factor in our approach to certification is a planning process that encourages cooperation and communication between the BMS Re-procurement Team and the ACS Certification Team. As with all of our MMIS contracts, we assign an experienced MMIS professional to serve as our Certification Manager, to coordinate task accomplishment between the BMS Re-procurement Team and ACS.

We are pleased to have Judith Hanson serving in this role. Judith has more than 25 years of broad experience as a national MMIS and Medicaid subject matter expert. Her systems expertise spans several areas including MMIS requirements analysis, testing, implementation, and federal certification in both program consulting and independent validation and verification roles. Ms. Hanson is currently advising the New Hampshire certification project team. As a national subject matter expert on CMS certification, Judith has worked with certification teams from CMS Central Office, and with regional staff from every CMS region regarding certification issues. Her input to Certification Readiness planning will help coordinate timing and milestones leading to the Request for Certification and proposed site visit dates to meet the 12-month certification date.

As Certification Manager, Judith continuously assesses certification activities, identifies potential risks, develops recommended resolutions, and ensures certification deliverables are submitted on time. Judith coordinates certification planning and preparation tasks between the BMS Re-procurement Team and ACS to ensure Health Enterprise receives certification within 12 months of go-live. She meets weekly with BMS Re-procurement Team members to coordinate activities, identify risks, and address issues related to certification. During the Implementation Phase, Judith works with the design teams to compare design documentation with MECT checklists to prepare Health Enterprise for CMS certification.

Judith heads a team dedicated to certification activities that are drawn from West Virginia DDI and operations staff supporting testing and training. This blend brings together Health Enterprise expertise, West Virginia presence, and a cadre of trained resources that BMS can count on. Ongoing certification planning for ACS Health Enterprise projects in other states will not affect the West Virginia CMS Certification resources or scheduling. In fact, certification for the West Virginia Health Enterprise will benefit from the fact that Health Enterprise will have already completed certification planning and preparations in three previous states. BMS representatives will have the opportunity to observe a live CMS site visit in another state at least one year prior to the West Virginia MMIS implementation.

ACS has engaged the services of Mr. Leonard Kelley, a consultant with a broad understanding of the CMS Certification process and West Virginia's unique MMIS requirements, to assist in planning and coordinating the CMS Certification tasks and process. Mr. Kelley, who is named as BMS Liaison for the West Virginia MMIS Re-procurement project, joined West Virginia's Medicaid Program in late 1992 and served for 15 years in various roles for the MMIS project. Through his experience with West Virginia's two prior certifications (the first when ACS installed a new solution in 1999, and the second with Molina's implementation of HealthPAS), he brings a deep understanding of the Medicaid program and the challenges of implementing, operating, and certifying the MMIS for West Virginia. He will work closely with Ms. Hanson and the CMS Certification team to coordinate certification activities.

Ensuring Traceability to CMS Certification Requirements

c. Ensuring traceability to CMS Certification requirements through design, development, and testing.

By incorporating the MECT and MITA-aligned business objectives and review criteria into our analysis and design process, Health Enterprise is designed as a true MITA-aligned MMIS. Checklist mapping documentation resides in the Health Enterprise requirements management tool, Rational DOORS, tracking certification requirements through each step of the system development life cycle.

One of the best practices that has evolved from our experience working with the new MECT on our current CMS Certification planning and preparations in Alaska, New Hampshire, North Dakota, and Washington, D.C., is that we begin tracing certification requirements as part of the Requirements Traceability Matrix (RTM) early in the project. We use the DOORS tool to map every requirement and system artifact back to the CMS Certification requirements. Using the RTM, we already have traced certification requirements in Health Enterprise from design through development and testing for Alaska; from development through testing in North Dakota, and from testing through implementation in New Hampshire. The MMIS Re-procurement Project benefits directly from our experience working on certification in these current Health Enterprise projects.

Preparing a Certification Readiness Plan

d. Preparing a Certification Readiness Plan to be used during the Certification Phase (Phase 2b) to prove fulfillment of all Federal and state requirements for certification and submit to BMS for approval no less than nine (9) months prior to system implementation; e. Updating the Certification Readiness Plan to provide contingencies for any system or business defects identified during system testing and UAT.

ACS starts planning for certification from day one of the contract and begins development of the Certification Readiness Plan early in the certification process. The plan ensures that we perform all the needed activities required in preparation for certification, both to substantiate clearly that the West Virginia Health Enterprise is certifiable and to satisfy the requirements and procedures outlined in the MECT. The plan incorporates key information from the MECT, milestones to meet, and the protocols to follow to ensure that all MECT checklist items and other certification deliverables are complete and ready for timely delivery to CMS representatives, and all reports and operation artifacts from Day 1 are available for CMS review. The plan ensures that all supporting documents, process flows, and testing documents requested by CMS are collected, stored, and updated in the SharePoint repository prior to submission of the letter to CMS requesting certification, and that BMS can make all required statements regarding ACS performance. We update the plan to reflect decisions made jointly by BMS and ACS as requirements change, such as during Unit Acceptance Test and system test, which may affect MECT business objectives. We work with BMS to finalize the plan months prior to beginning of operations, ensuring submittal of the final approved plan nine months prior to go-live as required by the RFP.

Certification Scheduling

f. Certification scheduling, including the creation of a schedule for certification activities.

ACS closely follows the MECT approach, incorporating each CMS prescribed step of the certification process into our project schedule and adding tasks, milestones, and deliverables expected by both BMS and CMS. It is important that BMS and ACS work closely together to review and fine-tune the key activities in the certification schedule. We track and report progress for each certification step using the same standards, processes, and tools that are employed for all project activities, ensuring that all preparation activities for the CMS on-site visit, demonstrations, and reviews are completed on time. Please refer to Proposal Section 9.5.2, Phase 2b CMS Certification, for a discussion of certification activities during the Operations Phase.

10.3 Appendix E: Business and Technical Requirements

REQUIREMENT: RFP Section 4.1.10, pg 104 of 115

Completed checklist Appendix E, Business and Technical Requirements, which will be used to determine "level of fit" of the proposed solution with stated BMS technical needs. Appendix E may be recreated for inclusion in the Vendor's proposal, so long as the table must remain intact as shown, i.e., table formatting, including all header and requirements text, must be preserved and presented as shown in this RFP.

Please see the Appendix, Proposal Section A2, Appendix E: Business and Technical Requirements, for the completed checklist.

10.4 Support of MITA Maturity

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

11 Subcontracting

REQUIREMENT: RFP 4.1.11, pg. 104 of 115

4.1.11 Subcontracting. Identify the required services that you intend to subcontract, if any.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

12 Special Terms and Conditions

REQUIREMENT: RFP Section 4.1.12, pg. 104 of 115

4.1.12 Special Terms and Conditions. Descr be any special terms and conditions required to fulfill this contract. The Bureau must be informed of any terms, conditions, and/or limitations of the Vendor prior to entering into contract negotiations.

12.1 Description of Special Terms and Conditions

ACS requests the Bureau consider the following special terms and conditions:

Contractor Rights

ACS respectfully requests that the Bureau add the following language to the Contract:

"In no event shall ACS be precluded from developing for itself or for others, materials that are competitive with, or similar to, the WVMMIS, modifications, reports and documentation, developed in connection with performance of obligations under the Agreement. In addition, ACS shall be free to use its general knowledge, skills, experience, and any other ideas, concepts, know-how and techniques that are acquired or used in the course of its performance under this Agreement. The Department acknowledges that ACS proprietary software utilized to perform services under this agreement, and Third Party Software were developed by ACS or third parties, with internal funds, prior to, or independently of, the Agreement."

Terminations, Other than for Breach or Default

ACS requests that the Bureau add the following language to the Contract in connection with any termination that is not for breach or default by ACS:

"The contract may also be terminated by the Bureau with no less than thirty (30) calendar days prior written notice. For any termination by the Bureau that is not due to the breach or default of Vendor, in addition to the Bureau paying Vendor the contract price for services rendered and goods received through and including the date of termination, the total amount payable to the Vendor shall also include: the recovery of allowable costs incurred or obligated but unbilled as of the date of termination; unamortized costs; costs incurred in the performance of the work terminated, including, but not limited to start-up costs and preparatory expense allocable thereto; the cost of settling and paying termination settlements under terminated subcontracts and leases; accounting, legal, clerical, and other expenses reasonably necessary for the preparation and negotiation of termination settlement proposals and the termination claim; and a fair and reasonable profit on the foregoing costs."

Progress Payment Retainage (15%) and Liquidated Damages ($1,000 per day)

ACS requests that the Bureau limit both the 15% retainage against progress payments and the $1,000 per day assessement of liquidated damages to the DDI phase only, in view of the Service Level Agreements covering the operational phase.

Operational Service Level Agreements

ACS requests that the Bureau add the following language to the Contract in connection with Operations Phase Service Level Agreements:

"The parties agree that Operational Phase Service Level Agreements will not commence and are not applicable to ACS until the first day of actual operations."

Enhancement and Modification Costs

ACS requests that the Bureau consider payments for enhancement and modification services as described in RFP Section 4.1.14.3 (Phase 2c MMIS Modifications and Enhancements Costs) be made to ACS on a monthly basis, rather than upon successful completion and migration of the modification into the production environment.

12.2 Response to RFP Section 3.3 Special Terms and Conditions

This section addresses the special terms and conditions contained in RFP Section 3.3.

Bid and Performance Bonds

REQUIREMENT: RFP Section 3.3 and 3.3.1, pg. 99 of 115

ACS acknowledges that no bid or performance bonds are required pursuant to RFP Addendum No. 2.

Insurance Requirements

REQUIREMENT: RFP Section 3.3.2, pg. 99 of 115

3.3.2 Insurance Requirements. The Vendor, as an independent contractor, is solely liable for the acts and omissions of its employees and agents. Proof of insurance shall be provided by the Vendor at the time the contract is awarded. The Vendor shall maintain and furnish proof of coverage of liability insurance for loss, damage, or injury (including death) of third parties arising from acts and omissions on the part of the Vendor, its agents and employees in the following amounts:

a) For bodily injury (including death): $500,000.00 per person, up to $1,000,000.00 per occurrence.

b) For property damage and professional liability: Up to $1,000,000.00 per occurrence.

ACS shall maintain commercial general liability insurance that provides the RFP mandated coverage for bodily injury and property damage, and a professional liability policy that provides the RFP mandated coverage on a per claims-made basis. Said insurance will extend to ACS and its employees, but will not extend to its agents. ACS shall require its agents, including subcontractors and vendors, to maintain and carry insurance that satisfies the requirements set forth in RFP Section 3.3.2.

ACS shall provide the mandated proof of insurance in the form of standard certificates of insurance.

ACS requests that the Bureau allow ACS to maintain third-party liability insurance only for claims arising from ACS' negligent acts and omissions.

Licensing Requirements

REQUIREMENT: RFP Section 3.3.3, pg. 100 of 115

3.3.3 Licensing Requirements. Provide certification that Vendor is registered with the Secretary of State's Office to do business in West Virginia; provide evidence that Vendor is in good standing with the State Agency of Employment Programs as to Unemployment Compensation coverage and Worker's Compensation coverage or exempt from such coverage.

Please see Proposal Section A3 Business Organization in Volume 2 Appendix for the following: a copy of our certification to do business in West Virginia, a letter from Workforce West Virginia that provides evidence that ACS is in compliance with the West Virginia Unemployment Compensation Law, and a sample standard certificate of insurance evidencing that ACS carries workers' compensation insurance in the State of West Virginia.

Litigation Bond

REQUIREMENT: RFP Section 3.3.4, pg. 100 of 115

3.3.4 Litigation Bond: Non-applicable.

ACS acknowledges that a litigation bond is non-applicable.

Debarment and Suspension

REQUIREMENT: RFP Section 3.3.5, pg. 100 of 115

3.3.5 Debarment and Suspension. Vendor will not be considered in proposal process if debarred or suspended. Vendor must certify that they are not debarred or suspended. Successful Vendor must certify that no entity, agency or person associated with the Vendor is debarred or suspended.

ACS certifies that it is not debarred or suspended. ACS hereby certifies that no entity, agency or person associated with ACS is debarred or suspended.

Vendor Relationship

REQUIREMENT: RFP Section 1.21.4, pg. 17 of 115, fourth paragraph

Vendor shall hold harmless the Bureau and the State, and shall provide the Bureau and the State with a defense against any and all claims including but not limited to the foregoing payments, withholdings, contributions, taxes, social security taxes and employer income tax returns.

ACS requests that the Bureau revise the scope of the indemnification obligation to apply to claims or losses that arise only from negligent or intentional misconduct by ACS during the term of Contract as follows:

"Vendor shall hold harmless the Bureau and the State, and shall provide the Bureau and the State with a defense against any ~~and all~~ claims including but not limited to the foregoing payments, withholdings, contributions, taxes, social security taxes and employer income tax returns, caused by the negligence or intentional misconduct of the Vendor relating to the performance of the Vendor during the term of the Contract."

Indemnification

REQUIREMENT: RFP Section 1.21.5, pg. 17 of 115

17 The Vendor agrees to indemnify, defend and hold harmless the State and the Bureau, their officers, and employees from and against: (1) Any claims or losses for services rendered by any subcontractor, person or firm performing or supplying services, materials or supplies in connection with the performance of the contract; (2) Any claims or losses resulting to any person or entity

injured or damaged by the Vendor, its officers, employees, or subcontractors by the publication, translation, reproduction, delivery, performance, use or disposition of any data used under the contract in a manner not authorized by the contract, or by Federal or State statutes or regulations; and (3) Any failure of the Vendor, its officers, employees or subcontractors to observe State and Federal laws, including but not limited to labor and wage laws.

ACS requests that the Bureau revise the scope of the indemnification obligation in the Contract to apply to claims or losses that arise only from negligent or intentional misconduct as follows:

"The Vendor agrees to indemnify, defend and hold harmless the State and the Bureau, their officers, and employees from and against: (1) Any claims or losses for services rendered by and arising from the negligence or intentional misconduct of any subcontractor, person or firm performing or supplying services, materials or supplies in connection with the performance of the contract; (2) Any claims or losses resulting to any person or entity injured or damaged by the Vendor, its officers, employees, or subcontractors by the publication, translation, reproduction, delivery, performance, use or disposition of any data used under the contract in a manner not authorized by the contract, or by Federal or State statutes or regulations; and (3) Any failure of the Vendor, its officers, employees or subcontractors to observe State and Federal laws, including but not limited to labor and wage laws."

Limitation of Liability

REQUIREMENT: RFP Appendix I, MED 96, Agreement Addendum, Section 13

13. LIMITATION OF LIABILITY – The Agency, as a State entity, cannot agree to assume the potential liability of a Vendor. Accordingly, any provision limiting the Vendor's liability for direct damages to a certain dollar amount or to the amount of the agreement is hereby deleted. Limitation on special, incidental on consequential damages are acceptable. In addition, any limitation is null and void to the extent that it precludes any action for injury to persons or for damages to personal property.

ACS requests that the Bureau add the following language in connection with limitation of liability:

"NEITHER PARTY SHALL BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, EXEMPLARY OR PUNITIVE DAMAGES, REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT OR OTHERWISE, AND EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES."

13 Signed Forms

REQUIREMENT: RFP Section 4.1.13, pg. 104 of 115 and Appendix I and Appendix J

4.1.13 Signed Forms. Complete and sign all necessary forms, such as the MED-96 and Purchasing Affidavit forms. The successful vendor shall be required to comply with the HIPAA Business Associate Addendum (BAA). If applicable, sign and submit a Resident Vendor Preference Certificate with the proposal.

ACS has completed and signed all requested forms including the MED-96 form (Appendix I) and the Purchasing Affidavit form (Appendix J). ACS acknowledges that we will comply with the HIPAA Business Associate Addendum (BAA) as provided in Appendix K of the RFP. Per RFP Section 4.1, Technical Propsal Format, we have included signed forms and addenda at the back of the proposal in a separate Appendix. Please see Proposal Section A35, Signed Forms, in Volume 3 Appendix, for the following:

- MED 96 Agreement Addendum
- MED Purchasing Affidavit
- Appendix L Special Terms and Conditions
- Addendum No. 1, January 23, 2012
- Addendum No. 2, January 31, 2012

A1 Appendix - Introduction

The Appendix consists of the following sections, as shown in Table A1-1. Each of these sections is separately tabbed.

Table A1-1. Contents of Appendix

Appendix Number	Description
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A4	Roles, Responsibilities, and Skill Sets
A5	Key Staff Resumes
A6	Attachment II – Requriements Checklist
A7	Attachment III - Staff Matrix
A8	Work Breakdown Structure and Deliverable Dictionary
A9	Project Schedule
A10	Staffing Plan
A11	Facility Plan
A12	Documentation Management Plan
A13	Training Plan
A14	Testing Plan
A14a	Integrated Test Environment (ITE) Plan
A15	Scope Management Plan
A16	Schedule Management Plan
A17	Cost Management Plan
A18	Quality Management Plan
A19	Human Resource Management Plan
A20	Communication Management Plan
A21	Risk Management Plan
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A23	Change Management Plan
A24	Integration Management Plan
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Appendix Number	Description
A32	Data Conversion Plan
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A34	Data and Records Retention Plan
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A36	Other Optional Services
A37	Additional ACS Offerings
A38	Base Solution Value-Adds
A39	Sample DSD Deliverable Format
A40	Sample Requirements Specification Document

APPENDIX E
Business and Technical Requirements

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A3 Business Organization

REQUIREMENT: RFP Section 4.1.5, pg. 102 of 115

4.1.5 Vendor's Organization. The following items must be included in a document titled "Business Organization":

- Business name and address;
- Licenses (as described in Section 3.3.3);
- Subcontractor detail; and
- Financial information, such as annual audited financial reports.

ACS State Healthcare, LLC (ACS), the bidding entity for the MMIS Re-procurement Project, is a subsidiary of Affiliated Computer Services, LLC, which provides business process outsourcing and information technology services to commercial and government clients worldwide. In February 2010, Affiliated Computer Services, LLC (formerly known as Affiliated Computer Services, Inc.) was acquired by the Xerox Corporation and is formally referred to as Affiliated Computer Services, LLC, a Xerox Company.

ACS State Healthcare, LLC (ACS) began in 1970 with the establishment of Consultec, Inc., one of the oldest firms in the Medicaid marketplace. In 1971, Consultec, Inc. established the federal standard for MMIS with the development of the General Systems Design (GSD) of a prototype MMIS for the United States Department of Health, Education, and Welfare. Consultec, LLC registered as a limited liability company in Delaware on March 25, 1999, and the name Consultec, LLC was changed to ACS State Healthcare, LLC on May 29, 2001, based on an acquisition by Affiliated Computer Services.

As required in RFP Section 4.1.7, we provide a comprehensive profile of ACS in Proposal Section 7, Vendor Capacity, Qualifications, References, and Experience, under the heading 7.1 Profile of ACS.

We address the requirements for business name, address, and licenses in Table A3-1.

Table A3-1. Vendor Details

ACS	
Business Name	ACS State Healthcare, LLC
Address	2810 N. Parham Road Richmond, Virginia 23294
Licenses	At the end of this section, we have provided the following documents related to licensing requirements: • Certification to do business in West Virginia • A letter from Workforce West Virginia that provides evidence that ACS is in compliance with the West Virginia Unemployment Compensation Law. • Sample standard certificate of insurance evidencing that ACS carries workers' compensation insurance in the State of West Virginia

Subcontractor Detail

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

Financial Information

ACS brings the corporate strength and financial stability to ensure successful and timely completion of all MMIS Re-procurement Project requirements, with no risk to BMS. ACS State Healthcare, LLC's financial results are included in the reporting of Xerox Corporation. Along with ACS, Xerox is a $22 billion company and the world's leading enterprise for business process and document management. BMS and ACS both gain the added strength and support of Xerox and now have direct access to the full range of products and services available through both companies. As required by RFP Section 4.1, Technical Proposal Format, we include annual audited financial reports in full on compact disk (CD), which includes Xerox Corporation's most recent annual Form 10-K filing and most recent quarterly financial updates filed on Form 10-Q.

The Xerox Corporation annual Form 10-K may also be accessed online at:

http://services.corporate-ir.net/SEC.Enhanced/SecCapsule.aspx?c=104414&fid=7398918.

and statements of quarterly earnings may be accessed online at:

http://news.xerox.com/pr/xerox/ir-news.aspx?ncid=18578.

CORPORATION SERVICE COMPANY

www.cscglobal.com

CSC- Springfield

801 Adlai Stevenson Drive
Springfield, IL 62703
217-544-5900
217-492-2727 (Fax)

Matter# ACS STATE HEALTHCARE, LLC

Order# 061683-1

Project Id :

Order Date 01/16/2012

Additional Reference : NOT PROVIDED

Entity Name:	**ACS STATE HEALTHCARE, LLC**
Jurisdiction:	**WV - Secretary of State**
Request for:	**Certificate of Status**
Result:	**Document Retrieved**

Ordered by KATHY BROWN at AFFILIATED COMPUTER SERVICES, INC.

Thank you for using CSC. For real-time 24 hour access to the status of any order placed with CSC, access our website at www.cscglobal.com.

If you have any questions concerning this order or CSCGlobal, please feel free to contact us.

DINA BAILEY
dibailey@cscinfo.com

State of West Virginia

Certificate

I, Natalie E. Tennant, Secretary of State of the State of West Virginia, hereby certify that

ACS STATE HEALTHCARE, LLC

was duly authorized under the laws of this state to transact business in West Virginia as a foreign limited liability company on August 03, 2001.

The company is filed as an at-will company, for an indefinite period.

I further certify that the LLC (PLLC) has not been revoked by the State of West Virginia nor has a Certificate of Cancellation been issued.

Therefore, I hereby issue this

CERTIFICATE OF AUTHORIZATION

Given under my hand and the Great Seal of the State of West Virginia on this day of January 17, 2012

Natalie E Tennant

Secretary of State

CORPORATION SERVICE COMPANY®

Invoice No.	54651338
Invoice Date	01/17/12
Amount Due	27.21
Page	1
	INT

Re: ACS STATE HEALTHCARE, LLC
Account No. 7446227

Billing Address
ACCOUNTS PAYABLE
AFFILIATED COMPUTER SERVICES, INC.
PO BOX 981248
COMPANY # 9
EL PASO TX 79998-1248

Shipping Address
KATHY BROWN
AFFILIATED COMPUTER SERVICES, INC.
2828 NORTH HASKELL AVE.
BUILDING 1, FLOOR 10
DALLAS TX 75204

Matter No. ACS STATE HEALTHCARE, LLC **Order No.** 061683 001 **Order Date** 01/16/12

Description of Services				Amount
	PROJECT ID: Not Provided Additional Ref: NOT PROVIDED			
WVDR00	DOCUMENT RETRIEVAL WORK IN WEST VIRGINIA			.00
WV2SF	DISBURSEMENT/COST	1 @	10.00	10.00
WV221	SERVICE FEE - CERTIFICATE OF STATUS	1 @	66.00	66.00
WVDRDT	SPECIAL ARRANGEMENT DISCOUNT	1 @	50.10-	50.10-
WV243E	IMAGING FEE	1 @	5.00	5.00
WVDRDT	SPECIAL ARRANGEMENT DISCOUNT	1 @	5.00-	5.00-
			Sub-Total	25.90
	Taxable Amount 15.90 TEXAS		Sales Tax	1.31
			TOTAL AMOUNT	27.21

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Please return this portion with your payment.

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7446227	54651338	01/17/12	27.21

Credit Card Payment (optional)

Amount Remitted $_____

Circle one: VISA MC Amex
Card No._____
Expiration Date_____
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Telephone No._____

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PO Box 13397
Philadelphia, PA 19101-3397

3 01 7446227 8 54651338 00002721 00000000 00000000 00000000 00000000

WORKFORCE West Virginia

Earl Ray Tomblin, *Governor*
Russell L. Fry, *Acting Executive Director*
Keith Burdette, *Cabinet Secretary*

January 10, 2012

ACS State Healthcare LLC
Suite 700
9040 Roswell Road
Atlanta, GA 30350

Account Number: 22363-8

FEIN: 58-2479287

Dear Employer:

Workforce West Virginia has, at your request, researched their records and has found this account is in compliance with the West Virginia Unemployment Compensation Law.

Very truly yours,

Wade Wolfingbarger
UC Assistant Director

cac

A4 Roles, Responsibilities, and Skill Sets

REQUIREMENT: RFP Section 3.2.3, pg. 55 of 1A4 and 3.2.3.5, #2, pg.77 of 1A4
2. Description of the roles, responsibilities, and skill sets associated with each position on the organization chart.

With ACS' long term Medicaid experience in fiscal agent services, BMS can expect a seasoned team of experts, equipped with the recruiting tools and resources necessary to perform the required services.

Being able to perform all of the tasks for the West Virginia MMIS Re-procurement Project and perform them well is the focus of ACS. As such, our team of experts are ready to recruit the right people who can effectively staff the project. With our experience in establishing information systems in the healthcare industry, we can assure BMS that our team, as well as the staff that they will bring in, will accomplish all MMIS tasks.

- ACS staff experience that exceeds BMS requirements
- Roles, responsibilities, and skill sets that reflect the qualifications required to do the assigned tasks
- Proven ability to staff large projects

This section presents the roles, responsibilities, and skill sets for key personnel, continuously dedicated staff, the support staff, and other positions that are required to meet West Virginia's program goals and objectives. Experiences required for each of the positions are also detailed, based on BMS' specifications. We have included positions for both the DDI and Operation Phases.

As each position is recruited, the roles, responsibilities, and skill sets are carefully reviewed and posted to ensure only serious candidates reply and are considered for the postions. As we continue to recruit the staff, we will modify the roles, responsibilities, and skill sets to ensure that all of the requirements are relevant to the tasks to be completed. The tables that follow are grouped into four headings:

- Key Personnel (in order presented in RFP)
- Continuously Dedicated Staff (in order presented in RFP)
- Support Staff (in order presented in RFP)
- Other Staff

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A5 Key Staff Resumes

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

ATTACHMENT II

RFP REQUIREMENTS CHECKLIST

The RFP Requirements Checklist is a detailed listing of every general, technical, functional, staffing, and performance requirement. The Vendor is to crosswalk each RFP requirement (A) to the site where it is addressed in its proposal (Columns B and C). The RFP Requirements Checklist may be recreated by the vendor, but must be presented in the format shown here, i.e., formatting, including all header and Column A information, must be preserved and presented as shown here. The Vendor is not expected to restate requirements verbatim in Column A, but may include an abbreviated reference to requirements for the sake of ease of preparation and review.

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
3.1	Mandatory Requirements: The Vendor will:	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-89
3.1.1	Establish a Charleston, West Virginia-based facility within 5 miles of the BMS for DDI and Fiscal Agent operations, where all Key Staff Members designated in Section 3.2.3 will be located. The site will provide space for project team meetings and work sessions, and office space for one BMS staff member.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-89
3.1.2	Ensure the BMS staff member's office space in the Vendor's Charleston facility can be individually locked. This office space must be fully equipped with furniture; telephone service; a personal computer with access to the MMIS, Microsoft Office™ Suite, and the Internet; and access to a printer and copier. The following reserved or paid parking spaces must be provided to accommodate designated BMS staff: one (1) BMS parking space and six (6) general visitor parking spaces.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-89
3.1.3	Provide one named Vendor staff member/position, to be approved by the Bureau, who will be located at the BMS to facilitate communication and coordination between the Bureau and the Vendor. This position requires system, technical/operational and program experience with the ability to facilitate and communicate Bureau needs effectively back to the Fiscal Agent. This position is envisioned to be located onsite at the Bureau 100% through the DDI phase. After DDI, the percentage of time will be determined by the Bureau and the Vendor. The position is not a member of the Key Staff.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.1 Vendor Staff member –BMS/ACS Liaison	9-89 9-93
3.1.4	Provide the Bureau access to conference space at the Vendor's site that is adequately sized, for ten or more participants, furnished, and equipped to support the DDI review, planning, testing and training sessions required of the Vendor. The conference space must have a computer and projector for displaying Internet-based and Windows PowerPoint™ presentations, and a high-quality speakerphone for multiple remote staff to attend meetings by telephone.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-89

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	Conference space must also accommodate video conferencing and web-based application sharing for attendees.		
3.1.5	Provide facilities for the recovery of operations in the event of a disaster that disrupts operations as described in the Fiscal Agent's Disaster Recovery and Business Continuity Plan to be developed by the Vendor and approved by the Bureau. The Vendor will provide resources necessary to: recover critical services in accordance with the Recovery Time Objective and Recovery Point Objectives approved by the Bureau and documented in the Disaster Recovery and Business Continuity Plan; and meet the approved Service Level Agreements listed in Appendix G of this RFP.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.2 Business Continuity and Disaster Recovery	9-90 9-93
3.1.6	Assume all costs related to securing and maintaining the facility for the duration of the contract, including but not limited to hardware and software acquisition necessary to maintain approved performance requirements throughout the life of the contract, maintenance, lease hold improvements, utilities, office equipment, supplies, janitorial services, security, storage, transportation and insurance.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.7	Agree to incur all costs associated with accessing and acquiring Provider licensure and certification data.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.8	Comply with all current and future security policies and procedures of DHHR, BMS and the WV Office of Technology which can be found at the following: DHHR: http://www.wvdhhr.org/mis/IT/index.htm. BMS: Procurement Library: This will be provided on a password protected CD at the vendor pre-bid conference. WV Office of Technology: http://www.technology.wv.gov/security/Pages/policies-issued-by-the-cto.aspx	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.3 Compliance with Current and Future Security Plans	9-90 9-94
3.1.9	Perform all work associated with this contract within the continental United States or U.S. Territories.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.10	Host the MMIS and maintain a secure site and secure back-up site within the continental United States.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.11	Warrant that the proposed and implemented MMIS will meet CMS certification requirements and that certification will be available retroactive to the first day of operations of the new West Virginia MMIS to ensure full Federal Financial Participation (FFP).	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.4 CMS Certification Retroactive to the First Day	9-90

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
		of Operations	9-94
3.1.12	The Vendor will be responsible for lost enhanced Federal Medical Assistance Percentages (FMAP) for delayed certification due to system deficiencies or deficiencies noted during the certification process that extend beyond the claiming window. The Vendor will be responsible for only the portion of FMAP lost that is determined by BMS to be the fault of the Vendor. The MMIS Vendor will not be responsible for system certification of components that are not included in the scope of this RFP.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.13	Warrant that the proposed and implemented Pharmacy Point-of-Sale (POS) system will be certified with Surescripts to support all available ePrescriptions transaction types, including controlled substances.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.5 Certify Pharmacy POS for Prescribing with Surescripts®	9-90 9-95
3.1.14	Ensure the Point-of-Sale drug file will be independent and not a shared file with other clients.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.15	Provide a system that will support multiple programs, e.g., Medicaid, Tiger Morton, BMS State Programs, Children with Special Health Care Needs (CSHCN), Behavioral Health and Health Families (BHHF)) and multiple Medicaid eligibility categories, including but not limited to the addition of any other State Agency, United States Territory or political subdivision. All programs, eligibility categories and benefit plans are to be supported according to the service level agreements set forth in this RFP.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.6 System Support of Multiple Programs and Plans	9-90 9-96
3.1.16	Ensure all hardware, software and communications components installed for use by Bureau staff are compatible with the most current West Virginia Office of Technology (WVOT) supported versions of the Microsoft™ Operating System, Microsoft Office™ Suite and Internet Explorer™, and current technologies for data interchange which are listed on the below provided link. (http://www.technology.wv.gov/support/Pages/default.aspx).	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90
3.1.17	Ensure the entire system is installed on the Vendor's hardware and supported through staff at both the Vendor's data center and the Charleston, West Virginia, location.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-90

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
3.1.18	Align the proposed MMIS with MITA principles and employ service-oriented architecture.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.7 MITA-aligned MMIS with Service-Oriented Architecture (SOA)	9-90 9-96
3.1.19	Develop any bridges and integration code necessary for the replacement MMIS to interface with other State software and systems, e.g., DW/DSS, HIE, HIX, and Enterprise Resource Planning (ERP) – none of which are currently interfaced.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.8 Integration Code for Other State Software/Systems Interface	9-90 9-97
3.1.20	Agree to incorporate all requirements mandated through federal and state regulations, including , current and future coding standards, to ensure that the MMIS is current in its ability to accept and appropriately employ new standards and requirements as they occur, such as, but not limited to, ICD-10, HIPAA v5010, National Council for Prescription Drug Programs (NCPDP) Claims Processing Standards D.0, the Patient Protection and Affordable Care Act (PPACA) and the Health Information Technology for Economic and Clinical Health Act (HITECH). Formalized change control will be used for all such changes, during all phases of the project. This provision extends to all court ordered services requiring system modifications.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.9 Incorporation of Current and Future Coding Standards	9-91 9-97
3.1.21	Adhere to the current NCPDP version standards, or the most current HIPAA required version for single drug claims and compound prescriptions.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.22	Provide right of access to systems and facilities to the Bureau or its designee to conduct audits and inspections. Provide access to data, systems, and documentation required by auditors.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.23	Update deliverables at the request of BMS to align with major changes in approach or methodology, or to include new or updated information that was not available at the time the deliverable was submitted and approved.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.10 Update Deliverables Requested by BMS	9-91 9-98

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
3.1.24	Meet all CMS Certification Requirements as described in Appendix D.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.11 Meet All CMS Certification Requirements	9-91 9-99
3.1.25	Agree to operate the MMIS and perform all functions described in the RFP and continue all operations from the date of implementation of each component until each function is turned over to a successor Fiscal Agent (FA) at the end of the contract, including any optional additional periods or extensions.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.12 M Continue Operations Through Turnover	9-91 9-99
3.1.26	Agree to perform according to approved Service Level Agreements listed in Appendix G of this RFP.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.27	Forfeit agreed-upon retainage as described in Section 4 of this RFP if approved service levels are not achieved.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.28	Ensure the new system functions without interruptions or non-scheduled downtimes. The response time from the new system must be within acceptable limits as defined in Appendix G (Service Level Agreements) of this RFP.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.29	Provide project status information to the MMIS Re-procurement Project Manager in the timeframes and in the agreed-upon format.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.30	Actively use industry-standard professional project management standards, methodologies and processes to ensure the project is delivered on time, within scope, within budget, and in accordance with the Bureau's quality expectations.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.13 Project Management	9-91 9-99
3.1.31	Provide a software and hardware solution that is upgradeable and expandable to meet current and future needs.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements And 9.10.14 Upgradeable and Expandable System	9-91 9-100
3.1.32	Employ a Relational Database Management System (RDBMS) or Object Oriented Database Management System (OODMS),	9 Project Approach and Solution - 9.10 Response to	9-91

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	to create a data infrastructure that is easily configurable, role-based with 24 X 7 access to data, and use best in class analysis tools.	Mandatory Requirements And 9.10.15 RDBMS for Configurable Data Infrastructure	9-101
3.1.33	Ensure that the Pharmacy prior authorization system is available 24 hours per day, seven (7) days per week, except for scheduled maintenance.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.34	Agree that BMS retains ownership of all data, procedures, programs and all materials developed during DDI and Operations, as well as the initial licensing for installed COTS. Manufacturers' support and maintenance for the proprietary COTS software licensing subsequent to the initial install must be provided only for the life of the contract.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-91
3.1.35	Provide role-based access for authorized users, ensuring confidential access to the data at the individual and group security levels.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.36	Ensure that adjudicated claims cannot be changed outside an approved adjustment process. Once a claim is adjudicated and in a final status, the information must remain static while it is displayed, e.g., users may not cut claim information from claim lines/data.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.37	Place the source code in a third-party escrow arrangement with a designated escrow agent who is acceptable to the Bureau, and who shall be directed to release the deposited source code in accordance with a standard escrow agreement approved by the Bureau……..	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.38	Provide increased staffing levels if requirements, timelines, quality or other standards are not being met, based solely on the discretion of and without additional cost to the Bureau. In making this determination, the Bureau will evaluate whether the Vendor is meeting deliverable dates, producing quality materials, consistently maintaining high quality and production rates, and meeting RFP standards without significant rework or revision.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.39	Develop, submit to BMS for approval, and maintain a comprehensive West Virginia MMIS Security, Privacy, and Confidentiality Plan (as described in Section 3.2.6.1.1) that meets or exceeds the current industry standards for such documents, and is compliant with any and all state and Federal mandated security requirements. The Security, Privacy and Confidentiality Plan must be reviewed and updated annually during the operating period.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.40	Deliver systems and services that are compliant with Title II, Subtitle F, Section 261-264 of the Health Insurance	9 Project Approach and Solution - 9.10 Response to	9-92

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MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	Portability and Accountability Act of 1996 (HIPAA), Public Law 104-191, titled "Administrative Simplification" and the rules and regulations promulgated there under.	Mandatory Requirements	
3.1.41	Ensure that all applications inclusive of internet, intranet and extranet applications associated with this contract are compliant with Section 508 of the Rehabilitation Act of 1973, as amended by 29 U.S.C. §794d, and 36 CFR 1194.21 and 36 CFR 1194.22.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.42	Ensure that data entered, maintained, or generated to meet the requirements of this RFP be retained and accessible according to Federal requirement 42 CFR 431.17 and applicable BMS and State requirements.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.43	Comply with prompt pay regulations in accordance with Federal requirement 42CFR 447.45(d).	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.44	Follow formalized change control procedures (as described in Section 1.21.13 Changes and the approved Change Management Plan named in Section 3.2.2.1) for all changes to project scope, including (but not limited to) changes arising during the DDI and operations phases of the project, and changes necessitated as a result of new and amended Federal and State regulations and requirements.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.45	Acknowledge that upon award the Bureau reserves the right to reject any staff proposed or later assigned to the project, and will require the successful Vendor to remove them from the project. In all circumstances, Key Staff shall be replaced only with persons of equal ability and qualifications.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.1.46	Designate one named individual as the Vendor organization's HIPAA compliance officer.	9 Project Approach and Solution - 9.10 Response to Mandatory Requirements	9-92
3.2	**NA – OMITTED FROM THIS TABLE**	**NA**	**NA**
3.3	**NA – OMITTED FROM THIS TABLE**	**NA**	**NA**
4.1	Technical Proposal Format…… The proposal should be formatted in the same order shown here, providing the information specified as follows:	See below	See below
4.1.1	Title page. Should state the RFP Subject and number, the name of the Vendor, Vendor's business address, telephone number, name of authorized contact person to speak on behalf of the Vendor, dated and signed by a person authorized to commit the vendor. Such authorization to commit will be included in writing, such as Board of Directors minutes, Delegation of Authority, etc.	1 Title Page	1-1
4.1.2	Transmittal Letter. A transmittal letter signed in blue ink by an official authorized to bind the Vendor to proposal provisions must accompany the proposal. The transmittal letter must be placed immediately behind the Title Page of the General Technical section. The letter must include a statement that the	2 Transmittal Letter	2-1

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MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	RFP terms are accepted. Vendors must also include a statement in the letter certifying that the price was arrived at without any conflict of interest.		
4.1.3	Table of Contents. Clearly identify the material by section and page number. RFP responses should follow the same order as the RFP and use the same titles.	3 Table of Contents	3-1
4.1.4	Executive Summary. Vendor should affirm their ability and capability to provide experienced personnel to accomplish each mandatory requirement of Part 3.1.1 through 3.1.49. The Executive Summary should not exceed three pages.	4 Executive Summary	4-1
4.1.5	Vendor's Organization. The following items must be included in a document titled "Business Organization": • Business name and address; • Licenses (as described in Section 3.3.3); • Subcontractor detail; and • Financial information, such as annual audited financial reports.	5 Vendor's Organization Volume 2 Appendix - A3 Business Organization	5-1 A3-1
4.1.6	Location. Indicate the site or sites from which the Vendor and subcontractors, if any, will perform the relevant tasks listed in the proposal.	6 Location	6-1
4.1.7	Vendor Capacity, Qualifications, References and Experience. Proposals should provide a comprehensive profile of the organization that includes a description of the management structure and ownership. Proposals should include at least three (3) business references that demonstrate the Vendor's prior experience in the Medicaid program. Each reference should include the contact name, address, telephone number and email address of the client, organization, and the responsible project administrator familiar with the organizations performance, and brief description of services that are provided to the reference.	7 Vendor Capacity, Qualifications, References and Experience.	7-1
4.1.8	Staff Capacity, Qualifications and Experience. The purpose of this section is to provide the Bureau with a comprehensive description of the Vendor's proposed project team. Section 4.1.8 should demonstrate the Vendor's ability and capability to provide knowledgeable, skilled, and experienced personnel to accomplish the Scope of Work as described in Section 3.The following components should be included in the Vendor's proposal Section 4.1.8:……:	8 Staff Capacity, Qualifications and Experience And Volume 2 Appendix- A10 Staffing Plan Volume 3 Appendix – A19 Human Resources Management Plan	8-1 A10-1 A19 -1
	• A detailed proposal for providing all resources necessary to fulfill the requirements as specified in this RFP, as detailed in Section 3.2.3 Staffing. The Vendor's proposal should clearly identify Key Staff (e.g., represented in bold font in the organizational charts). Attachment III - Staff	8 Staff Capacity, Qualifications and Experience - 8.1 Plan for Providing Staff Resources	8-2

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	Matrix should be completed, and include the percentage of time each Support Staff and Continuously Dedicated Staff role is to be dedicated to this project.	And Volume 2 Appendix – A4 Roles, Responsibilities and Skill Sets And Volume 2 Appendix – A7 Attachment III – Staff Matrix	 A4-1 A7-1
	Resumes (not to exceed two pages each) for the Key Staff members assigned to this project, including their licenses, credentials and experience.	8 Staff Capacity, Qualifications and Experience - 8.2 Resumes And Volume 2 Appendix – A5 Key Staff Resumes	8-49 A5Intro-1
	• A letter of intent for each proposed staff member not currently employed by the Vendor. Each letter of intent should be signed by the named individual, indicating that they are to accept employment if the Vendor is awarded the contract.	8 Staff Capacity, Qualifications and Experience - 8.3 Letter of Intent	8-4
4.1.9	Project Approach and Solution. The purpose of this section is to provide the Bureau with a thorough understanding of the Vendor's proposed approach and methodologies for completing the work of this project. Section 4.1.9 should exhibit the Vendor's understanding of the Scope of Work, the project objectives, and the project timeline. This section should describe how the Vendor plans to commence providing services upon award of contract and continue to provide those services over the anticipated duration of the contract. Services described are expected to include (but not necessarily be limited to) Project Management Services, modifications and enhancements services, and all services associated with routine Fiscal Agent Operations (as described in Section Appendix F Vendor Operations Requirements). The following components should be included in the Vendor's proposal Section 4.1.9…	9 Project Approach and Solution	9-1
	• A "Statement of Understanding" (not to exceed 3 pages) that provides a high- level summary of the work requested by the Bureau for Medical Services in this RFP.	9 Project Approach and Solution - 9.1 Statement of Understanding	9-2
	• A detailed proposal for providing the services as described in the following Part 3 Procurement Specifications sections: o 3.2.2 Project Management;	9 Project Approach and Solution - 9.2 Proposed Approach and Methodology 9 Project Approach and Solution - 9.3 Project	9-5 9-9

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
		Management (Plus Applicable Plans in the Appendix)	 See Appendix Volumes
	o 3.2.4 Project Facilities	9 Project Approach and Solution - 9.4 Project Facilities	9-24
	o 3.2.7 Phase 2: Fiscal Agent Operations;	9 Project Approach and Solution - 9.5 Phase 2:Fiscal Agent Operations	9-30
	o 3.2.8 Phase 3: Turnover and Close-Out; and	9 Project Approach and Solution - 9.6 Phase 3: Turnover and Close-Out	9-67
	o 3.2.9 Drug Rebate Solution.	9 Project Approach and Solution - 9.7 Drug Rebate Solution	9-73
	• A timeline or Gantt chart for the activities required and planned milestones.	9 Project Approach and Solution - 9.8 Timeline/Gantt Chart And Volume 2 Appendix – A9 Project Schedule	9-85 A9-1
	• Attachment II - Requirements Checklist completed to crosswalk each RFP requirement to where it is addressed in the Vendor's proposal (Attachment II may be recreated for inclusion in the vendor's proposal, so long as the table remains intact and formatting is maintained).	9 Project Approach and Solution - 9.9 Attachment II – RFP Requirements Checklist And Volume 2 - Appendix A6 Attachment II RFP Requirements Checklist	9-89 1
4.1.10	Solution Alignment with BMS' Business and Technical Needs. The purpose of this section is to describe in detail how the proposed solution provides the functionality identified in this RFP as necessary to meet BMS' current business needs. Section 4.1.10 should describe in detail how the Vendor's proposed technical solution addresses the technical/architectural criteria as defined in this RFP. The Vendor should also describe how the proposed solution provides the foundation that enables BMS to move toward its vision for its future MITA-oriented Medicaid Enterprise. The Vendor is to demonstrate how the proposed components integrate to support operations, workflow and achievement of specified service levels, and are maintainable and supportable. The Vendor is to describe their development and operating	10 Solution Alignment with BMS' Business and Technical Needs.	10-1

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	environments and facilities, and how support services are to be provided. Services described are expected to include those related to DDI, including (but not necessarily limited to) systems analysis, systems architecture, systems design, system development and testing, and ongoing data reconciliation. The following components should be included in the Vendor's proposal Section 4.1.10:……..		
	• A detailed proposal addressing the Vendor response requirements set forth in the following Part 3 Procurement Specifications sections: o 3.2.1 Proposed West Virginia MMIS;	10 Solution Alignment with BMS' Business and Technical Needs. - 10.1 Proposed West Virginia MMIS	10-2
	o 3.2.6 Phase 1: MMIS Replacement DDI and CMS Certification Planning.	10 Solution Alignment with BMS' Business and Technical Needs. –10.2 Phase 1: MMIS Replacement DDI and CMS Certification Planning 10.2.1 Phase 1a: Start-up 10.2.2 Phase 1b: Analysis and Design 10.2.3 Phase 1c: Development, Testing, Data Conversion and Training 10.2.4 Phase 1d: Implementation Readiness 10.2.5 Phase 1e: CMIS Certification Planning (Plus Applicable Plans in the Appendix)	10-18 10-19 10-48 10-61 10-98 10-104 See Appendix Volumes
	• Completed checklist Appendix E, Business and Technical Requirements, which will be used to determine "level of fit" of the proposed solution with stated BMS technical needs. Appendix E may be recreated for inclusion in the Vendor's proposal, so long as the table must remain intact as shown, i.e., table formatting, including all header and requirements text, must be preserved and presented as shown in this RFP.	Volume 2 Appendix – A2 Appendix E, Business and Technical Requirements	E-1
	o 3.2.10 Other Optional Services	Volume 3 Appendix – A36 Other Optional Services	A36-1

A		B	C
MMIS RFP Requirements		**Proposal Section**	**Proposal Page No.**
	The Vendor may include additional materials, in a separately labeled section at the back of the proposal, which describes company offerings that may be of value to BMS. This section will not be reviewed as a formal section of the RFP and will not be included in the Technical evaluation and scoring.	Volume 3 Appendix – A37 Additional ACS Offerings And A38 Base Solution Value-Adds	A37-1 A38-1
4.1.11	Subcontracting. Identify the required services that you intend to subcontract, if any.	11 Subcontracting	11-1
4.1.12	Special Terms and Conditions. Describe any special terms and conditions required to fulfill this contract. The Bureau must be informed of any terms, conditions, and/or limitations of the Vendor prior to entering into contract negotiations	12 Special Terms and Conditions	12-1
4.1.13	Signed Forms. Complete and sign all necessary forms, such as the MED-96 and Purchasing Affidavit forms. The successful vendor shall be required to comply with the HIPAA Business Associate Addendum (BAA). If applicable, sign and submit a Resident Vendor Preference Certificate with the proposal.	13 Signed Forms And Volume 3 Appendix – A35 Signed Forms	13-1 A35-1
4.1.14	Cost Summary The Vendor must complete the attached Cost Summary Bid Sheet (Attachment I)…….	Separately Sealed Cost Proposal Binder - 1 Cost Summary	1-1
4.1.15	Invoicing and Retainage The following section describes invoicing and retainage practices for use during each phase of the project. This section is informational, and does not require a response in the Vendor's proposal……..	Separately Sealed Cost Proposal Binder - Invoicing and Retainage	1-1

ATTACHMENT III

STAFF MATRIX

The Staff Matrix below is a list of all Continuously Dedicated and Support Staff roles. The Vendor uses this table to provide the amount of time in a scale of 100% that each staff role will be dedicated to the project (Column A), indicate if the role will be located onsite, i.e. at the Vendor's Charleston facility (Column B), and attest to the fact that the individuals fulfilling each role will meet the qualifications outlined in Section 3.2.3.2 (Column C).

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A8 – Work Breakdown Structure and Deliverable Dictionary (Deliverable 14)

Deliverable Purpose and Benefits

ACS has provided a Work Breakdown Structure to complement the Project Schedule, also found in this Appendix. The Work Breakdown Structure explains the organization of the Project Schedule in pictorial form by defining and grouping a project's tasks. Additionally, we have included a Deliverable Dictionary, which lists all project deliverables and their associated finish dates.

About This Plan

This Work Breakdown Structure is an initial deliverable which will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A9 – Project Schedule (Deliverable 15)

Deliverable Purpose and Benefits

ACS has provided a Project Schedule to indicate our general understanding of the expected tasks and duration needed to configure Health Enterprise and to conduct the West Virginia MMIS Re-procurement Project during the entire lifecycle. This document is governed by the *Schedule Management Plan*, found in this Appendix.

The Project Schedules are organized in the following manner:

1. MMIS Re-procurement Project Schedule Base
2. MMIS Re-procurement Project Schedule plus Optional Year One
3. MMIS Re-procurement Project Schedule plus Optional Years One and Two

About This Plan

This Project Schedule is a high level initial deliverable which will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of the schedule after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A10 – Staffing Plan (Deliverable 6)

Deliverable Purpose and Benefits

The *Staffing Plan* will explain in detail how staffing methodology is applied in support of the West Virginia MMIS Re-procurement Project. We discuss how the project team will plan for, acquire, orient, develop, monitor, and release resources during the course of the project. Non-human and/or technical requirements for staffing are also discussed in the *Staffing Plan*. This plan works in tandem with our *Human Resources Management Plan*, which can be found in Proposal Section A19 of this Appendix. ACS uses this plan as well as other supporting documents such as the Staffing Allocation Matrix and Project Schedule, across its many projects enabling us to move resources efficiently in support of multiple commitments.

The *Staffing Plan* includes the following supporting artifacts:

- Organizational Chart
- Staffing Allocation Matrix
- Description of the roles, responsibilities, and skill sets associated with each position on the organization chart
- Key role descriptions

About This Plan

This *Staffing Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A11 – Facility Plan (Deliverable 5)

Deliverable Purpose and Benefits

The *Facility Plan* explains in detail how ACS intends to establish and use its facilities, described in Proposal Section Section 9 Project Approach and Solution, Subsection 9.4 Project Facilities, in support of the West Virginia MMIS Re-procurement Project. We discuss potential sites in West Virginia and our current data centers in Pittsburgh, PA and Tarrytown, NY as well as supplemental facilities, which will be involved in the support of this project. Work performed in each facility is clearly noted, and we show when each of the facilities comes into play during the project phases. We also discuss what work is to be perfomed off-site in this document. The *Facility Plan* works hand-in-hand with the *Security, Privacy and Confidentiality Plan*, (located in Propsoal Section A30 in the Appendix), which handles the physical security aspects of our facilities.

About This Plan

This *FacilityPlan* is an initial deliverable, which will be updated within 15 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon these contents and to further tailor the plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A12 – Documentation Management Plan (Deliverable 7)

Deliverable Purpose and Benefits

The *Documentation Management Plan* explains in detail how ACS will handle the documentation deliverables process in support of the West Virginia MMIS Re-procurement Project. This plan outlines how the project team will create and review documents (internally as well as with BMS), using the SharePoint workflow functionality for revision and approvals. This plan works with the *Deliverables Expectation Document* and the *Communications Management Plan (*found in Proposal Section A20 of the Appendix), and the Project Schedule to give a full picture of our deliverables process.

About This Plan

This *Documentation Management Plan* is an initial deliverable which will be updated within 30 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A13 – Training Plan (Deliverable 8)

Deliverable Purpose and Benefits

ACS considers training to be integral to implementation success and high-quality operational performance. Our *Training Plan* is designed to empower team members to achieve excellence in business results. We analyze the learning needs of our team members and provide tailored training based on role, job function, and individual learning needs. This initial *Training Plan* also contains our baseline strategy for the provider community; as well as our approach to track learners' needs and record training. The plan aligns with our approach discussed in Proposal Section 10.2 Phase 1: MMIS Replacement DDI & CMS Certification Planning, Subsection 10.2.3.4, Training Task.

About This Plan

This *Training Plan* is an initial deliverable that will be updated within 30 calendar days of project execution as requested in Appendix C of the RFP. The plan we provide in this Appendix section addresses training for all learner types. During Project Start-up, ACS will tailor this plan or develop supplementary artifacts to address learner groups for the West Virginia MMIS Re-procurement Project, specifically providers, project staff (BMS and ACS team members), and fiscal agent staff. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A14 – Testing Plan (Deliverable 12)

Deliverable Purpose and Benefits

The *Testing Plan* defines ACS' overall testing approach and methodology, as discussed in Proposal Section 10.2.3 Phase 1c: Development, Testing, Data Conversion and Training, Subsection 10.2.3.2 Testing Task, which serves to validate ACS' Health Enterprise solution and that it meets BMS' requirements. The *Testing Plan* describes the approach, test planning, and types (or levels) of testing that are conducted; the testing deliverables, and tools and processes used.

Prior to initiating the execution for each test level, a detailed test plan is developed, reviewed, and approved. The test level test plan includes detailed information specific to the test level, such as entry criteria; specific tasks that occur within the test; roles and responsibilities specific to the test type; and exit criteria. These test plans are then used to manage and track progress throughout the respective test activity.

About This Plan

This *Testing Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A14.a Integrated Test Environment (ITE) Plan (Deliverable 11)

Deliverable Purpose and Benefits

ACS provides an *Integrated Test Environment (ITE) Plan* to discuss the strategy to provide a comprehensive set of environments to support the West Virginia MMIS Re-procurement Project. West Virginia will have four isolated environments: (1) Development; (2) Staging/UAT; (3) Training; and (4) Production—all of which will be independent regions.

The environments, configuration of the environments and their uses with particular attention to testing are discussed. The use of testing tools is also outlined in the ITE. This document works in tandem with the *Testing Plan*.

About This Plan

This *Integrated Test Environment (ITE) Plan* is an initial deliverable which will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after start of contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A15 – Scope Management Plan (Deliverable 13)

Deliverable Purpose and Benefits

The *Scope Management Plan* defines how ACS fulfills its commitments to BMS and maintains adherence to the contracted scope of work. The project will perform work that is required and will account for any variances from the initial, contracted scope of work.

Scope management is integrated with schedule, risk, change, resource, cost, quality, communication, and requirements management. The RFP is the primary delineator of scope. We use requirements validation sessions to confirm and document the RFP requirements in the Requirements Specification Document (RSD). These and subsequent requirements are managed in the IBM Rational DOORS requirements management tool and presented in the resulting Requirements Traceability Matrix (RTM). Using the RTM, we can pinpoint gaps in traceability that may represent open issues, dropped requirements, incomplete design artifacts, or missing test cases.

The process of moving from RSD to detailed design is a process of progressive elaboration. The scope of work is not increased, but rather, detailed specifications included in the design deliverables are elaborated from the higher level requirements included in the RSD. Requirements are traced to design artifacts using DOORS in order to demonstrate continued adherence to scope. If requirements come to light that cannot be traced to the RFP or proposal, or if requirements are eliminated from the scope of the project, the team invokes the change management process to resolve the issue.

About This Plan

This *Scope Management Plan* is an initial deliverable that will be updated within 45 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A16 – Schedule Management Plan (Deliverable 16)

Deliverable Purpose and Benefits

Schedule management is conducted throughout the lifecycle of the project and includes all areas of the project. The *Schedule Management Plan* instructs team members in their responsibility to understand tasks assigned to them in the project schedule, track and report actual work to planned work, identify deviations from planned progress, and take the necessary action to remedy the deviation. With each team member reporting to the task level, the project managers are better able to accurately report and forecast the project schedule, provide sufficient resources to perform the work in a timely manner, and keep cost under control.

About This Plan

This *Schedule Management Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A17 – Cost Management Plan (Deliverable 17)

Deliverable Purpose and Benefits

The *Cost Management Plan* details the management strategy ACS will use for ensuring project financial performance is managed throughout the life of the West Virginia MMIS Re-procurement Project, and the project is completed within budget. This plan ensures all costing plans, progress, and changes are communicated to ACS senior management and BMS, as well as other appropriate stakeholders such that the cost of the project tracks as planned. Cost management refers to the activities that ensure a project is completed within the approved budget. It details the standard approach to estimating anticipated costs, gaining approval of the project budget, managing ongoing costs, and controlling changes to the approved budget.

About This Plan

This *Cost Management Plan* is an initial deliverable which will be updated within 45 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A18 – Quality Management Plan (Deliverable 18)

Deliverable Purpose and Benefits

The *Quality Management Plan* for the West Virginia Medicaid Management Information System (MMIS) Re-procurement Project details the management strategy for continually planning for, promoting, implementing, and continuously improving quality in all project activities. ACS quality activities begin with defined and measurable performance standards and goals that apply to DDI tasks, operational performance documents, and deliverables. These performance measures must be met through documented processes and procedures that meet the requirements of and are approved by BMS. Our *Quality Management Plan* discusses quality activities such as the ongoing and proactive monitoring, evaluation, and reporting of project activities to measure actual performance and identify improvement opportunities.

Quality management is conducted throughout the life cycle of the project, and it includes all areas of the project. All team members have the responsibility to deliver high-quality processes, procedures, services, and products. ACS' commitment to quality is demonstrated by rigorously adhering to the processes defined in "Process Steps" section of the *Quality Management Plan*.

About This Plan

This *Quality Management Plan* is an initial deliverable that will be updated within 45 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A19 – Human Resource Management Plan (Deliverable 19)

Deliverable Purpose and Benefits

The *Human Resource Management Plan*, together with the *Staffing Plan*, details ACS' strategy for ensuring the project is properly staffed. The plan defines the approach to communicate resource needs to senior management and other project stakeholders as appropriate, so that project staffing needs are met.

The plan ensures the West Virginia MMIS Re-procurement Project is properly staffed to complete project objectives. It discusses the placement of resources on a project, as well as the development of the resources to enhance their performance on current and future projects. Resource management, in this context, covers only those aspects of onboarding and managing the human resources (project staff) on this project. The specific aspects of human resource management addressed by this plan are planning, acquisition, orientation, monitoring, and release. These processes are integrated with other project management processes to plan the procurement of resources.

About This Plan

This *Human Resource Management Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon these contents after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A20 – Communications Management Plan (Deliverable 20)

Deliverable Purpose and Benefits

The *Communications Management Plan* details the framework for managing and coordinating the wide variety of communications that take place during the project's lifecycle. The plan addresses communicators, audiences, messages, communication channels, feedback mechanisms, and message timing.

Communication begins with the identification of stakeholders who have an interest in the project and the appropriate level and manner of communication for each subset of stakeholders. The *Stakeholder Analysis* identifies all stakeholders, including state and vendor staff, providers, other contractors, and oversight agencies. The Communication Event Schedule identifies mediums of communication, including e-mail, telephone, in-person meetings, electronic meetings, and mail. The plan also defines protocols and standards for each medium, including required documents, facilitators, participants, purpose and frequency, and any other information pertinent to project communication.

The *Communications Management Plan* works in tandem with the *Documentation Management Plan*, found in this Appendix at A12. It is used to manage all agreements and protocols that affect project reporting and deliverables.

About This Plan

This *Communications Management Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A21 – Risk Management Plan (Deliverable 21)

Deliverable Purpose and Benefits

The *Risk Management Plan* documents the strategy for identifying, managing, and mitigating project risks. The processes in this plan support the communication of risks to management and other project stakeholders as appropriate and in a timely manner.

Each phase of the risk management process—planning, identification, assessment, response planning, monitoring, and control—comprises one or more steps that contribute to the successful management of risk. All project team members are responsible for identifying potential risks to the project and forwarding information to the appropriate project lead or manager. Continuous risk identification during the project keeps the list of risks dynamic as the project matures. It also provides constant vigilance to deal with risks at the earliest stages possible.

About This Plan

This *Risk Management Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A22 – Issue Management Plan (Deliverable 22)

Deliverable Purpose and Benefits

The *Issue Management Plan* documents ACS' strategy for identifying and managing project issues. The processes in this plan support the communication of issues to management and other project stakeholders as appropriate and in a timely manner.

An issue is a question, problem, or condition needing to be tracked to resolution, requiring management attention or increased visibility. The EPMO designates a staff member who will act as the issue owner and will be the primary point of contact responsible for tracking the issue to resolution. The project team identifies, logs, and resolves issues continuously throughout the life of the project.

About This Plan

This *Issue Management Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A23 – Change Management Plan (Deliverable 23)

Deliverable Purpose and Benefits

The *Change Management Plan* enables ACS to establish a structured, repeatable change management process to ensure the project changes are effectively managed, including any installation or alteration to hardware, network, system or application software, procedure or environmental facilities, which adds to, deletes from, or modifies the service delivery environment. The objectives of change management are to ensure that requested changes are documented, tracked, managed, and implemented on a timely schedule and at reasonable and expected cost. The *Change Management Plan* defines the strategy that the project team follows to support a continuous change management model.

About This Plan

This *Change Management Plan* is an initial deliverable which will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A24 – Integration Management Plan (Deliverable 24)

Deliverable Purpose and Benefits

The *Integration Management Plan* discusses the coordination of activities of the West Virginia MMIS Re-procurement Project. These activities are addressed from different perspectives in many plans. While SPARK-ITS addresses each PMBOK knowledge area in a project management plan, the *Integration Management Plan* describes how the knowledge areas are initiated, coordinated, integrated, and consistently managed.

About This Plan

This *Integration Management Plan* is an initial deliverable that will be updated within 45 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A25 – Workflow Management Plan (Deliverable 9)

Deliverable Purpose and Benefits

ACS' System Development Methodology (SDM) provides a roadmap to deliver the highest quality solutions to meet BMS' challenging and evolving business needs. Our approach allows flexibility to customize and deploy a proven product efficiently and effectively, while allowing for product enhancements that might be necessary to meet BMS' unique needs. The *Workflow Management Plan* outlines how we accomplish the system development life cycle (SDLC) by executing nine workflows and four coordinated tasks.

About This Plan

This *Workflow Management Plan* is an initial deliverable which will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A26 – Problem Management Plan (Deliverable 10)

Deliverable Purpose and Benefits

ACS recognizes that even during the most efficiently run projects, problems can occur. Accordingly, ACS will have procedures in place, which will ensure that the most expedient and appropriate solution will be applied to problems. The *Problem Management Plan* discusses how ACS will respond to these incidents while working with BMS through any situation. Because different types of problems may occur, this plan integrates with the Disaster Recovery and Business Continuity Plans (also in the Appendix at Proposal Section A33) to cover reasonably forseeable events.

About This Plan

This *Problem Management Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A27 – Transition Plan (Deliverable 30)

Deliverable Purpose and Benefits

The *Transition Plan* details how ACS will assume fiscal agent operations from the incumbent. The plan addresses the approach, process and methodology, along with the transition schedule.

The *Transition Plan* applies to all ACS project staff, support staff, subcontractors, and WV Bureau for Medical Services (BMS) staff members who are involved with the transition effort. The *Transition Plan* is developed in partnership with and is approved by the stakeholders responsible for ongoing system operations.

About This Plan

This *Transition Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A28 – Weekly Project Status Report Template (Deliverable 31)

Deliverable Purpose and Benefits

The Weekly Status Report will contain data regarding the progress of the West Virginia MMIS Re-procurement Project. The EPMO will produce this report on agreed upon weekly basis with input from stakeholders and project team members.

About This Plan

This Weekly Status Report is a template that will be updated within 30 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents after start of contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A29 – Monthly Project Status Report Template (Deliverable 33)

Deliverable Purpose and Benefits

The Monthly Project Status Report will contain data regarding the progress and health of the West Virginia MMIS Re-procurement Project. The EPMO will produce this report on an agreed upon monthly basis with input from stakeholders and project team members. This report is intended for a higher level executive audience.

About This Plan

This Monthly Project Status Report is a template that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents after start of contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A30 – Security, Privacy and Confidentiality Plan (Deliverable 25)

Deliverable Purpose and Benefits

ACS takes data privacy and security very seriously, taking strict measures to ensure only those who absolutely need to have access, have access to data, and that personnel are well trained to handle such data. The *Security, Privacy and Confidentiality Plan* contains ACS' best practices and methodology for both ACS and the West Virginia MMIS Re-procurement Project. The following topics are covered in the plan.

1. ACS Security Standards list our practice for ensuring project data is at all times and in all forms kept secure in accordance with ACS, state, and federal mandated standards. The security standards also contain project specific processes.

2. ACS Physical Security Policies discuss what is expected to occur in all ACS run facilities, and ACS Physical Security Procedures are tailored to the individual site.

3. ACS global privacy policy details how ACS handles personal information, who has access to different types of information, and how any incident involving personal information will be handled.

About This Plan

This *Security, Privacy and Confidentiality Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after start of contract with input from BMS. Due to the proprietary nature of this document, strict security measures will be taken with the data and contents when such data is enclosed. This version of the plan only contains very general information and in some cases the table of contents, which will be filled out in cooperation with BMS. ACS does not electronically store this completed document, but keeps a paper copy in the site Security Officer's office for those with appropriate permission needing to reference the plan.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A31 – Configuration Management Plan (Deliverable 26)

Deliverable Purpose and Benefits

The *Configuration Management Plan* documents how the project manages items under configuration control. This is one of several processes, procedures, and tools that are part of the overall structure of configuration management for critical project work products and software. Configuration items can be under full or limited configuration. Full configuration items are modified only via approved change request and have a rule that defines what, when, where, why, and how, or if they can be configured. Limited configuration items have an owner who manages, coordinates, and communicates changes to the item.

The Project Manager defines a Configuration Management Authorization Group that is responsible for planning the project's configuration management activities and for making a configuration system available to the project. The migration team is primarily responsible for the execution of configuration management activities related to software and documentation releases.

About This Plan

This *Configuration Management Plan* is an initial deliverable that will be updated within 30 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A32 – Data Conversion Plan (Deliverable 27)

Deliverable Purpose and Benefits

The purpose of the *Data Conversion Plan* is to summarize the approach and tasks necessary to convert source data from the existing system into Health Enterprise. This plan focuses on the method ACS uses to identify source data, transform the data into the Health Enterprise format, and load the converted data into Health Enterprise. The plan describes the validation and testing methods that ACS uses to ensure that we can account for all the data received from the source system vendor and that we transform the data according to the specifications provided to the ACS conversion team by the functional teams.

In addition, the plan outlines tasks completed during each phase of the project, including support of the testing phases. These tasks supplement the tasks that are included in the conversion detailed work plan. The plan lists and describes the conversion tools the team will use to perform their tasks.

About This Plan

This *Data Conversion Plan* is an initial deliverable, which will be updated within 30 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after start of contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A33 – Disaster Recovery and Business Continuity Plans (Deliverable 28)

Deliverable Purpose and Benefits

ACS' approach to business continuity (process continuity) and disaster recovery (systems & hardware restoration) are defined through two separate business functions and will be delivered in two separate plans named the *Disaster Recovery Plan* and the *Business Continuity Plan*.

Our disaster recovery planning focuses upon prevention of controllable elements that might hold the potential for some sort of natural or manmade disaster; implementation of business continuity for critical functions following a minor or major service disruption; and preparedness for quick activation of a powerful disaster recovery response when a natural or manmade disaster proves unavoidable. The *Business Continuity Plan* includes procedures that address all aspects of West Virginia MMIS operations, including employee safety, subcontractors, and our permanent facilities used during both transition and operations.

Our planning is strengthened by the application of industry best practices and valuable national experience in addressing business continuity and disaster recovery efforts for Medicaid enrollment and other programs during major crises.

About This Plan

The *Disaster Recovery and Business Continuity Plans* are initial deliverables, which will be updated within 45 calendar days of project execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of these plans after the start of the contract with input from BMS. Due to the extremely sensitive and proprietary nature of the contents of these documents, ACS is providing both documents in template format, but with a full table of contents so BMS can gain understanding of our practice. These documents, when complete, are held with the Security, Privacy and Confidentiality plan in the site Security Officer's custody and access is limited to authorize personnel.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A34 – Data and Records Retention Plan (Deliverable 29)

Deliverable Purpose and Benefits

The *Data and Records Retention Plan* details the process of managing the archives and records to leverage knowledge capital and meet legal and contractual obligations. It describes the work products and/or records, and archives of project work products storage location, format and longevity.

About This Plan

This *Data and Records Retention Plan* is an initial deliverable that will be updated within 45 calendar days of contract execution as requested in Appendix C of the RFP. ACS fully expects to expand upon the contents of this plan after the start of the contract with input from BMS.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A35 Signed Forms

REQUIREMENT: RFP Section 4.1.13, pg. 104 of 115 and Appendix I and Appendix J

4.1.13 Signed Forms. Complete and sign all necessary forms, such as the MED-96 and Purchasing Affidavit forms. The successful vendor shall be required to comply with the HIPAA Business Associate Addendum (BAA). If applicable, sign and submit a Resident Vendor Preference Certificate with the proposal.

As listed below, ACS has completed and signed all requested forms including the MED-96 form (Appendix I) and the Purchasing Affidavit form (Appendix J). ACS acknowledges that we will comply with the HIPAA Business Associate Addendum (BAA) as provided in Appendix K of the RFP.

- MED 96 Agreement Addendum
- MED Purchasing Affidavit
- Appendix L Special Terms and Conditions
- Addendum No. 1 , January 23, 2012
- Addendum No. 2, January 31, 2012

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ACS
A xerox Company

MED 96 Agreement Addendum

MED-96

AGREEMENT ADDENDUM

In the event of conflict between this addendum and the agreement, this addendum shall control:

1. **DISPUTES** - Any references in the agreement to arbitration or to the jurisdiction of any court are hereby deleted. Disputes arising out of the agreement shall be presented to the West Virginia Court of Claims.

2. **HOLD HARMLESS** - Any clause requiring the Agency to indemnify or hold harmless any party is hereby deleted in its entirety.

3. **GOVERNING LAW** - The agreement shall be governed by the laws of the State of West Virginia. This provision replaces any references to any other State's governing law.

4. **TAXES** - Provisions in the agreement requiring the Agency to pay taxes are deleted. As a State entity, the Agency is exempt from Federal, State, and local taxes and will not pay taxes for any Vendor including individuals, nor will the Agency file any tax returns or reports on behalf of Vendor or any other party.

5. **PAYMENT** - Any references to prepayment are deleted. Payment will be in arrears.

6. **INTEREST** - Should the agreement include a provision for interest on late payments, the Agency agrees to pay the maximum legal rate under West Virginia law. All other references to interest or late charges are deleted.

7. **RECOUPMENT** - Any language in the agreement waiving the Agency's right to set-off, counterclaim, recoupment, or other defense is hereby deleted.

8. **FISCAL YEAR FUNDING** - Service performed under the agreement may be continued in succeeding fiscal years for the term of the agreement, contingent upon funds being appropriated by the Legislature or otherwise being available for this service. In the event funds are not appropriated or otherwise available for this service, the agreement shall terminate without penalty on June 30. After that date, the agreement becomes of no effect and is null and void. However, the Agency agrees to use its best efforts to have the amounts contemplated under the agreement included in its budget. Non-appropriation or non-funding shall not be considered an event of default.

9. **STATUTE OF LIMITATION** - Any clauses limiting the time in which the Agency may bring suit against the Vendor, lessor, individual, or any other party are deleted.

10. **SIMILAR SERVICES** - Any provisions limiting the Agency's right to obtain similar services or equipment in the event of default or non-funding during the term of the agreement are hereby deleted.

11. **ATTORNEY FEES** - The Agency recognizes an obligation to pay attorney's fees or costs only when assessed by a court of competent jurisdiction. Any other provision is invalid and considered null and void.

12. **ASSIGNMENT** - Notwithstanding any clause to the contrary, the Agency reserves the right to assign the agreement to another State of West Virginia agency, board or commission upon thirty (30) days written notice to the Vendor and Vendor shall obtain the written consent of Agency prior to assigning the agreement.

13. **LIMITATION OF LIABILITY** - The Agency, as a State entity, cannot agree to assume the potential liability of a Vendor. Accordingly, any provision limiting the Vendor's liability for direct damages to a certain dollar amount or to the amount of the agreement is hereby deleted. Limitations on special, incidental or consequential damages are acceptable. In addition, any limitation is null and void to the extent that it precludes any action for injury to persons or for damages to personal property.

14. **RIGHT TO TERMINATE** - Agency shall have the right to terminate the agreement upon thirty (30) days written notice to Vendor. Agency agrees to pay Vendor for services rendered or goods received prior to the effective date of termination.

15. **TERMINATION CHARGES** - Any provision requiring the Agency to pay a fixed amount or liquidated damages upon termination of the agreement is hereby deleted. The Agency may only agree to reimburse a Vendor for actual costs incurred or losses sustained during the current fiscal year due to wrongful termination by the Agency prior to the end of any current agreement term.

16. **RENEWAL** - Any reference to automatic renewal is hereby deleted. The agreement may be renewed only upon mutual written agreement of the parties.

17. **INSURANCE** - Any provision requiring the Agency to insure equipment or property of any kind and name the Vendor as beneficiary or as an additional insured is hereby deleted.

18. **RIGHT TO NOTICE** - Any provision for repossession of equipment without notice is hereby deleted. However, the Agency does recognize a right of repossession with notice.

19. **ACCELERATION** - Any reference to acceleration of payments in the event of default or non-funding is hereby deleted.

20. **CONFIDENTIALITY:** -Any provision regarding confidentiality of the terms and conditions of the agreement is hereby deleted. State contracts are public records under the West Virginia Freedom of Information Act.

21. **AMENDMENTS** - All amendments, modifications, alterations or changes to the agreement shall be in writing and signed by both parties. No amendment, modification, alteration or change may be made to this addendum without the express written approval of the Purchasing Division and the Attorney General.

ACCEPTED BY DHHR OFFICE OF PURCHASING:

Spending Unit: _____

Signed: _____

Title: _____

Date: _____

VENDOR

Company Name: ACS State Healthcare, LLC

Signed: _____

Title: President, ACS State Healthcare, LLC

Date: 1/13/12

ACS
A xerox Company

MED Purchasing Affidavit

RFQ No. MED 12011

BUREAU FOR MEDICAL SERVICES

MED PURCHASING AFFIDAVIT

West Virginia Code §5A-3-10a states: No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owned is an amount greater than one thousand dollars in the aggregate

DEFINITIONS:
"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, Limited Liability Company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceed five percent of the total contract amount.

EXCEPTION: The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing ***(West Virginia Code*** §61-5-3), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

WITNESS THE FOLLOWING SIGNATURE

Vendor's Name: ACS State Healthcare, LLC

Authorized Signature: _____ Date: 11/13/12

State of VIRGINIA

County of HENRICO , to-wit:

Taken, subscribed, and sworn to before me this day of January 13, 2012.

My Commission expires August 31, 2013.

AFFIX SEAL HERE **NOTORY PUBLIC** _____

CATHY V. PHAM
Notary Public
Commonwealth of Virginia
My Commission Expires August 31, 2013
Commission ID# 253945

Appendix L
Special Terms and Conditions

Appendix L Special Terms and Conditions

REQUIREMENT: RFP Section Appendix L, pg. L-1 to L-4

Disclosure by Fiscal Agents: Information on ownership and control.

42 CFR 455.104 requires Medicaid agencies to obtain ownership and control disclosures from entities including fiscal agents. These regulations require that disclosures be made:

(i) Upon the fiscal agent submitting the proposal in accordance with the State's procurement process.

(ii) Upon the fiscal agent executing the contract with the State. (iii) Upon renewal or extension of the contract.

(iv) Within 35 days after any change in ownership of the fiscal agent.

To ensure compliance with these regulations, the following disclosures must be submitted with each proposal

(1)(a) The name and address of any person (individual or corporation) with an ownership or control interest in the disclosing entity or fiscal agent. The address for corporate entities must include as applicable primary business address, every business location, and P.O. Box address.

(b) Date of birth and Social Security Number (in the case of an individual).

(c) Other tax identification number (in the case of a corporation) with an ownership or control interest in the disclosing entity or fiscal agent or in any subcontractor in which the disclosing entity or fiscal agent has a 5 percent or more interest.

(2) Whether the person (individual or corporation) with an ownership or control interest in the disclosing entity or fiscal agent is related to another person with ownership or control interest in the disclosing entity as a spouse, parent, child or sibling: or whether the person (individual or corporation) with an ownership or control interest in any subcontractor in which the disclosing entity or fiscal agent has a 5 percent or more interest is related to another person with ownership or control interest in the disclosing entity as a spouse, parent, child or sibling.

(3) The name of any other disclosing entity or fiscal agent in which an owner of the disclosing entity or fiscal agent has an ownership or control interest.

(4) The name, address, date of birth, and Social Security Number of any managing employee of the disclosing entity or fiscal agent.

This information must be submitted in a separately labeled attachment within the proposal and will not count in previously defined page limitations.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

ACS
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Addendum No. 1

Request for Quotation

RFQ NUMBER	PAGE
MED12011	1

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR	SHIP TO
ACS State Healthcare, LLC 2810 N. Parham Road Suite 210 Richmond, VA 23294	BUREAU FOR MEDICAL SERVICES 350 CAPITOL STREET, ROOM 251 CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 2/6/2012 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

ADDENDUM NO. 1

1. TO ANSWER VENDOR QUESTIONS (SEE ATTACHED).

2. TO MODIFY THE RFP (SEE ATTACHED CHANGE TO RFP DOCUMENT).

3. TO PROVIDE A MODIFIED ATTACHMENT II AND APPENDIX L (SEE ATTACHED).

REQUISITION NO.: MED12011

ADDENDUM ACKNOWLEDGEMENT

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.

ADDENDUM NO.'S"

NO. 1 X
NO. 2 _____
NO. 3 _____
NO. 4 _____
NO. 5 _____

I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF PROPOSAL.

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
[signature]	804-965-8201	1/25/12

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
President, ACS State Healthcare, LLC	58-2479287	

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED "VENDOR"

GENERAL TERMS & CONDITIONS
PURCHASE ORDER/CONTRACT

1. ACCEPTANCE: Seller shall be bound by this order and its terms and conditions upon receipt of this order.

2. APPLICABLE LAW: The laws of the State of West Virginia and the BMS Purchasing Manual shall govern all rights and duties under the Contract, including without limitation the validity of this Purchase Order/Contract.

3. NON-FUNDING: All services performed or goods delivered under BMS Purchase Orders/Contracts are to be continued for the terms of the Purchase Order/Contract, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods, the Purchase Order/Contract becomes void and of no effect after June 30.

4. COMPLIANCE: Seller shall comply with all federal, state and local laws, regulations and ordinance including, but not limited to, the prevailing wage rates of the WV Division of Labor.

5. MODIFICATIONS: This writing is the parties' final expression of intent. No modification of this order shall be binding unless agreed to in writing by the Buyer.

6. ASSIGNMENT: Neither this Order or any monies due, or to become due hereunder may be assigned by the Seller without the Buyer's consent.

7. WARRANTY: The Seller expressly warrants that the goods and/or services covered by this order will: {a} conform to the specifications, drawings, samples or other description furnished or specified by the BUYER; {b} be merchantable and fit for the purpose intended; and/or {c} be free from defect in material and workmanship.

8. CANCELLATION: The director of the DHHR Office of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.

9. SHIPPING, BILLING & PRICES: Prices are those stated in this order. No price increase will be accepted without written authority from the Buyer. All goods or services shall be shipped on or before the date specified in the Order.

10. LATE PAYMENTS: Payment may only be made after the delivery of goods or services. Interest may be paid on late payments in accordance with the ***West Virginia Code***.

11. TAXES: The State of West Virginia is exempt from the federal and state taxes and will not pay or reimburse such taxes.

12. RENEWAL: Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon contract null and void, and terminate such contract without further order.

13. BANKRUPTCY: In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.

14. HIPAA BUSINESS ASSOCIATE ADDENDUM: The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, is available online at www.state.wv.us/admin/purchase/vrc/hipaa.htm and is hereby made part of the agreement provided that the Agency meets the definition of a Cover Entity (45 CFR § 160.103) and will be disclosing Protected Health Information (45 CFR § 160.103) to the vendor.

15. CONFIDENTIALITY: The vendor agrees that he or she will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure in writing or the disclosure is made pursuant to the agency's policies, procedure, and rules.

16. LICENSING: Vendors much be licensed and in good standing in accordance with any and all state and local laws and requirement by any state or local agency of West Virginia, including but not limited to, the West Virginia Secretary of State's Officer, the West Virginia Insurance Commission, or any other state agency or political subdivision. Furthermore, the vendor much provide all necessary releases to obtain information to enable the Director or spending unit to verify that the vendor is licensed and in good standing with the above entities.

Request for Quotation

RFQ NUMBER	PAGE
MED12011	2

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR	SHIP TO
ACS State Healthcare, LLC 2810 N. Parham Road Suite 210 Richmond, VA 23294	BUREAU FOR MEDICAL SERVICES 350 CAPITOL STREET, ROOM 251 CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 2/6/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S REPRESENTATIVES AND ANY STATE PERSONNEL IS NOT BINDING. ONLY THE INFORMATION ISSUED IN WRITING AND ADDED TO THE SPECIFICATIONS BY AN OFFICIAL ADDENDUM IS BINDING.

Will R
SIGNATURE

ACS State Healthcare, LLC
COMPANY

1/25/12
DATE

END OF ADDENDUM NO. 1

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
Will R	804-965-8201	1/25/12

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
President, ACS State Healthcare, LLC	58-2479287	

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5. MODIFICATIONS: This writing is the parties' final expression of intent. No modification of this order shall be binding unless agreed to in writing by the Buyer.

6. ASSIGNMENT: Neither this Order or any monies due, or to become due hereunder may be assigned by the Seller without the Buyer's consent.

7. WARRANTY: The Seller expressly warrants that the goods and/or services covered by this order will: {a} conform to the specifications, drawings, samples or other description furnished or specified by the BUYER; {b} be merchantable and fit for the purpose intended; and/or {c} be free from defect in material and workmanship.

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ACS
A xerox Company

Addendum No. 2

Request for Quotation

RFQ NUMBER	PAGE
MED12011	1

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR	SHIP TO
ACS State Healthcare, LLC 2810 N. Parham Road Suite 210 Richmond, VA 23294	BUREAU FOR MEDICAL SERVICES 350 CAPITOL STREET, ROOM 251 CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 02/10/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

ADDENDUM NO. 2

1. TO CORRECT ANSWERS TO VENDOR QUESTIONS AS PROVIDED IN ADDENDUM NO. 1 PER THE ATTACHED.
2. TO ANSWER VENDOR CLARIFICATION QUESTIONS IN RESPONSE TO ADDENDUM NO. 1 PER THE ATTACHED.
3. TO MODIFY THE RFP PER THE ATTACHED.
4. TO CHANGE BID OPENING DATE PER THE RFP, SECTION 1.17, SCHEDULE OF EVENTS FROM FEBRUARY 6, 2012 AT 1:30 PM TO FEBRUARY 10, 2012 AT 1:30 PM.
5. ADDENDUM ACKNOWLEDGEMENT IS ATTACHED. THIS DOCUMENT SHOULD BE SIGNED AND RETURNED WITH YOUR BID. FAILURE TO SIGN AND RETURN MAY RESULT IN DISQUALIFICATION OF YOUR PROPOSAL.

REQUISITION NO.: M MED12011

ADDENDUM ACKNOWLEDGEMENT

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.

ADDENDUM NO.'S"

NO. 1 ____
NO. 2 X
NO. 3 ____
NO. 4 ____
NO. 5 ____

I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF PROPOSAL.

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
	804-965-8201	1/31/12

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
President, ACS State Healthcare, LLC	58-2479287	

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State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

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ACS State Healthcare, LLC 2810 N. Parham Road Suite 210 Richmond, VA 23294	BUREAU FOR MEDICAL SERVICES 350 CAPITOL STREET, ROOM 251 CHARLESTON, WV 25301-3706

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BID OPENING DATE: 02/10/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

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SIGNATURE

ACS State Healthcare, LLC
COMPANY

1/31/12
DATE

END OF ADDENDUM NO. 2

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
	804-965-8201	1/31/12

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
President, ACS State Healthcare, LLC	58-2479287	

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SAPCE ABOVE LABELED "VENDOR"

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PURCHASE ORDER/CONTRACT

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4. **COMPLIANCE:** Seller shall comply with all federal, state and local laws, regulations and ordinance including, but not limited to, the prevailing wage rates of the WV Division of Labor.

5. **MODIFICATIONS:** This writing is the parties' final expression of intent. No modification of this order shall be binding unless agreed to in writing by the Buyer.

6. **ASSIGNMENT:** Neither this Order or any monies due, or to become due hereunder may be assigned by the Seller without the Buyer's consent.

7. **WARRANTY:** The Seller expressly warrants that the goods and/or services covered by this order will: {a} conform to the specifications, drawings, samples or other description furnished or specified by the BUYER; {b} be merchantable and fit for the purpose intended; and/or {c} be free from defect in material and workmanship.

8. **CANCELLATION:** The director of the DHHR Office of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.

9. **SHIPPING, BILLING & PRICES:** Prices are those stated in this order. No price increase will be accepted without written authority from the Buyer. All goods or services shall be shipped on or before the date specified in the Order.

10. **LATE PAYMENTS:** Payment may only be made after the delivery of goods or services. Interest may be paid on late payments in accordance with the ***West Virginia Code*** .

11. **TAXES:** The State of West Virginia is exempt from the federal and state taxes and will not pay or reimburse such taxes.

12. **RENEWAL:** Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon contract null and void, and terminate such contract without further order.

13. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.

14. **HIPAA BUSINESS ASSOCIATE ADDENDUM:** The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, is available online at www.state.wv.us/admin/purchase/vrc/hipaa.htm and is hereby made part of the agreement provided that the Agency meets the definition of a Cover Entity (45 CFR § 160.103) and will be disclosing Protected Health Information (45 CFR § 160.103) to the vendor.

15. **CONFIDENTIALITY:** The vendor agrees that he or she will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure in writing or the disclosure is made pursuant to the agency's policies, procedure, and rules.

16. **LICENSING:** Vendors must be licensed and in good standing in accordance with any and all state and local laws and requirement by any state or local agency of West Virginia, including but not limited to, the West Virginia Secretary of State's Office, the West Virginia Insurance Commission, or any other state agency or political subdivision. Furthermore, the vendor much provide all necessary releases to obtain information to enable the Director or spending unit to verify that the vendor is licensed and in good standing with the above entities.

A36 Other Optional Services

REQUIREMENT: RFP Section 3.2.10, pgs. 98-99 of 115; BMS has identified a group of desired services where requirements exist only at a conceptual level. Detailed requirements are not available at this time. BMS is interested in exploring the Vendor's proposed solution to these items, with no obligation to procure any under this contract. Vendors should propose technology and services to meet these objectives. The Vendor is asked to provide a description of their proposed solution for each of the following enhancements:

1. Care Management (above and beyond the functionality and/or services described in this RFP).
2. Care Management registry management.
3. Healthy rewards Program Management.
4. Personal Health Records.
5. Personal Health Improvement Plans Management.
6. HITECH: Electronic Health Records (EHR) Incentives Program Management.
7. HITECH: Health Information Exchange (HIE) Models.
8. Eligibility Determination System (Vendor would be responsible for providing subject matter experts to assist the Bureau with system design, development and implementation).
9. Permanent Member cards.
10. Real time (date/time) Member eligibility.
11. Enhanced Member Web portal functionality.
12. Interfaces with external data stores (e.g., daily extract to a Personal Health Record data warehouse).

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A37 Additional ACS Offerings

REQUIREMENT: RFP Section 4.1.10, p. 104 of 115
….The vendor may include additional materials, in a separately labeled section at the back of the proposal, which describes company offerings that may be of value to BMS. This section will not be reviewed as a formal section of the RFP and will not be included in the Technical evaluation and scoring.

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A38 Base Solution Value-Adds

In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A39 Sample DSD Deliverable Format (Deliverable 42)

Deliverable Purpose and Benefits

The *Detailed System Design* (DSD), while sufficiently technical, is written in an understandable and intuitive manner, organized into chapters by business process, and includes mock-ups and field-by-field specifications to ensure both the business and technical user can review it for alignment with requirements in the Request for Proposal (RFP) and the *Requirements Specification Document* (RSD). Contents of the DSD are indexed and traced in the *Requirements Traceability Matrix* to show traceability to requirements in the RFP and RSD.

The DSD builds upon the detailed software requirements in the RSD, capturing the specifications for reports, external interfaces, user interfaces, and other artifacts. It will also include identification of system files, narrative of the entire system and subsystems (MITA Business Areas and Business Processes), flow diagrams, inputs, and outputs. It is paired with the Technical Architecture Description, which provides information on processing architecture and hardware/software detail, and a security matrix, which provides security permissions by role and function.

About This Plan

The template included in this Appendix is the baseline SPARK-ITS DSD template. ACS updates and reviews this template with BMS during Project Start-up to confirm alignment with requirements and that it meets project-specific needs. We confirm stakeholders, delivery timelines, and other matters related to delivery of the DSD during discussions and documentation of the *Deliverables Expectations Document*. We complete the template, review contents with BMS during JAD sessions, and submit the deliverable to BMS during Phase 1b, Analysis and Design.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

A40 Sample Requirements Specification Document (Deliverable 40)

Deliverable Purpose and Benefits

The *Requirements Specification Document* (RSD) is written in an understandable and intuitive manner organized into chapters by business process. Each chapter includes assumptions, constraints, and dependencies; functional and nonfunctional requirements based on RFP contents that have been clarified and verified during requirements JAD sessions; and detailed software requirements that document necessary system components such as Web pages, external interfaces, reports, correspondence, and business rules. During detailed design, each artifact of the RSD is expounded upon and specified, forming the DSD.

The RSD clarifies and verifies the functional and nonfunctional requirements of the RFP. We use IBM Rational DOORS to track linkages and maintenance of scope from the RFP to the RSD and later to DSD and testing.

About This Plan

The template included in this Appendix is the baseline SPARK-ITS RSD template. ACS updates and reviews this template with BMS during Project Start-up to confirm alignment with requirements and that it meets project-specific needs. We confirm stakeholders, delivery timelines, and other matters related to delivery of the RSD during discussions and documentation of the *Deliverables Expectations Document*. We complete the template, review contents with BMS during JAD sessions and submit the deliverable to BMS during Phase 1b, Analysis and Design.

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In accordance with RFP Section 1.16.3, Freedom of Information/Disclosure, ACS has identified the following section as proprietary and confidential and has removed it from our technical proposal.

XEROX CORP (XRX)

10−K

Annual report pursuant to section 13 and 15(d)
Filed on 2/23/2011
Filed Period 12/31/2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10−K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: __ to ____

001−04471 (Commission File Number)

XEROX CORPORATION
(Exact name of registrant as specified in its charter)

New York	**16−0468020**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

P.O. Box 4505, 45 Glover Avenue, Norwalk, Connecticut 06856−4505 (Address of principal executive offices)
Registrant's telephone number, including area code: (203) 968−3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1 par value	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well−known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S−T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S−K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10−K or any amendment to this Form 10−K. ☐

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non−accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b−2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non−accelerated filer ☐ Smaller reporting company ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting stock of the registrant held by non−affiliates as of June 30, 2010 was: $11,119,697,695.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at January 31, 2011
Common Stock, $1 par value	1,399,441,447 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

Document	Part of Form 10−K in Which Incorporated
Xerox Corporation 2010 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2011 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10−K)	III

FORWARD−LOOKING STATEMENTS

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10−K, which are deemed to be "forward−looking" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"). These forward−looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward−looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward−looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward−looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward−looking statements contained in this Annual Report on Form 10−K, any exhibits to this Form 10−K and other public statements we make. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements, environmental regulations and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; our ability to expand equipment placements and to drive the expanded use of color in printing and copying; development of new products and services; interest rates, cost of borrowing and access to credit markets; our ability to protect our intellectual property rights; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; 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 this Annual Report on Form 10−K, as well as in our Quarterly Reports on Form 10−Q and Current Reports on Form 8−K.

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PART I

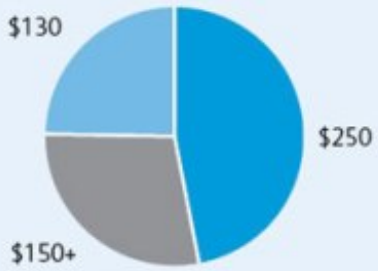
ITEM 1. BUSINESS OVERVIEW

With sales of $22 billion and operations in 160 countries we are the world's leading enterprise for business process and document management. We focus on managing the documents and millions of transaction touchpoints that simplify the ways real business gets done.

We provide the industry's broadest portfolio of document technology, services and software; and the most diverse array of business process and IT outsourcing support. Our document technology offerings serve businesses of all sizes and across industries to deliver solutions for both the workplace and production print environments. We leverage our technology and the document expertise of our employees to deliver further value for our customers through our document outsourcing solutions, which help customers improve their productivity and reduce costs. We have transformed our business with the acquisition of Affiliated Computer Services, Inc. ("ACS") in February 2010, which allows Xerox to capitalize on the rapidly growing services market. Through our business process and IT outsourcing we offer global services from claims reimbursement and electronic toll transactions to the management of HR benefits and customer care centers to the operation of a company's technology infrastructure.

We are a leader in a large, diverse and growing market estimated at over $500 billion

(in billions)



- **$250B Information Technology Outsourcing**
  We specialize in designing, developing and delivering effective IT solutions. By outsourcing their IT infrastructure, companies are able to streamline and improve their IT functions while reducing costs and improving their competitive position. We apply thought leadership, innovation and operational excellence to deliver the highest level of service delivery to our customers.
- **$150B+ Business Process Outsourcing**
  We are the largest worldwide diversified business process outsourcing company in the large and growing BPO market. The BPO market comprises the outsourcing of non-core, mission-critical business processes and functions that clients need to run their day-to-day operations. The market is very broad, encompassing horizontal business processes such as human resource management and finance and accounting as well as industry specific business processes.
- **$130B Document Management**
  We are well-positioned to lead in this market. The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology and services.

These market estimates are calculated by leveraging third-party forecasts from firms such as International Data Corporation and InfoSource in conjunction with our assumptions about our markets.

Our Strategy

We are well−positioned to lead in the markets in which we participate. Our strategy leverages our core strengths to drive growth within our segments and lines of businesses.

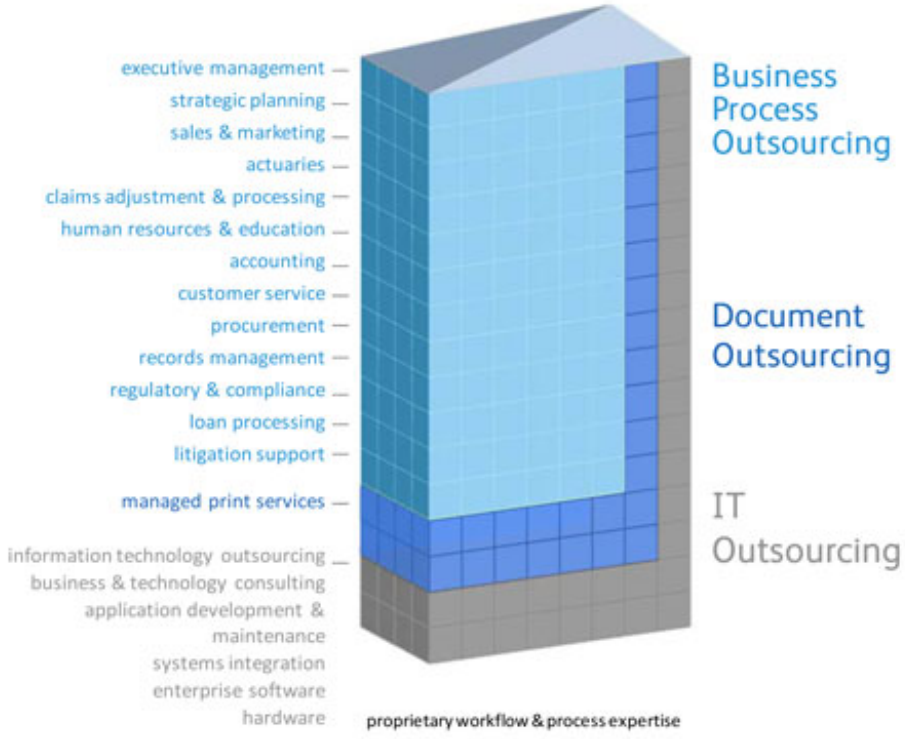
Our core strengths include:

- **Our Brand** – We have a strong and well−recognized brand that is known by businesses worldwide for delivering industry−leading document technology, services and solutions.
- **Global Presence** – Our geographic footprint spans 160 countries and allows us to serve customers of all sizes to deliver superior technology and services regardless of complexity or number of customer locations.
- **Renowned Innovation** – We have a history of innovation and, with more than 10,200 active U.S. patents and five global research centers, we are committed to continuing to lead in the document technology industry and to leverage our technology into new service areas.
- **Services Operational Excellence** – We have an operational excellence model that leverages our global delivery capabilities, production model, incentive−based compensation process, proprietary systems and financial discipline to deliver productivity and lower costs for our customers.

We organize our business around two segments: **Technology** and **Services**.

- Our **Technology** segment comprises our business of providing customers with document technology and related supplies, technical service and equipment financing. Our product categories within this segment include Entry, Mid−range and High−end products.

– Our **Services** segment is comprised of business process outsourcing, information technology outsourcing and document outsourcing services. Because we provide all three of these business services, we are uniquely positioned in the industry, and we believe this allows us to provide a differentiated solution and deliver greater value to our customers.



We will leverage our core strengths and market opportunities to grow our businesses by executing on the following growth initiatives:

– **Accelerating the Transition to Color** – We have the broadest color portfolio in the industry and leading technologies to help customers realize the communication benefits of printing in color. Cost and quality improvements are driving the transition from black−and−white to color. With only 23% of Xerox pages printed on color devices, we believe there remains tremendous opportunity to grow color pages and revenues.

– **Advancing Customized Digital Printing** – We are the leader in digital production printing, and we continue to create new market opportunities for digital printing through technology that enables personalized promotional and transactional documents, short−run book publishing, cross−media customized campaigns and more. Color digital production pages are estimated to grow over 20% CAGR from 2009 to 2014, according to internal market estimates.

– **Expand Distribution** – We strive to ensure Xerox is considered by every customer and potential customer. We will continue to broaden our distribution capacity through acquisitions and channel partnerships targeted at expanding our presence in the small and mid−size business (“SMB”) market and we will capitalize on our coverage investments and partnerships to drive growth in digital production printing.

– **Extending Lead in Document Outsourcing** – We lead the industry with end−to−end Document Management Services. Through offerings such as managed print services, we can help our customers save up to 30% on printing costs by optimizing their use of document systems across an entire enterprise. We will seek to grow our document outsourcing revenue by expanding our print services offerings to smaller companies, delivering solutions in new service categories such as multi−channel marketing communications, and leveraging our BPO and ITO presence to deliver even greater value to our customers.

- **Expand BPO and ITO Globally** – In 2010, approximately 90% of our BPO and ITO revenues were from services provided to customers in the United States. We believe there is tremendous opportunity to leverage Xerox's global presence and customer relationships to expand our BPO and ITO services internationally.
- **Leverage Innovation** – We have a strong heritage in innovation and we continue to invest heavily in research and development. In 2010, together with Fuji Xerox, our research and development spending was $1,602 million. We see great opportunity in applying our document management technology to deliver industry−leading document solutions to the market, to increase ACS's existing BPO capabilities, and to deliver new services to help customers better manage their document−intensive business processes.

Acquisitions

In February 2010, we acquired **Affiliated Computer Services, Inc.** ACS is a premier provider of diversified business process outsourcing and information technology services and solutions to commercial and government clients worldwide.

Subsequent to the acquisition of ACS, we acquired three additional service companies, further expanding our BPO capabilities:

- In July 2010, we acquired **ExcellerateHRO, LLP** ("EHRO"), a global benefits administration and relocation services provider. This acquisition establishes ACS as one of the world's largest pension plan administrators and a leading provider of outsourced health, welfare and relocation services.
- In October 2010, we acquired **TMS Health, LLC** ("TMS"), a U.S.−based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries. Through TMS, we will improve communication between pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing, and clinical trial solutions, we build on our ITO and BPO services we are already delivering to the healthcare and pharmaceutical industries.
- In November 2010, we acquired **Spur Information Solutions, Limited** ("Spur"), one of the United Kingdom's leading providers of parking enforcement computer software used. Spur's core software helps governments implement and enforce local parking codes across municipalities. The acquisition strengthens our broad portfolio of services that support the transportation industry.

Additionally in 2010, we acquired two companies to further expand our distribution capacity:

- In January 2010, we acquired **Irish Business Systems Limited** ("IBS") to expand our reach into the small and mid−size business market in Ireland. IBS, a managed print services provider, has eight offices located throughout Ireland and is the largest independent supplier of digital imaging and printing solutions in Ireland.
- In September 2010, we acquired **Georgia Duplicating Products, Inc.**, an office equipment supplier. This acquisition furthers our strategy of supporting business customers across the U.S. with an expanding network of office technology providers.

Business Model Fundamentals

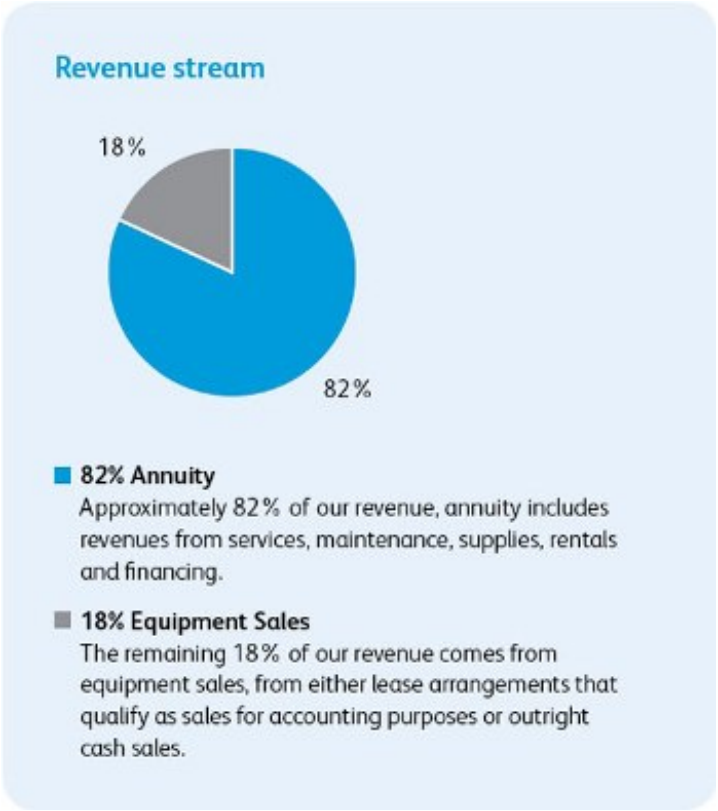
Our annuity based business model yields strong and stable cash generation and earnings growth.

Through our annuity−based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

Annuity Model

The fundamentals of our business rest upon an annuity model that drives significant recurring revenue and cash generation. Over 80% of our 2010 total revenue was annuity based revenue that includes contracted services, equipment maintenance and consumable supplies, among other elements. Some of the key indicators of annuity revenue growth include:

- The number of page−producing machines in the field ("MIF") which is impacted by the number of equipment installations
- Page volume and the mix of color pages, as color pages generate more revenue per page than black−and−white
- Services signings growth, which reflects the year−over−year increase in estimated future revenues from contracts signed during the period as measured on a trailing 12 month basis
- Services pipeline growth, which measures the year−over−year increase in new business opportunities
- Expanding the digital production printing market, as this is key to increasing pages.



Cash Generation

The combination of consistent strong cash flow from operations and modest capital investments enabled us in 2010 to pay down a significant amount of the debt associated with the ACS acquisition. Cash generation in the future will continue to provide a return to shareholders through:

- Buying back shares under our share repurchase program once debt leverage targets are met
- Expanding our distribution and business process outsourcing capabilities through acquisitions
- Maintaining and, over time, increasing our quarterly dividend.

Expanded Earnings

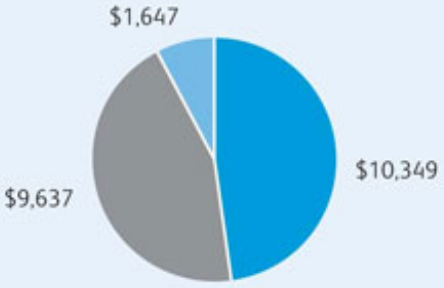
We will expand our operating margin and future earnings through:

- Modest revenue growth
- Driving cost efficiencies to balance gross profit and expense
- Repurchasing shares
- Making accretive acquisitions.

Segment Information

Our reportable segments are Technology, Services and Other. We present operating segment financial information in Note 2 – Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. We have a very broad and diverse base of customers by both geography and industry, ranging from SMB to graphic communications companies, governmental entities, educational institutions and Fortune 1000 corporate accounts. None of our business segments depends upon a single customer, or a few customers, the loss of which would have a material adverse effect on our business.

Revenues by business segment
(in millions)

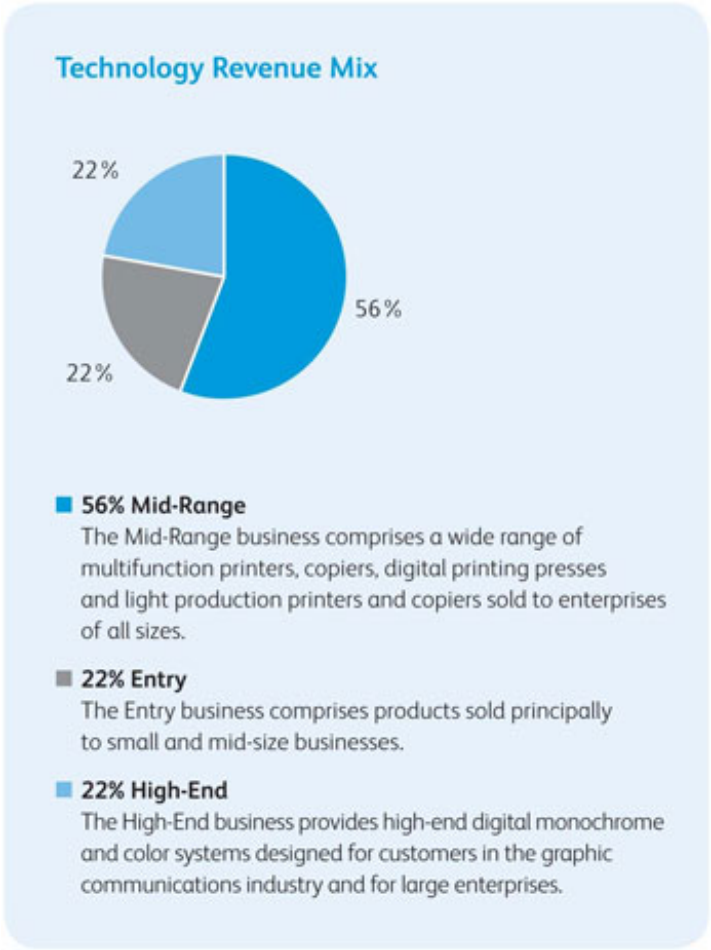


- **$10,349 Technology**
  Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products.
- **$9,637 Services**
  Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Information Technology Outsourcing ("ITO") and Document Outsourcing ("DO").
- **$1,647 Other**
  The Other segment primarily includes revenue from paper sales, wide-format systems, and GIS network integration solutions and electronic presentation systems.

Technology

The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology, for businesses of any size, in any industry, around the world.

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Technology segment is centered around strategic product groups that share common technology, manufacturing and product platforms.



Our strategic product groups are as follows:

Entry

Entry comprises products sold principally to small and mid−size businesses through a worldwide network of independent resellers, and includes desktop monochrome and color printers and multifunction printers (MFPs) ranging from small personal devices to larger workgroup printers designed to serve the needs of demanding office users. In 2010, we continued to build on our position in the market by:

– Leveraging the market transition from larger centralized devices to more−affordable desktop−centric devices with a full portfolio of products
– Making high−quality desktop color more affordable and easier to use for small businesses and large enterprises alike
– Expanding our channel reach, partner programs and capacity to support the needs of the SMB market

Our Entry business products include:

– **ColorQube 8570/8870:** Featuring advanced cartridge−free solid ink, the ColorQube 8570 and ColorQube 8870 color printers are powerful, no−fuss and waste−conscious printing solutions that are simple, highly productive and affordable, with the advantage of superior color output. At 40 pages−per−minute (“ppm”), these products are perfect for small to mid−size workgroups.
– **Phaser 7500:** This 35 ppm color laser printer allows small and mid−size workgroups to attain professional−quality results. Key features include improved print quality as a function of 1200 dpi, new “Color by Words” Xerox technology, a natural language technology enabling easy and intuitive color adjustments, enhanced media handling capabilities and longer lives on customer replaceable parts.
– **WorkCentre 6400:** The WC6400 is Xerox’s first desktop multifunction printer that utilizes Xerox’s Smart Controller platform and supports EIP, Xerox’s open platform allowing customization of applications on the MFP. The WorkCentre 6400 is also able to handle busy volumes with print speeds up to 32 ppm color/37 ppm mono and offers basic finishing, Print Around and ID Card Copy.

Mid−range

Mid−range comprises products sold to enterprises of all sizes, principally through dedicated Xerox−branded partners and our direct sales force. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features.

In 2010, our Mid−range business continued to build on our position in the market by:

– Enhancing our already strong product portfolio, making color more affordable, easier to use, faster and more reliable while maintaining our leadership position in black−and−white
– Driving to a leadership position in the combined color page printer and color MFP market segments
– Offering a complete range of services and solutions in partnership with independent software partners that allow our customers to analyze, streamline, automate, secure and track their document workflows.

The breadth of our Mid−range product portfolio is unmatched. We continued to build on this portfolio in 2010 with the launches of:

– **Xerox WorkCentre 7120:** Xerox’s new multifunction printer combines affordable color with high−productivity workflow tools. Today’s MFPs do far more than copy and print – they improve the way work gets done; the WorkCentre 7120 helps SMBs maximize office productivity and produce affordable, impactful color documents.
– **WorkCentre 7545 and 7556:** These new multifunction printers are equipped with features to help mid−size businesses and large workgroups boost productivity and meet their sustainability goals. They offer speeds up to 45 and 50 ppm color and 45 and 55 ppm black−and−white, respectively. The MFPs, which can copy, scan, fax and email, include advanced document management and workflow tools to make office work easier.

– **Xerox Color 550/560 Digital Color Printer:** The new Xerox Color 550/560 printer, with an easy−to−use color touch−screen, benchmark image quality and flexible finishing options, is an efficient choice for quick−print shops, small commercial printers, in−plant operations, advertising agencies, creative shops and office settings. It is the perfect fit in any print setting for applications ranging from marketing pieces to office documents.

Extensible Interface Platform

Xerox Extensible Interface Platform (EIP) is a software platform upon which developers can use standard web-based tools to create server-based applications that can be configured for the multifunction printer's (MFP's) touch-screen user interface. It brings a new world of possibilities to the Xerox MFP – the ability to adapt to, support and automate the work processes of our customers.

Xerox Mobile Offerings

These offerings make it easier for office workers to print from anywhere, at anytime. Mobile office workers and IT professionals stay productive with three tools that make it easier than ever to print regardless of location:

- **Xerox Mobile Print Solution** makes mobile printing simpler and more convenient. It keeps your business documents secure while printing from any smartphone or electronic device, with no need to download cumbersome drivers, tools or software.
- **Xerox Mobile Express Driver** enables printing from a PC to virtually anywhere. It is a single, universal printer driver that can be downloaded to a PC and used to print to any PostScript device on a network, including printers made by other manufacturers.
- **Secure Access Unified ID System** allows remote workers and students to send documents to a centralized print server and activate their job at the device with a swipe of their magnetic or proximity ID card for authentication. This gives users quick, easy and secure access to documents wherever they need them.

High−end

We provide High−end digital monochrome and color systems designed for customers in the graphic communications industry and for large enterprises. These High−end devices enable digital on−demand printing, digital full−color printing and enterprise printing. We are the leading provider in the market offering a complete family of monochrome and color production systems, business development tools and workflow solutions. We are creating new market opportunities in targeted application areas with digital printing as a complement to traditional offset printing.

For more than two decades, we have delivered innovative technologies that have revolutionized the production printing industry. We are the industry leader in the number of pages produced on digital production color presses. We continued to build on our award−winning lineup in 2010 with the launches of:

– **Xerox Color Press 800 and 1000:** These new products are additions to the portfolio and are positioned below iGen4, and above the DocuColor 8002. They offer customers a set of new innovative features. The optional fifth housing for clear dry ink allows users to create new applications and/or add value to existing work. The clear dry ink allows for images and text to be highlighted for visual impact, or digital watermarks applied for artistic effect. Flexible finishing options include high−capacity stackers, booklet makers and a tape bind option exclusive to Xerox

– **Xerox iGen4 EXP:** We added more capabilities to the flagship of the production color portfolio, iGen4. The industry's most reliable and productive press added a number of new options that expand the reach of iGen, enabling new applications that were previously done only on offset presses. The expanded sheet size of 26", or 660mm, allows print providers to produce full−size trifold brochures and more multi−up images such as postcards and business cards per page. A new touchless workflow allows for jobs to be completed without manual intervention or setup, saving time, reducing errors and producing more−sellable prints. Integrating with the Adobe PDF print engine drives quick and reliable printing of native Adobe PDF files.

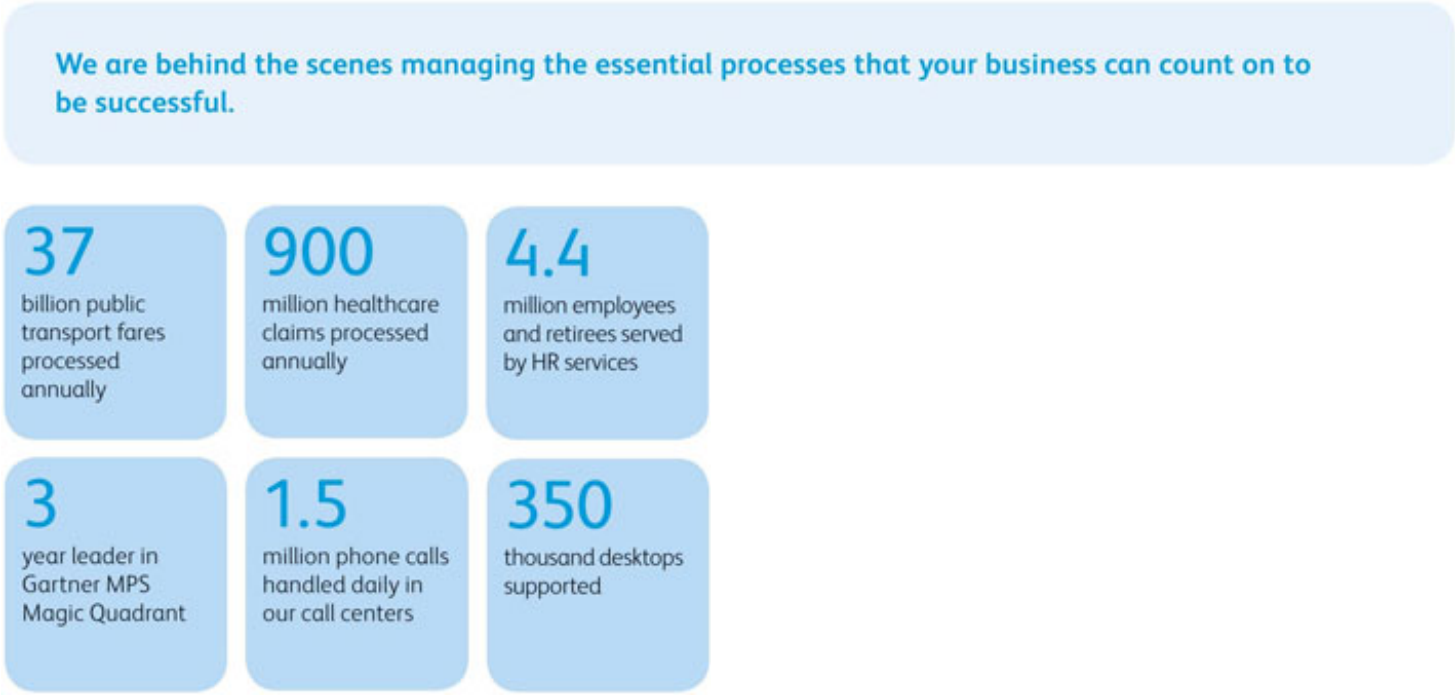
We are enabling print providers in graphic communications, service bureaus and large enterprises to profit and grow by meeting their customers' specific business needs with just−in−time, one−to−one and e−based services – rather than simply manufacturing a printed piece.

FreeFlow Digital Workflow: Our FreeFlow digital workflow is a collection of software technology solutions that our customers can use to improve all aspects of their processes, from content creation and management to production and fulfillment. Our digital technology combined with total document solutions and services that enable personalization and printing on demand, delivers value that improves our customers' business results.

Through our industry−leading FreeFlow Digital Workflow collection and FreeFlow Print Server, we deliver three primary values to our customers − the ability to Connect, Control and Enable. Our solutions:

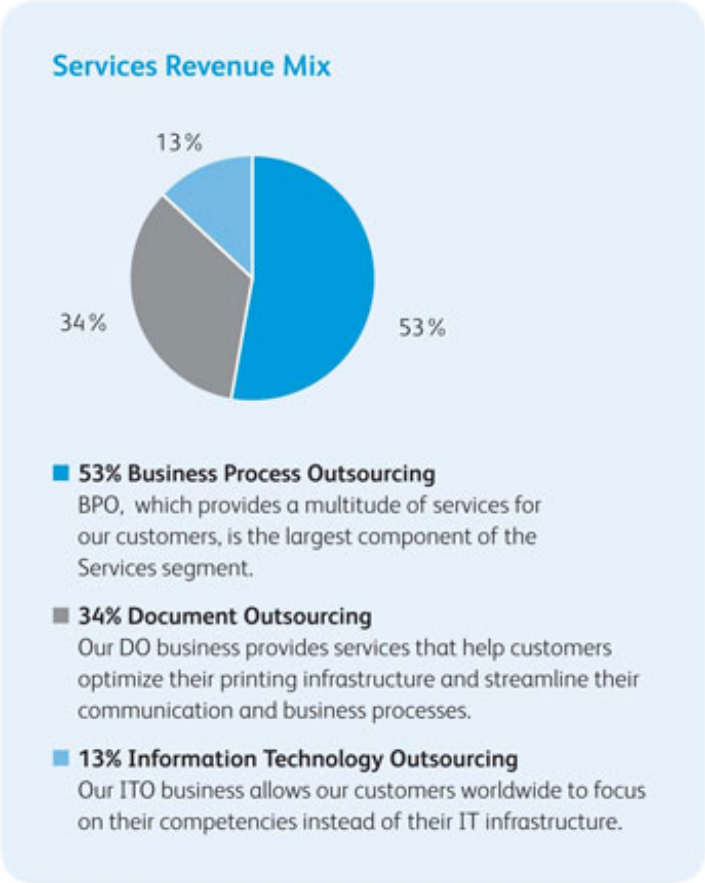
– Connect our customers to their customers 24/7, enabling them to be open for business around the clock
– Control our customers' costs, environmental impacts and security. Automated workflows provide extensive productivity gains and greatly increase document integrity by eliminating manual processes.
– Enable new applications and revenue streams such as photo books, secure event tickets and packaging.

Services



Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Document Outsourcing ("DO") and Information Technology Outsourcing ("ITO"). We provide non−core, mission−critical services that our clients need to run their day−to−day business. The services we provide enable our clients to concentrate on their core operations, respond rapidly to changing technologies and reduce expenses associated with their business processes and information processing.

The majority of our Services business is the result of our acquisition of ACS in February 2010.



Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with focused offerings in education, transportation, communication, healthcare, government, finance and accounting services, manufacturing, consumer goods and retail. Our BPO service offerings are focused, transaction−intensive, back−office functions. Our BPO services include:

– **Human Resources Services:** We provide a comprehensive portfolio of human resources solutions that allow our clients to benefit from best practices, our subject matter expertise, consulting and technological solutions. Our human resources services include:
  - HR consulting
  - HR Outsourcing
  - Total Benefits Outsourcing
  - Learning

- **Customer Care:** One of our core values is delivering a positive customer care experience. We have years of experience providing customer care outsourcing services that can improve productivity, efficiency and customer retention. Services include:
  - Strategic Advisory Services
  - Account Activations
  - Collections
  - Device/Technical Support

- **Finance and Accounting Outsourcing:** Our finance and accounting services allow our clients to benefit from our global delivery model and our quality management systems, resulting in better accuracy and, timeliness, and reduced risk for our clients. Services include:
  - Accounts Payable, Accounts Receivable
  - Billing
  - General Accounting
  - Tax Management
  - Treasury and Risk Management
  - Time and Expense Reporting

- **Healthcare Payer and Insurance:** We deliver administrative efficiencies to our healthcare payer clients through our scalable and flexible transactional business solutions, which encompass both our global delivery model and domestic payer service centers. Services include:
  - Healthcare Payer Claim Processing
  - Healthcare Payer Customer Care
  - Cost Recovery, Audit, Cost Avoidance

- **Healthcare Provider:** Our healthcare provider business offers services and solutions to meet the critical financial, operational and clinical needs of the healthcare provider industry. We offer a full range of services, including:
  - Consulting Solutions
  - Revenue Cycle Management
  - Application Services

- **Government Services and Solutions:** We help federal, state and local government agencies by providing services that improve their operating efficiency, increase the level of service provided to their constituents, increase their revenue streams and reduce overall operating costs of service delivery. Our service offerings include:
  - Child Support Payment Processing
  - Electronic Benefits Transfer
  - Student Loan Servicing
  - Government Records Management
  - Electronic Payment Cards

- **Government Healthcare:** We provide our state government clients with health program management solutions to help them administer their programs and control the cost of healthcare. We support the full healthcare continuum, including member enrollment, claims processing and health management. Our service offerings include:
  - Medicaid Program Administration
  - Healthcare and Quality Management
  - Eligibility and Enrollment Solutions
  - Pharmacy Benefits Management

- **Transportation Solutions:** We help transportation agencies worldwide address the unique challenges associated with revenue collection and regulation compliance services. From fare collection to toll and parking solutions and from back office processing to infrastructure installation, we provide systems and services that help governments with their transportation problems. New innovations include the **Smart Card Fare Payment Solution** − a streamlined and seamless fare payment system. By adopting a fare payment system based on the financial industry's open standards, transit agencies can now enable riders to tap contactless bankcards for point−of−entry payments.

Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Our secure data centers, help desks and managed storage facilities around the world provide a reliable IT infrastructure that minimizes the chance of disruption to our clients' daily operations.

With our global Information Technology Outsourcing solutions, commercial businesses and government organizations worldwide can focus on their competencies instead of their IT infrastructure.

Throughout our global IT services outsourcing portfolio, we:
- Infuse thought leadership and innovation
- Manage to the highest level of quality for service delivery
- Enable our customers to transform their organization

Our ITO services include:
- **Data Center Outsourcing:** We provide a 24/7 support organization that maintains a unified set of tools and processes to support our clients' IT environments, including systems administration, database administration, systems monitoring, batch processing, data backup and capacity planning.
- **Mid−range Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We are able to leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **Remote Infrastructure Management ("RIM"):** We provide RIM services that allow our clients to retain control of their IT assets but outsource the day−to−day IT operations management.
- **Help Desk/Service Desk Management:** We deliver specialized service desk support from self−service to remote management and diagnostics.
- **Desktop Outsourcing:** Our desktop services provide our clients with a comprehensive approach to managing their end−user platforms and devices. We design and execute desktop management strategies that address and resolve issues such as enterprise bandwidth constraints, unstable computing environments, areas of insecurity and unavailable network resources.
- **Managed Storage:** Data storage requirements have become larger and more complex. We help our clients define, monitor and optimize their data storage requirements while reducing the complexity of their storage environments and associated costs.
- **Utility Computing:** We support large corporations with our utility computing model. Utility computing provides "pay for use" pricing for mid−range server clients, which provides variable pricing and relieves our clients from the burden of asset ownership.
- **Disaster Recovery:** We approach disaster recovery as a multidisciplinary function. We assess our clients' specific enterprise requirements and then deploy solutions based on these requirements.
- **Security Services:** Our solutions provide security from the desktop to LAN/WAN and Internet levels. We leverage a combination of mature methodologies and industry best practices that afford increased ability to protect valuable data while also satisfying industry audit requirements.
- **IT commercial services:** We possess category knowledge, tools and processes that allow us to reduce IT and telecommunication costs for our clients.

Cloud computing

Xerox is uniquely positioned to bring the best of enterprise-level Cloud services to our clients. We've been involved in virtualization and on-demand services for more than 20 years – driving the evolution from mainframe computers to the ASP model to utility computing. Cloud is the next step in this evolution; representing the maturation of what our company has been doing all along. Our strength is delivering secure, enterprise-level Cloud solutions to large organizations with multi-site applications and large transaction volumes. We create and execute the entire solution – from the initial consultation and development of the most appropriate Cloud strategy to the phased transformation.

Document Outsourcing

We are an industry leader in document outsourcing services with more than 20 years' experience and 15,000 business professionals across 160 countries.

We help companies optimize their printing infrastructure and streamline their communication and business processes to grow revenue, reduce costs and operate more efficiently. We specialize in the planning and delivery of the following services:

– Managed print services for workplace, production environments and virtual worker printing sites
– Consolidating in−house production and commercial printing under a single point of control
– Improving communication processes and back−office functions associated with creating, capturing, managing and routing customer, employee and supplier information
– Designing, authoring and translating technical and user documentation
– Creating personalized, multi−channel marketing communications

Through these services, we:

– Help our clients save up to 30% on printing costs through managed print services that optimize the use of document systems across an entire enterprise
– Simplify document−driven processes, such as forms processing and records management
– Manage in−house print operations and special events by handling technology procurement and print/copy centers
– Make information easier to manage and find through digital imaging, archiving and indexing
– Generate a better return on investment through personalized, multi−channel marketing communications
– Improve commercial print operations, sales and profits through document outsourcing

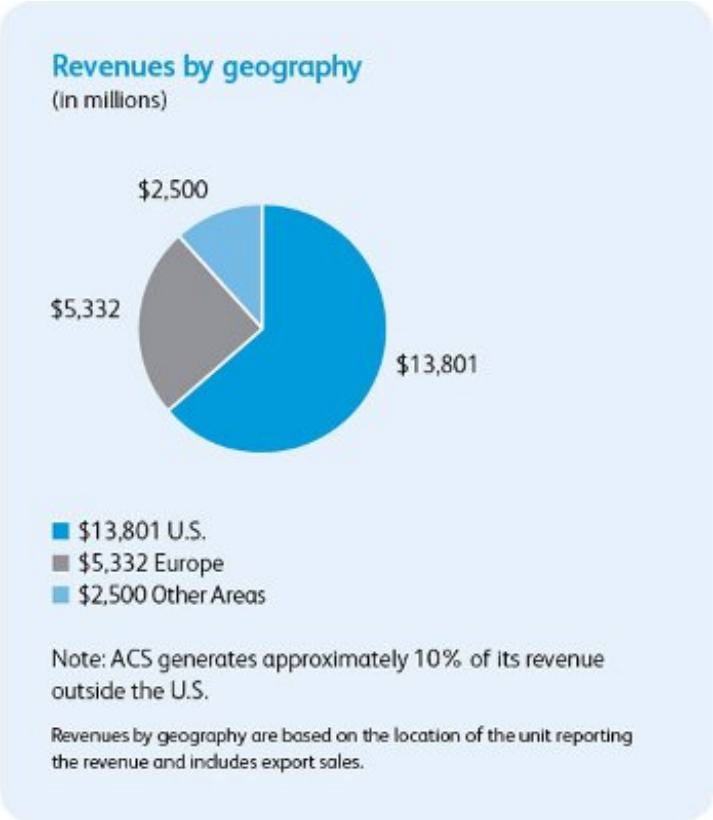
As the market leader in managed print services, our approach to optimizing across all print environments allows our customers to print from anywhere to anywhere in a seamless way while ensuring compliance with budget targets, security protocols and environmental sustainability programs.

Other

The Other segment primarily includes revenue from paper sales, wide−format systems and GIS network integration solutions and electronic presentation systems. Paper comprised approximately 58% of the revenues in the Other segment.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 36% of our revenue is generated by customers outside the U.S. Currently, ACS generates approximately 10% of its revenue outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand the ACS business in Europe and developing markets.



Research and Development

Innovation drives growth and keeps us at the forefront of our industry.

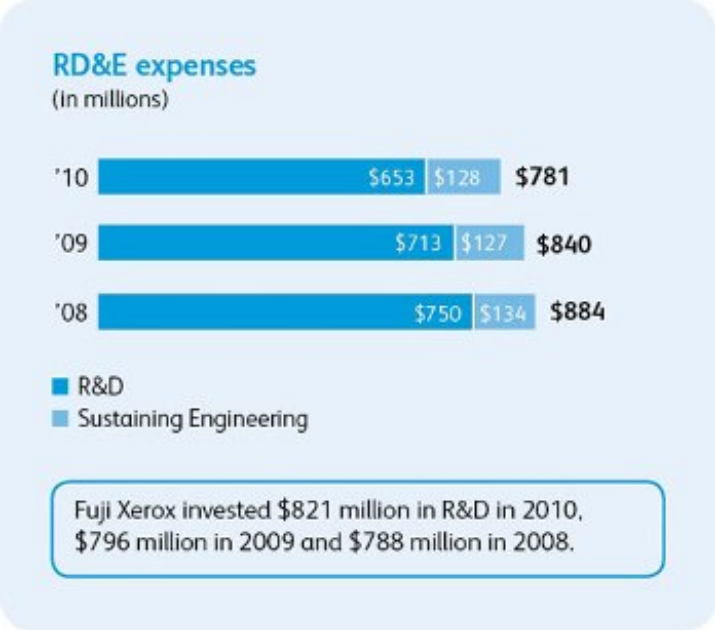
Investment in R&D is critical for competitiveness in our fast−paced markets. Approximately 55% of our equipment sales are from products launched during the last two years. Our R&D investment also enables innovation within our Services segment.

Research activities are conducted in the United States in Webster, New York and Palo Alto, California; in Canada in Mississauga, Ontario; in Europe in Grenoble, France; and Asia both at the India Innovation Hub in Chennai, India, and in collaboration with Fuji Xerox, Ltd. (“Fuji Xerox”).

To ensure our success, we have aligned our R&D investment portfolio with our growth initiatives, including accelerating our color transition, enhancing customer value by building on our services leadership, and by strengthening our leadership in digital color printing.

Xerox conducts work in color science, computing, digital imaging, work practices, electromechanical systems, novel materials, linguistics, work practice analysis and other disciplines. Through our Smart Document Technologies, we are developing ways to apply innovation to automate and differentiate our Services offerings.

Sustaining engineering expenses, which are the hardware engineering and software development costs we incur after we launch a product, are included in our RD&E expenses.



Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,031 U.S. utility patents in 2010. On that basis, we would have ranked 20th on the list of companies that were awarded the most U.S. patents during the year. Including our research partner Fuji Xerox, we were awarded over 1,600 U.S. utility patents in 2010. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2010, we held almost 10,200 design and utility U.S. patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated or circumvented, or may not provide significant competitive advantages.

In the U.S., we are party to numerous patent−licensing agreements and, in a majority of them we license or assign our patents to others in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2010, we added 16 new agreements to our portfolio of patent−licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in 14 of the agreements. We are also a party to a number of cross−licensing agreements with companies that hold substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett−Packard, Oce, Sharp, Samsung and Seiko Epson. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 650 trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every 10 years. We vigorously enforce and protect our trademarks.

Marketing and Distribution

Our brand is valued at an estimated $6.1 billion and was ranked as a "Best Global Brand" by *Business Week*.

We manage our business based on the principal business segments described earlier. We have organized the marketing, selling and distribution of our products and services by geography, channel type and line of business.

We sell our products and services directly to customers through our world−wide sales force and through a network of independent agents, dealers, value−added resellers, systems integrators and the Web.

In large enterprises, we follow a services−led approach that enables us to address two basic challenges facing large enterprise customers:
– How to optimize infrastructure to be both cost−effective and globally consistent
– How to improve their value proposition and communication with their customers

Our go−to−market approach includes the largest direct sales force in the industry, with customers served by Client Managing Directors, Account General Managers and Sales Representatives.

For small and mid−size business, we continue to expand our distribution partnerships in North America with additional information technology resellers and by enhancing our network of independent agents. In 2010, we acquired two companies to further expand this distribution capacity.

In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, and related non−U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to provide distribution of our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties providing distribution of our products in Iran, Sudan and Syria. Iran, Sudan and Syria, among others, have been designated as state sponsors of terrorism by the U.S. Department of State and are subject to U.S. economic sanctions. We maintain an export and sanctions compliance program and believe that we have been and are in compliance with U.S. laws and government regulations for these countries. We have no assets, liabilities or operations in these countries other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan and Syria in August 2006 and terminated its distribution agreement with the distributor servicing Iran in December 2006. Now, Xerox only has legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2010, total Xerox revenues of $21.6 billion included less than $0.2 million attributable to Iran, Sudan and Syria.

We operate in over 160 countries worldwide.
We provide the industry's broadest portfolio of document technology, services and software, and the most diverse array of business processes and IT outsourcing support through a variety of distribution channels around the world.

- **Xerox North America**
  North American Operations includes the United States and Canada.
- **Xerox Europe**
  Xerox Europe covers 17 countries across Europe.
- **Developing Markets**
  Developing Markets supports more than 130 countries.
- **Fuji Xerox**
  Fuji Xerox, an unconsolidated entity of which we own 25%, develops, manufactures and distributes document management systems, supplies and services.

ACS maintains a global presence in the Business Process Outsourcing and Information Technology Outsourcing businesses and leverages the Xerox distribution organizations within these geographies.

Competition

Although we encounter competition in all areas of our business, we are the leader or among the leaders in each of our principal business segments. We compete on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support.

Our competitors in the Technology business include Canon, Ricoh, Hewlett−Packard, Kodak, Oce, Konica Minolta and Lexmark. In the Services business, our larger competitors are Hewlett−Packard, Genpact, Teletech, Accenture, Aon Hewitt, Computer Services, IBM and Dell. In addition, in the Services segment, we compete with in−house departments performing the functions that we are seeking to have them outsource to us.

We believe that our brand recognition, reputation for our business process and document management knowledge and expertise, innovative technology, service, breadth of product offerings, global distribution channels, customer relationships and large customer base are important competitive advantages. We and our competitors continue to develop and market new and innovative products and services at competitive prices and, at any given time, we may set new market standards for quality, speed, function and level of service.

Global Employment

Globally, we have approximately 136,500 direct employees. We have approximately 8,000 sales professionals, approximately 12,000 technical service employees and over 46,000 employees serving our customers through on−site operations or off−site delivery centers.

Customer Financing

We finance a large portion of our direct channel customer purchases of Xerox equipment through bundled lease agreements. We believe that financing facilitates customer acquisition of Xerox technology and enhances our value proposition while providing Xerox an attractive gross margin and a reasonable return on our investment in this business.

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand and proceeds from capital market offerings. At December 31, 2010, we had $6.6 billion of finance receivables and $0.6 billion of equipment on operating leases, or Total Finance assets of $7.2 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, and therefore, a significant portion of our $8.6 billion of debt is associated with our financing business.

Manufacturing and Supply

Our manufacturing and distribution facilities are located around the world. The company's largest manufacturing site is in Webster, New York, where we produce fusers, photoreceptors, Xerox iGen and Nuvera systems, components, consumables and other products and we have an EA Toner plant located in Webster. Our other primary manufacturing operations are located in: Dundalk, Ireland, for our high−end production products and consumables; and Wilsonville, Oregon, for solid ink products, consumable supplies and components for our Mid−range and Entry products. We also have a major facility in Venray, Netherlands, which handles supplies manufacturing and supply chain management for the Eastern Hemisphere.

Our master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Mid−range and Entry businesses, continues into 2011.

We also acquire products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements. We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. Refer to Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2010 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

We believe our global services production model is one of our key competitive advantages. This model encompasses employees in production centers around the world including India, Mexico, the Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. Our global production model is enabled by the use of proprietary technology, which allows us to securely distribute client transactions within data privacy limits across a global workforce. This global production model allows us to leverage lower−cost production locations, consistent methodology and processes, and time zone advantages.

Fuji Xerox

Fuji Xerox is an unconsolidated entity in which we currently own a 25% interest and FUJIFILM Holdings Corporation (“FujiFilm”) owns 75%. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong, other areas of the Pacific Rim, Australia and New Zealand. We retain significant rights as a minority shareholder. Our technology licensing agreements with Fuji Xerox ensure that the two companies retain uninterrupted access to each other’s portfolio of patents, technology and products.

International Operations

We are incorporating by reference the financial measures by geographical area for 2010, 2009 and 2008 that are included in Note 2 − Segment Reporting in the Consolidated Financial Statements in our 2010 Annual Report. See also the risk factor entitled “Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes” in Part I, Item 1A of Form 10−K.

Backlog

We believe that backlog, or the value of unfilled orders, is not a meaningful indicator of future business prospects because of the significant proportion of our revenue that follows contract signing and/or equipment installation, the large volume of products we deliver from shelf inventories, and the shortening of product life cycles.

Seasonality

Our technology revenues are affected by such factors as the introduction of new products, the length of sales cycles and the seasonality of technology purchases. These factors have historically resulted in lower revenue in the first quarter and the third quarter.

Other Information

Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856−4505. Our telephone number is (203) 968−3000.

In the Investor Information section of our Internet website, you will find our Annual Reports on Form 10−K, Quarterly Reports on Form 10−Q, Current Reports on Form 8−K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the Securities and Exchange Commission.

Our Internet address is **www.xerox.com**.

ITEM 1A. RISK FACTORS

Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes.

A significant portion of our revenues are generated from operations outside the United States. In addition, we manufacture or acquire many of our products and/or their components from, and maintain significant operations, outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates − particularly the Japanese Yen to U.S. Dollar and Japanese Yen to Euro exchange rates, as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.

We face significant competition and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. Our competitors range from large international companies to relatively small firms. Some of the large international companies have significant financial resources and compete with us globally to provide document processing products and services and/or business process services in each of the markets we serve. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve and to expand into additional market segments. To remain competitive, we must develop new products, services and applications; periodically enhance our existing offerings and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our profitability is dependent upon our ability to obtain adequate pricing for our products and services and to improve our cost structure.

Our success depends on our ability to obtain adequate pricing for our products and services which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our products and services, it could materially adversely affect our results of operations and financial condition.

We continually review our operations with a view towards reducing our cost structure, including but not limited to reducing employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We from time to time engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions, it could materially adversely affect our results of operations and financial condition.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as Lean Six Sigma, the level of pricing pressures on our products and services, the proportion of high−end as opposed to low−end equipment sales, the trend in our post−sale revenue growth and our ability to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve productivity improvements through design efficiency, supplier and manufacturing cost improvements and information technology initiatives, our ability to offset labor cost inflation, potential materials cost increases and competitive price pressures would be impaired, all of which could materially adversely affect our results of operations and financial condition.

Our operating results may be negatively impacted by lower equipment placements and usage trends.

Our ability to maintain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be further enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, enterprise managed print services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry−oriented global solutions and services for major customers, improve direct and indirect sales productivity and expand our indirect distribution channels in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix of color pages, equipment utilization and color adoption, as well as our ability to retain a high level of supplies sales in unbundled contracts. Equipment placements typically occur through leases with original terms of three to five years. There will be a lag between the increase in equipment placement and an increase in post sale revenues. The ability to grow our customers' usage of our products may continue to be adversely impacted by the movement toward distributed printing and electronic substitutes and the impact of lower equipment placements in prior periods. If we are unable to maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

We have outsourced a significant portion of our overall worldwide manufacturing operations and face the risks associated with relying on third−party manufacturers and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing operations to third parties and various service providers. To the extent that we rely on third−party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming similar third−party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage our relationships with our customers and reduce our market share, all of which could materially adversely affect our results of operations and financial condition.

For our services contracts, we rely to a significant extent on third−party providers, such as subcontractors, a relatively small number of primary software vendors, utility providers and network providers; if they cannot deliver or perform as expected or if our relationships with them are terminated or otherwise change, our business, results of operations and financial condition could be materially adversely affected.

Our ability to service our customers and clients and deliver and implement solutions depends to a large extent on third−party providers such as subcontractors, a relatively small number of primary software vendors and utility providers and network providers meeting their obligations to us and our expectations in a timely, quality manner. Our business, revenues, profitability and cash flows could be materially and adversely affected and we might incur significant additional liabilities if these third−party providers do not meet these obligations or our expectations or if they terminate or refuse to renew their relationships with us or were to offer their products to us with less advantageous prices and other terms than we previously had. In addition, a number of our facilities are located in jurisdictions outside of the United States where the provision of utility services, including electricity and water, may not be consistently reliable and, while there are backup systems in many of our operating facilities, an extended outage of utility or network services could have a material adverse effect on our operations, revenues, cash flow and profitability.

We need to develop and expand the use of color printing and copying.

Increasing the proportion of pages that are printed in color and transitioning color pages currently produced on offset devices to Xerox technology represent key growth opportunities. A significant part of our strategy and ultimate success in this changing market is our ability to develop and market technology that produces color prints and copies quickly, easily, with high quality and at reduced cost. Our continuing success in this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market, as well as the pace of color adoption by our existing and prospective customers. If we are unable to develop and market advanced and competitive color technologies or the pace of color adoption by our existing and prospective customers is less than anticipated, or the price of color pages declines at a greater rate and faster pace than we anticipate, we may be unable to capture these opportunities and it could materially adversely affect our results of operations and financial condition.

Our ability to recover capital investments in connection with our contracts is subject to risk.

In order to attract and retain large outsourcing contracts, we sometimes make significant capital investments to perform our services under the contract, such as purchases of information technology equipment and costs incurred to develop and implement software. The net book value of such assets recorded, including a portion of our intangible assets, could be impaired, and our earnings and cash flow could be materially adversely affected in the event of the early termination of all or a part of such a contract or the reduction in volumes and services thereunder for reasons such as, among other things, a customer's or client's merger or acquisition, divestiture of assets or businesses, business failure or deterioration, or a customer's or client's exercise of contract termination rights.

If we fail to successfully develop new products and technologies and service offerings and protect our intellectual property rights, we may be unable to retain current customers and gain new customers and our revenues would be reduced.

The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long−term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. In developing these new technologies and products, we rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. However, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third−party copying or use, which could adversely affect our competitive position. In addition, some of our products rely on technologies developed by third parties. We may not be able to obtain or to continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross−licenses to our intellectual property. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and newly enacted applicable regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers' needs through the development of new products and technologies and service offerings or if we fail to adequately protect our intellectual property rights or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our ability to fund our customer financing activities at economically competitive levels depends on our ability to borrow and the cost of borrowing in the credit markets.

The long−term viability and profitability of our customer financing activities is dependent, in part, on our ability to borrow and the cost of borrowing in the credit markets. This ability and cost, in turn, is dependent on our credit ratings and is subject to credit market volatility. We are currently funding our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings and other borrowings. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

Our significant debt could adversely affect our financial health and pose challenges for conducting our business.

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. As of December 31, 2010, we had $8.6 billion of total debt and a $650 million liability to a subsidiary trust issuing preferred securities. The total value of finance assets, shown on the balance sheet as Finance receivables and On−lease equipment, was $7.2 billion at December 31, 2010. The total cash and cash equivalents was $1.2 billion at December 31, 2010. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels, these related risks could increase.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements, repay maturing debt and meet other financial obligations, such as payment of dividends to the extent declared by our Board of Directors. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets and funding from third parties. As of December 31, 2010, total cash and cash equivalents was $1.2 billion, and our borrowing capacity under our Credit Facility was $2.0 billion, reflecting no outstanding borrowings or letters of credit. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt; (ii) certain fundamental changes to corporate structure; (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on: issuance of secured debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends and certain other payments. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments. Some of the covenants under our senior notes are suspended while we are rated investment grade.

At December 31, 2010, we were in full compliance with the covenants and other provisions of the Credit Facility and the senior notes. Failure to comply with material provisions of or covenants in the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition.

We need to successfully execute the transition of Affiliated Computer Services, Inc. in order to realize all of the anticipated benefits from the transaction.

Our ability to realize the anticipated benefits of the Affiliated Computer Services, Inc. (“ACS”) acquisition is subject to certain risks including, but not limited to, the risks that: the future business operations of ACS will not be successful; customer retention, cost synergies and revenue expansion goals for the ACS transaction will not be met; and disruptions from the ACS transaction will harm relationships with customers, employees and suppliers.

Our business, results of operations and financial condition may be negatively impacted by legal and regulatory matters.

We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (“ERISA”), as discussed in the “Contingencies” note in the Consolidated Financial Statements. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted or are expected to adopt restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost−effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition. Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products, and other environmentally related programs impacting products and operations, such as those associated with climate change accords, agreements and regulations. For example, the European Union's Energy−Using Products Directive ("EUP") is expected to lead to the adoption of "implementing measures" intended to require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. It is possible that some or all of our products may be required to comply with EUP implementing measures. Another example is the European Union "REACH" Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that will require parties throughout the supply chain to register, assess and disclose information regarding many chemicals in their products. Depending on the types, applications, forms and uses of chemical substances in various products, REACH could lead to restrictions and/or bans on certain chemical usage. Xerox continues its efforts toward monitoring and evaluating the applicability of these and numerous other regulatory initiatives in an effort to develop compliance strategies. As these and similar initiatives and programs become regulatory requirements throughout the world and/or are adopted as public or private procurement requirements, we must comply or potentially face market access limitations that could have a material adverse affect on our operations and financial condition.

Our government contracts are subject to termination rights, audits and investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts.

A significant portion of our revenues are derived from contracts with U.S. federal, state and local governments and their agencies, as well as international governments and their agencies. Governments and their agencies may have the right to terminate many of these contracts at any time without cause. These contracts, upon their expiration or termination, are typically subject to a bidding process in which Xerox may not be successful. Also, our contracts with governmental entities are generally subject to the approval of annual appropriations by the United States Congress or other legislative/governing bodies to fund the expenditures of the governmental entities under those contracts. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government finds that we improperly charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. If the government discovers improper or illegal activities in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, the negative publicity that arises from findings in such audits, investigations or the penalties or sanctions therefore could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

We are subject to United States and foreign jurisdiction laws relating to individually identifiable information, and failure to comply with those laws, whether or not inadvertent, could subject us to legal actions and negatively impact our operations.

We process, transmit and store information relating to identifiable individuals, both in our role as a service provider and as an employer. As a result, we are subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations designed to protect individually identifiable information, including social security numbers, financial and health information. For example, in 1996, Congress passed the Health Insurance Portability and Accountability Act and as required therein, the Department of Health and Human Services established regulations governing, among other things, the privacy, security and electronic transmission of individually identifiable health information. We have taken measures to comply with each of those regulations on or before the required dates. Another example is the European Union Directive on Data Protection, entitled "Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data." We have also taken steps to address the requirements of that Directive. Other United States (both federal and state) and foreign jurisdiction laws apply to the processing of individually identifiable information as well and additional legislation may be enacted at any time. Failure to comply with these types of laws may subject us to, among other things, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our customers and clients that we have not performed our contractual obligations, any of which may have a material adverse effect on our profitability and cash flow.

We are subject to breach of our security systems.

We have implemented security systems with the intent of maintaining the physical security of our facilities and protecting our, our customers' and clients' and our suppliers' confidential information and information related to identifiable individuals against unauthorized access through our information systems or by other electronic transmission or through the misdirection, theft or loss of physical media. These include, for example, the appropriate encryption of information. Despite such efforts, we are subject to breach of security systems which may result in unauthorized access to our facilities and/or the information we are trying to protect. If unauthorized parties gain physical access to one of our facilities or electronic access to our information systems or such information is misdirected, lost or stolen during transmission or transport, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers and clients that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We own several manufacturing, engineering and research facilities and lease other facilities. Our principal manufacturing and engineering facilities, located in New York, California, Oklahoma, Oregon, Canada, U.K., Ireland and the Netherlands, are used primarily by the Technology Segment. Our principal research facilities are located in California, New York, Canada, France and the U.K. The research activities in our principal research centers benefit all of our operating segments. Our Corporate Headquaters is a leased facility located in Norwalk, Connecticut.

As a result of implementing our restructuring programs, (refer to Note 9 − Restructuring and Asset Impairment Charges in the Consolidated Financial Statements in our 2010 Annual Report, incorporated by reference), several leased and owned properties became surplus. As of December 31, 2010, the surplus portions of our Dundalk, Ireland facility were sold and the Oklahoma City, OK manufacturing plant was removed from surplus and placed back into operation. A portion of the Oklahoma facility is used as an ACS Call Center and we are developing plans for the balance of the facility. We are obligated to maintain our leased surplus properties through required contractual periods. With respect to United States properties, as of December 31, 2010, we are marketing 12 surplus leased facilities totaling 533,386 square feet. During 2010, the largest surplus leased site in Monrovia, California was subleased.

We also own or lease numerous facilities globally, which house general offices, sales offices, service locations and distributions centers. It is our opinion that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform their functions. We believe that our current facilities are suitable and adequate for our current businesses.

In February 2010, we acquired Affiliated Computer Services, Inc. ("ACS"). As a result of this acquisition and subsequent 2010 business transactions, we added 533 locations comprising 11.3 million square feet of owned and leased property. The owned property consists of 23 locations for 1.2 million square feet in Texas, North Carolina, South Carolina, Kentucky, Illinois, Ohio, Mississippi, Mexico and France. The largest owned facility is the ACS headquarters complex located in Dallas, Texas, consisting of approximately 600,000 square feet, which also houses a data center and other operations. The leased property consists of 510 locations for 10.1 million square feet in numerous locations throughout the world. The leases have terms through 2029 and we do not anticipate any significant difficulty in obtaining lease renewals or alternate space. The ACS owned and leased space is used for general office, data centers and call center purposes principally in our Services segment operations. During 2010, we completed 31 Xerox and ACS consolidation projects to optimize our property portfolio.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the "Contingencies" note in the Consolidated Financial Statements, of the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

The information set forth under the following captions of the Xerox Corporation 2010 Annual Report to Shareholders is hereby incorporated by reference:

Stock Exchange Information
Xerox Common Stock Prices and Dividends
Five Years in Review – Common Shareholders of Record at Year−End
Performance Graph

(a) Sales of Unregistered Securities During the Quarter ended December 31, 2010

During the quarter ended December 31, 2010, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the "Act"):

Dividend Equivalents:

(a) Securities issued on October 31, 2010: Registrant issued 1,703 deferred stock units ("DSU"), representing the right to receive shares of Common Stock, par value $1 per share, at a future date.

(b) No underwriters participated. The shares were issued to each of the non−employee Directors of Registrant: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $10.395 per DSU (aggregate price $17,703), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non−Employee Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2010 Repurchases of Xerox Common Stock, par value $1.00 per Share

Board Authorized Share Repurchase Programs:

We did not purchase Common stock during the fourth quarter or full year 2010.

Of the cumulative $4.5 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately $2.9 billion has been used through December 31, 2010. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open−market repurchases will be made in compliance with the SEC's Rule 10b−18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs [(1)]:

	Total Number of Shares Purchased	Average Price Paid per Share[(2)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
October 1 through 31	19,866	$ 11.05	n/a	n/a
November 1 through 30	7,996	$ 11.68	n/a	n/a
December 1 through 31	4,532	$ 11.92	n/a	n/a
Total	32,394		n/a	n/a

(1) These repurchases are made under provisions in our restricted stock compensation programs for the indirect repurchase of shares through a net−settlement feature upon the vesting of shares in order to satisfy minimum statutory tax−withholding requirements.
(2) Exclusive of fees and costs.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2010, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2010 Annual Report to Shareholders, is incorporated by reference in this Form 10−K.

Revenues
Income from continuing operations
Per−Share Data:
  Income from continuing operations − Basic and Diluted
  Earnings − Basic and Diluted
Common stock dividends
Total Assets
Long−term debt
Liability to subsidiary trust issuing preferred securities
Series A convertible preferred stock

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption "Financial Risk Management," in the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, included in the Xerox Corporation 2010 Annual Report, are incorporated by reference in this Form 10−K. With the exception of the aforementioned information and the information incorporated in Items 1, 3, 5, 6, 7, 7A and 8, the Xerox Corporation 2010 Annual Report is not to be deemed filed as part of this Form 10−K.

The quarterly financial data included under the caption “Quarterly Results of Operations (Unaudited)” of the Xerox Corporation 2010 Annual Report is incorporated by reference in this Annual Report on Form 10−K.

The financial statement schedule required herein is filed as referenced in Item 15 of this Form 10−K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Management’s Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management’s best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company’s financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company’s financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of December 31, 2010, our principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a−15(e) and 15d−15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and was accumulated and communicated to the Company’s Management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control − Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2010 Annual Report to Shareholders which is incorporated by reference in Part II, Item 8 of this Form 10−K.

Changes in Internal Control over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a−15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Executive Compensation

On February 22, 2011, the Compensation Committee of the Board of Directors of the Company took the following actions:

2010 and 2011 Annual Performance Incentive Plan (APIP)

The Compensation Committee approved the payments of cash awards under the Xerox 2004 Performance Incentive Plan ("2004 PIP"), as amended, for 2010 APIP. The measures on which awards are based for the 2010 fiscal year are set out on Exhibit 10(e)(14) attached hereto. The Compensation Committee approved the payment of cash awards under the 2004 PIP for fiscal year 2010 to Ursula M. Burns, Chairman and Chief Executive Officer of the Company; Lawrence A. Zimmerman, Vice Chairman; and certain other officers, including Lynn Blodgett, Armando Zagalo de Lima and James A. Firestone, our next three most highly compensated executive officers for fiscal year 2010; and Anne M. Mulcahy, former Chairman of the Board (collectively, the "Named Executive Officers"). The Compensation Committee approved a cash award of $1,693,125 to Ms. Burns, $767,550 to Mr. Zimmerman, $1,615,989 to Mr. Blodgett, $704,951 to Mr. Zagalo de Lima, $767,550 to Mr. Firestone and $559,896 to Mrs. Mulcahy.

The Compensation Committee approved the measures for APIP awards for fiscal year 2011, which are set out on Exhibit 10(e)(19) attached hereto.

2008 E−LTIP Awards

The Compensation Committee determined that 60% of the original grant amount awarded under the 2008 Executive Long−Term Incentive Program ("2008 E−LTIP") was earned based on the Company's three−year cumulative 2008, 2009 and 2010 performance against the three−year cumulative targets established for Earnings Per Share and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(5). The total number of shares earned for the three−year cumulative performance period ended December 31, 2010 that shall vest on July 1, 2011 for each Named Executive Officer is as follows: Ms. Burns, 179,916 shares; Mr. Zimmerman, 64,641 shares; Mr. Zagalo de Lima, 44,982 shares; Mr. Firestone, 89,958 shares; and Mrs. Mulcahy, 231,164 shares. Included in these share amounts are shares that were previously earned for 2009 annual performance, as previously disclosed in our 2009 Form 10−K (except for Mr. Zagalo de Lima who became a Named Executive Officer for 2010). No performance shares were earned for 2008 based on the Company's 2008 performance against the annual targets.

2009 E−LTIP Awards

In lieu of performance shares, 2009 E−LTIP awards were made in the form of Restricted Stock Units (RSUs) with a performance feature based on the price of Xerox common stock over a three−year period. The number of shares of stock that can be earned range between 80% and 120% of the original RSU award, based on the increase or decrease in the price of Xerox common stock over the three−year vesting period. No further action is required by the Compensation Committee.

2010 E−LTIP Awards

The Compensation Committee determined that 33.33% of the performance shares granted under the 2010 Executive Long−Term Incentive Program ("2010 E−LTIP") were earned based on the Company's 2010 performance against the annual targets established for Earnings Per Share and Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(15). The number of shares earned for 2010 for each Named Executive Officer is as follows: Ms. Burns, 313,676 shares; Mr. Blodgett, 83,650 shares; Mr. Zagalo de Lima, 62,736 shares; and Mr. Firestone, 83,650 shares. Earned shares vest three years from their grant date.

In lieu of a performance share award that vests over a three−year period, the Compensation Committee approved a performance share award for Mr. Zimmerman effective March 1, 2010 that will vest on March 1, 2011. Performance metrics were the same as those developed for the first year of the three−year 2010 E−LTIP performance share award and thus Mr. Zimmerman earned 209,425 shares.

ACS Performance Shares

In connection with the acquisition of ACS, Mr. Blodgett received a special one−time grant of performance shares that vest over a three year period contingent upon ACS meeting pre−determined annual targets for Earnings Before Interest and Taxes. The aggregate number of shares that may be delivered based on achievement of the targets was determined on the grant date and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of previously awarded stock options (maximum). The Compensation Committee determined that the maximum number of shares were earned for 2010 based on ACS's performance against the 2010 stated target. The number of shares earned for Mr. Blodgett is 171,330 shares, which will vest on February 5, 2013.

2011 E−LTIP Awards

2011 E−LTIP awards made to Named Executive Officers reflect their leadership role in the Company, their historical and future contributions, and competitive award levels. The purpose of the 2011 E−LTIP is to provide the necessary incentives to retain and reward executives for sustained performance improvements over the next three−year period. Awards under the 2011 E−LTIP for Named Executive Officers are comprised entirely of performance shares that may be earned based on achieving performance targets between threshold and maximum as determined by the Compensation Committee. All performance shares that are earned will vest in 2014. Named Executive Officers who retire, are involuntarily terminated (without cause) or voluntarily terminate due to a reduction in force prior to the end of the three−year performance cycle will vest in a portion of the performance shares earned on a pro rata basis.

Performance metrics for the 2011 E−LTIP are Revenue Growth (at constant currency) (weighted 10%), Adjusted Earnings Per Share (weighted 55%) and Core Cash Flow from Operations (weighted 35%). Revenue Growth, Adjusted Earnings Per Share and Core Cash Flow from Operations are defined in Exhibit 10(e)(20) attached hereto. The Compensation Committee has established annual targets for Revenue Growth and annual and cumulative targets for Adjusted EPS and Core Cash Flow from Operations. Based on actual performance versus targets, the number of performance shares earned by Named Executive Officers under the 2011 E−LTIP will range from 0% to 150% of the initial number of shares subject to the grant. The form of award agreement pursuant to which such grants were made is attached hereto as Exhibit 10(e)(21).

Participants in the 2011 E−LTIP are subject to meaningful ownership requirements and mandatory share holding requirements of 50% of the net vested shares until their ownership requirements have been met.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding directors is incorporated herein by reference to the section entitled "Proposal 1 − Election of Directors" in our definitive Proxy Statement ("2011 Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our Annual Meeting of Stockholders to be held on May 26, 2011. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2010.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2011 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled "Committee Functions, Membership and Meetings" in the section entitled "Proposal 1 − Election of Directors" in our 2011 Proxy Statement.

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer and principal accounting officer. The Finance Code of Conduct can be found on our website at: http://www.xerox.com/investor and then clicking on Corporate Governance.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions.

Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By−Laws.

Name	Age	Present Position	Year Appointed to Present Position	Xerox Officer Since
Ursula M. Burns*	52	Chairman of the Board and Chief Executive Officer	2010	1997
Lawrence A. Zimmerman	68	Vice Chairman	2009	2002
Lynn R. Blodgett	56	Executive Vice President; President and Chief Executive Officer, Affiliated Computer Services, Inc.	2010	2010
James A. Firestone	56	Executive Vice President; President, Corporate Operations	2008	1998
Luca Maestri	47	Executive Vice President; Chief Financial Officer	2011	2011
Armando Zagalo de Lima	52	Executive Vice President; President, Xerox Global Customer Operations	2010	2000
Willem Appelo	46	Senior Vice President; President, Xerox Global Business and Services Group	2008	2004
Michael Stephen Cronin	57	Senior Vice President; President, Global Document Outsourcing	2008	2004
Don H. Liu	49	Senior Vice President; General Counsel and Secretary	2007	2007
Russell Peacock	52	Senior Vice President; President, Xerox North America	2010	2007
Eric Armour	52	Vice President; President, Graphic Communications Business Group	2010	2007
Richard M. Dastin	51	Vice President; President, Enterprise Business Group	2010	2008
Jacques Guers	55	Vice President; President, Xerox Europe	2010	2009
Gary R. Kabureck	57	Vice President and Chief Accounting Officer	2003	2000
James H. Lesko	59	Vice President; Vice President, Investor Relations	2004	1993
Rhonda L. Seegal	60	Vice President and Treasurer	2003	2003
Herve Tessler	47	Vice President; President Developing Markets Operations	2010	2010
Leslie F. Varon	54	Vice President; Vice President, Finance and Corporate Controller	2010	2001
Kevin M. Warren	48	Vice President; President United States Customer Operations	2010	2010

* Member of Xerox Board of Directors

Each officer named above, with the exception of Lynn R. Blodgett, Luca Maestri, Don H. Liu and Eric Armour, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 2010 through our acquisition of Affiliated Computer Services, Inc. ("ACS"), Mr. Blodgett was President and Chief Executive Officer of ACS since 2006. Prior to that he served as Executive Vice President and Chief Operating Officer of ACS from 2005−2006 and before that he served as Executive Vice President and Group President – Commercial Solutions of ACS since July 1999.

Prior to joining Xerox in 2011, Mr. Maestri was with Nokia Siemens Networks where he was Chief Financial Officer from 2008 to 2011. Prior to that, he had a 20−year career with General Motors Corporation, where he served as Chief Financial Officer of GM Europe and GM Brazil, was executive−in−charge of the Fiat Alliance for GM Europe in Switzerland and held several executive finance positions with General Motors Corporation in Europe and Asia Pacific.

Prior to joining Xerox in 2007, Mr. Liu was with Toll Brothers where he was Senior Vice President, General Counsel and Corporate Compliance Officer from 2005 to 2007. Prior to that, he was General Counsel, Corporate Secretary and Corporate Compliance Officer for IKON Office Solutions from 1999 to 2005. Prior to that, he was Vice President and Deputy Chief Legal Officer for Aetna U.S. Healthcare from 1992 to 1999.

Prior to joining Xerox in 2007, Mr. Armour was an industrial partner at the investment firm RHJ International from 2006 to 2007. Prior to that, he was President and General Manager from 2003–2006 at The Gillette Company's BRAUN global business division. From 1990–2003, he was a partner with Marakon Associates, a consulting firm in the consumer products, financial services, pharmaceuticals, aerospace and other industries.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions under "Proposal 1−Election of Directors" in our 2011 definitive Proxy Statement is incorporated herein by reference: "Compensation Discussion and Analysis", "Summary Compensation Table", "Grants of Plan−Based Awards in 2010", "Outstanding Equity Awards at 2010 Fiscal Year−End", "Option Exercises and Stock Vested in 2010", "Pension Benefits for the 2010 Fiscal Year", "Nonqualified Deferred Compensation", "Potential Payments upon Termination or Change in Control", "Summary of Director Annual Compensation" and "Compensation Committee". The information included under the heading "Compensation Committee Report" in our 2011 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be "soliciting material" or to be "filed" with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled "Ownership of Company Securities," and "Equity Compensation Plan Information" under "Proposal 1– Election of Directors" in our 2011 definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled "Certain Relationships and Related Person Transactions" under "Proposal 1– Election of Directors" in our 2011 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled "Corporate Governance" and "Director Independence" in the section entitled "Proposal 1 – Election of Directors" in our 2011 definitive Proxy Statement.

ITEM 14. PRINCIPAL AUDITOR FEES AND SERVICES

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled "Proposal 2 – Ratification of Election of Independent Registered Public Accounting Firm" in our 2011 definitive Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Index to Financial Statements and Financial Statement Schedule, incorporated by reference or filed as part of this report:

Report of Independent Registered Public Accounting Firm;

Consolidated Statements of Income for each of the years in the three−year period ended December 31, 2010;

Consolidated Balance Sheets as of December 31, 2010 and 2009;

Consolidated Statements of Cash Flows for each of the years in the three−year period ended December 31, 2010;

Consolidated Statements of Shareholders' Equity for each of the years in the three−year period ended December 31, 2010;

Notes to the Consolidated Financial Statements;

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule;

Schedule II – Valuation and Qualifying Accounts for the three years ended December 31, 2010; and

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

(2) Supplementary Data:

Quarterly Results of Operations (unaudited); and

Five Years in Review.

(3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.

(b) The management contracts or compensatory plans or arrangements listed in the "Index of Exhibits" that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2011 Proxy Statement are preceded by an asterisk (*).

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XEROX CORPORATION

/s/ Ursula M. Burns
Ursula M. Burns
Chairman of the Board and
Chief Executive Officer
February 23, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

February 23, 2011

Signature	Title
Principal Executive Officer:	
/s/ Ursula M. Burns **Ursula M. Burns**	Chairman of the Board, Chief Executive Officer and Director
Principal Financial Officer:	
/s/ Luca Maestri **Luca Maestri**	Executive Vice President and Chief Financial Officer
Principal Accounting Officer:	
/s/ Gary R. Kabureck **Gary R. Kabureck**	Vice President and Chief Accounting Officer
/s/ Glenn A. Britt **Glenn A. Britt**	Director
/s/ Richard J. Harrington **Richard J. Harrington**	Director
/s/ William Curt Hunter **William Curt Hunter**	Director
/s/ Robert J. Keegan **Robert J. Keegan**	Director
/s/ Robert A. McDonald **Robert A. McDonald**	Director
/s/ N. J. Nicholas, Jr. **N. J. Nicholas, Jr.**	Director
/s/ Charles Prince **Charles Prince**	Director
/s/ Ann N. Reese **Ann N. Reese**	Director
/s/ Mary Agnes Wilderotter **Mary Agnes Wilderotter**	Director

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Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of Xerox Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 23, 2011 appearing in the 2010 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10−K) also included an audit of the financial statement schedule listed in Item 15(a)(1) of this Form 10−K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/S/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2011

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
For the three years ended December 31, 2010

(in millions)	Balance at beginning of period	Additions charged to bad debt provision (1)	Amounts (credited) charged to other income statement accounts (1)	Deductions and other, net of recoveries (2)	Balance at end of period
2010					
Allowance for Losses on:					
Accounts Receivable	$ 148	$ 60	$ (14)	$ (82)	$ 112
Finance Receivables	222	128	6	(144)	212
	$ 370	$ 188	$ (8)	$ (226)	$ 324
2009					
Allowance for Losses on:					
Accounts Receivable	$ 131	$ 114	$ (5)	$ (92)	$ 148
Finance Receivables	198	177	3	(156)	222
	$ 329	$ 291	$ (2)	$ (248)	$ 370
2008					
Allowance for Losses on:					
Accounts Receivable	$ 128	$ 64	$ 8	$ (69)	$ 131
Finance Receivables	203	124	3	(132)	198
	$ 331	$ 188	$ 11	$ (201)	$ 329

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non−payment such as customer accommodations and contract terminations.
(2) Deductions and other, net of recoveries primarily relates to receivable write−offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

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INDEX OF EXHIBITS

Document and Location

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on November 7, 2003, as amended by: Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on August 19, 2004; Certificate of Change filed with the Department of State of the State of New York on October 31, 2007; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010.
	Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8−K dated February 3, 2010.
3(b)	By−Laws of Registrant, as amended through May 21, 2009.
	Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8−K dated May 21, 2009 (filed May 28, 2009).
4(a)(1)	Indenture dated as of December 1, 1991, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "December 1991 Indenture").
	Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement Nos. 33−44597, 33−49177 and 33−54629.
4(a)(2)	Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.
	Incorporated by reference to Exhibit 4(a)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2000 filed on June 7, 2001.
4(a)(3)	Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust Company, as prior trustee, Citibank,, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the December 1991 Indenture.
	Incorporated by reference to Exhibit 4(a)(3) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
4(b)(1)	Indenture dated as of January 29, 1997, between Registrant and Bank One, National Association (as successor by merger with The First National Bank of Chicago) ("Bank One"), as trustee (the "January 1997 Indenture"), relating to Registrant's Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures").
	Incorporated by reference to Exhibit 4.1 to Registration Statement No. 333−24193.
4(b)(2)	Form of Certificate of Exchange relating to Junior Subordinated Debentures.
	Incorporated by reference to Exhibit A to Exhibit 4.1 to Registration Statement No. 333−24193.
4(b)(3)	Certificate of Trust of Xerox Capital Trust I executed as of January 23, 1997.
	Incorporated by reference to Exhibit 4.3 to Registration Statement No. 333−24193.
4(b)(4)	Amended and Restated Declaration of Trust of Xerox Capital Trust I dated as of January 29, 1997.
	Incorporated by reference to Exhibit 4.4 to Registration Statement No. 333−24193.
4(b)(5)	Form of Exchange Capital Security Certificate for Xerox Capital Trust I.
	Incorporated by reference to Exhibit A−1 to Exhibit 4.4 to Registration Statement No. 333−24193.
4(b)(6)	Series A Capital Securities Guarantee Agreement of Registrant dated as of January 29, 1997, relating to Series A Capital Securities of Xerox Capital Trust I.
	Incorporated by reference to Exhibit 4.6 to Registration Statement No. 333−24193.

4(b)(7)	Registration Rights Agreement dated January 29, 1997, among Registrant, Xerox Capital Trust I and the initial purchasers named therein.
	Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333−24193.
4(b)(8)	Instrument of Resignation, Appointment and Acceptance dated as of November 30, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo Bank Minnesota, National Association ("Wells Fargo"), as successor Trustee, relating to the January 1997 Indenture.
	Incorporated by reference to Exhibit (c)(8) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2001.
4(c)(1)	Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "June 25, 2003 Indenture").
	Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8−K dated June 25, 2003.
4(c)(2)	Form of Second Supplemental Indenture to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit (4)(b)(3) to Registrant's Registration Statement No. 333−111623.
4(c)(3)	Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8−K dated March 20, 2006.
4(c)(4)	Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8−K dated August 18, 2006.
4(c)(5)	Form of Fifth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(8) to Registrant's Current Report on Form 8−K dated August 18, 2006.
4(c)(6)	Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333−142900.
4(d)(1)	Form of Credit Agreement dated as of April 30, 2007 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").
	Incorporated by reference to Exhibit 10(j) to Registrant's Current Report on Form 8−K dated April 30, 2007.
4(d)(2)	Amendment No. 1 to Credit Agreement, dated as of October 27, 2008, among Registrant, the Lenders named therein, and Citibank, ,N.A., as agent for the Lenders.
	Incorporated by reference to Exhibit 4(g)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
4(d)(3)	Amendment No. 2 to Credit Agreement, dated as of April 23, 2009, between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.
	Incorporated by reference to Exhibit 4(g)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2009.
4(d)(4)	Amendment No. 3 to Credit Agreement, dated as of October 19, 2009, between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.

	Incorporated by reference to Exhibit 4(g)(4) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended September 30, 2009.
4(e)	Master Demand Note dated December 10, 2003 between Registrant and Xerox Credit Corporation.
	Incorporated by reference to Exhibit 4(m) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2003.
4(f)	Form of Indenture dated as of December 4, 2009 between Xerox Corporation and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities.
	Incorporated by reference to Exhibit 4(b)(5) to Post−Effective Amendment No. 1 to Registrant's Registration Statement No. 333−142900.
4(g)(1)	Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. ("ACS") as Issuer and The Bank of New York Trust Company, N.A. as Trustee (the "June 6, 2005 Indenture").
	Incorporated by reference to Exhibit 4.1 to ACS's Current Report on Form 8−K, filed June 6, 2005.
4(g)(2)	Second Supplemental Indenture, dated as of June 6, 2005, to the June 6, 2005 Indenture.
	Incorporated by reference to Exhibit 4.3 to ACS's Current Report on Form 8−K, filed June 6, 2005.
4(g)(3)	Third Supplemental Indenture, dated as of February 5, 2010, to the June 6, 2005 Indenture between Boulder Acquisition Corp., the successor to ACS, and The Bank of New York Trust Company, N.A.
	Incorporated by reference to Exhibit 4(j)(4) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
4(h)	Instruments with respect to long−term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
10	The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2010 Proxy Statement are preceded by an asterisk (*).
*10(a)(1)	Registrant's Form of Separation Agreement (with salary continuance) – February 2010.
	Incorporated by reference to Exhibit 10(a)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(a)(2)	Registrant's Form of Separation Agreement (without salary continuance) – February 2010.
	Incorporated by reference to Exhibit 10(a)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(b)(1)	Registrant's 1991 Long−Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
	Incorporated by reference to Exhibit 10(b)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(b)(2)	Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
	Incorporated by reference to Exhibit 10(b)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(b)(3)	Amendment dated December 4, 2007 to 1991 LTIP.
	Incorporated by reference to Exhibit 10(b)(3) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
10(c)(1)	Registrant's 1996 Non−employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
	Incorporated by reference to Exhibit 10(c)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
10(c)(2)	Amendment dated December 5, 2007 to 1996 NDSOP.
	Incorporated by reference to Exhibit 10(c)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.

10(d)(1)	Registrant's 2004 Equity Compensation Plan for Non−Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED").
	Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
10(d)(2)	Form of Agreement under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2005.
10(d)(3)	Form of Grant Summary under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2005.
10(d)(4)	Form of DSU Deferral under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2005.
10(d)(5)	Amendment dated December 5, 2007 to 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(e)(1)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 6, 2005 ("2004 PIP").
	Incorporated by reference to Exhibit 10(e)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2005.
*10(e)(2)	Form of Amendment to Agreements under 2004 PIP.
	Incorporated by reference to Exhibit 10(e)(7) to Registrant's Current Report on Form 8−K dated May 19, 2005.
*10(e)(3)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of February 15, 2007 ("2007 PIP").
	Incorporated by reference to Exhibit 10(e)(10) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2006.
*10(e)(4)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007−2 PIP").
	Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(e)(5)	Performance Elements for 2008 Executive Long−Term Incentive Program ("2008 ELTIP").
	Incorporated by reference to Exhibit 10(e)(17) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(e)(6)	Form of Executive Long−Term Incentive Program Award Summary under 2008 ELTIP.
	Incorporated by reference to Exhibit 10(e)(18) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(e)(7)	2008 Form of Executive Long−Term Incentive Program Award Agreement under the 2007−2 PIP.
	Incorporated by reference to Exhibit 10(e)(19) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(e)(8)	Amendment dated December 4, 2007 to 2007−2 PIP.
	Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.

*10(e)(9)	Amendment No. 1 dated December 17, 2008 to 2007−2 PIP.
	Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
*10(e)(10)	Amendment No. 2 dated February 16, 2009 to 2007−2 PIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Quarterly Report on Form 10−Q for the quarter ended March 31, 2009.
*10(e)(11)	Performance Elements for 2009 Executive Long−Term Incentive Program ("2009 ELTIP").
	Incorporated by reference to Item 5.02 of Registrant's Current Report on Form 8−K dated June 30, 2009.
*10(e)(12)	Form of Executive Long−Term Incentive Program Award Agreement under 2009 ELTIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Current Report on Form 8−K dated June 30, 2009.
*10(e)(13)	Form of Executive Long−Term Incentive Program Award Summary under 2009 ELTIP.
	Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8−K dated June 30, 2009.
*10(e)(14)	Annual Performance Incentive Plan for 2010.
*10(e)(15)	Performance Elements for 2010 Executive Long−Term Incentive Program ("2010 ELTIP").
	Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(e)(16)	Form of Executive Long−Term Incentive Program Award Agreement under 2010 ELTIP.
	Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(e)(17)	Form of Executive Long−Term Incentive Program Award Summary under 2010 ELTIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(e)(18)	Registrant's 2004 Performance Incentive Plan, as amended and restated May 20, 2010.
	Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8−K dated May 20, 2010.
*10(e)(19)	Annual Performance Incentive Plan 2011
*10(e)(20)	Performance Elements for 2011 Executive Long−Term Incentive Program ("2011 ELTIP")
*10(e)(21)	Form of Executive Long−Term Incentive Award under 2011 ELTIP
*10(e)(22)	Form of Executive Long−Term Incentive Program Award Summary under 2011 ELTIP
*10(f)(1)	2008 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through February 12, 2008 ("2008 URIGP").
	Incorporated by reference to Exhibit 10(f)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
*10(f)(2)	Amendment No. 1 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
*10(f)(3)	Amendment No. 2 dated March 6, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2009.
*10(f)(4)	Amendment No. 3 dated May 5, 2009 to 2008 URIGP.

	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended June 30, 2009.
*10(f)(5)	Amendment No. 4 dated October 9, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended September 30, 2009.
*10(f)(6)	Amendment No. 5 dated December 1, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(6) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2009.
*10(f)(7)	Amendment No. 6 dated March 10, 2010 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(7) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended March 31, 2010.
*10(g)(1)	2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP").
	Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(g)(2)	Amendment dated December 4, 2007 to Registrant's 2007 USERP.
	Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(g)(3)	Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP.
	Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
10(h)	1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002.
	Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2004.
*10(i)(1)	Form of Severance Letter Agreement entered into with various executive officers, effective October 12, 2007 ("2007 Severance Letter").
	Incorporated by reference to Exhibit 10(i)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
*10(i)(2)	Amendment dated December 4, 2007 to 2007 Severance Letter.
	Incorporated by reference to Exhibit 10(i)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007
*10(i)(3)	Amendment dated December 17, 2008 to 2007 Severance Letter.
	Incorporated by reference to Exhibit 10(i)(3) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
*10(j)(1)	Registrant's Universal Life Plan effective July 1, 2003.
	Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2004.
*10(j)(2)	Amendment No. 3 to Registrant's Universal Life Plan.
	Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended September 30, 2006.
*10(j)(3)	Amendment No. 4 dated September 28, 2009 to Registrant's Universal Life Plan.

	Incorporated by reference to Exhibit 10(j)(3) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended September 30, 2009.
10(k)(1)	Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD").
	Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007.
10(k)(2)	Amendment dated December 5, 2007 to DCPD.
	Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2007
10(k)(3)	Amendment No. 2 dated May 17, 2010 to DCPD.
	Incorporated by reference to Exhibit 10(k)(3) to Registrant's Quarterly Report on Form 10−Q for the quarter ended March 31, 2010.
*10(l)	Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004.
	Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10−Q for the Quarter ended September 30, 2004.
*10(m)	Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000.
	Incorporated by reference to Exhibit 10(m) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
10(n)	Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.
	Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2005.
*10(o)	Letter Agreement dated May 20, 2002 between Registrant and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(o) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
*10(p)	Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.
	Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2008.
10(q)	2006 Technology Agreement, effective as of April 1, 2006, by and between Registrant and Fuji Xerox Co., Ltd.
	Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8−K dated March 9, 2006.**
*10(r)	Form of 2009 Long−Term Cash Incentive Award for Anne M. Mulcahy.
	Incorporated by reference to Exhibit 10(t) to Registrant's Current Report on Form 8−K dated June 30, 2009.
*10(s)	Form of 2009 Long−Term Cash Incentive Award for Lawrence A. Zimmerman.
	Incorporated by reference to Exhibit 10(u) to Registrant's Current Report on Form 8−K dated June 30, 2009.
*10(t)	Form of Severance Agreement entered into with various executive officers, effective October 2010.
*10(u)	Senior Executive Agreement dated September 27, 2009 among ACS, Registrant and Lynn Blodgett.
	Incorporated by reference to Exhibit 10.2 to ACS's Current Report on Form 8−K dated September 27, 2009.

*10(v)(1)	Affiliated Computer Services, Inc. (“ACS”) 1997 Stock Incentive Plan (“ACS 1997 SIP”)
	Incorporated by reference to Appendix D to ACS’s Joint Proxy Statement on Schedule 14A, filed November 14, 1997.
*10(v)(2)	Amendment No. 1 dated October 28, 2004 to ACS 1997 SIP.
	Incorporated by reference to Exhibit 4.6 to ACS’s Registration Statement on Form S−8, filed December 6, 2005.
*10(w)	ACS Amended and Restated 2007 Equity Incentive Plan.
	Incorporated by reference to Exhibit 10.1 to ACS’s Current Report on Form 8−K filed August 21, 2009.
*10(x)	ACS Senior Executive Annual Incentive Plan.
	Incorporated by reference to Exhibit A to ACS’s Proxy Statement on Schedule 14A, filed April 14, 2009.
*10(y)	ACS 401(k) Supplemental Plan. Effective as of July 1, 2000, as amended.
	Incorporated by reference to Exhibit 10.15 to ACS’s Annual Report on Form 10−K for the fiscal year ended June 30, 2004.
*10(z)	ACS Executive Benefit Plan, effective as of January 1, 2002, as amended.
	Incorporated by reference to Exhibit 10.15 to ACS’s Annual Report on Form 10−K for the fiscal year ended June 30, 2005.
*10(aa)	Letter Agreement dated December 20, 2010 between Registrant and Luca Maestri, Executive Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(cc) to Registrant’s Current Report on Form 8−K dated January 25, 2011.
12	Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
13	Registrant’s 2010 Annual Report to Shareholders.
21	Subsidiaries of Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31(a)	Certification of CEO pursuant to Rule 13a−14(a) or Rule 15d−14(a).
31(b)	Certification of CFO pursuant to Rule 13a−14(a) or Rule 15d−14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes−Oxley Act of 2002.
	Incorporated by reference to Exhibit 99.2 to Registrant’s Current Report on Form 8−K dated April 11, 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.

101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

** Pursuant to the Freedom of Information Act and/or a request for confidential treatment filed with the Securities and Exchange Commission under Rule 24b−2 of the Securities Exchange Act of 1934, as amended, the confidential portion of this material has been omitted and filed separately with the Securities and Exchange Commission.

EXHIBIT 10(e)(14)

Annual Performance Incentive Plan for 2010 (“2010 APIP”)

Under the 2010 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the “Committee”) are met.

The Committee previously approved an incentive target opportunity for 2010, expressed as a percentage of base salary, for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2010 APIP. The performance measures and weightings were adjusted Earnings per Share (weighted at 40%), Cash Flow from Operations (weighted at 40%) and Pro Forma Revenue Growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

The performance against the 2010 APIP goals was as follows: adjusted earnings per share and cash flow from operations exceeded maximum, and pro forma constant currency revenue growth was at target.

EXHIBIT 10(e)(19)

Annual Performance Incentive Plan for 2011 (“2011 APIP”)

Under the 2011 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the “Committee”) are met.

The Committee approved incentive opportunities for 2011, expressed as a percentage of base salary for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2011 APIP. The performance measures and weightings are adjusted Earnings per Share (weighted at 40%), Core Cash Flow from Operations (weighted at 40%) and Revenue Growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

Individual awards will be subject to the review and approval of the Committee following the completion of the 2011 fiscal year, with payment to be made within the first four months of 2012.

EXHIBIT 10(e)(20)

2011 Executive Long−Term Incentive Program (“2011 E−LTIP”)

Under the 2011 E−LTIP, executive officers of the Company are eligible to receive performance shares based on certain performance measures established by the Compensation Committee of the Board of Directors (the “Committee”).

The performance elements and corresponding weights for the 2011 E−LTIP are: (i) (10%) Revenue Growth: Revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars; (ii) (55%) Adjusted Earnings per Share: Diluted Earnings Per Share from Continuing Operations as reported in the Company’s audited consolidated financial statements, as adjusted on an after−tax basis for the following discretely disclosed (in either Management’s Discussion and Analysis/MD&A or the footnotes to the financial statements) items (if equal to or greater than $50 million pre−tax on an individual basis, or in the aggregate per item, with the exception of income tax and Fuji−Xerox adjustments): direct costs of acquisition and acquisition−related expenses; amortization of acquisition−related intangibles; restructuring and asset impairment charges; gains/(losses) from litigation, regulatory matters or any changes in enacted law (including tax law); gains/(losses) from asset sales or business divestitures; gains/(losses) resulting from acts of war, terrorism or natural disasters; the initial effect of changes in accounting principles that are included within Income from Continuing Operations; impairment of goodwill and other intangibles; gains/(losses) from the settlement of tax audits (if equal to or greater than $30 million on an individual basis, or in the aggregate per item); gains/(losses) on early extinguishment of debt; non−restructuring related impairments of long−lived assets; and our share of after−tax effects of the above items incurred by Fuji−Xerox (if our share is equal to or greater than $10 million on an individual basis, or in the aggregate per item); and (iii) (35%) Core Cash Flow from Operations: Net Cash provided by (used for) Operating Activities as reported in the Company’s consolidated audited financial statements, as adjusted for the following items: net changes in finance receivables and on−lease equipment; with the exception of cash payments for restructurings, cash flow impacts (inflows and outflows) resulting from the EPS adjustments as identified above whether or not the cash flow impact and the EPS impact are in the same fiscal year; cash payments for restructurings in excess of the amount reported as current restructuring reserves in the preceding years Annual Report; and special discretionary pension fundings in excess of $50 million. Any other items approved by the Committee for adjustment of the above metrics will be considered a modification of the award.

Executive Long−Term Incentive Program (Officers)
Award Summary

«First Name» «Last Name»

Date of agreement and award: <<Grant Date>>

Approved Value: <<Approved Value>>

Performance Shares

Number of Performance Shares:	<<# Performance Shares>>
Vesting Date of All Performance Shares Earned:	<<3 yrs. from grant date>>
Performance Shares Earned if Annual Target Performance is Achieved for EPS and Cash:	1/3 of EPS and Cash portions of grant on <<one, two and three yrs. from grant date>>
Performance Shares Earned if Annual Performance is Achieved between Base and Maximum for Revenue:	50%to 150% of Revenue portion of grant on <<one, two and three yrs. from grant date>>
Performance Shares Earned if Three−Year Cumulative Performance is Achieved between Threshold and Maximum for EPS and Cash:	25% – 150% of EPS and Cash portions of grant (net of shares earned for Annual Achievement) on <<3 yrs. from grant date>>

* Subject to the terms and conditions described in the Omnibus Agreement – 2011: PIP;ELTIP;PSs

* Performance measures which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance shall be determined by the Committee in its sole discretion.

AGREEMENT PURSUANT TO
XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN AS AMENDED OR RESTATED TO DATE

AGREEMENT, by Xerox Corporation, a New York corporation (the "Company"), dated as of the date which appears as the "Date of Agreement and Award" in the Award Summary attached hereto (the "Award Summary") in favor of the individual whose name appears on the Award Summary, an employee of the Company, one of the Company's subsidiaries or one of its affiliates (the "Employee").

In accordance with the provisions of the "2004 Performance Incentive Plan" and any amendments and/or restatements thereto (the "Plan"), the Compensation Committee of the Board of Directors of the Company (the "Committee") or the Chief Executive Officer of the Company (the "CEO") has authorized the execution and delivery of this Agreement.

Terms used herein that are defined in the Plan or in this Agreement shall have the meanings assigned to them in the Plan or this Agreement, respectively.

The Award Summary contains the details of the awards covered by this Agreement and is incorporated herein in its entirety.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the Company agrees as follows:

AWARDS

1. Award of Performance Shares. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the Award Summary the number of Performance Shares (individually, the "PS") as shown on the Award Summary. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company's Human Resources Policies) on the effective date of the award as shown on the Award Summary shall be eligible to receive the award.

TERMS OF THE PERFORMANCE SHARES

2. Entitlement to Shares. As soon as practicable on or after the Vesting Date indicated on the Award Summary in connection with the PSs (the "Vesting Date"), the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested PSs (subject to reduction for withholding of Employee's taxes in relation to the award as described in Paragraph 10 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

The Committee shall set performance goals and review performance against such goals in connection with determining the payout of PSs. The award of PSs covered hereby shall be earned based on achieving one hundred percent (100%) of a target on an annual basis based on certain performance measures as shall be determined from time to time by the Committee. Notwithstanding the above, to the extent that a measure is not subject to three−year cumulative performance goals, PSs shall be earned annually based on achieving performance between base and maximum levels (as shall be determined by the Committee). For any measure(s) subject to three−year cumulative performance goals (as shall be determined by the Committee), to the extent such performance measures are achieved at or between threshold and maximum levels on a three−year cumulative basis, an additional award of PSs will be earned, net of shares previously earned for annual achievement. The Vesting Date for earned PS awards granted shall be set forth in the Award Summary.

Upon the occurrence of an event constituting a Change in Control, all PSs and dividend equivalents outstanding on such date shall be treated pursuant to the terms set forth in the Plan. Upon payment pursuant to the terms of the Plan, such awards shall be cancelled.

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of PSs covered by this Agreement (relating exclusively to PSs earned, based on achievement of annual or three−year cumulative performance targets, not to exceed the target award amount shown on the Award Summary) that are held by the Employee on the close of business on the business day immediately preceding the Vesting Date would have been entitled to receive as dividends on such Common Stock during the period commencing on the date hereof and ending on the Vesting Date as provided under Paragraph 2. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents.

4. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee or its authorized delegate, as applicable, in its sole discretion from time to time as communicated to Employee in writing.

5. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the PSs (net of withholding tax and any applicable fees) until ownership guidelines are met under Paragraph 4 hereof. Such shares shall be held in the Employee's Morgan Stanley Smith Barney account or at another account acceptable to the Company. In addition, shares used to maintain the Employee's ownership level pursuant to this award should be held with Morgan Stanley Smith Barney or in another account acceptable to the Company.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee terminates for any other reason, the holding requirement will be applicable for up to a one year period following termination.

OTHER TERMS

6. Rights of a Shareholder. Employee shall have no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate to him for such shares. Except as otherwise provided herein, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

7. Non−Assignability. This Agreement shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution.

8. Effect of Termination of Employment or Death.

(a) Effect on PSs. In the event the Employee

(i) voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate for any reason other than retirement, and the PSs have not vested in accordance with Paragraph 2, the PSs shall be cancelled on the date of such voluntary termination of employment.

(ii) involuntarily ceases to be an Employee of the Company or any subsidiary or affiliate for any reason (including Disability as provided pursuant to Paragraph 8(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, or voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate due to a reduction in workforce, shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro−rata basis for annual and three−year cumulative performance if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which termination occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year (earning period) and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to such involuntary termination of employment and shares earned on a pro−rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three−year cumulative performance, vesting will be calculated as follows: multiply the total three−year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary.

(iii) ceases to be an Employee of the Company or any subsidiary or affiliate by reason of death, 100% of the PSs pursuant to this grant shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 7 to the personal representatives, heirs or legatees of the deceased Employee.

(iv) ceases to be an Employee of the Company or any subsidiary or affiliate by reason of retirement (under a retirement policy of the Company, its subsidiary or affiliate, as applicable), shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro−rata basis for annual and three−year cumulative performance, if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which retirement occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year (earning period) and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to retirement and shares earned on a pro−rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three−year cumulative performance, vesting will be calculated as follows: multiply the total three−year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary; and

(v) ceases to be an Employee of the Company or any subsidiary or affiliate due to termination for Cause, the PSs shall be cancelled as provided under the Plan.

(b) Disability. Cessation of active employment due to commencement of long−term disability under the Company's long−term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 8 and during the continuance of such Xerox−sponsored long−term disability plan benefits the Employee shall be deemed to continue active employment with the Company. If the Employee is terminated because the Employee has received the maximum coverage under the Xerox long−term disability plan, the vesting of PSs shall be provided pursuant to Paragraph 8 (a)(ii) above.

(c) Cause. "Cause" means (i) a violation of any of the rules, policies, procedures or guidelines of the Company, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement (ii) any conduct which qualifies for "immediate discharge" under the Company's Human Resource Policies as in effect from time to time (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Company or represents a conflict of interest with the interests of the Company; (iv) conviction of, or entering a guilty plea with respect to, a crime whether or not connected with the Company; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Company.

9. General Restrictions. If at any time the Committee or its authorized delegate, as applicable, shall determine, in its discretion, that the listing, registration or qualification of any shares subject to this Agreement upon any securities exchange or under any state or Federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the awarding of the PSs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of PSs in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee or its authorized delegate , as applicable, and any delay caused thereby shall in no way affect the date of termination of the PSs.

10. Responsibility for Taxes. Employee acknowledges that the ultimate responsibility for Employee's Federal, state and municipal individual income taxes, the Employee's portion of social security and other payroll taxes, and any other taxes related to Employee's participation in the Plan and legally applicable to Employee, is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer.

11. Nature of Award. In accepting the award, Employee acknowledges that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time in a manner consistent with Section 13 of the Plan regarding Plan amendment and termination.

(b) the award of the PSs is voluntary and occasional and does not create any contractual or other right to receive future grants of PSs, or benefits in lieu of PSs, even if PSs have been granted repeatedly in the past;

(c) all decisions with respect to future PS awards, if any, will be at the sole discretion of the Committee or its authorized delegate, as applicable;

(d) Employee's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate Employee's employment relationship at any time; further, the PS award and Employee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any subsidiary of the Company;

(e) Employee is voluntarily participating in the Plan;

(f) the PSs and the shares of Common Stock subject to the PSs are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which is outside the scope of Employee's employment contract, if any;

(g) the PSs and the shares of Common Stock subject to the PSs are not intended to replace any pension rights or compensation;

(h) the PSs and the shares of Common Stock subject to the PSs are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long−service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any subsidiary of the Company;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) in consideration of the award of the PSs, no claim or entitlement to compensation or damages shall arise from forfeiture of the PSs, including, but not limited to, forfeiture resulting from termination of Employee's employment with the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and Employee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, Employee shall be deemed irrevocably to have waived Employee's entitlement to pursue such claim; and

(k) subject to the provisions in the Plan regarding Change in Control, PSs and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take−over or transfer of liability.

12. No Advice Regarding Award. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Employee's participation in the Plan, or his or her acquisition or sale of the underlying shares of Common Stock. Employee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

13. Amendment of This Agreement. With the consent of the Employee, the Committee or its authorized delegate, as applicable, may amend this Agreement in a manner not inconsistent with the Plan.

14. Subsidiary. As used herein the term "subsidiary" shall mean any present or future corporation which would be a "subsidiary corporation" of the Company as the term is defined in Section 425 of the Internal Revenue Code of 1986 on the date of award.

15. Affiliate. As used herein the term "affiliate" shall mean any entity in which the Company has a significant equity interest, as determined by the Committee.

16. Recoupments.

(a) If an Employee or former Employee of the Company is deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Company, any awards granted to such Employee or former Employee shall be cancelled and be of no further force or effect and any payment or delivery of an award within six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee or its authorized delegate, as applicable. Detrimental activity may include:

(i) violating terms of a non−compete agreement with the Company, if any;

(ii) disclosing confidential or proprietary business information of the Company;

(iii) violating any rules, policies, procedures or guidelines of the Company;

(iv) directly or indirectly soliciting any employee of the Company to terminate employment with the Company;

(v) directly or indirectly soliciting or accepting business from any customer or potential customer or encouraging any customer, potential customer or supplier of the Company to reduce the level of business it does with the Company;

(vi) engaging in any other conduct or act that is determined to be injurious, detrimental or prejudicial to any interest of the Company.

(b) If an accounting restatement by the Company is required in order to correct any material noncompliance with financial reporting requirements under relevant securities laws, the Company will have the authority to recover from executive officers or former executive officers, whether or not still employed by the Company, any excess incentive−based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, provided under this Agreement to executive officers of the Company that was based on such erroneous data and paid during the three−year period preceding the date on which the Company is required to prepare the accounting restatement. Notwithstanding anything herein to the contrary, the Company may implement any policy or take any action with respect to the recovery of excess incentive−based compensation, including entitlement to shares that the Company determines to be necessary or advisable in order to comply with the requirements of the Dodd−Frank Wall Street Financial Reform and Consumer Protection Act.

17. Cancellation and Rescission of Award. Without limiting the foregoing Paragraph regarding non−engagement in detrimental activity against the Company, the Company may cancel any award provided hereunder if the Employee is not in compliance with all of the following conditions:

(a) An Employee shall not render services for any organization or engage directly or indirectly in any business which would cause the Employee to breach any of the post−employment prohibitions contained in any agreement between the Company and the Employee.

(b) An Employee shall not, without prior written authorization from the Company, disclose to anyone outside the Company, or use in other than the Company's business, any confidential information or material, as specified in any agreement between the Company and the Employee which contains post−employment prohibitions, relating to the business of the Company, acquired by the Employee either during or after employment with the Company.

(c) An Employee, pursuant to any agreement between the Company and the Employee which contains post−employment prohibitions shall disclose promptly and assign to the Company all right, title and interest in any invention or idea, patentable or not, made or conceived by the Employee during employment with the Company, relating in any manner to the actual or anticipated business, research or development work of the Company and shall do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in foreign countries.

(d) Failure to comply with the provision of subparagraphs (a), (b) or (c) of this Paragraph 17 prior to, or during the six months after, any payment or delivery shall cause such payment or delivery to be rescinded. The Company shall notify the Employee in writing of any such rescission within two years after such payment or delivery. Within ten days after receiving such a notice from the Company, the Employee shall pay to the Company the amount of any payment received as a result of the rescinded payment or delivery pursuant to an award. Such payment to the Company by the Employee shall be made either in cash or by returning to the Company the number of shares of common stock that the Employee received in connection with the rescinded payment or delivery.

18. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at P.O. Box 4505, 45 Glover Avenue, 6th Floor, Norwalk, Connecticut 06856−4505, addressed to the attention of Stock Plan Administrator, and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

19. Language. If Employee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

20. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Employee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on−line or electronic system established and maintained by the Company or a third party designated by the Company.

21. Interpretation of This Agreement. The Committee or it authorized delegate, as applicable, shall have the authority to interpret the Plan and this Agreement and to take whatever administrative actions, including correction of administrative errors in the awards subject to this Agreement and in this Agreement, as the Committee or its authorized delegate, as applicable, in its sole good faith judgment shall be determined to be advisable. All decisions, interpretations and administrative actions made by the Committee or its authorized delegate, as applicable, hereunder or under the Plan shall be binding and conclusive on the Company and the Employee. In the event there is inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

22. Successors and Assigns. This Agreement shall be binding and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 8 to the personal representatives, legatees and heirs of the Employee.

23. Governing Law and Venue. The validity, construction and effect of the Agreement and any actions taken under or relating to this Agreement shall be determined in accordance with the laws of the state of New York and applicable Federal law.

This grant is made and/or administered in the United States. For purposes of litigating any dispute that arises under this grant or the Agreement the parties hereby submit to and consent to the jurisdiction of the state of New York, agree that such litigation shall be conducted in the courts of Monroe County, New York, or the federal courts for the United States for the Western District of New York.

24. Separability. In case any provision in the Agreement, or in any other instrument referred to herein, shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions in the Agreement, or in any other instrument referred to herein, shall not in any way be affected or impaired thereby.

25. Integration of Terms. Except as otherwise provided in this Agreement, this Agreement contains the entire agreement between the parties relating to the subject matter hereof and supersedes any and all oral statements and prior writings with respect thereto.

26. Appendix for Non−U.S. Countries. Notwithstanding any provisions in this Agreement, the PS award shall be subject to any special terms and conditions set forth in any appendix to this Agreement for Employee's country (the "Appendix"). Moreover, if Employee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Employee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

27. Imposition of Other Requirements. The Committee or its authorized delegate, as applicable, reserves the right to impose other requirements on Employee's participation in the Plan, on the PSs and on any shares of Common Stock acquired under the Plan, to the extent the Committee or its authorized delegate, as applicable, determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the day and year set forth on the Award Summary.

XEROX CORPORATION

By: _____
Signature

EXHIBIT 10(t)

XEROX CORPORATION
45 Glover Avenue
Norwalk, CT 06856−4505

Amended and Restated Severance Letter Agreement
Providing Certain Benefits Upon Termination of Employment
Following a Change In Control

[Date]

Dear [Name]:

Xerox Corporation ("the Company") considers it in the best interests of its shareholders to foster the continuous employment of key management personnel. The Board recognizes that, as with many publicly held corporations, the possibility of a Change in Control may arise, and that the uncertainty raised by this possibility may cause the departure or distraction of management personnel, to the detriment of the Company and its shareholders.

The Board has determined that appropriate steps should be taken to reinforce the continued dedication of key management personnel to their duties, without potential distraction arising from a possible Change in Control, although no such change is now contemplated.

In order to induce you to remain in the employ of the Company and in consideration of your agreement set forth in Section 3, the Company accordingly agrees that you shall receive the severance benefits set forth in this Agreement if your employment with the Company is terminated under certain circumstances following a Change in Control.

It is intended that this Agreement comply with Section 409A of the Code and the regulations thereunder and shall be construed and interpreted in a manner consistent with such intention.

1. Definitions.

(a) Agreement shall mean the letter agreement set forth herein.

(b) Board shall mean the Board of Directors of the Company.

(c) Change in Control of the Company shall be deemed to have occurred if:

(i) Any "Person" is or becomes a "beneficial owner" (as defined in Rule 13d−3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (A) individuals who, on the date hereof constitute the Board, and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two−thirds of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(iii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which results in the directors of the Company who were members of the Incumbent Board immediately before such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding voting securities; or

(iv) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately before such sale. For purposes of the definition of Change in Control and Potential Change in Control, Person shall have the meaning given in Section 3(a)(9) of the 1934 Act, as modified and used in Section 13(d) and 14(d) of the 1934 Act, except that such term shall not include Excluded Persons. "Excluded Persons" shall mean (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, (3) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (A) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) an individual, entity or group who is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule), provided that if any Excluded Person described in clause (6) subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this definition, such individual, entity or group shall no longer be considered an Excluded Person and shall be deemed to have first acquired beneficial ownership of securities of the Company on the first date on which such individual, entity or group becomes required to or does so report on such Schedule.

(d) Code shall mean the Internal Revenue Code of 1986, as amended.

(e) Company shall mean the Company or any successor thereto, including any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law or otherwise.

(f) Date of Termination shall mean:

(i) If your employment is terminated pursuant to a Termination by the Company For Disability, thirty (30) days after Notice of Termination is given (if you do not return to the performance of your duties on a full−time basis during such thirty (30) day period); and

(ii) If your employment is terminated for any other reason, the date specified in the Notice of Termination, subject to clauses (iii), (iv) and (v) of this subsection.

(iii) In the case of a Termination by the Company For Cause, the specified date shall not be less than thirty (30) days from the date the Notice of Termination is given.

(iv) In the case of a Termination by You For Good Reason, the specified date shall not be less than fifteen (15) days nor more than sixty (60) days, from the date the Notice of Termination is given subject to Section 1(m)(viii).

(v) The Date of Termination may be extended pursuant to Section 13.

(g) Disability shall mean a physical or mental incapacity incurred after a Potential Change in Control which would allow you to receive benefits under the Company's Long−Term Disability Income Plan (or any substitute plans adopted before a Change in Control).

(h) Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

(i) Notice of Termination shall mean the notice required to be given by you or the Company in accordance with the terms of Section 12.

(j) Potential Change in Control of the Company shall be deemed to have occurred if:

(i) The Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) Any person, including an Excluded Person, publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(iii) Any Person becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 10% or more of the combined voting power of the Company's then outstanding securities; or

(iv) The Board adopts a resolution to the effect that a Potential Change in Control for purposes of this Agreement has occurred.

(k) Termination by the Company For Cause shall mean termination by the Company of your employment upon:

(i) The willful and continued failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination by You For Good Reason), after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties;

(ii) The willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise; or

(iii) The conviction of any crime (whether or not involving the Company) which constitutes a felony.

(iv) For purposes of this subsection, no act or failure to act on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

(v) A termination of your employment is not a Termination by the Company For Cause until there is delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three−quarters of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth in this subsection, and specifying the particulars thereof in detail.

(l) Termination by the Company For Disability shall mean a termination by the Company of your employment following a Change in Control and during the term of this Agreement as follows. If, as a result of your incapacity due to physical or mental illness, you fail to perform your duties and shall have been receiving payments under the Company's Long−Term Disability Income Plan, or any substitute plans adopted before the Change in Control, for a period of twelve (12) consecutive months and, within thirty (30) days after Notice of Termination is given, you shall not have returned to the full−time performance of your duties, the Company may terminate your employment pursuant to a Termination by the Company For Disability. You shall continue to receive your full base salary at the rate then in effect and your bonus and all compensation shall be paid during the period until this Agreement is terminated pursuant to this subsection. Your benefits shall thereafter be determined in accordance with the Company's welfare benefits programs then in effect and the Company's retirement plans then in effect.

(m) Termination by You For Good Reason shall mean the termination by you of your employment within two years of the initial occurrence of any of the following circumstances, provided that (1) such circumstance occurs without your express written consent, after a Change in Control, and during the term of this Agreement, and (2) you properly notify the Company within 90 days of the initial occurrence of such circumstance and the Company does not remedy the circumstance within 30 days of such notice:

(i) Subject to Section 1(m)(viii) herein, the material diminution of your authority, duties, or responsibilities from those in effect immediately prior to a Change in Control (including, without limitation, if you are an executive officer of the Company prior to a Change in Control, ceasing to be an executive officer of the surviving company);

(ii) A material reduction in your annual base salary and/or annual target bonus as in effect on the date hereof, or as the same may be increased from time to time, except that this clause (ii) shall not apply to across−the−board salary reductions similarly affecting all executives of the Company and all executives of any person in control of the Company;

(iii) A material change in the geographic location at which you are required to be based *(*including, without limitation, the Company requiring you to relocate outside of the metropolitan area in which you were based immediately prior to the Change in Control), except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations;

(iv) The failure by the Company to continue in effect any material compensation or benefit plan, vacation policy or any material perquisites in which you participate immediately before the Change in Control, (except to the extent such plan terminates in accordance with its terms), unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, than existed at the time of the Change in Control; or

(v) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 11.

(vi) A Termination by You For Good Reason shall be deemed to occur if, after a Change in Control, there occurs any termination or purported termination by the Company of your employment which is not accompanied by any Notice of Termination required by Section 12, and does not comply with the notice requirements (if applicable) of subsection (k) of this section (defining Termination by the Company For Cause).

(vii) A termination by you of your employment shall not fail to be a Termination by You For Good Reason merely because of your incapacity due to physical or mental illness, or because your employment continued after the occurrence of any of the events listed in this subsection.

(viii) Notwithstanding anything herein to the contrary, in the event of a Termination by you for Good Reason under Section 1(m)(i), no benefits are payable to you under the Agreement if, before the second anniversary of a Potential Change in Control (I) you voluntarily terminate your employment or (II) the Company remedies the circumstance described in Section 1(m)(1).

(n) Termination by You Without Good Reason shall mean a termination by you of your employment that is not a Termination by You For Good Reason.

2. Term of Agreement

(a) This Agreement shall be effective on [date], and shall continue in effect through December 31, [year], or the later date provided by subsection (b) or (c) of this section.

(b) Commencing on January 1, [year], and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, (i) not later than the later of November 1 or thirty days following the meeting of the Compensation Committee of the Board held in October of the preceding year, the Company gives notice that it does not wish to extend this Agreement; or (ii) at any time, the Company gives notice that you are no longer in a position considered to be a key role in the event of a CIC. No such notice may be given during the pendency of a Potential Change in Control.

(c) If a Change in Control occurs while this Agreement is in effect, then notwithstanding subsections (a) and (b) of this section, this Agreement shall continue in effect until the last day of the 24th month following the month in which occurs such Change in Control.

(d) This Agreement shall terminate upon your termination of employment (which for this purpose shall include commencement of salary continuance or other severance amounts), other than a termination of employment that occurs after a Change in Control.

3. Your Agreement to Certain Continued Employment. You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control, you will remain in the employ of the Company until the earliest of:

(a) The expiration of nine (9) months from the occurrence of such Potential Change in Control,

(b) The termination by you of your employment by reason of Disability;

(c) The date on which you first become entitled under this Agreement to receive the benefits provided in Section 4 (or would be so entitled, except for the application of Section 14 herein, relating to section 409A of the Code.)

4. Benefits Upon Termination.

(a) You shall be entitled to the benefits provided by this section upon termination of your employment, if such termination occurs after a Change in Control and during the term of this Agreement, and is not (i) because of your death, (ii) a Termination by the Company For Cause, (iii) a Termination by the Company For Disability, or (iv) a Termination by You Without Good Reason.

(b) The Company shall pay you your full base salary through your separation from service at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company, at the time such payments are due.

(c) In lieu of any further salary payments to you for periods after your separation from service, the Company shall pay a lump sum severance payment equal to [two (2) or 2.99] times the sum of:

(i) the greater of (A) your annual rate of base salary in effect on the date Notice of Termination is given, and (B) your annual rate of base salary in effect immediately before the Change in Control, and

(ii) the greater of (A) the annual target bonus applicable to you for the year in which Notice of Termination is given and (B) the annual target bonus applicable to you for the year in which the Change in Control occurs.

(d) The payment under subsection (c) will be paid immediately upon your separation from service, except that it may not be paid before the earliest date permitted under Section 14 herein (relating to section 409A of the Code).

(e) In addition to all other amounts payable to you under this section, you shall be entitled to receive all benefits payable under any other plan or agreement relating to retirement benefits or to compensation previously earned and not yet paid, in accordance with the terms of such plans or agreements.

(f) For the [24 or 36] month period immediately following the Date of Termination, the Company shall arrange to provide you and your dependents life, disability, accident and health insurance benefits substantially similar to those provided to you and your dependents immediately before the Date of Termination or, if more favorable to you, those provided to you and your dependents immediately before the occurrence of a Change in Control, at no greater cost to you than the cost to you immediately before such date or occurrence. Benefits otherwise receivable by you pursuant to this section shall be reduced to the extent benefits of the same type are received by or made available at no greater cost to you by a subsequent employer during the [24 or 36] month period following the Date of Termination (and any such benefits received by or made available to you shall be reported by you to the Company).

(g) Deeming rules for certain terminations of employment before a Change in Control. For purposes of this Agreement:

(i) Termination of your employment shall be deemed to occur after a Change in Control if (A) your employment is terminated by the Company before a Change in Control, (B) such termination was not a Termination by the Company For Cause, and (C) either such termination was at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, or you reasonably demonstrate that such termination was otherwise in connection with or in anticipation of a Change in Control.

(ii) Termination of your employment shall be deemed to be a Termination by You For Good Reason after a Change in Control if (A) before a Change in Control, you incur a Termination by You For Good Reason (or what would be such but for the fact that it occurs before a Change in Control), and (B) the circumstance or event which constitutes Good Reason occurs at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control.

(iii) Clauses (i) and (ii) apply whether or not a Change in Control actually occurs.

(h) All payments under the Agreement are subject to the reduction or potential reduction set forth in Section 9.

5. Benefits upon Termination For Cause or Without Good Reason. If, following a Change in Control, your employment is terminated pursuant to a Termination by the Company For Cause, or a Termination by You Without Good Reason, the Company shall pay you your full base salary through your separation from service at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to you under this Agreement.

6. No Duty to Mitigate. You shall not be required to mitigate the amount of any payment provided for in Sections 4, 5, 9 or 10 herein by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in such sections be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, other than under subsection (f) of Section 4 (relating to certain continuing welfare benefits) and Section 8.

7. No Waiver. Your continued employment after any event which is or might be an event listed under the definition of Termination by You For Good Reason herein shall not constitute your consent to, or your waiver of rights with respect to, any circumstances surrounding a Termination by You For Good Reason.

8. Offset for Certain Severance Pay. If you become entitled to the lump sum severance benefit under subsection (c) of Section 4 herein, you shall not be entitled to receive severance pay under any severance pay plan, policy or arrangement maintained by the Company or any of its subsidiaries. If the Company is obligated by law or by contract to pay severance pay, a termination indemnity, notice pay, or the like, or if the Company is obligated by law or by contract to provide advance notice of separation, then the lump sum severance benefit under subsection (c) of Section 4 herein shall be reduced, but not below zero, by the amount of any such severance pay, termination indemnity, notice pay or the like, as applicable, and by the amount of any compensation received by you during the period of such advance notice. No offset or reduction of amounts shall be permitted to the extent it results in a prohibited substitution under Code Section 409A and regulations thereunder.

9. Payment Calculation.

(a) Generally, Total Payments (defined below) in connection with a Change in Control, including but not limited to payments under this Agreement, may be subject to an Excise Tax (defined below) payable by you. The Excise Tax applies only if Total Payments exceed a threshold computed under the Code and IRS regulations. Accordingly, if it is determined that the Excise Tax would apply to any payments to you in connection with a Change in Control, payments under the Agreement shall be reduced by this section if it is determined by the Accounting Firm (defined below) that such Cutback (defined below) causes the Net After Tax Amount to be greater than the Net After Tax Amount (defined below) without such Cutback.

(b) For purposes of this Section, the following terms have the following meanings:

(i) "Total Payments" shall mean all of the payments or benefits, paid or payable to you or for your benefit, subject to the excise tax under Section 4999 of the Code (before any reduction pursuant to this section), including any vesting of awards subject to Section 83 of the Code, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control, or any person affiliated with the Company or such person.

(ii) "Excise Tax" shall mean the excise tax (if any) imposed under section 4999 of the Code on your Total Payments.

(iii) "Net After Tax Amount" shall mean the amount of Total Payments net of any applicable taxes under the Code and any State or local income taxes applicable on the date of payment. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the payments, as in effect on the date of payment.

(c) Amounts payable to you under the Agreement shall be reduced by an amount ("the Cutback") if and only if it is determined that the Net After Tax Amount is greater if the Cutback is imposed than if the Cutback is not imposed.

(d) All determinations required to be made under this Section 9 shall be made by the accounting firm that was, immediately before the Change in Control, the Company's independent auditor (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and to you within fifteen (15) business days after your Notice of Termination, or such earlier time as requested by the Company. In the event that such accounting firm is also serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm instead shall be the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and you.

10. Legal Fees.

(a) The Company also shall pay to you all reasonable legal fees and expenses incurred by you with respect to the initial determination by the Accounting Firm with respect to the amount of Cutback (if any), as well as in disputing in good faith any issue hereunder relating to the termination of your employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payment shall be made immediately upon the date that is five business days after delivery of your written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

(b) To the extent required by Section 409A of the Code and guidance thereunder, any payment by the Company under this section shall be made no later than December 31 of the calendar year following the calendar year in which you incur such fees and expenses. Notwithstanding the foregoing, to the extent required by Section 409A of the Code, in the case of a payment by the Company to reimburse expenses incurred due to a tax audit or litigation, payment shall be made no later than December 31 of the calendar year following the calendar you in which you remit the Excise Tax or, where as a result of such audit or litigation, no taxes are remitted, December 31 of the calendar year following the calendar year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation.

11. Successors; Binding Agreement.

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place.

(b) Failure of the Company to obtain such assumption and agreement before the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

(c) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or if no such designee, to your estate.

12. Notice Requirement. Any termination or purported termination of your employment (except by reason of your death) by the Company or by you following a Change in Control and during the term of this Agreement shall be communicated by written Notice of Termination to the other party hereto in accordance with this section. The Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

13. Extension of Date of Termination. If, within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected). The Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. You shall make prompt, good faith and reasonable efforts to collect any amounts you believe are owing to you, in accordance with regulations under Section 409A. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this section. Amounts paid under this section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement and shall not be reduced by any compensation earned by you as the result of employment by another employer

14. No Payment Earlier Than Permitted Under Code Section 409A.

In no event shall any amount that is deferred compensation under Code section 409A (other than a short term deferral) payable under this Agreement upon your separation from service be paid to you under this Agreement before the date of your separation from service plus 6 months after such date if you are a specified employee (as defined for purposes of Code section 409A(a)(2)(B)).

15. Amendment.

(a) Except as provided in subsection (b), no provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Compensation Committee of the Board.

(b) To the extent deemed necessary or desirable by the Compensation Committee of the Board, the Agreement may be amended by an affirmative vote of the majority of the directors described in section 1(c)(ii) hereof and on the Compensation Committee in order to comply with Code section 409A and to avoid any additional tax or penalty related solely to Code section 409A. Such amendments will be effective if signed by such officer as may be specifically designated by the Compensation Committee of the Board. The provisions of this subsection (b) shall not apply at any time after the occurrence of either a Potential Change in Control or a Change in Control.

(c) The Chief Executive Officer of Xerox Corporation or her delegate may amend the Agreement as she or he in his or her sole discretion deems necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder.

16. Miscellaneous. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Sections 4, 5, 9 and 10 shall survive the expiration of the term of this Agreement. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between you and the Company, you shall not have any right to be retained in the employ of the Company.

17. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

18. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and during the term of the Agreement supersedes the provisions of all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto with respect to the subject matter hereof (including, without limitation, the Severance Agreement previously entered into between you and the Company as thereafter amended and/or extended).

20. Effective Date. This Agreement shall become effective as of the date set forth above. If this letter correctly sets forth our agreement on the subject matter hereof, please sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

XEROX CORPORATION

By: _____

Name: Ursula M. Burns

Title: Chairman and Chief Executive Officer

Agreed to as of the Date: _____

Name: _____

EXHIBIT 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, as well as any deficiency of earnings are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income (loss) from continuing operations before income taxes and equity income; (b) distributed equity income; (c) fixed charges, as defined below; and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest and net income attributable to noncontrolling interests.

Fixed charges are calculated as the sum of: (a) interest costs (both expensed and capitalized); (b) amortization of debt expense and discount or premium relating to any indebtedness; and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre−tax earnings required to cover dividends paid on our Series A convertible preferred stock issued in 2010 and our Series C mandatory convertible preferred stock. Series C mandatory convertible preferred stock was redeemed and converted to common stock as of July 3, 2006 and, as such, there were no dividends beyond such date.

	Year Ended December 31,				
(in millions)	2010	2009	2008	2007	2006
Fixed charges:					
Interest expense	$ 592	$ 527	$567	$ 579	$ 544
Capitalized interest	5	8	10	8	—
Portion of rental expense which represents interest factor	211	89	84	95	90
Total Fixed charges	$ 808	$ 624	$661	$ 682	$ 634
Earnings available for fixed charges:					
Pre−tax income (loss)	$ 815	$ 627	$ (79)	$1,468	$ 830
Distributed equity income of affiliated companies	41	16	60	37	44
Add: Fixed charges	808	624	661	682	634
Less: Capitalized interest	(5)	(8)	(10)	(8)	—
Less: Net income – noncontrolling interests	(31)	(31)	(35)	(30)	(22)
Total Earnings available for fixed charges	$1,628	$1,228	$597	$2,149	$1,486
Ratio of earnings to fixed charges	2.01	1.97	*	3.15	2.34

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend:

	Year Ended December 31,				
(in millions)	2010	2009	2008	2007	2006
Fixed charges:					
Interest expense	$ 592	$ 527	$567	$ 579	$ 544
Capitalized interest	5	8	10	8	—
Portion of rental expense which represents interest factor	211	89	84	95	90
Total Fixed charges before preferred stock dividends pre−tax requirements	$ 808	$ 624	$661	$ 682	$ 634
Preferred stock dividends pre−tax income requirements	35	—	—	—	48
Total Combined fixed charges and preferred stock dividends	$ 843	$ 624	$661	$ 682	$ 682
Earnings available for fixed charges:					
Pre−tax income (loss)	$ 815	$ 627	$ (79)	$1,468	$ 830
Distributed equity income of affiliated companies	41	16	60	37	44
Add: Fixed charges	808	624	661	682	634
Less: Capitalized interest	(5)	(8)	(10)	(8)	—
Less: Net income – noncontrolling interests	(31)	(31)	(35)	(30)	(22)
Total Earnings available for fixed charges and preferred stock dividends	$1,628	$1,228	$597	$2,149	$1,486
Ratio of earnings to fixed charges and preferred stock dividends	1.93	1.97	*	3.15	2.18

* Earnings for the year ended December 31, 2008 were inadequate to cover fixed charges by $64.

EXHIBIT 13

ANNUAL REPORT
TABLE OF CONTENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes.

Throughout this document, references to "we," "our," the "Company" and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand−alone parent company and do not include its subsidiaries.

Executive Overview

We are a $22 billion leading global enterprise for business process and document management. We provide the industry's broadest portfolio of document systems and services for businesses of any size. This includes printers, multifunction devices, production publishing systems, managed print services ("MPS") and related software. We also offer financing, service and supplies, as part of our document technology offerings. In 2010, we acquired Affiliated Computer Services, Inc. ("ACS"). Through ACS we offer extensive business process outsourcing and information technology outsourcing services, including data processing, HR benefits management, finance support and customer relationship management services for commercial and government organizations worldwide. We operate in a market that is estimated to be $500 billion. We have 136,500 employees and serve customers in more than 160 countries. Approximately 36 percent of our revenue is generated from customers outside the U.S.

We organize our business around two segments: **Technology** and **Services.**

- Our **Technology** segment comprises our business of providing customers with document technology and related supplies, technical service and equipment financing. Our product categories within this segment include entry, mid−range and high−end products.
- Our **Services** segment is comprised of our business process outsourcing, information technology outsourcing and document outsourcing services. Because we participate in all three of these lines of business, we are uniquely positioned in the industry, and we believe this allows us to provide a differentiated solution and deliver greater value to our customers.

The fundamentals of our business rest upon an annuity model that drives significant recurring revenue and cash generation. Over 80 percent of our 2010 total revenue was annuity based revenue that includes contracted services, equipment maintenance and consumable supplies, among other elements. Some of the key indicators of annuity revenue growth include:

- The number of page−producing machines−in−the−field ("MIF"), which is impacted by equipment installations.
- Page volume and the mix of color pages, as color pages generate more revenue per page than black−and−white.
- Services signings growth, which reflects the year−over−year increase in estimated future revenues from contracts signed during the period as measured on a trailing twelve month basis.
- Services pipeline growth, which measures the year−over−year increase in new business opportunities.

Subsequent to the acquisition of ACS, we acquired three additional service companies further expanding our BPO capabilities.

- In July 2010, we acquired ExcellerateHRO, LLP ("EHRO"), a global benefits administration and relocation services provider.
- In October 2010, we acquired TMS Health ("TMS"), a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries.
- In November 2010, we acquired Spur Information Solutions ("Spur"), one of the United Kingdom's leading providers of computer software used for parking enforcement.

Additionally, in 2010 we acquired two companies to further expand our distribution capacity.

- In January 2010, we acquired Irish Business Systems Limited (“IBS”) to expand our reach into the small and mid−size business market in Ireland.
- In September 2010, we acquired Georgia Duplicating Products (“Georgia”), an office equipment supplier.

Financial Overview

During 2010, despite the continued economic weakness we began to see improvement in our markets. Results remained strong in our developing markets countries as well as in the small to mid−size business market. We began to see increased demand and usage activity in large enterprise customers particularly in the fourth quarter 2010. We closed 2010 with strong revenue growth, operating margin expansion and excellent cash generation, reflecting the strength of our business model and the benefits of our expanded technology and service offerings.

The following is a summary of key 2010 highlights:

- Exceeded on earnings and cash generation commitments
- Strong services performance, realizing benefits from the ACS acquisition
- Technology revenue and activity growth; innovative products launched in key segments
- Disciplined cost and expense management yielding operating margin improvement

We completed the acquisition of ACS on February 5, 2010, and their results subsequent to that date are included in our results. Total revenue of $21.6 billion in 2010 increased 43% from the prior year primarily as a result of the ACS acquisition. Currency had a negligible impact on 2010 total revenues. In order to provide a clearer comparison of our results to the prior year, we are also providing a discussion and analysis on a pro−forma basis, where we include ACS’s 2009 estimated results from February 6 through December 31 in our historical 2009 results [(1)]. On a pro−forma[(1)] basis, total revenue increased 3% in 2010, including a negligible impact from currency.

2010 Annuity Revenue[(2)] increased 53% from the prior year, or 1% on a pro−forma[(1)] basis. Currency had a 1−percentage point unfavorable impact on pro−forma annuity revenue. 2010 Equipment Revenue increased 9% from the prior year, including a 1−percentage point negative impact from currency.

Net income attributable to Xerox for 2010 was $606 million and included $690 million of after−tax costs and expenses related to restructuring, intangibles amortization, acquisition−related costs and other discrete and unusual items. Net income attributable to Xerox for 2009 was $485 million and included $128 million of similar after−tax costs and expenses.

Cash flow from operations was $2.7 billion for 2010 primarily as a result of increased earnings and working capital cash generation. Cash used in investing activities of $2.2 billion primarily reflects the net cash consideration of $1.5 billion for the ACS acquisition. Cash used in financing activities was $3.1 billion, primarily reflecting the repayment of ACS’s debt of $1.7 billion as well as net payments on other debt during 2010 including the early redemption of $660 million of debt.

Our 2011 priorities include:

- Strengthening our leadership in Technology through competitively advantaged products and increased distribution
- Accelerating our services business − capture significant BPO opportunity and continue improvements in ITO and document outsourcing
- Continued cost and expense discipline to enable operating margin expansion
- Drive cash flow, reduce debt and return cash to shareholders

Our 2011 balance sheet and cash flow strategy includes: sustaining our working capital improvements; continued reductions in non−financing debt; leveraging of our financing assets (finance receivables and equipment on operating leases); achieving an optimal cost of capital; and effectively deploying cash to maximize shareholder value through share repurchase, acquisitions and dividends.

In addition, as a result of providing lease equipment financing to our customers, we expect to continue to make investments in lease contracts (finance receivables and equipment on operating leases). Since we maintain a certain level of debt to support this investment, we expect to continue to leverage this investment in 2011 (see “Customer Financing Activities” for additional information).

(1) The pro−forma information included within this MD&A is different than the pro−forma information provided in Note 3 – Acquisitions. The pro−forma information included in Note 3 presents the combined results for 2010 and 2009 as if the acquisition was completed January 1st of each respective year. See the “Non−GAAP Financial Measures” section for a further explanation and discussion of this non−GAAP measure.
(2) Annuity revenue = Service, outsourcing and rentals + Supplies, paper and other sales + Finance income.

Currency Impacts

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenues and expenses. We refer to this analysis as “currency impact” or “the impact from currency”. This impact is calculated by translating current period activity in local currency using the comparable prior year period’s currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. Revenues and expenses from our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central−Eastern Europe) are analyzed at actual exchange rates for all periods presented, since these countries generally have unpredictable currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Approximately 36% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue−weighted basis, the U.S. Dollar was 2% stronger in 2010 and 7% stronger in 2009, each compared to the prior year. As a result, the foreign currency translation impact on revenue was negligible in 2010 and a 3% detriment in 2009.

Refer to “Gross Margin” section for additional information regarding the impact of currency on our product costs.

Summary Results

Revenue

Revenues for the three years ended December 31, 2010 were as follows:

(in millions)	Revenues 2010	Revenues 2009	Revenues 2008	Percent Change 2010	Percent Change 2009	Pro-forma[3] Change 2010	Percent of Total Revenue 2010	Percent of Total Revenue 2009	Percent of Total Revenue 2008
Revenue:									
Equipment sales	$ 3,857	$ 3,550	$ 4,679	9%	(24)%	9%	18%	24%	26%
Supplies, paper and other	3,377	3,096	3,646	9%	(15)%	4%	15%	20%	21%
Sales	7,234	6,646	8,325	9%	(20)%	7%	33%	44%	47%
Service, outsourcing and rentals	13,739	7,820	8,485	76%	(8)%	1%	64%	51%	48%
Finance income	660	713	798	(7)%	(11)%	(7)%	3%	5%	5%
Total Revenues	$ 21,633	$ 15,179	$ 17,608	43%	(14)%	3%	100%	100%	100%
Segments:									
Technology	$ 10,349	$ 10,067	$ 11,714	3%	(14)%	3%	48%	66%	66%
Services	9,637	3,476	3,828	177%	(9)%	3%	44%	23%	22%
Other	1,647	1,636	2,066	1%	(21)%	1%	8%	11%	12%
Total Revenues	$ 21,633	$ 15,179	$ 17,608	43%	(14)%	3%	100%	100%	100%
Memo:									
Annuity Revenue[1]	$ 17,776	$ 11,629	$ 12,929	53%	(10)%	1%	82%	77%	73%
Color[2]	$ 6,397	$ 5,972	$ 6,669	7%	(10)%	7%	30%	39%	38%

Revenue 2010

Total revenues increased 43% compared to the prior year. Our consolidated 2010 results include ACS results subsequent to February 5, 2010, the effective date of the acquisition. On a pro−forma [3] basis total revenue grew 3%. Currency had a negligible impact on total revenues during 2010. Total revenues included the following:

- 53% increase in annuity revenue [1], or 1% on a pro−forma [3] basis, with a 1−percentage point negative impact from currency. The components of annuity revenue were as follows:
  - Service, outsourcing and rentals revenue of $13,739 million increased 76%, or 1% on a pro−forma [3] basis, and included a negligible impact from currency. The increase was driven by Business Process Outsourcing (“BPO”) revenue that partially offset the declines in technical service revenue which were driven by a continued but stabilizing decline in pages. Total digital pages declined 4% while color pages increased 9%. During 2010 digital MIF increased by 1% and color MIF increased by 15%.
  - Supplies, paper, and other sales of $3,377 million increased 9%, or 4% on a pro−forma [3] basis, with a 1−percentage point negative impact from currency. Growth in supplies revenues were partially offset by a decline in paper sales.
- 9% increase in equipment sales revenue, including a 1−percentage point negative impact from currency. Growth in install activity was partially offset by price declines of approximately 5% and mix.
- 7% increase in color revenue [2], including a 1−percentage point negative impact from currency reflecting:
  - 5% increase in color annuity revenue, including a 1−percentage point negative impact from currency. The increase was driven by higher printer supplies sales and higher page volumes.
  - 12% increase in color equipment sales revenue, including a 2−percentage point negative impact from currency. The increase was driven by higher installs of new products.
  - 9% growth in color pages [4]. Color pages [4] represented 23% of total pages in 2010 while color MIF represented 31% of total MIF.

Revenue 2009

Revenue decreased 14% compared to the prior year, including a 3−percentage point negative impact from currency. Although moderating in the fourth quarter 2009, worldwide economic weakness negatively impacted our major market segments during the year. Total revenues included the following:

- 10% decrease in annuity revenue[(1)] including a 3−percentage point negative impact from currency. The components of the annuity revenue decreased as follows:
  - 8% decrease in service, outsourcing and rentals revenue to $7,820 million reflecting a 3−percentage point negative impact from currency and an overall decline in page volume. Total digital pages declined 6% despite an increase in color pages of 10%. Additionally, during 2009 digital MIF increased by 2% and color MIF increased by 21%.
  - Supplies, paper, and other sales of $3,096 million decreased 15% due primarily to currency, which had a 2−percentage point negative impact, and declines in channel supplies purchases, including lower purchases within developing markets, and lower paper sales.
- 24% decrease in equipment sales revenue, including a 1−percentage point negative impact from currency. The overall decline in install activity was the primary driver along with price declines of approximately 5%.
- 10% decrease in color revenue[(2)] including a 2−percentage point negative impact from currency reflecting:
  - 5% decrease in color annuity revenue including a 3−percentage point negative impact from currency. The decline was partially driven by lower channel color printer supplies purchases. Color represented 40% and 37% of annuity revenue in 2009 and 2008, respectively.
  - 22% decrease in color equipment sales revenue including a 2−percentage point negative impact from currency and lower installs driven by the impact of the economic environment[(3)]. Color sales represented 53% and 50% of total equipment sales in 2009 and 2008.
  - 10% growth in color pages[(4)]. Color pages represented 21% and 18% of total pages in 2009 and 2008, respectively.

Net Income

Net income and diluted earnings per share, as well as the adjustments to net income [(5)] for the three years ended December 31, 2010 were as follows:

	2010		2009		2008	
(in millions, except per−share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported	$ 606	$ 0.43	$ 485	$ 0.55	$ 230	$ 0.26
Adjustments:						
Xerox and Fuji Xerox restructuring charges	355	0.26	41	0.05	308	0.34
Acquisition−related costs	58	0.04	49	0.06	—	—
Amortization of intangible assets	194	0.14	38	0.04	35	0.04
ACS shareholders litigation settlement	36	0.03	—	—	—	—
Venezuela devaluation costs	21	0.02	—	—	—	—
Medicare subsidy tax law change	16	0.01	—	—	—	—
Provision for litigation matters	—	—	—	—	491	0.54
Equipment write−off	—	—	—	—	24	0.03
Loss on early extinguishment of debt	10	0.01	—	—	—	—
Settlement of unrecognized tax benefits	—	—	—	—	(41)	(0.05)
As Adjusted[(5)]	$ 1,296	$ 0.94	$ 613	$ 0.70	$ 1,047	$ 1.16
Weighted average shares for reported EPS		1,351		880		895
Weighted average shares for adjusted EPS		1,378		880		897

Average shares for the calculation of adjusted EPS for 2010 of 1,378 million include a pro−rata portion of 27 million shares associated with the Series A convertible preferred stock and therefore the 2010 dividends of $21 million are excluded. In addition, average shares for the calculation of adjusted EPS for both 2010 and 2008 include 2 million shares associated with other convertible securities. We evaluate the dilutive effect of our convertible securities on an “if−converted” basis. Refer to Note 20 – Earnings Per Share in the Consolidated Financial Statements for additional information.

(1) Annuity revenue equals Service, outsourcing and rentals plus Supplies, paper and other sales plus Finance income.
(2) Color revenues represent a subset of total revenue and excludes the impact of GIS's revenues.
(3) Growth on a pro−forma basis reflects the inclusion of ACS's adjusted results from February 6 through December 31, 2009. Refer to the "Non−GAAP Financial Measures" section for an explanation of this non−GAAP financial measure.
(4) Pages include estimates for developing markets, GIS and printers.
(5) Refer to the "Non−GAAP Financial Measures" section for an explanation of this non−GAAP financial measure.

Application of Critical Accounting Policies

In preparing our Consolidated Financial Statements and accounting for the underlying transactions and balances, we apply various accounting policies. Senior management has discussed the development and selection of the critical accounting policies, estimates and related disclosures included herein with the Audit Committee of the Board of Directors. We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management's judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition for leases, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 1 − Summary of Significant Accounting Policies, in the Consolidated Financial Statements.

Revenue Recognition for Leases

Our accounting for leases involves specific determinations under applicable lease accounting standards. These determinations affect the timing of revenue recognition for our equipment. If a lease qualifies as a sales−type capital lease, equipment revenue is recognized as sale revenue upon delivery or installation of the equipment as opposed to ratably over the lease term. The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after−market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended.

Revenue Recognition for Bundled Lease Arrangements

We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 40% of our equipment sales revenue is related to sales made under bundled lease arrangements. Typically these arrangements include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. Revenues under these arrangements are allocated, considering the relative fair values of the lease and non−lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non−lease deliverables generally consist of supplies and non−maintenance services. The allocation for lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. These elements are generally recognized over the term of the lease as services revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted above under "Revenue Recognition for Leases." We perform analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must be reasonably consistent with the lease selling prices, taking into account residual values, in order for us to determine that such lease prices are indicative of fair value.

Our pricing interest rates, which are used in determining customer payments, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by twenty−five basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Revenue Recognition for Services – Percentage−of−Completion

A significant portion of our services revenue is recognized based on objective criteria that do not require significant estimates or uncertainties. For example, transaction volume, time and materials and cost reimbursable arrangements are based on specific, objective criteria under the contracts. Accordingly, revenues recognized under these contracts do not require the use of significant estimates that are susceptible to change. However, revenue recognized using the percentage−of−completion accounting method does require the use of estimates and judgment as discussed below. During 2010, we recognized approximately $270 million of revenue using the percentage−of−completion accounting method.

Revenues on certain fixed price contracts where we provide information technology system development and implementation services are recognized using the percentage−of−completion approach. Revenue is recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract. These contracts require that we perform significant, extensive and complex design, development, modification and implementation activities for our clients' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage−of−completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period. Due to the longer term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs. Such revisions are reflected in income in the period in which the facts that give rise to that revision become known. If at any time these estimates indicate the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost. We perform ongoing profitability analyses of our services contracts in order to determine whether the latest estimates require updating.

Allowance for Doubtful Accounts and Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We cannot guarantee that we will continue to experience credit loss rates similar to those we have experienced in the past.

Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We recorded bad debt provisions of $188 million, $291 million and $188 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, respectively.

Historically, the majority of the bad debt provision related to our finance receivables portfolio. This provision is inherently more difficult to estimate than the provision for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. The estimated credit quality of any given customer and class of customer or geographic location can significantly change during the life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the provision for doubtful accounts.

Bad debt provisions decreased by $103 million in 2010 and reserves as a percentage of trade and finance receivables decreased to 3.3% at December 31, 2010 as compared to 4.1% at December 31, 2009 and 3.4% at December 31, 2008. The decline in 2010 reflects the improving trend in write−off's over the past year as well as the acquisition of ACS. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts. Refer to Note 4 – Receivables in the Consolidated Financial Statements for additional information.

As discussed above, in preparing our Consolidated Financial Statements for the three years ended December 31, 2010, we estimated our provision for doubtful accounts based on historical experience and customer−specific collection issues. This methodology was consistently applied for all periods presented. During the five year period ended December 31, 2010, our reserve for doubtful accounts ranged from 3.0% to 4.1% of gross receivables. Holding all assumptions constant, a 1−percentage point increase or decrease in the reserve from the December 31, 2010 rate of 3.3% would change the 2010 provision by approximately $98 million.

Pension and Retiree Health Benefit Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retirement medical costs. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic benefit cost generally over the average remaining service lives of the employees participating in the plans.

Cumulative actuarial losses for our defined benefit pension plans of $1.9 billion as of December 31, 2010 were essentially unchanged from December 31, 2009. Positive returns on plan assets in 2010 as compared to expected returns offset a decrease in discount rates. The total actuarial loss will be amortized over future periods, subject to offsetting gains or losses that will impact the future amortization amounts.

We used a weighted average expected rate of return on plan assets of 7.3% for 2010, 7.4% for 2009 and 7.6% for 2008, on a worldwide basis. During 2010, the actual return on plan assets was $846 million, reflecting an improvement in the equity markets during the year. When estimating the 2011 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will use in 2011 is 7.2%.

For purposes of determining the expected return on plan assets, we use a calculated value approach to determine the value of the pension plan assets, rather than a fair market value approach. The primary difference between these two methods relates to a systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that can result from using the fair market value approach. The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative differences from prior years. This amount is a component of the net actuarial gain or loss.

Another significant assumption affecting our pension and retiree health benefit obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. The discount rate reflects the current rate at which the benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider rates of return on high quality fixed−income investments included in published bond indices, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligations, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The weighted average discount rate we used to measure our pension obligations as of December 31, 2010 and to calculate our 2011 expense was 5.2%, which is lower than 5.7% that was used to calculate our 2010 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2010 and to calculate our 2011 expense was 4.9%, which is lower than 5.4% that was used to calculate our 2010 expense.

On a consolidated basis, we recognized net periodic pension cost of $355 million, $270 million and $254 million for the years ended December 31, 2010, 2009 and 2008, respectively. The costs associated with our defined contribution plans, which are included in net periodic pension cost, were $51 million, $38 million and $80 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increase in 2010 was primarily due to our partial resumption of the 401(k) match in the U.S. On a consolidated basis, we recognized net retiree health benefit cost of $32 million, $26 million and $77 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Assuming settlement losses in 2011 are consistent with 2010, our 2011 net periodic defined benefit pension cost is expected to be approximately $30 million lower than 2010, primarily driven by the U.S. as a result of a reduction in the amortization of actuarial losses and an increase in expected asset returns from higher asset values and expected contributions to the plan. Our 2011 retiree health benefit cost is expected to be approximately $17 million lower than 2010, primarily as a result of amendments to the U.S. plan in 2010.

Benefit plan costs are included in several income statement components based on the related underlying employee costs. Pension and retiree health benefit plan assumptions are included in Note 15 – Employee Benefit Plans in the Consolidated Financial Statements. Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2011 projected net periodic pension cost by $17 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2011 projected net periodic pension cost by $17 million.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Adjustments to our valuation allowance, through charges (credits) to income tax expense, were $22 million, $(11) million and $17 million for the years ended December 31, 2010, 2009 and 2008, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of $11 million, $55 million and $(136) million for the years ended December 31, 2010, 2009 and 2008, respectively. These did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of $3.8 billion and $3.7 billion had valuation allowances of $735 million and $672 million at December 31, 2010 and 2009, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more−likely−than−not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more−likely−than−not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results.

We file income tax returns in the U.S. Federal jurisdiction and in various foreign jurisdictions. In the U.S, with the exception of ACS, we are no longer subject to U.S. Federal income tax examinations for years before 2007. ACS is no longer subject to such examination for years before 2004. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Legal Contingencies

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and ERISA, as discussed in Note 17 – Contingencies in the Consolidated Financial Statements. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Business Combinations and Goodwill

The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third−party appraisal firms.

As a result of our acquisition of ACS, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires significant judgment including: estimation of future cash flows, which is dependent on internal forecasts; estimation of the long−term rate of growth for our business; the useful life over which cash flows will occur; determination of our weighted average cost of capital for purposes of establishing a discount rate; and consideration of relevant market data.

Our annual impairment test of goodwill is performed in the fourth quarter of each year. The estimated fair values of our reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in those valuations considered the current economic environment. In performing our 2010 impairment test, the following were the overall composite assumptions regarding revenue and expense growth, which formed the basis for estimating future cash flows used in the discounted cash flow model: (1) revenue growth 3−5%; (2) gross margin 33−35%; (3) RD&E 3%; (4) SAG 19−20%; and (5) return on sales 10−12%. We believe these assumptions are appropriate because they are consistent with historical results (inclusive of ACS), generally consistent with our forecasted long−term business model and give appropriate consideration to the current economic environment.

Based on these valuations, we determined that the fair values of our reporting units exceeded their carrying values and no goodwill impairment charge was required during the fourth quarter 2010.

Refer to Note 1 – Summary of Significant Accounting Policies – "Goodwill and Intangible Assets" for additional information regarding our goodwill impairment testing, as well as Note 8 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by operating segment.

Operations Review of Segment Revenue and Operating Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Technology, Services and Other.

2010 Segment Reporting Change

In 2010, as a result of our acquisition of ACS, we realigned our internal financial reporting structure and began reporting our financial performance based on two primary segments – **Technology** and **Services**. The Technology segment represents the combination of our former Production and Office segments excluding the document outsourcing business. The Services segment represents the combination of our document outsourcing business, which includes Xerox's historic business process services, and ACS's business process outsourcing and information technology outsourcing businesses. We believe this realignment improves our view of the expanded markets we now serve and will help us to better manage our business which is primarily centered around equipment systems and outsourcing services. Our Technology segment operations involve the sale and support of a broad range of document systems from entry level to the high−end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT. Our 2009 and 2008 segment disclosures have been restated to reflect our new 2010 internal reporting structure. Refer to Note 2 – Segment Reporting, in the Consolidated Financial Statements for further description of these segments.

Revenues by segment for the three years ended December 31, 2010 were as follows:

(in millions)	Total Revenue	Segment Profit (Loss)	Segment Margin
2010			
Technology	$ 10,349	$ 1,085	10.5%
Services	9,637	1,132	11.7%
Other	1,647	(342)	(20.8)%
Total	$ 21,633	$ 1,875	8.7%
2009			
Technology	$ 10,067	$ 949	9.4%
Services	3,476	231	6.6%
Other	1,636	(342)	(20.9)%
Total	$ 15,179	$ 838	5.5%
2009 Pro−forma[(1)]			
Technology	$ 10,067	$ 949	9.4%
Services	9,379	1,008	10.7%
Other	1,636	(447)	(27.3)%
Total	$ 21,082	$ 1,510	7.2%
2008			
Technology	$ 11,714	$ 1,288	11.0%
Services	3,828	302	7.9%
Other	2,066	(245)	(11.9)%
Total	$ 17,608	$ 1,345	7.6%

(1) Results include ACS's 2009 estimated results February 6 through December 31. Refer to the "Non−GAAP Financial Measures" section for an explanation of this non−GAAP financial measure.

Technology

Our technology segment includes the sale of document systems and supplies, provision of technical service and financing of products.

(in millions)	Year Ended December 31, 2010	2009	2008	Percent Change 2010	2009
Equipment sales [1]	$ 3,404	$ 3,137	$ 4,079	9%	(23)%
Post sale revenues	6,945	6,930	7,635	—%	(9)%
Total Revenue	$ 10,349	$ 10,067	$ 11,714	3%	(14)%

(1) Post sale revenue does not include outsourcing revenue which is reported in our Services segment.

Revenue 2010

Technology revenue of $10,349 million increased 3%, including a negligible impact from currency and reflected solid install and related equipment revenue growth including the launch of 21 new products in 2010. Total revenues included the following:

- 9% increase in equipment sales revenue, with a 1−percentage point negative impact from currency, driven primarily by install growth across all color product categories.
- Post sale revenue was flat compared to prior year, with a 1−percentage point negative impact from currency, as increased supplies sales were offset by lower service revenues reflecting decreased but stabilizing page volumes.
- Technology revenue mix was 22% entry, 56% mid−range and 22% high−end.

Segment Profit 2010

Technology segment profit of $1,085 million increased $136 million from 2009, reflecting an increase in gross profit due to higher revenues, lower bad debt expense as well as cost and expense savings from restructuring actions.

Installs 2010

Entry

- 46% increase in installs of A4 black−and white multifunction devices driven by growth in developing markets and indirect channels.
- 39% increase in installs of A4 color multifunction devices driven by demand for new products.
- 4% increase in installs of color printers.

Mid−range

- 4% increase in installs of mid−range black−and−white devices.
- 27% increase in installs of mid−range color devices primarily driven by demand for new products, such as the Xerox Color 550/560, WorkCentre® 7545/7556 and WorkCentre® 7120/7700, and the continued strong demand for the ColorQube™.

High−end

- 8% decrease in installs of high−end black−and−white systems, reflecting declines across most product areas.
- 26% increase in installs of high−end color systems, reflecting strong demand for the recently launched Xerox Color 800 and 1000.

Install activity percentages include installations for document outsourcing and the Xerox−branded product shipments to GIS. Descriptions of “Entry,” “Mid−range,” and “High−end” can be found in Note 2 – Segment Reporting in the Consolidated Financial Statements.

Revenue 2009
Technology revenue of $10,067 million decreased 14%, including a 3−percentage point negative impact from currency. Total revenue included the following:

- 23% decrease in equipment sales revenue, with a 2−percentage point negative impact from currency. The decline reflects lower installs driven by the weak economic environment during the year and delays in customer spending on technology.
- 9% decrease in post sale revenue, with a 3−percentage point negative impact from currency, reflecting lower page volumes and supplies primarily as a result of the weak economic environment.
- Technology revenue mix was 21% entry, 56% mid−range and 23% high−end.

Segment Profit 2009
Technology profit of $949 million decreased $339 million from 2008. The decrease is primarily the result of lower gross profit reflecting decreased revenue partially offset by lower costs and expenses reflecting the benefits from restructuring and favorable currency.

Installs 2009

Entry

- 40% decrease in installs of A4 black−and white multifunction devices primarily reflecting lower activity in developing markets.
- 22% decrease in installs of A4 color multifunction devices driven by lower overall demand.
- 34% decrease in installs of color printers due to lower demand and lower sales to OEM partners.

Mid−range

- 31% decrease in installs of mid−range black−and−white devices.
- 19% decrease in installs of mid−range color devices driven by lower overall demand which more than offset the impact of new products including the ColorQube and a mid−range version of the Xerox® 700.

High−end

- 29% decrease in installs of high−end black−and−white systems reflecting declines in all product areas.
- 37% decrease in installs of high−end color systems as entry production color declines were partially offset by increased iGen4 installs.

Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Document Outsourcing (“DO”) and Information Technology Outsourcing (“ITO”).

Services total revenue and segment profit for the year ended December 31, 2010 increased 177% and 390%, respectively, primarily due to the inclusion of ACS. Since these comparisons are not meaningful, results for the Services segment are primarily discussed on a pro−forma basis, with ACS’s 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See “Non−GAAP Financial Measures” section for discussion of this non−GAAP measure).

Revenue 2010
Services revenue of $9,637 million increased 177%, or 3% on a pro−forma[(1)] basis, including a negligible impact from currency.

- BPO delivered pro−forma[(1)] revenue growth of 8% and represented 53% of total services revenue. BPO growth was driven by healthcare services, customer care, transportation solutions, healthcare payer services and 2010 acquisitions.
- DO revenue decreased 3%, including a negligible impact from currency, and represented 34% of total services revenue. The decrease primarily reflects the continued impact of the weak economy on usage levels and renewal rates.
- ITO revenue was flat on a pro−forma[(1)] basis and represented 13% of total services revenue.

Segment Profit 2010
Services operating profit of $1,132 million increased $901 million or $124 million on a pro−forma[(1)] basis from 2009, driven primarily by BPO growth and lower G&A expenses.

Metrics

Pipeline
Our BPO and ITO revenue pipeline including synergy opportunities grew 25% over the fourth quarter 2009. The sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that could potentially be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of $100 million. The DO sales pipeline grew approximately 17% over the fourth quarter 2009. The DO sales pipeline includes all active deals with $10 million or greater in TCV.

Signings
Signings ("Signings") are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Services signings were an estimated $14.6 billion in TCV in 2010 and increased 13% as compared to the comparable prior year period. TCV represents estimated total revenue for future contracts for pipeline or signed contracts for signings as applicable.

Signings were as follows:

(in billions)	Year Ended December 31, 2010	
BPO	$	10.0
DO		3.3
ITO		1.3
Total Signings	$	14.6

Signings growth was driven by strong signings in both our BPO and DO businesses. In 2010 we signed significant new business in the following areas:

- Child support payment processing
- Commercial healthcare
- Customer care
- Electronic payment cards
- Enterprise print services
- Government healthcare
- Telecom and hardware services
- Transportation

Revenue 2009
Services revenue of $3,476 million decreased 9% including a 2−percentage point negative impact from currency. Services revenue for 2009 and 2008 primarily reflects revenue from DO services. The decrease in revenue is primarily due to lower usage primarily in black−and−white devices.

Segment Profit 2009
Services operating profit of $231 million decreased $71 million from 2008. The decrease was primarily due to lower gross profit reflecting a decrease in revenues partially offset by lower cost and expenses reflecting benefits from restructuring and favorable currency.

Other

Revenue 2010
Other revenue of $1,647 million increased 1%, including a negligible impact from currency. Increases in GIS's network integration and electronic presentation systems and Wide Format sales offset a decline in paper sales. Paper comprised approximately 58% of the Other segment revenue.

Segment Loss 2010
Other segment loss of $342 million was flat with 2009 as higher gross profit reflecting an increase in gross margins from the mix of revenues was partially offset by higher interest expense associated with funding for the ACS acquisition.

Revenue 2009
Other revenue of $1,636 million decreased 21%, including a 2−percentage point negative impact from currency, primarily driven by declines in revenue from paper, wide format systems and licensing and royalty arrangements. Paper comprised approximately 60% of the Other segment revenue.

Segment Loss 2009
Other operating loss of $342 million increased $97 million from 2008, primarily due to lower revenue, as well as lower interest and equity income.

(1) Refer to the "Non−GAAP Financial Measures" section for an explanation of the Pro−forma non−GAAP financial measure.

Costs, Expenses and Other Income

Gross Margin

Gross margins by revenue classification were as follows:

	Year Ended December 31,			Change		Pro−forma[1] Change
	2010	2009	2008	2010	2009	2010
Sales	34.5%	33.9%	33.7%	0.6pts	0.2pts	1.1pts
Service, outsourcing and rentals	33.1%	42.6%	41.9%	(9.5)pts	0.7pts	(0.7)pts
Finance income	62.7%	62.0%	61.8%	0.7pts	0.2pts	0.7pts
Total Gross Margin	34.4%	39.7%	38.9%	(5.3)pts	0.8pts	(0.2)pts

Gross Margin 2010
The 2010 total gross margin decreased 5.3−percentage points, and service, outsourcing and rentals gross margin decreased 9.5−percentage points, on an actual basis primarily due to the ACS acquisition. ACS, as a services based company, had a lower gross margin as compared to a technology based company, which typified Xerox before the acquisition. Since actual comparisons are not meaningful, gross margins for these two categories are primarily discussed below on a pro−forma basis with ACS's 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See "Non−GAAP Financial Measures" section for a further discussion of this non−GAAP measure).

- **Total gross margin** decreased 5.3−percentage points or 0.2−percentage points on a pro−forma [1] basis, as compared to 2009. The decline was primarily due to the unfavorable impact of year−over−year transaction currency.
- **Sales gross margin** increased 0.6−percentage points or 1.1−percentage points on a pro−forma [1] basis, as compared to 2009. Cost improvements and positive mix more than offset a 0.5−percentage point adverse impact from transaction currency and price declines of about 1−percentage points.
- **Service, outsourcing and rentals gross margin** decreased 9.5−percentage points or 0.7−percentage points on a pro−forma [1] basis, as compared to 2009 as price declines and the higher rate of growth in lower margin BPO revenue were only partially offset by cost improvements.
- **Financing income gross margin** of 62.7% remained comparable to 2009.

Since a large portion of our inventory is procured from Japan, the strengthening of the Yen versus the U.S. Dollar and Euro in 2010 and 2009 has significantly impacted our product costs. In 2010, the Yen strengthened approximately 6% against the U.S. Dollar and 10% against the Euro as compared to 2009. In 2009, the Yen strengthened approximately 10% against the U.S. Dollar and 15% against the Euro as compared to 2008. We expect product costs and gross margins to continue to be negatively impacted in 2011, particularly in the first half, if Yen exchange rates remain at January 2011 levels.

(1) Refer to the "Non−GAAP Financial Measures" section for an explanation of the Pro−forma non−GAAP financial measure.

Gross Margin 2009

- **Total gross margin** increased 0.8−percentage points compared to 2008 primarily driven by cost improvements, enabled by restructuring and our cost actions, which were partially offset by the 0.5−percentage point unfavorable impact of transaction currency, primarily the Yen, and price declines of 1.0−percentage points.
- **Sales gross margin** increased 0.2−percentage points primarily due to the cost improvements and the positive mix of revenues partially offset by the adverse impact of transaction currency on our inventory purchases of 1.0−percentage point and price declines of 1.2−percentage points.
- **Service, outsourcing and rentals margin** increased 0.7−percentage points primarily due to the positive impact from the reduction in costs driven by our restructuring and cost actions of 1.5−percentage points. These cost improvements more than offset the approximate 0.9−percentage points impact of pricing.
- **Financing income margin** of 62% remained comparable to 2008.

Research, Development and Engineering Expenses ("RD&E")

We invest in technological research and development, particularly in color, software and services. We believe our R&D spending is sufficient to remain technologically competitive. Our R&D is strategically coordinated with that of Fuji Xerox.

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009	Pro−forma[1] Change 2010
R&D	$ 653	$ 713	$ 750	$ (60)	$ (37)	$ (60)
Sustaining Engineering	128	127	134	1	(7)	1
Total RD&E Expenses	$ 781	$ 840	$ 884	$ (59)	$ (44)	$ (59)
RD&E % Revenue	3.6%	5.5%	5.0%	(1.9)pts	0.5pts	(0.4)pts
R&D Investment by Fuji Xerox[2]	$ 821	$ 796	$ 788	$ 25	$ 8	n/a

(1) Refer to the "Non−GAAP Financial Measures" section for an explanation of the Pro−forma non−GAAP financial measure.
(2) Increase in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E 2010: The decrease in RD&E spending for 2010 primarily reflects the savings from restructuring and productivity improvements.

RD&E 2009: The decrease in RD&E spending for 2009 reflects our restructuring and cost actions which consolidated the development and engineering infrastructures within our Technology segment.

Selling, Administrative and General Expenses ("SAG")

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009	Pro−forma[1] Change 2010
Total SAG	$ 4,594	$ 4,149	$ 4,534	$ 445	$ (385)	$ (57)
SAG as a % of revenue	21.2%	27.3%	25.7%	(6.1)pts	1.6pts	(0.9)pts
Bad Debt Expense	$ 188	$ 291	$ 188	$ (103)	$ 103	$ (108)
Bad Debt as a % of revenue	0.9%	1.9%	1.1%	(1.0)pts	0.8pts	(0.5)pts

(1) Refer to the "Non−GAAP Financial Measures" section for an explanation of the Pro−forma non−GAAP financial measure.

SAG 2010

SAG as a percent of revenue decreased 6.1−percentage points on an actual basis primarily due to the ACS acquisition. ACS, as a typical service based company, had lower SAG as a percent of revenue as compared to a technology based company, which typified Xerox before the acquisition. Since actual comparisons are not meaningful, SAG is primarily discussed on a pro−forma basis, with ACS's 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See "Non−GAAP Financial Measures" section for additional discussion of this non−GAAP measure).

SAG of $4,594 million was $445 million higher than 2009, or $57 million lower on a pro−forma [(1)] basis, including a negligible impact from currency. The pro−forma[(1)] SAG decrease reflects the following:

- $137 million increase in selling expenses, reflecting increased demand generation and brand advertising and higher commissions partially offset by restructuring savings and productivity improvements.
- $86 million decrease in general and administrative expenses, reflecting benefits from restructuring and operational improvements.
- $108 million decrease in bad debt expense, reflecting an improving write−off trend.

SAG 2009

SAG of $4,149 million was $385 million lower than 2008, including a $126 million benefit from currency. The SAG decrease was the result of the following:

- $311 million decrease in selling expenses, reflecting favorable currency; benefits from restructuring, an overall reduction in marketing spend and lower commissions.
- $177 million decrease in general and administrative expenses, reflecting favorable currency and benefits from restructuring and cost actions partially offset by higher compensation accruals.
- $103 million increase in bad debt expense, reflecting increased write−offs in North America and Europe.

Summary Costs and Expenses

The following is a summary of key metrics used to assess our performance:

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009	Pro−forma[(1)] Change 2010
Total Gross Margin	34.4%	39.7%	38.9%	(5.3)pts	0.8pts	(0.2)pts
RD&E % of revenue	3.6%	5.5%	5.0%	(1.9)pts	0.5pts	(0.4)pts
SAG % of revenue	21.2%	27.3%	25.7%	(6.1)pts	1.6pts	(0.9)pts
Operating Margin[(1)]	9.6%	6.8%	8.4%	2.8pts	(1.6)pts	1.0pts
Pre−tax income (loss) margin	3.8%	4.1%	(0.4)%	(0.3)pts	4.5pts	(2.2)pts

(1) See the “Non−GAAP Measures” section for additional information.

As previously noted, the acquisition of ACS increased the proportion of revenues from Services. Consistent with Services companies, this portion of our operations has a lower gross margin than our Technology segment, but also has both, lower SAG and R&D as a percent of revenue. Accordingly, in 2010 we began to assess our performance using an operating margin metric, which neutralizes this mix differential. Operating margin is an internal measurement metric and represents gross margin minus RD&E percentage of revenue and SAG percentage of revenue. (Refer to the “Non−GAAP Financial Measures” section for further information and the reconciliation of operating margin to pre−tax income (loss) margin).

During 2010, operating margin increased 2.8−percentage points or 1.0−percentage−points on a pro−forma [(1)] basis, as compared to 2009. The improvement reflects strong revenue growth and continued disciplined cost and expense management. During 2009, operating margin decreased 1.6−percentage points largely due to lower revenue as a result of the worldwide recession as well as the negative effects of currency on our product costs, which were only partially offset by savings from prior year restructuring actions.

Restructuring and Asset Impairment Charges

2010 Activity

During 2010 we recorded $483 million of net restructuring and asset impairment charges which included the following:

- $470 million of severance costs related to headcount reductions of approximately 9,000 employees. The costs associated with these actions applied about equally to North America and Europe, with approximately 20% related to our developing market countries. Approximately 50% of the costs were focused on gross margin improvements, 40% on SAG and 10% on the optimization of RD&E investments and impacted the following functional areas:
  - Services
  - Supply chain and manufacturing
  - Back office administration
  - Development and engineering
- $28 million for lease termination costs primarily reflecting the continued rationalization and optimization of our worldwide operating locations, including consolidations with ACS.
- $19 million loss associated with the sale of our Venezuelan subsidiary. The loss primarily reflects the write−off our Venezuelan net assets including working capital and long−lived assets. We will continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but will no longer have any direct or local operations in Venezuela. The sale of our operations and change in business model follows a decision by management in the fourth quarter 2010 to reduce the Company's future exposure and risk associated with operating in this unpredictable economy.

The above charges were partially offset by $41 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2011 pre−tax savings of approximately $270 million from our 2010 restructuring actions and approximately $475 million of annualized savings once all actions are fully implemented.

2009 Activity

Restructuring activity was minimal in 2009, and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2008 Activity

During 2008, we recorded $357 million of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in North America and Europe. Focus areas for these actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources and training;
- Capturing efficiencies in technical services, managed services and supply chain and manufacturing infrastructure; and
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of $19 million and asset impairment charges of $53 million. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

Restructuring Summary

The restructuring reserve balance as of December 31, 2010, for all programs was $323 million, of which approximately $309 million is expected to be spent over the next twelve months. Refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Acquisition−Related Costs

Costs of $77 million were incurred during 2010 in connection with our acquisition of ACS. These costs include $53 million of transaction costs, which represent external costs directly related to completing the acquisition of ACS and primarily include expenditures for investment banking, legal, accounting and other similar services. Legal costs include costs associated with the ACS shareholders litigation which was settled in 2010. The remainder of the acquisition−related costs represents external incremental costs directly related to the integration of ACS and Xerox. These costs include expenditures for consulting, systems integration, corporate communication services and the consolidation of facilities as well as the expense associated with the performance shares that were granted to ACS management in connection with existing change−in−control agreements.

Costs of $72 million were incurred during 2009, in connection with our acquisition of ACS. $58 million of the costs relate to the write−off of fees associated with the Bridge Loan Facility commitment which was terminated as a result of securing permanent financing to fund the acquisition. The remainder of the costs represents transaction costs such as banking, legal and accounting fees, as well as some pre−integration costs such as external consulting services.

Amortization of Intangible Assets

During 2010, we recorded $312 million for the amortization of intangibles assets, which was $252 million higher than 2009. The increase primarily reflects the amortization of intangibles associated with our acquisition of ACS. Refer to Note 3 – Acquisitions in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Amortization of intangibles was $60 million in 2009 which was an increase of $6 million over 2008 primarily as a result of the full−year amortization of the assets acquired as part of our acquisitions in 2008.

Worldwide Employment

Worldwide employment of 136,500 as of December 31, 2010 increased approximately 83,000 from December 31, 2009, primarily due to the additional headcount related to the ACS acquisition partially offset by restructuring reductions. Worldwide employment was approximately 53,600 and 57,100 at December 31, 2009 and 2008, respectively.

Other Expenses, Net

Other expenses, net for the three years ended December 31, 2010 were as follows:

(in millions)	2010	2009	2008
Non−financing interest expense	$ 346	$ 256	$ 262
Interest income	(19)	(21)	(35)
Gain on sales of businesses and assets	(18)	(16)	(21)
Currency losses, net	11	26	34
ACS shareholders litigation settlement	36	—	—
Litigation matters	(4)	9	781
Loss on early extinguishment of debt	15	—	—
All Other expenses, net	22	31	12
Total Other Expenses, Net	$ 389	$ 285	$ 1,033

Non−financing interest expense: 2010 non−financing interest expense of $346 million increased $90 million from 2009 due to higher average debt balances, primarily resulting from the funding of the ACS acquisition, partially offset by the early extinguishment of certain debt instruments as well as the scheduled repayments of other debt.

In 2009 non−financing interest expense decreased compared to 2008, as interest expense associated with our $2.0 billion Senior Note offering for the funding of the ACS acquisition was more than offset by lower interest rates on the remaining debt.

Interest income: Interest income is derived primarily from our invested cash and cash equivalent balances. The decline in interest income in 2010 and 2009 was primarily due to lower average cash balances and rates of return.

Gain on sales of businesses and assets: Gains on sales of business and assets primarily consisted of the sales of certain surplus facilities in Latin America.

Currency losses, net: Currency losses primarily result from the re−measurement of foreign currency−denominated assets and liabilities, the cost of hedging foreign currency−denominated assets and liabilities, the mark−to−market of foreign exchange contracts utilized to hedge those foreign currency−denominated assets and liabilities and the mark−to−market impact of hedges of anticipated transactions, primarily future inventory purchases, for those that we do not apply cash flow hedge accounting treatment.

The 2010 net currency losses were primarily due to the currency devaluation in Venezuela. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the U.S. Dollar for a majority of our products. As a result of this devaluation, we recorded a currency loss of $21 million in the first quarter of 2010 for the re−measurement of our net Bolivar−denominated monetary assets. This loss was partially offset by a cumulative translation gain of $6 million that was recognized upon the repatriation of cash and liquidation of a foreign subsidiary.

The 2009 net currency losses were primarily due to the significant movement in exchange rates among the U.S. Dollar, Euro and Yen in the first quarter of 2009, as well as the increased cost of hedging, particularly in developing markets.

The 2008 currency losses were primarily due to net re−measurement losses associated with our Yen−denominated payables, foreign currency−denominated assets and liabilities in our developing markets and the cost of hedging. The currency losses on Yen−denominated payables were largely limited to the first quarter 2008 as a result of the significant and rapid weakening of the U.S. Dollar and Euro versus the Yen.

ACS Shareholders' Litigation Settlement: Represents litigation expense of $36 million for the settlement of claims by ACS shareholders arising from our acquisition of ACS. The total settlement for all defendants was approximately $69 million, with Xerox paying approximately $36 million net of insurance proceeds.

Litigation matters: The 2010 and 2009 amounts for litigation matters primarily relate to changes in estimated probable losses for various legal matters.

In 2008 legal matters consisted of the following:

- $721 million reflecting provisions for the $670 million court approved settlement of *Carlson v. Xerox Corporation* and other pending securities−related cases, net of insurance recoveries.
- $36 million for probable losses on Brazilian labor−related contingencies. Following an assessment of the most recent trend in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of $36 million in the fourth quarter of 2008.
- $24 million associated with probable losses from various other legal matters.

Refer to Note 17 – Contingencies in the Consolidated Financial Statements for additional information regarding litigation against the Company.

All other expenses, net: All Other expenses in 2010 decreased primarily due to lower interest expense on the Brazil tax and labor contingencies.

All Other expenses, net in 2009 were $19 million higher than 2008, primarily due to fees associated with the sale of receivables, as well as an increase in interest expense related to Brazil tax and labor contingencies.

Income Taxes

	Year Ended December 31,								
	2010			2009			2008		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported	$ 815	$ 256	31.4%	$ 627	$ 152	24.2%	$ (79)	$ (231)	292.4%
Adjustments:									
Xerox restructuring charge[1]	483	166		(8)	(3)		426	134	
Acquisition-related costs	77	19		72	23		—	—	
Amortization of intangible assets	312	118		60	22		54	19	
Venezuela devaluation costs	21	—		—	—		—	—	
Medicare subsidy tax law change	—	(16)		—	—		—	—	
Equipment write-off	—	—		—	—		39	15	
Provision for securities litigation	—	—		—	—		774	283	
ACS shareholders' litigation settlement	36	—		—	—		—	—	
Loss on early extinguishment of debt	15	5		—	—		—	41	
Adjusted[2]	$ 1,759	$ 548	31.2%	$ 751	$ 194	25.8%	$ 1,214	$ 261	21.5%

The 2010 effective tax rate was 31.4%, or 31.2%[2] on an adjusted basis, which was lower than the U.S. statutory rate primarily due to the geographical mix of income before taxes and the related effective tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income and tax law changes.

The 2009 effective tax rate was 24.2%, or 25.8%[2] on an adjusted basis, which was lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the settlement of certain previously unrecognized tax benefits partially offset by a reduction in the utilization of foreign tax credits.

The 2008 effective tax rate was 292.4%, or 21.5%[2] on an adjusted basis, which was lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions, the utilization of foreign tax credits and tax law changes.

Our effective tax rate will change based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the U.S. tax impacts on certain foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable. We anticipate that our effective tax rate for 2011 will be approximately 31%, excluding the effects of any discrete events.

Refer to Note 16 – Income and Other Taxes in the Consolidated Financial Statements for additional information.

(1) Income tax benefit from restructuring in 2010 includes a $19 million benefit from the sale of our Venezuelan operations.
(2) See the "Non−GAAP Measures" section for additional information.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31, 2010	2009	2008
Total equity in net income of unconsolidated affiliates	$ 78	$ 41	$113
Fuji Xerox after−tax restructuring costs[1]	38	46	16

(1) Represents our 25% share of Fuji Xerox after−tax restructuring costs. Amounts are included in Total equity in net income of unconsolidated affiliates.

Equity in net income of unconsolidated affiliates primarily reflects our 25% share in Fuji Xerox.

The 2010 increase of $37 million from 2009 was primarily due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements, as well as lower restructuring costs.

The 2009 decrease of $72 million from 2008 was primarily due to Fuji Xerox's lower net income, which was negatively impacted by the weakness in the worldwide economy, as well as $46 million related to our share of Fuji Xerox after−tax restructuring costs.

Recent Accounting Pronouncements

Refer to Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial condition.

Capital Resources and Liquidity

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2010, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009
Net cash provided by operating activities	$ 2,726	$ 2,208	$ 939	$ 518	$ 1,269
Net cash used in investing activities	(2,178)	(343)	(441)	(1,835)	98
Net cash (used in) provided by financing activities	(3,116)	692	(311)	(3,808)	1,003
Effect of exchange rate changes on cash and cash equivalents	(20)	13	(57)	(33)	70
(Decrease) increase in cash and cash equivalents	(2,588)	2,570	130	(5,158)	2,440
Cash and cash equivalents at beginning of year	3,799	1,229	1,099	2,570	130
Cash and Cash Equivalents at End of Year	$ 1,211	$ 3,799	$ 1,229	$ (2,588)	$ 2,570

Cash Flows from Operating Activities

Net cash provided by operating activities was $2,726 million for the year ended December 31, 2010 and includes $113 million of cash outflows for acquisition related expenditures. The $518 million increase in cash from 2009 was primarily due to the following:

- $1,173 million increase in pre−tax income before depreciation and amortization, stock−based compensation, litigation, restructuring and the Venezuelan currency devaluation.
- $458 million increase due to higher accounts payable and accrued compensation primarily related to higher inventory purchases and the timing of accounts payable payments as well as increased compensation, benefit and other accruals.
- $141 million increase primarily from the early termination of certain interest rate swaps.
- $57 million increase due to lower restructuring payments.
- $470 million decrease as a result of higher inventory levels reflecting increased activity.
- $367 million decrease due to an increase in accounts receivable, net of collections of deferred proceeds from the sale of receivables, primarily as a result of higher revenues and a lower impact from receivable sales.
- $216 million decrease as a result of up−front costs and other customer related spending associated with our services contracts.
- $140 million decrease due to higher finance receivables of $119 million and equipment on operating leases of $21 million both reflective of increased equipment placements.
- $115 million decrease primarily due to higher contributions to our U.S. pension plans. No contributions were made in 2009 to our U.S. pension plans due to the availability of prior years' credit balances.

Net cash provided by operating activities was $2,208 million for the year ended December 31, 2009. The $1,269 million increase in cash from 2008 was primarily due to the following:

- $587 million increase due to the absence of payments for securities−related litigation settlements.
- $433 million increase as a result of lower inventory levels reflecting aggressive supply chain actions in light of lower sales volume.
- $410 million increase from accounts receivables reflecting the benefits from sales of accounts receivables, lower revenue and strong collection effectiveness.
- $177 million increase due to lower contributions to our defined pension benefit plans. The lower contributions are primarily in the U.S., as no contributions were required due to the availability of prior years' credit balances.
- $116 million increase due to lower net tax payments.
- $84 million increase due to higher net run−off of finance receivables.
- $64 million increase due to lower placements of equipment on operating leases, reflecting lower install activity.
- $440 million decrease in pre−tax income before litigation, restructuring and acquisition costs.
- $139 million decrease due to higher restructuring payments related to prior years' actions.
- $54 million decrease due to lower accounts payable and accrued compensation, primarily related to lower purchases and the timing of payments to suppliers.

Cash Flows from Investing Activities

Net cash used in investing activities was $2,178 million for the year ended December 31, 2010. The $1,835 million increase in the use of cash from 2009 was primarily due to the following:

- $1,571 million increase primarily due to the acquisitions of ACS for $1,495 million, EHRO for $125 million, TMS Health for $48 million, IBS for $29 million, Georgia for $21 million and Spur for $12 million.
- $326 million increase due to higher capital expenditures (including internal use software) primarily as a result of the inclusion of ACS in 2010.
- $35 million decrease due to higher cash proceeds from asset sales.

Net cash used in investing activities was $343 million for the year ended December 31, 2009. The $98 million decrease in the use of cash from 2008 was primarily due to the following:

- $142 million decrease due to lower capital expenditures (including internal use software), reflecting very stringent spending controls.
- $21 million increase due to lower cash proceeds from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was $3,116 million for the year ended December 31, 2010. The $3,808 million decrease in cash from 2009 was primarily due to the following:

- $3,980 million decrease due to net debt activity. 2010 includes the repayments of $1,733 million of ACS's debt on the acquisition date, $950 million of Senior Notes, $550 million early redemption of the 2013 Senior Notes, net payments of $110 million on other debt and $14 million of debt issuance costs for the bridge loan facility commitment, which was terminated in 2009. These payments were offset by net proceeds of $300 million from Commercial Paper issued under a program we initiated during the fourth quarter 2010. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short−term borrowings and $44 million of debt issuance costs for the Bridge Loan Facility commitment which was terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009.
- $66 million decrease, reflecting dividends on an increased number of outstanding shares as a result of the acquisition of ACS.
- $182 million increase due to proceeds from the issuance of common stock primarily as a result of the exercise of stock options issued under the former ACS plans as well as the exercise of stock options from several expiring grants.
- $58 million increase from lower net repayments on secured debt.

Net cash provided by financing activities was $692 million for the year ended December 31, 2009. The $1,003 million increase in cash from 2008 was primarily due to the following:

- $812 million increase because no purchases were made under our share repurchase program in 2009.
- $170 million increase from lower net repayments on secured debt.
- $21 million increase due to lower share repurchases related to employee withholding taxes on stock−based compensation vesting.
- $3 million decrease due to lower net debt proceeds. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short−term borrowings and $44 million of debt issuance costs for the Bridge Loan Facility commitment which was terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009. 2008 reflects the issuance of $1.4 billion in Senior Notes, $250 million in Zero Coupon Notes and net payments of $354 million on the Credit Facility and $370 million on other debt.

ACS Acquisition

On February 5, 2010 we acquired all of the outstanding equity of ACS in a cash−and−stock transaction valued at approximately $6.2 billion, net of cash acquired. The consideration transferred to acquire ACS was as follows:

(in millions)	February 5, 2010
Xerox common stock issued	$ 4,149
Cash consideration, net of cash acquired	1,495
Value of exchanged stock options	168
Series A convertible preferred stock	349
Net Consideration – Cash and Non−cash	$ 6,161

In addition, we also repaid $1.7 billion of ACS's debt at acquisition and assumed an additional $0.6 billion.

Refer to Note 3 – Acquisitions, in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Financing Activities, Credit Facility and Capital Markets

Customer Financing Activities

We provide lease equipment financing to the majority of our customers primarily in our Technology segment. Our lease contracts permit customers to pay for equipment over time rather than at the date of installation. Our investment in these contracts is reflected in Total finance assets, net. We currently fund our customer financing activity through cash generated from operations, cash on hand, borrowings under bank credit facilities and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically through GIS, where third−party financial institutions independently provide lease financing, on a non−recourse basis to Xerox, directly to our customers. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the unrelated third−party finance receivable and debt are not included in our Consolidated Financial Statements.

The following represents our investment in lease contracts as of December 31:

(in millions)	2010	2009
Total Finance receivables, net [1]	$ 6,620	$ 7,027
Equipment on operating leases, net	530	551
Total Finance Assets, net	$ 7,150	$ 7,578

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in the Consolidated Balance Sheets as of December 31, 2010 and 2009.

$134 million of the $428 million decrease in Total finance assets, net is due to currency.

We maintain a certain level of debt, referred to as financing debt, in order to support our investment in our lease contracts. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets for this financing aspect of our business. Based on this leverage, the following represents the breakdown of Total debt between financing debt and core debt as of December 31:

(in millions)	2010	2009
Financing debt [1]	$ 6,256	$ 6,631
Core debt	2,351	2,633
Total Debt	$ 8,607	$ 9,264

(1) Financing debt includes $5,793 million and $6,149 million as of December 2010 and 2009, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of “equipment financing interest” expense. The remainder of the financing debt is associated with Equipment on operating leases.

The following summarizes our debt as of December 31:

(in millions)	2010	2009
Principal debt balance [1]	$ 8,380	$ 9,122
Net unamortized discount	(1)	(11)
Fair value adjustments	228	153
Total Debt	8,607	9,264
Less: Current maturities and short−term debt [1]	(1,370)	(988)
Total Long−term Debt [1]	$ 7,237	$ 8,276

(1) December 31, 2010 includes Commercial Paper of $300 million.

Sales of Accounts Receivable

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third−parties, on an on−going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short−term trade receivables with payment due dates of less than 60 days. Accounts receivable sales were as follows:

(in millions)	Year Ended December 31, 2010	2009	2008
Accounts receivable sales	$ 2,374	$ 1,566	$ 717
Deferred proceeds	307	—	—
Fees associated with sales	15	13	4
Estimated increase on operating cash flows[(1)]	106	309	51

(1) Represents the difference between current and prior year fourth quarter accounts receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the year and (iii) currency.

Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for additional information.

Financial Instruments

Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs

Refer to Note 19 – Shareholders' Equity – "Treasury Stock" in the Consolidated Financial Statements for additional information regarding our share repurchase programs.

Dividends

The Board of Directors declared aggregate dividends of $243 million and $152 million on common stock in 2010 and 2009, respectively. The increase in 2010 is primarily due to the common stock issued in connection with the ACS acquisition.

The Board of Directors declared aggregate dividends of $21 million on the Series A Convertible Preferred Stock in 2010. The preferred shares were issued in connection with the acquisition of ACS.

Refer to Note 3 – Acquisitions, in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Capital Market Activity

In 2010, we redeemed our $550 million 7.625% Senior Notes due in 2013. We incurred a loss on extinguishment of approximately $15 million, representing the call premium of approximately $7 million, as well as the write−off of unamortized debt costs of $8 million.

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding 2010 Debt activity.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and access to capital markets. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access to financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following is a discussion of our liquidity position as of December 31, 2010:

- Total cash and cash equivalents was $1.2 billion and there were no outstanding borrowings or letters of credit under our $2 billion Credit Facility. The Credit Facility provides backup for our Commercial Paper ("CP") borrowings which amounted to $300 million at December 31, 2010.
- In October 2010, Xerox's Board of Directors authorized the company to issue Commercial Paper ("CP"), a liquidity vehicle that the Company has not used for several years. Aggregate CP and Credit Facility borrowings may not exceed $2 billion outstanding at any time. Under the company's private placement CP program as of December 31, 2010, we could issue CP up to a maximum amount of $1 billion. In February 2011 this amount was increased to $2 billion to be consistent with the Board authorization.
- Over the past three years we have consistently delivered strong cash flow from operations, driven by the strength of our annuity−based revenue model. Cash flows from operations were $2,726 million, $2,208 million and $939 million for the years ended December 31, 2010, 2009 and 2008, respectively. Cash flows from operations in 2008 included $615 million in net payments for securities litigation.
- Our principal debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows and includes $300 million of Commercial Paper in 2011 (in millions):

Year	Amount
2011	$ 1,370
2012	1,126
2013	412
2014	771
2015	1,251
2016	950
2017	501
2018	1,001
2019	650
2020 and thereafter	348
Total Debt	$ 8,380

Loan Covenants and Compliance

At December 31, 2010, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to prepay outstanding loans or to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2010, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2011	2012	2013	2014	2015	Thereafter
Total debt, including capital lease obligations [1]	$ 1,370	$ 1,126	$ 412	$ 771	$ 1,251	$ 3,450
Minimum operating lease commitments [2]	669	486	337	171	118	106
Liability to subsidiary trust issuing preferred securities [3]	—	—	—	—	—	650
Defined benefit pension plans	500	—	—	—	—	—
Retiree health payments	87	86	85	85	84	396
Estimated Purchase Commitments:						
Flextronics [4]	670	—	—	—	—	—
Fuji Xerox [5]	2,100	—	—	—	—	—
HPES Contracts [6]	69	23	6	—	—	—
Other IM service contracts [7]	150	140	122	89	12	36
Other [8]	7	7	1	—	—	—
Other Commitments [9]:						
Surety Bonds	636	20	7	1	1	1
Letters of Credit	96	15	—	4	—	155
Total	$ 6,354	$ 1,903	$ 970	$ 1,121	$ 1,466	$ 4,794

(1) Refer to Note 11 − Debt in the Consolidated Financial Statements for additional information and interest payments related to total debt. Amounts above include principal portion only and $300 million of Commercial Paper in 2011.
(2) Refer to Note 6 − Land, Buildings and Equipment, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.
(3) Refer to Note 12 − Liability to Subsidiary Trust Issuing Preferred Securities in the Consolidated Financial Statements for additional information and interest payments (amounts above include principal portion only).
(4) Flextronics: We outsource certain manufacturing activities to Flextronics and are currently in the first of two one−year extensions of the Master Supply Agreement. The term of this agreement is three years, with two additional one year extension periods. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
(5) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
(6) HPES contract: We have an information management contract with HP Enterprise Services (“HPES”) legal successor to Electronic Data Systems Corp. through March 2014. Services to be provided under this contract include support for European mainframe system processing, as well as workplace, service desk, voice and data network management. Although the HPES contract runs through March 2014, we may choose to transfer some of the services to internal Xerox providers before the HPES contract ends. There are no minimum payments required under this contract. The amounts disclosed in the table reflect our estimate of minimum payments for the periods shown. We can terminate the contract for convenience by providing sixty day’s prior notice without paying a termination fee. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the HPES contract.
(7) IM (“Information Management”) services: During 2010 and 2009, we terminated certain information management services provided under the HPES contract. Terminated services were either discontinued or we entered into new agreements for similar services with other providers. Services provided under these contracts include mainframe application processing, development and support; and mid−range applications processing and support. The contracts have various terms through 2015. Some of the contracts require minimum payments and require early termination penalties. The amounts disclosed in the table reflect our estimate of minimum payments.
(8) Other purchase commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.
(9) Certain contracts, primarily governmental, require surety bonds or letters of credit as guarantee of performance. Generally these commitments have one year terms which are typically renewed annually. Refer to Note 17—Contingencies in the Consolidated Financial Statements for additional information.

Pension and Other Post−retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2010 contributions for these plans were $237 million for our defined benefit pension plans and $92 million for our retiree health plans. In 2011 we expect, based on current actuarial calculations, to make contributions of approximately $500 million to our worldwide defined benefit pension plans and approximately $90 million to our retiree health benefit plans. Contributions to our defined benefit pension plans have increased from the prior year due to a decrease in the discount rate, prior years' investment performance as well as the requirement in the U.S. to make quarterly contributions for the current plan year. Contributions in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes. We currently expect contributions to our defined benefit pension plans to decline in years subsequent to 2011.

Our retiree health benefit plans are non−funded and are almost entirely related to domestic operations. Cash contributions are made each year to cover medical claims costs incurred during the year. The amounts reported in the above table as retiree health payments represent our estimate of future benefit payments.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling $2.1 billion, $1.6 billion and $2.1 billion in 2010, 2009 and 2008, respectively. Our purchase commitments with Fuji Xerox are entered into in the normal course of business and typically have a lead time of three months. Related party transactions with Fuji Xerox are discussed in Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2010, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,274 million, with the increase from the December 31, 2009 balance of $1,225 million primarily related to currency and current year interest indexation partially offset by matters that have been closed. With respect to the unreserved balance of $1,274 million, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2010 we had $276 million of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $19 million and additional letters of credit of approximately $160 million. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 17 – Contingencies in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Should developments in any of these areas cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Unrecognized Tax Benefits

As of December 31, 2010, we had $186 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off−Balance Sheet Arrangements

Although we rarely utilize off−balance sheet arrangements in our operations, we enter into operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 6 – Land, Buildings and Equipment, Net in the Consolidated Financial Statements. In addition, we have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third−parties, on an on−going basis, certain accounts receivable without recourse. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further additional information.

See the table above for the Company’s contractual cash obligations and other commercial commitments and Note 17 – Contingencies in the Consolidated Financial Statements for additional information regarding our guarantees, indemnifications and warranty liabilities.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilized derivative financial instruments to hedge economic exposures, as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events have not caused us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2010, the potential change in the fair value of foreign currency−denominated assets and liabilities in each entity would not be significant because all material currency asset and liability exposures were economically hedged as of December 31, 2010. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2010 would have a $528 million impact on our cumulative translation adjustment portion of equity. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox do Brasil, and translated into U.S. Dollars using the year−end exchange rates, was $5.3 billion at December 31, 2010.

Interest Rate Risk Management

The consolidated weighted−average interest rates related to our total debt and liability to subsidiary trust issuing preferred securities for 2010, 2009 and 2008 approximated 5.8%, 6.1%, and 6.6%, respectively. Interest expense includes the impact of our interest rate derivatives.

Virtually all customer−financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2010, $952 million of our total debt carried variable interest rates, including the effect of pay variable interest rate swaps we use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed−rate financial instruments are sensitive to changes in interest rates. At December 31, 2010, a 10% change in market interest rates would change the fair values of such financial instruments by approximately $194 million.

Non−GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). Additionally, we have discussed our results using non−GAAP measures.

Management believes that these non−GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non−GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non−GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non−GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non−GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non−GAAP measures.

A reconciliation of these non−GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects:

- Net income and Earnings per share ("EPS"),
- Pre−tax income(loss) margin, and
- Effective tax rate.

The above have been adjusted for the following items:

- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox):** Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.

- **Acquisition−related costs:** We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition−related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- **Amortization of intangible assets:** The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.
- **Other discrete, unusual or infrequent costs and expenses:** In addition, we have also excluded the following items given the discrete, unusual or infrequent nature of these items on our results of operations:
  - **2010** (1) loss on early extinguishment of debt; (2) ACS shareholders litigation settlement; (3) Venezuela devaluation and (4) Medicare subsidy tax law change (income tax effect only); and
  - **2008** (1) provision for litigation matters; (2) equipment write−off and (3) settlement of unrecognized tax benefits.

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

See “Net Income” and “Income Taxes” sections in the M,D&A for the reconciliation of these Non−GAAP measures for Net Income / Earnings per share and the Effective tax rate, respectively, to the most directly comparable measures calculated and presented in accordance with GAAP.

The following is a reconciliation of the Non−GAAP measure of Operating margin to Pre−tax income margin, which is the most directly comparable measure calculated and presented in accordance with GAAP.

(in millions)	As Reported 2010	As Reported 2009	Pro−forma 2009[1]	As Reported 2008	10 vs. 09 Change	Pro−forma Change	09 vs. 08 Change
Total Revenues	$ 21,633	$ 15,179	$ 21,082	$ 17,608	43%	3%	(14)%
Pre−tax Income	815	627	1,267	(79)	30%	(36)%	*
Adjustments:							
Xerox restructuring charge	483	(8)	(8)	429			
Acquisition−related costs	77	72	104	—			
Amortization of intangible assets	312	60	60	54			
Equipment write−off	—	—	—	39			
Other expenses, net[2]	389	285	382	1,033			
Adjusted Operating Income	$ 2,076	$ 1,036	$ 1,805	$ 1,476	100%	15%	(30)%
Pre−tax Income (Loss) Margin	3.8%	4.1%	6.0%	(0.4)%	(0.3) pts	(2.2) pts	4.5 pts
Adjusted Operating Margin	9.6%	6.8%	8.6%	8.4%	2.8 pts	1.0 pts	(1.6) pts

* Percent change not meaningful.

(1) Pro−forma reflects ACS’s 2009 estimated results from February 6 through December 31 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses, certain non−recurring product sales and other material non−recurring costs associated with the acquisition.

(2) 2008 includes provision for litigation matters of $774 million.

Pro−forma Basis

To better understand the trends in our business, we discuss our 2010 operating results by comparing them against adjusted 2009 results which include ACS historical results for the comparable period. Accordingly, we have included ACS's 2009 estimated results for the comparable period February 6, 2009 through December 31, 2009 in our reported 2009 results. We refer to comparisons against these adjusted 2009 results as "pro−forma" basis comparisons. ACS 2009 historical results have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non−recurring costs associated with the acquisition. We believe comparisons on a pro−forma basis are more meaningful than the actual comparisons given the size and nature of the ACS acquisition. We believe the pro−forma basis comparisons allow investors to have better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company's operations.

A reconciliation of these non−GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

Total Xerox

(in millions)	Year Ended December 31, As Reported 2010	As Reported 2009	Pro−forma 2009 (1)	Change	Pro−forma Change
Revenue:					
Equipment sales	$ 3,857	$ 3,550	$ 3,550	9%	9%
Supplies, paper and other	3,377	3,096	3,234	9%	4%
Sales	7,234	6,646	6,784	9%	7%
Service, outsourcing and rentals	13,739	7,820	13,585	76%	1%
Finance income	660	713	713	(7)%	(7)%
Total Revenues	$ 21,633	$ 15,179	$ 21,082	43%	3%
Service, outsourcing and rentals	$ 13,739	$ 7,820	$ 13,585	76%	1%
Add: Finance income	660	713	713		
Add: Supplies, paper and other sales	3,377	3,096	3,234		
Annuity Revenue	$ 17,776	$ 11,629	$ 17,532	53%	1%
Gross Profit:					
Sales	$ 2,493	$ 2,251	$ 2,269		
Service, outsourcing and rentals	4,544	3,332	4,585		
Finance income	414	442	442		
Total	$ 7,451	$ 6,025	$ 7,296		
Gross Margin:					
Sales	34.5%	33.9%	33.4%	0.6 pts	1.1 pts
Service, outsourcing and rentals	33.1%	42.6%	33.8%	(9.5) pts	(0.7) pts
Finance income	62.7%	62.0%	62.0%	0.7 pts	0.7 pts
Total	34.4%	39.7%	34.6%	(5.3) pts	(0.2) pts
RD&E	$ 781	$ 840	$ 840		
RD&E % Revenue	3.6%	5.5%	4.0%	(1.9) pts	(0.4) pts
SAG	$ 4,594	$ 4,149	$ 4,651		
SAG % Revenue	21.2%	27.3%	22.1%	(6.1) pts	(0.9) pts

Services Segment

(in millions)	Year Ended December 31, As Reported 2010	As Reported 2009	Pro−forma 2009 (1)	Change	Pro−forma Change
Document Outsourcing	$ 3,297	$ 3,382	$ 3,382	(3)%	(3)%
Business Processing Outsourcing	5,112	94	4,751	*	8%
Information Technology Outsourcing	1,249	—	1,246	*	—%
Less: Intra−segment eliminations	(21)	—	—	*	*
Total Revenue – Services	$ 9,637	$ 3,476	$ 9,379	177%	3%
Segment Profit – Services	$ 1,132	$ 231	$ 1,008	390%	12%
Segment Margin – Services	11.7%	6.6%	10.7%	5.1 pts	1.0 pts

* Percent change not meaningful.

(1) Pro−forma reflects ACS's 2009 estimated results from February 6 through December 31 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses, certain non−recurring product sales and other material non−recurring costs associated with the acquisition.

Forward−Looking Statements

This Annual Report 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. Information concerning these factors is included in our 2010 Annual Report on Form 10−K filed with the Securities and Exchange Commission (“SEC”). We do not intend to update these forward−looking statements, except as required by law.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per−share data)	Year Ended December 31, 2010	2009	2008
Revenues			
Sales	$ 7,234	$ 6,646	$ 8,325
Service, outsourcing and rentals	13,739	7,820	8,485
Finance income	660	713	798
Total Revenues	21,633	15,179	17,608
Costs and Expenses			
Cost of sales	4,741	4,395	5,519
Cost of service, outsourcing and rentals	9,195	4,488	4,929
Equipment financing interest	246	271	305
Research, development and engineering expenses	781	840	884
Selling, administrative and general expenses	4,594	4,149	4,534
Restructuring and asset impairment charges	483	(8)	429
Acquisition−related costs	77	72	—
Amortization of intangible assets	312	60	54
Other expenses, net	389	285	1,033
Total Costs and Expenses	20,818	14,552	17,687
Income (Loss) before Income Taxes and Equity Income	815	627	(79)
Income tax expense (benefit)	256	152	(231)
Equity in net income of unconsolidated affiliates	78	41	113
Net Income	637	516	265
Less: Net income attributable to noncontrolling interests	31	31	35
Net Income Attributable to Xerox	$ 606	$ 485	$ 230
Basic Earnings per Share	$ 0.44	$ 0.56	$ 0.26
Diluted Earnings per Share	$ 0.43	$ 0.55	$ 0.26

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data in thousands)	December 31, 2010	2009
Assets		
Cash and cash equivalents	$ 1,211	$ 3,799
Accounts receivable, net	2,826	1,702
Billed portion of finance receivables, net	198	226
Finance receivables, net	2,287	2,396
Inventories	991	900
Other current assets	1,126	708
Total current assets	8,639	9,731
Finance receivables due after one year, net	4,135	4,405
Equipment on operating leases, net	530	551
Land, buildings and equipment, net	1,671	1,309
Investments in affiliates, at equity	1,291	1,056
Intangible assets, net	3,371	598
Goodwill	8,649	3,422
Deferred tax assets, long−term	540	1,640
Other long−term assets	1,774	1,320
Total Assets	$ 30,600	$ 24,032
Liabilities and Equity		
Short−term debt and current portion of long−term debt	$ 1,370	$ 988
Accounts payable	1,968	1,451
Accrued compensation and benefits costs	901	695
Unearned income	371	201
Other current liabilities	1,807	1,126
Total current liabilities	6,417	4,461
Long−term debt	7,237	8,276
Liability to subsidiary trust issuing preferred securities	650	649
Pension and other benefit liabilities	2,071	1,884
Post−retirement medical benefits	920	999
Other long−term liabilities	797	572
Total Liabilities	18,092	16,841
Series A Convertible Preferred Stock	349	—
Common stock	1,398	871
Additional paid−in capital	6,580	2,493
Retained earnings	6,016	5,674
Accumulated other comprehensive loss	(1,988)	(1,988)
Xerox shareholders' equity	12,006	7,050
Noncontrolling interests	153	141
Total Equity	12,159	7,191
Total Liabilities and Equity	$ 30,600	$ 24,032
Shares of common stock issued and outstanding	1,397,578	869,381

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2010	2009	2008
Cash Flows from Operating Activities:			
Net income	$ 637	$ 516	$ 265
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,097	698	669
Provision for receivables	180	289	199
Provision for inventory	31	52	115
Deferred tax (benefit) expense	(2)	120	(324)
Net gain on sales of businesses and assets	(18)	(16)	(21)
Undistributed equity in net income of unconsolidated affiliates	(37)	(25)	(53)
Stock−based compensation	123	85	85
Provision for litigation, net	36	—	781
Payments for litigation, net	(36)	(28)	(615)
Restructuring and asset impairment charges	483	(8)	429
Payments for restructurings	(213)	(270)	(131)
Contributions to pension benefit plans	(237)	(122)	(299)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(118)	467	57
Collections of deferred proceeds from sales of receivables	218	—	—
(Increase) decrease in inventories	(151)	319	(114)
Increase in equipment on operating leases	(288)	(267)	(331)
Decrease in finance receivables	129	248	164
(Increase) decrease in other current and long−term assets	(98)	129	(8)
Increase in accounts payable and accrued compensation	615	157	211
Decrease in other current and long−term liabilities	(9)	(100)	(174)
Net change in income tax assets and liabilities	229	(18)	(92)
Net change in derivative assets and liabilities	85	(56)	230
Other operating, net	70	38	(104)
Net cash provided by operating activities	2,726	2,208	939
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(355)	(95)	(206)
Proceeds from sales of land, buildings and equipment	52	17	38
Cost of additions to internal use software	(164)	(98)	(129)
Acquisitions, net of cash acquired	(1,734)	(163)	(155)
Net change in escrow and other restricted investments	20	(6)	8
Other investing, net	3	2	3
Net cash used in investing activities	(2,178)	(343)	(441)
Cash Flows from Financing Activities:			
Net proceeds (payments) on secured financings	1	(57)	(227)
Net (payments) proceeds on other debt	(3,057)	923	926
Common stock dividends	(215)	(149)	(154)
Preferred stock dividends	(15)	—	—
Proceeds from issuances of common stock	183	1	6
Excess tax benefits from stock−based compensation	24	—	2
Payments to acquire treasury stock, including fees	—	—	(812)
Repurchases related to stock−based compensation	(15)	(12)	(33)
Other financing	(22)	(14)	(19)
Net cash (used in) provided by financing activities	(3,116)	692	(311)
Effect of exchange rate changes on cash and cash equivalents	(20)	13	(57)
(Decrease) increase in cash and cash equivalents	(2,588)	2,570	130
Cash and cash equivalents at beginning of year	3,799	1,229	1,099
Cash and Cash Equivalents at End of Year	$ 1,211	$ 3,799	$ 1,229

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock[6]	Additional Paid−in Capital	Treasury Stock [6]	Retained Earnings	AOCL [1]	Xerox Shareholders' Equity	Non−controlling Interests	Total Equity
Balance at December 31, 2007	$ 920	$ 3,176	$ (31)	$ 5,288	$ (765)	$ 8,588	$ 103	$ 8,691
Net income	—	—	—	230	—	230	35	265
Translation adjustments	—	—	—	—	(1,364)	(1,364)	(3)	(1,367)
Cumulative effect of change in accounting principles	—	—	—	(25)	—	(25)	—	(25)
Changes in benefit plans [2]	—	—	—	—	(286)	(286)	—	(286)
Other unrealized losses, net	—	—	—	—	(1)	(1)	—	(1)
Comprehensive (Loss) Income						$ (1,446)	$ 32	$ (1,414)
Cash dividends declared − common stock [3]	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans	5	55	—	—	—	60	—	60
Payments to acquire treasury stock	—	—	(812)	—	—	(812)	—	(812)
Cancellation of treasury stock	(59)	(784)	843	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2008	$ 866	$ 2,447	$ —	$ 5,341	$ (2,416)	$ 6,238	$ 120	$ 6,358
Net income	—	—	—	485	—	485	31	516
Translation adjustments	—	—	—	—	595	595	1	596
Changes in benefit plans [2]	—	—	—	—	(169)	(169)	—	(169)
Other unrealized gains	—	—	—	—	2	2	—	2
Comprehensive Income						$ 913	$ 32	$ 945
Cash dividends declared − common stock [3]	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans	5	67	—	—	—	72	—	72
Tax loss on stock option and incentive plans, net	—	(21)	—	—	—	(21)	—	(21)
Distributions to noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Balance at December 31, 2009	$ 871	$ 2,493	$ —	$ 5,674	$ (1,988)	$ 7,050	$ 141	$ 7,191
Net income	—	—	—	606	—	606	31	637
Translation adjustments	—	—	—	—	(35)	(35)	—	(35)
Changes in benefit plans [2]	—	—	—	—	23	23	—	23
Other unrealized gains, net	—	—	—	—	12	12	—	12
Comprehensive Income						$ 606	$ 31	$ 637
ACS acquisition [4]	490	3,825	—	—	—	4,315	—	4,315
Cash dividends declared − common stock [3]	—	—	—	(243)	—	(243)	—	(243)
Cash dividends declared − preferred stock [5]	—	—	—	(21)	—	(21)	—	(21)
Stock option and incentive plans	37	256	—	—	—	293	—	293
Tax benefit on stock option and incentive plans, net	—	6	—	—	—	6	—	6
Distributions to noncontrolling interests	—	—	—	—	—	—	(19)	(19)
Balance at December 31, 2010	$ 1,398	$ 6,580	$ —	$ 6,016	$ (1,988)	$ 12,006	$ 153	$ 12,159

(1) Refer to Note 1 "Accumulated Other Comprehensive Loss (AOCL)" section for additional information.
(2) Refer to Note 15 − Employee Benefit Plans for additional information.
(3) Cash dividends declared on common stock of $0.0425 in each of the four quarters in 2008, 2009 and 2010.
(4) Refer to Note 3 – Acquisitions for additional information.
(5) Cash dividends declared on preferred stock of $12.22 per share in the first quarter of 2010 and $20 per share in each of the second, third and fourth quarters of 2010.
(6) Refer to Note 19 – Shareholders' Equity for rollforward of shares.

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions, except per share data and unless otherwise indicated.

Note 1 – Summary of Significant Accounting Policies

References herein to “we,” “us,” “our,” the “Company,” and Xerox refer to Xerox Corporation and its consolidated subsidiaries unless the context specifically requires otherwise.

Description of Business and Basis of Presentation

We are a $22 billion global enterprise for business process and document management. We provide essential back−office support through our broad portfolio of technology, services and outsourcing offerings. We also offer extensive business process outsourcing and information technology outsourcing services through Affiliated Computer Services, Inc. (“ACS”), which we acquired in February 2010. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income from the date such determination is made.

For convenience and ease of reference, we refer to the financial statement caption “Income (Loss) before Income Taxes and Equity Income” as “pre−tax income” or “pre−tax loss” throughout the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States of America, requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in leases and other multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) revenue recognition for services under the percentage−of−completion method; (v) allowance for doubtful accounts; (vi) inventory valuation; (vii) restructuring and related charges; (viii) asset impairments; (ix) depreciable lives of assets; (x) useful lives of intangible assets; (xi) amortization period for customer contract costs (xii) pension and post−retirement benefit plans; (xiii) income tax reserves and valuation allowances; and (xiv) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes certain significant charges that require management estimates for the three years ended December 31, 2010:

	Years Ended December 31,		
Expense/(Income)	2010	2009	2008
Restructuring provisions and asset impairments	$ 483	$ (8)	$ 429
Provisions for receivables[1]	180	289	199
Provisions for litigation and regulatory matters	(4)	9	781
Provisions for obsolete and excess inventory	31	52	115
Depreciation and obsolescence of equipment on operating leases	313	329	298
Depreciation of buildings and equipment	379	247	257
Amortization of internal use software	70	53	56
Amortization of product software[2]	7	5	—
Amortization of acquired intangible assets	316	64	58
Amortization of customer contract costs	12	—	—
Defined pension benefits – net periodic benefit cost	304	232	174
Other post−retirement benefits – net periodic benefit cost	32	26	77
Deferred tax asset valuation allowance provisions	22	(11)	17

(1) Includes net receivable adjustments of $(8), $(2) and $11 for 2010, 2009 and 2008, respectively.
(2) Includes amortization of $4 for patents, which is included in cost of sales for each period presented.

Changes in Estimates

In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

New Accounting Standards and Accounting Changes

FASB Establishes Accounting Standards Codification™

In 2009, the FASB established the Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification is considered non−authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification. The FASB updates the Codification by issuing Accounting Standard Updates (“ASU’s”).

The Codification did not change GAAP, but only the way GAAP is organized and presented. In order to ease the transition to the Codification, we are providing the Codification cross−reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

Fair Value Accounting

In 2010, the FASB issued ASU No. 2010−06 which amended Fair Value Measurements and Disclosures – Overall (ASC Topic 820−10). This update required a gross presentation of activities within the Level 3 rollforward and added a new requirement to disclose transfers in and out of Level 1 and 2 measurements. The update also clarified the following existing disclosure requirements in ASC 820−10 regarding: i) the level of disaggregation of fair value measurements; and ii) the disclosures regarding inputs and valuation techniques. This update was effective for our fiscal year beginning January 1, 2010 except for the gross presentation of the Level 3 rollforward information, which is effective for our fiscal year beginning January 1, 2011. The principle impact from this update is to expand disclosures regarding our fair value measurements.

In 2009, the FASB issued the following updates that provide additional application guidance and require enhanced disclosures regarding fair value measurements:

- FSP FAS 157−4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (ASC Topic 820−10−65).
- FSP FAS 115−2 and FAS 124−2, “Recognition and Presentation of Other−Than−Temporary Impairments” (ASC Topic 320−10−65).
- FSP FAS 107−1 and APB 28−1, “Interim Disclosures about Fair Value of Financial Instruments” (ASC Topic 320−10−65).
- ASU No. 2009−05, “Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value.”

We adopted these updates in 2009 and the adoptions did not have a material effect on our financial condition or results of operations.

In 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (ASC Topic 820) which defined fair value, established a market−based framework or hierarchy for measuring fair value and expanded disclosures about fair value measurements. This guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It did not expand or require any new fair value measures; however the application of this statement may change current practice. We adopted this guidance for financial assets and liabilities effective January 1, 2008 and for non−financial assets and liabilities effective January 1, 2009. The adoption of this guidance, which primarily affected the valuation of our derivative contracts, did not have a material effect on our financial condition or results of operations.

Business Combinations

In 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (ASC Topic 805). This guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose the information needed to evaluate and understand the nature and financial effect of the business combination. We adopted this guidance effective January 1, 2009 and have applied it to all business combinations prospectively from that date. The impact of ASC Topic 805 on our consolidated financial statements depends upon the nature, terms and size of the acquisitions we consummate in the future.

Revenue Recognition

In 2009, the FASB issued the following ASUs:

- ASU No. 2009−13, Revenue Recognition (ASC Topic 605) − Multiple−Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modified previous requirements by allowing the use of the “best estimate of selling price” in the absence of vendor−specific objective evidence (“VSOE”) or verifiable objective evidence (“VOE”) (now referred to as TPE standing for third−party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when more objective evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

- ASU No. 2009−14, Software (ASC Topic 985) − Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modified the scope of ASC subtopic 985−605 Software−Revenue Recognition to exclude from its requirements (a) non−software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non−software components of the tangible product function together to deliver the tangible product’s essential functionality.

We adopted these updates effective for our fiscal year beginning January 1, 2010 and are applying them prospectively from that date for new or materially modified arrangements. The adoption of these updates did not have a material effect on our financial condition or results of operations. See “Summary of Accounting Policies− Revenue recognition – Multiple Element Arrangements” for further information regarding our adoption of ASU No. 2009−13.

With respect to the new software guidance in ASU No. 2009−14, the modification in the scope of the industry−specific software revenue recognition guidance did not result in a change in the recognition of revenue for our equipment and services. Software included within our equipment and services has generally been considered incidental and therefore has been, and will continue to be, accounted for as part of the sale of equipment or services. Most of our equipment have both software and non−software components that function together to deliver the equipment’s essential functionality. The software scope modification is also not expected to change the recognition of revenue for software accessories sold in connection with our equipment or free−standing software sales as these transactions will continue to be accounted for under the industry−specific software revenue recognition guidance as separate software elements. See “Summary of Accounting Policies− Revenue recognition – Software” for further information.

Other Accounting Changes
In 2010, the FASB issued the following codification updates:

- ASU 2010−19 which amended Foreign Currency (ASC Topic 830). The purpose of this update was to codify the SEC staff’s view on certain foreign currency issues related to investments in Venezuela. See “Foreign Currency Translation and Re−measurement” section below for further information regarding our operations in Venezuela.

- ASU 2010−20 which amended Receivables (ASC Topic 310) and requires significantly increased disclosures regarding the credit quality of an entity’s financing receivables and its allowance for credit losses. In addition, this update requires an entity to disclose credit quality indicators past due information, and modifications of its financing receivables. The disclosures are first effective for our 2010 Annual Report. The principal impact from this update was increased disclosures concerning the details of finance receivables and the related provisions and reserves for credit losses. See Note 4 – Receivables, Net for the disclosures required by this update.

In 2009, the FASB issued the following codification updates:

- ASU 2009−16 which amended Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets. This update removed the concept of a qualifying special−purpose entity and removed the exception from applying consolidation guidance to these entities. This update also clarified the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. We adopted this update effective for our fiscal year beginning January 1, 2010. Certain accounts receivable sale arrangements were modified in order to qualify for sale accounting under this updated guidance. The adoption of this update did not have a material effect on our financial condition or results of operations.

- ASU 2009−17 which amended Consolidations (ASC Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This update required an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. It also required an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. We adopted this update effective for our fiscal year beginning January 1, 2010 and the adoption did not have a material effect on our financial condition or results of operations.

Since the implementation of the codification, the FASB has issued several ASU’s. Except for the ASU’s discussed above, the remaining ASU’s issued by the FASB entail technical corrections to existing guidance or affect guidance related to unique/infrequent transactions or specialized industries/entities and therefore have minimal, if any, impact on the Company.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through services, the sale and rental of equipment, supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales−type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight−line basis.

Services: Technical service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Revenues associated with outsourcing services are generally recognized as services are rendered, which is generally on the basis of the number of accounts or transactions processed. Information technology processing revenues are recognized as services are provided to the customer, generally at the contractual selling prices of resources consumed or capacity utilized by our customers. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on cost reimbursable contracts are recognized by applying an estimated factor to costs as incurred, determined by the contract provisions and prior experience. Revenues on unit−price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer. Revenues on time and material contracts are recognized at the contractual rates as the labor hours and direct expenses are incurred.

In connection with our services arrangements, we incur costs to originate these long−term contracts and to perform the migration, transition and setup activities necessary to enable us to perform under the terms of the arrangement. We capitalize certain incremental direct costs that are related to the contract origination or transition, implementation and setup activities and amortize them over the term of the arrangement. From time to time, we also provide certain inducements to customers in the form of various arrangements, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. Customer−related deferred set−up/transition and inducement costs are being amortized over a weighted average period of approximately 8 years. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period.

Long−lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Revenues on certain fixed price contracts where we provide information technology system development and implementation services are recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract. These services require that we perform significant, extensive and complex design, development, modification or implementation of our customers' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement. During 2010, we recognized approximately $270 of revenue using the percentage−of−completion accounting method.

The percentage−of−completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period. Due to the long−term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in income in the period in which the facts that give rise to that revision become known.

Revenues earned in excess of related billings are accrued, whereas billings in excess of revenues earned are deferred until the related services are provided. We recognize revenues for non−refundable, upfront implementation fees on a straight−line basis over the period between the initiations of the ongoing services through the end of the contract term.

Sales to distributors and resellers: We utilize distributors and resellers to sell certain of our products to end−user customers. We refer to our distributor and reseller network as our two−tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end−user customers who purchased equipment we sold to distributors or resellers. We compete with other third party leasing companies with respect to the lease financing provided to these end−user customers.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales terms.

Software: Most of our equipment has both software and non−software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of the equipment sales or services revenues. Software accessories sold in connection with our equipment sales, as well as free−standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when−and−if−available basis. In those software accessory and free−standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor−specific objective evidence ("VSOE") of fair value. VSOE of fair value is based on the price charged when the deliverable is sold separately by us on a regular basis and not as part of the multiple−element arrangement. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Leases: The two primary accounting provisions which we use to classify transactions as sales−type or operating leases are: 1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Our leases in our Latin America operations have historically been recorded as operating leases given the cancellable nature of the contract or because the recoverability of the lease investment is deemed not to be predictable at lease inception.

For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases have original terms longer than five years. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values, if any, are established at lease inception using estimates of fair value at the end of the lease term.

The vast majority of our leases that qualify as sales−type are non−cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. A portion of our business involves sales to governmental units. Governmental units are those entities that have statutorily defined funding or annual budgets that are determined by their legislative bodies. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependant on fiscal funding outside of a governmental unit's control, 2) those that can be cancelled if deemed in the best interest of the governmental unit's taxpayers or 3) those that must be renewed each fiscal year, given limitations that may exist on entering into multi−year contracts that are imposed by statute. In these circumstances, we carefully evaluate these contracts to assess whether cancellation is remote. The evaluation of a lease agreement with a renewal option includes an assessment as to whether the renewal is reasonably assured based on the apparent intent and our experience of such governmental unit. We further ensure that the contract provisions described above are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancelable and account for the lease as an operating lease.

After the initial lease of equipment to our customers, we may enter subsequent transactions with the same customer whereby we extend the term. Revenue from such lease extensions is typically recognized over the extension period.

Bundled Lease Arrangements: We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. Approximately 40% of our equipment sales revenue is related to sales made under bundled lease arrangements. These arrangements also typically include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price−per−page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract. Revenues under bundled arrangements are allocated considering the relative selling prices of the lease and non−lease deliverables included in the bundled arrangement. Lease deliverables include maintenance and executory costs, equipment and financing, while non−lease deliverables generally consist of the supplies and non−maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements which are subjected to the accounting estimates noted above under "Leases."

Multiple Element Arrangements: We enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled lease arrangements, which typically include both lease deliverables and non−lease deliverables as described above.
- Sales of equipment with a related full−service maintenance agreement.
- Contracts for multiple types of outsourcing services, as well as professional and value−added services. For instance, we may contract for an implementation or development project and also provide services to operate the system over a period of time; or we may contract to scan, manage and store customer documents.

If a deliverable in a multiple−element arrangement is subject to specific guidance, such as leased equipment in our bundled lease arrangements (which is subject to specific leasing guidance) or accessory software (which is subject to software revenue recognition guidance), that deliverable is separated from the arrangement based on its relative selling price (the relative selling price method – see below) and accounted for in accordance with such specific guidance. The remaining deliverables in a multiple−element arrangement are accounted for based on the following guidance.

A multiple−element arrangement is separated into more than one unit of accounting if both of the following criteria are met:

- The delivered item(s) has value to the customer on a stand−alone basis; and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. If these criteria are not met, the arrangement is accounted for as one unit of accounting and the recognition of revenue is generally upon delivery/completion or ratably as a single unit of accounting over the contractual service period.

Consideration in a multiple−element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is determined using VSOE of the selling price, or TPE of the selling price. If neither VSOE nor TPE of the selling price exists for a deliverable, we will use our best estimate of the selling price for that deliverable.

The new guidance with respect to multiple−element arrangements did not change the allocation of arrangement consideration to the units of accounting or the pattern and timing of revenue recognition for those units. Normally our equipment and services will qualify as separate units of accounting, which are the majority of our multiple−element arrangements. In addition, under previous guidance, consideration for multiple−element arrangements was allocated based on VSOE or TPE, since products and services are generally sold separately or the selling price is determinable based on competitor prices for similar deliverables. As a result, for substantially all of our multiple−element arrangements, we will continue using VSOE or TPE to allocate the arrangement consideration to each respective deliverable.

Although infrequent, under previous guidance with respect to multiple−element arrangements, if we were unable to establish the selling price using VSOE or TPE, arrangement consideration was allocated using the residual method or recognized ratably over the contractual service period. However, since the new guidance allows for the use of our best estimate of the selling price in our allocation of arrangement consideration if VSOE or TPE is not determinable, we now use our best estimate of selling price in those infrequent situations. The objective of using estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand−alone basis. Accordingly, we determine our best estimate of selling price considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. Estimated selling price based methodology generally will apply to an insignificant proportion of our arrangements with multiple deliverables.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money−market funds, and investments with original maturities of three months or less.

Restricted Cash and Investments

As more fully discussed in Note 17 – Contingencies, various litigation matters in Brazil require us to make cash deposits as a condition of continuing the litigation. In addition, several of our secured financing arrangements and other contracts require us to post cash collateral or maintain minimum cash balances in escrow. These cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released (refer to Note 10 – Supplementary Financial Information for classification of amounts).

Restricted cash amounts at December 31, 2010 and 2009 were as follows:

	2010	2009
Tax and labor litigation deposits in Brazil	$ 276	$ 240
Escrow and cash collections related to receivable sales	88	29
Other restricted cash	7	20
Total Restricted Cash and Investments	$ 371	$ 289

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value. Salvage value consists of the estimated market value (generally determined based on replacement cost) of the salvageable component parts, which are expected to be used in the remanufacturing process. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight−line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 5 – Inventories and Equipment on Operating Leases, Net and Note 6 – Land, Buildings and Equipment, Net for further discussion.

Software – Internal Use and Product

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight−line basis over the expected useful life of the software, beginning when the software is implemented (“Internal Use Software”). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Useful lives of Internal Use Software generally vary from three to ten years.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility and amortize these costs based on estimated future revenues (“Product Software”). In recognition of the uncertainties involved in estimating revenue, that amortization is not less than straight−line amortization over the software’s remaining estimated economic life. Useful lives of Product Software generally vary from three to ten years. Amounts capitalized for Product Software are included in Cash Flows from Operations.

Additions to:	2010	2009	2008
Internal use software	$ 164	$ 98	$ 129
Product software	70	1	1

	As of December 31,	
Capitalized costs, net:	2010	2009
Internal use software	$ 468	$ 354
Product software	145	10

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long−term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital and relevant market data.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight−line basis over their estimated economic lives. We believe that the straight−line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company. Refer to Note 8 – Goodwill and Intangible Assets, Net for further information.

Impairment of Long−Lived Assets

We review the recoverability of our long−lived assets, including buildings, equipment, internal−use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre−tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of our Common shareholders' equity. Retirement of Treasury stock is recorded as a reduction of Common stock and Additional paid−in capital at the time such retirement is approved by our Board of Directors.

Research, Development and Engineering ("RD&E")

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on−going product improvements or environmental compliance after initial product launch. Our RD&E expense for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
R&D	$ 653	$ 713	$ 750
Sustaining engineering	128	127	134
Total RD&E Expense	$ 781	$ 840	$ 884

Restructuring Charges

Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, plant closing or other activity, are recognized when they are incurred. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize severance costs when they are both probable and reasonably estimable. Refer to Note 9 – Restructuring and Asset Impairment Charges for further information.

Pension and Post−Retirement Benefit Obligations

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retiree medical costs. We employ a delayed recognition feature in measuring the costs of pension and post−retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated Other Comprehensive Loss, Net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases, and mortality. Actual returns on plan assets are not immediately recognized in our income statement, due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long−term rate of return to the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, rather than a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that would result from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. In estimating our discount rate, we consider rates of return on high−quality fixed−income investments included in various published bond indexes, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds, as well as the expected timing of pension and other benefit payments. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. Refer to Note 15 − Employee Benefit Plans for further information.

Each year, the difference between the actual return on plan assets and the expected return on plan assets, as well as increases or decreases in the benefit obligation as a result of changes in the discount rate are added to or subtracted from any cumulative actuarial gain or loss that arose in prior years. This resultant amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss and is subject to subsequent amortization to net periodic pension cost in future periods over the remaining service lives of the employees participating in the pension plan.

Foreign Currency Translation and Re−measurement

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain foreign subsidiaries that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in re−measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income.

Foreign currency losses were $11, $26 and $34 in 2010, 2009 and 2008, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income.

We sold our Venezuelan subsidiary during the fourth quarter of 2010 as part of our restructuring actions – refer to Note 9 – Restructuring and Asset Impairment Charges for further information. Prior to the sale, the U.S. Dollar was the functional currency of our Venezuelan operations. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the U.S. Dollar for the majority of our products. As a result of this devaluation, we recorded a currency loss of $21 in the first quarter of 2010 for the re−measurement of our net Bolivar denominated monetary assets. During 2010, the ability to obtain U.S. Dollars remained severely restricted. As a result, during 2010 we re−measured our net Bolivar denominated monetary transactions based on exchange rates available through alternative markets. The average rate during 2010 was approximately 5.77 Bolivars to the U.S. Dollar. The impact of this change in the exchange rate was not material to our results for the year since we derived less than 0.5% of our total revenues from Venezuela.

Accumulated Other Comprehensive Loss ("AOCL")
AOCL is composed of the following for the three years ending December 31, 2010:

	2010	2009	2008
Cumulative translation adjustments	$ (835)	$ (800)	$ (1,395)
Benefit plans net actuarial losses and prior service credits[(1)]	(1,167)	(1,190)	(1,021)
Other unrealized gains, net	14	2	—
Total Accumulated Other Comprehensive Loss	$ (1,988)	$ (1,988)	$ (2,416)

(1) Includes our share of Fuji Xerox.

Note 2 – Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. In 2010, as a result of our acquisition of ACS, we realigned our internal financial reporting structure (refer to Note 3 – Acquisitions for information regarding the ACS acquisition). We now report our financial performance based on the following two primary reportable segments – **Technology** and **Services**. The Technology segment represents the combination of our former Production and Office segments excluding the document outsourcing business, which was previously included in these reportable segments. The Services segment represents the combination of our document outsourcing business and ACS's business process outsourcing ("BPO") and information technology outsourcing ("ITO") businesses. We believe this realignment will help us to better manage our business and view the markets we serve, which are primarily centered around equipment systems and outsourcing services. Our Technology segment operations involve the sale and support of a broad range of document systems from entry level to the high−end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT outsourcing services. Our 2009 and 2008 segment disclosures have been restated to reflect our new 2010 internal reporting structure.

Our **Technology** segment is centered on strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of document systems and supplies, technical services and product financing. Our products range from:

- "Entry," which includes A4 devices and desktop printers.
- "Mid−Range," which includes A3 devices that generally serve workgroup environments in mid to large enterprises. Mid−Range includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ppm priced at less than $100K.
- "High−End," which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

The **Services** segment comprises three outsourcing service offerings:
- Document Outsourcing (which includes Managed Print Services)
- Business Process Outsourcing
- Information Technology Outsourcing.

Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document−intensive business processes through automation and deployment of software applications and tools and the management of their printing needs. Business process outsourcing services include service arrangements where we manage a customer's business activity or process. Information technology outsourcing services include service arrangements where we manage a customer's IT−related activities, such as application management and application development, data center operations or testing and quality assurance.

The segment classified as **Other** includes several units, none of which meets the threshold for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems, non−allocated Corporate items including non−financing interest, as well as other items included in Other expenses, net.

Selected financial information for our Operating segments for the three years ended December 31, 2010 was as follows:

	Technology	Services	Other	Total
2010[1]				
Revenues	$ 9,790	$ 9,548	$ 1,635	$ 20,973
Finance income	559	89	12	660
Total Segment Revenues	$ 10,349	$ 9,637	$ 1,647	$ 21,633
Interest expense [2]	$ 212	$ 28	$ 352	$ 592
Segment profit (loss)	1,085	1,132	(342)	1,875
Equity in net income of unconsolidated affiliates	62	16	—	78
2009[1]				
Revenues	$ 9,470	$ 3,373	$ 1,623	$ 14,466
Finance income	597	103	13	713
Total Segment Revenues	$ 10,067	$ 3,476	$ 1,636	$ 15,179
Interest expense [2]	$ 229	$ 36	$ 262	$ 527
Segment profit (loss)	949	231	(342)	838
Equity in net income of unconsolidated affiliates	33	8	—	41
2008[1]				
Revenues	$ 11,041	$ 3,718	$ 2,051	$ 16,810
Finance income	673	110	15	798
Total Segment Revenues	$ 11,714	$ 3,828	$ 2,066	$ 17,608
Interest expense [2]	$ 293	$ 5	$ 269	$ 567
Segment profit (loss)	1,288	302	(245)	1,345
Equity in net income of unconsolidated affiliates	90	23	—	113

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our chief executive officer.
(2) Depreciation and amortization expense, which is recorded in cost of sales, RD&E and SAG are included in segment profit above. This information is neither identified nor internally reported to our chief executive officer. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

The following is a reconciliation of segment profit to pre−tax income (loss) for the three years ended December 31, 2010:

	2010	2009	2008
Total Segment Profit	$ 1,875	$ 838	$ 1,345
Reconciling items:			
Restructuring and asset impairment charges	(483)	8	(429)
Restructuring charges of Fuji Xerox	(38)	(46)	(16)
Acquisition−related costs	(77)	(72)	—
Amortization of intangible assets	(312)	(60)	(54)
Venezuelan devaluation costs	(21)	—	—
ACS shareholders' litigation settlement	(36)	—	—
Litigation matters [1]	—	—	(774)
Loss on early extinguishment of debt	(15)	—	—
Equity in net income of unconsolidated affiliates	(78)	(41)	(113)
Equipment write−off and other	—	—	(38)
Pre−tax Income (Loss)	$ 815	$ 627	$ (79)

(1) The 2008 provision for litigation represents $670 for the *Carlson v. Xerox Corporation* court approved settlement, as well as provisions for other litigation matters including $36 for the probable loss related to the Brazil labor related contingencies.

Geographic area data is based upon the location of the subsidiary reporting the revenue or long−lived assets and is as follows for the three years ended December 31, 2010:

	Revenues			Long−Lived Assets [1]		
	2010	2009	2008	2010	2009	2008
United States	$ 13,801	$ 8,156	$ 9,122	$ 1,764	$ 1,245	$ 1,386
Europe	5,332	4,971	6,011	741	717	680
Other areas	2,500	2,052	2,475	309	262	248
Total Revenues and Long−Lived Assets	$ 21,633	$ 15,179	$ 17,608	$ 2,814	$ 2,224	$ 2,314

(1) Long−lived assets are comprised of (i) land, buildings and equipment, net, (ii) equipment on operating leases, net, (iii) internal use software, net and (iv) product software, net.

Note 3 – Acquisitions

Affiliated Computer Services, Inc.

On February 5, 2010 ("the acquisition date"), we acquired all of the outstanding equity of ACS in a cash−and−stock transaction valued at approximately $6.5 billion. ACS provides business process outsourcing and information technology ("ITO") services and solutions to commercial and government clients worldwide. ACS delivers a full range of BPO and IT services, as well as end−to−end solutions to the public and private sectors and supports a variety of industries including education, energy, financial, government, healthcare, retail and transportation. ACS's revenues for the calendar year ended December 31, 2009 were $6.6 billion and they employed 78,000 people and operated in over 100 countries on the acquisition date.

Equity transaction: 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 for a combined value of $60.40 per share, or approximately $6.0 billion based on the closing price of Xerox common stock of $8.47 on the acquisition date. 489,802 thousand shares of Xerox common stock were issued. We also issued convertible preferred stock with a liquidation value of $300 and a fair value of $349 as of the acquisition date to ACS's Class B shareholder.

All ACS stock options outstanding at closing were assumed by Xerox and converted into Xerox stock options. ACS stock options issued prior to August 2009, whether or not then vested and exercisable, became fully vested and exercisable in accordance with preexisting change−in−control provisions. ACS stock options issued in August 2009 will continue to vest and become exercisable for Xerox common stock in accordance with their original terms. 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 to be recorded as future compensation cost over the remaining vesting period. Each assumed ACS option became exercisable for 7.085289 Xerox common shares for a total of 96,662 thousand shares at a weighted average exercise price of $6.79 per option. 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 (refer to Note 19 – Shareholders' Equity for assumptions). Approximately $168 of the estimated fair value is associated with options issued prior to August 2009, which became fully vested and exercisable upon the acquisition in accordance with preexisting change−in−control provisions, was recorded as part of the acquisition fair value. The remaining $54 is associated with options issued in August 2009 which continue to vest according to their original terms and therefore is being expensed as compensation cost over the remaining vesting period which is estimated to be approximately 3.9 years.

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

(shares in millions)	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	96.7	$ 168	Xerox stock options
Xerox Preferred Stock Issued to ACS Class B Shareholder		$ 349	Xerox preferred stock
Total Fair Value of Consideration Transferred		$ 6,512	

Recording of assets acquired and liabilities assumed: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed as of the acquisition date:

	February 5, 2010
Assets	
Cash and cash equivalents	$ 351
Accounts receivable	1,344
Other current assets	389
Land, buildings and equipment	416
Intangible assets	3,035
Goodwill	5,127
Other long−term assets	258
Liabilities	
Other current liabilities	645
Deferred revenue	161
Deferred tax liability	990
Debt	2,310
Pension liabilities	39
Other long−term liabilities	263
Net Assets Acquired	$ 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 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: As part of our purchase price allocation, we revalued ACS's existing deferred revenue to fair value based on the remaining post−acquisition service obligation. The total revaluation adjustment was $133 ($53 current; $80 non−current) and represented the value for services already rendered for which no future obligation to provide services remains. Post acquisition, revenue will accordingly be reduced for the value of this adjustment. Accordingly, the remaining balance of deferred revenue included in the above of $161 ($145 current; $16 non−current) primarily represents our estimate of the fair value for the remaining service obligation.

Deferred taxes: We provided deferred taxes and recorded other tax adjustments as part of the accounting for the acquisition 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 $48 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 repatriating earnings from those subsidiaries in lieu of permanently reinvesting them as well as through the reorganization of those subsidiaries.

Debt: We repaid $1.7 billion of ACS's debt and assumed an additional $0.6 billion. The following is a summary of the third−party debt assumed and not repaid in connection with the close of the acquisition:

4.70% Senior Notes due June 2010	$ 250
5.20% Senior Notes due June 2015	250
Capital lease obligations and other debt	64
Principal debt balance	564
Fair value adjustments	13
Total Debt Assumed But Not Repaid	$ 577

Pension obligations: We assumed several defined benefit 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 funded position of the assumed ACS plans as of the acquisition date, as well as associated weighted−average assumptions used to determine benefit obligations:

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

Amounts recognized in the Consolidated Balance Sheets:

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

Weighted average assumption used to determine benefit obligations at the acquisition date and net periodic benefit cost from the acquisition date through December 31, 2010:

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

Change−in−control liabilities: We assumed liabilities due under contractual change−in−control provisions in employment agreements of certain ACS employees and its Chairman of approximately $95 ($15 current; $80 non−current). The liabilities include accruals for related excise and other taxes we are obligated to pay on these obligations.

Contingent consideration: Although there is no contingent consideration associated with our acquisition of ACS, ACS is obligated to make contingent payments in connection with prior acquisitions upon satisfaction of certain contractual criteria. Contingent consideration obligations must be recorded at their respective fair value. As of the acquisition date, the maximum aggregate amount of ACS's outstanding contingent obligations to former shareholders of acquired entities was approximately $46, of which $11 was recorded representing the estimated fair value of this obligation. We made contingent payments of $8 in 2010 which are reflected within investing activities in the Consolidated Statements of Cash Flows. As of December 31, 2010, the maximum aggregate amount of the outstanding contingent obligations to former shareholders of acquired entities was approximately $5.

Goodwill: Goodwill in the amount of $5.1 billion was recognized 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 of $2.3 billion is deductible for tax purposes as a result of previous taxable acquisitions made by ACS. While the allocation of goodwill among reporting units is not complete, we expect the majority of the goodwill will be related to our Services segment.

Pro−forma impact of the acquisition: The unaudited pro−forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2010 and 2009. The pro−forma results include the amortization associated with an estimate for the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for unearned revenue, software and land, buildings and equipment. To better reflect the combined operating results, material non−recurring charges directly attributable to the transaction have been excluded. In addition, the pro−forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro−forma financial information below is not necessarily indicative of future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010 or 2009.

	2010	2009
Revenue	$ 22,252	$ 21,781
Net income – Xerox	592	795
Basic earnings per−share	0.41	0.57
Diluted earnings per−share	0.41	0.56

Note: The pro−forma information presented above is on a different basis than the pro−forma information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report for the year ended December 31, 2010.

Other Acquisitions

Irish Business Systems Limited: In January 2010, we acquired Irish Business Systems Limited ("IBS") for approximately $29 net of cash acquired. This acquisition expands our reach into the small and mid−size business market in Ireland. IBS has eight offices located throughout Ireland and is a managed print services provider and the largest independent supplier of digital imaging and printing solutions in Ireland.

Veenman B.V.: In 2008, we acquired Veenman B.V. ("Veenman"), expanding our reach into the small and mid−sized business market in Europe, for approximately $69 (€44 million) in cash, including transaction costs. Veenman is the Netherlands' leading independent distributor of office printers, copiers and multifunction devices serving small and mid−size businesses.

ACS Acquisitions

In November 2010, ACS acquired **Spur Information Solutions**, one of the United Kingdom's leading providers of computer software used for parking enforcement, for $12 in cash. The acquisition strengthens ACS's broad portfolio of services that support the transportation industry.

In October 2010, ACS acquired **TMS Health ("TMS")**, a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries, for approximately $48 in cash. Through TMS, ACS improves communication between pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, ACS builds on the IT and BPO services it already delivers to the healthcare and pharmaceutical industries.

In July 2010, ACS acquired **ExcellerateHRO, LLP ("EHRO")**, a global benefits administration and relocation services provider, for $125 net of cash acquired. This acquisition establishes ACS as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services. The purchase price was primarily allocated to intangible assets (consisting of customer relationships of $32 and software of $8) and goodwill of $77 based on third−party valuations and management's estimates.

GIS Acquisitions

In September 2010, GIS acquired **Georgia Duplicating Products**, an office equipment supplier, for approximately $21 net of cash acquired.

In February 2009, GIS acquired **ComDoc, Inc.** ("ComDoc") for approximately $145 in cash. ComDoc is one of the larger independent office technology dealers in the U.S. and expands GIS's coverage in Ohio, Pennsylvania, New York and West Virginia. GIS also acquired another business in 2009 for $18 in cash.

In 2008, GIS acquired **Saxon Business Systems**, an office equipment supplier in Florida, for approximately $69 in cash, including transaction costs. GIS acquired three other similar businesses in 2008 for a total of $17 in cash.

These acquisitions continue the development of GIS's national network of office technology suppliers to serve its expanding base of small and mid−size businesses.

Summary – Other Acquisitions

The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. Excluding ACS, our remaining 2010 acquisitions contributed aggregate revenues of approximately $140 to our 2010 total revenues from their respective acquisition dates. The ACS acquisitions are included within our Services segment while the other acquisitions, including the GIS acquisitions, are primarily included within our Technology segment. The purchase prices were primarily allocated to intangible assets and goodwill based on third−party valuations and management's estimates.

Note 4 – Receivables, Net

Accounts Receivable

Accounts receivable, net at December 31, 2010 and 2009 were as follows:

	2010	2009
Amounts billed or billable	$ 2,491	$ 1,850
Unbilled amounts	447	—
Allowance for doubtful accounts	(112)	(148)
Accounts Receivable, net	$ 2,826	$ 1,702

Unbilled amounts include amounts associated with percentage−of−completion accounting, and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at December 31, 2010 and 2009 were approximately $1,066 and $603, respectively.

Finance Receivables

Finance receivables result from installment arrangements and sales−type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net at December 31, 2010 and 2009 were as follows:

	2010	2009
Gross receivables	$ 7,914	$ 8,427
Unearned income	(1,093)	(1,197)
Subtotal	6,821	7,230
Residual values	11	19
Allowance for doubtful accounts	(212)	(222)
Finance receivables, net	6,620	7,027
Less: Billed portion of finance receivables, net	(198)	(226)
Less: Current portion of finance receivables not billed, net	(2,287)	(2,396)
Finance Receivables Due After One Year, net	$ 4,135	$ 4,405

Contractual maturities of our gross finance receivables as of December 31, 2010 were as follows (including those already billed of $198):

2011	2012	2013	2014	2015	Thereafter	Total
$ 2,978	$ 2,178	$ 1,527	$ 862	$ 330	$ 39	$ 7,914

Provisions for Losses on Uncollectible Receivables

Accounts Receivable: The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

Finance Receivables: Finance receivables include sales−type leases, direct financing leases and installment loans. Our finance receivable portfolios are primarily in the US, Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis.

We establish credit limits based upon an initial evaluation of the customer's credit quality and adjust that limit accordingly based upon ongoing credit evaluations of the customer including payment history and changes in credit quality.

The allowance for doubtful accounts and credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine allowance for credit losses. This loss rate is primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups. The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. The identification of account−specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Since our allowance for doubtful Finance receivables is determined by country, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of those countries/regions. The economies of the U.S., Canada and Europe continue to recover from the financial economic crises and recession which began in late 2008. Although loss rates across all our portfolio segments have declined in 2010, loss rates continue to be elevated as compared to prior years. Since Europe is composed of varied countries and regional economies, the risk profile within our European portfolio segment is somewhat more diversified due to the varying economic conditions among the countries. Credit losses have increased within southern Europe given the current economic difficulties facing the countries in this region.

The following table is a rollforward of the allowance for doubtful finance receivables for the years ended December 31, 2010 and 2009, as well as the related investment in finance receivables:

	United States	Canada	Europe	Other[2]	Total
Allowance for Credit Losses:					
Balance December 31, 2008	$ 93	$ 24	$ 78	$ 3	$ 198
Provision	77	21	78	1	177
Charge−offs	(79)	(19)	(73)	—	(171)
Recoveries and other[1]	8	7	4	(1)	18
Balance December 31, 2009	$ 99	$ 33	$ 87	$ 3	$ 222
Provision	47	22	59	—	128
Charge−offs	(58)	(23)	(59)	—	(140)
Recoveries and other[1]	3	5	(6)	—	2
Balance December 31, 2010	$ 91	$ 37	$ 81	$ 3	$ 212
Finance receivables collectively evaluated for impairment:					
December 31, 2009	$ 3,474	$ 873	$ 2,832	$ 51	$ 7,230
December 31, 2010	$ 3,177	$ 872	$ 2,706	$ 66	$ 6,821

(1) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non−payment such as customer accommodations and contract terminations.
(2) Includes developing market countries and smaller units.

In the U.S. and Canada, customers are further evaluated or segregated by class based on industry sector. The primary customer classes are Finance & Other Services, Government & Education; Graphic Arts; Industrial; Healthcare and Other. In Europe, customers are further grouped by class based on the country or region of the customer. The primary customer classes include the U.K./Ireland, France and the following European regions − Central, Nordic and Southern. These groupings or classes are used to understand the nature and extent of our exposure to credit risk arising from finance receivables.

We evaluate our customers based on the following credit quality indicators:

- **Investment grade:** This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB− or better. Loss rates in this category are normally minimal at less than 1%.
- **Non−investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a S&P rating below BBB−. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.
- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded, during the term of the lease, from investment and non−investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

The credit quality indicators are updated at least annually. The credit quality of any given customer can significantly change during the life of the portfolio. Details about our finance receivables portfolio based by industry and by credit quality indicators are as follows:

	As of December 31, 2010			
	Investment Grade	Non−investment Grade	Substandard	Total Finance Receivables
United States:				
Finance and Other Services	$ 360	$ 401	$ 190	$ 951
Government and Education	849	21	7	877
Graphics Arts	147	217	156	520
Industrial	206	91	38	335
Healthcare	134	48	32	214
Other	102	109	69	280
Total United States	1,798	887	492	3,177
Canada:				
Finance and Other Services	150	127	56	333
Government and Education	127	12	3	142
Graphics Arts	32	35	48	115
Industrial	57	47	30	134
Other	88	47	13	148
Total Canada	454	268	150	872
Europe:				
France	219	374	82	675
U.K./Ireland	206	164	51	421
Central[1]	297	551	65	913
Southern[2]	263	237	81	581
Nordics[3]	50	63	3	116
Total Europe	1,035	1,389	282	2,706
Other	33	33	—	66
Total	$ 3,320	$ 2,577	$ 924	$ 6,821

(1) Switzerland, Germany, Austria, Belgium, Holland.
(2) Italy, Greece, Spain, Portugal.
(3) Sweden, Norway, Denmark, Finland.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that were more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured. The aging of our billed finance receivables is as follows:

	As of December 31, 2010						
	Current	31−90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
United States:							
Finance and Other Services	$ 23	$ 5	$ 2	$ 30	$ 921	$ 951	$ 23
Government and Education	26	6	3	35	842	877	40
Graphics Arts	21	3	1	25	495	520	16
Industrial	11	2	1	14	321	335	10
Healthcare	6	2	1	9	205	214	9
Other	8	2	—	10	270	280	8
Total United States	95	20	8	123	3,054	3,177	106
Total Canada	3	3	1	7	865	872	28
Europe:							
France	1	1	—	2	673	675	5
U.K./Ireland	4	1	1	6	415	421	7
Central	9	2	4	15	898	913	39
Southern	32	10	15	57	524	581	99
Nordics	1	—	—	1	115	116	2
Total Europe	47	14	20	81	2,625	2,706	152
Other	2	—	—	2	64	66	—
Total	$ 147	$ 37	$ 29	$ 213	$ 6,608	$ 6,821	$ 286

Accounts Receivable Sales Arrangements

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third−parties, on an on−going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short−term trade receivables with payment due dates of less than 60 days. The agreements involve the sale of entire groups of accounts receivable for cash. In certain instances, a portion of the sales proceeds is held back and deferred until collection of the related receivables by the purchaser. Such holdbacks are not considered legal securities nor are they certificated. Deferred proceeds on accounts receivable sales in 2010 amounted to $307. We report collections on such receivables as operating cash flows in the Consolidated Statements of Cash Flows, because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short−term nature. These receivables are included in the caption “Other current assets” in the accompanying Consolidated Balance Sheets and were $90 at December 31, 2010. Under most of the agreements, we also continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Accounts receivable sales for the three years ended December 31, 2010 were as follows:

	2010	2009	2008
Accounts receivable sales	$ 2,374	$ 1,566	$ 717
Deferred proceeds	307	—	—
Fees associated with sales [1]	15	13	4
Estimated increase on operating cash flows	106	309	51

(1) Represents the difference between current and prior year fourth quarter accounts receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the year and (iii) currency.

Note 5 – Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2010 and 2009 were as follows:

	2010	2009
Finished goods	$ 858	$ 772
Work−in−process	46	43
Raw materials	87	85
Total Inventories	$ 991	$ 900

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non−cash adjustment. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. We recorded $31, $52 and $115 in inventory write−down charges for the years ended December 31, 2010, 2009 and 2008, respectively.

Equipment on operating leases and the related accumulated depreciation at December 31, 2010 and 2009 were as follows:

	2010	2009
Equipment on operating leases	$ 1,561	$ 1,583
Accumulated depreciation	(1,031)	(1,032)
Equipment on Operating Leases, net	$ 530	$ 551

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense for equipment on operating leases was $313, $329 and $298 for the years ended December 31, 2010, 2009 and 2008, respectively. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2011	2012	2013	2014	2015	Thereafter
$ 389	$ 279	$ 180	$ 87	$ 41	$ 14

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2010, 2009 and 2008 amounted to $133, $125 and $117, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net at December 31, 2010 and 2009 were as follows:

	Estimated Useful Lives (Years)	2010	2009
Land	—	$ 63	$ 45
Buildings and building equipment	25 to 50	1,133	1,192
Leasehold improvements	Varies	455	328
Plant machinery	5 to 12	1,607	1,686
Office furniture and equipment	3 to 15	1,306	994
Other	4 to 20	115	100
Construction in progress	—	67	33
Subtotal		4,746	4,378
Accumulated depreciation		(3,075)	(3,069)
Land, Buildings and Equipment, net		$ 1,671	$ 1,309

Depreciation expense and operating lease rent expense for the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Depreciation expense	$ 379	$ 247	$ 257
Operating lease rent expense [1]	632	267	252

(1) We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases.

Future minimum operating lease commitments that have initial or remaining non−cancelable lease terms in excess of one year at December 31, 2010 were as follows:

2011	2012	2013	2014	2015	Thereafter
$ 669	$ 486	$ 337	$ 171	$ 118	$ 106

We have an information management contract with HP Enterprise Services (“HPES”), the legal successor to Electronic Data Systems Corp. through March 2014. Services to be provided under this contract include support for European mainframe system processing, as well as workplace, service desk and voice and data network management. Although the HPES contract runs through March 2014, we may choose to transfer some of the services to internal Xerox providers before the HPES contract ends. There are no minimum payments required under this contract. We can terminate the contract for convenience without paying a termination fee by providing sixty days prior notice. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the HPES contract. Payments to HPES, which are primarily recorded in selling, administrative and general expenses, were $98, $198 and $279 for the years ended December 31, 2010, 2009 and 2008, respectively.

During 2010 and 2009 we terminated several agreements with HPES for information management services and either terminated the services or entered into new agreements for similar services with several alternative providers. Services provided under these new contracts include mainframe application processing, development and support and mid−range applications processing and support. These contracts have various terms through 2015. Some of the contracts require minimum payments and include termination penalties. Payments for information management services which are primarily recorded in selling, administrative and general expenses were $44 and $26 for the years ended December 31, 2010 and 2009, respectively.

Note 7 – Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest at December 31, 2010 and 2009 were as follows:

	2010	2009
Fuji Xerox	$ 1,217	$ 998
All other equity investments	74	58
Investments in Affiliates, at Equity	$ 1,291	$ 1,056

Our equity in net income of our unconsolidated affiliates for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Fuji Xerox	$ 63	$ 30	$ 101
Other investments	15	11	12
Total Equity in Net Income of Unconsolidated Affiliates	$ 78	$ 41	$ 113

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand and other areas of the Pacific Rim. Our investment in Fuji Xerox of $1,217 at December 31, 2010, differs from our implied 25% interest in the underlying net assets, or $1,335 due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox, partially offset by goodwill related to the Fuji Xerox investment established at the time we acquired our remaining 20% of Xerox Limited from The Rank Group plc.

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different than that implied by our 25% ownership interest. Equity income for 2010 and 2009 includes after−tax restructuring charges of $38 and $46, respectively, primarily reflecting employee−related costs as part of Fuji Xerox's continued cost−reduction actions to improve its competitive position.

Condensed financial data of Fuji Xerox for the three calendar years ended December 31, 2010 was as follows:

	2010	2009	2008
Summary of Operations			
Revenues	$ 11,276	$ 9,998	$ 11,190
Costs and expenses	10,659	9,781	10,451
Income before income taxes	617	217	739
Income tax expense	291	67	287
Net Income	326	150	452
Less: Net income − noncontrolling interests	5	1	7
Net Income − Fuji Xerox	$ 321	$ 149	$ 445
Balance Sheet			
Assets:			
Current assets	$ 4,884	$ 4,111	$ 4,734
Long−term assets	5,978	5,457	5,470
Total Assets	$ 10,862	$ 9,568	$ 10,204
Liabilities and Equity:			
Current liabilities	$ 3,534	$ 2,643	$ 3,534
Long−term debt	1,260	1,368	996
Other long−term liabilities	707	1,104	1,095
Noncontrolling interests	22	19	23
Fuji Xerox shareholders' equity	5,339	4,434	4,556
Total Liabilities and Equity	$ 10,862	$ 9,568	$ 10,204

Yen/U.S. Dollar exchange rates used to translate are as follows:

	Exchange Basis	2010	2009	2008
Summary of Operations	Weighted Average Rate	87.64	93.51	103.31
Balance Sheet	Year−End Rate	81.66	92.46	90.28

Transactions with Fuji Xerox

We receive **dividends** from Fuji Xerox, which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive **royalty** payments for their use of our Xerox brand trademark, as well as rights to access their patent portfolio in exchange for access to our patent portfolio. These payments are included in Service, outsourcing and rental revenues in the Consolidated Statements of Income. We also have arrangements with Fuji Xerox whereby we **purchase inventory** from and **sell inventory** to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be conducted at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique **research and development** costs.

Transactions with Fuji Xerox for the three years ended December 31, 2010 were as follows:

	2010	2009	2008
Dividends received from Fuji Xerox	$ 36	$ 10	$ 56
Royalty revenue earned	116	106	112
Inventory purchases from Fuji Xerox	2,098	1,590	2,150
Inventory sales to Fuji Xerox	147	133	162
R&D payments received from Fuji Xerox	1	3	5
R&D payments paid to Fuji Xerox	30	33	34

As of December 31, 2010 and 2009, net amounts due to Fuji Xerox were $109 and $114, respectively.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

In 2010, as a result of our acquisition of ACS, we realigned our internal reporting structure (see Note 2 – Segments for additional information). Our December 31, 2010 goodwill balance was reallocated to properly reflect our new segments and to align goodwill to the reporting units benefiting from the synergies of our acquisitions.

The following table presents the changes in the carrying amount of goodwill, by reportable segment, for the three years ended December 31, 2010:

	Technology	Services	Other	Total
Balance at December 31, 2007	$ 2,317	$ 1,122	$ 9	$ 3,448
Foreign currency translation	(200)	(193)	(2)	(395)
Acquisition of Veenman B.V.	44	—	—	44
GIS acquisitions	73	—	—	73
Purchase Price allocation adjustment – GIS	12	—	—	12
Balance at December 31, 2008	$ 2,246	$ 929	$ 7	$ 3,182
Foreign currency translation	61	60	1	122
GIS acquisitions	118	—	—	118
Balance at December 31, 2009	$ 2,425	$ 989	$ 8	$ 3,422
Foreign currency translation	(25)	(22)	—	(47)
Acquisition of Affiliated Computer Services, Inc. (“ACS”)	—	5,127	—	5,127
ACS acquisitions	—	124	—	124
GIS acquisitions	11	—	—	11
Acquisition of Irish Business Systems, Ltd.	14	—	—	14
Other	—	(2)	—	(2)
Balance at December 31, 2010	$ 2,425	$ 6,216	$ 8	$ 8,649

Intangible Assets, Net

Intangible assets primarily relate to the Services operating segment. Intangible assets were comprised of the following as of December 31, 2010 and 2009:

		December 31, 2010			December 31, 2009		
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	12 years	$ 3,487	$ 464	$ 3,023	$ 525	$ 198	$ 327
Distribution network	25 years	123	54	69	123	49	74
Trademarks[1]	15 years	325	59	266	210	25	185
Technology, patents and non−compete[1]	6 years	47	34	13	40	28	12
Total Intangible Assets		$ 3,982	$ 611	$ 3,371	$ 898	$ 300	$ 598

(1) Includes $10 and $5 of non−amortizable assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was $316, $64, and $58 for the years ended December 31, 2010, 2009 and 2008, respectively. Excluding the impact of additional acquisitions, amortization expense is expected to approximate $345 in 2011; $335 in 2012 and 2013 and $312 in 2014 and 2015.

Note 9 – Restructuring and Asset Impairment Charges

The net restructuring and asset impairment charges (credits) in the Consolidated Statements of Income totaled $483, $(8) and $429 in 2010, 2009 and 2008, respectively. Detailed information related to restructuring program activity during the three years ended December 31, 2010 is outlined below:

Restructuring Activity	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments[1]	Total
Balance December 31, 2007	$ 71	$ 38	$ —	$ 109
Restructuring provision	363	20	53	436
Reversals of prior accruals	(6)	(1)	—	(7)
Net current year charges[2]	357	19	53	429
Charges against reserve and currency	(108)	(25)	(53)	(186)
Balance December 31, 2008	320	32	—	352
Restructuring provision	28	9	—	37
Reversals of prior accruals	(39)	(6)	—	(45)
Net current year charges[2]	(11)	3	—	(8)
Charges against reserve and currency	(255)	(15)	—	(270)
Balance December 31, 2009	54	20	—	74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	—	(41)
Net current year charges[2]	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance December 31, 2010	$ 298	$ 25	$ —	$ 323

(1) Charges associated with asset impairments represent the write−down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.
(2) Represents amount recognized within the Consolidated Statements of Income for the years shown.

The following table summarizes the reconciliation to the Consolidated Statements of Cash Flows for the three years ended December 31, 2010:

	2010	2009	2008
Charges to reserve	$ (234)	$ (270)	$ (186)
Asset impairments	26	—	53
Effects of foreign currency and other non−cash items	(5)	—	2
Cash Payments for Restructurings	$ (213)	$ (270)	$ (131)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment for the three years ended December 31, 2010:

	2010	2009	2008
Technology	$ 325	$ (5)	$ 288
Services	104	(2)	85
Other	54	(1)	56
Total Net Restructuring Charges	$ 483	$ (8)	$ 429

Over the past several years, we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily include severance actions and impact all major geographies and segments. Management continues to evaluate our business and, therefore, in future years, there may be additional provisions for new plan initiatives, as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed. However, we do not expect that there will be significant new restructuring initiatives in 2011. Asset impairment charges were also incurred in connection with these restructuring actions for those assets made obsolete as a result of these programs.

2010 Activity

During 2010, we recorded $483 of net restructuring and asset impairment charges, which included the following:

- $470 of severance costs related to headcount reductions of approximately 9,000 employees. The costs associated with these actions applied about equally to North America and Europe, with approximately 20% related to our developing market countries. Approximately 50% of the costs were focused on gross margin improvements, 40% on SAG and 10% on the optimization of RD&E investments and impacted the following functional areas:
  - Services
  - Supply chain and manufacturing
  - Back office administration
  - Development and engineering costs.
- $28 for lease termination costs primarily reflecting the continued rationalization and optimization of our worldwide operating locations, particularly in light of our recent acquisition of ACS.
- $19 loss associated with the sale of our Venezuelan subsidiary. The loss primarily reflects the write−off of our Venezuelan net assets including working capital and long−lived assets. We will continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but will no longer have any direct or local operations in Venezuela. The sale of our operations and change in business model follows a decision by management in the fourth quarter of 2010 to reduce the Company's future exposure and risk associated with operating in this unpredictable economy.

The above charges were partially offset by $41 of net reversals for changes in estimated reserves from prior period initiatives.

The restructuring reserve balance as of December 31, 2010, for all programs was $323, of which approximately $309 is expected to be spent over the next twelve months.

2009 Activity

Restructuring activity was minimal in 2009 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2008 Activity

During 2008, we recorded $357 of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in both North America and Europe. Focus areas for the actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources & training.
- Capturing efficiencies in technical services, managed services and supply chain and manufacturing infrastructure.
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of $19 and asset impairment charges of $53. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

Note 10 – Supplementary Financial Information

The components of other current assets and other current liabilities at December 31, 2010 and 2009 were as follows:

	2010	2009
Other Current Assets		
Deferred taxes and income taxes receivable	$ 345	$ 328
Royalties, license fees and software maintenance	155	23
Restricted cash	91	31
Prepaid expenses	133	86
Derivative instruments	45	16
Deferred purchase price from sale of receivables	90	—
Advances and deposits	23	19
Other	244	205
Total Other Current Assets	$ 1,126	$ 708
Other Current Liabilities		
Deferred taxes and income taxes payable	$ 59	$ 68
Other taxes payable	177	161
Interest payable	122	114
Restructuring reserves	309	64
Derivative instruments	19	15
Product warranties	17	19
Dividends payable	74	41
Distributor and reseller rebates/commissions	105	127
Other	925	517
Total Other Current Liabilities	$ 1,807	$ 1,126

The components of other long−term assets and other long−term liabilities at December 31, 2010 and 2009 were as follows:

	2010	2009
Other Long−term Assets		
Prepaid pension costs	$ 92	$ 155
Net investment in discontinued operations [(1)]	224	240
Internal use software, net	468	354
Product software, net	145	10
Restricted cash	280	258
Debt issuance costs, net	42	62
Customer contract costs, net	134	—
Derivative instruments	11	10
Other	378	231
Total Other Long−term Assets	$ 1,774	$ 1,320
Other Long−term Liabilities		
Deferred and other tax liabilities	$ 200	$ 167
Derivative instruments	—	9
Environmental reserves	20	23
Unearned income	36	—
Restructuring reserves	14	10
Other	527	363
Total Other Long−term Liabilities	$ 797	$ 572

(1) At December 31, 2010, our net investment in discontinued operations primarily consists of a $245 performance−based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of $21. The recovery of the performance−based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017.

Note 11 – Debt

Short−term borrowings at December 31, 2010 and 2009 were as follows:

	2010	2009
Commercial paper	$ 300	$ —
Current maturities of long−term debt	1,070	988
Total Short−term Debt	$ 1,370	$ 988

The weighted−average interest rate for commercial paper at December 31, 2010, including issuance costs, was 1.02 percent and had maturities ranging from 18 to 32 days.

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income.

Long−term debt at December 31, 2010 and 2009 was as follows:

	Weighted Average Interest Rates at December 31, 2010[2]	2010	2009
Xerox Corporation			
Senior Notes due 2010	—%	$ —	$ 700
Notes due 2011	0.09%	1	1
Notes due 2011	—%	—	50
Senior Notes due 2011	6.59%	750	750
Senior Notes due 2012	5.59%	1,100	1,100
Senior Notes due 2013	5.65%	400	400
Senior Notes due 2013	—%	—	550
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	750
Senior Notes due 2015	4.29%	1,000	1,000
Notes due 2016	7.20%	250	250
Senior Notes due 2016	6.48%	700	700
Senior Notes due 2017	6.83%	500	500
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.66%	650	650
Zero Coupon Notes due 2023	5.41%	283	267
Senior Notes due 2039	6.78%	350	350
Subtotal		$ 7,753	$ 9,037
Xerox Credit Corporation			
Notes due 2013	—%	—	10
Notes due 2014	—%	—	50
Subtotal		—	60
ACS			
Notes due 2015	4.25%	250	—
Borrowings secured by other assets	6.62%	71	—
Subtotal		321	—
Other U.S. Operations			
Borrowings secured by finance receivables	—%	—	2
Borrowings secured by other assets	12.39%	4	5
Subtotal		4	7
Total U.S. Operations		8,078	9,104
International Operations			
Other debt due 2011−2013	0.86%	2	18
Total International Operations		2	18
Principal Debt Balance		8,080	9,122
Unamortized discount [1]		(1)	(11)
Fair value adjustments		228	153
Less: current maturities		(1,070)	(988)
Total Long−term Debt		$ 7,237	$ 8,276

(1) Fair value adjustments represent changes in the fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported at an amount equal to the sum of their carrying value (principal value plus/minus premiums/discounts) and any fair value adjustment.
(2) Represents weighted average effective interest rate which includes the effect of discounts and premiums on issued debt.

Scheduled principal payments due on our long−term debt for the next five years and thereafter are as follows:

2011	2012	2013	2014	2015	Thereafter	Total
$ 1,070[1]	$ 1,126	$ 412	$ 771	$ 1,251	$ 3,450	$ 8,080

(1) Quarterly total debt maturities for 2011 are $11, $9, $1,041 and $9 for the first, second, third and fourth quarters, respectively.

Commercial Paper
In October 2010, Xerox's Board of Directors authorized the company to issue commercial paper ("CP"). Aggregate CP and Credit Facility borrowings may not exceed $2 billion outstanding at any time. Under the company's current private placement CP program, we may issue CP up to a maximum amount of $1.0 billion outstanding at any time. The maturities of the CP Notes will vary, but may not exceed 390 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at market rates.

Credit Facility
The Credit Facility is a $2.0 billion unsecured revolving credit facility including a $300 letter of credit subfacility. At December 31, 2010 we had no outstanding borrowings or letters of credit. Approximately $1.8 billion, or 90% of the Credit Facility, has a maturity date of April 30, 2013. The remaining portion of the Credit Facility has a maturity date of April 30, 2012.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries and includes provisions that would allow us to increase the overall size of the Credit Facility up to an aggregate amount of $2.5 billion. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than $100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

Borrowings under the Credit Facility bear interest at our choice, at either (a) a Base Rate as defined in our Credit Facility agreement, plus an all−in spread that varies between 1.5% and 3.5% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all−in spread that varies between 2.5% and 4.5% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2010, the applicable all−in spreads for the Base Rate and LIBOR borrowing were 2.5% and 3.5%, respectively.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

(a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, as defined) of 3.75x.
(b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00x.
(c) Limitations on (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in a termination by the lenders and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross−defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Capital Market Activity
During 2010, we redeemed the following Notes prior to their scheduled maturity:

- 7.625% Senior Notes due in 2013 for $550;
- 6.00% Medium−term Notes due 2011 for $25;
- 7.41% Medium−term Notes due 2011 for $25;
- 6.50% Medium−term Notes due 2013 for $10;
- 6.00% Medium−term Notes due 2014 for $25; and
- 6.125% Medium−term Notes due 2014 for $25.

We incurred a loss on extinguishment of approximately $16, representing the call premium of approximately $7 on the Senior Notes as well as the write−off of unamortized debt costs of $9.

Interest
Interest paid on our short−term debt, long−term debt and liability to subsidiary trust issuing preferred securities amounted to $586, $531 and $527 for the years ended December 31, 2010, 2009 and 2008, respectively.

Interest expense and interest income for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Interest expense[1]	$ 592	$ 527	$ 567
Interest income[2]	679	734	833

(1) Includes Equipment financing interest expense, as well as non−financing interest expense included in Other expenses, net in the Consolidated Statements of Income.
(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Consolidated Statements of Income.

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on our overall corporate cost of borrowing adjusted to reflect a rate that would be paid by a typical BBB rated leasing company. The estimated level of debt is based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net (payments) proceeds on debt other than secured borrowings as shown on the Consolidated Statements of Cash Flows for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Net proceeds (payments) on short−term debt	$ 300	$ (61)	$ (38)
Net payments on Credit Facility	—	(246)	(354)
Net proceeds from issuance of long−term debt	—	2,725	1,650
Net payments on long−term debt	(3,357)	(1,495)	(332)
Net (Payments) Proceeds on Other Debt	$ (3,057)	$ 923	$ 926

Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities

The Liability to Subsidiary Trust Issuing Preferred Securities included in our Consolidated Balance Sheets of $650 and $649 as of December 31, 2010 and 2009, respectively, reflects our obligations to Xerox Capital Trust I (“Trust I”) as a result of their loans to us from proceeds related to their issuance of preferred securities. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust.

In 1997, Trust I issued 650 thousand of 8.0% preferred securities (the “Preferred Securities”) to investors for $644 ($650 liquidation value) and 20,103 shares of common securities to us for $20. With the proceeds from these securities, Trust I purchased $670 principal amount of 8.0% Junior Subordinated Debentures due 2027 of the Company (“the Debentures”). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of $637 which was net of fees and discounts of $13. Interest expense, together with the amortization of debt issuance costs and discounts, was $54 in 2010, 2009 and 2008. We have guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities. The guarantee, our obligations under the Debentures, the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8% per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

Note 13 – Financial Instruments

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro and U.K. Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency exchange rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

We do not believe there is significant risk of loss in the event of non−performance by the counterparties associated with our derivative instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged.

Fair Value Hedges

As of December 31, 2010 and 2009, pay variable/receive fixed interest rate swaps with notional amounts of $950 and $2,350 and net asset fair value of $11 and $1, respectively, were designated and accounted for as fair value hedges. No ineffective portion was recorded to earnings during 2010, 2009, or 2008.

The following is a summary of our fair value hedges at December 31, 2010:

Debt Instrument	Year First Designated as Hedge	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2013	2010	$ 400	$ —	4.71%	5.65%	Libor	2013
Senior Notes due 2014	2009	450	10	6.19%	8.25%	Libor	2014
Senior Notes due 2016	2010	100	1	3.96%	6.40%	Libor	2016
Total Fair Value Hedges		$ 950	$ 11				

Terminated Swaps

During the period from 2004 to 2010, we terminated early several interest rate swaps that were designated as fair value hedges of certain debt instruments. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2010, 2009 and 2008, the amortization of these fair value adjustments reduced interest expense by $28, $17 and $12, respectively, and we expect to record a net decrease in interest expense of $199 in future years through 2027.

Foreign Exchange Risk Management

We are exposed to foreign currency exchange rate fluctuations in the normal course of business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchase option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings and protecting fair values of assets and liabilities:

- Foreign currency−denominated assets and liabilities
- Forecasted purchases and sales in foreign currency

Summary of Foreign Exchange Hedging Positions

At December 31, 2010, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,968 which is reflective of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values held as of December 31, 2010:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) (1)
U.K. Pound Sterling/Euro	$ 217	$ (1)
Euro/U.S. Dollar	370	(3)
U.S. Dollar/Euro	585	9
Swedish Kronor/Euro	93	2
Swiss Franc/Euro	194	8
Japanese Yen/U.S. Dollar	397	8
Japanese Yen/Euro	367	11
Euro/U.K. Pound Sterling	211	1
U.K. Pound Sterling/Swiss Franc	74	(7)
Danish Krone/Euro	57	—
Mexican Peso/U.S. Dollar	52	—
All Other	351	(2)
Total Foreign Exchange Hedging	$ 2,968	$ 26

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2010.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency−denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. As of December 31, 2010, the net asset fair value of these contracts was $18.

Summary of Derivative Instruments Fair Values

The following table provides a summary of the fair value amounts of derivative instruments at December 31, 2010 and 2009, respectively.

Designation of Derivatives	Balance Sheet Location	Fair Value 2010	Fair Value 2009
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts − forwards	Other current assets	$ 19	$ 4
	Other current liabilities	(1)	(3)
Interest rate swaps	Other long−term assets	11	10
	Other long−term liabilities	—	(9)
	Net Designated Assets	$ 29	$ 2
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts − forwards	Other current assets	$ 26	$ 12
	Other current liabilities	(18)	(12)
	Net Undesignated Assets	$ 8	$ —
Summary of Derivatives	Total Derivative Assets	$ 56	$ 26
	Total Derivative Liabilities	(19)	(24)
	Net Derivative Asset	$ 37	$ 2

Summary of Derivative Instruments Gains (Losses)

Derivative gains and losses affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and losses.

Designated Derivative Instruments Gains (Losses)

The following table provides a summary of the gains and losses on designated derivative instruments for the three years ended December 31, 2010:

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in Income 2010	2009	2008	Hedged Item Gain (Loss) Recognized in Income 2010	2009	2008
Interest rate contracts	Interest expense	$ 99	$ (18)	$ 206	$ (99)	$ 18	$ (206)

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2010	2009	2008	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) 2010	2009	2008
Interest rate contracts	$ —	$ —	$ (2)	Interest expense	$ —	$ —	$ —
Foreign exchange contracts – forwards	46	(1)	4	Cost of sales	28	2	2
Total Cash Flow Hedges	$ 46	$ (1)	$ 2		$ 28	$ 2	$ 2

No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness.

Non−Designated Derivative Instruments Gains (Losses)

Non−designated derivative instruments are primarily instruments used to hedge foreign currency denominated assets and liabilities. They are not designated as hedges because there is a natural offset for the re−measurement of the underlying foreign currency denominated asset or liability.

The following table provides a summary of gains (losses) on **non−designated** derivative instruments for the three years ended December 31, 2010:

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	2010	2009	2008
Foreign exchange contracts	Other expense – Currency losses, net	$ 113	$ 49	$ (147)

During the three years ended December 31, 2010, we recorded total Currency losses, net of $11, $26 and $34, respectively. Currency losses, net includes the mark−to−market of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re−measurement of foreign currency denominated assets and liabilities.

Accumulated Other Comprehensive Loss ("AOCL")

The following table provides a summary of the activity associated with all of our designated cash flow hedges (interest rate and foreign currency) reflected in AOCL for the three years ended December 31, 2010:

	2010	2009	2008
Beginning cash flow hedges balance, net of tax	$ 1	$ —	$ —
Changes in fair value gain (loss)	31	(1)	1
Reclass to earnings	(18)	2	(1)
Ending Cash Flow Hedges Balance, Net of Tax	$ 14	$ 1	$ —

Note 14 – Fair Value of Financial Assets and Liabilities

The following table represents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 and the basis for that measurement:

	Total Fair Value Measurement December 31, 2010	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign exchange contracts−forwards	$ 45	$ —	$ 45	$ —
Interest rate swaps	11	—	11	—
Deferred compensation investments in cash surrender life insurance	70	—	70	—
Deferred compensation investments in mutual funds	22	—	22	—
Total	$ 148	$ —	$ 148	$ —
Liabilities:				
Foreign exchange contracts−forwards	$ 19	$ —	$ 19	$ —
Deferred compensation plan liabilities	98	—	98	—
Total	$ 117	$ —	$ 117	$ —

	Total Fair Value Measurement December 31, 2009	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign exchange contracts−forwards	$ 16	$ —	$ 16	$ —
Interest rate swaps	10	—	10	—
Total	$ 26	$ —	$ 26	$ —
Liabilities:				
Foreign exchange contracts−forwards	$ 15	$ —	$ 15	$ —
Interest rate swaps	9	—	9	—
Total	$ 24	$ —	$ 24	$ —

We utilized the income approach to measure fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in Company−owned life insurance is reflected at cash surrender value. Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for actively traded investments similar to those held by the plan. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

Summary of Other Financial Assets & Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,211	$ 1,211	$ 3,799	$ 3,799
Accounts receivable, net	2,826	2,826	1,702	1,702
Short−term debt	1,370	1,396	988	1,004
Long−term debt	7,237	7,742	8,276	8,569
Liability to subsidiary trust issuing preferred securities	650	670	649	663

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long−term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 15 – Employee Benefit Plans

We sponsor numerous pension and other post−retirement benefit plans, primarily retiree health, in our domestic and international operations. December 31 is the measurement date for all of our other post−retirement benefit plans.

	Pension Benefits		Retiree Health	
	2010	2009	2010	2009
Change in Benefit Obligation:				
Benefit obligation, January 1	$ 9,194	$ 8,495	$ 1,102	$ 1,002
Service cost	178	173	8	7
Interest cost	575	508	54	60
Plan participants' contributions	11	9	26	36
Plan amendments[3]	(19)	4	(86)	1
Actuarial loss (gain)	477	209	13	124
Acquisitions[2]	140	1	1	—
Currency exchange rate changes	(154)	373	6	15
Curtailments	(1)	—	—	—
Benefits paid/settlements	(670)	(578)	(118)	(143)
Benefit obligation, December 31	9,731	9,194	1,006	1,102
Change in Plan Assets:				
Fair value of plan assets, January 1	7,561	6,923	—	—
Actual return on plan assets	846	720	—	—
Employer contribution	237	122	92	107
Plan participants' contributions	11	9	26	36
Acquisitions[3]	107	—	—	—
Currency exchange rate changes	(144)	349	—	—
Benefits paid/settlements	(669)	(578)	(118)	(143)
Other	(9)	16	—	—
Fair value of plan assets, December 31	7,940	7,561	—	—
Net funded status at December 31[1]	$ (1,791)	$ (1,633)	$ (1,006)	$ (1,102)
Amounts recognized in the Consolidated Balance Sheets:				
Other long−term assets	$ 92	$ 155	$ —	$ —
Accrued compensation and benefit costs	(44)	(47)	(86)	(103)
Pension and other benefit liabilities	(1,839)	(1,741)	—	—
Post−retirement medical benefits	—	—	(920)	(999)
Net Amounts Recognized	$ (1,791)	$ (1,633)	$ (1,006)	$ (1,102)

(1) Includes under−funded and non−funded plans.
(2) Primarily ACS's acquired balances.
(3) Refer to the "Plan Amendment" section for additional information.

Benefit plans pre−tax amounts recognized in AOCL:

	Pension Benefits		Retiree Health	
	2010	2009	2010	2009
Net actuarial loss (gain)	$ 1,867	$ 1,834	$ 54	$ 40
Prior service (credit) cost	(167)	(169)	(200)	(144)
Total Pre−tax Loss (Gain)	$ 1,700	$ 1,665	$ (146)	$ (104)

The Accumulated benefit obligation for all defined benefit pension plans was $9,256 and $8,337 at December 31, 2010 and 2009, respectively.

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	2010	2009
Projected benefit obligation	$ 5,726	$ 5,134
Accumulated benefit obligation	5,533	4,864
Fair value of plan assets	3,883	3,697

Our domestic retirement defined benefit plans provide employees a benefit, depending on eligibility, at the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

	Pension Benefits			Retiree Health		
	2010	2009	2008	2010	2009	2008
Components of Net Periodic Benefit Cost:						
Service cost [1]	$ 178	$ 173	$ 209	$ 8	$ 7	$ 14
Interest cost [2]	575	508	(5)	54	60	84
Expected return on plan assets	(570)	(523)	(80)	—	—	—
Recognized net actuarial loss	71	25	36	—	—	—
Amortization of prior service credit	(22)	(21)	(20)	(30)	(41)	(21)
Recognized settlement loss	72	70	34	—	—	—
Defined Benefit Plans	304	232	174	32	26	77
Defined contribution plans	51	38	80	—	—	—
Total Net Periodic Benefit Costs	355	270	254	32	26	77
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain) [3]	$ 198	$ 8	$ 1,062	$ 13	$ 126	$ (244)
Prior service cost (credit) [4]	(19)	—	1	(86)	1	(219)
Amortization of net actuarial (loss) gain	(143)	(95)	(70)	—	—	—
Amortization of prior service (cost) credit	22	21	20	30	41	21
Total Recognized in Other Comprehensive Income	58	(66)	1,013	(43)	168	(442)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$ 413	$ 204	$ 1,267	$ (11)	$ 194	$ (365)

(1) Interest cost includes interest expense on non−TRA obligations of $381, $390 and $408 and interest expense (income) directly allocated to TRA participant accounts of $194, $118 and $(413) for the years ended December 31, 2010, 2009 and 2008, respectively.
(2) Expected return on plan assets includes expected investment income on non−TRA assets of $376, $405 and $493 and actual investment income (expense) on TRA assets of $194, $118 and $(413) for the years ended December 31, 2010, 2009 and 2008, respectively.
(3) Includes adjustments as a result of the plan amendments as well as the actual valuation results based on January 1, 2010 plan census data for the U.S. and Canadian defined benefit plans and the U.S. retiree medical plan. Refer to the "Plan Amendment" section for additional information.
(4) Refer to "Plan Amendments" for additional information.

The following table provides a summary of the components of the Net change in benefit plans included within Other comprehensive income as reported in the Consolidated Statement of Shareholders' Equity

(Expense)/Benefit	2010	2009	2008
Other changes in plan assets and benefit obligations	$ (15)	$ (102)	$ (571)
Income tax	(12)	61	183
Fuji Xerox changes in defined benefit plans[1]	28	(36)	(75)
Currency, net[2]	22	(90)	175
Other, net	—	(2)	2
Net Change in Benefit Plans	$ 23	$ (169)	$ (286)

(1) Represents our share of Fuji Xerox's benefit plan changes.
(2) Represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $71 and $(24), respectively. The net actuarial loss and prior service credit for the retiree health benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are zero and $(41), respectively.

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown above in the "actual return on plan assets" caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

Plan Amendments

In 2010, we amended our domestic retiree health benefit plan to eliminate the use of the Retiree Drug Subsidy that the Company receives from Medicare as an offset to retiree contributions. This amendment is effective January 1, 2011. The Company will instead use this subsidy to reduce its retiree healthcare costs. The amendment resulted in a net decrease of $55 to the retiree medical benefit obligation and a corresponding $34 after tax increase to equity. This amendment will reduce 2011 expenses by approximately $13.

In 2010, as a result of a renegotiation of the contract with our largest union, we amended our union pension plan for this population to freeze the final average pay formula of the pension plan effective January 1, 2013 and our union retiree health benefits plan to eliminate a portion of the subsidy currently paid to current and future Medicare−eligible retirees effective January 1, 2011. These amendments are generally consistent with amendments previously made to our salaried employee retirement plans.

In 2009, the U.K. Final Salary Pension Plan was amended to close the plan to future accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected; therefore, the amendment does not result in a material change to the projected benefit obligation at the re−measurement date, December 31, 2009. The amendment results in substantially all participants becoming inactive; therefore, the amortization period for actuarial gains and losses changes from the average remaining service period of active members (approximately 10 years) to the average remaining life expectancy of all members (approximately 27 years). As of December 31, 2010, the accumulated actuarial losses for our U.K. plan amounted to $707.

In 2008, we amended our domestic retiree health benefit plan to eliminate the subsidy currently paid to current and future Medicare−eligible retirees effective January 1, 2010. The amendment resulted in a net decrease of approximately $225 in the benefit obligation and a corresponding after−tax increase to equity.

Plan Assets

Current Allocation

As of the 2010 and 2009 measurement dates, the global pension plan assets were $7.9 billion and $7.6 billion, respectively. These assets were invested among several asset classes. None of the investments include debt or equity securities of Xerox Corporation.

The following table presents the defined benefit plans assets measured at fair value at December 31, 2010 and the basis for that measurement:

Asset Class	Valuation Based On: Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value December 31, 2010	% of Total
Cash and Cash Equivalents	$ 640	$ —	$ —	$ 640	8%
Equity Securities:					
U.S. Large Cap	507	54	—	561	7%
U.S. Mid Cap	84	—	—	84	1%
U.S. Small Cap	60	62	—	122	2%
International Developed	1,513	514	—	2,027	26%
Emerging Markets	324	—	—	324	4%
Global Equity	8	25	—	33	—%
Total Equity Securities	2,496	655	—	3,151	40%
Debt Securities:					
U.S. Treasury Securities	4	209	—	213	3%
Debt Security Issued by Government Agency	75	1,011	—	1,086	14%
Corporate Bonds	167	1,412	—	1,579	20%
Asset Backed Securities	2	15	—	17	—%
Total Debt Securities	248	2,647	—	2,895	37%
Common/Collective Trust	4	69	—	73	1%
Derivatives:					
Interest Rate Contracts	—	123	—	123	2%
Foreign Exchange Contracts	5	(12)	—	(7)	—%
Equity Contracts	—	53	—	53	—%
Credit Contracts	—	—	—	—	—%
Other Contracts	66	3	—	69	1%
Total Derivatives	71	167	—	238	3%
Hedge Funds	—	2	4	6	—%
Real Estate	103	73	275	451	6%
Private Equity/Venture Capital	—	—	308	308	4%
Guaranteed Insurance Contracts	—	—	96	96	1%
Other	7	49	(1)	55	—%
Total Defined Benefit Plans Assets[1]	$ 3,569	$ 3,662	$ 682	$ 7,913	100%

(1) Total fair value assets exclude $27 of other net non−financial assets (liabilities) such as due to/from broker, interest receivables and accrued expenses.

The following table presents the defined benefit plans assets measured at fair value at December 31, 2009 and the basis for that measurement:

	Valuation Based On:				
Asset Class	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value December 31, 2009	% of Total
Cash and Cash Equivalents	$ 748	$ —	$ —	$ 748	10%
Equity Securities:					
U.S. Large Cap	768	46	—	814	11%
U.S. Mid Cap	31	—	—	31	—%
U.S. Small Cap	90	70	—	160	2%
International Developed	1,292	493	—	1,785	24%
Emerging Markets	299	—	—	299	4%
Global Equity	12	—	—	12	—%
Total Equity Securities	2,492	609	—	3,101	41%
Debt Securities:					
U.S. Treasury Securities	4	185	—	189	3%
Debt Security Issued by Government Agency	114	798	—	912	12%
Corporate Bonds	145	1,570	—	1,715	23%
Asset Backed Securities	3	23	—	26	—%
Total Debt Securities	266	2,576	—	2,842	38%
Common/Collective Trust	2	26	—	28	—%
Derivatives:					
Interest Rate Contracts	—	52	—	52	—%
Foreign Exchange Contracts	15	(77)	—	(62)	(1)%
Equity Contracts	—	(24)	—	(24)	—%
Credit Contracts	—	(2)	—	(2)	—%
Other Contracts	—	(6)	—	(6)	—%
Total Derivatives	15	(57)	—	(42)	(1)%
Hedge Funds	—	—	4	4	—%
Real Estate	62	119	237	418	6%
Private Equity/Venture Capital	—	—	286	286	4%
Guaranteed Insurance Contracts	—	—	130	130	2%
Other	8	9	—	17	—%
Total Defined Benefit Plans Assets[(1)]	$ 3,593	$ 3,282	$ 657	$ 7,532	100%

(1) Total fair value assets exclude $29 of other net non−financial assets (liabilities) such as due to/from broker, interest receivables and accrued expenses.

The following table represents a roll−forward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)					
	Hedge Funds	Real Estate	Private Equity/Venture Capital	Guaranteed Insurance Contracts	Other	Total
December 31, 2008	$ 3	$ 279	$ 331	$ 104	$ —	$ 717
Net payments, purchases and sales	1	5	16	1	—	23
Net transfers in (out)	—	—	—	16	—	16
Realized gains (losses)	—	—	8	3	(1)	10
Unrealized gains (losses)	—	(66)	(69)	2	1	(132)
Currency translation	—	19	—	4	—	23
December 31, 2009	4	237	286	130	—	657
Net payments, purchases and sales	—	7	(8)	(12)	—	(13)
Net transfers in (out)	—	—	—	1	—	1
Realized gains (losses)	—	5	28	(2)	—	31
Unrealized gains (losses)	—	22	—	(2)	—	20
Currency translation	—	(6)	—	(9)	—	(15)
Other	—	10	1	(9)	(1)	1
December 31, 2010	$ 4	$ 275	$ 307	$ 97	$ (1)	$ 682

Our pension plan assets and benefit obligations at December 31, 2010 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S.	$ 3.2	$ 4.4	$ (1.2)
U.K.	2.9	2.9	—
Canada	0.6	0.8	(0.2)
Other	1.2	1.6	(0.4)
Total	$ 7.9	$ 9.7	$ (1.8)

Investment Strategy

The target asset allocations for our worldwide plans for 2010 and 2009 were:

	2010	2009
Equity investments	42%	41%
Fixed income investments	45%	45%
Real estate	7%	7%
Private equity	4%	4%
Other	2%	3%
Total Investment Strategy	100%	100%

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long−term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long−term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. This consideration involves the use of long−term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non−U.S. stocks, as well as growth, value and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected Long−term Rate of Return

We employ a “building block” approach in determining the long−term rate of return for plan assets. Historical markets are studied and long−term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long−term capital market assumptions are determined. The long−term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions

2010 contributions for our defined benefit pension plans were $237 and $92 for our retiree health plans. In 2011 we expect, based on current actuarial calculations, to make contributions of approximately $500 to our defined benefit pension plans and approximately $90 to our retiree health benefit plans.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

	Pension Benefits	Retiree Health
2011	$ 749	$ 87
2012	647	86
2013	644	85
2014	653	85
2015	668	84
Years 2016−2020	3,473	396

Assumptions

Weighted−average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits			Retiree Health		
	2010	2009	2008	2010	2009	2008
Discount rate	5.2%	5.7%	6.3%	4.9%	5.4%	6.3%
Rate of compensation increase	3.1%	3.6%	3.9%	— (1)	— (1)	— (1)

(1) Rate of compensation increase is not applicable to the retiree health benefits as compensation levels do not impact earned benefits.

Weighted−average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits				Retiree Health			
	2011	2010	2009	2008	2011	2010	2009	2008
Discount rate	5.2%	5.7%	6.3%	5.9%	4.9%	5.4%	6.3%	6.2%
Expected return on plan assets	7.2%	7.3%	7.4%	7.6%	— (1)	— (1)	— (1)	— (1)
Rate of compensation increase	3.1%	3.6%	3.9%	4.1%	— (2)	— (2)	— (2)	— (2)

(1) Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded.
(2) Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates at December 31,

	2010	2009
Health care cost trend rate assumed for next year	9.0%	9.8%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.9%	4.9%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one−percentage−point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	$ 6	$ (5)
Effect on post−retirement benefit obligation	82	(68)

Note 16 – Income and Other Taxes

Income (loss) before income taxes for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Domestic income (loss)	$ 433	$ 45	$ (622)
Foreign income	382	582	543
Income (Loss) Before Income Taxes	$ 815	$ 627	$ (79)

Provisions (benefits) for income taxes for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Federal income taxes			
Current	$ 153	$ (50)	$ (26)
Deferred	(17)	109	(285)
Foreign income taxes			
Current	59	84	118
Deferred	8	11	4
State income taxes			
Current	46	(2)	1
Deferred	7	—	(43)
Total Provision (Benefits)	$ 256	$ 152	$ (231)

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	6.3	3.2	(19.5)
Effect of tax law changes	(0.2)	—	16.1
Change in valuation allowance for deferred tax assets	2.6	(1.7)	(21.0)
State taxes, net of federal benefit	2.0	(0.2)	36.7
Audit and other tax return adjustments	(4.2)	(8.7)	84.4
Tax−exempt income	(0.4)	(0.5)	8.5
Other foreign, including earnings taxed at different rates	(8.1)	(3.7)	148.9
Other	(1.6)	0.8	3.3
Effective Income Tax Rate	31.4%	24.2%	292.4%

On a consolidated basis, we paid a total of $49, $78 and $194 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2010, 2009 and 2008, respectively.

Total income tax expense (benefit) for the three years ended December 31, 2010 was allocated as follows:

	2010	2009	2008
Pre−tax income	$ 256	$ 152	$ (231)
Common shareholders' equity:			
Changes in defined benefit plans	12	(61)	(183)
Stock option and incentive plans, net	(6)	21	(2)
Translation adjustments and other	11	(13)	10
Total Income Tax Expense (Benefit)	$ 273	$ 99	$ (406)

Unrecognized Tax Benefits and Audit Resolutions

Due to the extensive geographical scope of our operations, we are subject to ongoing tax examinations in numerous jurisdictions. Accordingly, we may record incremental tax expense based upon the more−likely−than−not outcomes of any uncertain tax positions. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. Our ongoing assessments of the more−likely−than−not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2010, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2009	2008
Balance at January 1	$ 148	$ 170	$ 303
Additions from acquisitions	46	—	—
Additions related to current year	38	6	12
Additions related to prior years positions	24	27	13
Reductions related to prior years positions[1]	(16)	(33)	(65)
Settlements with taxing authorities	(19)	(7)	(28)
Reductions related to lapse of statute of limitations	(35)	(29)	(45)
Currency	—	14	(20)
Balance at December 31	$ 186	$ 148	$ 170

(1) Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2010, 2009 and 2008 are $39, $67 and $67, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

We have filed claims in certain jurisdictions to assert our position should the law be clarified by judicial means. At this point in time, we believe it is unlikely that we will receive any benefit from these types of claims but we will continue to analyze as the issues develop. Accordingly, we have not included any benefit for these types of claims in the amount of unrecognized tax benefits.

We recognized interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements within income tax expense. We had $31, $13 and $22 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2010, 2009 and 2008, respectively.

We file income tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. In the U.S., with the exception of ACS, we are no longer subject to U.S. federal income tax examinations for years before 2007. ACS is no longer subject to such examinations for years before 2004. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Deferred Income Taxes

In substantially all instances, deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings at December 31, 2010 was approximately $7 billion. These earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings. Our 2001 sale of half of our ownership interest in Fuji Xerox resulted in our investment no longer qualifying as a foreign corporate joint venture. Accordingly, deferred taxes are required to be provided on the undistributed earnings of Fuji Xerox, arising subsequent to such date, as we no longer have the ability to ensure indefinite reinvestment.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2010 and 2009 were as follows:

	2010	2009
Deferred Tax Assets:		
Research and development	$ 855	$ 752
Post−retirement medical benefits	373	421
Depreciation	200	246
Net operating losses	634	576
Other operating reserves	172	261
Tax credit carryforwards	409	525
Deferred compensation	340	233
Allowance for doubtful accounts	97	93
Restructuring reserves	78	16
Pension	437	403
Other	156	132
Subtotal	3,751	3,658
Valuation allowance	(735)	(672)
Total	$ 3,016	$ 2,986
Deferred Tax Liabilities:		
Unearned income and installment sales	$ (1,025)	$ (996)
Intangibles and goodwill	(1,207)	(154)
Other	(54)	(38)
Total	$ (2,286)	$ (1,188)
Total Deferred Taxes, Net	$ 730	$ 1,798

The above amounts are classified as current or long−term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate or, when applicable, based on the expected timing of the reversal. Current deferred tax assets at December 31, 2010 and 2009 amounted to $298 and $290, respectively.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more−likely−than−not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2010 and 2009 was an increase of $63 and a increase of $44, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more−likely−than−not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more−likely−than−not that the deferred tax assets, for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2010, we had tax credit carryforwards of $409 available to offset future income taxes, of which $109 are available to carryforward indefinitely while the remaining $300 will expire 2011 through 2027 if not utilized. We also had net operating loss carryforwards for income tax purposes of $1,236 that will expire 2011 through 2029, if not utilized, and $2,478 billion available to offset future taxable income indefinitely.

Note 17 – Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2010, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,274, with the increase from December 31, 2009 balance of approximately $1,225 primarily related to currency and current year interest indexation partially offset by matters that have been closed. With respect to the unreserved balance of $1,274, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2010 we had $276 of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $19 and additional letters of credit of approximately $160. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (“ERISA”). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive ("Class Period") and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the "Class"). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), and SEC Rule 10b−5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants' alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company's operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non−public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to refiling. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius ("Agius") and Georgia Stanley to appoint them as additional lead plaintiffs. In July 2007, the Court denied plaintiffs' renewed motion for class certification, without prejudice to renewal after the Court holds a pre−filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius's withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as class counsel. Subsequently, on April 9, 2009, the Court denied defendants' motion to disqualify Milberg LLP. On November 6, 2008, the defendants filed a motion for summary judgment. Briefing with respect to the motion is complete. The Court has not yet rendered a decision. The parties also filed motions to exclude the testimony of certain expert witnesses. On April 22, 2009, the Court denied plaintiffs' motions to exclude the testimony of two of defendants' expert witnesses. On September 30, 2010, the Court denied plaintiffs' motion to exclude the testimony of another of defendants' expert witnesses. The Court also granted defendants' motion to exclude the testimony of one of plaintiffs' expert witnesses, and granted in part and denied in part defendants' motion to exclude the testimony of plaintiffs' two remaining expert witnesses. The individual defendants and we deny any wrongdoing and are vigorously defending the action. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Merger Agreement Between Xerox and Affiliated Computer Services, Inc.: In late September and early October 2009, nine purported class action complaints were filed by ACS 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 at Law No. 3. The operative complaints in the Delaware and Texas actions named 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 ("Boulder") (ACS, the Individual Defendants, Xerox Corporation and Boulder, collectively, the "Xerox Defendants"). 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 prosecution of the Texas action was stayed and further prosecution of the Delaware and Texas actions would proceed in the Delaware action.

The plaintiffs in the Delaware action alledged, 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 deemed was inadequate consideration and pursuant to inadequate process, and the Xerox Defendants aided and abetted those 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 alleged violated the ACS certificate of incorporation and was, therefore, void, and the Xerox Defendants aided and abetted those 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 plaintiffs sought, 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 May 19, 2010, the parties in the Delaware and Texas Actions entered into a Stipulation and Agreement of Compromise and Settlement ("Settlement") resolving all claims by ACS shareholders arising out of Xerox's acquisition of ACS, including all claims in the Delaware and Texas Actions. The defendants in the Delaware and Texas Actions did not admit to any wrongdoing as part of the Settlement, which provided for an aggregate payment of $69 on behalf of all defendants, including a payment of approximately $36 by Xerox, net of insurance proceeds. The Delaware court approved the Settlement at a hearing held on August 24, 2010. In light of the Delaware court's approval of the Settlement, on October 13, 2010, the Texas court signed an order dismissing the Texas action.

Other Contingencies

Guarantees, Indemnifications and Warranty Liabilities

Guarantees and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2010, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Indemnifications Provided as Part of Contracts and Agreements

We are a party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Contracts that we entered into for the sale or purchase of businesses or real estate assets, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including obligations to pay rent. Typically, these relate to such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition.
- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.
- Agreements to indemnify various service providers, trustees and bank agents from any third party claims related to their performance on our behalf, with the exception of claims that result from third−party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. In addition, we indemnify certain software providers against claims that may arise as a result of our use or our subsidiaries', customers' or resellers' use of their software in our products and solutions. These indemnifications usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by−laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by−laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments may not be covered under our directors' and officers' insurance coverage. In addition, we indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales−type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our entry level products, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for the three years ended December 31, 2010 were $33, $34 and $39, respectively. Total product warranty liabilities as of December 31, 2010 and 2009 were $18 and $20, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2010:

- $270 for letters of credit issued i) to guarantee our performance under certain services contracts; ii) to support certain insurance programs; and iii) to support our obligations related to the Brazil tax and labor contingencies.
- $666 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, require us to provide a surety bond as a guarantee of our performance of contractual 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 our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

We have service arrangements where we service third party student loans 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, 2010, we serviced a FFEL portfolio of approximately 3.6 million loans with an outstanding principal balance of approximately $51.4 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, 2010, other current liabilities include reserves of less than $1 for losses on defaulted loans purchased.

In connection with the acquisition of ACS, the Company agreed to provide certain tax and prior employment agreement−related indemnities to former officers and directors of ACS. Management does not anticipate any potential claims under these indemnities would have a material adverse effect on the Company's financial statements taken as a whole and accordingly no value has been assigned for financial reporting purposes.

Note 18 – Preferred Stock

Series A Convertible Preferred Stock

In connection with the acquisition of ACS in February 2010 (see Note 3 – Acquisitions for additional information), we issued 300,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of $300 and a fair value of $349 as of the acquisition date to the holder of ACS Class B common stock. The 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 convertible preferred stock is convertible at any time, at the option of the holder, into 89.8876 shares of common stock for a total of 26,966 thousand shares (reflecting an initial conversion price of approximately $11.125 per share of common stock and is a 25% premium over $8.90, 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 conversion price in the ACS merger agreement), subject to customary anti−dilution adjustments. On or after the fifth anniversary of the issue date, we have the right to cause, under certain circumstances, any or all of the convertible preferred stock to be converted into shares of common stock at the then applicable conversion rate. The convertible preferred stock is also convertible, at the option of the holder, upon a change in control, at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for our common stock upon such change in control. In addition, upon the occurrence of certain fundamental change events, including a change in control or the delisting of Xerox's common stock, the holder of convertible preferred stock has the right to require us to redeem any or all of the 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 convertible preferred stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

Note 19 – Shareholders' Equity

Preferred Stock

As of December 31, 2010 we had one class of preferred stock outstanding. See Note 18 – Preferred Stock for further information. We are authorized to issue approximately 22 million shares of cumulative preferred stock, $1.00 par value per share.

Common Stock

We have 1.75 billion authorized shares of common stock, $1 par value per share. At December 31, 2010, 167 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges, 27 million shares were reserved for conversion of the Series A convertible preferred stock and 2 million shares were reserved for the conversion of convertible debt.

In connection with the acquisition of ACS in February 2010 (see Note 3 – Acquisitions for further information), we issued 489,802 thousand shares of common stock to holders of ACS Class A and Class B common stock.

Treasury Stock

Our Board of Directors has authorized programs for repurchase of the Company's common stock. During the year ended December 31, 2010, we did not purchase any common stock.

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2010 (shares in thousands):

Authorized share repurchase	$ 4,500
Share repurchases	$ 2,941
Share repurchase fees	$ 4
Number of shares repurchased	194,093

The following table reflects the changes in Common and Treasury stock shares for the three years ended December 31, 2010 (shares in thousand):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2007	919,013	(1,836)
Stock option and incentive plans, net	4,442	—
Acquisition of Treasury stock	—	(56,842)
Cancellation of Treasury stock	(58,678)	58,678
Balance at December 31, 2008	864,777	—
Stock option and incentive plans, net	4,604	—
Balance at December 31, 2009	869,381	—
ACS acquisition [1]	489,802	—
Stock option and incentive plans, net	38,395	—
Balance at December 31, 2010	1,397,578	—

(1) Refer to Note 3 – Acquisitions for additional information.

Stock−Based Compensation

We have a long−term incentive plan whereby eligible employees may be granted restricted stock units (“RSUs”), performance shares (“PSs”) and non−qualified stock options.

We grant PSs and RSUs in order to continue to attract and retain employees and to better align employees’ interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2010 and 2009, 30 million and 15 million shares, respectively, were available for grant of awards.

Stock−based compensation expense for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Stock−based compensation expense, pre−tax	$ 123	$ 85	$ 85
Income tax benefit recognized in earnings	47	33	33

Restricted stock units: Compensation expense is based upon the grant date market price for most awards and a Monte Carlo simulation pricing model for a grant in 2009 that included a market condition; the expense is recorded over the vesting period, which ranges from three to five years from the date of grant. A summary of the activity for RSUs as of December 31, 2010, 2009 and 2008, and changes during the years then ended, is presented below (shares in thousands):

	2010		2009		2008	
Nonvested Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	25,127	$ 10.18	14,037	$ 15.43	11,696	$ 16.78
Granted	11,845	8.56	15,268	6.69	5,923	13.63
Vested	(3,671)	18.22	(3,764)	15.17	(3,350)	16.92
Cancelled	(870)	10.36	(414)	13.94	(232)	15.98
Outstanding at December 31	32,431	8.68	25,127	10.18	14,037	15.43

At December 31, 2010, the aggregate intrinsic value of RSUs outstanding was $374. The total intrinsic value and actual tax benefit realized for the tax deductions for vested RSUs for the three years ended December 31, 2010 were as follows:

Vested Restricted Stock Units	2010	2009	2008
Total intrinsic value of vested RSUs	$ 31	$ 19	$ 54
Tax benefit realized for vested RSUs tax deductions	10	6	18

At December 31, 2010, there was $135 of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized ratably over a remaining weighted−average contractual term of 1.7 years.

Performance shares: We grant officers and selected executives PSs that vest contingent upon meeting pre−determined Earnings per Share (“EPS”) and Cash Flow from Operations targets. These shares entitle the holder to one share of common stock, payable after a three−year period and the attainment of the stated goals. If the cumulative three−year actual results for EPS and Cash Flow from Operations exceed the stated targets, then the plan participants have the potential to earn additional shares of common stock. This overachievement can not exceed 50% for officers and 25% for non−officers of the original grant.

In connection with the ACS acquisition, selected ACS executives received a special one−time grant of PSs that vest over a three−year period contingent upon ACS meeting pre−determined annual earnings targets. These shares entitle the holder to one share of common stock, payable after the three−year period and the attainment of the targets. The aggregate number of shares that may be delivered based on achievement of the targets was determined on the date of grant and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of the August 2009 options (maximum).

A summary of the activity for PSs as of December 31, 2010, 2009 and 2008, and changes during the years then ended, is presented below (shares in thousands):

	2010		2009		2008	
Nonvested Performance Shares	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	4,874	$ 15.49	7,378	$ 15.39	6,585	$ 16.16
Granted	5,364	8.10	718	15.17	3,696	13.67
Vested	(1,566)	18.48	(3,075)	15.17	(2,734)	14.87
Cancelled	(901)	15.51	(147)	15.52	(169)	16.05
Outstanding at December 31	7,771	9.78	4,874	15.49	7,378	15.39

At December 31, 2010, the aggregate intrinsic value of PSs outstanding was $90. The total intrinsic value of PSs and the actual tax benefit realized for the tax deductions for vested PSs for the three years ended December 31, 2010 was as follows:

Vested Performance Shares	2010	2009	2008
Total intrinsic value of vested PSs	$ 12	$ 15	$ 41
Tax benefit realized for vested PSs tax deductions	5	6	13

We account for PSs using fair value determined as of the grant date. If the stated targets are not met, any recognized compensation cost would be reversed. As of December 31, 2010, there was $45 of total unrecognized compensation cost related to nonvested PSs; this cost is expected to be recognized ratably over a remaining weighted−average contractual term of 1.8 years.

Stock options

Employee stock options: With the exception of the stock options issued in connection with the ACS acquisition (see below), we have not issued any new stock options associated with our employee long−term incentive plan since 2004. All stock options previously issued under our employee long−term incentive plan and currently outstanding are fully vested and exercisable and generally expire between eight and ten years from the date of grant.

ACS Acquisition: In connection with the acquisition of ACS (see Note 3 – Acquisitions for further information), outstanding ACS options were converted into 96,662 thousand Xerox options. The Xerox options have a weighted average exercise price of $6.79 per option. The estimated fair value associated with the options issued was approximately $222 based on a Black−Scholes valuation model utilizing the assumptions stated below. Approximately $168 of the estimated fair value is associated with ACS options issued prior to August 2009, which became fully vested and exercisable upon the acquisition in accordance with preexisting change−in−control provisions, was recorded as part of the acquisition fair value. The remaining $54 is associated with ACS options issued in August 2009 which continue to vest according to their original terms and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from date of grant.

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%
Dividend yield	1.97%	1.97%
Expected term	0.75 years	4.2 years

The following table provides information relating to the status of, and changes in, outstanding stock options for each of the three years ended December 31, 2010 (stock options in thousands):

Employee Stock Options	2010 Stock Options	2010 Weighted Average Option Price	2009 Stock Options	2009 Weighted Average Option Price	2008 Stock Options	2008 Weighted Average Option Price
Outstanding at January 1	28,363	$ 10.13	45,185	$ 15.49	52,424	$ 19.73
Granted – ACS acquisition	96,662	6.79	—	—	—	—
Cancelled/Expired	(2,735)	7.33	(16,676)	24.68	(6,559)	50.08
Exercised	(51,252)	6.92	(146)	5.88	(680)	8.89
Outstanding at December 31	71,038	8.00	28,363	10.13	45,185	15.49
Exercisable at December 31	57,985	8.38	28,363	10.13	45,185	15.49

As of December 31, 2010, there was $35 of total unrecognized compensation cost related to non−vested stock options. This cost is expected to be recognized ratably over a remaining weighted−average vesting period of 3 years.

Information relating to options outstanding and exercisable at December 31, 2010 was as follows:

	Options Outstanding	Options Exercisable
Aggregate intrinsic value	$ 267	$ 199
Weighted−average remaining contractual life in years	4.42	3.46

The following table provides information relating to stock option exercises for the three years ended December 31, 2010:

	2010	2009	2008
Total intrinsic value of stock options	$ 155	$ —	$ 4
Cash received	183	1	6
Tax benefit realized for stock option tax deductions	56	—	2

Note 20 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock for the three years ended December 31, 2010 (shares in thousands):

	2010	2009	2008
Basic Earnings per Share:			
Net income attributable to Xerox	$ 606	$ 485	$ 230
Accrued dividends on preferred stock	(21)	—	—
Adjusted Net Income Available to Common Shareholders	$ 585	$ 485	$ 230
Weighted average common shares outstanding	1,323,431	869,979	885,471
Basic Earnings per Share	$ 0.44	$ 0.56	$ 0.26
Diluted Earnings per Share:			
Net income attributable to Xerox	$ 606	$ 485	$ 230
Accrued dividends on Preferred stock	(21)	—	—
Interest on Convertible securities, net	—	1	—
Adjusted Net Income Available to Common Shareholders	$ 585	$ 486	$ 230
Weighted−average common shares outstanding	1,323,431	869,979	885,471
Common shares issuable with respect to:			
Stock options	13,497	462	3,885
Restricted stock and performance shares	13,800	7,087	6,186
Convertible securities	—	1,992	—
Adjusted Weighted Average Shares Outstanding	1,350,728	879,520	895,542
Diluted Earnings per Share	$ 0.43	$ 0.55	$ 0.26

The following represents shares not included in the computation of diluted earnings per−share because to do so would have been anti−dilutive (shares in thousands):

Stock options	57,541	27,901	41,300
Restricted stock and performance shares	25,983	22,574	14,969
Convertible preferred stock	26,966	—	—
Convertible securities	1,992	—	1,992
	112,482	50,475	58,261
Dividends Declared per Common Share	$ 0.17	$ 0.17	$ 0.17

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have free access to the Audit Committee.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *"Internal Control – Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

/s/ Ursula M. Burns	/s/ Luca Maestri	/s/ Gary R. Kabureck
Chief Executive Officer	**Chief Financial Officer**	**Chief Accounting Officer**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control − Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2011

QUARTERLY RESULTS OF OPERATIONS (Unaudited)
(in millions, except per−share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2010					
Revenues [1]	$ 4,721	$ 5,508	$ 5,428	$ 5,976	$ 21,633
Costs and Expenses [1]	4,731	5,188	5,100	5,799	20,818
(Loss) Income before Income Taxes and Equity Income	(10)	320	328	177	815
Income tax expenses [2]	22	112	98	24	256
Equity in net (loss) income of unconsolidated affiliates [3]	(2)	28	26	26	78
Net (Loss) Income	(34)	236	256	179	637
Less: Net income − noncontrolling interests	8	9	6	8	31
Net (Loss) Income Attributable to Xerox	$ (42)	$ 227	$ 250	$ 171	$ 606
Basic Earnings per Share [4]	$ (0.04)	$ 0.16	$ 0.18	$ 0.12	$ 0.44
Diluted Earnings per Share [4]	(0.04)	0.16	0.17	0.12	0.43
2009					
Revenues [1]	$ 3,554	$ 3,731	$ 3,675	$ 4,219	$ 15,179
Costs and Expenses [1]	3,476	3,534	3,517	4,025	14,552
Income before Income Taxes and Equity Income	78	197	158	194	627
Income tax expenses [2]	19	59	44	30	152
Equity in net (loss) income of unconsolidated affiliates [3]	(10)	9	15	27	41
Net Income	49	147	129	191	516
Less: Net income − noncontrolling interests	7	7	6	11	31
Net Income Attributable to Xerox	$ 42	$ 140	$ 123	$ 180	$ 485
Basic Earnings per Share [4]	$ 0.05	$ 0.16	$ 0.14	$ 0.21	$ 0.56
Diluted Earnings per Share [4]	0.05	0.16	0.14	0.20	0.55

(1) Costs and expenses for 2010 include: restructuring charges of $195, $11, $4 and $273; acquisition−related costs of $48, $15, $5 and $9, and amortization of intangible assets of $57, $85, $85 and $85, respectively, in the first, second, third and fourth quarters of 2010, currency losses associated with the Venezuelan devaluation of $21 in the first quarter of 2010, costs associated with the ACS shareholders litigation of $36 in the second quarter and the loss on early extinguishment of debt of $15 in the fourth quarter. Costs and expenses for 2009 include: restructuring credits of $2, $1, $2 and $3: amortization of intangible assets of $14, $15, $15 and $16, respectively, for the first, second, third and fourth quarters, as well as acquisition−related costs of $9 and $63, respectively, for the third and fourth quarters.

(2) Income tax expense for 2010 includes tax benefits for restructuring charges of $60, $4, $2 and $100; acquisition−related costs of $12, $1, $2 and $4 and amortization of intangible assets of $22, $32, $32 and $32, respectively, for the first, second, third and fourth quarters and for loss on early extinguishment of debt of $5 in the fourth quarter. Additional tax expense of $16 was incurred in the first quarter of 2010 due to the Medicare subsidy tax law change. The 2009 income tax expense includes tax benefits for amortization of intangible assets of $5, $6, $5 and $6, respectively, for the first, second, third and fourth quarters, as well as acquisition−related costs of $1 and $22, respectively, for the third and fourth quarters. Additional tax expense on restructuring of $1 was incurred in each of the first, third and fourth quarters of 2009.

(3) The first, second, third and fourth quarters of 2010 include $22, $5, $6 and $5 of charges, respectively, for our share of Fuji Xerox restructuring charges. The first, second, third and fourth quarters of 2009 include $22, $9, $9 and $6 of charges, respectively, for our share of Fuji Xerox restructuring charges.

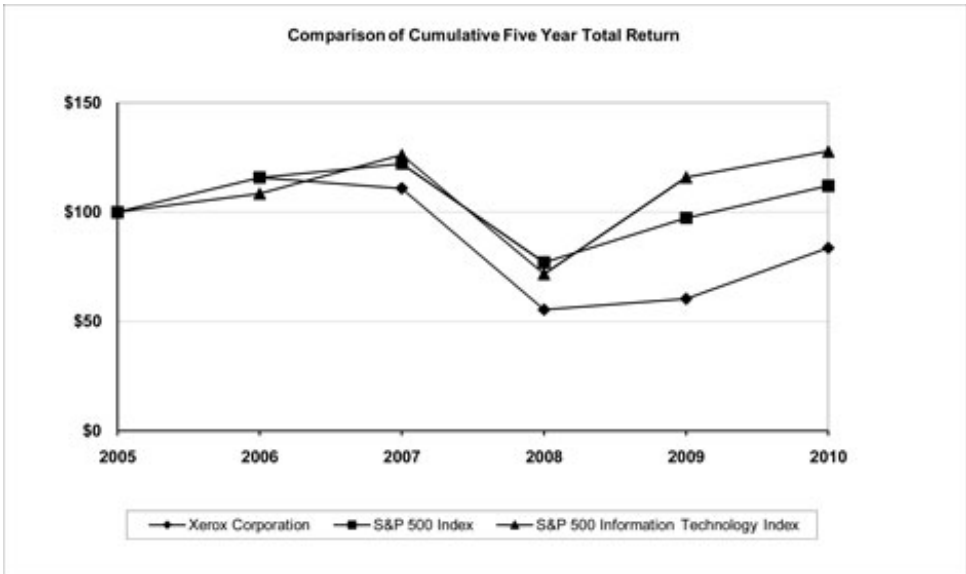
(4) The sum of quarterly earnings per share may differ from the full−year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti−dilutive in certain quarters may not be anti−dilutive on a full−year basis.

FIVE YEARS IN REVIEW
(in millions, except per−share data)

	2010[1]	2009	2008	2007[2]	2006
Per−Share Data					
Income from continuing operations					
Basic	$ 0.44	$ 0.56	$ 0.26	$ 1.21	$ 1.25
Diluted	0.43	0.55	0.26	1.19	1.22
Earnings					
Basic	0.44	0.56	0.26	1.21	1.25
Diluted	0.43	0.55	0.26	1.19	1.22
Common stock dividends declared	0.17	0.17	0.17	0.0425	—
Operations					
Revenues	$ 21,633	$ 15,179	$ 17,608	$ 17,228	$ 15,895
Sales	7,234	6,646	8,325	8,192	7,464
Service, outsourcing and rentals	13,739	7,820	8,485	8,214	7,591
Finance income	660	713	798	822	840
Income from continuing operations	637	516	265	1,165	1,232
Income from continuing operations – Xerox	606	485	230	1,135	1,210
Net income	637	516	265	1,165	1,232
Net income − Xerox	606	485	230	1,135	1,210
Financial Position					
Working capital	$ 2,222	$ 5,270	$ 2,700	$ 4,463	$ 4,056
Total Assets	30,600	24,032	22,447	23,543	21,709
Consolidated Capitalization					
Short−term debt and current portion of long−term debt	1,370	988	1,610	525	1,485
Long−term debt	7,237	8,276	6,774	6,939	5,660
Total Debt	8,607	9,264	8,384	7,464	7,145
Liability to subsidiary trust issuing preferred securities	650	649	648	632	624
Series A convertible preferred stock	349	—	—	—	—
Xerox shareholders' equity	12,006	7,050	6,238	8,588	7,080
Noncontrolling interests	153	141	120	103	108
Total Consolidated Capitalization	$ 21,765	$ 17,104	$ 15,390	$ 16,787	$ 14,957
Selected Data and Ratios					
Common shareholders of record at year−end	43,383	44,792	46,541	48,261	40,372
Book value per common share	$ 8.59	$ 8.11	$ 7.21	$ 9.36	$ 7.48
Year−end common stock market price	$ 11.52	$ 8.46	$ 7.97	$ 16.19	$ 16.95
Employees at year−end	136,500	53,600	57,100	57,400	53,700
Gross margin	34.4%	39.7%	38.9%	40.3%	40.6%
Sales gross margin	34.5%	33.9%	33.7%	35.9%	35.7%
Service, outsourcing and rentals gross margin	33.1%	42.6%	41.9%	42.7%	43.0%
Finance gross margin	62.7%	62.0%	61.8%	61.6%	63.7%

(1) 2010 results include the acquisition of ACS
(2) 2007 results include the acquisition of GIS.

PERFORMANCE GRAPH



Total Return To Shareholders

	Year Ended December 31,					
(Includes reinvestment of dividends)	2005	2006	2007	2008	2009	2010
Xerox Corporation	**$ 100**	$ 115.70	$ 110.80	$ 55.37	$ 60.34	$ 83.61
S&P 500 Index	**100**	115.79	122.16	76.96	97.33	111.99
S&P 500 Information Technology Index	**100**	108.42	126.10	71.70	115.95	127.77

Source: Standard & Poor's Investment Services
Notes: Graph assumes $100 invested on December 31, 2005 in Xerox Corp., the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

CORPORATE INFORMATION

Stock Exchange Information

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
High	$ 10.11	$ 11.35	$ 10.55	$ 12.01
Low	8.38	8.04	7.91	10.44
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
2009				
High	$ 9.10	$ 7.25	$ 9.57	$ 8.66
Low	4.17	4.70	6.05	7.25
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425

* Prices as of close of business

EXHIBIT 21

SUBSIDIARIES OF XEROX CORPORATION

The following companies are subsidiaries of Xerox Corporation as of December 31, 2010. Unless otherwise noted, a subsidiary is a company in which Xerox Corporation or a subsidiary of Xerox Corporation holds 50% or more of the voting stock. The names of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary/Affiliate	Jurisdiction of Incorporation
ACS@Xerox LLC	Delaware
ACS Holdings (UK) LLP	United Kingdom (48)
Affiliated Computer Services, Inc.	Delaware
ACS Application Management Services, Inc.	California
Agilera, Inc.	Delaware
Agilera Messaging, Inc.	Delaware
ACS BRC Holdings, Inc.	Delaware
ACS Enterprise Solutions, Inc.	Delaware
ACS Audit & Compliance Solutions, Inc.	Delaware
ACS BPO Services, Inc.	Delaware
Government Records Services, Inc.	Delaware
Title Records Corporation	Delaware
ACS Government Systems, Inc.	Delaware
ACS Heritage, Inc.	Virginia
ACS State Healthcare, LLC	Delaware
ACS EDI Gateway, Inc.	Delaware
ACS Federal Solutions LLC	Delaware
Consultec IPA, Inc.	New York
ACS TMC, Inc.	Delaware
Digital Information Systems Company, L.L.C.	Georgia
ACS Health Care, Inc.	Oregon
MidasPlus, Inc.	Arizona
Statit Software, Inc.	Oregon
ACS Care and Quality Solutions, Inc.	Wisconsin
ACS Commercial Solutions, Inc.	Nevada
ACS Global, Inc.	Delaware
Affiliated Computer Services (Australia) Pty. Ltd.	Australia
Market Line Colombia S.A.	Colombia (51)
Market Line Peru S.A.C.	Peru (52)
Market Line S.A.	Argentina (49)
Market Line Chile S.A.	Chile (50)
CDR Associates, L.L.C.	Delaware
TMS Health, LLC	Delaware
Truckload Management Services, Inc.	Colorado
ACS ComplQ Corporation	Nevada
ACS Consultant Holdings Corporation	Delaware
ACS Consultant Company, Inc.	Michigan
Superior Venture Partner, Inc.	Pennsylvania
ACS e−Services, LLC	Delaware
e−Services Group (St. Lucia) Limited	St. Lucia
e−Services Group International (Jamaica) Limited	Jamaica (47)
ACS Education Services, Inc.	Delaware
ACS Asset Management Group, Inc.	Oregon
Education Services Company	Delaware
ACS Education Loan Services LLC	Delaware
ACS Education Solutions, LLC	Delaware
ACS Health Administration, Inc.	Delaware
ACS Healthcare Analytics, Inc.	Delaware
ACS Human Resources Solutions, Inc.	Pennsylvania
ACS HR Solutions, LLC	Pennsylvania

ACS HR Solutions LLP	Delaware (67)
ACS HR Solutions Share Plan Services Guernsey	Guernsey
ACS HR Solutions UK Limited	United Kingdom
ACS HR Solucoes Servicos de Recursos Humanos do Brasil Ltda.	Brazil (72)
ACS Relocation & Assignment Service, LLC	Delaware
ACS HR Solutions World Services, LLC	Delaware
ACS HR Solutions Canada Company	Canada
ACS HR Solutions Nederland B.V.	Netherlands
ACS HR Solutions Deutschland GmbH	Germany
Buck Consultants, LLC	Delaware
Buck Consultants Limited/Conseilliers Buck Limitee	Ontario
Buck Consultants Insurance Agency Limited	Ontario
Buck Consultants	Belgium (44)
Buck Kwasha Securities LLC	Delaware
LiveWire, LLC	Missouri
ACS Image Solutions, Inc.	Louisiana
ACS IT Solutions, LP	Delaware (45)
ACS Lending, Inc.	Delaware (41)
ACS Business Services, LLC	Delaware
ACS/ECG Holdings, LLC	Delaware
ACS Defense, LLC	Delaware
ACS Outsourcing Solutions, Inc.	Michigan
ACS Print and Mail Services, Inc.	Michigan
ACS Properties, Inc.	Delaware
ACS Marketing, L.P.	Delaware (42)
ACS Protection Services, Inc.	Texas
ACS Puerto Rico, LLC	Puerto Rico
ACS REBGM, Inc.	Illinois
ACS Recovery Services, Inc.	Delaware
ACS Solutions Poland Sp. z.o.o.	Poland
ACS State & Local Solutions, Inc.	New York
ACS Human Services, LLC	Indiana
ACS Middle East, Inc.	Delaware
ACS China Solutions Hong Kong Limited	Hong Kong
ACS Road Technology Services (Beijing) Co. Ltd.	China
Parkindy LLC	Delaware
Transaction Processing Specialists, Inc.	Texas
ACS TradeOne Marketing, Inc.	Delaware
ACS Securities Services, Inc.	Texas
etravelexperts, LLC	Delaware
ACS Transport Solutions, Inc.	Georgia
ACB Airport Solutions, LLC	Georgia (46)
ACS Solutions de Mexico S.A. de C.V.	Mexico (68)
ACS Trust I	Delaware
ACS Trust II	Delaware
ACS Welfare Benefit Trust	Texas
Health Technology Acquisition Company	Indiana
Outsourced Administrative Systems, Inc.	Indiana
Intellinex LLC	Delaware
LiveBridge, Inc.	Oregon
Newspaper Services Holding, Inc.	Oregon
ACS Contact Solutions of Canada, ULC	Nova Scotia
Patient Accounting Service Center LLC	Washington
Specialty I, LLC	Delaware
The National Abandoned Property Processing Corporation	Delaware
Wagers & Associates, Inc.	Colorado
Global Imaging Systems, Inc.	Delaware
American Photocopy Equipment Company of Pittsburgh, LLC	Delaware
Arizona Office Technologies, Inc.	Arizona
Berney Office Solutions, LLC	Alabama

N&L Enterprises, LLC	Alabama
Capitol Office Solutions, LLC	Delaware
Carolina Office Systems, Inc.	South Carolina
Carr Business Systems, Inc.	New York
Chicago Office Technology Group, Inc.	Illinois
ComDoc, Inc.	Ohio
Consolidated, Inc.	Ohio
Information Works, Inc.	Ohio
Metropolitan Business Machines, Incorporated	Ohio
Connecticut Business Systems, LLC	Delaware
Arden Business Systems, Inc.	New York
Blackstone Valley Office Systems, Inc.	Rhode Island
Conway Office Products, LLC	New Hampshire
Business Equipment Unlimited	Maine
Cameron Office Products, LLC	Massachusetts
Eastern Copy Products, LLC	New York
Northeast Copier Systems, LLC	Massachusetts
CopyCo Office Solutions, Inc.	Indiana
MRSCO, Inc.	Indiana
CTX Business Solutions, Inc.	Oregon
Denitech Corporation	Texas
Electronic Systems, Inc.	Virginia
TML Enterprises, Inc.	Virginia
GDP Finance, Inc.	Georgia
Georgia Duplicating Products, Inc.	Georgia
Global Operations Texas, L.P. d/b/a Dahill	Texas (34)
ImageQuest, Inc.	Kansas
Image Technology Specialists, Inc.	Massachusetts
Inland Business Machines, Inc.	California
Precision Copier Service, Inc. d/b/a Sierra Office Solutions	Nevada
Lucas Business Systems, Inc.	Delaware
Lewan & Associates, Inc.	Colorado
Imaging Concepts of New Mexico, Inc.	New Mexico
Michigan Office Solutions, Inc.	Michigan
Minnesota Office Technology Group, Inc.	Minnesota
Mr. Copy, Inc.	California
MWB Copy Products, Inc.	California
SoCal Office Technologies, Inc.	California
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
Saxon Business Systems, Inc.	Florida
Stewart Business Systems, LLC	New Jersey
Xerox Audio Visual Solutions, Inc.	Georgia
Daniel Communications, Inc.	Alabama
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Infotonics Technology Center Inc.	New York (15)
Institute for Research on Learning	Delaware
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware
STHQ Realty LLC	Delaware
The Xerox Foundation	Delaware
Xerox Argentina Industrial y Comercial S.A.	Argentina (1)
Xerox Canada Capital Ltd.	Canada
Xerox Canada Inc.	Ontario
Xerox (Barbados) SRL	Barbados (14)
Approximo Limited	Ireland

Mega Colour Limited	Ireland
Oriel Star Limited	Ireland
Topspeed Limited	Ireland
Xerox (Barbados) Leasing SRL	Barbados
Xerox Finance (Luxembourg) Sarl	Luxembourg
Xerox Canada Facilities Management Inc.	Ontario
Xerox Canada Finance Inc.	Ontario
ACS Public Sector Solutions Inc.	Canada
ACS Business Process Solutions de Mexico S.A. de C.V.	Mexico (56)
ACS Government Solutions Canada Inc.	Ontario
Xerox Canada Leasing Partnership	Ontario (16)
Xerox Canada Ltd.	Canada (4)
Ionographic Operations Partnership	Massachusetts (18)
Xerox Capital LLC	Turks & Caicos Islands (9)
Xerox Capital Services, LLC	Delaware
Xerox Capital Trust I	Delaware (11)
Xerox de Chile S.A.	Chile (40)
Xerox de Colombia S.A.	Colombia (29)
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox del Ecuador, S.A.	Ecuador (32)
Xerox Engineering Systems NV	Belgium
Xerox Export, LLC	Delaware
Xerox Europe Finance Limited Partnership	Scotland (20)
Xerox European Funding LLC	Delaware
Affiliated Computer Services Holdings (Luxembourg) S.A.R.L.	Luxembourg
Xerox Finance, Inc.	Delaware
Xerox Investments Holding (Bermuda) Limited	Bermuda
Xerox Financial Services LLC	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox d'Haiti, S.A.	Haiti
Xerox Holdings, Inc.	Delaware
Talegen Holdings, Inc.	Delaware
Xerox Credit Corporation	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California (10)
Xerox Investments Europe B.V.	Netherlands
XC Global Trading B.V.	Netherlands
XC Trading Singapore Pte Ltd.	Singapore
XC Trading Hong Kong Limited	Hong Kong
XC Trading Japan G.K.	Japan
XC Trading Korea VH	Korea
XC Trading Malaysia	Malaysia
XC Trading Shenzhen Co., Ltd.	China
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Monocolour Limited	Ireland
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
Xerox Leasing Ireland Limited	Jersey
Xerox Israel Ltd.	Israel
Xerox Middle East Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt
Xerox Finance Leasing S.A.E.	Egypt
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda
Xerox UK Holdings Limited	United Kingdom

Triton Business Finance Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom
Affiliated Computer Services International B.V.	Netherlands
ACS−BPS (Ghana) Limited	Ghana
ACS BPS de Guatemala S.A.	Guatemala
ACS Business Process Solutions Limited	United Kingdom
ACS Malta Limited	Malta (66)
ACS Worldwide Lending Limited	United Kingdom
Buck Consultants Limited	United Kingdom
Bevis Trustees Limited	United Kingdom
Buckingham Trustees Limited	United Kingdom
Buck Consultants (Healthcare) Limited	United Kingdom
Buck Consultants (Administration & Investment) Limited	United Kingdom
Talking People Limited	United Kingdom
Spur Information Solutions Limited	United Kingdom
Syan Holdings Limited	United Kingdom
ACS Information Technologies UK Limited	United Kingdom
Anix Group Limited	United Kingdom
Anix Business Systems Limited	United Kingdom
Anix Computers Limited	United Kingdom
PR Systems Limited	United Kingdom
Syan Technology Limited	United Kingdom
VBHG Limited	United Kingdom
Anix Holdings Limited	United Kingdom
Blue River Systems Limited	United Kingdom
Posetiv Limited	United Kingdom
Red Squared Limited	United Kingdom
ACS (Cyprus) Holdings Limited	Cyprus
Affiliated Computer Services of India Private Limited	India (58)
ACS Czech Republic s.r.o.	Czech Republic
ACS of the Philippines, Inc.	Philippines (62)
ACS Solutions Chile SA	Chile (57)
ACS Solutions Hong Kong Limited	Hong Kong
ACS Solutions Schweiz AG	Switzerland
Affiliated Computer Services Austria GmbH	Austria
Affiliated Computer Services do Brasil Ltda.	Brazil (55)
Affiliated Computer Services (Fiji) Limited	Fiji (59)
Affiliated Computer Services GmbH	Switzerland
Affiliated Computer Services International (Barbados) Limited	Barbados
ACS Business Process Solutions (Dominican Republic), S.A.	Dominican Republic (54)
ACS Business Process Solutions (Jamaica) Limited	Jamaica (53)
Affiliated Computer Services Ireland Limited	Ireland
Affiliated Computer Services Malaysia Sdn. Bhd.	Malaysia (61)
Affiliated Computer Services (Netherlands) B.V.	Netherlands
Affiliated Computer Services of Poland Sp. z.o.o.	Poland (63)
Affiliated Computer Services (Proprietary) Limited	South Africa
Affiliated Computer Services (Tianjin) Co., Ltd.	China
Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox Limited	United Kingdom (6)
Continua Limited	United Kingdom
Continua Sanctum Limited	United Kingdom
Limited Liability Company Xerox (C.I.S.)	Russia
The Xerox (UK) Trust	United Kingdom
Xerox AS	Norway

Xerox Austria GmbH	Austria
Xerox Global Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Office Supplies GmbH	Austria
Xerox Bulgaria EOOD	Bulgaria
Xerox Buro Araclari Ticaret ve Servis A.S.	Turkey
Xerox Capital (Europe) Limited	United Kingdom
Imaging Business Systems (N.I.) Limited	Northern Ireland
Irish Business Systems Limited (Republic of Ireland)	Republic of Ireland
Veenman B.V.	Netherlands
Veenman Financial Services B.V.	Netherlands
Xerox AG	Switzerland
Xerox A/S	Denmark
Xerox Financial Services Danmark A/S	Denmark
Xerox Finance AG	Switzerland
Xerox Sverige AB	Sweden
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Xerox Finance Limited	United Kingdom
Xerox Channels Limited	United Kingdom
XEROX CZECH Republic s r.o.	Czech Republic
Xerox Direct Rhein−Main GmbH	Germany
Xerox Espana, S.A.U.	Spain
Affiliated Computer Services of Spain, S.L., Sociedad Unipersonal	Spain
Affiliated Computer Services Solutions Spain, S.L.	Spain
Buck Consultants, S.L.	Spain
Xerox Fabricacion S.A.U.	Spain
Xerox Renting S.A.U.	Spain
Xerox Office Supplies S.A.U.	Spain
Xerox Exports Limited (dormant)	United Kingdom
Xerox Financial Services Belux NV	Belgium
Xerox Financial Services Norway AS	Norway
Xerox Financial Services Sverige AB	Sweden
Xerox Hellas AEE	Greece
Xerox Holdings Deutschland GmbH	Germany
Affiliated Computer Services of Germany GmbH	Germany
ACS Holdings (Germany) GmbH	Germany
sds business services GmbH	Germany
Xerox GmbH	Germany
Xerox Capital Services Verwaltungs GmbH	Germany
Xerox Capital Services GmbH & Co. KG	Germany
Xerox Dienstleistungsgesellschaft mbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Hungary Trading Limited	Hungary
Xerox (Ireland) Limited	Ireland
Xerox India Limited	India (8)
Xerox Kazakhstan Limited Liability Partnership	Kazakhstan (38)
Xerox Management Services N.V.	Belgium
Xerox N.V.	Belgium
Xerox Luxembourg SA	Luxembourg (27)
Xerox (Nederland) BV	Netherlands
“Veco” Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands
Xerox Rentalease BV	Netherlands
Xerox Services BV	Netherlands
Xerox Oy	Finland
Xerox Financial Services Finland Oy	Finland
Xerox Pensions Limited	United Kingdom

Xerox Polska Sp.zo.o	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal (21)
CREDITEX − Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox Property Services Limited	United Kingdom
Xerox (Romania) Echipmante Si Servici S.A.	Romania
Xerox Slovenia d.o.o.	Slovenia
Xerox S.p.A.	Italy
ACS Solutions Italia, S.p.A.	Italy
Xerox Financial Services Italia S.p.A.	Italy
Xerox Italia Rental Services Srl	Italy
Xerox Telebusiness GmbH	Germany
Xerox (Ukraine) Ltd LLC	Ukraine
Xerox S.A.S.	France (22)
Affiliated Computer Services Holdings (France) SAS	France
Affiliated Computer Services Business Process Solutions SAS	France (64)
Affiliated Computer Services Strategic Support France EURL	France
Affiliated Computer Services Solutions France SAS	France
ACS Solutions Peru S.A.	Peru (65)
Xerobail SAS	France
Xerox Financial Services SAS	France (23)
Xerox Document Supplies SNC	France (24)
Xerox General Services SAS	France
Xerox XHB Limited	Bermuda (6)
Xerox XIB Limited	Bermuda (6)
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
XRI Limited	United Kingdom
RRXH Limited	United Kingdom
RRXO Limited	United Kingdom
RRXIL Limited	United Kingdom (6)
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico (28)
Xerox Mortgage Services, Inc.	Delaware
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox Serviços e Participações Ltda	Brazil
Xerox Comercio e Industria Ltda	Brazil
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Xerox Trinidad Limited	Trinidad
XESystems Foreign Sales Corporation	Barbados
XMPie Inc.	Delaware
Nuvisio Corporation	Delaware
Nuvisio, Ltd.	Israel
XMPie, Ltd.	Israel

(1) Xerox Corporation owns 90% of the shares of Xerox Argentina; the remaining 10% is owned by Pacific Services and Development Corporation, a wholly−owned subsidiary of Xerox Corporation.
(2) Owned 99.9% by XMEIBL and .1% by several individuals.
(3) [Reserved]
(4) Owned 65% by Xerox Canada Inc. and 35% by Xerox Canada Finance Inc.
(5) [Reserved]
(6) Includes indirect holdings.
(7) [Reserved]
(8) Xerox Corporation indirectly owns 89.3% and 10.7% is privately held.
(9) Owned 99.9% by Xerox Corporation and .1% by Pacific Services and Development Corporation, a wholly−owned subsidiary of Xerox Corporation.
(10) Xerox International Partners is a California general partnership between FX Global, Inc. (49%) and Xerox International Joint Marketing, Inc. (51%).
(11) Xerox Capital Trust I is a Delaware statutory business trust which is 100% beneficially owned by Xerox Corporation. The Trust is a special purpose financing vehicle.
(12) [Reserved]
(13) [Reserved]
(14) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation.
(15) This is a not−for−profit corporation which will act as a research and development consortium of businesses and universities. The initial members are Xerox, Corning, Kodak, University of Rochester, RIT and Cornell.
(16) Xerox Canada Leasing Partnership is an Ontario general partnership between Xerox Canada Inc. (99%) and Xerox Canada Finance Inc. (1%).
(17) [Reserved]
(18) Owned 66.995% by Xerox Canada Ltd. and 33.005% by Xerox Canada Inc. It was formerly known as Delphax Systems Partnership but changed to Ionographic Operations Partnership on 2/12/02. This name was registered under the Business Names Act in Ontario on 2/13/02.
(19) [Reserved]
(20) Xerox Europe Finance Limited Partnership is owned 99.9% by Xerox Export LLC and .1% by Xerox Corporation.
(21) Owned 74% by Xerox Limited and 26% by Xerox Property Services Limited.
(22) Remaining shares transferred in Xerox SAS to Xerox Overseas Holding Limited after share capital reduction exercise.
(23) Owned 87.5% by Xerobail SAS and 12.5% by Xerox SAS.
(24) Owned 99.99% by XEROX S.A.S. and .01% by Xerobail SAS.
(25) [Reserved]
(26) [Reserved]
(27) Owned 99% by NV Xerox SA and 1% by Xerox Financial Services Belux NV.
(28) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.
(29) Owned 94.24% by Xerox Corporation, 5.56% by Pacific Services and Development Corporation and .20% by a Minority owner.
(30) Owned 95.73% by Xerox Corporation and 4.27% by Pacific Services and Development Corporation.
(31) [Reserved]
(32) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation. (PSDC owns only one share)
(33) [Reserved]
(34) Owned 99% by Conway Office Products, LLC (limited partner) and 1% by Global Imaging Systems, Inc. (general partner).
(35) [Reserved]
(36) [Reserved]
(37) [Reserved]
(38) Owned 99% by Xerox Limited and 1% by Xerox Property Services Limited.
(39) [Reserved]
(40) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.
(41) Owned 19% by Affiliated Computer Services, Inc.; 37% by ACS State & Local Solutions, Inc.; 23% by Buck Consultants, LLC; 15% by ACS State Healthcare, LLC; 6% by ACS HR Solutions, LLC.
(42) Owned 99.9% by ACS Properties, Inc. and 0.1% by Affiliated Computer Services, Inc.
(43) [Reserved]
(44) Owned 79.884% by Buck Consultants, LLC and 20.116% by ACS Holdings (Germany) GmbH
(45) Owned 99.9% by Affiliated Computer Services, Inc. and 0.1% by ACS Business Services, LLC
(46) Owned 66% by ACS Transport Solutions, Inc.; 17% by Carter Brothers, LLC; and 17% by D&D Electric, Inc.
(47) Owned 99.9998% by eServices Group (St. Lucia) Limited; 0.0002% by ACS Global Inc.
(48) Owned 92.05% by Xerox Corporation, 7.871% by ACS Commercial Solutions, Inc.; .079% by ACS State and Local Solutions, Inc.
(49) Owned 90% by ACS Global Inc; 10% by ACS Commercial Solutions, Inc.
(50) Owned 93.3750% by Market Line S.A. in Argentina; 6.6250% by ACS Global, Inc.

(51) Owned 94.9% by ACS Global, Inc.; 2.1% ACS Commercial Solutions, Inc.; 1% LiveBridge, Inc.; 1% Market Line S.A. in Argentina; and 1% by ACS Middle East, Inc..
(52) Owned 90% by ACS Global, Inc.; 10% ACS Commercial Solutions, Inc.
(53) Owned 99.9090% by Affiliated Computer Services International (Barbados) Limited; .0910% by ACS Commercial Solutions, Inc
(54) Owned 99.9966 by Affiliated Computer Services International (Barbados) Limited; 0.0006% by ACS Business Services, LLC; .0006% by ACS Lending, Inc.; 0.0006% by ACS Outsourcing Solutions, Inc.; 0.0006% by ACS State & Local Solutions, Inc.; 0.0006% by ACS State Healthcare, LLC; 0.0006% by Affiliated Computer Services, Inc.
(55) Owned 99.9997 by Affiliated Computer Services International B.V.; .0003% by Affiliated Computer Services Inc.
(56) Owned 99% by ACS Public Sector Solutions, Inc; 1% by ACS State and Local Solutions, Inc.
(57) Owned 99.5% by Affiliated Computer Services International B.V.; .5% by ACS State and Local Solutions, Inc.
(58) Owned 99.0% by ACS (Cyprus) Holdings Limited; 1.0% by ACS Commercial Solutions, Inc.
(59) Owned 99.9999% by Affiliated Computer Services International B.V.; .0001% by ACS State and Local Solutions, Inc.
(60) [Reserved]
(61) Owned 99% by Affiliated Computer Services International B.V.; 1% by ACS Commercial Solutions, Inc.
(62) Owned 99.9822 by Affiliated Computer Services International B.V.; .0178% by a minority
(63) Owned 99.9290% by Affiliated Computer Services International B.V.; .0710% by ACS Commercial Solutions, Inc.
(64) Owned 99.9383% by Affiliated Computer Services Holdings (France) S.A.R.L.; 0.0616% by Affiliated Computer Services International B.V.; 0.0001 by ACS Commercial Solutions, Inc.
(65) Owned 99% by Affiliated Computer Services Solutions France SAS; 1% by ACS State & Local Solutions, Inc.
(66) Owned 99.8% by ACS Business Process Solutions Limited; 0.2% by ACS Commercial Solutions, Inc.
(67) Owned 99% by ACS HR Solutions LLC; 1% by ACS Human Resource Solutions, Inc.
(68) Owned 99% by ASC Transport Solutions, Inc.; 1% by ACS State & Local Solutions, Inc.
(69) [Reserved]
(70) [Reserved]
(71) [Reserved]
(72) Owned 99% by ACS HR Solutions, LLP; 1% by ACS HR Solutions World Services, LLC.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S−3 (No. 333−166431 and Form S−8 (Nos. 333−162639, 333−164766, 333−160264, 333−142417, 333−125250, 333−93269, 333−09821, 333−22313, 33−65269, 33−44314 and 333−167922) of Xerox Corporation of our report dated February 23, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10−K. We also consent to the incorporation by reference of our report dated February 23, 2011 relating to the financial statement schedule, which appears in this Form 10−K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Stamford, CT
February 23, 2011

EXHIBIT 31(a)

CEO CERTIFICATIONS

I, Ursula M. Burns, certify that:

1. I have reviewed this Annual Report on Form 10−K of Xerox Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 23, 2011

/s/ Ursula M. Burns
Ursula M. Burns
Principal Executive Officer

EXHIBIT 31(b)

CFO CERTIFICATIONS

I, Luca Maestri, certify that:

1. I have reviewed this Annual Report on Form 10−K of Xerox Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 23, 2011

/s/ Luca Maestri
Luca Maestri
Principal Financial Officer

EXHIBIT 32

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Form 10−K of Xerox Corporation, a New York corporation (the "Company"), for the year ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ursula M. Burns, Chairman of the Board and Chief Executive Officer of the Company, and Luca Maestri, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes−Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ursula M. Burns
Ursula M. Burns
Chief Executive Officer
February 23, 2011

/s/ Luca Maestri
Luca Maestri
Chief Financial Officer
February 23, 2011

This certification accompanies this Report pursuant to § 906 of the Sarbanes−Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes−Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

XEROX CORP (XRX)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 11/02/2011
Filed Period 09/30/2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-04471

XEROX CORPORATION
(Exact Name of Registrant as specified in its charter)

New York	**16-0468020**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 4505, 45 Glover Avenue Norwalk, Connecticut	**06856-4505**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Class	**Outstanding at September 30, 2011**
Common Stock, $1 par value	1,387,053,365 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this 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: changes in economic conditions, political conditions, trade protection measures, licensing requirements, environmental regulations and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; our ability to expand equipment placements and to drive the expanded use of color in printing and copying; development of new products and services; interest rates, cost of borrowing and access to credit markets; our ability to protect our intellectual property rights; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; reliance on third parties for manufacturing of products and provision of services; the risk that we may 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 risks 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 this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011 and our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”). 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.

XEROX CORPORATION
FORM 10-Q
September 30, 2011

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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues				
Sales	$ 1,738	$ 1,700	$ 5,129	$ 5,169
Service, outsourcing and rentals	3,689	3,567	11,052	9,990
Finance income	156	161	481	498
Total Revenues	5,583	5,428	16,662	15,657
Costs and Expenses				
Cost of sales	1,154	1,127	3,383	3,381
Cost of service, outsourcing and rentals	2,545	2,417	7,597	6,647
Equipment financing interest	56	61	176	186
Research, development and engineering expenses	183	189	542	588
Selling, administrative and general expenses	1,109	1,136	3,347	3,398
Restructuring and asset impairment charges	(4)	4	(28)	210
Acquisition-related costs	—	5	—	68
Amortization of intangible assets	87	85	259	227
Other expenses, net	86	76	268	314
Total Costs and Expenses	5,216	5,100	15,544	15,019
Income before Income Taxes and Equity Income	367	328	1,118	638
Income tax expense	81	98	284	232
Equity in net income of unconsolidated affiliates	43	26	111	52
Net Income	329	256	945	458
Less: Net income attributable to noncontrolling interests	9	6	25	23
Net Income Attributable to Xerox	$ 320	$ 250	$ 920	$ 435
Basic Earnings per Share	$ 0.23	$ 0.18	$ 0.65	$ 0.32
Diluted Earnings per Share	$ 0.22	$ 0.17	$ 0.63	$ 0.32

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 785	$ 1,211
Accounts receivable, net	3,001	2,826
Billed portion of finance receivables, net	170	198
Finance receivables, net	2,178	2,287
Inventories	1,209	991
Other current assets	1,138	1,126
Total current assets	8,481	8,639
Finance receivables due after one year, net	4,007	4,135
Equipment on operating leases, net	505	530
Land, buildings and equipment, net	1,645	1,671
Investments in affiliates, at equity	1,388	1,291
Intangible assets, net	3,172	3,371
Goodwill	8,786	8,649
Deferred tax assets, long-term	414	540
Other long-term assets	2,143	1,774
Total Assets	$ 30,541	$ 30,600
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 2,096	$ 1,370
Accounts payable	1,811	1,968
Accrued compensation and benefits costs	752	901
Unearned income	375	371
Other current liabilities	1,618	1,807
Total current liabilities	6,652	6,417
Long-term debt	7,099	7,237
Liability to subsidiary trust issuing preferred securities	—	650
Pension and other benefit liabilities	1,748	2,071
Post-retirement medical benefits	885	920
Other long-term liabilities	888	797
Total Liabilities	17,272	18,092
Series A Convertible Preferred Stock	349	349
Common stock	1,425	1,398
Additional paid-in capital	6,788	6,580
Treasury stock, at cost	(309)	—
Retained earnings	6,736	6,016
Accumulated other comprehensive loss	(1,886)	(1,988)
Xerox shareholders' equity	12,754	12,006
Noncontrolling interests	166	153
Total Equity	12,920	12,159
Total Liabilities and Equity	$ 30,541	$ 30,600
Shares of common stock issued	1,424,765	1,397,578
Treasury stock	(37,712)	—
Shares of common stock outstanding	1,387,053	1,397,578

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities:				
Net income	$ 329	$ 256	$ 945	$ 458
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	301	284	890	804
Provision for receivables	45	48	99	141
Provision for inventory	13	7	32	24
Net gain on sales of businesses and assets	—	(15)	(8)	(16)
Undistributed equity in net income of unconsolidated affiliates	(43)	(26)	(83)	(35)
Stock-based compensation	29	29	92	86
Restructuring and asset impairment charges	(4)	4	(28)	210
Payments for restructurings	(42)	(54)	(162)	(148)
Contributions to pension benefit plans	(225)	(142)	(348)	(205)
Increase in accounts receivable and billed portion of finance receivables	(262)	(183)	(548)	(318)
Collections of deferred proceeds from sales of receivables	105	73	287	115
Increase in inventories	(141)	(113)	(278)	(311)
Increase in equipment on operating leases	(76)	(72)	(205)	(194)
Decrease in finance receivables	74	69	234	270
Increase in other current and long-term assets	(61)	(56)	(184)	(43)
Increase (decrease) in accounts payable and accrued compensation	181	134	(197)	321
Increase (decrease) in other current and long-term liabilities	78	(4)	(97)	(70)
Net change in income tax assets and liabilities	52	76	220	183
Net change in derivative assets and liabilities	19	73	43	69
Other operating, net	(6)	(22)	(21)	78
Net cash provided by operating activities	366	366	683	1,419
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(80)	(100)	(245)	(234)
Proceeds from sales of land, buildings and equipment	5	15	9	40
Cost of additions to internal use software	(41)	(45)	(122)	(114)
Acquisitions, net of cash acquired	(51)	(146)	(188)	(1,674)
Net change in escrow and other restricted investments	(1)	13	(9)	19
Other investing, net	1	(3)	20	1
Net cash used in investing activities	(167)	(266)	(535)	(1,962)
Cash Flows from Financing Activities:				
Net (payments) proceeds on debt	(101)	(150)	602	(2,188)
Payment of liability to subsidiary trust issuing preferred securities	—	—	(670)	—
Common stock dividends	(63)	(59)	(182)	(156)
Preferred stock dividends	(6)	(6)	(18)	(9)
Proceeds from issuances of common stock	10	3	41	120
Excess tax benefits from stock-based compensation	1	2	5	12
Payments to acquire treasury stock, including fees	(309)	—	(309)	—
Repurchases related to stock-based compensation	(21)	(12)	(27)	(14)
Other financing	(3)	(9)	(15)	(18)
Net cash used in financing activities	(492)	(231)	(573)	(2,253)
Effect of exchange rate changes on cash and cash equivalents	(20)	24	(1)	(28)
Decrease in cash and cash equivalents	(313)	(107)	(426)	(2,824)

Cash and cash equivalents at beginning of period	1,098	1,082	1,211	3,799
Cash and Cash Equivalents at End of Period	$ 785	$ 975	$ 785	$ 975

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation

References herein to "we," "us," "our," the "Company" and "Xerox" refer to Xerox Corporation and its consolidated subsidiaries unless the context specifically requires otherwise.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2010 Annual Report to Shareholders, which is incorporated by reference in our 2010 Annual Report on Form 10-K ("2010 Annual Report"), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2010 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

For convenience and ease of reference, we refer to the financial statement caption "Income before Income Taxes and Equity Income" as "pre-tax income."

Note 2 – Recent Accounting Pronouncements

Testing Goodwill for Impairment: In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment*, which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for our fiscal year beginning January 1, 2012 and earlier adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2011-08 on our Consolidated financial statements.

Presentation of Comprehensive Income: In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. ASU 2011-05 is effective for our fiscal year beginning January 1, 2012 and must be applied retrospectively. We expect to present comprehensive income in two separate but consecutive statements and we most likely expect to early adopt commencing with our 2011 year-end reporting. Other than the change in presentation, we have determined these changes will not have an impact on our Consolidated Financial Statements.

Fair Value Measurement and Disclosure Requirements: In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) – Fair Value Measurement, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements. ASU 2011-04 is effective for our fiscal year beginning January 1, 2012 and must be applied prospectively. We are currently evaluating the impact of the adoption of ASU 2011-04 on our Consolidated financial statements.

Receivables: In April 2011, the FASB issued ASU 2011-02 to provide additional guidance on a creditor's determination of whether a restructuring is a troubled debt restructuring. The additional guidance was provided to assist a creditor in determining whether it has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining if a restructuring constitutes a troubled debt restructuring. The update was effective for our

third quarter beginning July 1, 2011 and did not have a material effect on our financial condition, results of operations or disclosures as renegotiations and modifications of our finance receivables occur on a limited basis.

Note 3 – Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. We report our financial performance based on the following two primary reportable segments – Technology and Services. Our Technology segment includes the sale and support of a broad range of document systems from entry level to high-end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT outsourcing services.

Our **Technology** segment is centered on strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of document systems and supplies, technical services and product financing. Our products range from:

- **"Entry,"** which includes A4 devices and desktop printers; to
- **"Mid-range,"** which includes A3 devices that generally serve workgroup environments in mid to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ ppm priced at less than $100K; to
- **"High-end,"** which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

The **Services** segment is comprised of three outsourcing service offerings:

- Document Outsourcing (which includes Managed Print Services)
- Business Process Outsourcing
- Information Technology Outsourcing

Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document-intensive business processes through automation and deployment of software application and tools and the management of their printing needs. Document outsourcing also includes revenues from our partner print services offerings. Business process outsourcing services includes service arrangements where we manage a customer's business activity or process. Information technology outsourcing services include service arrangements where we manage a customer's IT-related activities, such as application management and application development, data center operations or testing and quality assurance.

The segment classified as **Other** includes several units, none of which meet the thresholds for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems and non-allocated Corporate items including non-financing interest, as well as other items included in Other expenses, net.

Operating segment revenues and profitability were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Segment Revenue	Segment Profit (Loss)	Segment Revenue	Segment Profit (Loss)
2011				
Technology	$ 2,500	$ 258	$ 7,547	$ 824
Services	2,717	323	7,973	911
Other	366	(86)	1,142	(225)
Total	$ 5,583	$ 495	$ 16,662	$ 1,510
2010				
Technology	$ 2,466	$ 247	$ 7,504	$ 753
Services	2,554	286	6,926	808
Other	408	(79)	1,227	(276)
Total	$ 5,428	$ 454	$ 15,657	$ 1,285

Reconciliation to Pre-tax Income	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Segment Profit	$ 495	$ 454	$ 1,510	$ 1,285
Reconciling items:				
Restructuring and asset impairment charges	4	(4)	28	(210)
Restructuring charges of Fuji Xerox	(1)	(6)	(16)	(33)
Acquisition-related costs	—	(5)	—	(68)
Amortization of intangible assets	(87)	(85)	(259)	(227)
Venezuelan devaluation costs	—	—	—	(21)
ACS shareholders litigation settlement	—	—	—	(36)
Loss on early extinguishment of liability	—	—	(33)	—
Equity in net income of unconsolidated affiliates	(43)	(26)	(111)	(52)
Other	(1)	—	(1)	—
Pre-tax Income	$ 367	$ 328	$ 1,118	$ 638

Note 4 – Acquisitions

In February 2011, we acquired **Concept Group, Ltd.** for $43 net of cash acquired. This acquisition expands our reach into the small and mid-size business market in the U.K. Concept Group has nine locations throughout the U.K. and provides document imaging solutions and technical services to more than 3,000customers.

In April 2011, we acquired **Unamic/HCN B.V.**, the largest privately-owned customer care provider in the Benelux region, for approximately $55 net of cash acquired. Unamic/HCN's focus on the Dutch-speaking market expands our customer care capabilities in the Netherlands, Belgium, Turkey and Suriname.

In May 2011, we acquired **NewField Information Technology, Ltd.**, a U.K.-based print consultancy and software solution provider, for $17 net of cash acquired. The acquisition expands our market-leading managed print services portfolio that serves workplaces of any size.

In July 2011, we acquired **Education Sales and Marketing, LLC**("ESM"), a leading provider of outsourced enrollment management and student loan default solutions, for approximately $43 net of cash acquired. The acquisition of ESM enables us to offer a broader range of services to assist post-secondary schools in attracting and retaining the most qualified students while reducing accreditation risk.

In September 2011, we acquired the net assets related to the **U.S. operations of Symcor Inc.** ("Symcor"). In connection with the acquisition of the net assets, we assumed and took over the operational responsibility for the customer contracts related to this operation. We agreed to pay $17 for the acquired net assets and the Seller agreed to pay us $52, which represented the fair value of the liabilities assumed. The payments were made in October 2011 and we received net cash of $35. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing. We are in the process of determining the purchase price allocation for this acquisition.

We acquired seven additional businesses in 2011 for a total of $21 in cash as part of our strategy of increasing our U.S. distribution network for small and mid-size businesses. These acquisitions further our strategy of creating a nationwide network of office technology suppliers focused on improving document workflow and office efficiency for small and mid-size businesses.

Summary

The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. Unamic/HCN, NewField IT, ESM and Symcor are included within our Services segment while the acquisitions of office technology suppliers are included within our Technology segment. The purchase prices, for all acquisitions except Symcor, were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

ACS Acquisition

In February 2010, we acquired ACS in a cash-and-stock transaction valued at approximately $6.5 billion. In addition, we repaid $1.7 billion of ACS's debt at acquisition and assumed an additional $0.6 billion of debt. ACS provides business

process outsourcing and information technology outsourcing services and solutions to commercial and governmental clients worldwide. The operating results of ACS are included in our Services segment from February 6, 2010.

The unaudited pro-forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2010. The pro-forma results include the amortization associated with the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for unearned revenue, software and land, buildings and equipment. To better reflect the combined operating results, material non-recurring charges directly attributable to the transaction have been excluded. In addition, the pro-forma results do not include any synergies or other benefits of the acquisition. Accordingly, the unaudited pro-forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010.

	Nine Months Ended September 30, 2010	
	Pro-forma	As Reported
Revenue	$ 16,276	$ 15,657
Net income – Xerox	421	435
Basic earnings per-share	0.29	0.32
Diluted earnings per-share	0.29	0.32

Note 5 – Receivables, Net

Accounts Receivable Sales Arrangements

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. The agreements involve the sale of entire groups of accounts receivable for cash. In certain instances a portion of the sales proceeds are held back and deferred until collection of the related receivables by the purchaser. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows, because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. These receivables are included in the caption “Other current assets” in the accompanying Condensed Consolidated Balance Sheets and were $93 and $90 at September 30, 2011 and December 31, 2010, respectively. Under most of the agreements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material. Accounts receivables sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Accounts receivable sales	$ 754	$ 574	$ 2,303	$ 1,586
Deferred proceeds	93	97	290	212
Fees associated with sales	5	3	14	10
Estimated decrease to operating cash flows[1]	(35)	(11)	(29)	(81)

(1) Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter and (iii) currency.

Finance Receivables – Allowance for Credit Losses and Credit Quality

Finance receivables include sales-type leases, direct financing leases and installment loans. Our finance receivable portfolios are primarily in the U.S., Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

The following table is a rollforward of the allowance for doubtful finance receivables as well as the related investment in finance receivables:

	United States	Canada	Europe	Other [3]	Total
Allowance for Credit Losses:					
Balance at December 31, 2010	$ 91	$ 37	$ 81	$ 3	$ 212
Provision	7	4	11	—	22
Charge-offs	(10)	(5)	(8)	—	(23)
Recoveries and other[1]	(1)	2	3	—	4
Balance at March 31, 2011	87	38	87	3	215
Provision	1	3	14	—	18
Charge-offs	(6)	(5)	(11)	—	(22)
Recoveries and other[1]	(1)	—	(1)	—	(2)
Balance at June 30, 2011	81	36	89	3	209
Provision	4	1	18	—	23
Charge-offs	(7)	(3)	(19)	—	(29)
Recoveries and other[1]	1	(1)	(5)	—	(5)
Balance September 30, 2011	$ 79	$ 33	$ 83	$ 3	$ 198
Finance receivables as of September 30, 2011 collectively evaluated for impairment[2]	$ 2,943	$ 793	$ 2,714	$ 95	$ 6,545

Allowance for Credit Losses:					
Balance at December 31, 2009	$ 99	$ 33	$ 87	$ 3	$ 222
Provision	10	6	17	—	33
Charge-offs	(22)	(6)	(11)	—	(39)
Recoveries and other[1]	1	2	(5)	—	(2)
Balance at March 31, 2010	88	35	88	3	214
Provision	15	6	12	—	33
Charge-offs	(17)	(8)	(19)	—	(44)
Recoveries and other[1]	—	—	(6)	—	(6)
Balance at June 30, 2010	86	33	75	3	197
Provision	13	5	17	—	35
Charge-offs	(9)	(5)	(10)	—	(24)
Recoveries and other[1]	2	2	7	—	11
Balance at September 30, 2010	$ 92	$ 35	$ 89	$ 3	$ 219
Finance receivables as of September 30, 2010 collectively evaluated for impairment[2]	$ 3,184	$ 826	$ 2,700	$ 58	$ 6,768

(1) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.
(2) Total Finance receivables exclude residual values of $8 and $13, and the allowance for credit losses of $198 and $219 at September 30, 2011 and 2010, respectively.
(3) Includes developing market countries and smaller units.

We evaluate our customers based on the following credit quality indicators:

- **Investment grade:** This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at less than 1%.

- **Non-investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by

the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.

- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees and etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

Credit quality indicators are updated at least annually and the credit quality of any given customer can change during the life of the portfolio. Details about our finance receivables portfolio based on industry and credit quality indicators are as follows:

	September 30, 2011			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and Other Services	$ 322	$ 394	$ 162	$ 878
Government and Education	806	23	5	834
Graphic Arts	119	203	154	476
Industrial	187	82	34	303
Healthcare	125	43	27	195
Other	90	104	63	257
Total United States	1,649	849	445	2,943
Finance and Other Services	142	114	50	306
Government and Education	119	9	4	132
Graphic Arts	35	38	35	108
Industrial	54	40	32	126
Other	72	39	10	121
Total Canada	422	240	131	793
France	244	372	86	702
U.K./Ireland	193	170	56	419
Central[1]	340	508	60	908
Southern [2]	242	291	48	581
Nordics[3]	62	38	4	104
Total Europe	1,081	1,379	254	2,714
Other	66	23	6	95
Total	$ 3,218	$ 2,491	$ 836	$ 6,545

	December 31, 2010			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and Other Services	$ 360	$ 401	$ 190	$ 951
Government and Education	849	21	7	877
Graphic Arts	147	217	156	520
Industrial	206	91	38	335
Healthcare	134	48	32	214
Other	102	109	69	280
Total United States	1,798	887	492	3,177
Finance and Other Services	150	127	56	333

Government and Education	127	12	3	142
Graphic Arts	32	35	48	115
Industrial	57	47	30	134
Other	88	47	13	148
Total Canada	454	268	150	872
France	219	374	82	675
U.K./Ireland	206	164	51	421
Central[1]	297	551	65	913
Southern [2]	263	237	81	581
Nordics[3]	50	63	3	116
Total Europe	1,035	1,389	282	2,706
Other	33	33	—	66
Total	$ 3,320	$ 2,577	$ 924	$ 6,821

(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

The aging of our billed finance receivables is based upon the number of days an invoice is past due and is as follows:

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	September 30, 2011						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and Other Services	$ 19	$ 4	$ 1	$ 24	$ 854	$ 878	$ 21
Government and Education	22	4	3	29	805	834	35
Graphic Arts	17	2	1	20	456	476	12
Industrial	8	2	1	11	292	303	10
Healthcare	5	2	1	8	187	195	6
Other	7	1	1	9	248	257	12
Total United States	78	15	8	101	2,842	2,943	96
Canada	3	3	1	7	786	793	27
France	2	—	1	3	699	702	18
U.K./Ireland	3	2	3	8	411	419	14
Central [1]	7	3	4	14	894	908	45
Southern[2]	17	12	18	47	534	581	115
Nordics [3]	1	—	—	1	103	104	—
Total Europe	30	17	26	73	2,641	2,714	192
Other	1	1	—	2	93	95	—
Total	$ 112	$ 36	$ 35	$ 183	$ 6,362	$ 6,545	$ 315

	December 31, 2010						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and Other Services	$ 23	$ 5	$ 2	$ 30	$ 921	$ 951	$ 23
Government and Education	26	6	3	35	842	877	40
Graphic Arts	21	3	1	25	495	520	16
Industrial	11	2	1	14	321	335	10
Healthcare	6	2	1	9	205	214	9
Other	8	2	—	10	270	280	8
Total United States	95	20	8	123	3,054	3,177	106
Canada	3	3	1	7	865	872	28
France	1	1	—	2	673	675	5
U.K./Ireland	4	1	1	6	415	421	7
Central [1]	9	2	4	15	898	913	39
Southern[2]	32	10	15	57	524	581	99
Nordics [3]	1	—	—	1	115	116	2
Total Europe	47	14	20	81	2,625	2,706	152
Other	2	—	—	2	64	66	—
Total	$ 147	$ 37	$ 29	$ 213	$ 6,608	$ 6,821	$ 286

(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

Note 6 – Inventories

The following is a summary of Inventories by major category:

	September 30, 2011	December 31, 2010
Finished goods	$ 1,030	$ 858
Work-in-process	74	46
Raw materials	105	87
Total Inventories	$ 1,209	$ 991

Note 7 – Investment in Affiliates, at Equity

Our equity in net income of our unconsolidated affiliates was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fuji Xerox	$ 42	$ 23	$ 104	$ 41
Other investments	1	3	7	11
Total Equity in Net Income of Unconsolidated Affiliates	$ 43	$ 26	$ 111	$ 52

Fuji Xerox

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest. Equity income for the nine months ended September 30, 2011 and 2010 includes after-tax restructuring charges of $16 and $33, respectively, primarily reflecting Fuji Xerox's continued cost-reduction initiatives.

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Summary of Operations:				
Revenues	$ 3,330	$ 2,860	$ 9,274	$ 8,326
Costs and expenses	3,042	2,655	8,584	7,894
Income before income taxes	288	205	690	432
Income tax expense	107	97	231	204
Net Income	181	108	459	228
Less: Net income – noncontrolling interests	1	1	3	3
Net Income – Fuji Xerox	$ 180	$ 107	$ 456	$ 225
Weighted Average Rate[(1)]	77.69	85.79	80.37	89.43

(1) Represents Yen/U.S. Dollar exchange rate used to translate.

Note 8 – Restructuring Programs

Information related to restructuring program activity during the nine months ended September 30, 2011 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Balance December 31, 2010	$ 298	$ 25	$ 323
Restructuring provision	32	1	33
Reversals of prior accruals	(55)	(6)	(61)
Net current period charges[1]	(23)	(5)	(28)
Charges against reserve and currency	(159)	(10)	(169)
Balance September 30, 2011	$ 116	$ 10	$ 126

(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown.

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Charges against reserve	$ (49)	$ (70)	$ (169)	$ (153)
Asset impairment	—	1	—	5
Effects of foreign currency and other non-cash items	7	15	7	—
Cash Payments for Restructurings	$ (42)	$ (54)	$ (162)	$ (148)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Technology	$ (4)	$ 2	$ (23)	$ 138
Services	(2)	2	(2)	47
Other	2	—	(3)	25
Total Net Restructuring Charges	$ (4)	$ 4	$ (28)	$ 210

We have identified and approved additional restructuring initiatives of approximately $30 for the fourth quarter of 2011.

Note 9 – Debt

Xerox Capital Trust I

In May 2011, Xerox Capital Trust I ("Trust I"), our wholly owned subsidiary, redeemed its 8% Preferred Securities due in 2027 of $650 with funds received from the settlement of our liability to Trust I. The settlement and redemption resulted in a pre-tax loss on extinguishment of debt of $33 ($20 after-tax), representing the call premium of approximately $10 and the write-off of unamortized debt costs and other liability carrying value adjustments of approximately $23.

Senior Notes

In May 2011, we issued $300 of Floating Rate Senior Notes due 2014 (the "2014 Floating Rate Notes") and $700 of 4.50% Senior Notes due 2021 (the "2021 Senior Notes"). The 2014 Floating Rate Notes were issued at par and the 2021 Senior Notes were issued at 99.246% of par, resulting in aggregate net proceeds for both notes of approximately $995. The 2014 Floating Rate Notes accrue interest at a rate per annum, reset quarterly, equal to the three-month LIBOR plus 0.820% and are payable quarterly. The 2021 Senior Notes accrued interest at a rate of 4.50% per annum and are payable semi-annually. As a result of the discount, they have a weighted average effective interest rate of 4.595%. Proceeds from the offering were used to redeem the $650 Trust I 8% Preferred Securities mentioned above and for general corporate purposes.

Credit Facility

In the second quarter 2011, two lenders to our Credit Facility agreed to extend the maturity date of their portion of the Facility, such that the entire Credit Facility now has a maturity date of April 30, 2013. Prior to this amendment, 10% of the Credit Facility had a maturity date of April 30, 2012.

Note 10 – Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest expense[1]	$ 116	$ 148	$ 367	$ 454
Interest income[2]	161	165	498	511

(1) Includes Equipment financing interest, as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.
(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

Note 11 – Financial Instruments

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged.

Fair Value Hedges

At September 30, 2011, we did not have any interest rate swaps. At December 31, 2010, pay variable/receive fixed interest rate swaps, with notional amounts of $950 and net asset fair values of $11, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2011 or 2010.

Terminated Swaps

During the nine months ended September 30, 2011, we early terminated several interest rate swaps that had been designated as fair value hedges of certain debt instruments. The net proceeds from these terminated swaps were $27 and are classified in cash flows from operations in the Condensed Consolidated Statements of Cash Flows. These terminated interest rate swaps had an aggregate notional value of $2,150. The $27 fair value credit adjustment to debt is being amortized to interest expense over the remaining term of the related notes.

Foreign Exchange Risk Management

We are a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of our business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchase option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

- Foreign currency-denominated assets and liabilities
- Forecasted purchases and sales in foreign currency

Summary of Foreign Exchange Hedging Positions

At September 30, 2011, we had outstanding forward exchange and purchased option contracts with gross notional values of $3,777, which is reflective of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values as of September 30, 2011:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[1]
Euro/U.K. Pound Sterling	$ 782	$ (5)
U.S. Dollar/Euro	589	20
Japanese Yen/U.S. Dollar	501	13
Japanese Yen/Euro	347	21
Swiss Franc/Euro	236	(4)
U.K. Pound Sterling/U.S. Dollar	218	(5)
U.K. Pound Sterling/Euro	161	—
Canadian Dollar/Euro	146	(1)
Swedish Krona/Euro	96	(1)
U.K. Pound Sterling/Swiss Franc	76	—
Euro/U.S. Dollar	75	—
Mexican Peso/U.S. Dollar	68	(6)
Indian Rupee/U.S. Dollar	66	(3)
Danish Krone/Euro	63	—
U.S. Dollar/Japanese Yen	56	—
Norwegian Krone/Euro	55	(1)
All Other	242	(1)
Total Foreign Exchange Hedging	$ 3,777	$ 27

(1) Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at September 30,2011.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. The net asset fair value of these contracts was $30 and $18 as of September 30, 2011 and December 31, 2010, respectively.

Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 39	$ 19
	Other current liabilities	(9)	(1)
Interest rate swaps	Other long-term assets	—	11
	Net Designated Asset	$ 30	$ 29
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 19	$ 26
	Other current liabilities	(22)	(18)
	Net Undesignated Asset	$ (3)	$ 8
Summary of Derivatives	Total Derivative Assets	$ 58	$ 56
	Total Derivative Liabilities	(31)	(19)
	Net Derivative Asset	$ 27	$ 37

Summary of Derivative Instruments Gains (Losses)

Derivative gains and (losses) affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and (losses).

Designated Derivative Instruments Gains (Losses)

The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income Three Months Ended September 30,		Hedged Item Gain (Loss) Recognized in Income Three Months Ended September 30,	
		2011	2010	2011	2010
Interest rate contracts	Interest expense	$ —	$ 35	$ —	$ (35)

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income Nine Months Ended September 30,		Hedged Item Gain (Loss) Recognized in Income Nine Months Ended September 30,	
		2011	2010	2011	2010
Interest rate contracts	Interest expense	$ 16	$ 113	$ (16)	$ (113)

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended September 30,		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Three Months Ended September 30,	
	2011	2010		2011	2010
Foreign exchange contracts – forwards	$ 43	$ (2)	Cost of sales	$ 4	$ 7

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30,		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Nine Months Ended September 30,	
	2011	2010		2011	2010
Foreign exchange contracts – forwards	$ 19	23	Cost of sales	$ —	18

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or (loss) was included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

At September 30, 2011, net gains of $40 were recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

Non-designated derivative instruments are primarily instruments used to hedge foreign currency-denominated assets and liabilities. They are not designated as hedges since there is a natural offset for the re-measurement of the underlying foreign currency-denominated asset or liability.

The following table provides a summary of gains (losses) on non-designated derivative instruments:

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Foreign exchange contracts – forwards	Other expense – Currency gains (losses), net	$ 19	$ (2)	$ 3	$ 87

During the three months ended September 30, 2011 and 2010, we recorded Currency losses, net of $10 and $0, respectively. During the nine months ended September 30, 2011 and 2010, we recorded Currency losses, net of $11

and $20, respectively. Currency losses, net includes the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re-measurement of foreign currency-denominated assets and liabilities.

Note 12 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities measured at fair value on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	September 30, 2011	December 31, 2010
Assets:		
Foreign exchange contracts-forwards	$ 58	$ 45
Interest rate swaps	—	11
Deferred compensation investments in cash surrender life insurance	68	70
Deferred compensation investments in mutual funds	22	22
Total	$ 148	$ 148
Liabilities:		
Foreign exchange contracts-forwards	$ 31	$ 19
Deferred compensation plan liabilities	94	98
Total	$ 125	$ 117

We utilize the income approach to measure the fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in Company-owned life insurance is reflected at cash surrender value. Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for actively traded investments similar to those held by the plan. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

Summary of Other Financial Assets and Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis were as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 785	$ 785	$ 1,211	$ 1,211
Accounts receivable, net	3,001	3,001	2,826	2,826
Short-term debt	2,096	2,130	1,370	1,396
Long-term debt	7,099	7,606	7,237	7,742
Liability to subsidiary trust issuing preferred securities	—	—	650	670

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short- and Long-term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 13 – Employee Benefit Plans

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Pension Benefits				Retiree Health			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Components of Net Periodic Benefit Costs:								
Service cost	$ 46	$ 45	$ 140	$ 133	$ 2	$ 2	$ 6	$ 6
Interest cost	121	119	360	357	11	13	35	41
Expected return on plan assets	(129)	(118)	(386)	(354)	—	—	—	—
Recognized net actuarial loss	17	18	53	53	—	—	—	—
Amortization of prior service credit	(5)	(6)	(17)	(16)	(10)	(8)	(30)	(21)
Recognized settlement loss	11	9	61	55	—	—	—	—
Net periodic benefit cost	61	67	211	228	3	7	11	26
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:								
Net actuarial loss (gain) [2]	—	43	(9)	43	(14)	(9)	(14)	(9)
Prior service cost (credit)[3]	—	(17)	—	(17)	—	(31)	—	(31)
Amortization of net prior service credit	5	6	17	16	10	8	30	21
Amortization of net actuarial losses	(28)	(27)	(114)	(108)	—	—	—	—
Total recognized in Other Comprehensive Income[1]	(23)	5	(106)	(66)	(4)	(32)	16	(19)
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$ 38	$ 72	$ 105	$ 162	$ (1)	$ (25)	$ 27	$ 7

(1) Amount represents the pre-tax effect included within Other comprehensive income. The amount, net of tax, is included within Note 14, Shareholders' Equity.
(2) Represents adjustments for the actual valuation results based on January 1st plan census data for the U.S.
(3) In 2010, as a result of the renegotiation of the contract with our largest union, we amended our union pension plan for this population to freeze the final average pay formula of the pension plan effective January 1, 2013 and our union retiree health benefits plan to eliminate a portion of the subsidy currently paid to current and future Medicare-eligible retirees effective January 1, 2011. These amendments are generally consistent with amendments previously made to our salaried employee retirement plans.

The following table provides a summary of the components of the Net change in benefit plans included within Other comprehensive income as reported in Note 14, Shareholders' Equity:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Expense)/benefit	2011	2010	2011	2010
Other changes in plan assets and benefit obligations	$ 27	$ 27	$ 90	$ 85
Income tax	(10)	(9)	(32)	(31)
Fuji Xerox changes in defined benefit plans[1]	(11)	(1)	(32)	32
Currency, net	38	(39)	(2)	14
Other, net	—	3	(2)	—
Net Change in Benefit Plans	$ 44	$ (19)	$ 22	$ 100

(1) Represents our share of Fuji Xerox's benefit plan changes.

Contributions: During the nine months ended September 30, 2011, we made cash contributions of $348 and $57 to our defined benefit plans and our other post-retirement benefit plans, respectively. In September 2011, we also elected to make a U.S. pension contribution of 16.6 million shares of our common stock, with an aggregate value of approximately $130, to meet our planned level of funding for 2011. We presently anticipate additional cash contributions of $87 to our defined benefit

pension plans and $26 to our other post-retirement benefit plans in 2011 for a total cash contribution of $435 ($565 total cash and stock contribution) and $83, respectively.

Note 14 – Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2010	$ 1,398	$ 6,580	$ —	$ 6,016	$ (1,988)	$ 12,006	$ 153	$ 12,159
Net income	—	—	—	920	—	920	25	945
Translation adjustments	—	—	—	—	67	67	—	67
Changes in benefit plans[1]	—	—	—	—	22	22	—	22
Other unrealized gains, net	—	—	—	—	13	13	—	13
Comprehensive Income						$ 1,022	$ 25	$ 1,047
Cash dividends declared-common stock[3]	—	—	—	(182)	—	(182)	—	(182)
Cash dividends declared-preferred stock[4]	—	—	—	(18)	—	(18)	—	(18)
Contribution of common stock to U.S. pension plan	17	113	—	—	—	130	—	130
Stock option and incentive plans	10	97	—	—	—	107	—	107
Tax loss on stock option and incentive plans, net	—	(2)	—	—	—	(2)	—	(2)
Payments to acquire treasury stock, including fees	—	—	(309)	—	—	(309)	—	(309)
Distributions to noncontrolling interests	—	—	—	—	—	—	(13)	(13)
Other	—	—	—	—	—	—	1	1
Balance at September 30, 2011	$ 1,425	$ 6,788	$ (309)	$ 6,736	$ (1,886)	$ 12,754	$ 166	$ 12,920

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2009	$ 871	$ 2,493	$ 5,674	$ (1,988)	$ 7,050	$ 141	$ 7,191
Net income	—	—	435	—	435	23	458
Translation adjustments	—	—	—	15	15	—	15
Changes in benefit plans[1]	—	—	—	100	100	—	100
Other unrealized gains, net	—	—	—	2	2	—	2
Comprehensive Income					$ 552	$ 23	$ 575
ACS Acquisition[2]	490	3,825	—	—	4,315	—	4,315
Cash dividends declared-common stock[3]	—	—	(182)	—	(182)	—	(182)
Cash dividends declared-preferred stock[4]	—	—	(15)	—	(15)	—	(15)
Stock option and incentive plans	27	167	—	—	194	—	194
Tax loss on stock option and incentive plans, net	—	(6)	—	—	(6)	—	(6)
Distributions to noncontrolling interests	—	—	—	—	—	(16)	(16)
Balance at September 30, 2010	$ 1,388	$ 6,479	$ 5,912	$ (1,871)	$ 11,908	$ 148	$ 12,056

(1) Refer to Note 13, Employee Benefit Plans for additional information.
(2) Refer to Note 4 – Acquisitions for additional information.
(3) Cash dividends declared on common stock of $0.0425 per share in each quarter of 2011 and 2010.
(4) Cash dividends declared on preferred stock of $20.00 per share in each quarter of 2011 and 2010 except the first quarter of 2010 which was $12.22 per share.

Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income attributable to Xerox	$ 320	$ 250	$ 920	$ 435
Translation adjustments	(383)	559	67	15
Changes in benefit plans	44	(19)	22	100
Other unrealized gains (losses), net	28	(8)	13	2
Comprehensive Income – Xerox	9	782	1,022	552
Net income attributable to noncontrolling interests	9	6	25	23
Translation adjustments – noncontrolling interests	—	1	—	—
Comprehensive Income – Noncontrolling Interests	9	7	25	23
Total Comprehensive Income	$ 18	$ 789	$ 1,047	$ 575

Accumulated Other Comprehensive Loss ("AOCL")

	September 30, 2011	December 31, 2010
Cumulative translation adjustments	$ (768)	$ (835)
Benefit plans net actuarial losses and prior service credits[1]	(1,145)	(1,167)
Other unrealized gains, net	27	14
Total Accumulated Other Comprehensive Loss	$ (1,886)	$ (1,988)

(1) Includes our share of Fuji Xerox – refer to Note 13 for additional information.

Treasury Stock

The following is a summary of the purchases of common stock made during the nine months ending September 30, 2011 under our authorized stock repurchase programs (shares in thousands):

	Shares	Amount
December 31, 2010	—	$ —
Purchases [1]	37,712	309
Cancellations	—	—
September 30, 2011	37,712	$ 309

(1) Includes associated fees of $1.

Note 15 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Earnings per Share:				
Net income attributable to Xerox	$ 320	$ 250	$ 920	$ 435
Accrued dividends on preferred stock	(6)	(6)	(18)	(15)
Adjusted Net Income Available to Common Shareholders	$ 314	$ 244	$ 902	$ 420
Weighted-average common shares outstanding	1,396,176	1,387,110	1,398,855	1,301,950
Basic Earnings per Share	$ 0.23	$ 0.18	$ 0.65	$ 0.32
Diluted Earnings per Share:				
Net income attributable to Xerox	$ 320	$ 250	$ 920	$ 435
Accrued dividends on preferred stock	(6)	(6)	(18)	(15)
Interest on Convertible Securities, net	—	—	1	—
Adjusted Net Income Available to Common Shareholders	$ 314	$ 244	$ 903	$ 420
Weighted-average common shares outstanding	1,396,176	1,387,110	1,398,855	1,301,950
Common shares issuable with respect to:				
Stock options	7,952	11,691	10,932	11,795
Restricted stock and performance shares	19,578	15,912	19,906	15,036
Convertible securities	1,992	1,992	1,992	—
Adjusted Weighted Average Common Shares Outstanding	1,425,698	1,416,705	1,431,685	1,328,781
Diluted Earnings per Share	$ 0.22	$ 0.17	$ 0.63	$ 0.32

The following securities were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive:

Stock options	56,507	70,747	53,527	70,643
Restricted stock and performance shares	23,692	24,147	23,364	25,022
Convertible preferred stock	26,966	26,966	26,966	26,966
Convertible securities	—	—	—	1,992
	107,165	121,860	103,857	124,623
Dividends per common share	$ 0.0425	$ 0.0425	$ 0.1275	$ 0.1275

Note 16 – Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of September 30, 2011, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,162 with the decrease from December 31, 2010 balance of approximately $1,274, primarily related to currency and adjustments from closed cases partially offset by interest. With respect to the unreserved balance of $1,162, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of September 30, 2011 we had $249 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of $16 and additional letters of credit of approximately $232, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act ("ERISA"). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive ("Class Period") and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the "Class"). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants' alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company's operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to refiling. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius ("Agius") and Georgia Stanley to appoint them as additional lead plaintiffs. In July 2007, the Court denied plaintiffs' renewed motion for class certification, without prejudice to renewal after the Court holds a pre-filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius's withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as class counsel. Subsequently, on April 9, 2009, the Court denied defendants' motion to disqualify Milberg LLP. On November 6, 2008,

the defendants filed a motion for summary judgment. Briefing with respect to the motion is complete. The Court has not yet rendered a decision. The parties also filed motions to exclude the testimony of certain expert witnesses. On April 22, 2009, the Court denied plaintiffs' motions to exclude the testimony of two of defendants' expert witnesses. On September 30, 2010, the Court denied plaintiffs' motion to exclude the testimony of another of defendants' expert witnesses. The Court also granted defendants' motion to exclude the testimony of one of plaintiffs' expert witnesses, and granted in part and denied in part defendants' motion to exclude the testimony of plaintiffs' two remaining expert witnesses. The individual defendants and we deny any wrongdoing and are vigorously defending the action. At this time, we do not believe it is reasonably possible that we will incur additional material losses in excess of the amount we have already accrued for this matter. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Other Contingencies

We have issued or provided the following guarantees as of September 30, 2011:

- $407 for letters of credit issued to i) guarantee our performance under certain services contracts; ii) support certain insurance programs; and iii) support our obligations related to the Brazil tax and labor contingencies.
- $681 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, require us to provide a surety bond as a guarantee of our performance of contractual 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 our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

We have service arrangements where we service third party student loans 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 September 30, 2011, we serviced a FFEL portfolio of approximately 4.1 million loans with an outstanding principal balance of approximately $57.4 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 September 30, 2011, other current liabilities include reserves which we believe to be adequate.

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes.

Throughout this document, references to "we," "our," the "Company," and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand-alone parent company and do not include its subsidiaries.

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. dollars on revenue and expenses. We refer to this analysis as "currency impact" or "the impact from currency." This includes translating the most recent financial results of operations using foreign currency of the earliest period presented. Currencies for our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe) are reflected at actual exchange rates for all periods presented, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not

hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Overview

Results for the three and nine months ended September 30, 2011 include revenue growth and operational improvements. Total revenue of $5.6 billion and $16.7 billion for the three and nine months ended September 30, 2011, respectively, reflects an increase of 3% and 6%, respectively, from the prior year. Currency had a 2-percentage point favorable impact for both the three and nine months ended September 30, 2011. In order to provide a clearer comparison of our year-to-date results to the prior year, we are also providing a discussion and analysis on a year-to-date pro-forma basis, where we include ACS's 2010 estimated results from January 1 through February 5 in our historical 2010 results. On a pro-forma[1] basis, total revenue for the nine months ended September 30, 2011 increased 2%, including a 2-percentage point favorable impact from currency. Revenue growth was primarily driven by increased revenues in our Services segment, specifically from document and business process outsourcing. Technology revenues improved in the third quarter 2011 as supply constraints on products and supplies as a result of the natural disaster in Japan in the first quarter 2011 began to dissipate.

Net income attributable to Xerox for the three and nine months ended September 30, 2011 was $320 million and $920 million, respectively, and included $54 million and $181 million, respectively, of after-tax costs related to amortization of intangibles and other discrete items. Net income attributable to Xerox for the three and nine months ended September 30, 2010 was $250 million and $435 million, respectively, and included $64 million and $444 million, respectively, of after-tax costs and expenses related to restructuring, amortization of intangibles, acquisition-related costs and other discrete items. The improvement in net income reflects continued operational cost savings from restructuring and productivity improvements.

Cash flow from operations was $683 million for the nine months ended September 30, 2011. Cash used in investing activities of $535 million primarily reflects capital expenditures of $367 million and acquisitions of $188 million. Cash used in financing activities was $573 million, which includes the redemption of Xerox Capital Trust's $650 million preferred securities and the scheduled repayment of $750 million of Senior Notes, partially offset by the issuance of $1.0 billion in Senior Notes and additional commercial paper of approximately $350 million. Financing activities also reflect $309 million for the repurchase of common stock.

Financial Review

Revenues

(in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	% Change	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	% Change	Pro-forma[1] % Change	Nine Months Ended September 30, % of Total Revenue 2011	Nine Months Ended September 30, % of Total Revenue 2010
Equipment sales	$ 938	$ 907	3%	$ 2,689	$ 2,659	1%	1%	16%	17%
Annuity revenue	4,645	4,521	3%	13,973	12,998	8%	3%	84%	83%
Total Revenue	$ 5,583	$ 5,428	3%	$ 16,662	$ 15,657	6%	2%	100%	100%
Memo: Color [2]	$ 1,668	$ 1,527	9%	$ 4,949	$ 4,633	7%	7%	30%	30%
Reconciliation to Condensed Consolidated Statements of Income:									
Sales	$ 1,738	$ 1,700		$ 5,129	$ 5,169				
Less: Supplies, paper and other sales	(800)	(793)		(2,440)	(2,510)				
Equipment Sales	$ 938	$ 907		$ 2,689	$ 2,659				
Service, outsourcing and rentals	$ 3,689	$ 3,567		$ 11,052	$ 9,990				
Add: Finance income	156	161		481	498				
Add: Supplies, paper and other sales	800	793		2,440	2,510				
Annuity Revenue	$ 4,645	$ 4,521		$ 13,973	$ 12,998				

Third quarter 2011 total revenues increased 3% compared to the third quarter 2010, including a 2-percentage point positive impact from currency. Total revenues included the following:

- 3% increase in annuity revenue, including a 2-percentage point positive impact from currency. Annuity revenue is comprised of the following:
  - Service, outsourcing and rentals revenue of $3,689 million increased 3%, including a 2-percentage point positive impact from currency. The increase was primarily driven by growth in document and business process outsourcing revenue in our Services segment.
  - Supplies, paper and other sales of $800 million increased 1% including a 2-percentage point positive impact from currency. A 4% increase in supplies revenue was offset by a 6% decline in paper revenue.
- 3% increase in equipment sales revenue, including a 2-percentage point positive impact from currency. The increase was driven by partial recovery of the Japan related supply constraints as well as continued positive performance in mid-range and high-end color installs. Consistent with prior quarters, price declines were in the range of 5% to 10%.
- 9% increase in color revenue[2], including a 3-percentage point positive impact from currency, reflects:
  - 9% increase in color[2] annuity revenue, including a 4-percentage point positive impact from currency. The increase was driven by higher color page volumes.
  - 11% increase in color[2] equipment sales revenue, including a 4-percentage point positive impact from currency. Growth of 40% in mid-range install activity assisted in part by recovery of some of the Japan related supply constraints and 3% in high-end install activity was partially offset by a 3% decline in entry install activity.

Total revenues for the nine months ended September 30, 2011 increased 6% compared to the prior year period including a 2-percentage point positive impact from currency. Our 2011 revenues include a full nine months of revenues from ACS, which was acquired on February 5, 2010. On a pro-forma[1] basis, including ACS's estimated 2010 revenues for the period from January 1 through February 5 in our historical 2010 results, total revenue for the nine months ended September 30, 2011 grew 2%, including a 2-percentage point positive impact from currency. Total revenues included the following:

- Annuity revenue increased 8% or 3% on a pro-forma[1] basis including a 2-percentage point positive impact from currency. Annuity revenue is comprised of the following:
  - Service, outsourcing and rentals revenue of $11,052 million increased 11% or 4% on a pro-forma[1] basis, including a 2-percentage point positive impact from currency primarily due to growth in business process and document outsourcing revenue in our Services segment partially offset by a year-to-date decline in digital pages of

approximately 3%.

- Supplies, paper and other sales of $2,440 million decreased 3% or 4% on a pro-forma[1] basis, with a 1-percentage point positive impact from currency. The decrease was primarily driven by a decline in paper sales as supplies revenue recovered in the third quarter 2011 as the impact of supply constraints on supplies sourced from Fuji Xerox dissipated.
- Equipment sales revenue increased 1% and included a 2-percentage point positive impact from currency primarily reflecting a decline in install activity in entry products.
- 7% increase in color revenue[2], including a 3-percentage point positive impact from currency reflecting:
- 7% increase in color[2] annuity revenue, with a 3-percentage point positive impact from currency. The increase was driven by higher color page volumes, which increased 9%.
- 5% increase in color[2] equipment sales revenue, including a 3-percentage point positive impact from currency. Growth of 25% in mid-range install activity was assisted in part by recovery of some of the Japan related supply constraints and 2% in high-end install activity was partially offset by a 7% decline in entry install activity.

(1) Growth on a pro-forma basis reflects the inclusion of ACS's adjusted results from January 1 through February 5 in 2010. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.

(2) Represents revenues from color devices and is a subset of total revenues and exclude Global Imaging Systems ("GIS") revenues.

An analysis of the change in revenue for each business segment is included in the "Segment Review" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Three Months Ended September 30,				Nine Months Ended September 30,				Nine Months Ended September 30,		
	2011	2010	Change		2011	2010	Change		Pro-forma(1) 2010	Pro-forma(1) Change	
Total Gross Margin	32.7%	33.6%	(0.9)	pts	33.0%	34.8%	(1.8)	pts	34.1%	(1.1)	pts
RD&E as a % of Revenue	3.3%	3.5%	0.2	pts	3.3%	3.8%	0.5	pts	3.6%	0.3	pts
SAG as a % of Revenue	19.9%	20.9%	1.0	pts	20.1%	21.7%	1.6	pts	21.2%	1.1	pts
Operating Margin(3)	9.6%	9.2%	0.4	pts	9.7%	9.3%	0.4	pts	9.2%	0.5	pts
Pre-tax Income Margin	6.6%	6.0%	0.6	pts	6.7%	4.1%	2.6	pts	3.7%	3.0	pts

Operating Margin

The third quarter 2011 operating margin[3] of 9.6% increased 0.4-percentage points as compared to the third quarter of 2010. The increase was due primarily to disciplined cost and expense management.

The operating margin[3] for the nine months ended September 30, 2011 of 9.7% increased 0.4-percentage points, or 0.5-percentage points on a pro-forma[1]basis as compared to the prior year period. The increase was due primarily to disciplined cost and expense management combined with a favorable mix impact from the continued growth in Services revenue.

Note: The acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a technology company. As a result, gross margins and SAG for the nine months ended September 30, 2011, are also discussed below on a pro-forma[1]basis, with ACS's 2010 estimated results from January 1 through February 5 included in our historical 2010 results. See "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for the third quarter 2011 of 32.7% decreased 0.9-percentage points, as compared to the third quarter of 2010. The decrease was driven by the ramping of new services contracts, the line-of-business mix within the Services segment and the higher mix of Services revenue.

Gross margin for nine months ended September 30, 2011 of 33.0% decreased 1.8-percentage points, or 1.1-percentage

points on a pro-forma[1]basis as compared to the prior year comparable period. The decrease was driven by the ramping of new services contracts, the line of business mix within the Services segment, transaction currency and the higher mix of Services revenue.

Technology gross margin for the third quarter of 2011 decreased 0.6-percentage points as compared to the third quarter 2010, due primarily to a lower supplies margin driven by mix within supplies sales. Price erosion was more than offset by the impact of cost productivities and restructuring savings.

Technology gross margin for the nine months ended September 30, 2011 decreased by 1.1-percentage points as compared to the prior year comparable period due to the negative year-over-year impact of transaction currency as well as the supplies mix and additional freight and logistics costs related to equipment and supplies sourced from Japan.

Services gross margin for the third quarter of 2011 decreased 0.9-percentage points as compared to the third quarter 2010. The decrease is due primarily to the ramping of new services contracts within BPO and ITO as well as line of business mix within the Services segment.

Services gross margin for the nine months ended September 30, 2011 decreased 0.8-percentage points as compared to the prior year comparable period. The decrease is primarily due to the ramping of new services contracts and line of business mix.

Research, Development and Engineering Expenses ("RD&E")

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
R&D	$ 156	$ 157	$ (1)	$ 459	$ 490	$ (31)
Sustaining engineering	27	32	(5)	83	98	(15)
Total RD&E Expenses	$ 183	$ 189	$ (6)	$ 542	$ 588	$ (46)

Third quarter 2011 RD&E as a percent of revenue of 3.3%decreased 0.2-percentage points from the third quarter 2010. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue which historically has a lower RD&E as a percent of revenue.

Third quarter 2011 RD&E of $183 million was $6 million lower than the third quarter 2010, reflecting the impact of restructuring and productivity improvements.

RD&E as a percent of revenue for the nine months ended September 30, 2011 of 3.3% decreased 0.5%-percentage points. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue.

RD&E of $542 million for the nine months ended September 30, 2011, was $46 million lower reflecting the impact of restructuring and productivity improvements. Innovation is one of our core strengths and we continue to invest at levels that enhance this core strength, particularly in color, software and services. Xerox R&D is strategically coordinated with Fuji Xerox.

Selling, Administrative and General Expenses ("SAG")

SAG as a percent of revenue of 19.9% decreased 1.0-percentage points from the third quarter 2010. In addition to spending reductions including lower compensation, the decrease was also driven by positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percent of revenue.

SAG as a percent of revenue of 20.1% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma[1]basis for the nine months ended September 30, 2011. In addition to spending reductions and lower compensation, the decrease was also driven by positive mix impact from the continued growth in Services revenue.

SAG expenses of $1,109 million in the third quarter 2011 were $27 million lower than the third quarter 2010, including a $26 million unfavorable impact from currency. SAG expense reflects the following:

- $15 million decrease in selling expenses, reflecting benefits from restructuring, productivity improvements and a decrease in brand advertising, partially offset by the impact of acquisitions.
- $10 million decrease in general and administrative expenses, reflecting the benefits from restructuring and operational improvements.
- $2 million decrease in bad debt expenses to $44 million, as improvements in the write-off trends for the U.S. and

Canada were partially offset by higher write-offs in Europe. 2011 third quarter bad debt expense continues to remain less than one percent of receivables.

SAG expenses of $3,347 million for the nine months ended September 30, 2011 were $51 million lower than the prior year period, or $110 million lower on a pro-forma[1] basis, both including a $71 million unfavorable impact from currency. The pro-forma SAG expense increase reflects the following:

- $20 million increase in selling expenses reflecting the impact of acquisitions partially offset by the benefits from restructuring and productivity improvements.
- $28 million decrease in general and administrative expenses primarily reflecting the benefits from restructuring and operational improvements.
- $43 million decrease in bad debt expenses to $105 million, reflecting a favorable write-off trend as compared to the prior year.

Restructuring and Asset Impairment Charges

During the third quarter 2011, we recorded net restructuring and asset impairment credits of $4 million, primarily resulting from net reversals and changes in estimated reserve from prior period initiatives. During the third quarter 2010, we recorded $4 million of net restructuring and asset impairment charges for actions primarily in North America.

During the nine months ended September 30, 2011, we recorded net restructuring and asset impairment credits of $28 million, primarily resulting form net reversals and changes in estimated reserves from prior period initiatives.

We recorded $210 million of net restructuring and asset impairment charges for the nine months ended September 30, 2010, which included $206 million of severance costs, lease termination and asset impairment charges of $22 million and $18 million of net reversals primarily due to changes in estimated reserves from prior year initiatives.

The restructuring reserve balance as of September 30, 2011 for all programs was $126 million, of which approximately $119 million is expected to be spent over the next twelve months. Refer to Note 8, Restructuring Programs, in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

We have identified and approved additional restructuring initiatives of approximately $30 million for the fourth quarter of 2011.

Acquisition Related Costs

Costs of $5 million and $68 million were incurred in the three and nine months ended September 30, 2010, respectively, in connection with our acquisition of ACS. These costs include $1 million and $54 million, respectively, of transaction costs which represent external costs directly related to completing the acquisition of ACS. The remainder of the acquisition-related costs represents external incremental costs directly related to the integration of ACS and Xerox.

Amortization of Intangible Assets

During the three and nine months ended September 30, 2011, we recorded $87 million and $259 million, respectively, of expense related to the amortization of intangible assets, which is $2 million and $32 million higher than the prior year periods, respectively. The increase for the 2011 year-to-date period primarily reflects the additional month of amortization of intangibles associated with our acquisition of ACS as well as the full year-to-date impact of amortization of intangibles associated with acquisitions from the prior year.

Worldwide Employment

Worldwide employment of 134,200 at September 30, 2011 decreased approximately 2,300 from December 31, 2010, primarily due to restructuring related actions that more than offset the impact of acquisitions.

Other Expenses, Net

(in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Non-financing interest expense	$ 60	$ 87	$ 191	$ 268
Interest income	(5)	(4)	(17)	(13)
Gains on sales of businesses and assets	—	(15)	(8)	(16)
Currency losses, net	10	—	11	20
ACS shareholders litigation settlement	—	—	—	36
Litigation matters	3	2	15	3
Loss on early extinguishment of liability	—	—	33	—
All other expenses, net	18	6	43	16
Total Other Expenses, Net	$ 86	$ 76	$ 268	$ 314

Non-Financing Interest Expense: Non-financing interest expense for the three and nine months ended September 30, 2011 of $60 million and $191 million, respectively, was $27 million and $77 million lower than prior year comparable periods, respectively. The decreases in interest expense reflects a lower average debt balance due to the repayments of Senior Notes, as well as the benefit of lower borrowing costs achieved as a result of utilizing the commercial paper program and the issuance of $1.0 billion Senior Notes in the second quarter 2011.

Gains on Sales of Businesses and Assets: Third quarter 2010 gains on sales of businesses and assets of $15 million was related primarily to the sale of a facility in Latin America.

Currency Losses, Net: During the third quarter 2011 currency losses of $10 million were primarily due to the significant movement in exchange rates during the quarter among the U.S. Dollar, Euro, Yen and several developing market currencies. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the dollar for our products. As a result of this devaluation, we recorded a currency loss of $21 million in the first quarter of 2010 for the re-measurement of our net Bolivar denominated monetary assets.

ACS Shareholders Litigation Settlement: The nine months ended September 30, 2010 includes expense of $36 million reflecting the settlement of claims by ACS shareholders arising out of Xerox's acquisition of ACS in 2010, net of insurance proceeds.

Litigation Matters: Litigation matters for the three and nine months ended September 30, 2011 include charges related to probable losses on various legal matters, none of which were individually material.

Loss on Early Extinguishment of Liability: In May 2011, Xerox Capital Trust I, our wholly-owned subsidiary trust, redeemed its $650 million 8% Preferred Securities due in 2027. The redemption resulted in a pre-tax loss of $33 million ($20 million after-tax) representing the call premium of approximately $10 million as well as the write-off of unamortized debt costs and other liability carrying value adjustments of $23 million. Refer to Note 9, Debt in the Condensed Consolidated Financial Statements for additional information.

All Other Expenses, Net: All other expenses, net for the three and nine months ended September 30, 2011 increased $12 million and $27 million, respectively, driven in part by higher interest expense on the Brazil tax and labor contingencies as well as higher fees associated with the sale of receivables.

Income Taxes

The effective tax rate for the three and nine months ended September 30, 2011 was 22.1% and 25.4%, respectively. On an adjusted basis[3] the tax rate for the three and nine months ended September 30, 2011 was 25.1% and 28.0%, respectively. The adjusted tax rate for the three and nine months was lower than the U.S. statutory rate primarily due to the geographical mix of profits as well as a higher foreign tax credit benefit as a result of our decision to repatriate current year income from certain non-U.S. subsidiaries.

The effective tax rate for the three and nine months ended September 30, 2010 was 29.9% and 36.4%, respectively. On an adjusted basis[3] the tax rate for the three and nine months ended September 30, 2010 was 31.8% and 31.9%, respectively. The adjusted tax rate for the three and nine months was lower than the U.S. statutory rate primarily due to the net tax benefits

from the geographical mix of income before taxes and the related tax rates in these jurisdictions as well as the settlement and re-measurement of certain previously unrecognized tax benefits. These benefits were partially offset by the incremental U.S. tax cost on foreign income.

Xerox operations are widely dispersed. The statutory tax rate in most non U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full year estimated effective tax rate includes a benefit of approximately 9 percentage points from these non U.S. operations which is comparable to 2010.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable. We anticipate that our effective tax rate for the fourth quarter 2011 will be approximately 29.0%, excluding the effects of intangibles amortization and discrete events.

Equity in Net Income of Unconsolidated Affiliates

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2011	2010	2011	2010
Total equity in net income of unconsolidated affiliates	$ 43	$ 26	$ 111	$ 52
Fuji Xerox after-tax restructuring costs	1	6	16	33

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox. The increase in equity income for the three and nine months ended September 30, 2011 was due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements as well as the strengthening of the Yen.

Japan

We continue to monitor and evaluate potential impacts in 2011 as a result of the natural disaster in Japan in the first quarter 2011.

During the third quarter 2011, the impact on supply constraints for products and supplies sourced from FX began to dissipate as production levels began to recover and return to normal. Significant progress was made in reducing our backlog and we are expected to return to normal levels of backlog in the fourth quarter 2011. We do not expect the supply impacts from this natural disaster in Japan to be a significant factor in the fourth quarter 2011.

Net Income

Thirdquarter 2011 net income attributable to Xerox was $320 million, or $0.22 per diluted share. On an adjusted basis[3] net income attributable to Xerox was $374 million, or $0.26 per diluted share, and included adjustments for the amortization of intangible assets.

Thirdquarter 2010 net income attributable to Xerox was $250 million, or $0.17 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $314 million, or $0.22 per diluted share.

Net income attributable to Xerox for the nine months ended September 30, 2011 was $920 million, or $0.63 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $1,101 million, or $0.76 per diluted share, and included adjustments for the amortization of intangible assets and the loss on early extinguishment of liability.

Net income attributable to Xerox for the nine months ended September 30, 2010 was $435 million, or $0.32 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $879 million, or $0.65 per diluted share.

Refer to the Net Income and EPS reconciliation table in the Non-GAAP Financial Measures section for the adjustments to net income.

Segment Review

(in millions)	Three Months Ended September 30, Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin	Nine Months Ended September 30, Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2011								
Technology	$ 2,500	45%	$ 258	10.3 %	$ 7,547	45%	$ 824	10.9 %
Services	2,717	49%	323	11.9 %	7,973	48%	911	11.4 %
Other	366	6%	(86)	(23.5)%	1,142	7%	(225)	(19.7)%
Total	$ 5,583	100%	$ 495	8.9 %	$ 16,662	100%	$ 1,510	9.1 %
2010								
Technology	$ 2,466	45%	$ 247	10.0 %	$ 7,504	48%	$ 753	10.0 %
Services	2,554	47%	286	11.2 %	6,926	44%	808	11.7 %
Other	408	8%	(79)	(19.4)%	1,227	8%	(276)	(22.5)%
Total	$ 5,428	100%	$ 454	8.4 %	$ 15,657	100%	$ 1,285	8.2 %
2010 Pro-forma[1]								
Technology					$ 7,504	46%	$ 753	10.0 %
Services					7,545	46%	842	11.2 %
Other					1,227	8%	(287)	(23.4)%
Total					$ 16,276	100%	$ 1,308	8.0 %

Technology

Our Technology segment includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Technology segment represents our pre-ACS acquisition equipment-related business exclusive of our document outsourcing business, which was integrated into the Services segment together with the acquired ACS outsourcing businesses – business process outsourcing and information technology outsourcing.

Revenue

(in millions)	Three Months Ended September 30, 2011	2010	Change	Nine Months Ended September 30, 2011	2010	Change
Equipment sales	$ 798	$ 805	(1)%	$ 2,311	$ 2,351	(2)%
Annuity revenue	1,702	1,661	2 %	5,236	5,153	2 %
Total Revenue	$ 2,500	$ 2,466	1 %	$ 7,547	$ 7,504	1 %

Third quarter 2011 Technology revenue of $2,500 million increased 1% compared to third quarter 2010 and included a 2-percentage point positive impact from currency. Technology revenue included the following:

- 1% decrease in equipment sales revenue with a 2-percentage point positive impact from currency. This decrease was driven by a decline in entry installs which was only partially offset by continued positive performance in mid-range and high-end color installs. Consistent with prior quarters, price declines were in the range of 5% to 10%. Technology revenue excludes sales in our document outsourcing offerings. As noted in the Revenues section above, combined with our Services-related equipment sales revenue, total company equipment sales increased 3% from third quarter 2010.
- 2% increase in annuity revenue with a 3-percentage point positive impact from currency. The supplies revenue increase was offset by a decline in pages, while revenue per page continued to increase.
- Technology revenue mix is 22% entry, 58% mid-range and 20%high-end.

Technology revenue for the nine months ended September 30, 2011 of $7,547 million increased 1% compared to prior year and included a 3-percentage point positive impact from currency. Technology revenue included the following:

- 2% decrease in equipment sales revenue with a 2-percentage point positive impact from currency. The decrease in revenue was driven by a decline in entry installs, which were only partially offset by install growth in mid-range products.
- 2% increase in annuity revenue with 3-percentage point positive impact from currency. The supplies revenue increase was offset by a decline in pages .

- Technology revenue mix is 22% entry, 57% mid-range and 21%high-end.

Segment Margin

Third quarter 2011 Technology segment margin of 10.3% increased 0.3-percentage points from third quarter 2010. Lower cost and expense from restructuring savings in addition to an increase in equity in net income from unconsolidated affiliates more than offset the gross margin decline.

Technology segment margin for the nine months ended September 30, 2011 of 10.9% increased 0.9-percentage points from prior year period. Lower cost and expense from restructuring savings in addition to an increase in equity in net income from unconsolidated affiliates more than offset the gross margin decline.

Installs

Entry

Installs for the third quarter 2011:

- 11% decrease in total black-and-white and color multifunction devices and color printers driven by a combination of continued higher backlog and timing of product introductions.

Installs for the nine months ended September 30, 2011 decreased 7% driven by:

- A decline in sales to OEM partners.
- A decline in developing markets due in part to a very strong 2010 in which installs increased significantly.

Mid-Range

Installs for the third quarter 2011:

- 40% increase in installs of mid-range color devices partially driven by recovery of some of the Japan related constraints. Growth was strong in all geographies and was driven by demand for the Xerox Color 550/560 and WorkCentre® 7545/7556. Growth in these products has enabled market share gains in the fastest growing segment of the office color market.
- 6% decrease in installs of mid-range black-and-white devices driven by declines in Europe.

Installs for the nine months ended September 30, 2011:

- 25% increase in installs of mid-range color devices driven primarily by demand for new products, such as the Xerox Color 550/560, WorkCentre® 7545/7556 and WorkCentre® 7120.
- 1% increase in installs of mid-range black-and-white devices as prior period growth was partially offset by declines in Europe during the third quarter 2011.

High-End

Installs for the third quarter 2011:

- 3% increase in installs of high-end color systems driven by continued growth of the Xerox Color 800 and 1000 and the iGen, which continues to enable market share growth in the fastest growing segment of the Production market. This growth was partially offset by a decline in the Entry Production Color products. Two new products were recently announced that will improve our future competitiveness in the Entry Production Color product category.
- 8% decrease in installs of high-end black-and-white systems.

Installs for the nine months ended September 30, 2011:

- 2% increase in installs of high-end color systems reflecting strong demand for the Xerox Color 800 and 1000 and iGen.
- 6% decrease in installs of high-end black-and-white systems driven by declines across most product areas.

Install activity percentages include installations for Document Outsourcing and the Xerox-branded product shipments to GIS. Descriptions of “Entry”, “Mid-range” and “High-end” are defined in Note 3, Segment Reporting, in the Condensed Consolidated Financial Statements.

Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”). The DO business included within the Services segment essentially represents Xerox’s pre-ACS acquisition outsourcing business, as ACS’s outsourcing business is reported as BPO and ITO revenue.

Revenue

(in millions)	Three Months Ended September 30, 2011	2010	Change	Nine Months Ended September 30, 2011	2010[4]	Change	Pro-forma Change[1]
Document Outsourcing	895	796	12%	2,620	2,407	9%	9 %
Business Processing Outsourcing	1,510	1,424	6%	4,438	3,634	22%	8 %
Information Technology Outsourcing	342	341	—%	989	892	11%	(3)%
Less: Intra-segment Elimination	(30)	(7)	*	(74)	(7)	*	*
Total Services Revenue	2,717	2,554	6%	7,973	6,926	15%	6 %

* Percent not meaningful.

Third quarter 2011 Services revenue of $2,717 million increased 6% and included a 1-percentage point positive impact from currency.

- DO delivered growth of 12%, including a 3-percentage point positive impact from currency, and represented 33% of total Services revenue. Growth was driven by new signings. DO revenue includes revenues from our partner print services offerings.
- BPO delivered growth of 6% and represented 55% of total Services revenue. Consistent with our strategy to expand our services offerings through tuck-in acquisitions, BPO growth was driven by recent acquisitions. In addition, the human resource services, customer care, transportation solutions and the healthcare payer services businesses contributed to growth.
- ITO revenue was flat in comparison to third quarter 2010 and represented 12% of total Services revenue.

Note: The year-to-date results for the Services segment are discussed below on a pro-forma[1] basis, with ACS's 2010 estimated results from January 1 through February 5 included in our historical 2010 results.

Services revenue for the nine months ended September 30, 2011 of $7,973 million increased 15% or 6% on a pro-forma[1] basis. Currency had a 2-percentage point positive impact on total revenues.

- BPO revenue had strong pro-forma[1] revenue growth of 8% and represented 55% of total Services revenue. BPO growth was driven by recent acquisitions. In addition, healthcare services, customer care, transportation solutions and the healthcare payer services businesses contributed to growth.
- ITO revenue on a pro-forma[1] basis declined 3% and represented 12% of total Services revenue. The decline in ITO revenue was driven by lower third-party equipment and software sales which were only partially offset by growth in new commercial business.
- DO revenue increased 9%, including a 3-percentage points positive impact from currency, and represented 33% of total Services revenue. The increase reflects an improving trend from 2010. DO revenue includes revenues from our partner print services offerings.

Segment Margin

Third quarter 2011 Services segment margin of 11.9% increased 0.7-percentage points from third quarter 2010. Lower cost and expense from productivity and restructuring savings more than offset the gross margin decline.

Services segment margin for the nine months ended September 30, 2011 of 11.4% decreased 0.3-percentage points, or increased 0.2-percentage points on a pro-forma[1]basis, from the prior year period primarily driven by DO revenue growth as well as lower costs and expenses from restructuring and synergy savings.

Metrics

Pipeline

Our total services sales pipeline, including synergy opportunities, grew 5% over the third quarter 2010. This sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that potentially could be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of $100 million.

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts.

Signings were as follows:

(in billions)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
BPO	$ 2.3	$ 5.3
DO	1.0	3.3
ITO	0.6	1.8
Total Signings	$ 3.9	$ 10.4

Signings increased 33% from the third quarter 2010, driven by strong growth across all three service offerings.

Signings decreased 9% on a trailing twelve month basis as compared to the comparable prior year period driven by the cyclicality of large deals. Signings continue to trend positively, increasing sequentially for the second straight quarter.

TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Other

Revenue

Third quarter 2011 Other segment revenue of $366million decreased 10%, including a 3-percentage point positive impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by an increase in network integration and electronic presentation systems.

Other segment revenue for the nine months ended September 30, 2011 of $1,142 million decreased 7%, including 2-percentage points positive impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by higher licensing revenue and an increase in network integration and electronic presentation systems revenue.

Paper comprised approximately 60% of the 2011 and 2010 Other segment revenue.

Segment Margin

Third quarter 2011 Other segment loss of $86 million, increased $7 million from third quarter 2010, primarily driven by the revenue declines referenced above and partially offset by a decline in SAG expense.

Other segment loss of $225 million for the nine months ended September 30, 2011, improved $51 million from the prior year period, primarily driven by lower non-financing interest expense and SAG expense partially offset by the decline in revenues.

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(1) Results are discussed primarily on a pro-forma basis and include ACS's estimated results from January 1 through February 5 in 2010. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.
(2) Color revenues represent a subset of total revenues and exclude Global Imaging Systems, Inc. ("GIS").
(3) See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.
(4) 2010 BPO was adjusted to include historic Xerox BPO services.

Capital Resources and Liquidity

Cash Flow Analysis

The following table summarizes our cash and cash equivalents:

(in millions)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change
Net cash provided by operating activities	$ 683	$ 1,419	$ (736)
Net cash used in investing activities	(535)	(1,962)	1,427
Net cash used in financing activities	(573)	(2,253)	1,680
Effect of exchange rate changes on cash and cash equivalents	(1)	(28)	27
Decrease in cash and cash equivalents	(426)	(2,824)	2,398
Cash and cash equivalents at beginning of period	1,211	3,799	(2,588)
Cash and Cash Equivalents at End of Period	$ 785	$ 975	$ (190)

Cash Flows from Operating Activities

Net cash provided by operating activities was $683 million in the nine months ended September 30, 2011. The $736 million decrease in cash from the nine months ended September 30, 2010 was primarily due to the following:

- $518 million decrease due to lower accounts payable and accrued compensation primarily related to the timing of payments, as well as lower inventory and other spending.
- $143 million decrease due to higher contributions to our defined pension benefit plans.
- $107 million decrease as a result of up-front costs and other customer related spending associated primarily with new services contracts.
- $58 million decrease due to a lower benefit from accounts receivable sales partially offset by improved collections.
- $36 million decrease due to a lower net reduction of finance receivables.
- $26 million decrease in derivatives primarily due to the absence of proceeds from the early termination of certain interest rate swaps.
- $16 million decrease due to higher net tax payments.
- $14 million decrease due to higher restructuring payments associated with previously reported actions.
- $109 million increase due to the absence of cash outflows from acquisition-related costs.
- $33 million increase as a result of lower inventory levels reflecting focused supply chain actions.

In September 2011, we elected to make a U.S. pension contribution of 16.6 million shares of our common stock, with an aggregate value of approximately $130 million, to meet our planned level of funding for 2011.

Cash Flows from Investing Activities

Net cash used in investing activities was $535 million for the nine months ended September 30, 2011. The $1,427 million decrease in the use of cash from the nine months ended September 30, 2010 was primarily due to the following:

- $1,486 million decrease primarily due to the 2011 acquisitions of Unamic/HCN B.V. for $55 million, Concept Group for $43 million, ESM for $43 million, NewField IT for $17 million and seven smaller acquisitions for an aggregate of $21 million, as compared to the 2010 acquisitions of ACS for $1,495 million, ExcellerateHRO, LLP for $125 million, IBS for $29 million and Georgia Duplication Products for $21 million in 2010.
- $21 million increase due to lower cash proceeds from asset sales.
- $19 million increase due to higher capital expenditures (including internal use software).

Cash Flows from Financing Activities

Net cash used in financing activities was $573 million for the nine months ended September 30, 2011. The $1,680 million decrease in the use of cash from the nine months ended September 30, 2010 was primarily due to the following:

- $2,790 million decrease from net debt activity. 2011 reflects proceeds of $1 billion from the issuance of Senior Notes and net proceeds of $351 million on Commercial Paper offset by the repayment of $750 million for Senior Notes due in 2011. 2010 reflects the repayments of $1,733 million of ACS's debt on the acquisition date and $950 million of Senior Notes, net payments of $87 million on other debt and $14 million of debt issuance costs for the bridge loan facility commitment, which was terminated in December 2009. These payments were offset by net proceeds of $602 million from borrowings under the Credit Facility.
- $670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with their

redemption of preferred securities.

- $309 million increase resulting from the resumption of our share repurchase program.
- $79 million increase due to lower proceeds from the issuance of common stock. 2010 reflects a higher level of exercise of stock options issued under the former ACS plans.
- $26 million increase reflecting dividends on an increased number of outstanding shares as a result of the acquisition of ACS in 2010.
- $13 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Customer Financing Activities

The following represents our Total finance assets, net associated with our lease and finance operations:

(in millions)	September 30, 2011	Balance at December 31, 2010
Total Finance receivables, net[1]	$ 6,355	$ 6,620
Equipment on operating leases, net	505	530
Total Finance Assets, net	$ 6,860	$ 7,150

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.

The decrease of $290 million in Total finance assets, net includes favorable currency of $42 million.

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation; therefore, we maintain a certain level of debt (that we refer to as financing debt) to support our investment in these lease contracts, which are reflected in Total Finance assets, net. For this financing aspect of our business, we maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets. Based on this leverage, the following represents the breakdown of total debt between financing debt and core debt:

(in millions)	September 30, 2011	December 31, 2010
Financing debt[1]	$ 6,003	$ 6,256
Core debt	3,192	2,351
Total Debt	$ 9,195	$ 8,607

(1) Financing debt includes $5,561 million and $5,793 million as of September 30, 2011 and December 31, 2010, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of “Equipment financing interest” expense. The remainder of the financing debt is associated with Equipment on operating leases.

The following summarizes our debt:

(in millions)	September 30, 2011	December 31, 2010
Principal debt balance[1]	$ 8,997	$ 8,380
Net unamortized discount	(7)	(1)
Fair value adjustments	205	228
Total Debt	9,195	8,607
Less: Current maturities and short-term debt	(2,096)	(1,370)
Total Long-term Debt	$ 7,099	$ 7,237

(1) Includes Commercial Paper of $651 million and $300 million as of September 30, 2011 and December 31, 2010, respectively. September 2011 balance also includes $650 million in debt resulting from the restructuring of the Xerox Capital Trust I preferred securities.

Sales of Accounts Receivable

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivables without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. Accounts receivables sales were as follows:

(in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Accounts receivable sales	$ 754	$ 574	$ 2,303	$ 1,586
Deferred proceeds	93	97	290	212
Fees associated with sales	5	3	14	10
Estimated decrease to operating cash flows[1]	(35)	(11)	(29)	(81)

(1) Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter, and (iii) currency.

Refer to Note 5, Receivables, Net in the Condensed Consolidated Financial Statements for additional information.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and access to capital markets. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access to financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following is a discussion of our liquidity position as of September 30, 2011:

- As of September 30, 2011, total cash and cash equivalents were $785 million, borrowings under our Commercial Paper Programs were $651 million and there were no outstanding borrowings or letters of credit under our $2 billion Credit Facility.
- Cash flows from operations were $683 million for the nine months ended September 30, 2011, and we expect full year cash flow from operations to be in the range of $2.0 billion to $2.3 billion. Over the past two years we have consistently delivered strong fourth quarter and full year cash flow from operations, driven by the strength of our annuity based revenue model. Cash flows from operations were $2.7 billion and $2.2 billion for the years ended December 31, 2010 and 2009, respectively and $1.3 billion and $1.0 billion for the fourth quarter 2010 and 2009, respectively.
- Our principal debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows (in millions):

Year	Amount
Q4 2011	$ 665
2012	1,432
2013	422
2014	1,075
2015	1,251
2016	950
2017	501
2018	1,001
2019	650
2020 and thereafter	1,050
Total	$ 8,997

Treasury Stock

In July 2011, we resumed our stock repurchase program previously authorized by our Board of Director's. During the third quarter 2011 we repurchased 37.7 million shares for an aggregate cost of $309 million, including fees.Through November 1, 2011, we repurchased an additional 24.1 million shares at an aggregate cost of $181million, including fees, for a cumulative total of 61.8 million shares at a cost of $490 million, including fees.

Financial Risk Management

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Yen, Euro and Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 11 – Financial Instruments – for further discussion and information on our financial risk management strategies.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (“GAAP”). In addition, we have discussed the non-GAAP measures described below. A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP.

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects. For our 2011 reporting year, adjustments are expected to be limited to the amortization of intangible assets and other discrete items that occur during the year.

- Net income and Earnings per share (“EPS”)
- Effective tax rate
- Operating income margin

The above have been adjusted for the following items:

- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 only):** Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and

do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.

- **Acquisition-related costs (2010 only):** We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition-related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- **Amortization of intangible assets:** The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.
- **Other discrete, unusual or infrequent costs and expenses:** In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of these items on our results of operations for the period: 1) Loss on early extinguishment of liability (Q2 2011), 2) Venezuela devaluation costs (Q1 2010), 3) Medicare subsidy tax law change (income tax effect only)(Q1 2010) and 4) ACS shareholder's litigation settlement (Q2 2010). We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

In addition to the above excluded items, operating income and margin also excludes other expenses, net. Other expenses, net is primarily composed of non-financing interest expense.

Pro-forma Basis

To better understand the trends in our business, we discuss our year-to-date 2011 operating results by comparing them against adjusted year-to-date 2010 results which include ACS historical results for the comparable period. Accordingly, we have included ACS's 2010 estimated results for the period, January 1 through February 5, 2010 in our reported 2010 results in order to provide a full-year comparison of results for 2011 to 2010. We refer to comparisons against these adjusted 2010 results as "pro-forma" basis comparisons. ACS's 2010 historical results for the period January 1 through February 5, 2010 have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition. We believe comparisons on a pro-forma basis provide an enhanced assessment than the actual comparisons given the size and nature of the ACS acquisition. In addition, the acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a Technology company. We believe the pro-forma basis comparisons provide investors with a better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company's operations.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, the following non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

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 the following tables:

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Three Months Ended September 30, 2011(1) Net Income	EPS	Three Months Ended September 30, 2010 Net Income	EPS
As Reported	$ 320	$ 0.22	$ 250	$ 0.17
Adjustments:				
Amortization of intangible assets	54	0.04	53	0.04
Xerox and Fuji Xerox restructuring charges			8	0.01
ACS acquisition-related costs			3	—
Adjusted	$ 374	$ 0.26	$ 314	$ 0.22
Weighted average shares for adjusted EPS(2)	1,453		1,444	

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

(2) Average shares for the calculation of adjusted EPS for the third quarter 2011 were 1,453 million and include 27 million of shares associated with the Series A convertible preferred stock. Accordingly, the quarterly dividend of $6 million is excluded. Third quarter 2010 shares of 1,444 million also include 27 million shares associated with the Series A convertible preferred stock and the quarterly dividend of $6 million is excluded. We evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

(in millions; except per share amounts)	Nine Months Ended September 30, 2011(1) Net Income	EPS	Nine Months Ended September 30, 2010 Net Income	EPS
As Reported	$ 920	$ 0.63	$ 435	0.32
Adjustments:				
Amortization of intangible assets	161	0.11	141	0.10
Loss on early extinguishment of liability	20	0.02	—	—
Xerox and Fuji Xerox restructuring charges			177	0.13
ACS acquisition-related costs			53	0.04
ACS shareholders' litigation settlement			36	0.03
Venezuela devaluation costs			21	0.02
Medicare subsidy tax law change			16	0.01
Adjusted	$ 1,101	$ 0.76	$ 879	$ 0.65
Weighted average shares for adjusted EPS(2)	1,459		1,355	

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

(2) Average shares for the calculation of adjusted EPS for the year-to-date period were 1,459 million and include 27 million shares associated with the Series A convertible preferred stock and therefore the year-to-date dividends of $18 are excluded. The 2010 year-to-date period were 1,355 million and include 24 million shares, which represents a pro-rata portion of the 27 million shares associated with the Series A convertible preferred stock. Accordingly, the year-to-date dividends of $15 million associated with those shares are excluded from adjusted net income. Each period we evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

Effective Tax reconciliation:

(in millions)	Three Months Ended September 30, 2011(1) Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Three Months Ended September 30, 2010 Pre-Tax Income	Income Tax Expense	Effective Tax Rate
As Reported	$ 367	$ 81	22.1%	$ 328	$ 98	29.9%
Adjustments:						
Amortization of intangible assets	87	33		85	32	
Xerox restructuring charge				4	2	
ACS acquisition-related costs				5	2	
Adjusted	$ 454	$ 114	25.1%	$ 422	$ 134	31.8%

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

(in millions)	Nine Months Ended September 30, 2011(1) Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Nine Months Ended September 30, 2010 Pre-Tax Income	Income Tax Expense	Effective Tax Rate
As Reported	$ 1,118	$ 284	25.4%	$ 638	$ 232	36.4%
Adjustments:						
Amortization of intangible assets	259	98		227	86	
Loss on early extinguishment of liability	33	13		—	—	
Xerox restructuring charge				210	66	
ACS acquisition-related costs				68	15	
Venezuela devaluation costs				21	—	
Medicare subsidy tax law change				—	(16)	
ACS shareholders' litigation settlement				36	—	
Adjusted	$ 1,410	$ 395	28.0%	$ 1,200	$ 383	31.9%

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

Operating Income / Margin reconciliation:

(in millions)	Three Months Ended September 30, 2011 Profit	Revenue	Margin	Three Months Ended September 30, 2010 Profit	Revenue	Margin
Reported Pre-tax Income	$ 367	$ 5,583	6.6%	$ 328	$ 5,428	6.0%
Adjustments:						
Xerox restructuring (credit) charge	(4)			4		
ACS acquisition-related costs	—			5		
Amortization of intangible assets	87			85		
Other expenses, net	86			76		
Adjusted Operating	$ 536	$ 5,583	9.6%	$ 498	$ 5,428	9.2%
Fuji Xerox restructuring charge	1			6		
Equity in net income of unconsolidated affiliates	43			26		
Other expenses, net*	(85)			(76)		
Segment Profit/Revenue	$ 495	$ 5,583	8.9%	$ 454	$ 5,428	8.4%

* Includes rounding adjustments.

(in millions)	Nine Months Ended September 30, 2011 Profit	Revenue	Margin	Nine Months Ended September 30, 2010 Profit	Revenue	Margin
Reported Pre-tax Income	$ 1,118	$ 16,662	6.7%	$ 638	$ 15,657	4.1%
Adjustments:						
Xerox restructuring (credit) charge	(28)			210		
ACS acquisition-related costs	—			68		
Amortization of intangible assets	259			227		
Other expenses, net	268			314		
Adjusted Operating	$ 1,617	$ 16,662	9.7%	$ 1,457	$ 15,657	9.3%
Fuji Xerox restructuring charge	16			33		
Equity in net income of unconsolidated affiliates	111			52		
Loss on early extinguishment of liability	33			—		
ACS shareholders' litigation settlement	—			36		
Venezuela devaluation costs	—			21		
Other expenses, net*	(267)			(314)		
Segment Profit/Revenue	$ 1,510	$ 16,662	9.1%	$ 1,285	$ 15,657	8.2%

* Includes rounding adjustments.

Pro-forma:

(in millions)	Nine Months Ended September 30, As Reported 2011	As Reported 2010	Pro-forma 2010[1]	Change		Pro-forma Change	
Total Xerox							
Revenue:							
Equipment sales	$ 2,689	$ 2,659	$ 2,659	1 %		1 %	
Supplies, paper and other	2,440	2,510	2,535	(3)%		(4)%	
Sales	5,129	5,169	5,194	(1)%		(1)%	
Service, outsourcing and rentals	11,052	9,990	10,584	11 %		4 %	
Finance income	481	498	498	(3)%		(3)%	
Total Revenues	$ 16,662	$ 15,657	$ 16,276	6 %		2 %	
Service, outsourcing and rentals	$ 11,052	$ 9,990	$ 10,584	11 %		4 %	
Add: Finance income	481	498	498				
Add: Supplies, paper and other sales	2,440	2,510	2,535				
Annuity Revenue	$ 13,973	$ 12,998	$ 13,617	8 %		3 %	
Gross Profit:							
Sales	$ 1,746	$ 1,788	$ 1,789				
Service, outsourcing and rentals	3,455	3,343	3,445				
Finance income	305	312	312				
Total	$ 5,506	$ 5,443	$ 5,546				
Gross Margin:							
Sales	34.0%	34.6%	34.4%	(0.6)	pts	(0.4)	pts
Service, outsourcing and rentals	31.3%	33.5%	32.5%	(2.2)	pts	(1.2)	pts
Finance income	63.4%	62.7%	62.7%	0.7	pts	0.7	pts
Total	33.0%	34.8%	34.1%	(1.8)	pts	(1.1)	pts
RD&E	$ 542	$ 588	$ 588				
RD&E % Revenue	3.3%	3.8%	3.6%	(0.5)	pts	(0.3)	pts
SAG	$ 3,347	$ 3,398	$ 3,457				
SAG % Revenue	20.1%	21.7%	21.2%	(1.6)	pts	(1.1)	pts
Adjusted Operating Profit	$ 1,617	$ 1,457	$ 1,501				
Adjusting Operating Margin	9.7%	9.3%	9.2%	0.4	pts	0.5	pts
Services Segment							
Document Outsourcing	$ 2,620	$ 2,407	$ 2,407	9 %		9 %	
Business Processing Outsourcing[2]	4,438	3,634	4,125	22 %		8 %	
Information Technology Outsourcing	989	892	1,020	11 %		(3)%	
Less: Intra-Segment Eliminations	(74)	(7)	(7)	*		*	
Total Revenue – Services	$ 7,973	$ 6,926	$ 7,545	15 %		6 %	
Segment Profit – Services	$ 911	$ 808	$ 842	13 %		8 %	
Segment Margin – Services	11.4%	11.7%	11.2%	(0.3)	pts	0.2	pts

* Percent change not meaningful.

(1) Pro-forma reflects ACS's 2010 estimated results from January 1 through February 5, adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.

(2) 2010 BPO was adjusted to include historic Xerox BPO services.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption "Financial Risk Management" of this Quarterly Report on Form 10-Q is hereby incorporated by reference in answer to this Item.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to Xerox Corporation, including our consolidated subsidiaries, and was accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(a) Changes in Internal Controls

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 16-Contingencies contained in the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A — RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our 2010 Annual Report. The Risk Factors remain applicable from our 2010 Annual Report, with the exception of the following changes:

Our significant debt could adversely affect our financial health and pose challenges for conducting our business.

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. As of September 30, 2011, we had $9.2 billion of total debt. The total value of financing activities, shown on the balance sheet as Finance receivables and Equipment on operating lease, was $6.9 billion at September 30, 2011. The total cash and cash equivalents was $0.8 billion at September 30, 2011. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels such as the incurrence of debt to partially fund acquisitions, these related risks could increase.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements and to repay maturing debt and other obligations. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets, securitizations and funding from third parties. As of September 30, 2011, total cash and cash equivalents was $0.8 billion, and our borrowing capacity under our Credit Facility was $2.0 billion, reflecting no outstanding borrowings or letters of credit. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets, secured borrowings, securitizations and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on the creation of liens. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments.

At September 30, 2011, we were in compliance with the covenants and other provisions of the Credit Facility and the senior notes. Any failure to be in compliance with any material provision or covenant of the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2011

During the quarter ended September 30, 2011, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Semi-Annual Directors Fees

(a) Securities issued on July 15, 2011: Registrant issued 58,185 deferred stock units (“DSUs”), representing the right to receive shares of Common stock, par value $1 per share, at a future date.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $10.055 per DSU (aggregate price $585,050), based upon the market value on the date of issuance, in payment of the semi-annual Director's fees pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Dividend Equivalent

(a) Securities issued on July 31, 2011: Registrant issued 1,941 deferred stock units (“DSUs”), representing the right to receive shares of Common stock, par value $1 per share, at a future date.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $10.38 per DSU (aggregate price $20,148), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2011

Repurchases of Xerox Common Stock, par value $1.00 per share include the following:

Board Authorized Share Repurchase Programs:

	Total Number of Shares Purchased	Average Price Paid per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Approximate Dollar Value of Share That May Yet Be Purchased Under the Plans or Programs[2]
July 1 through 31	861,000	$ 9.91	861,000	$ 1,550,819,311
August 1 through 31	20,064,900	8.49	20,064,900	1,380,403,138
September 1 through 30	16,786,100	7.70	16,786,100	1,251,175,004
Total	37,712,000		37,712,000	

(1) Exclusive of fees and costs.

(2) Of the cumulative $4.5 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately $3.3 billion has been used through September 30, 2011. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
July 1 through 31	1,963,818	$ 10.71	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	86,055	8.11	n/a	n/a
Total	2,049,873			

(1) These repurchases are made under a provision in our restricted stock compensation programs for the indirect repurchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

(2) Exclusive of fees and costs.

ITEM 6 — EXHIBITS

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on November 7, 2003, as amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19, 2004, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008. Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010. Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated February 5, 2010.
3(b)	By-Laws of Registrant, as amended through May 21, 2009. Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K dated May 21, 2009.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XEROX CORPORATION
(Registrant)

By: /S/ GARY R. KABURECK

Gary R. Kabureck
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 2, 2011

EXHIBIT INDEX

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101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

EXHIBIT 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges, the ratio of earnings to combined fixed charges and preferred stock dividends, as well as any deficiency of earnings are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income from continuing operations before income taxes and equity income; (b) distributed equity income; (c) fixed charges, as defined below; and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest and net income attributable to noncontrolling interests.

Fixed charges are calculated as the sum of: (a) interest costs (both expensed and capitalized); (b) amortization of debt expense and discount or premium relating to any indebtedness; and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre-tax earnings required to cover dividends paid on our Series A convertible preferred stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2011	2010	2011	2010
Fixed Charges:				
Interest expense	$ 116	$ 148	$ 367	$ 454
Capitalized interest	3	1	9	3
Portion of rental expense which represents interest factor	56	64	169	161
Total Fixed Charges	$ 175	$ 213	$ 545	$ 618
Earnings Available for Fixed Charges:				
Pre-tax income	$ 367	$ 328	$ 1,118	$ 638
Add: Distributed equity income of affiliated companies	—	—	28	17
Add: Fixed charges	175	213	545	618
Less: Capitalized interest	(3)	(1)	(9)	(3)
Less: Net income-noncontrolling interests	(9)	(6)	(25)	(23)
Total Earnings Available for Fixed Charges	$ 530	$ 534	$ 1,657	$ 1,247
Ratio of Earnings to Fixed Charges	3.03	2.51	3.04	2.02
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:				
Fixed Charges:				
Interest expense	$ 116	$ 148	$ 367	$ 454
Capitalized interest	3	1	9	3
Portion of rental expense which represents interest factor	56	64	169	161
Total Fixed Charges before preferred stock dividends pre-tax income requirements	175	213	545	618
Preferred stock dividends pre-tax income requirements	10	9	29	25
Total Combined Fixed Charges and Preferred Stock Dividends	$ 185	$ 222	$ 574	$ 643
Earnings Available for Fixed Charges:				
Pre-tax income	$ 367	$ 328	$ 1,118	$ 638
Add: Distributed equity income of affiliated companies	—	—	28	17
Add: Fixed charges before preferred stock dividends	175	213	545	618
Less: Capitalized interest	(3)	(1)	(9)	(3)
Less: Net income-noncontrolling interests	(9)	(6)	(25)	(23)
Total Earnings Available for Fixed Charges and Preferred Stock Dividends	$ 530	$ 534	$ 1,657	$ 1,247
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	2.86	2.41	2.89	1.94

EXHIBIT 31(a)

CEO CERTIFICATIONS

I, Ursula M. Burns, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2011

/S/ URSULA M. BURNS

Ursula M. Burns
Principal Executive Officer

EXHIBIT 31(b)

CFO CERTIFICATIONS

I, Luca Maestri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2011

/S/ LUCA MAESTRI

Luca Maestri
Principal Financial Officer

EXHIBIT 32

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-Q of Xerox Corporation, a New York corporation (the "Company"), for the quarter ending September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ursula M. Burns, Chairman of the Board and Chief Executive Officer of the Company, and Luca Maestri, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ URSULA M. BURNS

Ursula M. Burns
Chief Executive Officer

November 2, 2011

/S/ LUCA MAESTRI

Luca Maestri
Chief Financial Officer

November 2, 2011

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

News from Xerox

For Immediate Release

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Norwalk, CT 06856-4505

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Xerox Reports Fourth-Quarter 2011 Earnings

- Q4 GAAP earnings per share of 26 cents; adjusted EPS of 33 cents, up 14 percent
- Full-year 2011 GAAP EPS of 90 cents; adjusted EPS of $1.08, up 15 percent
- Q4 total revenue was flat; up 2 percent pro-forma for full-year 2011
- Q4 operating cash flow of $1.3 billion; $2 billion for full-year 2011
- Q4 stock repurchase of $392 million, $700 million for full-year 2011

NORWALK, Conn., Jan. 25, 2012 – Xerox Corporation (NYSE: XRX) announced today fourth-quarter 2011 results that include adjusted earnings per share of 33 cents, up 14 percent from fourth-quarter 2010, and $1.3 billion in operating cash flow. Adjusted EPS excludes 7 cents related to amortization of intangibles, resulting in GAAP EPS of 26 cents.

The company ended 2011 with full-year adjusted EPS up 15 percent, pro-forma revenue up 2 percent and operating cash flow of $2 billion. “Our performance reflects Xerox’s operational discipline in delivering strong bottom-line results while scaling our services business and maintaining our leadership in document technology,” said Ursula Burns, Xerox chairman and chief executive officer.

In the fourth quarter, total revenue of $6 billion was flat; revenue from the company’s services business was up 6 percent, and revenue from its technology business was down 5 percent. Growth in services was driven by an 8 percent increase in both business process outsourcing and document outsourcing. Technology revenue, which represents the sale of document systems, supplies, technical service and financing of products, was significantly impacted by economic weakness in Europe.

“While operating in a challenging economic environment, we’ve grown our global market share for equipment revenue, further strengthening our industry leadership. Installs of Xerox equipment increased 8 percent in the fourth quarter. And, our managed print services are proving not only to be the industry standard but also an engine of growth for our business,” said Burns.

“Signings for our diverse services offerings were up 15 percent in the fourth quarter,” Burns added. “Our services portfolio remains a competitive advantage -- providing clients cost-efficient ways to run more productive enterprises and benefitting our business for the long term through a healthy base of recurring revenue.”

The increase in services signings continues to put near-term pressure on gross margins as Xerox makes initial investments to implement new contracts. Fourth-

quarter gross margin was 32.2 percent, and selling, administrative and general expenses improved to 19.3 percent of revenue. Fourth-quarter 2011 results include 2 cents from a curtailment gain net of restructuring expenses. Operating margin of 10 percent was down 0.4 points from fourth-quarter 2010.

Full-year 2011 results include:

- Net income of $1.3 billion, adjusted net income of $1.6 billion, up 21 percent
- Total revenue of $22.6 billion, up 5 percent, 2 percent pro-forma
- Operating margin of 9.8 percent, up 0.3 points pro-forma
- Operating cash flow of $2 billion
- $700 million in share repurchase

The company expects first-quarter 2012 GAAP earnings of 17 to 20 cents per share. First-quarter adjusted EPS is expected to be 21 to 24 cents per share. Full-year 2012 GAAP earnings are expected to be 97 cents to $1.03 per share. Full-year adjusted earnings are expected to be $1.12 to $1.18 per share, including restructuring.

The company also expects $2 billion to $2.3 billion in cash flow from operations for 2012.

The Xerox board of directors recently increased the company's share repurchase authorization by $500 million to more than $1.3 billion. With this authorization, the company expects to repurchase between $900 million and $1.1 billion in Xerox shares during 2012.

About Xerox

With sales approaching $23 billion, Xerox Corporation (NYSE: XRX) is the world's leading enterprise for business process and document management. Its technology, expertise and services enable workplaces – from small businesses to large global enterprises – to simplify the way work gets done so they operate more effectively and focus more on what matters most: their real business. Headquartered in Norwalk, Conn., Xerox offers business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, HR benefits management, finance support, transportation solutions, and customer relationship management services for commercial and government organizations worldwide. The company also provides extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size. The 140,000 people of Xerox serve clients in more than 160 countries. For more information, visit http://www.xerox.com, http://news.xerox.com or http://www.realbusiness.com. For investor information, visit http://www.xerox.com/investor.

Non-GAAP Measures

This release refers to the following non-GAAP financial measures:

- Adjusted EPS (earnings per share) for the fourth quarter and full year 2011 and for the first quarter and full year 2012 guidance that excludes several discrete items.
- Operating margin for the fourth quarter and full year 2011 that excludes certain expenses.

- Pro-forma revenue and operating margin growth, with ACS included in the company's 2010 results for the comparable 2011 period.

Refer to the "Non-GAAP Financial Measures" section of this release for a discussion of these non-GAAP measures and their reconciliation to the reported GAAP measure.

Forward-Looking Statements

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 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 Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011, and our 2010 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.

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Note: To receive RSS news feeds, visit http://news.xerox.com/pr/xerox/rss.aspx. For open commentary, industry perspectives and views from events visit http://twitter.com/xeroxcorp, http://twitter.com/xeroxoffice, http://twitter.com/xeroxproduction, http://twitter.com/servicesatxerox, http://twitter.com/xeroxevents, http://www.xerox.com/blogs, http://www.xerox.com/podcasts.

Xerox Corporation
Condensed Consolidated Statements of Income (Unaudited)

(in millions, except per-share data)	Three Months Ended December 31, 2011	2010	% Change	Year Ended December 31, 2011	2010	% Change
Revenues						
Sales	$ 1,997	$ 2,065	(3%)	$ 7,126	$ 7,234	(1%)
Service, outsourcing and rentals	3,816	3,749	2%	14,868	13,739	8%
Finance income	151	162	(7%)	632	660	(4%)
Total Revenues	**5,964**	**5,976**	**-**	**22,626**	**21,633**	**5%**
Costs and Expenses						
Cost of sales	1,314	1,360	(3%)	4,697	4,741	(1%)
Cost of service, outsourcing and rentals	2,672	2,548	5%	10,269	9,195	12%
Equipment financing interest	55	60	(8%)	231	246	(6%)
Research, development and engineering expenses	179	193	(7%)	721	781	(8%)
Selling, administrative and general expenses	1,150	1,196	(4%)	4,497	4,594	(2%)
Restructuring and asset impairment charges	61	273	(78%)	33	483	(93%)
Acquisition-related costs	-	9	*	-	77	*
Amortization of intangible assets	139	85	64%	398	312	28%
Curtailment gain	(107)	-	*	(107)	-	*
Other expenses, net	54	75	(28%)	322	389	(17%)
Total Costs and Expenses	**5,517**	**5,799**	**(5%)**	**21,061**	**20,818**	**1%**
Income before Income Taxes & Equity Income[1]	**447**	**177**	*	**1,565**	**815**	**92%**
Income tax expense	102	24	*	386	256	51%
Equity in net income of unconsolidated affiliates	38	26	46%	149	78	91%
Net Income	**383**	**179**	*	**1,328**	**637**	*
Less: Net income attributable to noncontrolling interests	8	8	-	33	31	6%
Net Income Attributable to Xerox	**$ 375**	**$ 171**	*	**$ 1,295**	**$ 606**	*
Basic Earnings per Share	**$ 0.27**	**$ 0.12**	*	**$ 0.92**	**$ 0.44**	*
Diluted Earnings per Share	**$ 0.26**	**$ 0.12**	*	**$ 0.90**	**$ 0.43**	*

* Percent change not meaningful.

[1] Referred to as "Pre-Tax Income" throughout the remainder of this document.

Xerox Corporation
Condensed Consolidated Balance Sheets (Unaudited)

(in millions, except share data in thousands)	December 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 902	$ 1,211
Accounts receivable, net	2,600	2,826
Billed portion of finance receivables, net	166	198
Finance receivables, net	2,165	2,287
Inventories	1,021	991
Other current assets	1,058	1,126
Total current assets	7,912	8,639
Finance receivables due after one year, net	4,031	4,135
Equipment on operating leases, net	533	530
Land, buildings and equipment, net	1,612	1,671
Investments in affiliates, at equity	1,395	1,291
Intangible assets, net	3,042	3,371
Goodwill	8,803	8,649
Deferred tax assets, long-term	672	540
Other long-term assets	2,116	1,774
Total Assets	**$ 30,116**	**$ 30,600**
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 1,545	$ 1,370
Accounts payable	2,016	1,968
Accrued compensation and benefits costs	757	901
Unearned income	432	371
Other current liabilities	1,631	1,807
Total current liabilities	6,381	6,417
Long-term debt	7,088	7,237
Liability to subsidiary trust issuing preferred securities	-	650
Pension and other benefit liabilities	2,487	2,071
Post-retirement medical benefits	925	920
Other long-term liabilities	861	797
Total Liabilities	**17,742**	**18,092**
Series A Convertible Preferred Stock	**349**	**349**
Common stock	1,353	1,398
Additional paid-in capital	6,317	6,580
Treasury stock, at cost	(124)	-
Retained earnings	7,046	6,016
Accumulated other comprehensive loss	(2,716)	(1,988)
Xerox shareholders' equity	11,876	12,006
Noncontrolling interests	149	153
Total Equity	**12,025**	**12,159**
Total Liabilities and Equity	**$ 30,116**	**$ 30,600**
Shares of common stock issued	1,352,849	1,397,578
Treasury stock	(15,508)	-
Shares of common stock outstanding	1,337,341	1,397,578

Xerox Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2010
Cash Flows from Operating Activities:				
Net income	$ 383	$ 179	$ 1,328	$ 637
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	361	293	1,251	1,097
Provision for receivables	55	39	154	180
Provision for inventory	7	7	39	31
Net gain on sales of businesses and assets	(1)	(2)	(9)	(18)
Undistributed equity in net income of unconsolidated affiliates	(3)	(2)	(86)	(37)
Stock-based compensation	31	37	123	123
Restructuring and asset impairment charges	61	273	33	483
Curtailment gain	(107)	-	(107)	-
Payments for restructurings	(56)	(65)	(218)	(213)
Contributions to pension benefit plans	(78)	(32)	(426)	(237)
Decrease (increase) in accounts receivable and billed portion of finance receivables	252	200	(296)	(118)
Collections of deferred proceeds from sales of receivables	93	103	380	218
Decrease (increase) in inventories	154	160	(124)	(151)
Increase in equipment on operating leases	(93)	(94)	(298)	(288)
(Increase) decrease in finance receivables	(144)	(141)	90	129
Increase in other current and long-term assets	(65)	(55)	(249)	(98)
Increase in accounts payable and accrued compensation	279	294	82	615
Increase (decrease) in other current and long-term liabilities	75	61	(22)	(9)
Net change in income tax assets and liabilities	72	44	292	227
Net change in derivative assets and liabilities	(4)	16	39	85
Other operating, net	6	(8)	(15)	70
Net cash provided by operating activities	1,278	1,307	1,961	2,726
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(93)	(121)	(338)	(355)
Proceeds from sales of land, buildings and equipment	19	12	28	52
Cost of additions to internal use software	(41)	(50)	(163)	(164)
Acquisitions, net of cash acquired	(24)	(60)	(212)	(1,734)
Net change in escrow and other restricted investments	(1)	1	(10)	20
Other investing, net	-	2	20	3
Net cash used in investing activities	(140)	(216)	(675)	(2,178)
Cash Flows from Financing Activities:				
Net (payments) proceeds on debt	(553)	(868)	49	(3,056)
Payment of liability to subsidiary trust issuing preferred securities	-	-	(670)	-
Common stock dividends	(59)	(59)	(241)	(215)
Preferred stock dividends	(6)	(6)	(24)	(15)
Proceeds from issuances of common stock	3	63	44	183
Excess tax benefits from stock-based compensation	1	12	6	24
Payments to acquire treasury stock, including fees	(392)	-	(701)	-
Repurchases related to stock-based compensation	-	(1)	(27)	(15)
Distributions to noncontrolling interests	(7)	(4)	(22)	(22)
Net cash used in financing activities	(1,013)	(863)	(1,586)	(3,116)
Effect of exchange rate changes on cash and cash equivalents	(8)	8	(9)	(20)
Increase (decrease) in cash and cash equivalents	117	236	(309)	(2,588)
Cash and cash equivalents at beginning of period	785	975	1,211	3,799
Cash and Cash Equivalents at End of Period	**$ 902**	**$ 1,211**	**$ 902**	**$ 1,211**

Financial Review

Revenues

(in millions)	Three Months Ended December 31, 2011	2010	% Change	% of Total Revenue 2011	2010
Equipment sales	$ 1,167	$ 1,198	(3%)	20%	20%
Annuity revenue[(1)]	4,797	4,778	-	80%	80%
Total Revenue	**$ 5,964**	**$ 5,976**	-	**100%**	**100%**
Memo: Color[(2)]	$ 1,846	$ 1,813	2%	31%	30%

Reconciliation to Condensed Consolidated Statements of Income:		
Sales	$ 1,997	$ 2,065
Less: Supplies, paper and other sales	(830)	(867)
Equipment Sales	**$ 1,167**	**$ 1,198**
Service, outsourcing and rentals	$ 3,816	$ 3,749
Add: Finance income	151	162
Add: Supplies, paper and other sales	830	867
Annuity Revenue[(1)]	**$ 4,797**	**$ 4,778**

Fourth quarter 2011 total revenues were flat compared to the fourth quarter 2010, with no impact from currency. Total revenues included the following:

- Flat annuity revenue[1], including a 1-percentage point negative impact from currency. Annuity revenue[1] is comprised of the following:
  - Service, outsourcing and rentals revenue of $3,816 million increased 2%, with no impact from currency. The increase was primarily driven by growth in business process outsourcing revenue in our Services segment.
  - Supplies, paper and other sales of $830 million decreased by 4%, with no impact from currency. This was driven by a decrease in paper revenue.
- 3% decrease in equipment sales revenue, including a 1-percentage point negative impact from currency, driven primarily by a decline in Europe. An increase in total product installs in all three of our product groups was more than offset by price declines, which, consistent with prior quarters, were in the range of 5% to 10%, and lower product mix.
- 2% increase in color revenue[2], with no impact from currency, reflects:
  - 2% increase in color[2] annuity[1] revenue, with no impact from currency. The increase was driven by higher page volumes on color devices.
  - 2% increase in color[2] equipment sales revenue, with no impact from currency. Growth across all color product groups was offset by lower product mix and price declines.

An analysis of the change in revenue for each business segment is included in the "Segment Review" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

The following is a summary of key financial ratios used to assess our performance:

	Three Months Ended December 31,		
	2011	**2010**	**B/(W)**
Total Gross Margin	32.2%	33.6%	(1.4) pts.
RD&E as a % of Revenue	3.0%	3.2%	0.2 pts.
SAG as a % of Revenue	19.3%	20.0%	0.7 pts.
Operating Margin [3]	**10.0%**	**10.4%**	**(0.4) pts.**
Pre-Tax income margin	7.5%	3.0%	4.5 pts.

Fourth quarter 2011 operating margin[3] of 10.0% decreased 0.4-percentage points as compared to the fourth quarter 2010. The decrease was primarily due to a decrease in gross margin, which was partially offset by expense reductions.

Gross Margin
Gross margin of 32.2% decreased 1.4-percentage points, as compared to the fourth quarter 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals from prior periods and the higher mix of Services revenue.

Services gross margin decreased by 2.2-percentage points as compared to the fourth quarter 2010, due primarily to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals from prior periods.

Technology gross margin decreased by 0.4-percentage points as compared to the fourth quarter 2010. The impact of price declines was partially offset by cost productivities and restructuring savings, reflecting continued focus on cost management.

Research, Development and Engineering Expenses ("RD&E")
Fourth quarter 2011 RD&E as a percent of revenue of 3.0% decreased 0.2-percentage points from the fourth quarter 2010. In addition to lower spending, the decrease was driven by the positive mix impact of the continued growth in Services revenue, which historically has a lower RD&E percent of revenue.

RD&E of $179 million was $14 million lower than the fourth quarter 2010, reflecting the impact of restructuring and productivity improvements. Innovation is one of our core strengths and we continue to invest at levels that enhance this core strength, particularly in color, software and services. Xerox R&D is strategically coordinated with Fuji Xerox.

Selling, Administrative and General Expenses ("SAG")
SAG as a percent of revenue of 19.3%decreased 0.7-percentage points from the fourth quarter 2010. The decrease was driven by spending reductions reflecting benefits from restructuring

and productivity improvements in addition to the positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percent of revenue.

SAG of $1,150 million was $46 million lower than the fourth quarter 2010. This included a $3 million favorable impact from currency for the quarter. SAG expenses reflect the following:

- $66 million decrease in selling expenses, reflecting benefits from restructuring, productivity improvements and a decrease in brand advertising.
- $8 million increase in general and administrative expenses, driven by the impact of acquisitions.
- $12 million increase in bad debt expenses, as improvements in write-off trends in North America were more than offset by higher write-offs in southern Europe. Fourth quarter 2011 bad debt expense continued to remain at less than one percent of receivables.

Restructuring and Asset Impairment Charges

During the fourth quarter 2011, we recorded $61 million of net restructuring and asset impairment charges ($39 million after tax), which included the following:

- $66 million for severance costs related to headcount reductions of approximately 1,000 employees primarily in North America across several functional areas.
- $5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our Corporate Aviation operations.

These costs were partially offset by $10 million of net reversals for changes in estimated reserves from prior period initiatives. The restructuring reserve balance as of December 31, 2011, for all programs was $123 million, of which approximately $116 million is expected to be spent over the next twelve months.

We anticipate additional restructuring initiatives of approximately $0.01-$0.02 per share for the first quarter of 2012.

In the fourth quarter 2010, we recorded $273 million of net restructuring and asset impairment charges, which included the following:

- $264 million for severance costs related to headcount reductions of approximately 6,000 employees. The functional areas impacted by the actions include services, supply chain and manufacturing, back office administrative functions and research and development.
- $11 million for lease termination costs.
- $19 million loss associated with the sale of our Venezuelan operations. The loss primarily reflects the write off of our Venezuelan net assets including working capital and long-lived assets given the decision in the fourth quarter 2010 to transition to a distributor model for this market.

These costs were partially offset by $23 million of net reversals for changes in estimated reserves from prior period initiatives.

Amortization of Intangible Assets

During the fourth quarter 2011, we recorded $139 million of expense related to the amortization of intangible assets. This was $54 million higher than fourth quarter 2010 and was driven by the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision to discontinue its use in early 2012 and transition the services business to the “Xerox Services” trade name**.**

Curtailment Gain
In December 2011, we amended all of our primary U.S. Defined Benefit Pension Plans for salaried employees. Our primary qualified plans had previously been amended to freeze the final average pay formulas within the plans as of December 31, 2012, but the cash balance service credit was expected to continue post December 31, 2012. The 2011 amendments now fully freeze benefit and service accruals after December 31, 2012 for these plans, including the related non-qualified plans. As a result of these plan amendments, we recognized a pre-tax curtailment gain of $107 million ($66 million after-tax), which represents the recognition of deferred gains from other prior year amendments ("prior service credits") as a result of the discontinuation ("freeze") of any future benefit or service accrual period. The amendments are not expected to materially impact 2012 pension expense.

Acquisition Related Costs
Acquisition related costs associated with our acquisition of ACS were $9 million in the fourth quarter 2010. These costs primarily represent incremental external costs directly related to the integration of ACS and Xerox.

Worldwide Employment
Worldwide employment of 139,650 at December 31, 2011 increased approximately 3,100 from year-end 2010, primarily due to the impact of acquisitions.

Other Expenses, Net

(in millions)	Three Months Ended December 31, 2011	2010
Non-financing interest expense	$ 56	$ 78
Interest income	(4)	(6)
Gains on sales of businesses and assets	(1)	(2)
Currency losses (gains), net	1	(9)
Litigation matters	(4)	(7)
Loss on early extinguishment of liability	-	15
All other expenses, net	6	6
Total Other Expenses, Net	**$ 54**	**$ 75**

Non-Financing Interest Expense
Fourth quarter 2011 non-financing interest expense of $56 million was $22 million lower than fourth quarter 2010 primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt and utilizing the commercial paper program.

Currency Losses (Gains), net
Fourth quarter 2011 currency losses (gains) were $10 million higher than fourth quarter 2010 due primarily to a prior year cumulative translation gain of $6 million that was recognized upon the repatriation of cash and liquidation of a foreign subsidiary.

Loss on Early Extinguishment of Liability
Fourth quarter 2010 loss on early extinguishment of liability of $15 million represents the loss associated with the redemption of senior and medium-term notes in the fourth quarter 2010 and reflects a call premium and the write-off of unamortized debt costs.

Income Taxes

Fourth quarter 2011 effective tax rate was 22.8%. On an adjusted basis[3], fourth quarter 2011 tax rate was 26.3%, which was lower than the U.S. statutory tax rate primarily due to geographical mix of profits as well as a higher foreign tax credit benefit as a result of our decision to repatriate current year income from certain non U.S. subsidiaries.

Fourth quarter 2010 effective tax rate was 13.6%. On an adjusted basis[3], fourth quarter 2010 tax rate was 29.5%, which was lower than the U.S. statutory tax rate primarily due to geographical mix of profits and tax law changes.

Xerox operations are widely dispersed. The statutory tax rate in most non U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full year effective tax rate includes a benefit of approximately 10 percentage points from these non U.S. operations, which is comparable to 2010.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable. We anticipate that our effective tax rate for 2012 will be approximately 29%, excluding the effects of intangibles amortization and discrete events.

Equity in Net Income of Unconsolidated Affiliates

Equity in net income of unconsolidated affiliates, which primarily reflects our 25% share of Fuji Xerox net income, was $38 million, an increase of $12 million compared to fourth quarter 2010.

Fourth quarter 2011 equity income includes charges of $3 million related to our share of Fuji Xerox after-tax restructuring compared to $5 million of charges for the fourth quarter 2010.

Net Income

Fourth quarter 2011 net income attributable to Xerox was $375 million, or $0.26 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $462 million, or $0.33 per diluted share. Fourth quarter 2011 adjustments to net income include amortization of intangible assets.

Fourth quarter 2010 net income attributable to Xerox was $171 million, or $0.12 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $417 million, or $0.29 per diluted share.

The Net Income and EPS reconciliation table in the Non-GAAP Financial Measures section contains the fourth quarter adjustments to net income.

The calculations of basic and diluted earnings per share are included as Appendix I. See Non-GAAP financial measures for calculation of adjusted EPS.

Segment Review

(in millions)	Three Months Ended December 31, Total Revenues	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2011				
Services	$ 2,864	48%	$ 296	10.3%
Technology	2,712	45%	316	11.7%
Other	388	7%	(30)	(7.7%)
Total	**$ 5,964**	**100%**	**$ 582**	**9.8%**
2010				
Services	$ 2,711	45%	$ 324	12.0%
Technology	2,845	48%	332	11.7%
Other	420	7%	(66)	(15.7%)
Total	**$ 5,976**	**100%**	**$ 590**	**9.9%**

Refer to Appendix II for the reconciliation of Segment Profit to Pre-tax Income.

Services

Our Services segment comprises three service offerings: Document Outsourcing ("DO"), Business Process Outsourcing ("BPO") and Information Technology Outsourcing ("ITO").

Revenue
Fourth quarter 2011 Services total revenue of $2,864 million increased 6%from the fourth quarter 2010, with no impact from currency.

- DO revenue increased 8%, with no impact from currency, and represented 33% of total Services revenue. Growth continued and was driven primarily by our new partner print services offerings as well as new signings.
- BPO delivered growth of 8%and represented 55% of total Services revenue. BPO growth was driven by the healthcare payer, human resources services, business process solutions and transportation solutions businesses as well as the impacts from recent acquisitions.
- ITO revenue decreased 6% and represented 12% of total Services revenue. The decline was driven by lower third-party equipment sales as well as the impact of lower contract renewals from prior periods.

Segment Margin
Fourth quarter 2011 Services segment margin of 10.3% decreased 1.7-percentage points from fourth quarter 2010, due primarily to the decline in gross margin, which was driven by the ramping of new services contracts and the impact of lower contract renewals from prior periods.

Metrics

Pipeline

Our total services sales pipeline, including synergy opportunities, grew 5% over the fourth quarter 2010. We have been able to maintain a significant pipeline, which has increased by approximately 50% from prior to the ACS acquisition, even with strong growth in signings. This sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that potentially could be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of $100 million.

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Services signings were an estimated $4.2 billion in TCV for the quarter.

- BPO signings of $1.5 billion TCV.
- DO signings of $1.1 billion TCV.
- ITO signings of $1.6 billion TCV.

Signings increased 15% from the fourth quarter 2010, driven by growth in the ITO and DO offerings. Signings on a trailing twelve month basis were flat in relation to the comparable prior year period, impacted by the cyclicality of large deals in prior quarters, particularly the California Medicaid signing in the first quarter 2010. Signings continued to trend positively, increasing sequentially for the third straight quarter.

Note: TCV is estimated total revenue for future contracts for pipeline or signed contracts for signings as applicable.

Technology

Our Technology segment includes the sale of products and supplies, as well as the associated technical service and financing of those products.

Revenue

	Three Months Ended December 31,		
(in millions)	2011	2010	Change
Equipment sales	$ 966	$ 1,053	(8%)
Annuity revenue[(1)]	1,746	1,792	(3%)
Total Revenue	**$ 2,712**	**$ 2,845**	(5%)

Fourth quarter 2011 Technology revenue of $2,712 million decreased 5% from the fourth quarter 2010, including a 1-percentage point negative impact from currency. Revenue results included the following:

- 8% decrease in equipment sales revenue, with no impact from currency, driven primarily

by a decline in Europe reflecting the economic conditions in the Euro zone. An increase in total product installs in all three of our product groups was more than offset by price declines and product mix. Consistent with prior quarters, price declines were in the range of 5% to 10%. Technology revenue excludes increasing revenues in our document outsourcing offerings.

- 3% decrease in annuity revenue[1] with a 1-percentage point negative impact from currency. An increase in supplies revenue was offset by a decline in pages, while revenue per page continued to increase.
- Technology revenue mix was 21% entry, 57% mid-range and 22% high-end.

Segment Margin

Fourth quarter 2011 Technology segment margin of 11.7% was flat compared to the fourth quarter 2010. Lower cost and expense from restructuring savings was offset by a decline in gross margin.

Installs

Entry

- 6% increase in total black-and-white and color multifunction devices and color printers driven by demand for recent product introductions such as the WorkCentre® 3045 and the WorkCentre® 6015.

Mid-Range

- 27% increase in installs of mid-range color devices driven by strong demand for new products such as the WorkCentre® 7530/7535 and the Xerox Color 550/560 across all geographies. This growth has enabled market share gains in the fastest growing and most profitable segment of the office color market.
- 6% increase in installs of mid-range black-and-white devices driven by strong demand for the recently launched WorkCentre® 5325/5330/5335 product.

High-End

- 15% increase in installs of high-end color systems driven primarily by strong demand for the recently launched Xerox Color 770 and the DocuColor™ 8080. These products have improved our offerings in the Entry Production Color product category. In addition, installs of our market-leading Xerox Color 800 and 1000 continued to grow from the fourth quarter 2010.
- 11% decrease in installs of high-end black-and-white systems.

Note: Install activity percentages include installations for Document Outsourcing and the Xerox-branded products shipped to GIS. “Entry”, “Mid-Range” and “High-End” are defined in Appendix II.

Other

Revenue

Fourth quarter 2011 Other revenue of $388 million decreased 8%, with no impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by an increase in revenue from patent sales and licensing (see below). Paper comprised approximately 54% of the fourth quarter 2011 Other segment revenue.

In the fourth quarter of 2011, we entered into an agreement with another company that included, among other items, the sale of certain patents and a cross-licensing of certain patents of each

party, pursuant to which we received an up-front payment with the remaining amount payable in two equal annual installment payments. Consistent with our accounting policy for these transactions, revenue associated with this agreement will be recorded as earned and only to the extent of cash received. During the fourth quarter 2011, the Other segment included revenue and pre-tax income/segment profit of approximately $32 million and $26 million ($16 million after-tax), respectively, which is net of certain expenses paid in connection with this agreement. We expect to recognize additional revenue and pre-tax income/segment profit of approximately $12 million and $8 million ($5 million after-tax), respectively, in each of the next two years in the Other Segment related to this agreement.

Segment Margin
Fourth quarter 2011 Other segment loss of $30 million decreased $36 million from the fourth quarter 2010, primarily driven by the increase from the patent sale and licensing as well as lower non-financing interest expense.

Notes:

(1) Annuity revenue = Service, outsourcing and rentals + Supplies, paper and other sales + Finance income.

(2) Represents revenues from color devices and is a subset of total revenues and excludes Global Imaging Systems ("GIS") revenues.

(3) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.

Capital Resources and Liquidity

The following table summarizes our cash and cash equivalents for the three months ended December 31, 2011 and 2010:

	Three Months Ended December 31,		
(in millions)	2011	2010	Change
Net cash provided by operating activities	$ 1,278	$ 1,307	$ (29)
Net cash used in investing activities	(140)	(216)	76
Net cash used in financing activities	(1,013)	(863)	(150)
Effect of exchange rate changes on cash and cash equivalents	(8)	8	(16)
Increase in cash and cash equivalents	117	236	(119)
Cash and cash equivalents at beginning of period	785	975	(190)
Cash and Cash Equivalents at End of Period	$ 902	$ 1,211	$ (309)

Cash Flows from Operating Activities
Net cash provided by operating activities was $1,278 million in the fourth quarter 2011. The $29 million decrease in cash from fourth quarter 2010 was primarily due to the following:

- $50 million decrease from higher net income tax payments primarily due to refunds in the prior year.

- $46 million decrease due to higher contributions to our defined pension benefit plans.
- $42 million increase due to lower net accounts receivable reflecting improved collections in the quarter.
- $19 million increase in pre-tax income before depreciation and amortization, restructuring and curtailment.

Cash Flows from Investing Activities
Net cash used in investing activities was $140 million in the fourth quarter 2011. The $76 million decrease in the use of cash from fourth quarter 2010 was primarily due to the following:
- $37 million decrease due to lower capital expenditures (including internal use software).
- $36 million decrease in acquisitions. 2011 acquisitions include MBM for $42 million and Breakaway Group for $18 million as well as a net cash receipt of $35 million for Symcor. 2010 acquisitions include TMS Health for $48 million and Spur Information Solutions for $12 million.

Cash Flows from Financing Activities
Net cash used in financing activities was $1,013 million in the fourth quarter 2011. The $150 million increase in the use of cash from fourth quarter 2010 was primarily due to the following:
- $392 million increase resulting from the resumption of our share repurchase program.
- $60 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- $315 million decrease from net debt activity. Fourth quarter 2011 reflects net payments of $551 million on Commercial Paper and net payments of $2 million on other debt. Fourth quarter 2010 reflects net payments of $602 million on the Credit Facility, $550 million early redemption of the 2013 Senior Notes and $16 million on other debt partially offset by net proceeds of $300 million from Commercial Paper.

Credit Facility
In fourth quarter 2011, we refinanced our $2 billion unsecured revolving credit facility that was executed in April 2007. This new facility is a five year commitment maturing in 2016 with a group of lenders, most of whom were lenders under the prior facility. Pricing, which is improved as a result of the refinancing, includes a borrowing rate of LIBOR + 1.175%and an annual commitment fee of 20 bps, based on our current ratings. The new facility contains a $300 million letter of credit sub facility, and also includes an accordion feature that allows us to increase the overall size of the facility up to an aggregate amount not to exceed $2.75 billion. The new facility provides a backstop to Xerox's $2 billion commercial paper program. Proceeds from any borrowing under the new facility can be used to provide working capital and for general corporate purposes.

Customer Financing Activities

The following represents our Total finance assets, net associated with our lease and finance operations:

	December 31,	
(in millions)	2011	2010
Total Finance receivables, net [(1)]	$ 6,362	$ 6,620
Equipment on operating leases, net	533	530
Total Finance Assets, net	**$ 6,895**	**$ 7,150**

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.

The decrease of $255 million in Total finance assets, net includes currency of $63 million.

The following summarizes our debt:

(in millions)	December 31, 2011	December 31, 2010
Principal debt balance[1]	$ 8,450	$ 8,380
Net unamortized discount	(7)	(1)
Fair value adjustments	190	228
Total Debt	8,633	8,607
Less: current maturities and short-term debt	(1,545)	(1,370)
Total Long-Term Debt	**$ 7,088**	**$ 7,237**

(1) Includes Commercial Paper of $100 million and $300 million as of December 31, 2011 and 2010, respectively. December 2011 balance also includes $650 million in debt resulting from the refinancing of the Xerox Capital Trust I preferred securities.

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation; therefore, we maintain a certain level of debt (that we refer to as financing debt) to support our investment in these lease contracts, which are reflected in Total finance assets, net. For this financing aspect of our business, we maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets. Based on this leverage, the following represents the breakdown of total debt between financing debt and core debt:

(in millions)	December 31, 2011	December 31, 2010
Financing Debt[1]	$ 6,033	$ 6,256
Core Debt	2,600	2,351
Total Debt	**$ 8,633**	**$ 8,607**

(1) Financing Debt includes $5,567 million and $5,793 million as of December 31, 2011 and 2010, respectively, of debt associated with Total Finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with equipment on operating leases.

Sales of Accounts Receivables

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. Accounts receivable sales were as follows:

(in millions)	Three Months Ended December 31, 2011	2010
Accounts receivable sales	$ 915	$ 788
Deferred proceeds	96	95
Fees associated with sales	6	5
Estimated increase to operating cash flows [1]	165	180

[1] Represents the difference between current and prior period receivable sales adjusted for the effects of the deferred proceeds, collections prior to the end of the quarter and currency.

Forward-Looking Statements

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: changes in economic conditions, political conditions, trade protection measures, licensing requirements, environmental regulations and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; our ability to expand equipment placements and to drive the expanded use of color in printing and copying; development of new products and services; interest rates, cost of borrowing and access to credit markets; our ability to protect our intellectual property rights; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; 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 Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011 and our 2010 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.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (“GAAP”). In addition, we have discussed the non-GAAP measures described below. A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as in the 2011 fourth quarter presentation slides available at http://www.xerox.com/investor.

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects. Note: In 2011, adjustments were limited to the amortization of intangible assets and the loss on the early extinguishment of a liability.

- Net income and Earnings per share ("EPS")
- Effective tax rate
- Operating income and margin

The above have been adjusted for the following items:

- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 only):** Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.
- **Acquisition related costs (2010 only):** We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- **Amortization of intangible assets:** The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods. In addition, in the fourth quarter 2011, the total amortization of intangible assets included the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision to discontinue its use in early 2012 and transition the services business to the "Xerox Services" trade name.
- **Other discrete, unusual or infrequent costs and expenses:** In addition, we have also excluded the following items given the discrete, unusual or infrequent nature of the item on our results of operations for the period: 1) Loss on early extinguishment of liability (Q4 2010, FY 2011 and FY2010); 2) ACS shareholders litigation settlement (FY 2010); 3) Venezuela devaluation costs (FY 2010); and 4) Medicare subsidy tax law change (income tax effect only) (FY 2010). We believe exclusion of these items allow investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

In addition to the above excluded items, operating income and margin also exclude other expenses, net. Other expenses, net is primarily composed of non-financing interest expense.

Pro-forma Basis
To better understand the trends in our business, we discussed our year-to-date total revenue by comparing it against the adjusted year-to-date 2010 results, which included ACS historical results for the comparable period. Accordingly, we have included ACS's 2010 estimated total revenue results for the period January 1 through February 5, 2010 in our reported 2010 results in order to provide a full-year comparison of results for 2011 and 2010. We refer to the comparison against this adjusted 2010 result as "pro-forma" based comparison.

Constant Currency
To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as "constant currency." Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

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 the following tables:

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Three Months Ended December 31, 2011[1] Net Income	EPS	Three Months Ended December 31, 2010 Net Income	EPS
Reported	**$ 375**	**$ 0.26**	**$ 171**	**$ 0.12**
Adjustments:				
Amortization of intangible assets	87	0.07	53	0.04
Xerox and Fuji Xerox restructuring charges			178	0.12
Loss on early extinguishment of liability			10	0.01
ACS acquisition-related costs			5	-
	87	0.07	246	0.17
Adjusted	**$ 462**	**$ 0.33**	**$ 417**	**$ 0.29**
Weighted average shares for adjusted EPS	1,415		1,458	

(1) For 2011, we only adjusted for Amortization of intangible assets.

Average shares for the calculation of adjusted EPS for the fourth quarter 2011 were 1,415 million and include 27 million shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend of $6 million is excluded. Fourth quarter 2010 shares of 1,458 million also include the 27 million shares associated with the Series A convertible preferred stock and the related quarterly dividend of $6 million was excluded. We evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

(in millions; except per share amounts)	Year Ended December 31, 2011[1] Net Income	EPS	Year Ended December 31, 2010 Net Income	EPS
Reported	**$ 1,295**	**$ 0.90**	**$ 606**	**$ 0.43**
Adjustments:				
Amortization of intangible assets	248	0.17	194	0.14
Loss on early extinguishment of liability	20	0.01	10	0.01
Xerox and Fuji Xerox restructuring charges			355	0.26
ACS acquisition-related costs			58	0.04
ACS shareholders' litigation settlement			36	0.03
Venezuela devaluation costs			21	0.02
Medicare subsidy tax law change			16	0.01
	268	0.18	690	0.51
Adjusted	**$ 1,563**	**$ 1.08**	**$ 1,296**	**$ 0.94**
Weighted average shares for adjusted EPS	1,444		1,378	

(1) For 2011, we only adjusted for Amortization of intangible assets and the Loss on extinguishment of liability.

Average shares for the calculation of adjusted EPS for the full year 2011 were 1,444 million and include 27 million shares associated with the Series A convertible preferred stock and therefore the related 2011 dividend of $24 million is excluded. Full year 2010 shares of 1,378 million also include a pro-rata portion of the 27 million shares associated with the Series A convertible preferred stock and therefore the 2010 dividend of $21 million associated with those shares was

excluded. We evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

2012 Guidance:

	Earnings Per Share	
	Q1 2012	FY 2012
GAAP EPS	**$0.17 - $0.20**	**$0.97 - $1.03**
Adjustments:		
Amortization of intangible assets	0.04	0.15
	0.04	0.15
Adjusted EPS	**$0.21 - $0.24**	**$1.12 - $1.18**

Note: GAAP and Adjusted EPS guidance include anticipated restructuring

Effective Tax reconciliation:

	Three Months Ended December 31, 2011[1]			Three Months Ended December 31, 2010		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported	**$ 447**	**$ 102**	**22.8%**	**$ 177**	**$ 24**	**13.6%**
Adjustments:						
Amortization of intangible assets	139	52		85	32	
Xerox restructuring charge				273	100	
Loss on early extinguishment of liability				15	5	
ACS acquisition-related costs				9	4	
Adjusted	**$ 586**	**$ 154**	**26.3%**	**$ 559**	**$ 165**	**29.5%**

(1) For 2011, we only adjusted for Amortization of intangible assets.

(in millions)	Year Ended December 31, 2011[1] Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Year Ended December 31, 2010 Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported	**$ 1,565**	**$ 386**	**24.7%**	**$ 815**	**$ 256**	**31.4%**
Adjustments:						
Amortization of intangible assets	398	150		312	118	
Loss on early extinguishment of liability	33	13		15	5	
Xerox restructuring charge				483	166	
ACS acquisition-related costs				77	19	
ACS shareholders' litigation settlement				36	-	
Venezuela devaluation costs				21	-	
Medicare subsidy tax law change				-	(16)	
Adjusted	**$ 1,996**	**$ 549**	**27.5%**	**$ 1,759**	**$ 548**	**31.2%**

(1) For 2011, we only adjusted for Amortization of intangible assets and the Loss on extinguishment of liability.

Operating Income / Margin reconciliation

(in millions)	Three Months Ended December 31, 2011 Profit	Revenue	Margin	Three Months Ended December 31, 2010 Profit	Revenue	Margin
Reported pre-tax income	$ 447	$ 5,964	7.5%	$ 177	$ 5,976	3.0%
Adjustments:						
Amortization of intangible assets	139			85		
Xerox restructuring charge	61			273		
Curtailment gain	(107)			-		
ACS acquisition-related costs	-			9		
Other expenses, net	54			75		
Adjusted Operating	**$ 594**	**$ 5,964**	**10.0%**	**$ 619**	**$ 5,976**	**10.4%**
Equity in net income of unconsolidated affiliates	38			26		
Fuji Xerox restructuring charge	3			5		
Loss on early extinguishment of liability	-			15		
Other expenses, net*	(53)			(75)		
Segment Profit/Revenue	**$ 582**	**$ 5,964**	**9.8%**	**$ 590**	**$ 5,976**	**9.9%**

* Includes rounding adjustments.

(in millions)	Year Ended December 31, 2011 Profit	Revenue	Margin	Year Ended December 31, 2010 Profit	Revenue	Margin
Reported pre-tax income	$ 1,565	$ 22,626	6.9%	$ 815	$ 21,633	3.8%
Adjustments:						
Amortization of intangible assets	398			312		
Xerox restructuring charge	33			483		
Curtailment gain	(107)			-		
ACS acquisition-related costs	-			77		
Other expenses, net	322			389		
Adjusted Operating	**$ 2,211**	**$ 22,626**	**9.8%**	**$ 2,076**	**$ 21,633**	**9.6%**
Equity in net income of unconsolidated affiliates	149			78		
Loss on early extinguishment of liability	33			15		
Fuji Xerox restructuring charge	19			38		
ACS shareholders' litigation settlement	-			36		
Venezuelan devaluation	-			21		
Other expenses, net*	(320)			(389)		
Segment Profit/Revenue	**$ 2,092**	**$ 22,626**	**9.2%**	**$ 1,875**	**$ 21,633**	**8.7%**

* Includes rounding adjustments.

Pro-forma

(in millions)	Year Ended December 31, As Reported 2011	As Reported 2010	Pro-Forma 2010[(1)]	Change	Pro-Forma Change
Revenue:					
Equipment sales	$ 3,856	$ 3,857	$ 3,857	- %	- %
Supplies, paper and other	3,270	3,377	3,402	(3 %)	(4 %)
Sales	7,126	7,234	7,259	(1 %)	(2 %)
Service, outsourcing and rentals	14,868	13,739	14,333	8 %	4 %
Finance income	632	660	660	(4 %)	(4 %)
Total Revenues	**$ 22,626**	**$ 21,633**	**$ 22,252**	**5%**	**2%**
Reported pre-tax income	$ 1,565	$ 815	$ 777		
Adjustments:					
Amortization of intangible assets	398	312	339		
Xerox restructuring charge	33	483	483		
Curtailment gain	(107)	-	-		
ACS acquisition-related costs	-	77	77		
Other expenses, net	322	389	444		
Adjusted Operating	**$ 2,211**	**$ 2,076**	**$ 2,120**		
Pre-tax Income Margin	**6.9%**	**3.8%**	**3.5%**	**3.1 pts**	**3.4 pts**
Adjusted Operating Margin	**9.8%**	**9.6%**	**9.5%**	**0.2 pts**	**0.3 pts**

(1) Pro-forma reflects ACS's 2010 estimated results from January 1 through February 5 in 2010.

Note: Pro-forma total revenue change includes a favorable currency impact of 2-percentage points.

APPENDIX I

Xerox Corporation
Earnings per Common Share
(in millions, except per share data. Shares in thousands)

	Three Months Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010
Basic Earnings per Share:				
Net income attributable to Xerox	$ 375	$ 171	$ 1,295	$ 606
Accrued Dividends on preferred stock	(6)	(6)	(24)	(21)
Adjusted net income available to common shareholders	$ 369	$ 165	$ 1,271	$ 585
Weighted average common shares outstanding	1,360,982	1,393,442	1,388,096	1,323,431
Basic Earnings per Share	$ 0.27	$ 0.12	$ 0.92	$ 0.44
Diluted Earnings per Share:				
Net income attributable to Xerox	$ 375	$ 171	$ 1,295	$ 606
Accrued Dividends on preferred stock	-	(6)	-	(21)
Interest on Convertible Securities, net	-	-	1	-
Adjusted net income available to common shareholders	$ 375	$ 165	$ 1,296	$ 585
Weighted average common shares outstanding	1,360,982	1,393,442	1,388,096	1,323,431
Common shares issuable with respect to:				
Stock options	6,209	16,543	9,727	13,497
Restricted stock and performance shares	18,877	18,820	16,994	13,800
Convertible preferred stock	26,966	-	26,966	-
Convertible securities	1,992	-	1,992	-
Adjusted weighted average common shares outstanding	1,415,026	1,428,805	1,443,775	1,350,728
Diluted Earnings per Share	$ 0.26	$ 0.12	$ 0.90	$ 0.43
The following securities were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive (in thousands of shares):				
Stock options	43,861	54,495	40,343	57,541
Restricted stock and performance shares	24,134	20,963	26,018	25,983
Convertible preferred stock	-	26,966	-	26,966
Convertible Securities	-	1,992	-	1,992
	67,995	104,416	66,361	112,482
Dividends per Common Share	$ 0.0425	$ 0.0425	$ 0.1700	$ 0.1700

APPENDIX II

Xerox Corporation
Reconciliation of Segment Operating Profit to Pre-Tax Income

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2010
Segment Profit	$ 582	$ 590	$ 2,092	$ 1,875
Reconciling items:				
Restructuring and asset impairment charges	(61)	(273)	(33)	(483)
Restructuring charges of Fuji Xerox	(3)	(5)	(19)	(38)
Acquisition-related costs	-	(9)	-	(77)
Amortization of intangible assets	(139)	(85)	(398)	(312)
Venezuelan devaluation costs	-	-	-	(21)
ACS shareholders litigation settlement	-	-	-	(36)
Loss on early extinguishment of liability	-	(15)	(33)	(15)
Equity in net income of unconsolidated affiliates	(38)	(26)	(149)	(78)
Curtailment gain	107	-	107	-
Other	(1)	-	(2)	-
Pre-Tax Income	**$ 447**	**$ 177**	**$ 1,565**	**$ 815**

Our reportable segments are aligned to how we manage the business and view the markets we serve. Our reportable segments are Technology, Services and Other.

Technology: The Technology segment is centered around strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of document systems and supplies, provision of technical service and financing of products. Our products range from:

- "Entry", which includes A4 devices and desktop printers.
- "Mid-Range", which includes A3 devices that generally serve workgroup environments in mid to large enterprises. This includes products that fall into the market categories, Color 41+ppm <$100K and Light Production 91+ppm <$100K.
- "High-End", which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

Services: The Services segment comprises three service offerings:

- Document Outsourcing, which includes Managed Print Services and revenues from our partner print services offerings.
- Business Process Outsourcing, which includes Xerox's historic Business Process Outsourcing services.
- Information Technology Outsourcing.

Other: The Other segment includes Xerox Supplies Business Group ("XSBG") (predominantly paper), Wide Format Systems, licensing revenue, GIS network integration solutions and electronic presentation systems, and non-allocated corporate items.