

LIST OF PROPRIETARY AND CONFIDENTIAL INFORMATION

Section	Section or Page # of Proposal	Topic(s)	Justification Code**
Technical Proposal:			
2.0 Submission Cover Sheet Subcontractor Letters	4 thru 5 Subcontractor letters at end of Section 2.0	Provides details of our subcontractors, names of our staff who prepared the proposal, and subcontractor letters	4
4.0 Executive Summary	2 thru 3	Provides details of the technical solution and name of key staff member proposed for the project	2 and 4
5.1 Subcontractor Contact Information	1 thru 2	Provides details of our subcontractors	4
Section B Vendor Experience	<ul style="list-style-type: none"> • 1.1 Subcontractor Organization Overview: 3 thru 7 • 2.2.3 PBM Strategies and Areas of Focus: 31 • Location of Key Personnel: 61 thru 62 • 2.6 Existing Business Relationships with Vermont: 63. • 2.7 Medicaid Pharmacy Operations Projects Completed in the Last Five Years: 68 thru 70 • 2.8 Business Disputes: 76 • Credit References: 79 • 6. Exceptions: 96 thru 120 	Identifies subcontractors, provides subcontractor profiles, discusses roles of subcontractors, identifies key personnel, provides details of our credit references, and identifies exceptions to RFP terms and conditions and requirements	4
Section C Vendor References	1 thru 19	Provides names and contact information about our references and our subcontractors' references	4
Section D Organization and Staffing	<ul style="list-style-type: none"> • 1. Project Organization Plan: 1 thru 25 • 2. Project Organization Chart: 26 thru 30 • 3. Vendor Key Personnel: 32 thru 33 • 3.1 Subcontractors: 34 • 4. Staff Contingency Plan: 35 thru 36 • 9. Time Commitment : 48 thru 49 	Provides details of our staffing plan including organization charts, staffing charts, key staff, job descriptions, and identification of subcontractors.	3 and 4

Section	Section or Page # of Proposal	Topic(s)	Justification Code**
Section E Staff Experience	1 thru 22	Provides details of our proposed staff including subcontractors and includes resumes, personal references, and detailed staff information charts.	3 and 4
Section G Functional Requiements Approach:			2
G.1.1.1 Point-of-Sale (POS) Claims Processing System	6 thru 9; 11 thru 12	Provides Web Pages	2
G.1.1.2 Automated Coordination of Benefits (COB)	18 thru 19; 22 thru 24; 28 thru 29; 32 thru 34; 36 thru 37; 39 thru 42; 44 thru 45; 47; 49	Provides Web Pages	2
G.1.1.3 Provider Network Support, Call Center and Portal	57; 59 thru 60	Provides Web Pages	2
G.1.4 Post Payment Claims	64 thru 65	Provides Web Pages	2
G.1.2.1 Utilization Management	72 thru 73; 75	Provides detailed flow of Pro- DUR process, provides details on Pro-DUR criteria, and identifies key staff	2 and 4
G.1.2.2 Prior Authorization Program	78; 81; 83 thru 86; 88; 91 thru 92	Provides details of operational processes including Web Pages	2
G.1.2.3 Drug Utilization Review	94 thru 97; 101 thru 102; 110 thru 111	Provides web pages, details on <i>CyberFormance</i> ; details of Xerox innovation related to population-based interventions, ProDUR system process flow, and identifies key staff	2 and 4
G.1.2.4 State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL)	112 thru 118	Provides details of our SMAC Program and Web Pages	2
G.1.2.5 Specialty Pharmacy	119 thru 123	Provides details of specialized operational solution and identifies subcontractor	2 and 4
G.1.2.6 Benefit Design and Consultative Support	126	Provides Web Page	2

Section	Section or Page # of Proposal	Topic(s)	Justification Code**
G.1.2.7 Management of Physician-Administered Drugs	129 thru 131	Provides detailed exhibits regarding our Retro-DUR population-based interventions and SmartPA Programs.	2
G.1.2.8 Support of Drug Appeals Process	137	Provides Web Pages	2
G.1.2.11 Medication Therapy Management	152; 155	Provides Web Page and detailed operational process flow	2
G.1.3.1 Management of State and CMS Drug Rebate Programs	159 thru 161; 166; 168; 170; 173; 175 thru 177; 180 thru 184; 186 thru 191;	Provides detailed graphics of rebate approach and provides Web Pages	2
G.1.3.4 Financial Management	201 thru 203	Provides operational process and Web Pages	2
G. 1.4 Additional Services	206 thru 211	Describes several innovative optional services and technology that are not part of the RFP requirements of Vermont.	2
Section I Non-Functional Requirements Approach:			
I.2.0 Interoperability and Integration	4	Provides graphic detailing security approach	2
I. 3.0 Regulatory and Security	8; 10 thru 14; 21	Provides graphic detailing security approach, identifies Xerox staff , and provides Web Page	2 and 4
I.4.0 User Interface	24 thru 31	Provides Web Pages	2
I.5.0 BI and Reporting	38 thru 44; 46 thru 47	Provides Web Pages and details regarding special reporting features	2
I.6.1 Program and Project Management	49; 52 thru 53; 55 thru 5; 60 thru 62; 67	Provides detailed graphics of our methodology for implementing our solution, identifies key staff, provides a Web Page and provides system and services configuration/implementation hours	1 and 2
I.6.4 Relationship Management	76	Identifies key staff	4
I.6.5 Issue Management	79; 81	Provides Web Page	2
I.1.6 Risk Management	88; 90	Provides detailed table of contents of Risk Management Plan and Web Page	2

Section	Section or Page # of Proposal	Topic(s)	Justification Code**
I.6.7 Relationships with Third Parties	91	Identifies subcontractor	4
I.1.1 Change Management	93	Provides detailed flow of change control process	2
I.8.0 Testing and Validation	99 thru 150	Provides details of testing approach and specific testing plans	2
I.9.2 Data Transition Strategy, Approach and Timeline	157	Provides detailed process flow for conversion	2
I.9.3 Implementation/Rollout Planning	160 thru 162	Identifies key staff, provides detailed cutover strategy, and provides data conversion activities with timeframes for "go live"	1, 2, and 4
I.11.0 System Administration and Disaster Recovery	185 thru 188; 190; 193	Provides detailed table of contents of DR plan, detailed Business Interruption Assessment Procedures; failover server information, schematic showing backup recovery site, and Web Pages	2
I.12.0 Performance	201; 203 thru 204	Provides Web Pages, performance metrics , and dashboard report	2
I.14.0 Service Level Requirements – System Performance Measures	212 thru 217	Provides Web Pages	2
Attachment B	1 thru 74	Provides detailed implementation tasks, resources, and associated timelines	1

Exhibit B: Justification Code Explanation

Xerox State Healthcare, LLC
Proposal Response for the Department of Vermont Health Access
Agency of Human Services
For Pharmacy Benefits Management Solution Design,
Development, and Implementation

Justification Code	Explanation
1	<p>The Work Plan presents a very detailed description of the tasks and timelines associated with implementing Xerox’s proposed solution. The Work Plan literally presents the “road map” developed by Xerox at considerable time and expense as the basis for Xerox’s provision of its solution methodology. This information is extremely valuable to Xerox, and if made available to a competitor, would result in a significant, unfair, and irreparable competitive advantage to the competitor.</p> <p>Xerox has invested significant resources in the development of our implementation and turnover plans and has also expended a great deal of resources in developing the optimal methodology by which to present this information in a Proposal format. The Work Plan contains Xerox’s unique approach to implementing its solution and provides Xerox with a real and significant competitive advantage. Disclosure of the information contained in the Work Plan to Xerox’s competitors would seriously and irreparably damage Xerox’s competitive position in the Medicaid and PBM marketplaces.</p> <p>Information contained in the indicated sections of the Proposal and the Proposal itself is highly restricted by Xerox even internally within our company. The information is stored in internally secure databases. Further, such information is not incorporated in general marketing, published articles, or Xerox public websites and is generally not known or available to the public. Currently, it would be extremely difficult for any party to acquire such information.</p>
2	<p>The technical approaches and business strategies included in the indicated sections are solutions for which Xerox has expended considerable time, effort, and expense. Allowing access to this information by our competitors would result in a significant unfair competitive advantage to such companies. This information is a trade secret because it presents a “formula, pattern, compilation, program, device, method, technique or process created by Xerox, and used in Xerox’s business. The information presented as part of this section(s) is not unique to this Proposal. Rather, it reflects many of the technical processes Xerox undertakes for similar projects, a process that Xerox has and will continue to employ across the country. Therefore, the information is not related to a single or ephemeral event but is part of “a process or device” developed by Xerox at its sole expense, and used continuously in Xerox’s business.</p> <p>We believe that the proprietary tools we have developed and the methodology utilized in compiling those components into our overall proposed solution, give Xerox a significant competitive advantage in the Medicaid and PBM marketplaces.</p>
3	<p>The disclosure of Xerox’s and its Subcontractors’ project organization and detailed staffing plans could result in irreparable competitive harm because it would allow competitors to compare their organizational and staffing procedures to those unique to Xerox, and to use the resulting information as the basis for improving their own procedures to be more competitive in future similar procurements. Disclosure of Xerox’s estimating methods and techniques for assigning and controlling resources would also allow competitors to accurately calculate Xerox’s detailed costs in performing various parts of this contract, thereby significantly, unfairly and irreparably increasing their competitive position in future procurements.</p>
4	<p>This section includes information on Xerox’s proposed key staff and subcontractors/consultants. The disclosure of proposed staff could result in substantial and irreparable harm to Xerox by assisting competitors in identifying, and seeking to and hire, Xerox–trained, experienced staff members. The loss of these trained personnel would greatly increase Xerox’s recruitment and training costs. Such added costs would in turn create a significant and irreparable competitive disadvantage that would make it much more difficult for Xerox to compete successfully in future health care procurements.</p> <p>Xerox is in the business of providing services. The value of our business is in the people who provide</p>

Justification Code	Explanation
	<p>those services and the experiences and knowledge they bring. Thus, unlike a Proposal just for the sale of software or pencils or any other material good that might be sold to a state agency, Xerox is proposing the sale of “people services.” The identity and skills of those people can and do constitute a trade secret.</p> <p>Xerox does not customarily reveal any information concerning employees or the independent contractors that may be utilized other than to potential clients and current clients – and then, only for the purposes of other performing or obtaining contracts.</p>



Response to the Department of Vermont Health Access (DVHA) for Pharmacy Benefits Management Solution Design, Development, and Implementation

RFP # 03410-127-14

Due Date January 31, 2014, at 3:00pm

Submitted by:

Xerox State Healthcare, LLC
9040 Roswell Road, Suite 700
Atlanta, GA 30350

Portions of this proposal contain confidential information, ideas, know-how, concepts, processes, and trade secrets (collectively "Proprietary Information") that are the sole property of Xerox. The proprietary contents of this proposal are intended solely for use in the procurement process and may not be disclosed except to persons who are involved in the evaluation of the proposal or award of the contract. The contents may not be duplicated, used, or disclosed in whole or in part for any purpose except the procurement process. Release of Xerox proprietary, confidential, and trade secret information would place Xerox at a serious and irreparable competitive disadvantage in future procurements by providing competitors with information that Xerox maintains strictly confidential and which is unavailable to any third-party except under restrictions contained in a nondisclosure agreement or protections that cover this information under applicable law. If a third-party makes a request for disclosure of any of the contents of this proposal, you are requested to notify Xerox immediately so that Xerox will have an opportunity to provide assistance in protecting the proprietary contents of this proposal from unauthorized disclosure.

XEROX® and XEROX and Design® are trademarks of the Xerox Corporation in the United States and/or other countries.



January 27, 2014

Kate Jones, Procurement Manager
Department of Vermont Health Access (DVHA)
312 Hurricane Lane
Williston, VT 05495-2087
kate.jones@state.vt.us
802-879-8256

Debra Glickfeld Bang
*Vice President & Senior
Corporate Counsel*

Xerox State Healthcare, LLC
8260 Willow Oaks Corporate
Drive
Suite 600
Fairfax, VA 22031

debra.bang@xerox.com
tel 703.891.8832
fax 703.891.8857

Re: Pharmacy Benefits Management Solution Design, Development, and Implementation
(RFP #: 03410-127-14) – Request for Protection of Proprietary and Confidential
Information

Dear Ms. Jones:

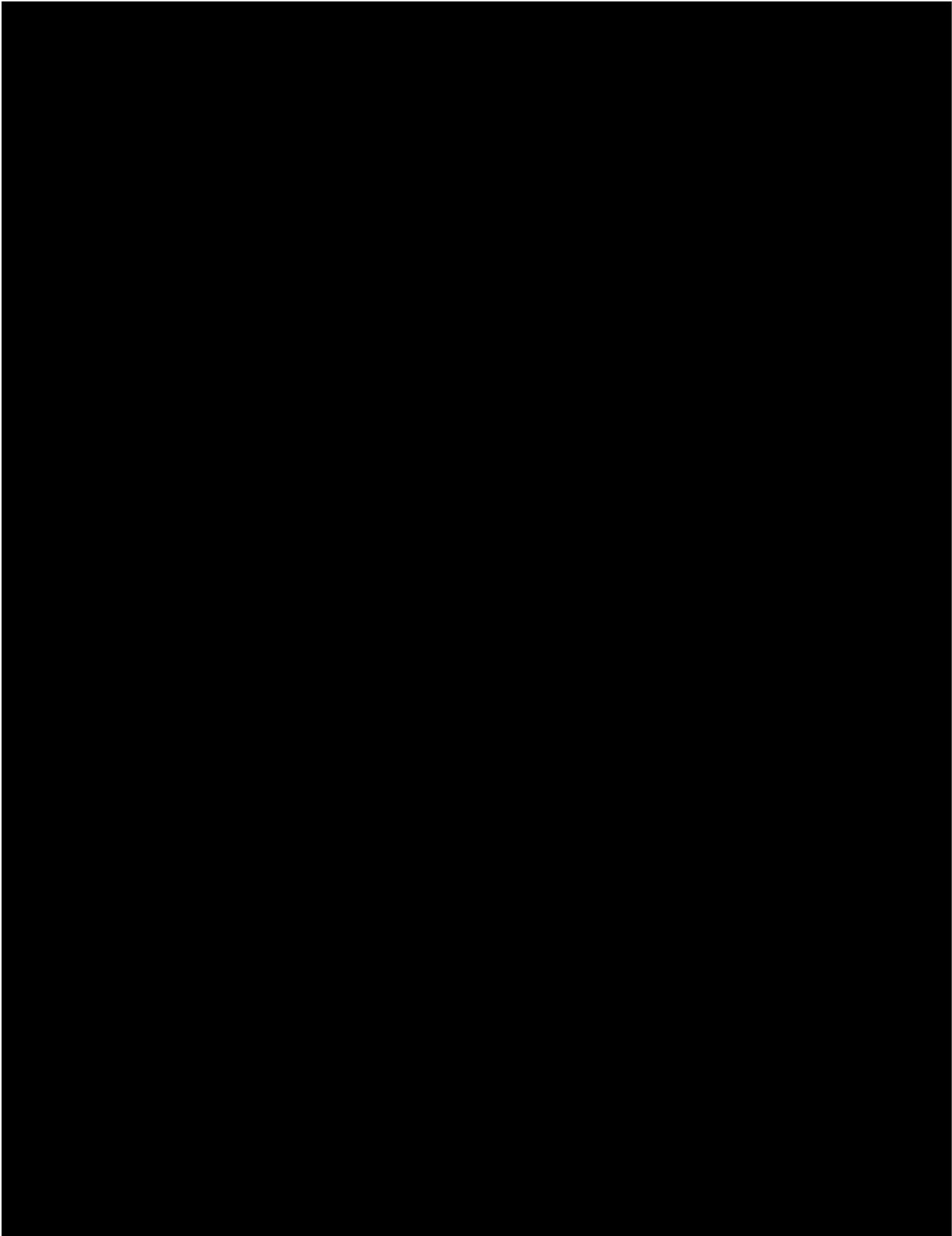
In reference to RFP Section 3.7, Property of the State, Xerox State Healthcare, LLC
(Xerox) provides this letter (including attachment) as our formal request for protection
of proprietary and confidential information for the above cited Request for Proposal.

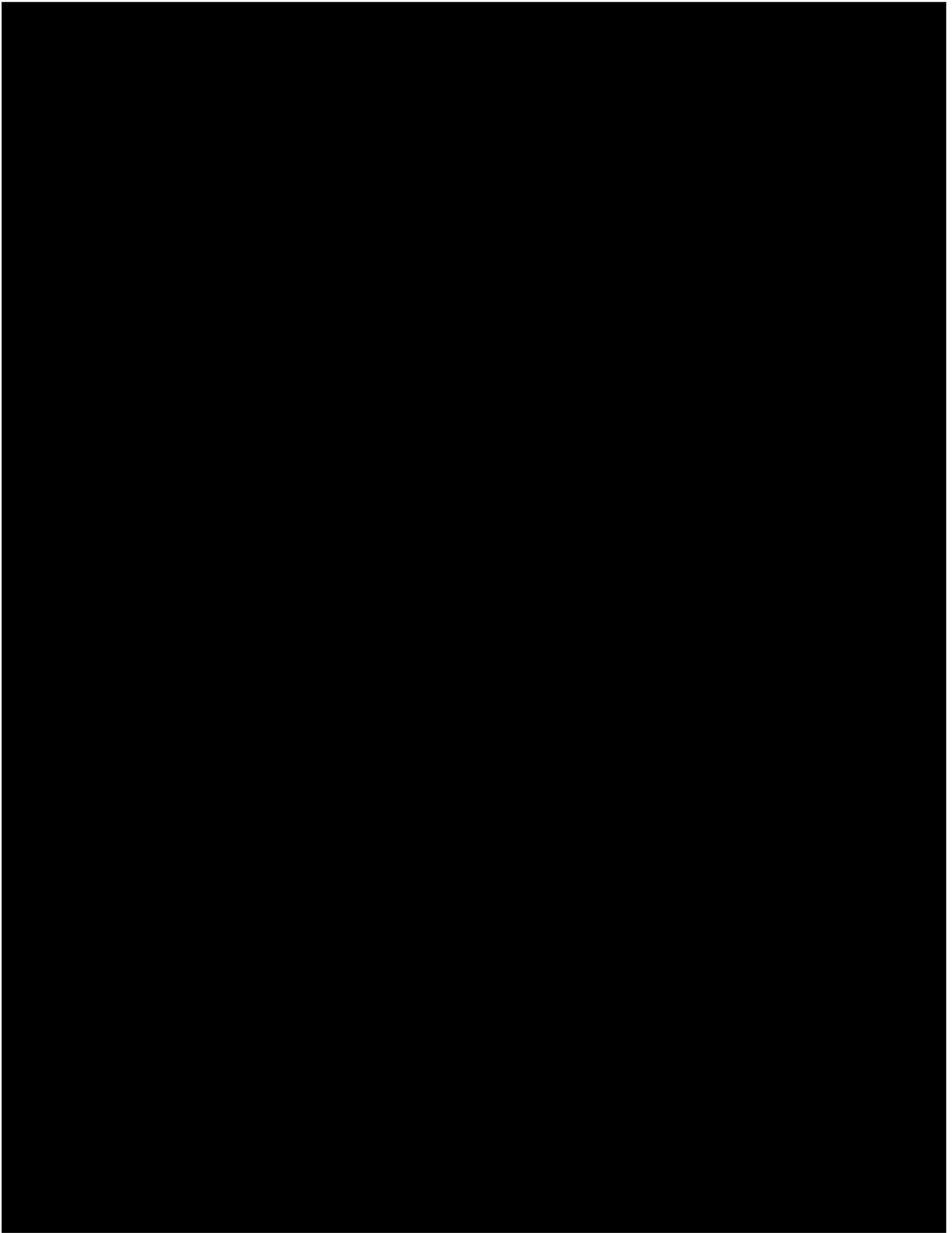
Thank you for the opportunity to propose our services to Department of Vermont Health
Access.

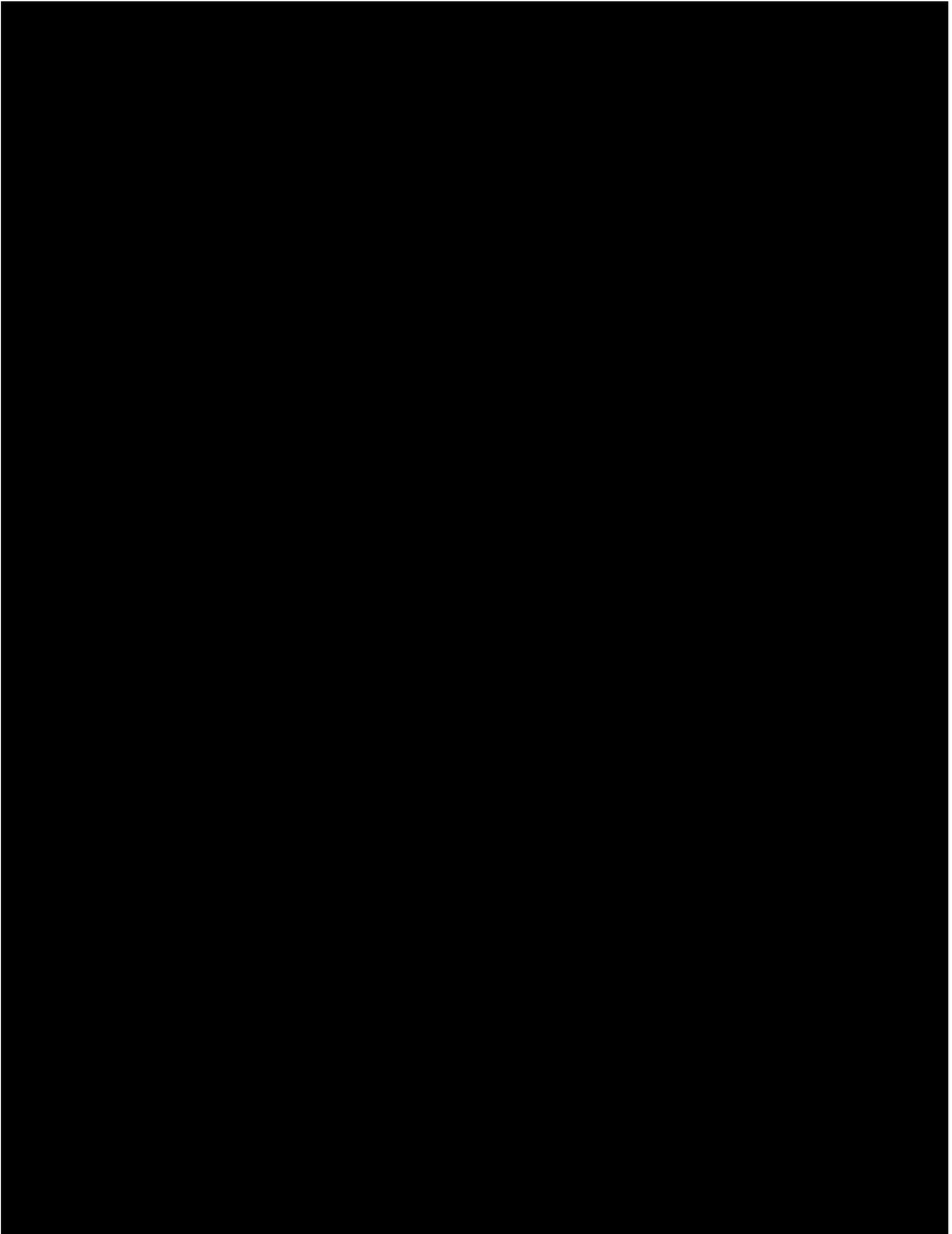
Sincerely,

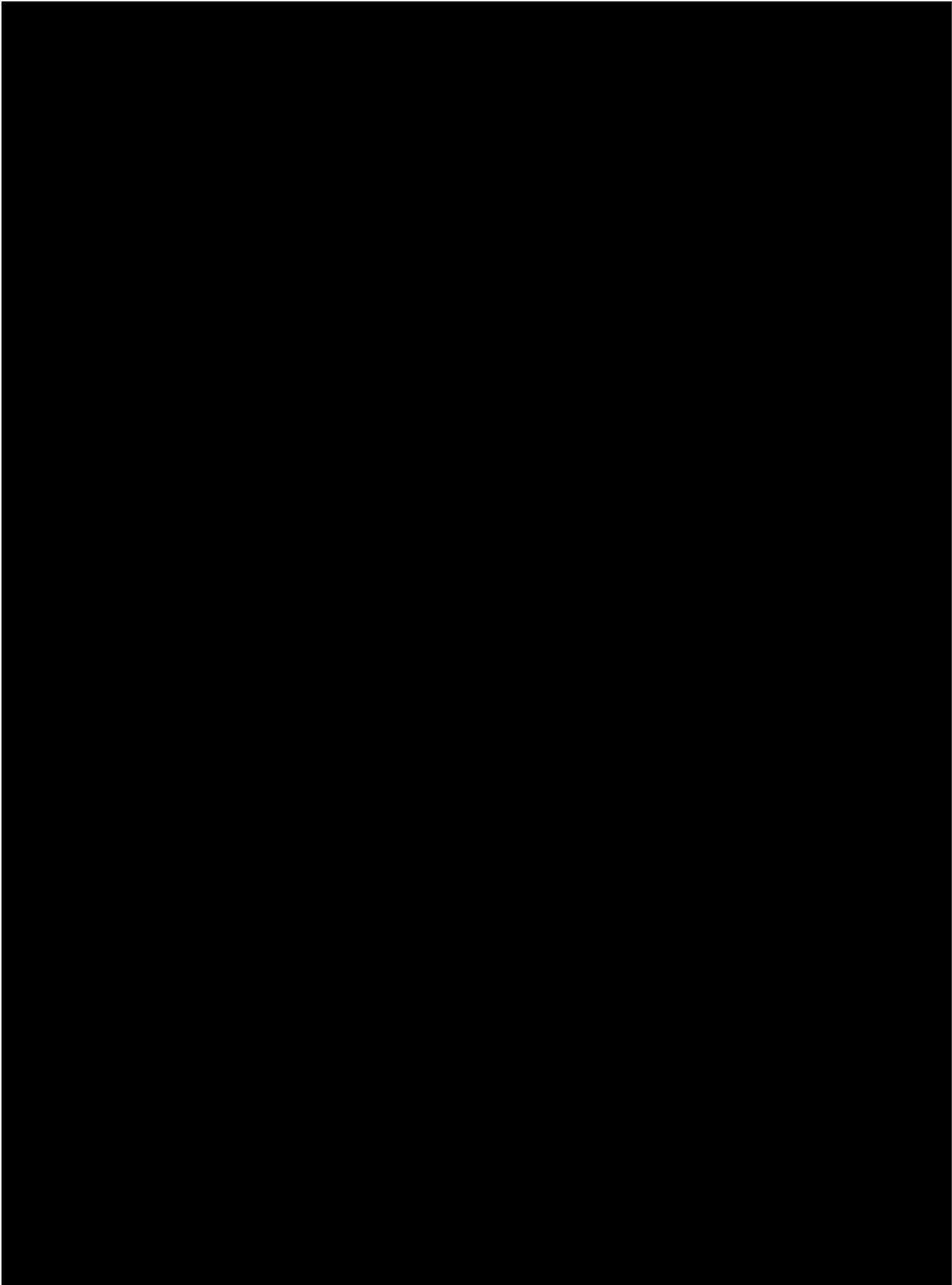
A handwritten signature in black ink, appearing to read "Debra Bang". The signature is fluid and cursive, with the first name "Debra" and the last name "Bang" clearly distinguishable.

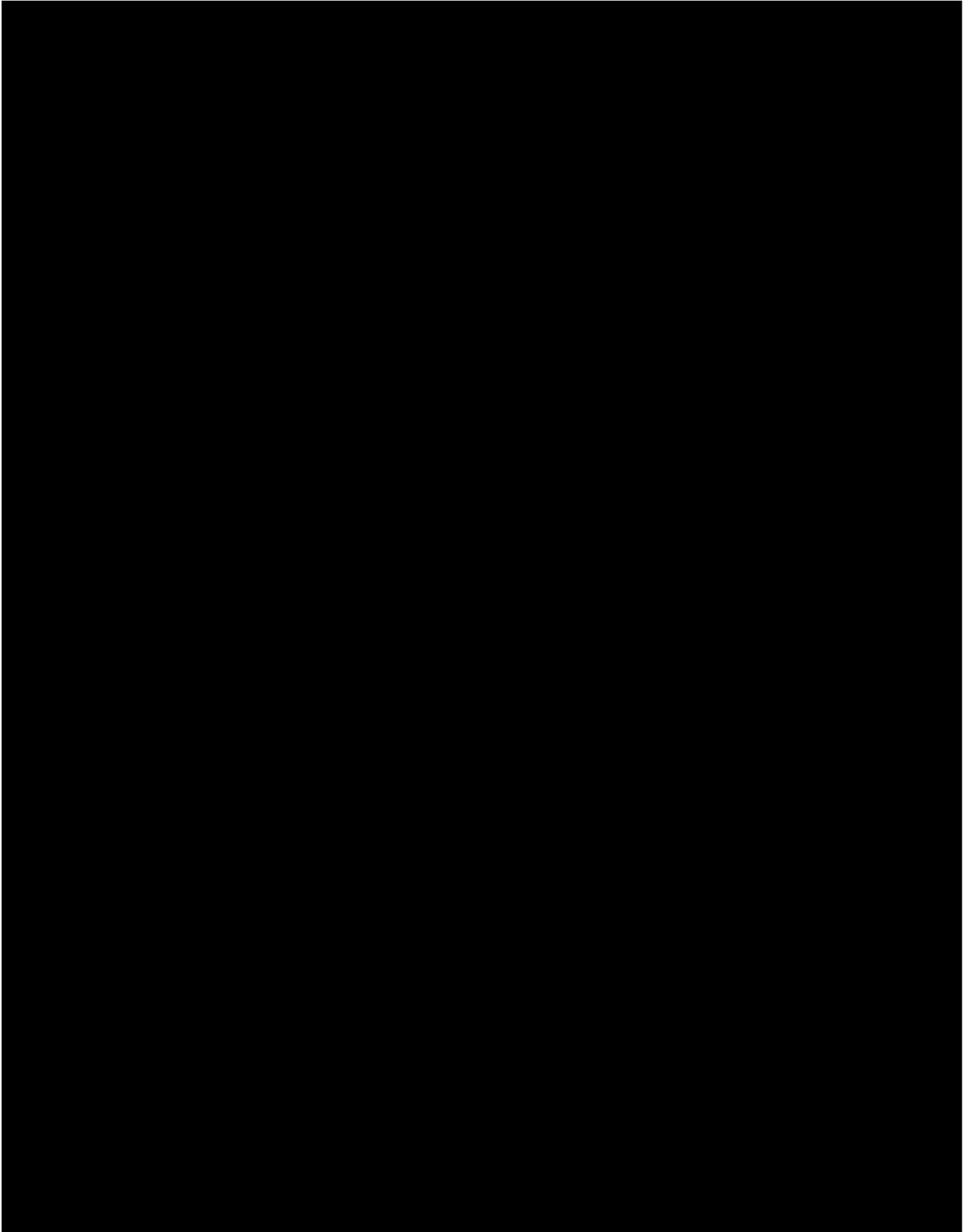
Debra Glickfeld Bang

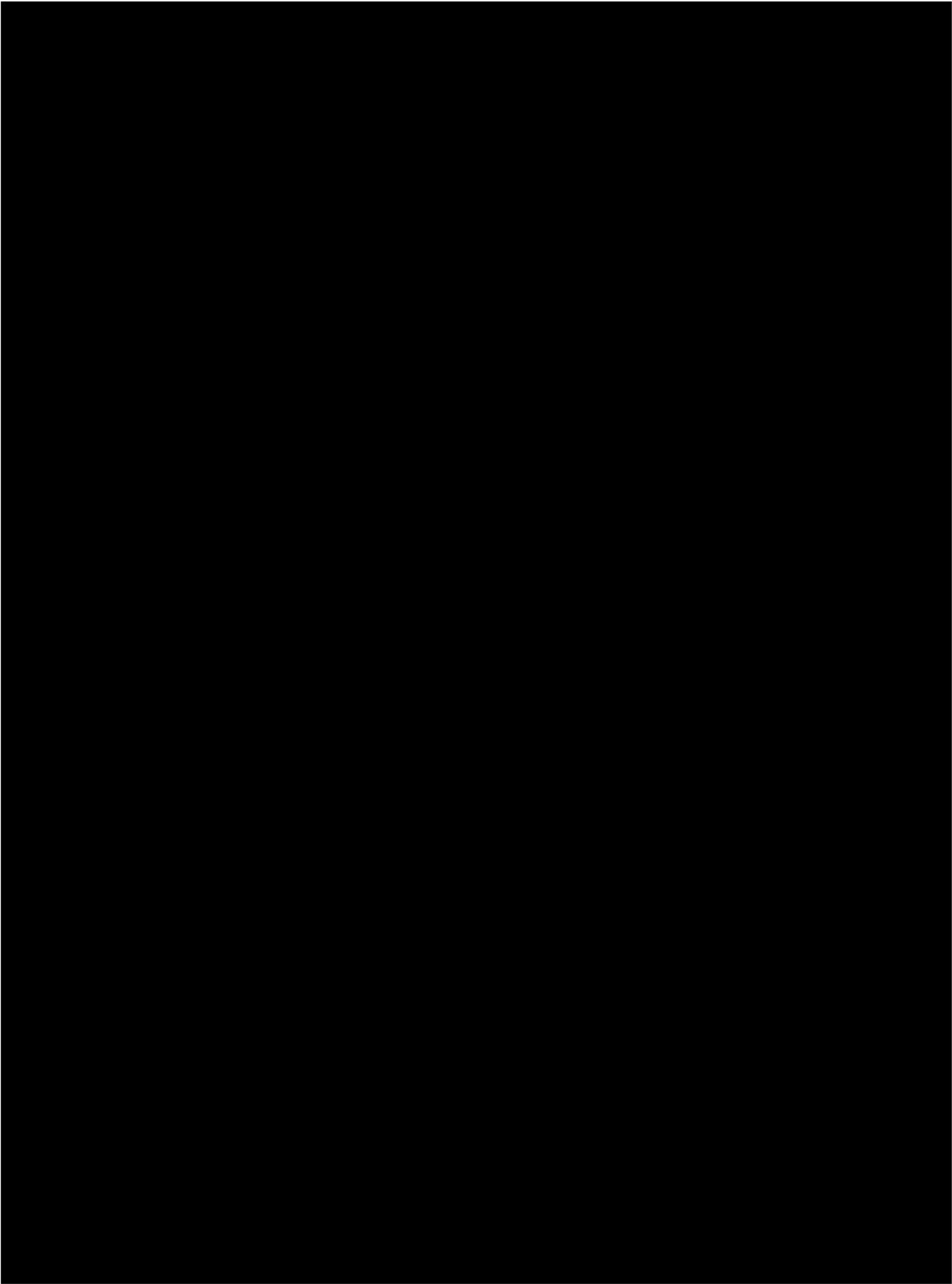


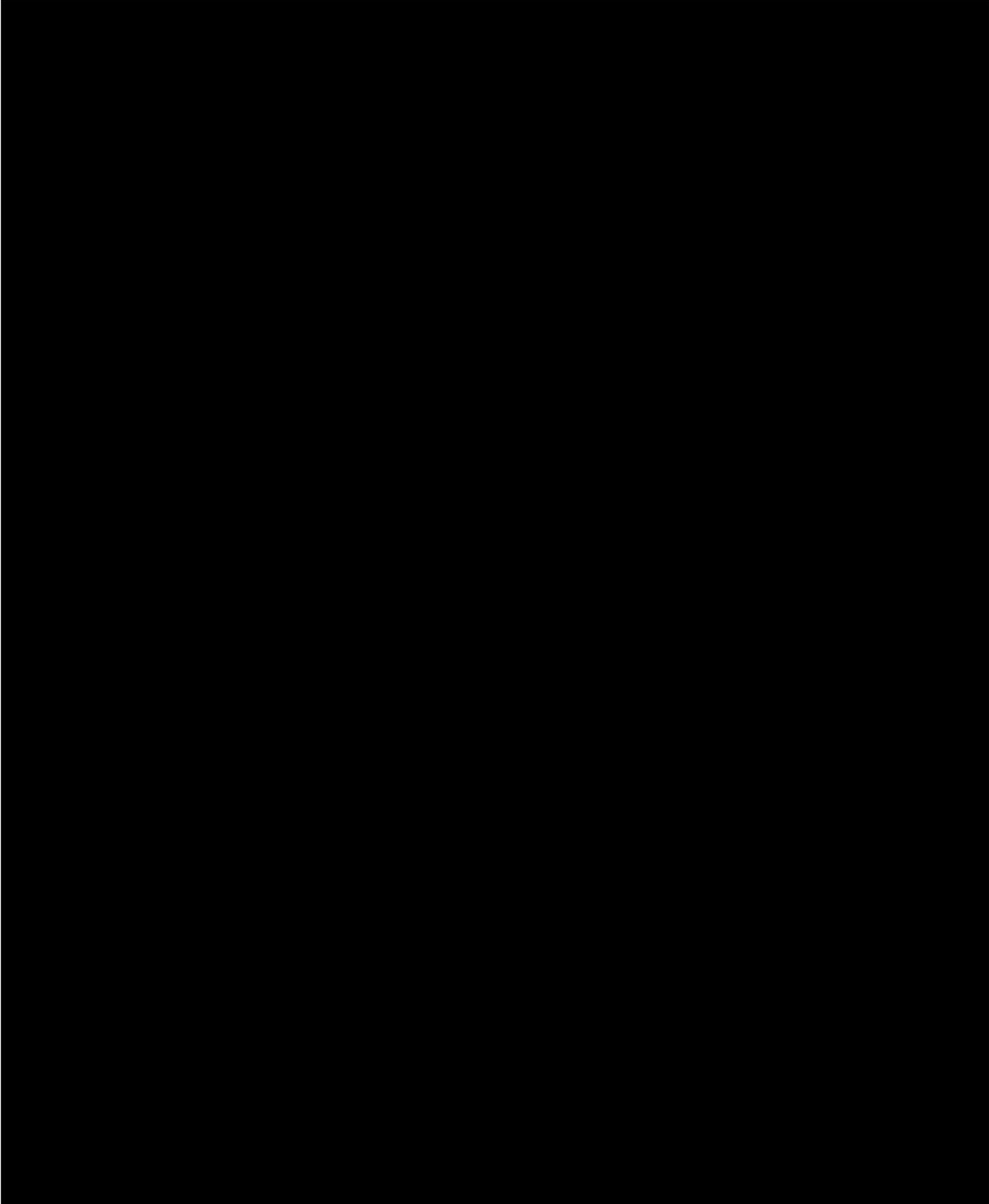


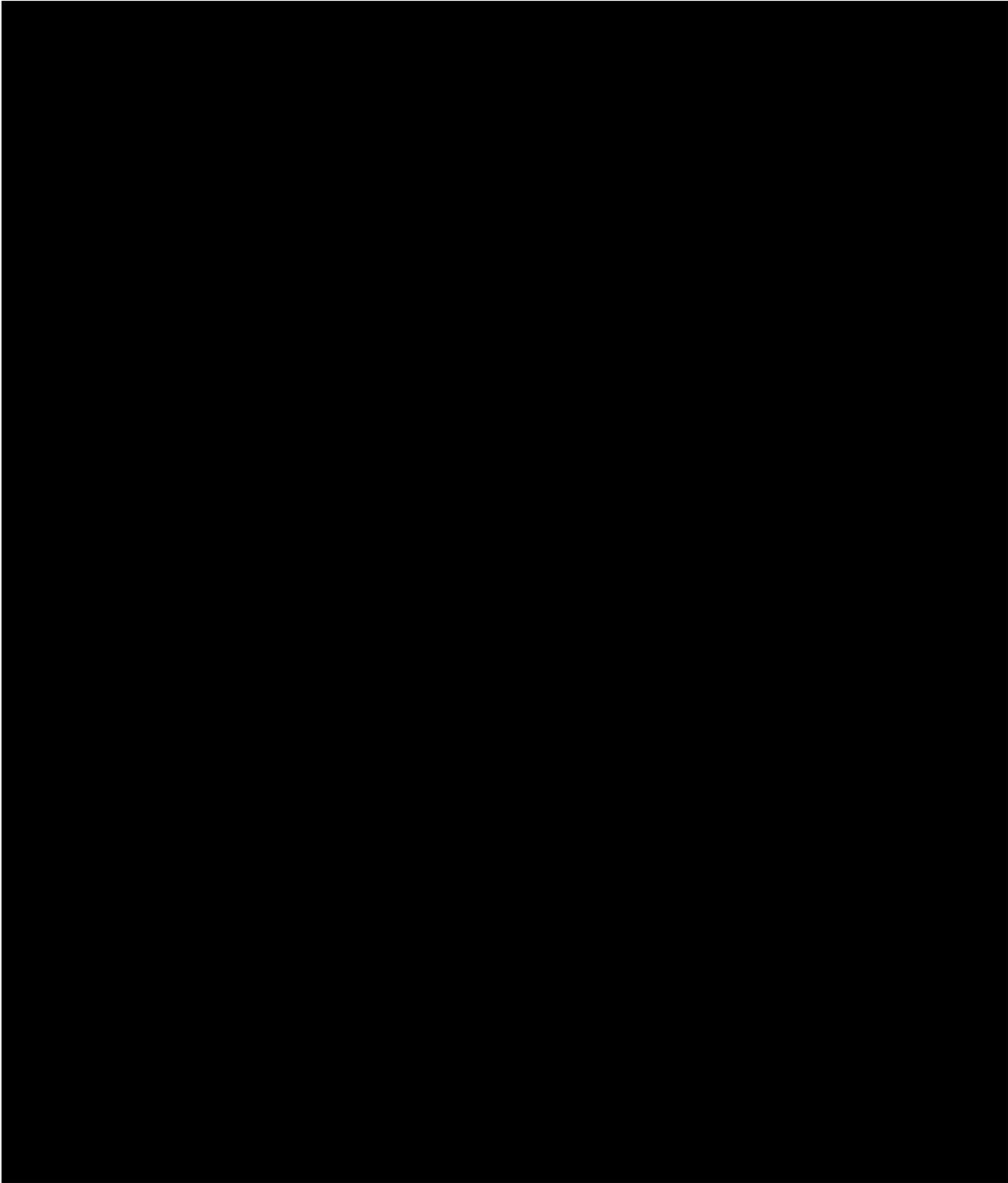


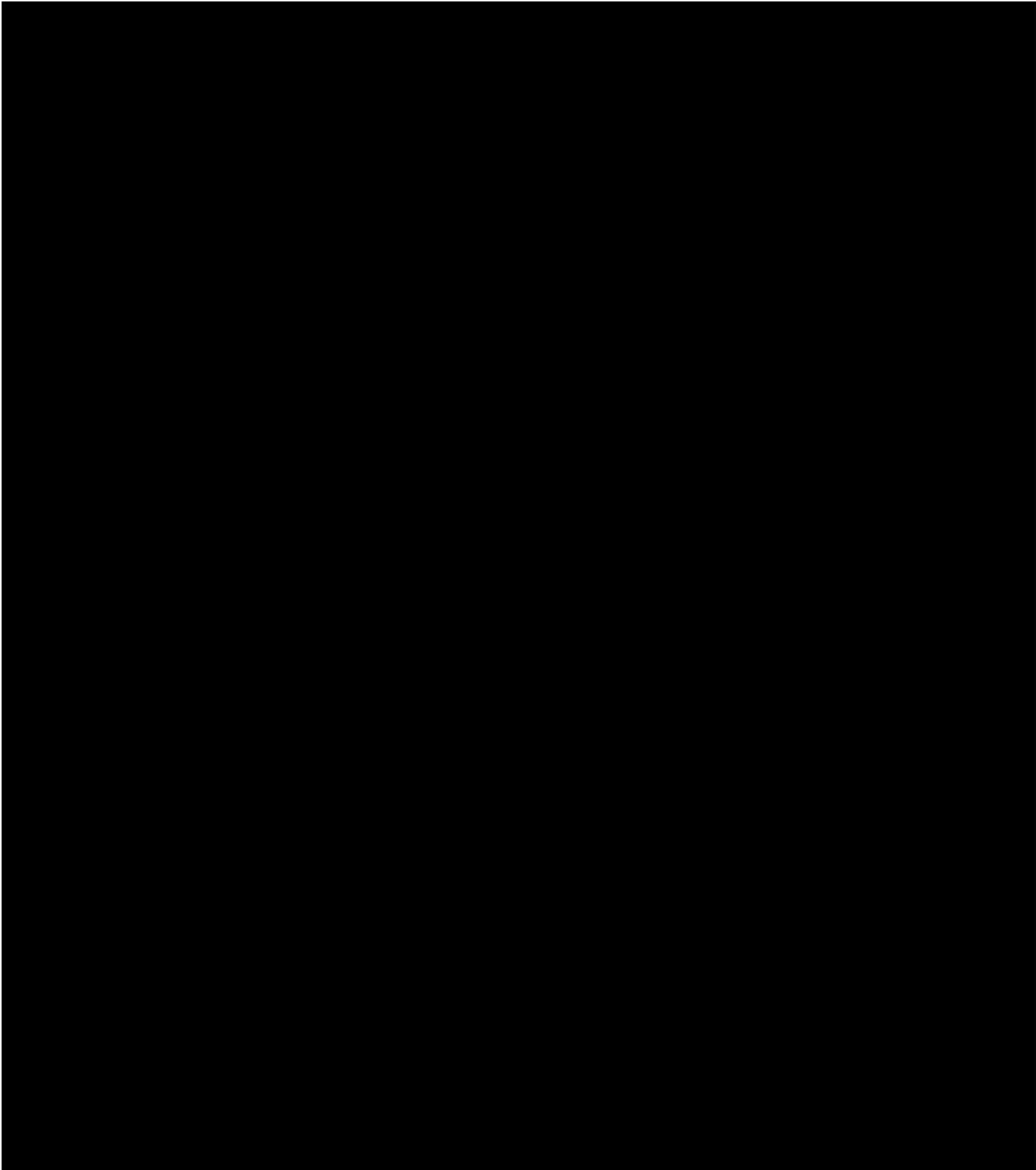


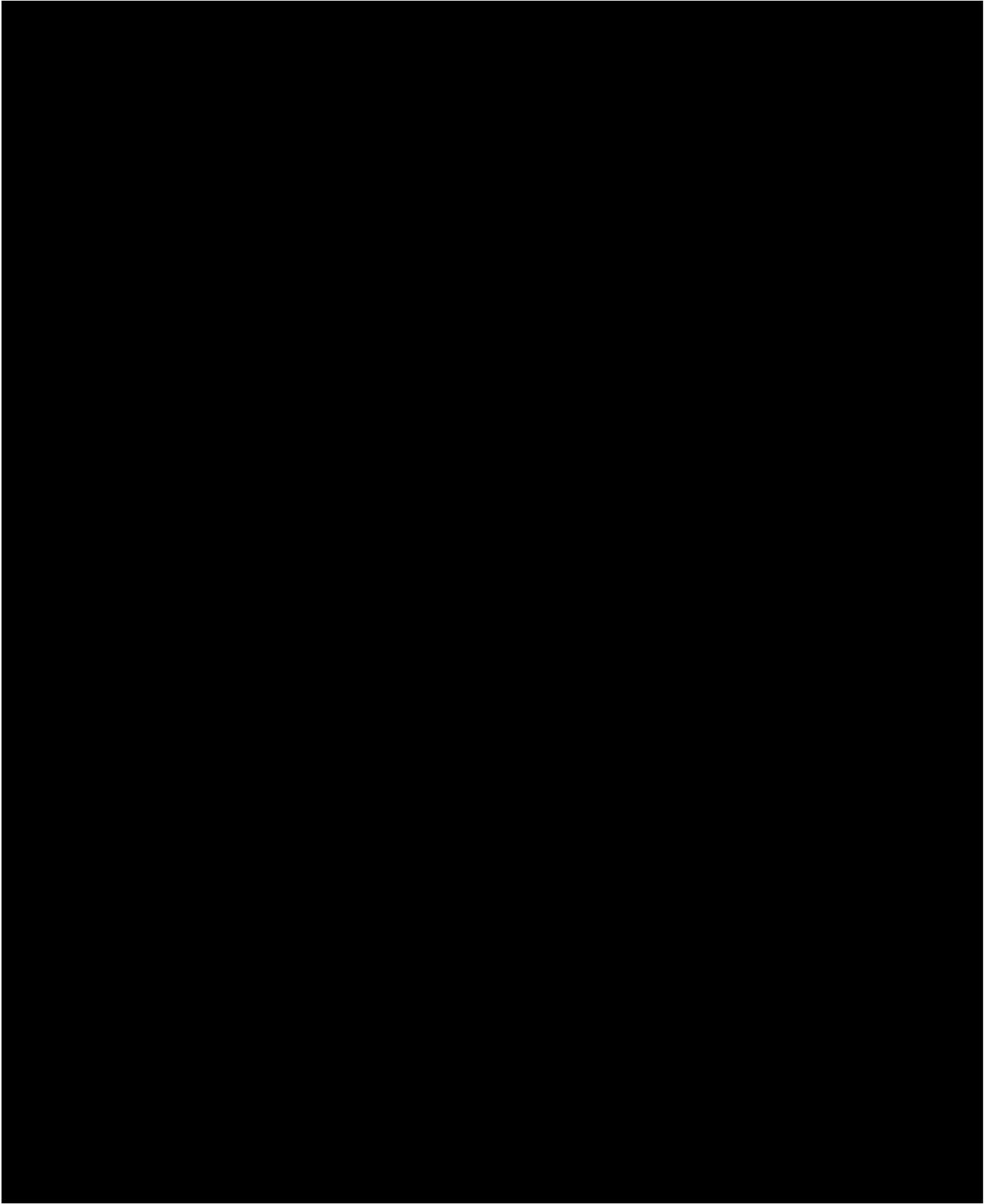


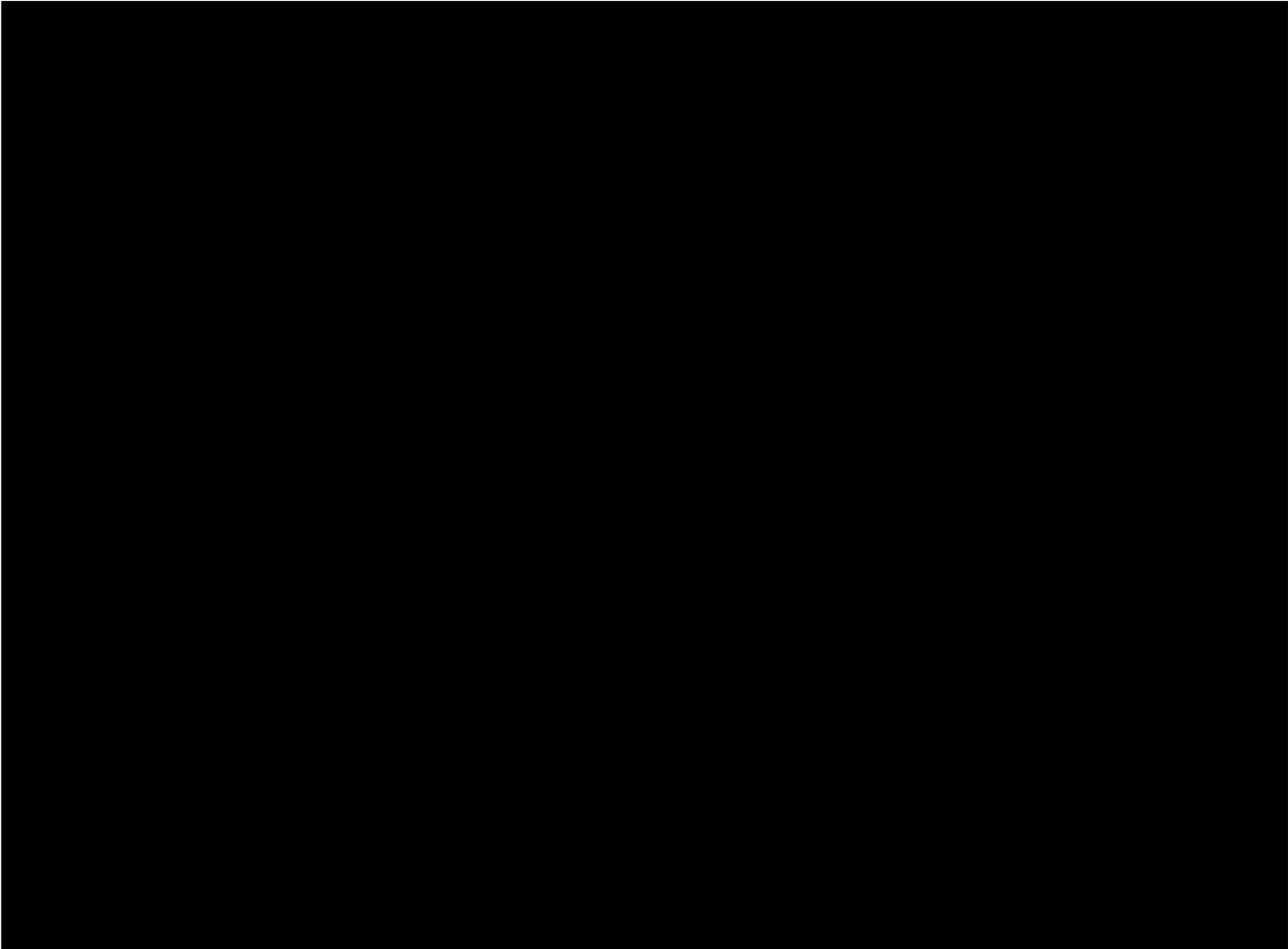


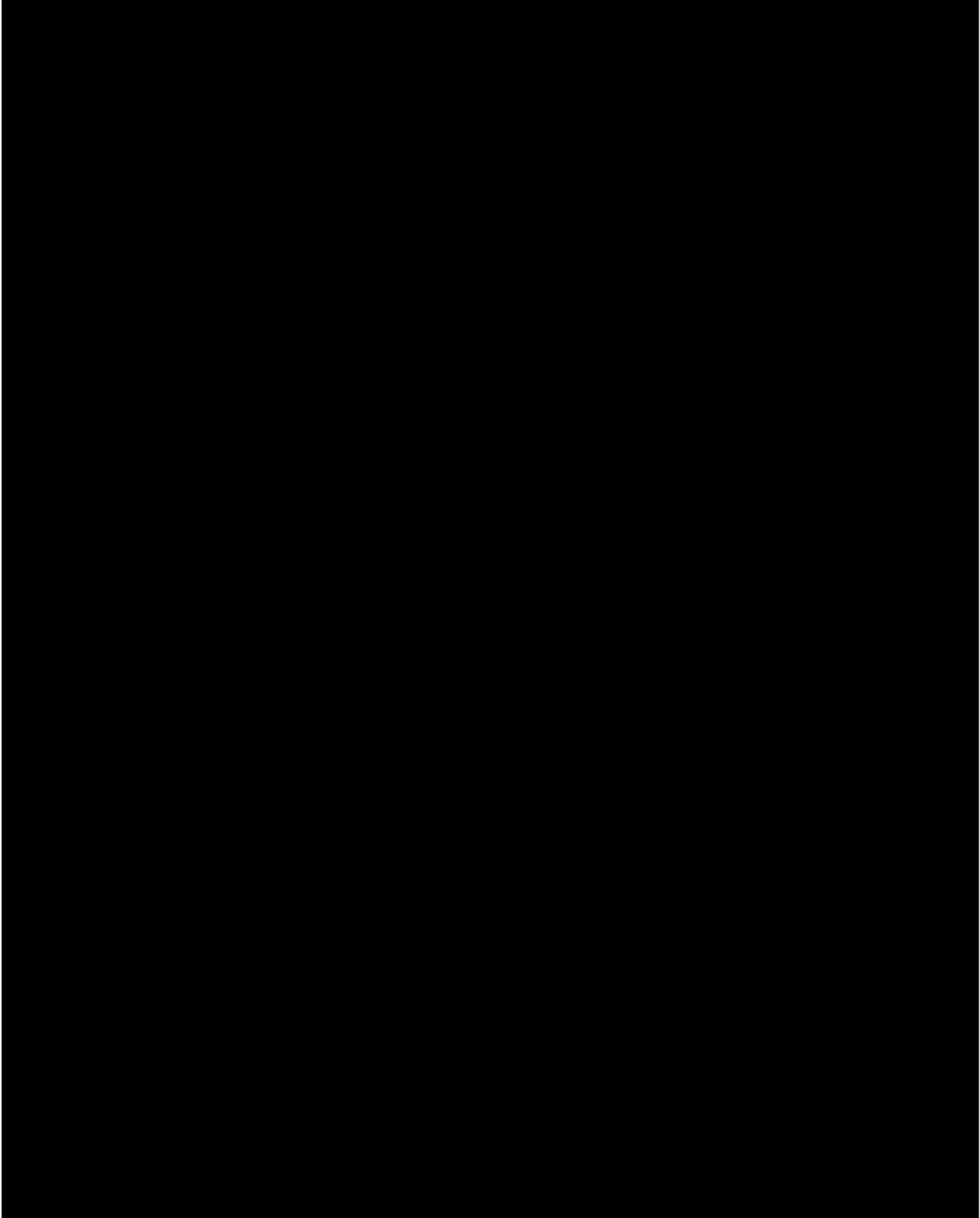














1.0 Submission Cover Letter

The Vendor must include a cover letter and executive summary stating the Vendor's intent to bid for this RFP. The Vendor's response must include a transmittal (cover) letter; table of contents; executive summary; Vendor contact information and locations.

Instructions: The Vendor must include the following cover letter provided and, an individual authorized to legally bind the Vendor must sign the cover letter in ink and include it in the labeled "Original Proposal".

Provide the following information regarding the person responsible for the completion of the Vendor response. This person should also be the person the Department of Vermont Health Access (DVHA) should contact for questions and/or clarifications.

Name	Emilio Tiele	Phone	p: 770.829.1453 m: 678.231.5707
Address	9040 Roswell Road – Suite 700 Atlanta, Georgia 30350	Fax	770-552-6919
		E-mail	emilio.tieles@xerox.com

Subject to acceptance by the State, the Vendor acknowledges that by submitting a response AND signing in the space indicated below, the Vendor is submitting a formal offer to meet the requirements and intent of the RFP and should a contract result of this RFP with said vendor, the vendor shall be contractually obligated to comply with all items in this Request for Proposal (RFP), including Vermont Agency of Human Services (AHS) Attachments C, E, F. While the Vendor is directed to list exceptions on the Exception Summary form in Template B, all such exceptions shall be subject to State acceptance and/or further negotiation. If no exceptions are noted, none will apply. Vendors who sign below may not later take exception to any point during contract negotiations.

Failure to sign the Submission Cover Sheet or signing it with a false statement shall void the submitted response or any resulting contracts.

_____/_____
Original signature of individual authorized to legally bind the Company / Date

Name (typed or printed)	David Hamilton
Title	Senior Vice President
Company name	Xerox State Healthcare, LLC
Physical address	9040 Roswell Road, Suite 700 Atlanta, Georgia 30350
State of Incorporation	Delaware

By signature hereon, the Vendor certifies that:

1. All statements and information prepared and submitted in the response to this RFP are current, complete and accurate.
2. Proposed solution for the Project meets all the requirements of this RFP.
3. The Vendor will comply with all federal and state laws, rules, and regulations that are in force currently or anytime during the term of a resulting Contract.
4. The company represented here is an authorized dealer in good standing of the products/services included in this response.
5. The Vendor and its principals are eligible to participate in this transaction and have not been subjected to suspension, debarment, or similar ineligibility determined by any federal, state or local governmental entity and that Respondent is in compliance with the State of Vermont statutes and rules relating to procurement and that Vendor is not listed on the federal government's terrorism watch list as described in Executive Order 13224. Entities ineligible for federal procurement are listed at <http://www.epls.gov>.

2.0 Submission Cover Sheet

Instructions: Along with the Cover Sheet, the Vendor must also provide the following information:

A statement regarding the Vendor's legal structure, federal tax identification number, and principal place of business and attach applicable W-9 forms (<http://www.irs.gov/pub/irs-pdf/fw9.pdf>)

- A list of the people who prepared the Vendor's Proposal, including their titles
- A list of all subcontractors, if any, that the Vendor will use on the Project, if the State selects the Vendor to do the work
 - For each proposed subcontractor, the Vendor must attach a letter from the subcontractor, signed by an individual authorized to legally bind the subcontractor, with the following included in the letter
 - The subcontractor's legal status, tax identification number, and principal place of business address
 - The name, phone number, fax number, email address, and mailing address of a person who is authorized to legally bind the subcontractor to contractual obligations
 - A description of the work the subcontractor will do
 - A commitment by the subcontractor to do the work if the Vendor is selected
 - A statement that the subcontractor has read and understood the RFP and will comply with the requirements of the RFP
 - A statement that the subcontractor will maintain any permits, licenses, and certifications required to perform its portion of the work

Xerox Legal Structure, FEIN, Place of Business, and W-9 Form

Xerox State Healthcare, LLC is a subsidiary of Xerox Business Services, LLC, a subsidiary of Xerox Corporation. We began in 1970 with the establishment of Consultec, Inc., a Georgia corporation and one of the two oldest firms in the Medicaid marketplace. On March 25, 1999, the firm—then called Consultec, LLC—was registered as a limited liability company in the State of Delaware. The name was changed to ACS State Healthcare, LLC on May 29, 2001, after its acquisition by Affiliated Computer Services, Inc., which was incorporated in the State of Delaware in 1988. Following a brand transition period after the February 5, 2010 acquisition of Affiliated Computer Services, Inc. by the Xerox Corporation, the name was changed to Xerox State Healthcare, LLC, a wholly owned subsidiary of Xerox Business Services, LLC, formerly Affiliated Computer Services Inc., effective April 1, 2012. Xerox Business Services, LLC, the parent of Xerox State Healthcare, LLC, is headquartered in Dallas, Texas; our corporate parent, Xerox Corporation, is headquartered in Norwalk, Connecticut.

Federal tax identification number, and principal place of business and attach applicable W-9 forms (<http://www.irs.gov/pub/irs-pdf/fw9.pdf>)

List of Subcontractors

Xerox proposes to use the subcontractors listed below on the Project. We have attached a letter from each subcontractor including all requested data and signed by an individual authorized to legally bind the subcontractor. Please see the end of this section for the subcontractor letters.

- [REDACTED]
- [REDACTED]

3.0 Table of Contents

Instructions: This section must contain a Table of Contents. This should include all parts of the proposal, including response forms and attachments, and should be identified by volume and page number. The Table of Contents should identify all sections, figures, charts, graphs, etc.

Title Page

00 Request for Protection of Proprietary and Confidential Information Letter

00 Request for Protection of Proprietary and Confidential Information

Transmittal Letter

Section A Cover Letter and Executive Summary

1.0 Submission Cover Letter	1
2.0 Submission Cover Sheet	3
Section A.1 VT PBM W-9	
Section A.2 Subcontractor Letters	
3.0 Table of Contents.....	1
4.0 Executive Summary.....	1
5.0 Vendor Contact Information.....	1
5.1 Subcontractor Contact Information.....	1
6.0 Minimum Mandatory Qualifications	1

Section B Vendor Experience

1.0 Vendor Organization Overview.....	1
1.1 Subcontractor Organization Overview.....	3
2.0 Vendor Corporate Background and Experience	8
2.1 Vendor Corporate Background	8
2.2 Vendor’s Understanding of Medicaid and Medicaid Pharmacy Operations.....	18
2.2.1 Understanding of Medicaid and Medicaid Pharmacy Operations	18
2.2.2 Understanding of Vermont’s Medicaid Pharmacy Operations.....	23
2.2.3 PBM Strategies and Areas of Focus	24
2.3 Customers Served in the Medicaid Pharmacy Operations Space.....	32
2.4 Customers Served in the Public Sector	46
2.5 Vendor’s Work Locations	59
2.6 Existing Business Relationships with Vermont	63
2.7 Medicaid Pharmacy Operations Projects Completed in the Last Five Years.....	64
2.8 Business Disputes.....	70
3.0 Financial Stability	76
3.1 Dun & Bradstreet (D&B) Ratings.....	77
3.2 Financial Capacity	78

3.3 Corporate Guarantee	79
4.0 General Assumptions.....	80
5.0 Certifications and Other Required Forms	80
Application Information Sheet.....	83
Certification and Assurances	
Vermont Tax Certificate and Insurance Certification	85
Schedule D Related Party Disclosure.....	87
Nondisclosure.....	89
Federal Lobbying Disclosure	91
Certification of Insurance.....	93
6.0 Exceptions	89
Section C Vendor References	
1.0 Vendor’s References.....	1
1.1 Subcontractor References.....	9
Section D Vendor Project Organization	
1. Project Organization Plan	1
2. Project Organization Chart	26
3. Vendor Key Personnel.....	31
3.1 Subcontractors	34
4. Staff Contingency Plan.....	35
5. Staff Management.....	36
6. Training Policies and Procedures	38
7. Staff Retention	45
8. Use of Vermont Staff.....	48
9. Time Commitment.....	48
10. Project Organization and Staffing Assumptions.....	50
Section E Vendor Staff Experience	
1.0 Staff Experience.....	1
2.0 Resumes.....	10
Section F RFP Functional Requirements Response	
Section G Functional Requirements Approach	
1.0 Functional Requirements Approach	1
1.1 Claims Processing and Operational Support	3
1.1.1 Point-of-Sale (POS) Claims Processing System.....	16
1.1.2 Automated Coordination of Benefits (COB)	46
1.1.3 Provider Network Support, Call Center, and Portal.....	50
1.1.4 Post Payment Claims	61

1.1.5 E-Prescribing and E-Prior Authorization Capabilities.....	65
1.2 Pharmacy Benefit Management and Clinical Programs.....	70
1.2.1 Utilization Management Programs.....	70
1.2.2 Prior Authorization Program.....	76
1.2.3 Drug Utilization Review.....	92
1.2.4 State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL).....	111
1.2.5 Specialty Pharmacy.....	119
1.2.6 Benefit Design and Consultative Support.....	123
1.2.7 Management of Physician-Administered Drugs.....	128
1.2.8 Support of Drug Appeals Process.....	132
1.2.9 Reporting and Analytics.....	137
1.2.10 Quality Assurance.....	144
1.2.11 Medication Therapy Management.....	148
1.3 Financial Management.....	155
1.3.1 Management of State and CMS Drug Rebate Programs.....	156
1.3.2 Support of Multistate Supplemental Rebate Consortium.....	193
1.3.3 340B Program Management.....	197
1.3.4 Financial Management.....	200
1.3.5 Dual Eligible Demonstration.....	205
1.4 Additional Services.....	206
1.4.1 Single Payer.....	211
2.0 Functional Requirements Approach Assumptions.....	212
Section H RFP Non-Functional Requirements Response	
Section I Non-Functional Requirements Approach	
1.0 Introduction and Instructions.....	1
2.0 Interoperability and Integration.....	2
3.0 Regulator and Security.....	6
4.0 User Interface.....	22
5.0 BI and Reporting.....	36
6.0 Project Management.....	48
6.1 Program and Project Management.....	48
6.2 Project Work Plan.....	68
6.3 Change Management Plan.....	72
6.4 Relationship Management.....	76
6.5 Issue Management.....	78
6.6 Risk Management.....	82

6.7 Relationships with Third Parties	91
7.0 Knowledge Transfer and Training	91
7.1 Change Management.....	92
7.2 Knowledge Transfer.....	94
7.3 Training Strategy and Approach	94
8.0 Testing and Validation.....	99
9.0 Data Conversion and Migration.....	151
9.1 Data Conversion Strategy, Approach and Timeline.....	152
9.2 Data Transition Strategy, Approach and Timeline.....	157
9.3 Implementation/Rollout Planning	159
10.0 Quality Management	168
11.0 System Administration and Disaster Recovery	182
12.0 Performance.....	199
13.0 Service Level Requirements – Business Process Performance Measures	206
14.0 Service Level Requirements – System Performance Measures.....	210
15.0 Non-Functional Requirements Assumptions.....	219
Section J Work Plan	
1.0 Instructions	1
2.0 Assumptions	8
Section K RFP Response Checklist	
1.0 Vendor Response Checklist.....	1
2.0 Vendor Attachments	1
Attachments	
Attachment A Financials	
Attachment B Work Plan	

List of Tables

Section A 1.0/2.0 Submission Cover Letter/Submission Cover Sheet	
Table A-1. Tax Identification, Principle Place of Business and Applicable W-9 Forms.....	4
Table A-2. List of the People who Prepared Xerox’s Proposal	4
Section A 5.0 Vendor Contact Information	
Table 1 Vendor Contract Information.....	1
Section A 5.1 Subcontractor Contact Information	
Table 1 Subcontractor Contact Information – Cognizant Business Services Corporation	1
Table 2 Subcontractor Contact Information – Walgreens Specialty Pharmacy, LLC	2

Section A 6.0 Minimum Mandatory Qualifications

Table 3 Minimum Qualifications 1

Section B Vendor Experience

Vendor Organization Profile – Xerox 1

Subcontractor Organization Profile – Cognizant 4

Subcontractor Organization Profile – Walgreens 6

Table B-1. Overview of Pharmacy and Clinical-Related Products 11

Table B-2. Xerox Government Healthcare Service Offerings 13

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience 33

Table B-4. Other Government-Funded or Related Healthcare Contracts 47

Table B-5. Project Work Locations and Services Performed including Call Center 60

Table B-6. Location of Key Personnel 62

Table B-7. RFP Section 2.7 Deliverables: Percentage of Work Performed in Vermont 62

Projects Completed in the Last Five Years – Xerox 64

Projects Completed in the Last Five Years – Cognizant 68

Projects Completed in the Last Five Years – Walgreens 70

Table B-8. DNBi® Company Summary – Xerox Corporation 77

Table B-9. DNBi® Company Summary – Xerox State Healthcare, LLC 77

Table B-10. Xerox Corporation Financial Statements 79

Credit References 79

Vendor Experience Assumptions 80

Proposal Exceptions Summary Form 96

Section C Vendor References

Table 1 Reference 1 1

Table 2 Reference 2 3

Table 3 Reference 3 5

Table 4 Subcontractor Reference 1 (Walgreens) 9

Table 5 Subcontractor Reference 2 (Walgreens) 11

Table 6 Subcontractor Reference 3 (Walgreens) 12

Table 7 Subcontractor Reference 1 (Cognizant) 14

Table 8 Subcontractor Reference 3 (Cognizant) 16

Table 9 Subcontractor Reference 3 (Cognizant) 18

Section D Vendor Project Organization

Table D-1. Account Director 5

Table D-2. Account Manager 5

Table D-3. Clinical Pharmacist Manager 6

Table D-4. Data Analyst 6

Table D-5. Business Analyst.....	6
Table D-6. Call Center Quality Assurance	7
Table D-7. Call Center Representative	7
Table D-8. Call Center Supervisor.....	7
Table D-9. Call Center Trainer	7
Table D-10. Data Conversion Developer.....	7
Table D-11. Database Administrator (DBA)	8
Table D-12. Disaster Recovery Analyst	8
Table D-13. DRAMS Application Database Administrator (DBA)	8
Table D-14. DRAMS Business Analyst	8
Table D-15. DRAMS Developer/Lead	8
Table D-16. DRAMS Quality Assurance (QA) Tester	8
Table D-17. Infrastructure – COTS/Control-M	9
Table D-18. Infrastructure Lead/Application Engineer/Deployment Specialist.....	9
Table D-19. Infrastructure Middleware Administration	9
Table D-20. Infrastructure – Move IT	9
Table D-21. Infrastructure Oracle Database Administrator	10
Table D-22. Infrastructure – Tools Monitoring	10
Table D-23. Infrastructure – Transaction Processing	10
Table D-24. Interface Developer	10
Table D-25. Operations Manager.....	10
Table D-26. Operations Support	11
Table D-27. Operations Technician.....	11
Table D-28. OS+ Business Objects (BO) Developer.....	11
Table D-29. OS+ Developer POS/GUI.....	12
Table D-30. OS+ Development Lead	12
Table D-31. OS+ Document Specialist/Technical Writer.....	12
Table D-32. OS+ Quality Assurance (QA)/Tester.....	12
Table D-33. Pharmacist	12
Table D-34. Pharmacy Call Center Supervisor.....	12
Table D-35. Pharmacy Help Desk Representative.....	13
Table D-36. Project Manager.....	13
Table D-37. Quality Assurance.....	13
Table D-38. Rebate Accountant.....	13
Table D-39. Rebate Accounting Specialist.....	13
Table D-40. Rebate Dispute Technician	14
Table D-41. Rebate Lead	14

Table D-42. SmartPA .net Developer	14
Table D-43. SmartPA Clinical Business Analyst (CBA).....	14
Table D-44. SmartPA Manager	14
Table D-45. SmartPA Universe Developer.....	15
Table D-46. System Manager	15
Table D-47. Technical Architect.....	15
Table D-48. Technical Project Manager	16
Table D-49. Training Specialist.....	16
Table D-50. Staff Loading for Implementation Phase.....	17
Table D-51. Staff Loading for Operations Phase -- 2015	19
Table D-52. Staff Loading for Operations Phase -- 2016	20
Table D-53. Staff Loading for Operations Phase -- 2017	21
Table D-54. Staff Loading for Operations Phase -- 2018	22
Table D-55. Staff Loading for Operations Phase -- 2019	23
Table D-56. Xerox Work Locations	25
Table 1. Vendor Key Project Personnel.....	32
Table 2. Subcontractor Key Staff.....	34
Table D-57. Xerox Internal Training Programs.....	38
Table D-58. Time Commitment of Proposed Key Project Personnel	49
Table 3. Project Organization and Staffing Assumptionms.....	50
Section E Staff Experience	
Table 1. Staff Experience.....	1
List of Resumes.....	10
Section G Functional Requirements Approach	
Table G-1. Third Party Payer Segment.....	13
Table G-2. System Response to TPL-Detected Coverage	14
Table G-3. Sample Edits and Alerts.....	30
Table G-4. System Response to TPL-Detected Coverage	48
Table G-5. NCPDP Reject Code 41 – Submit Claim to Other Processor	49
Table G-6. XEROX Current Call Center Clients.....	51
Table G-7. Call Center Technology Platform.....	52
Table G-8. Payer Enablement E-Prescribing Data Interfaces	68
Table G-9. Pro-DUR Edit Criteria	72
Table G-10. SmartPA 2012 Transaction Summary	79
Table G-11. Xerox Population-based Interventions.....	100
Table G-11. Xerox Population-based Interventions.....	101
Table G-12. Client Medicaid Program Summary Rates	105

Table G-13. Client Medicaid Amount Paid per Therapeutic Class.....	105
Table G-14. Client Medicaid Evidence-Based Diabetes Clinical Indicators.....	106
Table G-15. Pro-DUR Edit Criteria.....	108
Table G-16. Full Array of Pharmacy and Clinical Services.....	124
Table G-17. Standard PBMS Reports.....	140
Table G-18. Pro-DUR Reports.....	143
Table G-19. Direct Care Pro Standard Report for MTM.....	152
Table G-20. Direct Care Pro Detail Immunization Report.....	153
Table G-21. Summary Immunization Report.....	153
Table G-22. Direct Care Pro MTM Pricing.....	153
Table G-23. Immunization Pricing.....	153
Table G-24. SmartAudit vs SmartPA.....	209
Table 1. Functional Requirement Assumptions.....	212

Section I Technical Requirements Approach

Table I-1. Xerox Security Controls.....	14
Table I-2. Benefits of IBM Rational DOORS for Requirements Management.....	66
Table I-3. System and Services Configuration/Implementation Hours.....	69
Table I-4. Summary of Risk Management Process.....	87
Table I-5. Sample PBMS Session Topics.....	97
Table I-6. Sample Training Topics, Goals, and Target Audience.....	98
Table I-7. Roles and Responsibilities in the Testing Process.....	101
Table I-8. Client Key Roles and Responsibilities.....	103
Table I-9. Test Level Schedule.....	104
Table I-10. Software Integrity Level Scheme.....	104
Table I-11. Testing Tools.....	105
Table I-12 Description of Testing Metrics.....	107
Table I-13. Project Metrics.....	108
Table I-13. Project Metrics.....	110
Table I-13. Project Metrics.....	111
Table I-14. Test Level Definitions.....	121
Table I-15. Test Case Attributes.....	131
Table I-16. Test Script Attributes.....	132
Table I-17. Test Case Best Practices.....	133
Table I-18. IEEE829 List.....	134
Table I-19. Sample Test Report.....	138
Table I-20. Severity Code Identification.....	144
Table I-21. File Layout Document.....	154
Table I-22. Data Mapping Sample.....	155

Table I-23. Summary Data Conversion Activities	162
Table I-24. Example Entry Criteria.....	163
Table I-25. Example Exit Criteria.....	165
Table I-26. Quality Management Personnel	170
Table I-27. Xerox Tools to Support Quality Management	173
Table I-28. Severity Code Identification.....	177
Table I-29. Business Interruption Assessment Procedures	188
Table I-30. Help Desk Supporting Technology	197
Table I-31. Performance Metrics	203
Business Process Performance Measures	206
System Performance Measures	210
Table 1 Non-Functional Requirements Assumptions	219

Section J Work Plan

Table 1 Work Plan Assumptions	8
-------------------------------------	---

Section K RFP Response Checklist

Table 1 Vendor Response Checklist	1
Table 2 Vendor Attachment Checklist.....	2

List of Exhibits

Section B Vendor Experience

Exhibit B-1. Xerox’s Pharmacy Accounts	9
Exhibit B-2. Leadership by Numbers	10
Exhibit B-3. Pharmacy and Clinical-Related Products	11
Exhibit B-4. Nationwide Healthcare Experience	21
Exhibit B-5. Xerox’s Health Payer Division	22
Exhibit B-6. Book of Business Report.....	31
Exhibit B-7. Public Sector Facts	47

Section D Vendor Project Organization

Exhibit D-1. PBM DDI Phase Organization Chart	27
Exhibit D-2. Systems Operations and Maintenance Phase Organization Chart	29
Exhibit D-3. ADDIE Training Lifecycle	41
Exhibit D-4. Sample Trainee Survey	43
Exhibit D-5. Employee Retention.....	46

Section G Functional Requirements Approach

Exhibit G-1. Drug Inquiry Main Tab	6
Exhibit G-2. Drug Inquiry Pricing Tab	7
Exhibit G-3. Benefit Plan Definition	8

Exhibit G-4. Member Plan Coverage.....	8
Exhibit G-5. Date Span Pricing Data.....	9
Exhibit G-6. Formulary Date Spans.....	9
Exhibit G-7. Claims Direct Data Entry.....	11
Exhibit G-8. Internet Reversal Web Page.....	12
Exhibit G-9. Internet Non-POS Claims Entry.....	18
Exhibit G-10. Unique TCN.....	18
Exhibit G-11. PBM OS+ Claims Adjudication Process.....	19
Exhibit G-12. Plan Information Web Page.....	22
Exhibit G-13. Plan Details Web Page.....	23
Exhibit G-14. Co-payment Information Web Page.....	24
Exhibit G-15. Beneficiary Eligibility Web Page.....	28
Exhibit G-16. Pricing Information Web Page.....	29
Exhibit G-17. Claim Exception Search Web Page.....	32
Exhibit G-18. Claim Exception Information Web Page.....	33
Exhibit G-19. Claim Disposition Information Web Page.....	33
Exhibit G-20. Beneficiary Maintenance Lock-in Functionality.....	34
Exhibit G-21. Provider Information Web Page.....	36
Exhibit G-22. Network/Alt ID/EFT Web Page.....	37
Exhibit G-23. Benefit Limits Web Page.....	39
Exhibit G-24. Custom Record Detail Web Page.....	40
Exhibit G-25. Drug Program Detail Web Page.....	41
Exhibit G-26. Formulary Information.....	42
Exhibit G-27. Preferred Status.....	44
Exhibit G-28. Member Plan Coverage.....	45
Exhibit G-29. TPL Carrier Information.....	47
Exhibit G-30. Client Coordination of Benefits Information.....	47
Exhibit G-31. Web Portal.....	57
Exhibit G-32. SMAC Website.....	59
Exhibit G-33. RebateWeb Home Page.....	59
Exhibit G-34. Drug Search Page with Results.....	60
Exhibit G-35. Claim Void.....	62
Exhibit G-36. Claim Adjustment.....	63
Exhibit G-37. Unique TCN.....	64
Exhibit G-38. Claim History Web Page.....	64
Exhibit G-39. Internet Reversal Web Page.....	65
Exhibit G-40. Pro-DUR Process.....	72
Exhibit G-41. The SmartPA Process.....	78

Exhibit G-42. Criteria Development and Modification Process	81
Exhibit G-43. SmartPA Clinical Proposal Update History	82
Exhibit G-44. SmartPA Rules Engine Detail	83
Exhibit G-45. SmartPA Rules Listing Report	84
Exhibit G-46. SmartPA Library	85
Exhibit G-47. SmartPA Cost Savings Analysis	86
Exhibit G-48. Clinical Criteria and Related Messages for a Denied PA Request	88
Exhibit G-49. Claim Inquiry Search Page	91
Exhibit G-50. Drug Search Page with Results	92
Exhibit G-51. CyberFormance Clinical PlanFormance Clinical Area Criteria Groups	94
Exhibit G-52. Duplicate Therapy Criteria	95
Exhibit G-53. CyberFormance Retrospective Criteria for Bipolar Disease	96
Exhibit G-54. Retrospective Clinical Proposal Documentation	97
Exhibit G-55. Population-Based Intervention Outcomes Assessment	102
Exhibit G-56. Client THR Indicator Trends	106
Exhibit G-57. Gender Exception Edit	110
Exhibit G-58. NDC Details	115
Exhibit G-59. Sample SMAC Pricing Inquiry Form	117
Exhibit G-60. District of Columbia SMAC Website	118
Exhibit G-61. SMAC List	118
Exhibit G-62. Key Clinical Management Programs	122
Exhibit G-63. Customer Pricing Page	126
Exhibit G-64. Proposal for Biologic Immunomodulators Population-based Retrospective Intervention	128
Exhibit G-65. Biologic Immunomodulators Retrospective Intervention Proposal	130
Exhibit G-66. Targeted Immune Modulators PDL SmartPA Flow Chart	131
Exhibit G-67. Client PAR Notice	134
Exhibit G-68. OmniTrack Contact Documentation	137
Exhibit G-69. The DirectCAREPro Application	152
Exhibit G-70. DirectCAREPro Process Flow	155
Exhibit G-71. DRAMS Data	159
Exhibit G-72. Drug Rebate Cycle	160
Exhibit G-73. Labeler Contacts Tab	161
Exhibit G-74. Request Interest Calculation	166
Exhibit G-75. Display NDC Price Tab	168
Exhibit G-76. Request Drug Price Load	170
Exhibit G-77. Display Drug Audits	173
Exhibit G-78. Display Claim Audit	173

Exhibit G-79. RebateWeb Home Page	175
Exhibit G-80. Electronic Invoice Notification	176
Exhibit G-81. Electronic Invoice Reminder Notification	176
Exhibit G-82. Drug Rebate Paper Invoice	177
Exhibit G-83. ROSI Payment Allocation Tab	180
Exhibit G-84. Labeler Outstanding Balance Report	181
Exhibit G-85. Display Suspended Checks	182
Exhibit G-86. Display Unallocated Balance Report page.....	183
Exhibit G-87. Labeler Outstanding Balance Report	184
Exhibit G-88. Research Labeler Disputes.....	186
Exhibit G-89. Research NDC Dispute Details.....	187
Exhibit G-90. Research Labeler Disputes.....	188
Exhibit G-91. Labeler Accounts Receivable.....	189
Exhibit G-92. Maintain Contract Detail Tab	190
Exhibit G-93. Create Letter Page.....	191
Exhibit G-94. Claim Void.....	201
Exhibit G-95. Claim Adjustment	202
Exhibit G-96. Claim History Web Page.....	203

Section I Technical Requirements Approach

Exhibit I-1. Defense-in-Depth Security Approach.....	4
Exhibit I-2. Defense-in-Depth Security Approach.....	8
Exhibit I-3. Last Update.....	21
Exhibit I-4. Plan Information Page	24
Exhibit I-5. Plan Detail Page	25
Exhibit I-6. Benefit Limits Page	26
Exhibit I-7. Custom Record Detail Page.....	27
Exhibit I-8. Drug Pricing	28
Exhibit I-9. Free-form Text.....	29
Exhibit I-10. Claim Inquiry Search Page	30
Exhibit I-11. Drug Search Page with Results	31
Exhibit I-12. Ad-Hoc Query Window.....	38
Exhibit I-13. Ad-Hoc Query Window, Expanded Classes and Objects.....	39
Exhibit I-14. Ad-Hoc Query Palette	39
Exhibit I-15. Non-Formatted Ad-Hoc Report.....	40
Exhibit I-16. Sample Ad Hoc Report.....	40
Exhibit I-17. Report Manager Window	42
Exhibit I-18. Ranking Selection Box	42
Exhibit I-19. Report Manager Window	43

Exhibit I-20. Report Manager Window	43
Exhibit I-21. ‘Apply a Filter’ Box	44
Exhibit I-22. Report Manager Window	44
Exhibit I-23. Claim Inquiry Search Page	46
Exhibit I-24. Drug Search Page with Results	47
Exhibit I-25. SPARK-ITS QMS Components	49
Exhibit I-26. Xerox Project Management Methodology in Practice.....	52
Exhibit I-27. Stakeholder Analysis	55
Exhibit I-28. Iterative-Waterfall Hybrid Life Cycle	56
Exhibit I-29. SPARK-ITS SDLC.....	57
Exhibit I-30. Iteration Flow	60
Exhibit I-31. Daily Work Breakdown.....	61
Exhibit I-32a. Sprint Cycle	62
Exhibit I-32b. Requirements Traceability Matrix View in DOORS.....	67
Exhibit I-33. Entering a New Issue.....	79
Exhibit I-34. Entering a New Issue.....	81
Exhibit I-35. Xerox Risk Management Approach	84
Exhibit I-36. Risk Ranking	85
Exhibit I-37. Example Xerox Risk Management Plan Cover Page and Table of Contents	88
Exhibit I-38. New Risk Entry Form.....	90
Exhibit I-39. Change Request Process.....	93
Exhibit I-40. ADDIE Design Model.....	95
Exhibit I-41. Test Case Table	106
Exhibit I-42. Modified V-Model Based on Solution Identifier.....	113
Exhibit I-43. Testing Methodology and Deliverables/Work Products.....	114
Exhibit I-44. Requirements Traceability Tools.....	140
Exhibit I-45. Defect Management Process Flow	143
Exhibit I-46. Data Transition	157
Exhibit I-47. Xerox Quality Management Methodology.....	169
Exhibit I-48. Defect Management Process Flow	176
Exhibit I-49. Xerox DR/BC Approach	182
Exhibit I-50. Table of Contents Page 1	185
Exhibit I-51. Table of Contents Page 2.....	186
Exhibit I-52. Table of Contents Page 3.....	187
Exhibit I-53. Hot Standby Active	190
Exhibit I-54. Switch Vendor Summary.....	193
Exhibit I-55. Switch Vendor Detail	193
Exhibit I-56. Switch Vendor Summary.....	201

Exhibit I-57. Switch Vendor Detail	201
Exhibit I-58. Dashboard Report	204
Exhibit I-59. Nimsoft Monitoring Display	212
Exhibit I-60. Nagios Dashboard.....	213
Exhibit I-61. BMC TM ART System Monitor Display	214
Exhibit I-62. OEM Grid Control–Consolidated View	215
Exhibit I-63. OEM Grid Control–Detailed Database.....	216
Exhibit I-64. OEM Grid Control–Database Activity	216
Exhibit I-65. Switch Vendor Summary.....	217
Exhibit I-66. Switch Vendor Detail	217

4.0 Executive Summary

Instructions: This section should be a brief (three- (3) to five- (5) page) summary of the key aspects of the Vendor's Technical Proposal. The executive summary should include an overview of the Vendor qualifications, approach to deliver the services described in the Request for Proposals (RFP), time frame to deliver the services, proposed team, and advantage to the State.

Xerox State Healthcare, LLC ("Xerox") is pleased to submit its proposed solution in response to the Request for Proposals (RFP) issued for RFP Number: 03410-127-14 for the Agency of Human Services and the Department of Vermont Health Access (the Agency).

Xerox business, technical, operational, and proposal staff have devoted considerable effort in the review of the RFP, procurement documents, publicly available policy documents, and other materials related to the Agency's Medicaid program. We have committed to this level of effort to ensure our proposed solution reflects a complete understanding of all requirements and the Agency's vision for its pharmacy program.

Xerox offers the Agency the commitment of a long-term healthcare services partner with a proven history providing innovative solutions. We continually invest in our solutions to offer our clients the latest technology and solutions to meet their needs. We have multiple research facilities that focus solely on innovation and creating the most efficient and effective solutions. By choosing Xerox, the Agency partners with a technology and services contractor committed to investing and tailoring our solutions to our customers' needs.

Xerox is recognized by public sector pharmacy benefit programs for the development, management, and administration of superior technical and clinical solutions. We have succeeded in continually improving the health of the individuals that these pharmacy benefit programs serve while conserving the limited financial resources available. Today, we provide systems and clinical services to pharmacy programs in 20 states and the District of Columbia on behalf of 17 million covered lives and process 250 million pharmacy claims annually totaling more than \$13 billion in drug expenditures.

Our longevity in Medicaid and other government-funded healthcare programs allows for a proactive relationship with the Agency. Our solution provides a low risk option that can be tailored to meet the needs of Vermont.

[REDACTED]

[Redacted]

[Redacted]



038.45p3
Xerox's Value Proposition in Support of Vermont

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

[REDACTED]

Clinical Expertise. Xerox has deep expertise in a wide array of clinical programs and has developed the solutions and services necessary to help our clients manage cost-effective programs that benefit all eligible members. Our solutions include automated prior authorization, utilization management programs, prospective and retrospective drug utilization review, medication therapy management programs, specialty pharmacy, 340B program management, state maximum allowable cost program, preferred drug list management, formulary development and management, and management of drugs in the medical benefit.

Award-Winning Call Centers. Xerox leverages its extensive experience in professionally staffed call centers. Call center representatives are fully trained on all aspects of the program on which they are working. Our intensive customer service training program, coupled with our thorough and industry-tested quality assurance program, has resulted in national recognition, including the J.D. Power and Associates Call Center Certification Programs. The Customer Inter@ction Solutions organization also recognized our accomplishments, naming Xerox #1 in inbound teleservices for our “outstanding capacity to efficiently manage huge volumes of callers.”

Commitment to Quality. We provide the organizational structure, staffing levels, and people with the appropriate, targeted skills to execute the full scope of work and services at the highest levels of quality. Our Standardized Process and Resource Kit for Implementing Technology Solutions (SPARK-ITS®) Quality Management System (QMS) includes our project management methodology (PMM) and our system development methodology (SDM). The SPARK-ITS PMM correlates well with industry best practices and is based on Project Management Institute (PMI) and Project Management Body of Knowledge (PMBOK®) standards.

[REDACTED]

[REDACTED]

The Xerox team provides the management and technical direction to ensure the successful implementation, operation, performance, and enhancement of the Vermont Medicaid Pharmacy Program; the provision of all necessary professional services that meet all of the requirements requested in the RFP; and the continual support and contribution to the development of technological and business-oriented standards that will be used to elevate the efficiency, maturity, and interoperability of the nation’s healthcare enterprise.

[REDACTED]

Experienced Contractor. Xerox is recognized by public sector pharmacy benefit programs for the development, management, and administration of superior technical and clinical solutions. We have succeeded in continually improving the health of individuals that these pharmacy benefit programs serve while conserving the limited financial resources. Our dedicated team is backed by Xerox's 20 years of experience in designing, developing, implementing, and operating pharmacy claims processing and clinical systems for Medicaid and other government-funded pharmacy programs.

Concluding Statement

Xerox has attained a level of PBM understanding and hands-on experience that makes it the ideal contractor to support the Agency as it proceeds with its vision for its pharmacy program. Our long history supporting government-funded healthcare programs and the flexibility of our system allow for a proactive approach to pharmacy benefits management in Vermont. We understand how to translate complex state and federal policy into systems and processes, and we can respond quickly, responsibly, and knowledgeably to evolving policy and program needs. Our decades of healthcare experience, our innovative solution, and our demonstrated PBM performance nationwide offer the Agency the best PBM solution for optimal management of the Vermont pharmacy program.

This contract requires systems and services that represent industry best practices and recognizes the value derived from an intimate familiarity with government-sponsored health benefits programs. This is precisely who Xerox is. This is our business model. And this is why this contract, by its very nature, is such an exciting opportunity for Xerox. We again thank the Agency for its consideration, and the opportunity to submit our proposed solution.

Xerox's Wide Range of Medicaid Subject Matter Expertise

- Pharmacy Claims Systems
- Medicaid Systems Design/Development
- Project Management
- Rebate Management
- e-Prescribing
- Clinical/Operational Analytics
- Clinical Program Operations
- Health Information Exchange
- Benefits Administration
- Eligibility/Enrollment
- Care Management
- Audit/Fraud

5.0 Vendor Contact Information

Instructions: Complete the following information regarding the Vendor’s headquarters, and primary contact for any questions pertaining to the Vendor’s responses to this RFP, payment address to which the State should send payments under the Contract, and Legal Notice Address to which the State should send legal notices under the Contract.

Respondents are not to change any of the completed cells in the following Table 1. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

Table 1 Vendor Contract Information

COMPANY HEADQUARTERS INFORMATION:	
Company Name:	Xerox State Healthcare, LLC
Address:	9040 Roswell Road, Suite 700
City, State & Zip Code:	Atlanta, Georgia 30350
Company Type (Check One):	<input type="checkbox"/> Private <input checked="" type="checkbox"/> Public
Company Size:	(Total Number of Employees) approximately 6,000
Annual Revenue:	\$22,390,000,000 (per 2012 Annual Report)

PRIMARY CONTACT INFORMATION:			
Name:	Emilio Tiele	Title:	Vice President, Government Healthcare
Address:	9040 Roswell Road, Suite 700		
City, State & Zip Code:	Atlanta, Georgia 30350		
Phone:	p: 770.829.1453 m: 678.231.5707	Fax:	770-552-6919
E-mail:	emilio.tieles@xerox.com		

REGIONAL OR LOCAL OFFICE INFORMATION:			
Company Name:	Xerox State Healthcare, LLC		
Address:	9040 Roswell Road, Suite 700		
City, State & Zip Code:	Atlanta, Georgia 30350		
Primary Contact:	Emilio Tiele		
Phone:	p: 770.829.1453 m: 678.231.5707	Fax:	770-552-6919
E-mail:	emilio.tieles@xerox.com		

5.1 Subcontractor Contact Information (If applicable)

Instructions: Complete the following information regarding the Subcontractor’s contact information. If more than one Subcontractor is proposed, add more pages as necessary.

Respondents are not to change any of the completed cells in the following Table 1. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

Table 1 Subcontractor Contact Information

COMPANY INFORMATION:	
[REDACTED]	[REDACTED]
[REDACTED]	<input type="checkbox"/> [REDACTED] <input checked="" type="checkbox"/> [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

PRIMARY CONTACT INFORMATION:			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		
[REDACTED]	[REDACTED]		
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		



Table 2 Subcontractor Contact Information

COMPANY INFORMATION:	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	<input type="checkbox"/> [REDACTED] <input checked="" type="checkbox"/> [REDACTED]
[REDACTED]	[REDACTED] [REDACTED]
[REDACTED]	[REDACTED]

PRIMARY CONTACT INFORMATION:			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		
[REDACTED]	[REDACTED]		
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		



6.0 Minimum Mandatory Qualifications

Instructions: Complete the following information regarding the Vendor’s ability to meet the Minimum Mandatory Qualifications. The State reserves the right to ask for any additional clarification relating to the minimum requirements.

Respondents are not to change any of the completed cells in the following Table 1. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

The Vendor agrees to meet the following Minimum Mandatory Qualifications.

Table 1 Minimum Qualifications

#	Qualification Item	Vendor Agrees to Meet?		Reference to Proposal Response Section
1	The bidder must have at least five years’ experience with projects of similar size and scope to the State’s that include design, development, implementation, and operation of a Medicaid POS pharmacy claims processing system in compliance with all federal and State regulations, which includes eligibility verification, POS edits and transmission messaging, PA, DUR, reimbursement, benefit design, and reporting	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section B. Vendors Experience. Subsection 2.1 Vendor Corporate Background
2	The PBM Solution proposed by the Vendor must have been previously implemented successfully in a State Medicaid environment. A successful implementation is defined as one in which providers can submit claims and the PBM system adjudicates claims and generates payments accurately. In addition, operational programs and services such as DUR, prior authorization, and utilization management have been implemented and are operating successfully.	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section B. Vendors Experience. Subsection 2.7 Medicaid Pharmacy Operations Projects Completed in the Last Five Years

#	Qualification Item	Vendor Agrees to Meet?		Reference to Proposal Response Section
3	The PBM vendor must have three years' experience administering Part D drug benefits and supporting Part D drug plans or, at the time of the Duals Demonstration Project Implementation, will subcontract with a vendor that does have this experience.	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	This requirement is no longer applicable based on Vermont's notification to no longer pursue the Duals Demonstration project with instructions to Vendors proposing responses to Vermont's PBMS RFP to not answer the requirements pertaining to Duals Demonstration project.
4	The PBM vendor must have three years' experience administering Part D drug benefits and supporting Part D drug plans or will subcontract with a vendor that does have this experience	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	This requirement is no longer applicable based on Vermont's notification to no longer pursue the Duals Demonstration project with instructions to Vendors proposing responses to Vermont's PBMS RFP to not answer the requirements pertaining to Duals Demonstration project.

#	Qualification Item	Vendor Agrees to Meet?		Reference to Proposal Response Section
5	The bidder must have three project references	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section C. Vendor References
6	The bidder's PBM solution must be able to function independently from the MMIS, interface to the current MMIS system, and interface with the new Core MMIS system chosen at a later date	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section G. 1.1 Claims Processing and Operational Support. Section H. Vendor References. Subsection 2.0 Interoperability and Integration.
7	The bidder must agree that they will be responsible to make any system modifications necessary to comply with all Federal and State regulations and mandates, as described herein, which include (but are not limited to) eligibility verification, POS edits and drug monitoring, prior authorization, drug utilization review, billing and reimbursement, and to meet the deadlines imposed for such changes for the duration of this contract	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section G. 1.1 Claims Processing and Operational Support.

Request for Taxpayer Identification Number and Certification

Give Form to the
 requester. Do not
 send to the IRS.

Print or type See Specific Instructions on page 2.	Name (as shown on your income tax return) Xerox Corporation		
	Business name/disregarded entity name, if different from above Disregarded entity name: Xerox State Healthcare, LLC (TIN 58-2479287)		
	Check appropriate box for federal tax classification: <input type="checkbox"/> Individual/sole proprietor <input checked="" type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ <input type="checkbox"/> Other (see instructions) ▶ _____		Exemptions (see instructions): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____
	Address (number, street, and apt. or suite no.) 45 Glover Avenue c/o Corp. Tax Dept.	Requester's name and address (optional)	
	City, state, and ZIP code Norwalk, CT 06856-4505	List account number(s) here (optional)	

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Social security number

			-			-				
--	--	--	---	--	--	---	--	--	--	--

Employer identification number

1	6	-	0	4	6	8	0	2	0
---	---	---	---	---	---	---	---	---	---

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Part II Certification

Under penalties of perjury, I certify that:

- The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
- I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
- I am a U.S. citizen or other U.S. person (defined below), and
- The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign Here	Signature of U.S. person	Date ▶ 1/23/14
------------------	--------------------------	----------------

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. The IRS has created a page on IRS.gov for information about Form W-9, at www.irs.gov/w9. Information about any future developments affecting Form W-9 (such as legislation enacted after we release it) will be posted on that page.

Purpose of Form

A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, payments made to you in settlement of payment card and third party network transactions, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

- Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
- Certify that you are not subject to backup withholding, or
- Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and

4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct.

Note. If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.

In the cases below, the following person must give Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States:

- In the case of a disregarded entity with a U.S. owner, the U.S. owner of the disregarded entity and not the entity,
- In the case of a grantor trust with a U.S. grantor or other U.S. owner, generally, the U.S. grantor or other U.S. owner of the grantor trust and not the trust, and
- In the case of a U.S. trust (other than a grantor trust), the U.S. trust (other than a grantor trust) and not the beneficiaries of the trust.

Foreign person. If you are a foreign person or the U.S. branch of a foreign bank that has elected to be treated as a U.S. person, do not use Form W-9. Instead, use the appropriate Form W-8 or Form 8233 (see Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities).

Nonresident alien who becomes a resident alien. Generally, only a nonresident alien individual may use the terms of a tax treaty to reduce or eliminate U.S. tax on certain types of income. However, most tax treaties contain a provision known as a "saving clause." Exceptions specified in the saving clause may permit an exemption from tax to continue for certain types of income even after the payee has otherwise become a U.S. resident alien for tax purposes.

If you are a U.S. resident alien who is relying on an exception contained in the saving clause of a tax treaty to claim an exemption from U.S. tax on certain types of income, you must attach a statement to Form W-9 that specifies the following five items:

1. The treaty country. Generally, this must be the same treaty under which you claimed exemption from tax as a nonresident alien.
2. The treaty article addressing the income.
3. The article number (or location) in the tax treaty that contains the saving clause and its exceptions.
4. The type and amount of income that qualifies for the exemption from tax.
5. Sufficient facts to justify the exemption from tax under the terms of the treaty article.

Example. Article 20 of the U.S.-China income tax treaty allows an exemption from tax for scholarship income received by a Chinese student temporarily present in the United States. Under U.S. law, this student will become a resident alien for tax purposes if his or her stay in the United States exceeds 5 calendar years. However, paragraph 2 of the first Protocol to the U.S.-China treaty (dated April 30, 1984) allows the provisions of Article 20 to continue to apply even after the Chinese student becomes a resident alien of the United States. A Chinese student who qualifies for this exception (under paragraph 2 of the first protocol) and is relying on this exception to claim an exemption from tax on his or her scholarship or fellowship income would attach to Form W-9 a statement that includes the information described above to support that exemption.

If you are a nonresident alien or a foreign entity, give the requester the appropriate completed Form W-8 or Form 8233.

What is backup withholding? Persons making certain payments to you must under certain conditions withhold and pay to the IRS a percentage of such payments. This is called "backup withholding." Payments that may be subject to backup withholding include interest, tax-exempt interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, payments made in settlement of payment card and third party network transactions, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will not be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

Payments you receive will be subject to backup withholding if:

1. You do not furnish your TIN to the requester,
2. You do not certify your TIN when required (see the Part II instructions on page 3 for details),
3. The IRS tells the requester that you furnished an incorrect TIN,
4. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or
5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See *Exempt payee code* on page 3 and the separate Instructions for the Requester of Form W-9 for more information.

Also see *Special rules for partnerships* on page 1.

What is FATCA reporting? The Foreign Account Tax Compliance Act (FATCA) requires a participating foreign financial institution to report all United States account holders that are specified United States persons. Certain payees are exempt from FATCA reporting. See *Exemption from FATCA reporting code* on page 3 and the Instructions for the Requester of Form W-9 for more information.

Updating Your Information

You must provide updated information to any person to whom you claimed to be an exempt payee if you are no longer an exempt payee and anticipate receiving reportable payments in the future from this person. For example, you may need to provide updated information if you are a C corporation that elects to be an S corporation, or if you no longer are tax exempt. In addition, you must furnish a new Form W-9 if the name or TIN changes for the account, for example, if the grantor of a grantor trust dies.

Penalties

Failure to furnish TIN. If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

Civil penalty for false information with respect to withholding. If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

Criminal penalty for falsifying information. Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

Misuse of TINs. If the requester discloses or uses TINs in violation of federal law, the requester may be subject to civil and criminal penalties.

Specific Instructions

Name

If you are an individual, you must generally enter the name shown on your income tax return. However, if you have changed your last name, for instance, due to marriage without informing the Social Security Administration of the name change, enter your first name, the last name shown on your social security card, and your new last name.

If the account is in joint names, list first, and then circle, the name of the person or entity whose number you entered in Part I of the form.

Sole proprietor. Enter your individual name as shown on your income tax return on the "Name" line. You may enter your business, trade, or "doing business as (DBA)" name on the "Business name/disregarded entity name" line.

Partnership, C Corporation, or S Corporation. Enter the entity's name on the "Name" line and any business, trade, or "doing business as (DBA) name" on the "Business name/disregarded entity name" line.

Disregarded entity. For U.S. federal tax purposes, an entity that is disregarded as an entity separate from its owner is treated as a "disregarded entity." See Regulation section 301.7701-2(c)(2)(iii). Enter the owner's name on the "Name" line. The name of the entity entered on the "Name" line should never be a disregarded entity. The name on the "Name" line must be the name shown on the income tax return on which the income should be reported. For example, if a foreign LLC that is treated as a disregarded entity for U.S. federal tax purposes has a single owner that is a U.S. person, the U.S. owner's name is required to be provided on the "Name" line. If the direct owner of the entity is also a disregarded entity, enter the first owner that is not disregarded for federal tax purposes. Enter the disregarded entity's name on the "Business name/disregarded entity name" line. If the owner of the disregarded entity is a foreign person, the owner must complete an appropriate Form W-8 instead of a Form W-9. This is the case even if the foreign person has a U.S. TIN.

Note. Check the appropriate box for the U.S. federal tax classification of the person whose name is entered on the "Name" line (individual/sole proprietor, Partnership, C Corporation, S Corporation, Trust/estate).

Limited Liability Company (LLC). If the person identified on the "Name" line is an LLC, check the "Limited liability company" box only and enter the appropriate code for the U.S. federal tax classification in the space provided. If you are an LLC that is treated as a partnership for U.S. federal tax purposes, enter "P" for partnership. If you are an LLC that has filed a Form 8832 or a Form 2553 to be taxed as a corporation, enter "C" for C corporation or "S" for S corporation, as appropriate. If you are an LLC that is disregarded as an entity separate from its owner under Regulation section 301.7701-3 (except for employment and excise tax), do not check the LLC box unless the owner of the LLC (required to be identified on the "Name" line) is another LLC that is not disregarded for U.S. federal tax purposes. If the LLC is disregarded as an entity separate from its owner, enter the appropriate tax classification of the owner identified on the "Name" line.

Other entities. Enter your business name as shown on required U.S. federal tax documents on the "Name" line. This name should match the name shown on the charter or other legal document creating the entity. You may enter any business, trade, or DBA name on the "Business name/disregarded entity name" line.

Exemptions

If you are exempt from backup withholding and/or FATCA reporting, enter in the *Exemptions* box, any code(s) that may apply to you. See *Exempt payee code* and *Exemption from FATCA reporting code* on page 3.

Exempt payee code. Generally, individuals (including sole proprietors) are not exempt from backup withholding. Corporations are exempt from backup withholding for certain payments, such as interest and dividends. Corporations are not exempt from backup withholding for payments made in settlement of payment card or third party network transactions.

Note. If you are exempt from backup withholding, you should still complete this form to avoid possible erroneous backup withholding.

The following codes identify payees that are exempt from backup withholding:

- 1—An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2)
- 2—The United States or any of its agencies or instrumentalities
- 3—A state, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities
- 4—A foreign government or any of its political subdivisions, agencies, or instrumentalities
- 5—A corporation
- 6—A dealer in securities or commodities required to register in the United States, the District of Columbia, or a possession of the United States
- 7—A futures commission merchant registered with the Commodity Futures Trading Commission
- 8—A real estate investment trust
- 9—An entity registered at all times during the tax year under the Investment Company Act of 1940
- 10—A common trust fund operated by a bank under section 584(a)
- 11—A financial institution
- 12—A middleman known in the investment community as a nominee or custodian
- 13—A trust exempt from tax under section 664 or described in section 4947

The following chart shows types of payments that may be exempt from backup withholding. The chart applies to the exempt payees listed above, 1 through 13.

IF the payment is for . . .	THEN the payment is exempt for . . .
Interest and dividend payments	All exempt payees except for 7
Broker transactions	Exempt payees 1 through 4 and 6 through 11 and all C corporations. S corporations must not enter an exempt payee code because they are exempt only for sales of noncovered securities acquired prior to 2012.
Barter exchange transactions and patronage dividends	Exempt payees 1 through 4
Payments over \$600 required to be reported and direct sales over \$5,000 ¹	Generally, exempt payees 1 through 5 ²
Payments made in settlement of payment card or third party network transactions	Exempt payees 1 through 4

¹ See Form 1099-MISC, Miscellaneous Income, and its instructions.

² However, the following payments made to a corporation and reportable on Form 1099-MISC are not exempt from backup withholding: medical and health care payments, attorneys' fees, gross proceeds paid to an attorney, and payments for services paid by a federal executive agency.

Exemption from FATCA reporting code. The following codes identify payees that are exempt from reporting under FATCA. These codes apply to persons submitting this form for accounts maintained outside of the United States by certain foreign financial institutions. Therefore, if you are only submitting this form for an account you hold in the United States, you may leave this field blank. Consult with the person requesting this form if you are uncertain if the financial institution is subject to these requirements.

- A—An organization exempt from tax under section 501(a) or any individual retirement plan as defined in section 7701(a)(37)
- B—The United States or any of its agencies or instrumentalities
- C—A state, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities
- D—A corporation the stock of which is regularly traded on one or more established securities markets, as described in Reg. section 1.1472-1(c)(1)(i)
- E—A corporation that is a member of the same expanded affiliated group as a corporation described in Reg. section 1.1472-1(c)(1)(i)
- F—A dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any state

- G—A real estate investment trust
- H—A regulated investment company as defined in section 851 or an entity registered at all times during the tax year under the Investment Company Act of 1940
 - I—A common trust fund as defined in section 584(a)
 - J—A bank as defined in section 581
 - K—A broker
 - L—A trust exempt from tax under section 664 or described in section 4947(a)(1)
 - M—A tax exempt trust under a section 403(b) plan or section 457(g) plan

Part I. Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. If you are a resident alien and you do not have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, see *How to get a TIN* below.

If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN. However, the IRS prefers that you use your SSN.

If you are a single-member LLC that is disregarded as an entity separate from its owner (see *Limited Liability Company (LLC)* on page 2), enter the owner's SSN (or EIN, if the owner has one). Do not enter the disregarded entity's EIN. If the LLC is classified as a corporation or partnership, enter the entity's EIN.

Note. See the chart on page 4 for further clarification of name and TIN combinations.

How to get a TIN. If you do not have a TIN, apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local Social Security Administration office or get this form online at www.ssa.gov. You may also get this form by calling 1-800-772-1213. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN, or Form SS-4, Application for Employer Identification Number, to apply for an EIN. You can apply for an EIN online by accessing the IRS website at www.irs.gov/businesses and clicking on Employer Identification Number (EIN) under Starting a Business. You can get Forms W-7 and SS-4 from the IRS by visiting IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

If you are asked to complete Form W-9 but do not have a TIN, apply for a TIN and write "Applied For" in the space for the TIN, sign and date the form, and give it to the requester. For interest and dividend payments, and certain payments made with respect to readily tradable instruments, generally you will have 60 days to get a TIN and give it to the requester before you are subject to backup withholding on payments. The 60-day rule does not apply to other types of payments. You will be subject to backup withholding on all such payments until you provide your TIN to the requester.

Note. Entering "Applied For" means that you have already applied for a TIN or that you intend to apply for one soon.

Caution: A disregarded U.S. entity that has a foreign owner must use the appropriate Form W-8.

Part II. Certification

To establish to the withholding agent that you are a U.S. person, or resident alien, sign Form W-9. You may be requested to sign by the withholding agent even if items 1, 4, or 5 below indicate otherwise.

For a joint account, only the person whose TIN is shown in Part I should sign (when required). In the case of a disregarded entity, the person identified on the "Name" line must sign. Exempt payees, see *Exempt payee code* earlier.

Signature requirements. Complete the certification as indicated in items 1 through 5 below.

1. **Interest, dividend, and barter exchange accounts opened before 1984 and broker accounts considered active during 1983.** You must give your correct TIN, but you do not have to sign the certification.
2. **Interest, dividend, broker, and barter exchange accounts opened after 1983 and broker accounts considered inactive during 1983.** You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the requester, you must cross out item 2 in the certification before signing the form.
3. **Real estate transactions.** You must sign the certification. You may cross out item 2 of the certification.
4. **Other payments.** You must give your correct TIN, but you do not have to sign the certification unless you have been notified that you have previously given an incorrect TIN. "Other payments" include payments made in the course of the requester's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services (including payments to corporations), payments to a nonemployee for services, payments made in settlement of payment card and third party network transactions, payments to certain fishing boat crew members and fishermen, and gross proceeds paid to attorneys (including payments to corporations).
5. **Mortgage interest paid by you, acquisition or abandonment of secured property, cancellation of debt, qualified tuition program payments (under section 529), IRA, Coverdell ESA, Archer MSA or HSA contributions or distributions, and pension distributions.** You must give your correct TIN, but you do not have to sign the certification.

What Name and Number To Give the Requester

For this type of account:	Give name and SSN of:
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account ¹
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor ²
4. a. The usual revocable savings trust (grantor is also trustee) b. So-called trust account that is not a legal or valid trust under state law	The grantor-trustee ¹ The actual owner ¹
5. Sole proprietorship or disregarded entity owned by an individual	The owner ³
6. Grantor trust filing under Optional Form 1099 Filing Method 1 (see Regulation section 1.671-4(b)(2)(i)(A))	The grantor* ⁴
For this type of account:	Give name and EIN of:
7. Disregarded entity not owned by an individual	The owner
8. A valid trust, estate, or pension trust	Legal entity ⁴
9. Corporation or LLC electing corporate status on Form 8832 or Form 2553	The corporation
10. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
11. Partnership or multi-member LLC	The partnership
12. A broker or registered nominee	The broker or nominee
13. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity
14. Grantor trust filing under the Form 1041 Filing Method or the Optional Form 1099 Filing Method 2 (see Regulation section 1.671-4(b)(2)(i)(B))	The trust

¹ List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.

² Circle the minor's name and furnish the minor's SSN.

³ You must show your individual name and you may also enter your business or "DBA" name on the "Business name/disregarded entity" name line. You may use either your SSN or EIN (if you have one), but the IRS encourages you to use your SSN.

⁴ List first and circle the name of the trust, estate, or pension trust. (Do not furnish the TIN of the personal representative or trustee unless the legal entity itself is not designated in the account title.) Also see *Special rules for partnerships* on page 1.

*Note. Grantor also must provide a Form W-9 to trustee of trust.

Note. If no name is circled when more than one name is listed, the number will be considered to be that of the first name listed.

Secure Your Tax Records from Identity Theft

Identity theft occurs when someone uses your personal information such as your name, social security number (SSN), or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your tax records are not currently affected by identity theft but you think you are at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, contact the IRS Identity Theft Hotline at 1-800-908-4490 or submit Form 14039.

For more information, see Publication 4535, Identity Theft Prevention and Victim Assistance.

Victims of identity theft who are experiencing economic harm or a system problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

Protect yourself from suspicious emails or phishing schemes. Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common act is sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request personal detailed information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward this message to phishing@irs.gov. You may also report misuse of the IRS name, logo, or other IRS property to the Treasury Inspector General for Tax Administration at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at: spam@uce.gov or contact them at www.ftc.gov/idtheft or 1-877-IDTHEFT (1-877-438-4338).

Visit IRS.gov to learn more about identity theft and how to reduce your risk.

Privacy Act Notice

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons (including federal agencies) who are required to file information returns with the IRS to report interest, dividends, or certain other income paid to you; mortgage interest you paid; the acquisition or abandonment of secured property; the cancellation of debt; or contributions you made to an IRA, Archer MSA, or HSA. The person collecting this form uses the information on the form to file information returns with the IRS, reporting the above information. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their laws. The information also may be disclosed to other countries under a treaty, to federal and state agencies to enforce civil and criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. You must provide your TIN whether or not you are required to file a tax return. Under section 3406, payers must generally withhold a percentage of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to the payer. Certain penalties may also apply for providing false or fraudulent information.

1. Vendor Organization Overview

The Vendor must include details of the Vendor’s Experience in this section. The details must include Vendor organization overview; corporate background; Vendor’s understanding of Medicaid and Medicaid pharmacy operations.

Instructions: Provide all relevant information regarding the general profile of the Vendor.

Respondents are not to change any of the completed cells in the following table. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

Vendor Organization Profile

Xerox State Healthcare, LLC Vendor Organization Profile

Company Name	Xerox State Healthcare, LLC
Name of Parent Company	Xerox Corporation
Industry (NAICS) (North American Industry Classification System)	334118
Type of Legal Entity	Xerox State Healthcare, LLC (Xerox) is a limited liability company (LLC).
Company ownership (i.e., private/public, joint venture)	<p>Xerox State Healthcare, LLC (Xerox) is a wholly owned subsidiary of Xerox Business Services, LLC (formerly Affiliated Computer Services, Inc.), which is a wholly owned subsidiary of Xerox Corporation, a publicly-held company.</p> <p>Xerox State Healthcare, LLC (Xerox) began in 1970 as Consultec, Inc., a Georgia corporation and one of oldest firms in the Medicaid marketplace. Xerox State Healthcare, LLC (Xerox) was established as a limited liability company (LLC) in the State of Delaware under the name Consultec, LLC, on March 25, 1999. The name Consultec, LLC was changed to ACS State Healthcare, LLC, on May 29, 2001, based on the company’s acquisition by Affiliated Computer Services, Inc., which was incorporated in the State of Delaware in 1988. On February 5, 2010, Affiliated Computer Services, Inc. was acquired by Xerox Corporation, which was incorporated in the State of New York in 1906.</p> <p>Following a brand transition period and effective April 1, 2012, the name Affiliated Computer Services, Inc. was changed to Xerox Business Services, LLC, and the name ACS State Healthcare, LLC was changed to Xerox State Healthcare, LLC (Xerox). Our parent, Xerox Business Services, LLC, is headquartered in Dallas, Texas and Xerox Corporation is headquartered in Norwalk, Connecticut.</p>
Number of full time employees	<p>Xerox State Healthcare, LLC (Xerox) is solely focused on government healthcare relationships and employs an average of 6,000 people nationwide who are dedicated to assisting our state and federal customers with implementing, operating, and enhancing their public sector healthcare programs.</p> <p>Xerox Corporation, our corporate parent, employs approximately 140,000 people worldwide.</p>

Last Fiscal Year Company Revenue	\$22,390,000,000 – Xerox Corporation FY2012 \$713,797,000 – Xerox State Healthcare, LLC FY2012
Last Fiscal Year Company Net Income	Net Income: \$1,195,000,000 – Xerox Corporation FY2012 Adjusted Net Income: \$1,398,000,000 – Xerox Corporation FY2012 *See non-GAAP measures on page 11 of the Xerox Corporation 2012 Annual Report for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.
% of revenue from State and Local Government clients in the United States	Approximately 3.2% of Xerox Corporation (FY2012)
% of revenue from IT Design and Implementation Services	Approximately 10% of Xerox State Healthcare, LLC (FY2012)
Number of years in business	44 years
Number of years Vendor has been providing the type of services specified in the RFP	Xerox has 44 years of experience in the design, development, and implementation (DDI) of Medicaid management information system (MMIS) claims processing systems and 32 years of experience (since 1982) in MMIS operations, maintenance, modification, and enhancement and claims administration. Entering the arena of fiscal agent and facilities management operations in 1982, Xerox processed pharmacy claims for our Medicaid customers through our Medicaid management information system (MMIS) solutions. We have provided integrated prescription benefits management (PBM) solutions and services similar to the type of services specified in the RFP to public and private sector clients for 22 years , including being the first contractor to process Medicaid pharmacy claims at the point-of-sale (POS) in 1992.
Number of Employees providing the type of services specified in the RFP	Xerox employs approximately 6,000 people who provide the specific types of services specified in the RFP as well as other healthcare services for state and federal customers nationwide.
Headquarters in the USA	Xerox State Healthcare, LLC 9040 Roswell Road Atlanta, GA 30004

Locations in the USA	Xerox State Healthcare, LLC (Xerox) has numerous project locations (offices) across the United States (including Alaska and Hawaii) where we perform account management and project operations for our operational accounts. We provide the primary business office locations for Xerox State Healthcare, LLC (Xerox); our direct parent company, Xerox Business Services, LLC; and our corporate parent, Xerox Corporation, below: Xerox State Healthcare, LLC Primary Business Office 9040 Roswell Road, Suite 700 Atlanta, Georgia 30004 Xerox Business Services, LLC Primary Business Office 2828 North Haskell Avenue Dallas, Texas 75204 Xerox Corporation Primary Business Office 45 Glover Avenue Norwalk, Connecticut 06850
Office Servicing this Account	Xerox State Healthcare, LLC 9040 Roswell Road, Suite 700 Atlanta, GA 30004

1.1 Subcontractor Organization Overview (If applicable)

Instructions: If the proposal includes the use of Subcontractor(s), provide all relevant information regarding the profile of that Subcontractor. This section may be duplicated in its entirety and page each used per subcontractor included.

Respondents are not to change any of the completed cells in the following table. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

[Redacted content]

<p>Brief description of and number of projects that Vendor has partnered with this Subcontractor</p>	<p>[REDACTED]</p> <table border="1"><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr></table> <p>[REDACTED]</p> <table border="1"><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr></table> <p>[REDACTED]</p> <table border="1"><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr><tr><td>[REDACTED]</td><td>[REDACTED]</td></tr></table>	[REDACTED]																					
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
[REDACTED]	[REDACTED]																						
<p>Locations where work is to be performed</p>	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>																						

2. Vendor Corporate Background and Experience

This section details the Vendor's corporate background and experience. The section should include the following information:

With a 44-year history of providing technology and services across the Medicaid spectrum, including more than 20 years of experience bringing integrated pharmacy services to government clients, Xerox offers the national experience, corporate resources, and broad scope of services to facilitate a successful partnership with AHS.

Xerox brings more than 40 years of Medicaid and more than 20 years of PBM experience to the Vermont PBM Solution DDI project. We provide AHS with innovative solutions throughout the contract term. Our Pharmacy Benefits Management Open System Plus (PBM OS+) for claims processing and Drug Rebate Analysis and Management System (DRAMS) for rebate administration are 100 percent Web-based—with the benefits that technology actually brings. Within minutes of claims adjudicating in PBM OS+, they are replicated in the system's Data Warehouse/Decision Support System (DW/DSS) providing AHS access to near real-time pharmacy data for reporting. These are some of the components that comprise our proposed solution for a dynamic, synergistic, fully integrated Vermont Pharmacy Benefits system complete with clinical innovations that help the State health agency create better outcomes.

This proposal section demonstrates how Xerox is capable of fulfilling all of the component requirements set forth by AHS in this RFP. We provide our detailed response to the RFP's information requirements under the following headings:

- Vendor Corporate Background
- Understanding of Medicaid and Medicaid Pharmacy Operations
- Customers Served in the Medicaid Pharmacy Operations Space
- Customers Services in the Public Sector
- Work Locations
- Existing Business Relationships with Vermont
- Medicaid Pharmacy Operations Projects Completed in the Last Five Years
- Business Disputes

2.1 Vendor Corporate Background

Instructions: Describe the Vendor's corporate background as it relates to projects similar in scope and complexity to the project described in this RFP.

Xerox has a demonstrated record of providing States with the tools and operations that allow them to manage their pharmacy programs effectively and cost efficiently. Our offering is much more than a vendor with a system—we offer an integrated, well-tested, pharmacy solution based on decades of pharmacy benefits management (PBM) and Medicaid experience.

We have attained a level of Medicaid and PBM understanding and hands-on experience that is recognized and respected as one of the strongest in the industry. Exhibit B-1 depicts our nationwide pharmacy experience providing services similar to those identified in the RFP.

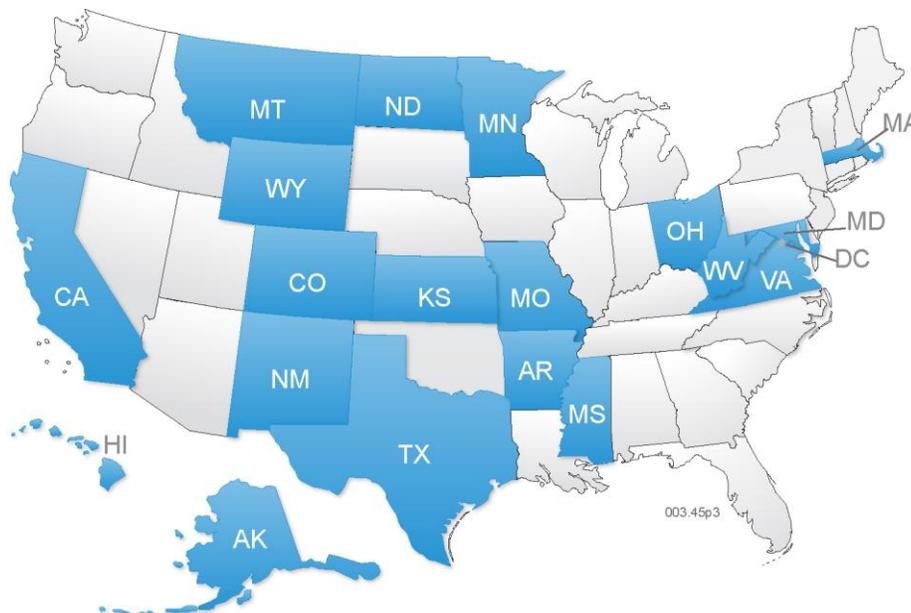


Exhibit B-1. Xerox's Pharmacy Accounts

Pharmacy programs across the country benefit from our products and services that are similar to those required by the RFP.

In the last several years, Xerox has been awarded numerous state Medicaid pharmacy contracts procured, including pharmacy contracts, including contracts in California, the District of Columbia, Maryland, Massachusetts, North Dakota, Ohio, and Texas Medicaid programs, as well as clinical consulting contracts for Kansas Medicaid (SmartPA), North Carolina Medicaid (SmartPA), Texas Medicaid (Texas RetroDUR), and West Virginia Medicaid (SmartPA).

Xerox has proven experience designing, developing, implementing, operating, and maintaining a contemporary PBM solutions, MITA-aligned architecture and supports AHS and DVHA goals, namely to ensure the availability of clinically appropriate medication services at the most reasonable cost possible, and provide access to high quality pharmacy benefits in Vermont's publicly-funded programs.

Xerox was the first contractor to process pharmacy claims at point-of-sale (POS) for Medicaid, and we have evolved our POS solutions to now offer our proposed Web-based PBM OS+, which is among the most sophisticated and clinically rich claims processing solutions in the nation. Our pharmacy solution provides comprehensive functionality using National Council for Prescription Drug Programs, Inc. (NCPDP)-standard compliant transactions, including coordination of benefits (COB) and drug utilization review (DUR). Xerox also implemented one of the nation's first pharmacy clinical services suites, delivering Smart Third Party Liability (SmartTPL) services, Smart Prior Authorization (SmartPA), therapeutic drug management, and pharmacy audit services.

Exhibit B-2 illustrates some of our key qualifications in the government PBM market.

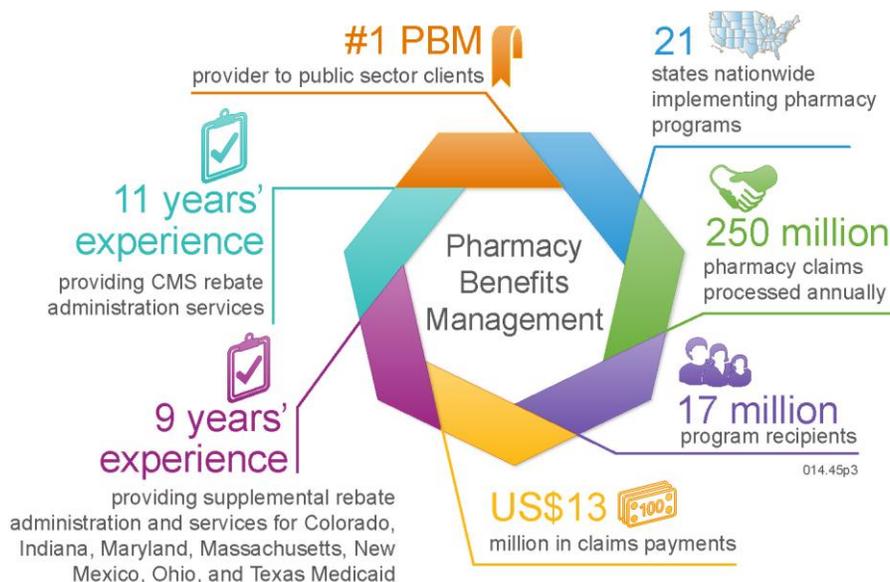


Exhibit B-2. Leadership by Numbers

Our client services delivers smart solutions in pharmacy benefits management, lower costs, and improved care.

We are recognized in the industry as one of the best business values due to our cost effectiveness, service attitude, and flexible approach. Our Medicaid-specific experience, as well as our national public health policy expertise assists our clients in effectively addressing the factors that are driving costs and utilization of pharmacy services in their pharmacy programs.

The breadth of our PBM operations expertise includes the following pharmacy and clinical services:

- Automated Claims Processing, Adjudication, and Payment
- Call Center Services
- Automated Prior Authorization (PA) Determination
- Preferred Drug List (PDL) Support
- Prospective Drug Utilization Review (ProDUR)
- Retrospective Drug Utilization Review (RetroDUR)
- CMS Drug Rebate Administration
- Supplemental Drug Rebate Administration
- Managed Care Organization (MCO) Drug Rebate Support
- Third Party Liability (TPL)/Coordination of Benefits (COB)
- Website Development/Maintenance
- Onsite and Desktop Pharmacy Auditing
- Clinical and Financial Reporting
- Provider Education
- Cost Containment Consulting
- Benefits Design Management
- Fiscal Management
- Clinical Management Programs and Tools
- Academic Detailing
- Population-based Interventions
- e-Prescribing

- Data Warehouse/Decision Support System (DW/DSS) Services
- Provider Network Contracting and Management
- Medication Therapy Management (MTM)
- Healthcare Common Procedure Coding System (HCPCS) Rebate Crosswalk (J-Codes)
- Maximum Allowable Cost (MAC) Program
- Non-Emergency Medical Travel (NEMT) Automated Prior Authorization

Table B-1 provides brief overviews of some of our pharmacy and clinical-related products depicted in Exhibit B-3.

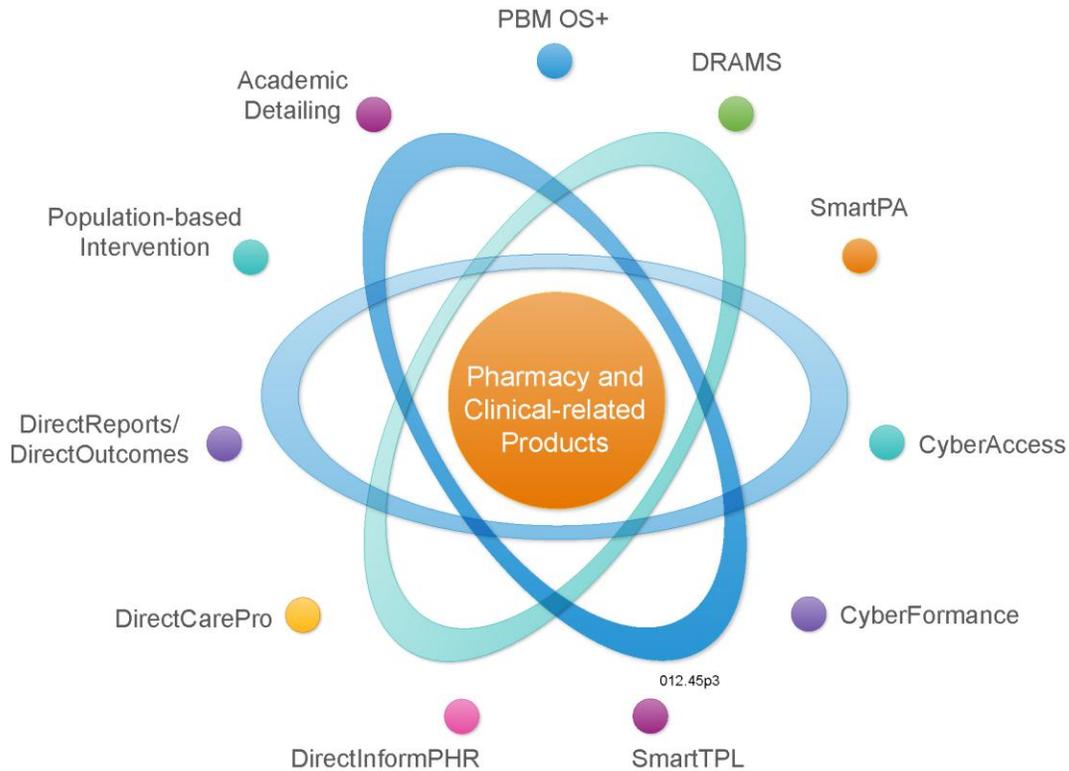


Exhibit B-3. Pharmacy and Clinical-Related Products

Xerox supports the entire prescription cycle, providing any combination of innovative solutions to suit clients' specific pharmacy benefit needs

Table B-1. Overview of Pharmacy and Clinical-Related Products	
PBM/Clinical-related Product	Description
PBM Open System Plus (PBM OS+)	For pharmacy claims/encounters processing, adjudication, and prospective drug utilization review (ProDUR), PBM OS+ has a service-oriented architecture (SOA), is MITA-aligned, and HIPAA and NCPDP D.0 compliant. In less than a second, PBM OS+ completely adjudicates claims/encounters submitted via point-of-sale (POS), paper, or batch—even on peak submission days such as the first of every month.
Drug Rebate Administration and Management System (DRAMS)	To support CMS, supplemental, State-only, and commercial rebate programs, DRAMS provides a powerful solution, including robust pre-invoice auditing, prevention of disputes before occurrence, accurate invoicing, and the ability to track all payments and changes down to the 11-digit National Drug Code (NDC) level. Our drug rebate solution includes RebateWeb, which is designed to provide a single point of entry for manufacturers and the AHS to exchange information such as invoices.

Table B-1. Overview of Pharmacy and Clinical-Related Products

PBM/Clinical-related Product	Description
SmartPA	Rules-driven, real-time, automated prior authorization (PA) solution that streamlines prior authorization processing by supporting preferred medication and prescribing guidelines for providers. Providers adhering to these guidelines receive real-time prior authorizations, reducing provider burden and expenses for payers.
CyberAccess	Provides access to three years of beneficiary medical and pharmacy data and allows prescribers to e-prescribe, submit prior authorization requests, check prior authorization status, and identify and receive patient care management alerts based on pharmacy program-approved best-practices guidelines.
CyberFormance	Provides clients increased ability to proactively manage their pharmacy programs and support drug utilization review (DUR) reporting functions. The comprehensive rules set, data analytics, and Web-based functionality provides the ability to “slice and dice” data and identify provider outliers and patient utilization. It also provides a means to create quarterly reports; patient and prescriber profiles; and prescriber, pharmacy, and patient communication materials within a single application.
SmartTPL	Streamlines and automates coordination of benefits with real-time capability to search, identify, and alert providers to other insurance coverage, allowing programs to emphasize cost avoidance as opposed to pay-and-chase, while reducing administrative burden for providers. Claims submitted to the correct payors on the first submission result in fewer unnecessary denials and submissions.
DirectInformPHR	Allows patients to securely access their personal health records (PHR) via the Web. The Web portal includes a suite of clinical, educational, and reporting tools for beneficiaries designed to improve long-term health and reduce medical expenditures. Patients can also use this tool to report medical device data and other personally reported clinical information that is shared with the CyberAccess provider portal.
DirectCAREPro	Leveraging the pharmacist-patient relationship, this medication therapy management (MTM) solution provides actionable, beneficiary-specific intervention recommendations to the dispensing pharmacist, allowing the pharmacist to conduct a meaningful clinical intervention with the beneficiary at the point-of service (POS).
DirectReports/ DirectOutcomes	Provides for advanced demographic, financial, general utilization, health risk analytics, and health outcomes reporting, and for advanced evidence-based RetroDUR reporting. RetroDUR clinical profile review services include the means to profile prescribers, beneficiary utilization, and pharmacists based on sophisticated clinical criteria to identify outliers.
Population-based Intervention	Communication vehicle that targets the physician’s behavior instead of an individual patient’s situation. This approach provides much more meaningful and actionable information to the prescriber, affecting the entire practice—not just one patient.
Academic Detailing	Our clinical rules engine analyzes claims data to identify providers with compliance issues or prescribing habits that are outside normal, best-practice procedures (outliers). Academic

MMIS Claims/Encounter System Experience

In addition to our PBMS experience, Xerox has been at the forefront in the design, development, and implementation (DD&I) of claims processing systems for Medicaid since 1970. Beginning with the establishment of the federal government standard for Medicaid Management Information System (MMIS) when we developed the general system design (GSD) of a prototype MMIS for the United States Department of Health, Education, and Welfare. Our experience includes MMIS DD&I, operations, system maintenance and modification, and enhancement. We have:

- Developed MMIS systems and turned them over for State administration
- Developed MMIS systems and operated them in our data centers and provided system maintenance/modification and enhancement in a fiscal agent (FA) environment
- Developed MMIS systems and operated them in our data centers and provided system maintenance/modification and enhancement in a facilities management (FM) environment
- Taken over existing MMIS systems and operated, maintained, modified, and enhanced them in an FA environment
- Developed Medical pharmacy claims systems and operated them in our data centers and provided system maintenance/modification and enhancement in an FA environment
- Developed claims processing systems for the United States Department of Labor (DOL) and operated them in our data centers and provided system maintenance/modification and enhancement in a third party administration (TPA) environment
- Developed claims processing systems for commercial behavioral health organizations and operated them in our data centers and provided system maintenance/modification and enhancement in a TPA environment

Primary Lines of Business Summary

Our commitment to the Medicaid market has led us to expand our offerings to address healthcare outcomes, care management, and cost containment where we work with our customers to create solutions that help to sustain their Medicaid programs for the future.

We focus on pioneering new and better ways to support Medicaid’s public healthcare programs—developing systems and business processes to improve access to care and healthcare outcomes while lowering the administrative cost and burden on our State customers. Table B-2 shows our broad range of experience and expertise in providing the requested services, **in addition to** pharmacy benefits management (PBM).

Table B-2. Xerox Government Healthcare Service Offerings		
Services	Description	Technology/Solution Advantage
Medicaid Management Information Systems (MMIS)	<ul style="list-style-type: none"> • Design, development, and implementation (DDI), including components such as: <ul style="list-style-type: none"> – Claims processing – Financial services – Prior authorization – Provider, recipient, surveillance and utilization review system (SURS) and management and administrative reporting subsystem (MARS) support – Third party liability (TPL) – Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) 	<p>Since 1971, Xerox has evolved our MMIS solutions to keep pace with and optimally support the business and technical requirements of our clients.</p> <p>Early in our history, we developed powerful, reliable mainframe systems; then developed the first truly multi-payer MMIS; and now offer our customers our MITA-aligned Health Enterprise solution, built “from the ground up” as a Web-based, services-oriented solution that derives its functional design and performance requirements from our best-in-class CMS-certified and operational MMIS solutions.</p>

Table B-2. Xerox Government Healthcare Service Offerings

Services	Description	Technology/Solution Advantage
	<ul style="list-style-type: none"> - Level of care • MMIS takeover, operation, and maintenance • Clinical claims editing • Web portal design and maintenance • Use of Xerox’s EDI Gateway (a HIPAA-compliant EDI translation and clearinghouse solution) and Xerox’s Interactive Marketing Hub • MITA framework 	<p>Health Enterprise—the most advanced solution available in the Medicaid marketplace and built exclusively for Medicaid and other state health programs. Benefits include:</p> <ul style="list-style-type: none"> • Simplicity • 21st Century Technology with SOA at the Core • Flexibility and Configurable Response to Change • Mature DDI and Project Management Methodology • Reliable Technical Infrastructure • ACA Compliance and Fraud/Abuse Deterrence • Exceptional Customer Service • Accountability and Contract Management
Fiscal Agent Services (FAS)	<ul style="list-style-type: none"> • Full Medicaid FAS • Claims processing and suspense resolution • Provider services • Finance, including accounts payable • Recipient ID card production • Electronic data interchange (EDI) • Web portal support services • Call center and contact management • TPL services • Data entry and mailroom services • Printing and postage • Medical exception process • Utilization management • EPSDT support services 	<p>Enables the client to focus on its members while we administer an operation that improves program efficiencies, cuts costs, eliminates waste, and enables delivery of high quality service.</p> <p>Xerox’s clients can focus their energies on program development, management, and optimization with confidence that fiscal agent operations effectively support business needs. We employ best-in-class commercial-off-the-shelf (COTS) products as applicable to support operational functions and processes.</p> <p>Xerox delivers unprecedented transparency and access to all contract operations and data.</p> <p>Our automated and manual processes fully comply with state and federal provisions governing confidentiality of data, including reporting requirements.</p>
Health Information Analytics and Reporting	<ul style="list-style-type: none"> • Consulting • Disease and care management support • Clinical tools • Predictive modeling • Decision support/data warehousing 	<p>Enables our clients to leverage our healthcare program knowledge and systems integration and data warehousing technology solutions into creating a system that turns patient-specific claims, lab, and health risk appraisal into actionable information, enabling healthcare providers to make decisions faster</p> <p>Xerox combines healthcare program knowledge with systems integration and data warehousing expertise to provide powerful solutions that turn patient-specific claims, lab, and health risk appraisal into actionable information.</p>

Table B-2. Xerox Government Healthcare Service Offerings		
Services	Description	Technology/Solution Advantage
Payment Method Development (PMD)	<ul style="list-style-type: none"> Review of payment methods to identify potential new methodologies Identification of areas for cost savings Specialized in understanding standards industry payment methods and fee schedules 	Xerox uses our knowledge of all payment methodologies combined with state-specific payment reviews and a portfolio of technology tools to improve payment methodologies and increase cost savings.
Primary Care Case Management (PCCM)	<ul style="list-style-type: none"> Providing management and technical services in support of State-managed care programs <ul style="list-style-type: none"> Contracting with health plans Overseeing performance New program development 	Provides our clients with the expertise and resources to improve the quality of managed care programs, backed by more than 30 years of experience in managed care program design and development, and large-scale PCCM operations
Healthcare Eligibility and Enrollment Services/Health Benefits Management	<ul style="list-style-type: none"> Children's Health Insurance Program (CHIP) administration Medicaid and CHIP enrollment broker services Medicaid and CHIP eligibility determination Premium/billing management services Managed care program design, roll-out, and administration Managed care enrollment Primary care case management (PCCM) Contracting with health plans Overseeing performance New program development Long term care (LTC) Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) 	<p>Measurably improves the performance of eligibility services with repeatable processes Xerox has used over the past 25 years.</p> <p>Xerox has more than 25 years of eligibility and enrollment services expertise. Annually, we enroll hundreds of thousands of applicants into Medicaid managed care and CHIP programs. Our scalable operational and technical solutions help to maximize and maintain voluntary enrollments, improve customer service, and increase efficiency while minimizing program costs.</p>
Health Information Technology (HIT)	<ul style="list-style-type: none"> Integration of administrative claims data Integration of data from labs, pharmacy switch vendors, electronic medical records, health risk assessments, immunization systems, vital statistics, predictive models, and other disparate healthcare data sources Interfaces with electronic medical record (EMR) solutions, new or aging technologies, architectural platforms, and more Decision support services (DSS) and data warehouse (DW) technology: <ul style="list-style-type: none"> Decision support Fraud protection Surveillance utilization review (SUR) solutions 	Our proprietary patient data hub provides the technical foundation that allows for the seamless integration of our pharmacy and clinical products and assists our clients in transitioning to an e-healthcare environment that transforms how clients and providers administer and provide care to their constituent populations.

Table B-2. Xerox Government Healthcare Service Offerings

Services	Description	Technology/Solution Advantage
Health Information Exchange (HIE)/Electronic Health Records (EHR)	<ul style="list-style-type: none"> • Infrastructure for accessing patient data • Actionable point-of-care information • Alerts, notifications, and gaps-in-care identifications • e-Prescribing • Real-time clinical algorithms 	<p>Enables our clients to potentially integrate their administrative claims data, as well as data from labs, pharmacy switch vendors, electronic medical records (EMR), health risk assessments, immunization systems, vital statistics, predictive models, and other disparate healthcare data sources with our proprietary patient data hub-based HIE/EHR solutions, enabling the faster exchange of information.</p>
Health Insurance Exchanges (HIX)	<ul style="list-style-type: none"> • Proactive outreach and retention of consumers, providers, employers, carriers, and stakeholders • Shop-and-compare services • Premium billing, processing, collection, aggregation, and remittance • 24/7 multilingual customer care • Complaints, grievances, appeals, and fair hearing support • Consumer satisfaction monitoring • Objective health plan quality review and compliance reporting • Data analytics and actuarial support • Incorporation of tax credits and subsidies in cost calculations • Ongoing on-line and live customer support for life event changes to coverage throughout the coverage year 	<p>Our end-to-end solution allows for one-stop shopping. Our Web portal is a marketplace that state citizens can use to determine their eligibility, estimate and compare costs, get plan and provider information, and choose and apply for the right coverage.</p>
Fraud and Abuse Prevention/Detection	<ul style="list-style-type: none"> • Prevention and retrospective detection • Prepayment identification and denial • Claims analysis and auditing • Network provider audits • Data warehouse-based surveillance • Peer group analysis • Recipient characteristics comparisons 	<p>Enables our experts to provide results-oriented support to our clients in identifying, detecting, and preventing waste, abuse, and fraud.</p> <p>Xerox provides comprehensive waste, fraud, and abuse management services to combat the full spectrum of fraud schemes and healthcare abuse.</p> <p>Integrated advanced tools and experienced experts provide results-oriented support to assist clients in identifying, detecting, and preventing waste, abuse, and fraud in Medicaid and other healthcare programs.</p>
Data Warehouse (DW)/Decision Support Services (DSS) Technology	<ul style="list-style-type: none"> • Decision support • Fraud protection • Surveillance utilization review solutions 	<p>Xerox's in-depth experience with DW/DSS technology results in the capture of all available data necessary to meet our clients' specific requirements; it further allows for the generation of meaningful reports that strongly support executive decision-making.</p>

Table B-2. Xerox Government Healthcare Service Offerings

Services	Description	Technology/Solution Advantage
Call Center Services	<ul style="list-style-type: none"> • Call Center services for the following programs: <ul style="list-style-type: none"> – Medicaid – Medicare – Children’s Health Insurance Program (CHIP) – Enrollment broker – Workers’ compensation – Health maintenance organization (HMO) – Use of Xerox’s CallSimplicity and Xerox’s Transactional Content Manager (XTCM) electronic document management system 	<p>Xerox operates 27 customer service call centers nationally that provide customer services to program providers, constituents, and other stakeholders.</p> <p>Our pharmacy call centers are variously staffed with customer service agents, pharmacy technicians, and licensed pharmacists, depending on client requirements.</p>
Long-Term Care (LTC) and Home and Community-based Services (HCBS)	<ul style="list-style-type: none"> • Automated level-of-care assessments • Individual service plan (ISP) development • Provider credentialing • Secure incident reporting systems • Standardized reporting tools and procedures • Fee schedule implementation, monitoring, and automated reconciliation • Visit verification systems • LTSS policy and program development • LTSS statewide assessments and provider site reviews • HCBS service authorizations • Pre-Admission Screening and Resident Review (PASRR) determinations • Level of care (LOC) determinations • Assessments • Consumer directed service administration 	<p>Our long-term care and HCBS solutions scale to meet any need, from establishing care and service plans to credentialing and making payments. By streamlining and integrating processes, we help clients realize cost savings and administrative efficiencies, while improving members’ independence and quality of life.</p>
Care Management/ Care Coordination/ Disease Management	<ul style="list-style-type: none"> • Suite of modeling, profiling, benchmarking, reporting, and health risk prediction tools • Identification of recipients • Assessment of levels of care • Identification of gaps in care • Clinical quality outcomes reports • Utilization and care management • Wellness and preventive care program support • Targeted interventions and messaging • Workers’ compensation program care/case management 	<p>We use clinical expertise and a portfolio of technology tools, including SmartPA, our automated prior authorization solution, to improve healthcare delivery and quality, promote medical best practices, and reduce costs.</p> <p>Xerox is one of two companies that hold URAC certifications for utilization management, case management, disease management, and workers’ compensation case management. Xerox secured designation as a Quality Improvement Organization (QIO)-like entity under 1902(a)(30)(A) of the Social Security Act.</p>

Table B-2. Xerox Government Healthcare Service Offerings		
Services	Description	Technology/Solution Advantage
State Level Registry (SLR)	<ul style="list-style-type: none"> • Multi-State software-as-a-service (SaaS) solution that supports: <ul style="list-style-type: none"> – Incentive payment administration – Program oversight and auditing – Tracking meaningful use – Pursuit of initiatives to encourage the adoption of certified electronic health records (EHR) technology, including provider outreach and training – Web-based solution that allows interaction with the CMS Registration and Attestation system, providers, and other State systems • Business support staffing services for administrative processing of provider attestations 	Provides our clients with a solution to support the new requirements for Adopt, Implement, Upgrade (AIU), meaningful use, and incentive payments offered by the American Recovery and Reinvestment (ARRA) Health Information Technology for Economic and Clinical Health (HITECH) Act, and meeting key goals of administering incentive payments, conducting oversight and auditing of the program, tracking meaningful use, and pursuing initiatives to encourage adoption of certified EHR technology.

2.2 Vendor’s Understanding of Medicaid and Medicaid Pharmacy Operations

Instructions: Describe the Vendor’s understanding of Medicaid, Medicaid pharmacy operations, and the State of Vermont’s Medicaid pharmacy operations. Discuss the Vendor’s strategies and areas of focus related to this service. Discuss key trends affecting Pharmacy Benefits Management in the next three to five years and how this perspective will translate into benefits for Vermont.

2.2.1 Understanding of Medicaid and Medicaid Pharmacy Operations

An Overview of Our Medicaid Experience

Xerox brings a proven history of providing innovative healthcare program technology, administration, and management solutions to government healthcare clients nationwide—spanning more than four decades that includes more than 20 years providing pharmacy technology and services. We are able to translate complex State and federal policy into systems and operational processes and we respond quickly, responsibly, and knowledgeable to evolving policy and program needs. Our longevity in Medicaid and other government-funded healthcare programs allows for a proactive relationship with States in addressing their current objectives, as well as potential future program changes and needs.

Pharmacy Benefits Management (PBM)

Section 2.1 of this proposal, describes the bidding entity’s corporate background as it relates to projects similar in scope and complexity to the project described in this RFP.

Xerox’s corporate skills and background demonstrate a foundational knowledge of Medicaid combined with the extensive experience and expertise in prescription/pharmacy benefits management (PBM)

necessary to provide the pharmacy operations and technical services required under the Vermont PBM Solution DDI project contract and more.

Medicaid Management Information System (MMIS)/Fiscal Agent Services (FAS)

Our commitment to helping States improve their healthcare programs is seen in the significant resources we have invested in developing our customizable MMIS solution and broad array of FAS. Xerox has been providing MMIS solutions since 1971 and FAS to our State government clients since 1982. We provide PBM services as integrated components of our MMIS/FA contracts in 10 states that would include Alaska (via a subcontractor), and we are currently implementing our PBM solution as part of our Health Enterprise MMIS deployment currently in progress in North Dakota for State administration.

Our MMIS solutions are designed to serve Medicaid's evolving policy and system requirements, providing States a system flexible enough to address the unknowns of tomorrow, while achieving current Medicaid goals. Our solution is based on our national healthcare experience and client demands for an MMIS with the flexibility to easily modify program rules without the need for constant, costly change orders to meet new State and federal policies and reforms. We have evolved our MMIS solutions over many years to keep pace with (and optimally support) the business and technical requirements of our Medicaid clients since creating the first MMIS to support Title XIX requirements in 1971.

Throughout our more than 27 years of providing FAS, we have acquired a deep understanding of the policies and priorities that are vital to the successful operation of State programs, and have developed the broadest range of program administration, services, and systems in the market today. As a fiscal agent, we serve as a trusted advisor to our Medicaid customers, helping them to employ best practices, to improve processes, and to gain cost efficiencies. Our breadth of experience includes the following areas:

- Program administration
- Pharmacy benefits management (PBM)
- Customer service
- Web portal support
- Claims administration
- Benefit plan and related maintenance
- Care and therapeutic management
- Data warehouse administration

Xerox is currently performing design, development, and implementation for MMIS systems in five states, and operating as fiscal agent in 11 states and the District of Columbia.

Managed Care

Xerox brings an extensive national Medicaid managed care experience and core strength in primary care case management (PCCM) program administration. More than 30 years ago, we were a principal contractor to the Federal government in fostering the Medicaid managed care service delivery model across the nation and pioneered managed care program design and development. We have assisted numerous Medicaid and other State agencies in designing and developing, or expanding and rolling out, their managed care initiatives through capitated models. We have worked with multiple managed care organizations and plans, and our MMIS systems are designed to accept and edit encounter data from

multiple sources. Additionally, we have assisted providers in their efforts to function successfully under more complex forms of managed care, including capitated-funding arrangements. We offer our clients a record of dependable service and verifiable achievements in developing and maintaining high-quality networks of participating primary care providers, which is exemplified by our administration of the Texas Medicaid; Louisiana, Rhode Island PCCM; and Georgia Family Managed Care programs.

Health Information Technology (HIT)/Health Information Exchange (HIE)

Xerox brings more than nine years of health information exchange (HIE), electronic health records (EHR), and personal health record (PHR) experience to position States to take full advantage of current health information technology (HIT) and HIE capabilities.

Our solution is one of the most comprehensive HIE/EHR/PHR solutions available in the market today, creating a return on investment (ROI) for our customers while providing meaningful health management services for physicians and beneficiaries. 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.

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.

Exhibit B-4 illustrates the range of healthcare services we provide across the United States to many State governments—our core constituency—in addition to pharmacy benefits management.

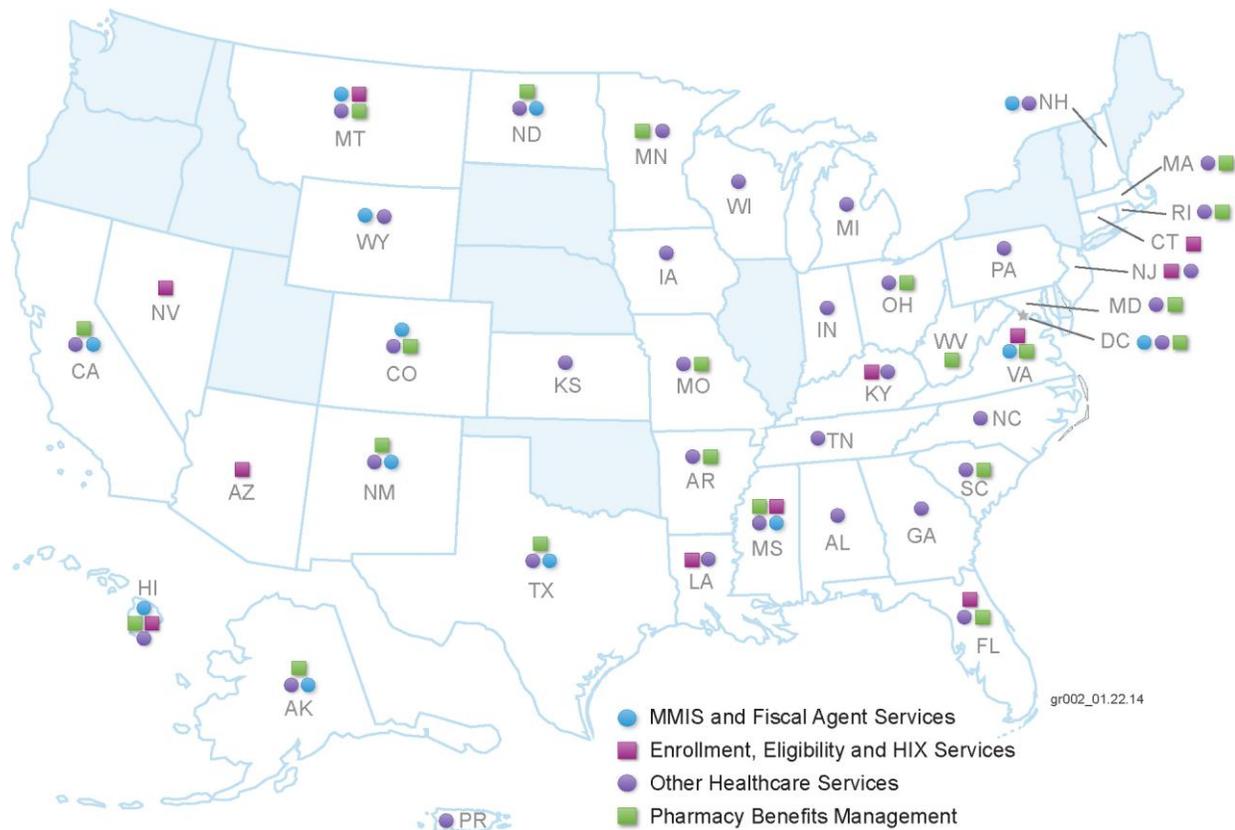


Exhibit B-4. Nationwide Healthcare Experience

The AHS benefits from the broad understanding and practical knowledge Xerox gains from providing a wide range of healthcare services to State customers nationwide.

An Overview of Our Other Public Healthcare Experience

Xerox serves as a third party administrator for the Office of Workers’ Compensation Programs (OWCP) under the U.S. Department of Labor (DOL). We provide medical and pharmacy claims adjudication services and support for the following programs:

- The Federal Employees’ Compensation Act (FECA) Program
- The Black Lung Benefits Act Program administered by the Division of Coal Mine Workers’ Compensation (DCMWC)
- The Energy Employees Occupational Illness Compensation Program (EEOICP)

Healthcare Payer Division

Xerox also provides a full spectrum of services to health plans and administrators across many lines of business, through our Healthcare Payer Division. Our services include: dental, disability, Family and Medical Leave Act (FMLA), Family Support Agency (FSA), Health Savings Account (HAS), long-term care, medical, pharmacy, vision, and workers’ compensation.

More than 100 payer organizations are supported by Xerox, including most of the nationals, Blue Cross Blue Shield (BCBS) organizations, and the majority of the large regional plans. Nearly two-thirds of the United States’ insured population is touched by our services as noted in the following statistics:

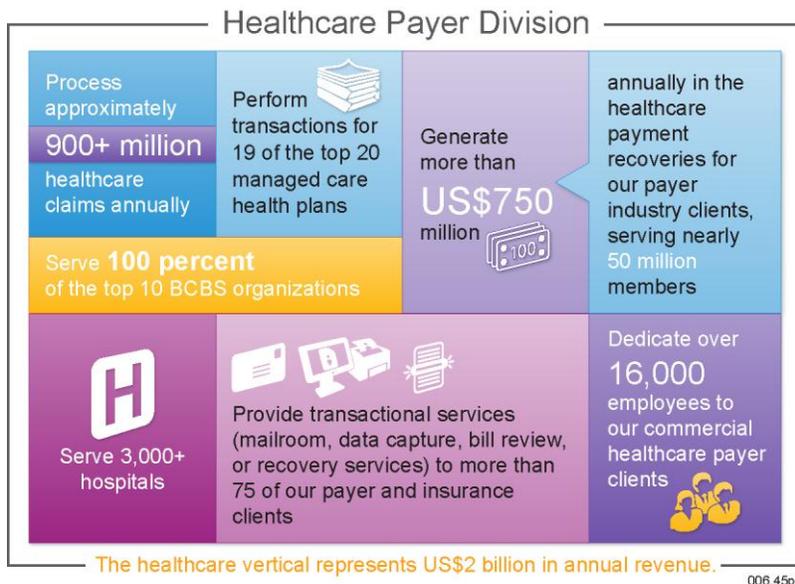


Exhibit B-5. Xerox’s Health Payer Division

Our experience also includes partnerships with industry leaders such as:

- Aetna
- Blue Cross Blue Shield of Florida
- Blue Cross Blue Shield of Georgia (Wellpoint)
- Council for Affordable Quality Healthcare (CAQH)
- Humana Puerto Rico
- Humana
- Independence Blue Cross (IBC Communications)
- Medco
- MetLife (Disability, CRISP)
- United Health Group
- Universal American (UAM)
- Wageworks
- WellPoint, Inc.

Through the knowledge and extensive resources Xerox has acquired over the years, we are able to provide AHS with intuitive guidance and effective solutions to improve every aspect of its PBM program.

2.2.2 Understanding of Vermont's Medicaid Pharmacy Operations



The core purpose of the Agency of Human Services can be stated simply: we exist to help every Vermonter who needs help, we strive to protect our most vulnerable citizens, and we hope to assist every individual to develop to their fullest potential. To that end, in February 2000, the Governors of Maine, New Hampshire, and Vermont met to discuss the health and insurance-related issues that were being experienced by their states. In the course of that discussion, it was clear that all three states were experiencing rapidly rising prescription drug use and expense in their publicly administered programs and that there was a common interest in better management of this benefit area. The result was the Tri-State Pharmacy Initiative.

Since that time all three states have utilized pharmacy benefit manager (PBM) services to provide necessary expertise in maintaining and enhancing quality of care; controlling pharmacy expenditures; and reducing state administrative costs through collective procurement for states.

The Vermont Health Access PBM Program includes Maximum Acquisition Cost (MAC) pricing; prior authorization (PA) requirements; application of the generic drug requirements authorized by the Vermont General Assembly's Budget Act of 2002; messaging at the pharmacy point of sale during drug claims processing; prospective and retrospective drug utilization review (DUR); and a preferred drug list (PDL).

The PDL is a key feature in the Vermont pharmacy best practices and cost control program authorized by the State Fiscal Year 2002 Budget Act and Act 127 in 2002. The PDL identifies drugs that are clinically effective, but less costly. If a drug is not listed as "preferred" in a particular category on the PDL, it requires Prior Authorization in order for the drug to be covered.

The first phases of the Vermont Health Access PBM Program were implemented in November 2001. Prior to the PBM program, Vermont only required prior authorization on a limited number of drugs for clinical reasons. Starting in March 2002, the first iteration of the PDL was completed, with PA required for any drug not identified as "Preferred" in identified PDL classes. Starting on September 30, 2002, additional classes were systematically rolled out through December 9, 2002.

In the spring of 2003 Vermont joined a multi-state Medicaid pooling initiative that made possible combining the purchasing power of Vermont with other states in negotiating supplemental rebates with pharmaceutical companies. Since then, changes have been applied to the PDL to reflect new and/or more economically priced clinical options.

Vermont became a member the Sovereign States Drug Consortium (SSDC) in the fall of 2005. The SSDC is a Medicaid pool currently consisting of Iowa, Maine, and Vermont. Through the SSDC, Vermont plans to continue to see opportunities to contain costs in its PBM program.

As Vermont moves forward with its vision for a single payer system for Medicaid and Medicare—something no other state has attempted—it needs an innovative partner to help it achieve its vision.

Xerox’s proposed solutions are in support of the Agency’s goals of the Vermont Health Access Pharmacy Benefit Management Program to “assure the availability of clinically appropriate medication services, and to do so at the most reasonable cost possible”

In a single payer system, both the collection of funds and the reimbursement are the responsibility of one entity: the State of Vermont. The economic argument for single payer is twofold. First, single payer will save money by reducing administrative costs. Second, and more importantly, single payer greatly facilitates cost control because of its centralized administration.

The Vermont Health Care for All: ‘Everybody In, Nobody Out’ single-payer healthcare program will be fully operational by 2017, and will be funded through Medicare, Medicaid, federal money for the ACA given to the State, and a slight increase in taxes.

Xerox’s high level of PBM, Medicaid, and healthcare understanding and hands-on experience makes us the ideal contractor to support the Agency as it proceeds with its vision for the new single payer system with integrated pharmacy benefits management.

2.2.3 PBM Strategies and Areas of Focus

Discuss the Vendor's strategies and areas of focus related to this service. Discuss key trends affecting Pharmacy Benefits Management in the next three to five years and how this perspective will translate into benefits for Vermont.

Our extensive experience in the PBM market enables Xerox to share and recommend best practices that have proven successful across our PBM accounts nationwide, while continually tailoring our solution to meet the specific requirements of a state’s PBM program requirement.

Xerox’s strategy and areas of focus are in support and aligned with the Agency’s stated Operational Strategies for the Vermont Health Access Pharmacy Benefit Management Program as outlined below. Some of our areas of focus include:

- Claims Processing
- Benefit Design
- Utilization Management
- PDL Management
- Rebate Management
- Reimbursement Management

Managing and processing claims

Xerox is an experienced PBM vendor that understands all operational activities required to support comprehensive pharmacy programs. Today, we are the PBM for two of the three largest Medicaid programs in the country—California and Texas—as well as 21 other agencies across the country. As the nation’s leading PBM for government programs, we have attained a level of understanding and hands-on experience that is unequaled in the industry.

Operation of a POS Claims Processing System

PBM OS+, Xerox's pharmacy claims processing solution, streamlines the claims adjudication process while expanding its capabilities to include processing and reimbursement for clinical services such as medical therapy management (MTM) and immunizations. The system consists of hardware and software that provides real-time claims adjudication of NCPDP-compliant pharmacy claims received via a switching network that connects pharmacies to the system. We start by validating claims data for appropriate format and values and verifying provider participation and beneficiary eligibility, then applying a series of table-driven rules to ensure appropriate dispensing, accurate pricing, and a useful response to providers. The system evaluates the claim against comprehensive ProDUR edits (including drug-drug interactions, therapeutic duplication, and incorrect dosage). Adjudication seamlessly integrates preferred drug lists (PDLs) and automated clinical and business rules, promoting prescribing compliance with evidence-based decisions. We instantly alert providers with messages about potentially adverse interactions, ensuring beneficiaries receive the safest therapies.

PBM OS+ has many features designed to automate processes and accommodate program policies with minimal effort, such as allowing authorized users access to Web pages to perform queries and update data. Another example is our automated prior authorization (PA) solution, SmartPA™, which seamlessly integrates into the PBM OS+ claims adjudication process and virtually eliminates the need for prescribers to submit PA requests for the majority of drugs requiring review prior to approval and payment. SmartPA automatically applies complex clinical and fiscal criteria during POS adjudication according to DVHA's PA edit criteria. This automated process for utilization management enables expanded PA use, providing improved clinical efficacy and reducing program costs.

PBM OS+ can easily accommodate a wide variety of claims adjudication requirements, including processing for 340B eligible drugs and durable medical equipment (DME) claims, through the setting of system parameters via user-friendly Web pages. Policy changes can be made quickly and efficiently and in many cases without programmer intervention.

Performance, reliability, and functional capabilities make PBM OS+ the ideal solution for claims adjudication needs. The system processes claims in less than one second and is capable of processing extremely high peak volumes while maintaining clinical and functional integrity. The superior design of PBM OS+ has allowed Xerox to avoid extended downtimes, response delays, and functional inadequacies that can plague other pharmacy systems.

Xerox's PBM system is a standalone point of sale (POS) system that meets all federal requirements, aligns with Medicaid Information Technology Architecture (MITA) principles for interoperability, and functions independently of any particular Medicaid Management Information System (MMIS) solution.

Managing Benefit Design

PBM OS+ maintains unique benefit plans that define coverage. Each beneficiary is assigned to a plan or multiple plans. PBM OS+ uses the benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan.

Monitoring and Managing Utilization through Retrospective and Prospective Drug Utilization Review and Other Utilization Management Programs and Initiatives

Drug Utilization Review (DUR) solutions from Xerox promote clinical safety, therapeutic efficacy, and appropriate drug use more efficiently. Our online prospective review (ProDUR) solution reviews and analyzes prescriptions in real time against predetermined clinical criteria. Our retrospective review (RetroDUR) programs monitor sub-optimal therapies and provide the basis for population-based interventions. Both DUR approaches improve care quality and the population's health while saving valuable resources

ProDUR. Our ProDUR solution uses a parameter-driven Web-based interface which allows edits to be modified quickly and simply, with no programming experience required. Further, our solution supports the ability to create customized therapeutic categories and groups within program edits, which target specific population issues and treat them more efficiently.

PBM OS+ uses First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus) as the source for therapeutic criteria to support the OBRA '90 guidelines for ProDUR editing. FDB's clinical modules contain information on thousands of drug interactions, age and disease contraindications, and dosing and length of therapy limitations. Using FDB's reference data as a starting point, DVHA can review criteria and severity indexing, and then modify and update the ProDUR data and rules as necessary

The system's ProDUR process searches beneficiary history and claims data for possible conflicts and identifies problems such as drug-to-drug interactions, therapeutic duplication, incorrect dosage, or inappropriate duration of treatment. PBM OS+ formats messages to provide precise conflict and alert information which the dispensing pharmacist uses to determine whether the prescription should be dispensed.

RetroDUR. We control costs over the long term with population-based RetroDUR interventions. Our program educates prescribers in treating patients according to best practices and PDL guidelines. Rather than focusing on individual cases, our clinical analytics review and analyze a population's medical and pharmacy issues (including mental health and specialty medications) to easily trace sub-optimal therapy sources.

Available over a secure portal, the Xerox CyberFormance Toolkit allows clients to examine drug expenditures and cost trends according to a variety of user-defined parameters. The Business PlanFormance and Physician Web Ranking components examine drug utilization throughout the program. This flexible reporting system allows the user to view cost and utilization data by total program, by therapeutic category, by drug, or by drug form.

Improved Outcomes. We help prescribers identify appropriate, cost-effective medications and reduce the potential for costly medical errors and miscommunication – all without extra administrative burdens. For example, using ProDUR edits, we have saved one state client an average of over 17 percent annually since 2006; we have also saved Maryland 10.5 percent since 2007. In other examples, we have saved Texas Medicaid more than \$45 million by implementing an innovative and customized RetroDUR program.

Evaluating New-to-Market Drug and Preferred Drug List Placement

Xerox offers broad experience with the design, implementation, and ongoing administration of PDL programs, including clinical analyses of drug products, communication with the provider community, and processing of requests for PA of non-preferred drugs. We have supported PDL development for Medicaid programs in Ohio, Tennessee, and Indiana and managed the claims operations of the PDL in states such as Colorado. By working with Xerox, the State of Vermont benefits from our clinical knowledge and experience, as well as demonstrated expertise in negotiating supplemental rebates with manufacturers.

We approach the process of PDL development with the State's best interests in mind. We offer complete independence from drug manufacturers, wholesalers, or other parties that may seek to influence prescribing and utilization patterns. Xerox does not operate a commercial rebate program that would compromise this process or create potential conflicts of interest.

We provide clinical services to pharmacy programs across the country and have the staff and expertise to develop a formulary for Vermont.

Procuring Supplemental Rebates on Drugs Used

Xerox provides the integrated systems, efficient processes, and insightful reporting needed to manage a drug rebate program effectively. At its core, Xerox's Drug Rebate Analysis and Management System (DRAMS), which provides flexible drug rebate program functionality for federal, supplemental, and state-only programs. DRAMS eliminates manual unit rate calculations, unit-of-measure conversions, and any quarterly ad-hoc updates that may occur during the quarterly rebate invoice and collection cycle. By offering these automated capabilities, in addition to allocating collected labeler amounts and generating government-mandated reports, DRAMS releases rebate staff to work with labelers, manage invoiced disputes, and analyze rebate results that are needed to manage the rebate programs and remain in compliance with federal regulations and other program-specific requirements.

Our experience at managing drug rebates and rebate administration systems, developing Preferred Drug Lists, and negotiating supplemental rebate agreements provides the additional leverage that can maximize the value of the rebate program. Our rebate staff supported by DRAMS has addressed many complex rebate program needs across the country. We follow all federal and state requirements and employ standard industry processes to provide the application or administrative services for any combination of service or rebate models.

Being an effective partner requires more than following regulations. Between 1999 and 2010, we invoiced more than \$6.5 billion for 13 drug rebate programs. We draw on this experience to achieve cost-effective rebate administration. Key features of our solution include:

Data integration. From CMS, we load manufacturer data and unit rebate amount data. From our PBM OS+, we load paid pharmacy claims data, physician-administered drug data, provider data, and drug pricing data. DRAMS also supports the importing of J-code claims and incorporates that additional drug usage into the invoice cycle. User-friendly menus and navigation allow easy access to this data. Historical data is viewed through the rebate display pages, which allow the user to view claim, provider, national drug code (NDC), invoice, check, and calculated unit rebate amount (URA) information. By placing all data at the users' fingertips, we enable them to manage the entire rebate cycle more efficiently. This integration lowers program costs and improves rebate return.

Proven processes. DRAMS follows standard audit practices and controls to ensure accurate and timely invoices for a pharmacy program. We compile paid claims data and combine it with CMS-supplied or contractually determined unit rebate amounts to provide complete, accurate invoices to participating drug labelers. Using client-defined parameters, our solution automates business rules to audit claims and invoices. This enables the execution of timely and accurate invoices while reducing the likelihood of disputes. Every invoice can be traced back to the supporting claim information that drives the invoice; every collected amount can be traced to the underlying invoice through any adjustment or allocation. These proven processes allow our rebate team to achieve timely collections and reporting of rebateable claims.

RebateWeb. Our RebateWeb portal simplifies work for drug manufacturers. RebateWeb is a proprietary data exchange portal that was developed as an extension to DRAMS to serve as the manufacturers' portal. A system-generated email is sent to manufacturers informing them that they have one or more invoices ready for viewing or downloading. Registered manufacturers use RebateWeb to access invoice information, upload electronic payment reconciliation data, and establish/resolve disputes at the national drug code (NDC) or invoice level.

Reporting. Rebates contribute substantial additional funding to most pharmacy programs. Therefore, DRAMS provides reporting and analytics that align with CMS standards and deliver key information needed to evaluate drug rebate programs' financial performance. Our solutions include a variety of standard reports developed in consultation with our state clients, including reports that allow the user to view paid and unpaid invoices, amounts in dispute, allocated and unallocated payments, source claims data, and many other detailed reports that support critical program monitoring.

With our drug rebate administration solutions, DVHA can streamline drug rebate processing and reduce labor costs and turnaround time for receiving rebate payments. Invoices are more accurate which decreases labeler disputes and increases collection velocity. For example, we assumed responsibility for the District of Columbia's drug rebate administration in 2002 and, by 2006, rebate collections increased 54 percent.

Managing Reimbursement

Claims payment activities describe the chain of events for paying dispensing pharmacies and reporting the allocated results to the various funding sources. This includes remittance advice/reimbursements, claims payment, accounts payable, accounts receivable and program budget management as well as the necessary audit controls that securely monitor all processing.

Remittance Advice (RA)

The RA is the primary means of providing disbursement information to the pharmacy community regarding claims payment activity. The RA includes a summary of a pharmacy's claims and financial activity completed for the time period covered by the payment cycle, providing pharmacies with information necessary to reconcile their accounts receivable.

The preparation of the RAs begins with the execution of the PBM OS+ preliminary payment process which determines the pharmacies' payment amounts; PBM OS+ can produce reports and check registers for review if desired. Upon approval to proceed, Xerox generates and distributes the RAs to pharmacies

that have claims activity during the timeframe covered by the payment cycle and in support of the paid amount. When pharmacies enroll in the program, they specify how they prefer to receive RAs: electronic 835s, paper, or both. Payments can be made to individual locations, “pay-to” third parties, or a consolidated/corporate location.

X12N 835s. The system builds the Health Insurance Portability and Accountability Act (HIPAA)-compliant X12N 835 transactions based on the standard ASC X12N transaction set and uses HIPAA-compliant RA reason and remark codes as well as messages for each denied and paid claim reported. The RAs contain confidential information and personal health information (PHI). Therefore, Xerox secures the distribution of these documents through a secure electronic gateway.

Paper RA. The system provides similar detailed information with the proprietary explanation of benefits (EOB) on the paper RA, allowing pharmacies to effectively understand how their claims processed and take action on their claims as appropriate. The EOBs present information in non-technical language that is understandable to pharmacies.

Reimbursements

Adjudicated claims, reversals, and adjustments are passed to the automated payment cycle where a preliminary payment amount is computed for each pharmacy based upon a summary of the claims’ reimbursement amounts computed during adjudication. After the preliminary payment process completes, our staff scrutinizes the payment cycle’s registers and reports and identifies any aberrant payments. Upon completion of our review, we submit checks and electronic funds transfer (EFT) or mailed payment registers as required by DVHA. Upon approval, we disburse the funds as either paper checks or EFT.

Paper checks. The payment cycle produces a check register identifying the checks to be produced with the check date. We review the check register and confirm the bank account balance for sufficient funds. Checks are printed in a secure facility and stuffed into envelopes for mailing. The sensitive nature of checks and check stock requires proven and reliable security protocols that we currently use with success on other accounts.

Electronic funds transfer. EFT technology provides funds transmission electronically through Automated Clearing House (ACH) funds transfers to pharmacies, allowing them to receive payments more quickly and avoiding the risks involved with mailing checks, such as lost mail, theft, and forgery. EFT transactions are created as part of the payment cycle and are transferred to the disbursing bank at the conclusion of the processing cycle.

Claims Payment

Claims payment amounts are calculated using pricing parameters that are rules-driven and allow the user to define pricing at a variety of levels. The system can assign pricing rules to specific categories such as compound drugs, diabetic supplies, or generic drugs and use the system list functionality to further specify details such as provider or claim type. The pricing section can also define benefit maximums such as a copay maximum, spend-down amount, or maximum benefit for beneficiaries or specifically for Medicare Part D claims.

PBM OS+ uses the following price types in its custom methodologies to determine the appropriate reimbursement to a dispensing pharmacy within the regulatory guidance of DVHA: Average wholesale

price (AWP), Estimated acquisition cost (EAC), Direct price, State maximum allowable cost (SMAC), Federal MAC (or federal upper limit [FUL]), Medicaid AWP (MCD), Submitted cost, Suggested wholesale price (SWP) and Wholesale acquisition cost (WAC). This list is a sample of base amounts available and authorized users can define pricing at many other levels as dictated by their business needs.

Accounts Payable and Receivable

The system performs accounts receivable processing by applying original claims, adjustments, credits, and financial transactions to the current balances stored in the system. If the pharmacy's payment results in an overall positive amount, the system applies all or a portion of the payment amount to any outstanding pharmacy accounts receivable balances. If the pharmacy's net payment amount for the payment cycle is negative and no current accounts receivable exists, an accounts receivable transaction is automatically established for that pharmacy.

The payment cycle produces financial reports to provide an audit trail of claims and transactions included in the payment cycle. These reports include a payment summary that displays the total applied to account receivables and an invoice for the total amount to be paid in the payment cycle, which creates an accounts payable for the cycle.

Responding to Change

Xerox has decades of experience bringing integrated pharmacy solutions to state governments and is one of the most experienced operational PBM service providers in the marketplace. Our longevity in Medicaid and other government-funded healthcare programs allows for a proactive relationship with DVHA to address potential future changes. We translate complex state and federal policy into systems and operational processes, and we respond quickly, responsibly, and knowledgeably to evolving policy and program needs.

DVHA benefits from a contractor whose account, operational and clinical teams are well qualified for its roles by virtue of previous experience providing expertise for other Medicaid programs. The members of the Xerox team have worked extensively on pharmacy point of sale, rebate management, benefit design and clinical management services for other government healthcare programs. Xerox has vast experience in developing recommendations that improve operational, clinical, programmatic processes and quality of care for Medicaid programs. Each member fully understands the importance of maintaining program compliance with all applicable governmental and industry requirements. Perhaps more importantly, each has demonstrated his or her ability to consistently meet expectations, often going above and beyond to ensure our clients' goals and expectations have been met.

Trends

In 2014, prescription drug spending growth is expected to increase faster than in the absence of the ACA, due primarily to increased prescription drug use by the newly insured.

For 2015 to 2021, the diminishing impact of patent expirations and increasing use of specialty medications are expected to drive drug spending growth. Less than 1% of prescriptions filled in 2012 were for specialty medications, yet they accounted for 25% of total prescription drug expenditures. By 2019 or 2020, specialty medications are expected to represent 50% of the overall drug spend.

Given the projected growth in specialty medication States will need solutions to assist controlling cost.

[Redacted text block]

[Redacted text block]

[Large redacted text block]

[Redacted footer text]

2.3 Customers Served in the Medicaid Pharmacy Operations Space



Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
Standalone Public Sector PBM Claims Processing Contracts	
District of Columbia Department of Health, Medical Assistance Administration	<p>Contract: District of Columbia (DC) Medicaid PBM Services</p> <p>Contract Dates: February 2008 – February 2015</p> <p>In February 2008, the District of Columbia Department of Health, Medical Assistance Administration awarded Xerox a contract to provide prescription benefits management services for the DC Medicaid program. Xerox implemented our point-of-sale (POS) pharmacy system as part of this contract. Our pharmacy services include the following:</p> <ul style="list-style-type: none"> • Claims processing/ProDUR • Call center (provider inquiries and prior authorization) • Data warehouse/decision support • Clinical services • Pharmacy prior authorization • Drug rebate services • SMAC development • Disease management • Provider education • Provider web portals • Approximately 1,657, 000 pharmacy claims processed annually
Maryland Department of Health and Mental Hygiene	<p>Contract: Maryland Medicaid PBM</p> <p>Contract Dates: August 2006 – July 2015</p> <p>In 2006, the Maryland Department of Health and Mental Hygiene awarded Xerox contract (as prime contractor) to provide prescription benefits management services for the Maryland Medicaid program. Xerox implemented our point-of-sale (POS) pharmacy system as part of this contract. The Maryland Medicaid program serves approximately 690,000 enrollees, with approximately 485,000 enrolled in managed care organizations (MCOs). The Department also has responsibility for the Maryland Pharmacy Assistance Program, which provides a pharmacy benefit to 50,000 enrollees. Further, the Department is responsible for the Maryland Pharmacy Discount Program, which allows approximately 7,000 Medicare beneficiaries to purchase medications at a discounted Medicaid price.</p> <p>Xerox processes approximately 8.5 million pharmacy claims annually and also invoices approximately \$10 million in federal rebate annually. We also invoice MCO pharmacy claims to obtain federal rebates. Our services include:</p> <ul style="list-style-type: none"> • Pharmacy claims processing/PRO-DUR • Coordinated ProDUR for Medicaid recipients • Manufacturers drug rebate program using DRAMS • SmartPA for automated prior authorization processing • Automated drug formulary updating service • Eligibility services • CyberFormance reporting • Customer Service Call Center in Henderson, North Carolina and locally in Baltimore, Maryland <p>The transition from the previous processor to Xerox went smoothly with no lapse in services/care for the Maryland Medicaid population. To meet requirements of a State mandated expansion of Medicaid eligibility, Xerox also built our Expanded Eligibility Verification System (EVS) for the Maryland Primary Adult Care Department.</p>

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
Massachusetts Executive Office of Health and Human Services (EOHHS)	<p>Contract: Massachusetts Pharmacy On-line Processing System (POPSIII) Contract Dates: July 2010 – June 2016, with two one-year options <i>The Massachusetts Medicaid program processes approximately 28 million pharmacy claims annually on behalf of 1.3 million recipients, representing \$ 4 billion in provider payments.</i></p> <p>In September 2001, under an emergency procurement, EOHHS awarded Xerox a three-year PBM services contract in which we implemented our pharmacy point of sale (POS) claims processing system within 90 days. During our second contract (awarded in 2004), we implemented the Xerox-developed SmartPA system for automated pharmacy claim prior authorization as well as the addition of a second payer, the Health Safety Net. In July 2010, we were awarded a third contract with a contract term through June 2016.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Claims processing/ProDUR • Claims payment • Technical call center support • Clinical services • Claims data warehouse/data analysis and reporting • Federal and supplemental drug rebate services • Pharmacy automated prior authorization • Provider services and education • Disaster recovery • MCO drug rebate management • Smart TPL for automated third party liability cost avoidance • MassHealth Drug List Website maintenance
Ohio Department of Health, Bureau of Children’s Medical Handicaps (BCMh)	<p>Contract: Ohio Bureau for Children with Medical Handicaps Contract Dates: December 2006 – June 2014</p> <p>The Bureau for Children with Medical Handicaps (BCMh) is a state-administered program within the Ohio Department of Health (ODH) that assists families of children with special health care needs obtain appropriate health care and services. Xerox provides account management for the following services :</p> <ul style="list-style-type: none"> • Claims processing • Report generation • Approximately 80,000 pharmacy claim processed annually
Ohio Department of Job and Family Services (ODJFS)	<p>Contract: Ohio Job and Family Services Pharmacy Program Contract Dates: July 2006 – June 2014, excluding a one-year option <i>The Ohio Medicaid program processes approximately 13.2 million claims annually on behalf of 450,000 FFS members, representing approximately \$313 million amount in provider payments.</i></p> <p>In February 2006, the Ohio Department of Job and Family Services (ODJFS) awarded Xerox a contract to provide pharmacy services for the Ohio Medicaid program. We implemented our point of sale (POS) claims processing system as part of the contract. In January 2008, we implemented our CyberAccess internet portal that enables providers to access patient pharmacy records and verify drug prior authorization status and in January 2010 we expanded CyberAccess capabilities to include e-prescribing. Both projects were completed on time.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Pharmacy claims processing/ProDUR

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<ul style="list-style-type: none"> • Call center services • Federal rebate administration • Supplemental rebate negotiation and administration • Preferred drug list • Provider education • Reporting • Automated prior authorization using SmartPA
University of Massachusetts Medical School (UMMS)	<p>Contract: University of Massachusetts Medical School Prescription Advantage Program</p> <p>Contract Dates: January 2013 – December 2014, plus two one-year extensions</p> <p>In November 2012, the University of Massachusetts Medical School (UMMS) awarded Xerox a contract (as prime contractor) to implement and operate our pharmacy claims processing system and provide pharmacy program support services for the Prescription Advantage program, a subsidized catastrophic prescription drug coverage program designed to provide eligible persons with prescription drug coverage in Massachusetts. Xerox implemented our PBM Open Systems Plus (PBM OS+) pharmacy point of service (POS) solution for claims adjudication for Prescription Advantage enrollees who receive Medicare and non-Medicare benefits.</p> <p>Our responsibilities and services include:</p> <ul style="list-style-type: none"> • Implement and operate our pharmacy point of service (POS) solution • Maintain and provide access to a national network of contracted pharmacies and manage communications with them (network comprises 65,000 pharmacy locations, including more than 1,100 pharmacies in Massachusetts and mail order pharmacy services) • Provide call center services support for pharmacies and University staff for claims adjudication inquiries through our Henderson, North Carolina call center • Implement and maintain a standard process and schedule for paying pharmacies the full amounts due from Prescription Advantage and billing for payment of these amounts after the payments are made • Confirm and reconcile the daily enrollee eligibility processing along with all other inbound and outbound data exchanges • Maintain a standard three-tier prescription drug formulary for non-Medicare enrollees • Perform data exchange and reporting • Approximately 2.4 million pharmacy claims will be processed annually (Medicare and Non-Medicare) on behalf of approximately 100,000 members representing approximately \$10 million in payments
NON-MEDICAID MMIS DDI PROJECTS Federal Claims Processing – Workers’ Compensation	
U.S. Department of Labor (DOL) Central Bill Processing, Office of Workers’ Compensation Program (OWCP)/Division of Planning, Policy, and Standards (DPPS)	<p>Contract: U.S. Department of Labor (DOL) Federal Workers’ Compensation</p> <p>Contract Dates: June 2002 – March 2016, includes two one-year options</p> <p><i>The Department of Labor project processes approximately 3 million claims annually representing \$1.6 billion in payments on behalf of approximately 400,000 people.</i></p> <p>Xerox is currently fulfilling a fifth consecutive contract (new contract effective March 30, 2013) to assist the United States Department of Labor (DOL) in administering the DOL Workers’ Compensation program. Xerox implemented our AchieveHCS solution, an enterprise-class application built to support large volumes of transactions and concurrent users, to process claims for this project.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Claims adjudication and payment

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<ul style="list-style-type: none"> • Retail pharmacy network management • Claims data warehouse • Service authorization and clinical support • Bills resolution and adjudication • Web portal and self-service support • Customer service call center • Data entry and electronic submission of claims
Public Sector Medicaid Management Information System (MMIS) / Fiscal Agent Services (FAS) Contracts with Pharmacy Components	
Alaska Department of Health and Social Services (DHSS)	<p>Contract: Alaska MMIS/FA Operations (Health Enterprise DDI)</p> <p>Contract Dates: October 2007 – September 2017, including three one-year options</p> <p><i>The Alaska Medicaid program processes approximately four million claims annually for more than 140,000 members, representing approximately \$1 billion in provider payments.</i></p> <p>In September 2007, the Alaska Health and Social Services Department awarded Xerox a contract (as prime contractor) to design, develop, and implement the Xerox Health Enterprise MMIS and provide full fiscal agent services. As noted under Status of Contract, we are currently in the DDI phase of this contract with a scheduled go-live of October 1, 2013. As part of this contract, Xerox also implemented our Web-based State Level Registry (SLR) software-as-a-service (SaaS) solution and services for Alaska Medicaid in April 2011.</p> <p>Additionally, through a separate contract awarded in October 2008, Xerox took over the legacy Alaska MMIS under which Xerox currently provides fiscal agent services. We provide a description of the Alaska MMIS/Fiscal Agent Services (Takeover) project following this table.</p> <p>MMIS/FA and post implementation services under Health Enterprise will include:</p> <ul style="list-style-type: none"> • Full service project management including PMO • Claims processing, management, and payment, including dental claims processing • Provider services including provider enrollment/reenrollment, training, inquiry, publications, and credentialing support • Client services • System maintenance and modification • Third party liability (TPL) • Decision support system/data warehouse (DSS/DW) • Management and administrative reporting (MARS) • Surveillance and utilization review (SUR) • Provider Web portal, including provider enrollment • Training and quality assurance including computer-based training (CBT) and a robust automated learning management system (LMS) to track training • Call center for providers and recipients and Non-Emergency Medical Transportation services • CMS certification support

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience

State/Client	Brief Description
<p>Alaska Department of Health and Social Services (DHSS)</p>	<p>Contract: Alaska MMIS/FAS (Takeover) Contract Dates: October 2008 – July 2013 <i>The Alaska Medicaid program processes approximately four million claims annually for more than 140,000 members, representing approximately \$1 billion in provider payments.</i></p> <p>Provide MMIS/FA services for Alaska Medicaid under the legacy Alaska MMIS, which Xerox took over in 2008. 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.</p> <p>MMIS/FA services include:</p> <ul style="list-style-type: none"> • Claims processing, management, and payment, including dental claims processing • Provider services, including provider enrollment and training • Client services • System maintenance and modification • Third party liability (TPL) • Decision support system/data warehouse (DSS/DW) • Management and administrative reporting (MARS) • Surveillance and utilization review (SUR) • Provider Web portal, including provider enrollment • Training and quality assurance • Call center for providers and recipients and Non-Emergency Medical Transportation services
<p>California Department of Health Care Services (DHCS)</p>	<p>Contract: California Medicaid MMIS/Fiscal Intermediary/PBM Contract Dates: May 2010 – June 2016, plus five one-year options <i>The California Medicaid program processes approximately 208 million claims annually on behalf of approximately 7,600,000 beneficiaries, representing approximately \$18 billion in annual provider payments.</i></p> <p>In 2010, the State awarded Xerox a contract to take over and enhance the legacy MMIS, provide full fiscal intermediary (FI) services, replace the legacy system with the Xerox Health Enterprise MMIS, and provide prescription benefits management (PBM) services. We began the successful takeover of the legacy CA-MMIS in May 2010 and assumed full operations on October 3, 2011, <i>according to schedule.</i></p> <p>Under the legacy CA-MMIS system, Xerox currently provides complete fiscal intermediary services including but not limited to:</p> <ul style="list-style-type: none"> • Claims adjudication and creation of provider claims payment tape for disbursement by the State Controller’s Office • Provider and stakeholder relations and training • Beneficiary relationship services • Call Centers • Provider Web portal, outreach, enrollment and credentialing • Processing of Treatment Authorization Requests • Security and privacy protections – with HIPAA alignment • Continuous Quality Improvement • Enterprise Project Management • Publications • Third Party Liability • SURS/FADS/Cost Containment

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<ul style="list-style-type: none"> • DSS/DW • MARS • EPSDT Activities • Eligibility Verification • Surveys and Reports • Financial Services • Communications Management • Pharmacy-specific services include claims adjudication and payment, clinical services, drug rebate administration, pharmacy prior authorization, and retrospective drug utilization review (RetroDUR)
Colorado Department of Health Care Policy and Financing (DHCPF)	<p>Contract: Colorado Medicaid MMIS/FAS/PBM Contract Dates: July 2007 – June 2015</p> <p><i>The Colorado Medicaid program processes approximately 34 million claims annually on behalf of approximately 773,000 members, representing approximately \$3.8 billion in provider payments.</i></p> <p>Xerox is currently fulfilling a second consecutive contract for Colorado Medicaid. In August 1996, the State awarded Xerox a contract to implement a replacement MMIS and provide full fiscal agent (FA) and prescription benefits management (PBM) services. We implemented our OmniCaid MMIS, making significant system enhancements to meet Colorado-specific requirements, according to schedule. Under our current contract, we provided additional MMIS enhancements and implemented our Web-based State Level Registry (SLR) software-as-a-service (SaaS) solution and services (February 2012).</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Claims processing, adjudication, payment, and management • MMIS maintenance and modification (including Web portal interfaces) \ • Call center services for providers covering inquiries related to claims, prior authorization, electronic data interchange, eligibility, and pharmacy • Provider services including enrollment/re-enrollment, training, outreach, publications, and provider credentialing-related support services • Decision Support/Data Warehouse (DSS/DW) • Management and administrative reporting (MARS) • SURS/FADS • Member outreach • Medical Review • Medicare Buy-In\ • Pharmacy services including claims processing/ProDUR, drug rebate administration, and drug prior authorization
District of Columbia Department of Health Care Finance, Medicaid Assistance Administration	<p>Contract: District of Columbia MMIS/FAS/PBM Contract Dates: September 2007 – March 2017</p> <p><i>The DC Medicaid program processes approximately 10.5 million claims annually on behalf of approximately 220,000 beneficiaries, representing approximately \$2.2 billion in provider payments.</i></p> <p>Xerox is fulfilling a second consecutive contract for the DC Medicaid program. Our first contract included the transfer of our Wyoming MMIS to DC along with responsibility for full fiscal agent services. Under the renewed contract, Xerox 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</p>

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<p>administrative reporting, and TPL systems.</p> <p>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. Certification was conducted under the new CMS guidelines provided in the Medicaid Enterprise Certification Toolkit (MECT). The DC MMIS was fully certified by CMS on January 5, 2012, retroactive to the first day of operations. Services include:</p> <ul style="list-style-type: none"> • Claims processing and management • Web portal for providers and recipients • Provider enrollment, outreach and call center • Full fiscal agent services • Call center • eSURs, eFADS, and eMARs • Case management services • Reference file maintenance • Quality control, including monthly monitoring report • Technical support for operations, maintenance, modifications, and system enhancements <p>State Level Registry:</p> <p>Xerox is also currently implementing a State Level Registry (SLR) system and services for the District. In order to comply with the requirement to provide a GSA Schedule 70, the bidding entity under the SLR contract is Xerox Federal Solutions, LLC; however, Xerox State Healthcare, LLC (Xerox) is performing the scope of work for this project. Our Health Information Technology (HIT) line of business, including the EHR Incentive Program is managed within Xerox State Healthcare, LLC, (Xerox) and specifically the Health Information Exchange (HIE) and State Level Registry (SLR) group, which has the requisite experience and qualifications to implement and operate an EHR Incentive Program.</p>
Hawaii Department of Human Services, Med-QUEST Division	<p>Contract: Hawaii Medicaid FAS/PBM Services Contract Dates: January 2009 – June 2016</p> <p><i>The Hawaii Medicaid program serves approximately 275,000 members, representing both the fee-for-service (FFS) and managed care member population. Xerox processes approximately 337,000 FFS claims annually on behalf of approximately 2,500 FFS members representing approximately \$141 million in provider payments. Xerox also processes approximately \$1.3 billion in managed care capitation payments annually for the managed care population.</i></p> <p>Xerox is currently fulfilling our second contract (contract renewal February 2009) to provide fiscal agent (FA) and prescription benefits management (PBM) services for the state's Medicaid program. Xerox has provided Hawaii Medicaid FA services since 2002 and PBM services since 2001. The MMIS is operated remotely by the State of Arizona, and Xerox does not provide onsite MMIS system support.</p> <ul style="list-style-type: none"> • Claims processing • Prior authorization processing • Provider service including call center, outreach, and education • Quality assurance and report card • Mailroom • EDI support • Banking operations • Third-party recovery

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<ul style="list-style-type: none"> • Drug rebate administration • ID cards • Training and publication • Banking reconciliations • Pharmacy/Therapeutics Committee
Mississippi Division of Medicaid (DOM)	<p>Contract: Mississippi Medicaid MMIS/FAS/PBM Services Contract Dates: January 2010 – June 2014, excluding a six-month option <i>The Mississippi Medicaid program supports approximately 625,000 members and processes 45 million medical claims annually, representing \$3.4 billion in annual provider payments.</i></p> <p>Xerox is currently fulfilling a third consecutive contract with the Mississippi Division of Medicaid (DMS) as the State’s FAS/MMIS/PBM/DSS contractor. In March 2001, DMS awarded Xerox a contract to take over, enhance, and operate the incumbent’s legacy MMIS and provide full fiscal agent prescription benefits management (PBM) services. Through a contract amendment, the State chose to implement a new MMIS, and we implemented a Xerox-developed replacement MMIS, known as <i>Envision</i>, in October 2003, <i>on time and on budget</i>. Also in 2003, we took over the legacy point-of-sale (POS) pharmacy system and then implemented our prescription benefits management (PBM) system later that year (October 2003) <i>according to schedule</i>.</p> <p>Under our second contract (May 2007), we implemented 14 MMIS enhancements <i>on time and within budget</i> including National Provider Identification (NPI); UB-04; the integration of a condition-based edits engine; and a complete replacement of the provider Web portal, which allows for real-time claim submission and adjudication, claim status inquiry, and eligibility verification (approximately 1 million claims inquiries and 8.1 million eligibility inquiries annually).</p> <p>Xerox also implemented our Web-based State Level Registry (SLR) system and services for Mississippi in January 2010. In March 2012, we successfully implemented Call Simplicity (proposed for Colorado), greatly enhancing call center operations for customer service agents and callers. The tool has reduced new call center agent training time from 4 weeks to 10 days and reduced average call handling by almost a minute (from 3 min/ 3 sec to 2 min /13 sec). We also worked with our client to complete federally mandated HIPAA operating rules system enhancements—making Mississippi (along with our New Mexico Medicaid account) one of the first two states in the nation to reach the Jan. 1, 2013 deadline. We also implemented our Xerox Transactional Content Manager (XTCM) (proposed for Colorado) to support provider enrollment.</p> <p>Services under our current contract include:</p> <ul style="list-style-type: none"> • Claims processing, payment, and management (including claims entry, resolution, and adjustments; claim form distribution; and electronic funds transfer (EFT)) • System maintenance, modification, and enhancement • Call center services (provider and client), including automated voice response (AVR) • Provider services including Web portal, call center, enrollment, education, monitoring, and publications • Client services including enrollment, education, monitoring, and call center • Electronic document management system (EDMS) and computer output to laser disk (COLD) reporting • Technical help desk • Prior authorization • Medical review • Financial services

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience

State/Client	Brief Description
	<ul style="list-style-type: none"> • Quality and contractual compliance controls (report card) • Correspondence tracking • Executive Information System (EIS)/Decision Support Services (DSS), LAN/Network Support, and Health Insurance Portability and Accountability Act (HIPAA) compliance • Production/issuance of plastic ID cards • Medicaid eligibility verification system (MEVS) • Surveillance utilization review/fraud and abuse detection system (SURS/FADS) • Third party liability (TPL) support services • Management and administrative reporting (MAR) and ad hoc reporting • PBM services include pharmacy point-of-sale (POS) claims processing and payment/prospective drug utilization review (Pro-DUR); claims data warehouse/reporting; clinical services; automated prior authorization; federal and MCO drug rebate administration; and pharmacy/therapeutics committee <p>Medicaid Eligibility Modernization Project (Contract Amendment)</p> <p>Under a contract amendment (November 2011), we are currently modernizing and consolidating the State's two existing Medicaid eligibility determination systems: the MEDS system for Aged, Blind, and Disabled (ABD) and the MEDSX for Families, Children, and CHIP (FCC). The consolidated system will include a rules engine; align with the Seven Conditions and Standards, including MITA 3.0; handle Medicaid expansion and MAGI eligibility rules; and interface with the Mississippi Health Insurance Exchange and the Federal Data Service HUB. We are currently on schedule to meet a planned go-live date of October 1, 2013 for Medicaid MAGI and non-MAGI; ABD; and FCC eligibility requirements.</p>
<p>Montana Department of Public Health and Human Services (DPHHS)</p>	<p>Contract: Montana MMIS/FAS</p> <p>Contract Dates: April 2012 – February 2022, includes three one-year options</p> <p><i>The Montana Medicaid program processes more than 8.5 million claims annually on behalf of approximately 105,000 members, representing approximately \$834 million in provider payments.</i></p> <p>In 2012, Xerox signed a new contract with DPHHS to replace its MMIS and provide full fiscal agent, prescription benefits management, and data warehouse/decision support services. This fifth consecutive contract marks a 28 year successful relationship between Xerox and DPHHS and makes Montana our longest consecutively operating Medicaid contract. Xerox developed Montana's first MMIS in 1984 and has maintained, enhanced, and operated it since that time.</p> <p>In July 2007, through a contract amendment, we began providing enrollment broker services for the Passport to Health program and to Team Care, the State's primary care case management program and Medicaid managed care program respectively. Xerox also implemented our Web-based State Level Registry (SLR) software-as-a-service (SaaS) solution and services for Montana July 2011.</p> <p>During our third contract with the State, Xerox implemented a claims-based medical history system solution—an initiative recognized by CMS as the nation's first Electronic Health Record (EHR) program. We recently implemented components of our advanced healthcare information suite including SmartPA for automated prior authorization processing and DirectAccessEHR for physician access to patient data and e-prescribing.</p> <p>MMIS/FA/PBM services include:</p> <ul style="list-style-type: none"> • Claims processing for Medicaid and the Mental Health Services Plan • Systems maintenance and support • Web services • Provider and client services

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<ul style="list-style-type: none"> • Call center operations • Decision support/data warehouse services (DSS/DW) • Fraud and abuse prevention and detection (FADS) • Program policy support; third party recovery (TPR); and financial services • Processing of eyeglass and dental claims for the State’s Children’s Health Insurance Plan (SCHIP) • Provision of fiscal agent functions for the Indian Health Services programs • Prescription benefits management services, including claims processing, prior authorization, rebate system, drug utilization review (DUR), call center, staffing, technical helpdesk, training, and reporting
New Hampshire Department of Health and Human Services (DHHS)	<p>Contract: New Hampshire MMIS/FAS/PBM</p> <p>Contract Dates: December 2005 – March 2016, excluding a one two-year option</p> <p><i>The New Hampshire Medicaid program under Health Enterprise will process approximately 15 million claims annually on behalf of approximately 130,000 members, representing approximately \$1 billion in payments.</i></p> <p>The New Hampshire Department of Health and Human Services awarded Xerox a contract to replace the New Hampshire legacy MMIS and provide full fiscal agent services. On March 31, 2013, Xerox successfully implemented our Health Enterprise MMIS, which is now in production— paying claims and providing immediate, online access to providers, members, and a wide range of State users. Xerox’s fiscal agent staff are using it every day to help provide personal service to providers, members, and other project stakeholders. The success of the go-live reflects an extensive, collaborative process in which Xerox and our client worked hand-in-hand to build this next-generation MMIS from the ground up.</p> <p>The New Hampshire Health Enterprise includes a feature-rich Web portal for providers, members, internal end-users, and the public and also automates the management of provider licensing and certification and maintains all relevant provider identifiers, including the National Provider Identifier (NPI).</p> <p>Overall DD&I services included project and quality management; data conversion; testing; State, Xerox, and provider training; provider re-enrollment; preparation for MMIS federal certification; and post implementation review.</p> <p>Fiscal agent services include:</p> <ul style="list-style-type: none"> • Claims processing, management, and reporting • Provider and recipient services • Provider Web portal, supporting comprehensive self-services including online provider enrollment; eligibility verification; computer-based training (CBT); claim submission and online claim correction; claims inquiry; prior authorization submission and inquiry; and correspondence tracking, among other services • Call Center • Third party liability (TPL) support services • EPSDT • Decision support system (DSS)/Data Mart/ad hoc reporting • Management and administrative reporting (MAR) • Surveillance and utilization review (SUR) • Care management and case tracking • County billing • Acuity rate setting • Benefit package • Training, including computer-based training (CBT) • Quality assurance • Federal certification support

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
New Mexico Human Services Department (HSD)	<p>Contract: New Mexico Medicaid MMIS/FAS/PBM Services Contract Dates: June 1994 – December 2019</p> <p>Contract: State Level Registry (SLR) Contract Dates: December 2010 – December 2019, including three one-year options <i>The New Mexico Medicaid program processes approximately 23.6 million claims annually on behalf of approximately 510,000 members, representing approximately \$3.49 billion in provider payments.</i></p> <p>Xerox has provided MMIS and full fiscal agent (FA) services for New Mexico Medicaid since 1994, representing three consecutive contract awards. During our first contract, we took over the incumbent’s legacy MMIS, reengineering the system, stabilizing performance levels, and increasing the electronic claims submission rate from 38 to 68 percent in only 18 months. Going forward, virtually every year of the contract was marked by a significant enhancement, program implementation, or remediation effort including rolling out SALUD!, the State’s managed care program in 1997; replacing the legacy MMIS with our OmniCaid MMIS, including a managed care component in 2002; implementing our point-of-sale pharmacy claims processing system; and completing a successful MMIS HIPAA remediation project in 2004. In September 2005, HSD awarded ACS a second consecutive contract to serve as FA and to implement additional significant enhancements. Under this contract in July 2009, we became the Fiscal Management Agent (FMA) for New Mexico’s self-directed waiver program, Mi Via. Xerox also provides our State Level Registry (SLR) system and services for New Mexico including a staff of two who process applications and perform other SLR tasks at our New Mexico office.</p> <p>In March 2012, Xerox received a contract renewal to enhance and operate the existing MMIS and continue to provide full FA services and prescription benefits management (PBM) through 2016. Xerox recently implemented our Call Simplicity call center tool, which went live on April 30, 2013, and a new recipient call center which went live the first week of April 2013. We also worked with our client to complete federally mandated HIPAA operating rules system enhancements—making New Mexico (along with our Mississippi Medicaid account) one of the first two states in the nation to reach the January 1, 2013 deadline.</p> <p>MMIS/FA/PBM Services:</p> <ul style="list-style-type: none"> • Medicaid claims processing and adjudication • MMIS maintenance and modification • Managed care program administration for Medicaid recipients • Provider and recipient call center services • Provider field services • Managing and maintaining a web portal • Provider enrollment, mailroom, financial management • HIPAA help desk • Data warehouse/decision support system(DW/DSS) • Fraud abuse and detection (FAD) <p>State Level Registry (SLR):</p> <ul style="list-style-type: none"> • Interface testing with National Level Registry • Enrollment and attestation for program participants • Reporting of payments and program details • SLR helpdesk

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
North Dakota Department of Human Services (DHS)	<p>Contract: North Dakota Medicaid MMIS/PBM Services</p> <p>Contract Dates: June 2006 – September 2014 (includes one year warranty period)</p> <p><i>The North Dakota Medicaid program serves 65,000 recipients and processes approximately 1.4 million medical and 1.1 million pharmacy claims annually, representing \$1 billion in annual provider payments.</i></p> <p>Xerox 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. Xerox is deploying Health Enterprise and customizing it to meet North Dakota-specific requirements. This project is a DDI-only contract, with DDI tasks followed by a period of system review, maintenance, and support and final turnover for State operation.</p> <p>The North Dakota Health Enterprise includes a feature-rich Web-portal for providers, recipients, internal end-users, and the public. (As noted above, the PE Web portal is currently in operation.) In addition to online enrollment, comprehensive Web self-service for providers will include claims submission and correction; claims inquiry; prior authorization submission and inquiry; eligibility verification; and correspondence tracking, among other services. North Dakota Health Enterprise will also automate the management of provider licensing and certification and maintain all relevant provider identifiers, including the National Provider Identifier (NPI).</p> <p>Overall DDI services include:</p> <ul style="list-style-type: none"> • Enterprise-wide project and quality management • Data conversion • End-to-end testing • State training • MMIS federal certification preparation • Post implementation review, maintenance, and support <p>Contract Status: DDI in progress</p> <p>Xerox is deploying our Health Enterprise MMIS and Pharmacy Point of Sale for our North Dakota Medicaid client for State administration, with a scheduled go-live date of October 1, 2013. The provider enrollment (PE) component of the North Dakota Health Enterprise went live the first week in April (2013) and the enrollment process into MMIS for current and new providers is currently underway. Provider training is conducted via Web Conference and available via computer based training (CBT). North Dakota specific functionality for the remaining MMIS is completed and begins end-to-end (E2E) and user acceptance testing (UAT) in May 2013.</p>
Texas Health and Human Services Commission (HHSC)	<p>Contract: Texas Medicaid Healthcare Partnership (TMHP) MMIS/FAS/PBM Services</p> <p>Contract Dates: February 2003 – August 2014</p> <p><i>The Texas Medicaid program processes approximately 135 million claims and encounters annually on behalf of approximately 3.6 million recipients, representing approximately \$13 billion in payments.</i></p> <p>In February 2003, HHSC awarded Xerox a contract that combined the takeover of the MMIS and provision of full fiscal intermediary (FI) services with the primary care case management contract. The takeover and start of Xerox fiscal agent operations was accomplished on schedule and was considered a nearly flawless takeover. This contract was renewed through a competitive bid process in 2010 and was recently extended through August 2014. Xerox is the prime contractor responsible for operations and managing the coalition of subcontractors called the Medicaid and Healthcare Partnership (TMHP). We have steadily advanced MMIS Web technology—adding key functions such as primary care case management services, claims submission and status, eligibility verification, prior authorizations, provider enrollments, and lookups. We have 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, implementing pricing flexibility, and making contact center process</p>

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience	
State/Client	Brief Description
	<p>improvements.</p> <p>Services include: full lifecycle claims processing on behalf of HHSC, along with Children With Special Health Care Needs Services Program claims processing and pharmacy claims processing and rebate administration; large-scale (199 seats) customer contact center responding on average to 11, 100 call daily or 2.6 million annually from providers, consumers, and other stakeholders</p>
<p>Virginia Department of Medical Assistance Services (DMAS)</p>	<p>Contract: Virginia MMIS/FAS/PES</p> <p>Contract Dates: April 2009 – June 2014 (plus four one-year options)</p> <p><i>The Virginia Medicaid program processes approximately 55 million claims and encounters annually on behalf of approximately 1 million members representing approximately \$5.8 billion in provider payments.</i></p> <p>In March 2009, the Virginia Department of Medical Assistance Services (DMAS) awarded Xerox a contract to take over and significantly enhance its certified 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—<i>three days earlier than scheduled</i>, with no disruption in service. Enhancements included the following:</p> <ul style="list-style-type: none"> • DMAS Medicaid Web Portal – delivered a replacement Medicaid Web portal that leverages the architectural framework from Health Enterprise and offers enhanced services for provider (including FA contractor Help Desk support) • Enterprise Support System (Optional) - provided a comprehensive data warehouse/data mart and utilities using the Cognos platform to facilitate analysis of healthcare costs, utilization, quality, and service level agreements (SLAs) • MMIS Screen – developed a web-based user interface to CICS MMIS screens to replace the current GUI interface • Enterprise Content Management system (ECM) - implemented an ECM solution with versioning capabilities and appropriate change control using IBM FileNet product to provide a unified, not federated, ECM solution as required by the client <p>Xerox is also currently developing a provider credentialing solution for the State which is scheduled for implementation on October 1, 2013.</p> <p>Fiscal agent and provider enrollment services include:</p> <ul style="list-style-type: none"> • Claims adjudication and processing • System maintenance, modification, and enhancement • Financial services • Provider relations enrollment/provider Web portal (we will provide provider credentialing effective October 1, 2013) • Call center for provider/member • Member identification cards (ID) cards: • EDMS/mailroom services • Security • EDI support • Project, quality, change, and risk management
<p>Wyoming Department of Health, Division of Healthcare Financing</p>	<p>Contract: Wyoming MMIS/FAS/PBM</p> <p>Contract Dates: November 2008 – June 2016, includes three one-year options</p> <p><i>The Wyoming Medicaid program processes approximately 1.622 million claims annually on behalf of approximately 67,943 clients representing approximately \$500 million (FY12) in provider payments.</i></p> <p>Xerox has served as the Wyoming Department of Health, Division of Healthcare Financing's MMIS fiscal intermediary since 1993 and is currently fulfilling a third consecutive contract to provide MMIS operations and maintenance and full fiscal</p>

Table B-3. PBMS DD&I/Technical Operation & Maintenance Experience

State/Client	Brief Description
	<p>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, Xerox executed a major improvement project that involved 24 major system enhancements. All system enhancements were successfully implemented on-time in October 2009.</p> <p>Full fiscal agent services, including</p> <ul style="list-style-type: none"> • MMIS maintenance and modification • Claims operations including OCR and imaging • Provider and client relations services including four call centers, provider on-site visits, and client travel reimbursement processing • Third party liability (TPL) services including estate recovery, Medicare Buy-In, and Subrogation • Medical policy including prior authorization, program integrity review • Provider and client Web Portal • Decision support system (DSS) with eFADS • Partial real-time claim adjudication via the provider Web portal <p>Wyoming Appropriate ER Utilization Pilot:</p> <p>The Wyoming Department of Health recently launched a program aimed at reducing the utilization of high cost emergency room (ER) services in Wyoming Medicaid. After an analysis of ER claims for Wyoming Medicaid clients, the State identified a potential for a \$3 million to \$4 million cost savings through better management of the care-seeking behaviors of frequent ER users. The State decided to implement a strategy to reduce unnecessary ER utilization and asked Xerox to help. A solution is currently under way which includes an ER utilization project at Cheyenne Regional Medical Center (CRMC). The pilot program will provide evidence-based approaches that, if successful, can be implemented statewide. Using information provided by CRMC on a daily basis, Xerox staff contact Medicaid clients seen in the CRMC ER within 3 – 5 days after their visit. This contact with ER clients allows follow up, education, and identification of reasons for using ER services. Xerox uses claims analysis to identify clients with extreme, frequent ER utilization rates and enrolls them in intensive case management. Xerox also uses the Xerox-developed Total Health Record (THR) reporting system to examine utilization histories of Medicaid clients who used CRMC ER services. This collaborative tool enables care managers and healthcare providers to review medical and pharmacy utilization, as well as critical clinical triggers, and helps identify the gaps in care and treatment exceptions that can lead to an ER visit. The pilot also includes a 24/7 Nurse Advice Line promoted in areas with high rates of ER use so members can receive consultation before using ER services. Additionally, in the coming months, outreach will expand through social media and collaboration with Health Homes on ER frequent user case management.</p>

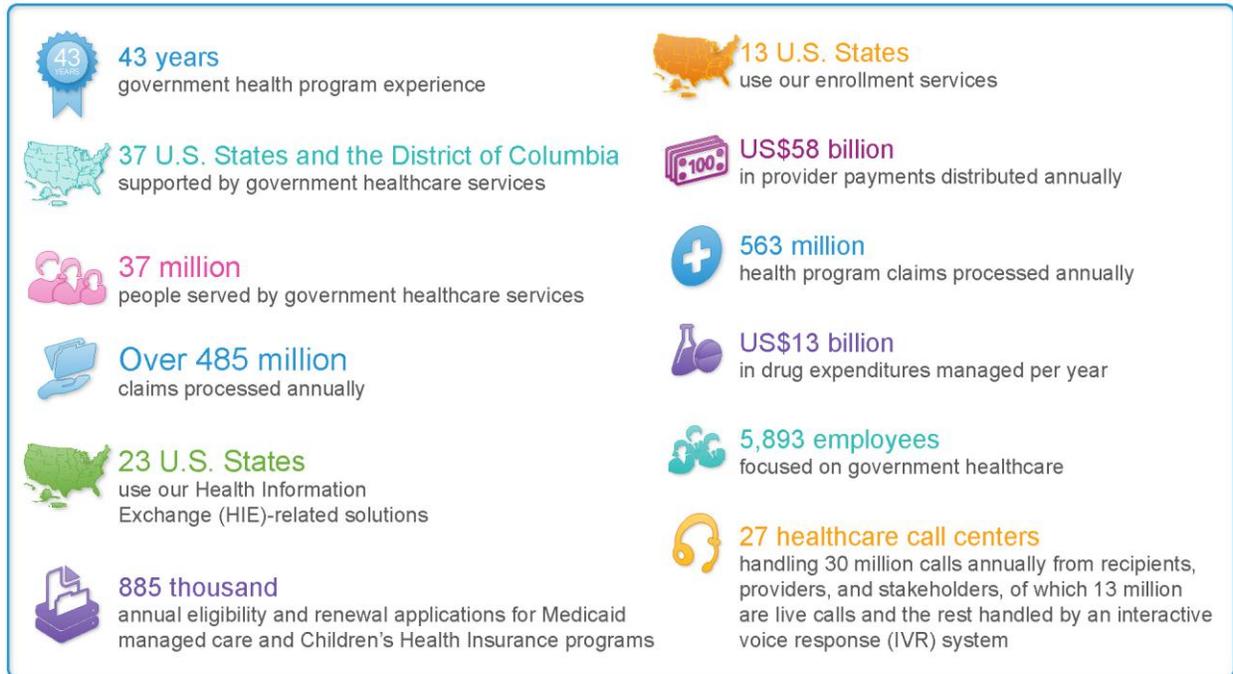
2.4 Customers Served in the Public Sector

Instructions: Describe the customers you have served in the public sector. Describe the nature of those relationships in terms of services provided and duration of the relationship. Describe vendor’s experience working with DVHA, if applicable.

Xerox State Healthcare, LLC has not worked with the Department of Vermont Health Access (DVHA) previously but has extensive experience working with State Medicaid agencies. We look forward to establish a mutually beneficial working relationship with DVHA.

The history of Xerox reflects our mission to improve the administration of publicly-funded programs by working in close collaboration with customers to solve the challenges confronted by State governments. Xerox brings to DVHA our dedication to innovative technology, our continuing expansion of healthcare-related solutions and services, our strategic business acquisitions, and our proactive emphasis on cost.

Exhibit B-7 shows some of our most relevant facts.



015.45p3

Exhibit B-7. Public Sector Facts

Xerox's public sector commitment is expansive and nationwide.

In Table B-4 we provide other Xerox project commitments with State health agencies that are not included in Table B-3 of the previous section.

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
Electronic Health Records (EHR)	
Alabama Medicaid Agency	<p>Contract: Alabama Electronic Health Record (EHR) Provider Incentive Program</p> <p>Contract Dates: February 2011 – January 2016, including three one-year options</p> <p>To support the new requirements for Adopt, Implement, Upgrade (AIU), meaningful use (MU), and incentive payments offered by the ARRA HITECH Act, the Alabama Medicaid Agency awarded Xerox a contract to deploy our Web-based solution known as the Xerox State Level Registry (SLR) for the Medicaid Provider Incentive Program. The system allows the Agency, and each of our SLR customers, to interact with the CMS Registration and Attestation System (formerly known as the NLR), with providers, and with other state systems. The software-as-a-service (SaaS) solution supports our customers in meeting the key goals of administering incentive payments, conducting oversight and auditing of the program, tracking MU, and pursuing initiatives to encourage the adoption of certified EHR technology.</p> <p>Our services include:</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<p>Multi-state SaaS solution that supports:</p> <ul style="list-style-type: none"> • Incentive payment administration • Program oversight and auditing • Tracking MU • Pursuit of initiatives to encourage the adoption of certified EHR technology including provider training • Web-based solution that allows interaction with the CMS Registration and Attestation system, providers, other State systems. <p>Business support staffing services to perform administrative processing of provider attestations.</p> <ul style="list-style-type: none"> • Attestations received: 1454 (EPs and EHs) • Payments processed: 618 (EPs and EHs) in the amount of \$32,660,171
<p>Puerto Rico Administración de Seguros de Salud de Puerto Rico (ASES)</p>	<p>Contract: Puerto Rico Electronic Health Records (EHR) Incentive Program Contract Dates: September 2012 – August 2014, excluding a possible one-year option through August 2015</p> <p>To support the new requirements for Adopt, Implement, Upgrade (AIU), meaningful use (MU), and incentive payments offered by the ARRA HITECH Act, the Administración de Seguros de Salud de Puerto Rico (ASES) awarded Xerox a contract to deploy our Web-based solution known as the Xerox State Level Registry (SLR) for the Medicaid Provider Incentive Program. The system allows ASES, and each of our SLR customers, to interact with the CMS Registration and Attestation System (formerly known as the NLR), providers, and other state systems. The software-as-a-service (SaaS) solution supports our customers in meeting the key goals of administering incentive payments, conducting oversight and auditing of the program, tracking MU, and pursuing initiatives to encourage the adoption of certified EHR technology. The project was <i>completed on time and within budget</i>.</p> <p>In addition to the SaaS solution, Xerox offers business operations services for the administration and oversight of provider attestations. Specifically, we ensure that the providers attesting to the Medicaid EHR Incentive Payment program have accurately and completely filled out attestations based on state-configuration. We conduct pre-payment validation review and preliminary approval of the attestations in the territory of Puerto Rico and have just started providing the services to Alabama and Colorado.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Multi-state SaaS solution that supports: • Incentive payment administration • Program oversight and auditing • Tracking Meaningful Use • Pursuit of initiatives to encourage the adoption of certified EHR technology including provider outreach and training • Web-based solution that allows interaction with the CMS Registration and Attestation system, providers, other State systems. • Business support staffing services to perform administrative processing of provider attestations. • Attestations received: 1454 (EPs and EHs) • Payments processed: 618 (EPs and EHs) in the amount of \$32,660,171

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
Wyoming Department of Health, Division of Healthcare Financing	<p>Contract: Wyoming Total Health Record (THR)</p> <p>Contract Dates: August 2009 – September 2014, excluding a one-year option</p> <p>In 2009, the Wyoming Department of Health (WDH) awarded Xerox a contract to implement a health information exchange (HIE), electronic medical record (EMR), and personal health record (PHR) for the Medicaid division. The project focus was and is to integrate disparate data sources from within the Medicaid agency creating a longitudinal patient record for exchange with Medicaid providers. Currently, there are approximately 47,000 medical records entered into the EMR from approximately 50 providers and 220 users.</p>
Informed Health Services	
Iowa Department of Public Health	<p>Contract: Iowa Health Information Exchange (HIE)</p> <p>Contract Dates: January 2012 – January 2014, with four one-year options</p> <p>Xerox recently went live (12/07/12) with a statewide health information exchange (HIE) that supports XDS.b and XCA models. The solution integrates a fully interoperable HIE framework with all participating data source providers. The four early adopter organizations in Iowa (major stakeholders) are currently testing with the Iowa HIE. Additionally, Xerox implemented Direct Secure Messaging in July 2012, and there are currently approximately over 500 users. We also implemented advanced clinical and quality reporting and analytics for the Medicaid Health Home program in August 2012. Xerox provides ongoing project management, oversight, and on-boarding specialists for the project.</p>
Kentucky Cabinet for Health and Family Services, Office of Administrative and Technology Services (OATS)	<p>Contract: Kentucky Health Information Exchange (HIE)</p> <p>Contract Dates: September 2009 – September 2015</p> <p>In September 2009, Xerox launched a statewide health information exchange (HIE) solution for the Kentucky Office of Administrative and Technology Services. The solution was led by Kentucky Medicaid and links hospitals, labs, patients, doctors, and existing Regional Health Information Organizations (RHIOs) across Kentucky. Implementation for the project was completed in December 2010. To date, 141 connections (73 hospitals and 68 healthcare providers, encompassing 700 users) are live and exchanging data on the KHIE, and an additional 233 hospitals, physicians, clinics, and labs have signed participation agreements.</p> <p>ONC Recognizes Kentucky</p> <p>In December 2012, representatives from the Kentucky Health Information Exchange (KHIE) were honored in Washington, D.C. for exemplary work in health information technology (IT) implementation. Specifically, Kentucky was selected as one of three states in the nation to receive awards from the Office of the National Coordinator for Health Information Technology (ONC) for demonstrating strong partnerships between federally sponsored programs, local organizations, and state agencies—a collaboration which has led to the successful implementation and meaningful use of electronic health records throughout the state. Kentucky was also showcased for achieving the nation’s first successful transmission of a secure Continuity of Care Document (to the Kentucky Cancer Registry.) Together, the KHIE and the Kentucky Regional Extension Center have helped providers in Kentucky secure more than \$115 million in Meaningful Use incentive dollars.</p>
Health Insurance Exchange (HIX)	
Arizona Health Care Cost Containment System Administration (AHCCCSA)	<p>Contract: Arizona Health Insurance Exchange (HIX)</p> <p>Contract Dates: September 2012 – March 2015, including four two-year options</p> <p>In Arizona, we are working with AHCCCS and the Department of Economic Security (DES) to design and implement a Consumer Support Call Center where Xerox will serve as the first point of contact and provide consumer support for callers statewide. Providing Tier 1 and Tier 2 support, Xerox staff will provide real-time assistance to members, providers, and third-parties regarding Arizona SNAP, TANF,</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	and Medicaid programs as well as assistance in understanding the impact of recent ACA legislation. The call center solution includes multiple channels of communication including telephone, email, on-line chat, and speech enabled interactive voice response (IVR); integration with Arizona’s eligibility system and website and with the Tier 3 call center; quality management functions including call recording and real-time call monitoring; outbound call campaign management; Web and IVR helpdesk support; and on-site and remote customer service representative (CSR) support.
Florida Health Choices, Inc.	<p>Contract: Health Choices, Florida’s Insurance Marketplace Contract Dates: May 2012 – May 2017</p> <p>We are working with Florida Health Choices to administer its Insurance Marketplace, a program designed to give small business and individuals more flexibility in finding affordable health insurance and other services. In the future, services may include the support of individual and employee offerings for vision, life insurance and flexible spending accounts, public programs, and wellness programs. We are responsible for the following duties and functions in support of Florida Health Choices and its programs:</p> <ul style="list-style-type: none"> • Customer Contact Center • Web-based Choice Portal • Eligibility Determination • Enrollment Management • Financial Services • On-line Calculator <p>Call Center:</p> <p>Complete Florida-based Customer Contact Center solution to support the Florida Health Choices program. Functionality includes:</p> <ul style="list-style-type: none"> • VOIP telephony • Automated call distribution (ACD) • Interactive voice response (IVR) • Recording, scoring, and quality monitoring • Workforce management (WFM) • Supervision and system monitoring • Remote CSR capabilities
Kentucky Cabinet for Health and Family Services, Office of Administrative and Technology Services (OATS)	<p>Contract: Kentucky Health Benefit Exchange Contact Center (HBECC) Contract Dates: April 2013 – December 2014, with five one-year options</p> <p>On April 5, 2013, the Commonwealth of Kentucky, Finance and Administration Cabinet awarded Xerox a contract to provide a Health Benefit Exchange Contact Center (HBECC) to assist the Commonwealth in its efforts to meet the federally mandated Health Insurance Exchange (Exchange) requirements under the Affordable Care Act (ACA). The state-based Exchange will provide individuals, families, and employees of small businesses the ability to compare, choose, and obtain the healthcare coverage that best fits their needs based on factors such as cost, quality, and choice of a healthcare provider. The Xerox-provided HBECC is a vital service component of the Exchange as it will serve as the entry point for Kentucky citizens needing assistance in navigating the ever-changing health care markets and options as envisioned by the ACA. Xerox was selected to provide the HBECC based on our position as a leading provider of Insurance Exchange solutions, our call center operational expertise, our deep knowledge of healthcare policy and programs, our thorough understanding of commercial and government-sponsored insurance, and our state-of-the-art technology.</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<p>Specifically, our services include:</p> <ul style="list-style-type: none"> • Call center technology and operations infrastructure • Staffing, including management, customer service representatives, and technicians • Call center ongoing operations • Quality Assurance and program reporting
Nevada Silver State Health Insurance Exchange	<p>Contract: Silver State Health Insurance Exchange (HIX) Contract Dates: August 2012 – December 2016</p> <p>In Nevada, we are working with the Silver State Health Insurance Exchange (SSHIX) to design and implement our full HIX Solution Suite and call center solution to deliver an Affordable Care Act (ACA)-compliant Exchange and services for October 1, 2013 open enrollment.</p> <p>Call Center:</p> <p>The SSHIX includes an end-to-end call center solution to meet the Consumer Assistance requirements of the Exchange to allow consumers to access knowledgeable assistance – whether through the Web, by phone or IVR, or other means. Call center functionality includes:</p> <ul style="list-style-type: none"> • VOIP Telephony • Automated call distribution (ACD) • Speech-enabled interactive voice response (IVR) • Recording, scoring, and quality monitoring • Outbound campaign management • Workforce management (WFM) • Supervision and system monitoring • Remote CSR capabilities
Eligibility and Enrollment Services	
Colorado Department of Health Care Policy and Financing	<p>Contract: Colorado Child Health Plan Plus (CHIP+) Contract Dates: July 2003 – October 2010</p> <p>We provided eligibility determination and enrollment services for the Colorado Child Health Plan Plus (CHP+) program, the state’s Children’s Health Insurance Program. Annual statistics included approximately 50,000 eligibility determinations, 55,000 applications, 47,000 enrollments, and 150,000 mailings (enrollment applications); and 180,000 calls through the customer service center.</p> <p>Services included:</p> <ul style="list-style-type: none"> • Eligibility determination/ redetermination • Customer service call center with translation • Application intake and processing • Enrollment, transfers, and renewals • Complaints, grievances, and appeals • Website management • Outreach and education • Reporting • Payment processing (receiving and posting) • Mail fulfillment and document control

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
<p>Connecticut Department of Social Services (DSS)</p>	<p>Contract: Connecticut Healthcare for Uninsured Kids and Youth (HUSKY) Programs/Charter Oak Program Contract Dates: January 2007 – December 2016</p> <p>Xerox began providing services to DSS in April 1995 and is now fulfilling a third consecutive contract to support eligibility and enrollment for Connecticut’s Husky (Healthcare for Uninsured Kids and Youth) managed care programs. Programs include the HUSKY A Medicaid enrollment broker program; the HUSKY B Eligibility (CHIP) program; and the Charter Oak Program, which provides health insurance for uninsured adults age 19 and older who do not qualify for coverage under public programs. This is a long term contract relationship that has undergone several changes in contract scope over the years.</p> <p>HUSKY A (Medicaid): We provided a range of enrollment enrollment-related activities (application receipt/ processing; choice counseling (plan and provider selection); enrollment processing by phone/mail; member outreach and materials development; mail management; and calculation of monthly capitation fees payable to MCOs) until January 2012, when the enrollment broker and capitation management functions ceased due to the restructuring of the delivery of Medicaid in Connecticut. We will, however, provide enrollment broker (EB) and capitation management functions (choice counseling and per-member-per-month (PMPM) payments to “Health Neighborhoods” for the Dual Eligible Demonstration project slated to begin in 2013 pending Centers for Medicare & Medicaid (CMS) approval.</p> <p>HUSKY B (CHIP) and Charter Oak: We currently provide (since 1998) comprehensive eligibility and enrollment services for the HUSKY B, including eligibility determination; application and enrollment processing; eligibility database maintenance; hotline management; annual renewal determination; outreach and materials development; health plan capitation payment rate calculation; premium collection; and coordination of recipient lock-out status. These functions were further expanded in 2008 with the introduction of the Charter Oak program.</p> <p>Project statistics include:</p> <ul style="list-style-type: none"> • Approximately 72,000 eligibility screening/decision transactions processed annually • Approximately 120,000 premium s collected and posted annually • Approximately 345,000 calls handled annually through the call center
<p>Florida Healthy Kids Corporation</p>	<p>Contract: Florida Healthy Kids Corporation Third Party Administrator Contract Dates: November 2006 – September 2013</p> <p>In 2006, the Florida Healthy Kids Corporation awarded Xerox a contract to serve as third party administrator to determine program eligibility for various CHIP programs, including referrals to Medicaid. Our services include:</p> <ul style="list-style-type: none"> • Maintain an eligibility processing system available 24/7 for applications, renewals, and tracking of applicant inquiries made by phone, fax, email, or mail; • Maintain a call center with multi-lingual CSRs • Bill and collect required premium payments • Create and send enrollment files to health plans and partner state agencies (Medicaid and Children’s Medical Services) each month • Approximately 21,000 applications, 10,000 renewals, and 16,000 supporting documents processed annually <p>Call Center: The call center handles approximately 1 million calls annually, with peak volumes in January-March each year. Multi-lingual CSRs respond to 3,500 to 5,000 calls daily; number of agents available range from 36 to 64 (English), 17 to 30 (Spanish), and 3 to 7 (Creole); translation/language services; achieved and maintain ISO 9000 certification; consistently meets service level agreements (SLAs); consistently achieves customer satisfaction ratings of 95 percent or higher; receives positive feedback/testimonials from customers.</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
<p>Louisiana Department of Health and Hospitals (DHH), Office for the Aging and Adult Services (OAAS)</p>	<p>Contract: Louisiana Long-Term Care Access Services (LTC-AS) Contract Dates: July 2011 – June 2014</p> <p>In 2011, DHH awarded Xerox a contract to provide client eligibility screening, comprehensive assessment services, service planning, and telephone-based information and referral that provides informed choice and access to services for clients seeking long-term care services and supports in Louisiana. Implementation components included design, development, and implementation (DDI) of a comprehensive data tracking, assessment scheduling, and reporting system that includes statewide provider and community resource databases; establishing a local facility; staffing and training; and implementing enterprise solutions, including an integrated voice response (IVR) and an enterprise phone system, including call recording, call center traffic control; and call center scheduling software. Implementation was completed on time.</p> <p>Our staff conducts approximately 50,000 phone and in-home interviews annually to determine eligibility, and we send approximately 100,000 letters related to these annually. Our call center handles approximately 175,000 calls annually, always meeting service level agreements.</p>
<p>New Jersey Department of Medical Assistance and Health and Human Services</p>	<p>Contract: New Jersey HBC Contract Dates: December 2004 – December 2014</p> <p>In 2004, the New Jersey Department of Medical Assistance and Health and Human Services awarded Xerox a contract to serve as the Health Benefits Coordinator to provide eligibility determination and enrollment broker services for the New Jersey FamilyCare Program and the Medicaid Managed Care program. For this contract, we implemented our Web-based eligibility, enrollment, application/contact tracking, and premium processing system, called ConneXion, on July 1, 2005 according to schedule. Approximately 120,000 applications are processed through ConneXion annually.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Call center, including assisting beneficiaries in MCO selection • Outreach • Premium calculation, invoicing, and collection • Application processing, including Web applications • Document imaging • Electronic information verification via State databases • Eligibility determination and renewal redetermination • Program enrollment • Enrollment fee/premium processing, including integrated voice response (IVR) payment; case maintenance; imaging and workflow <p>Call Center: Our call center provides a hotline that addresses all aspects of the New Jersey FamilyCare Program including Medicaid and NJ CHIP eligibility, enrollment, premium payment, and new applications. Since we implemented the Medicaid and FamilyCare operation, the call center has handled more than 800,000 calls and more than 150,000 enrollments annually. Multi-lingual call center; integrated IVR; (CRM); continuously meet or exceed all call center SLAs and exceed performance standards by maintaining under a 3% error rate for all eligibility decisions.</p>
<p>Virginia Department of Medical Assistance Services (DMAS)</p>	<p>Contract: Virginia Family Access to Medical Insurance Security (FAMIS): Children's Health Insurance Program (CHIP) Contract Dates: May 2001 – January 2014</p> <p>In 2001, the Virginia Department of Medical Assistance Services awarded Xerox a contract to administer eligibility determination and enrollment services for Virginia's Children's Health Insurance Plan (CHIP) program, called Family Access to Medical</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<p>Insurance Security (FAMIS). We converted all consumer data from the MMIS to the FAMIS eligibility system and immediately began full re-determination processing for all consumers in 90 days, on time and within budget. In 2005, we began providing the same services for FAMIS MOMS, a program for uninsured pregnant women.</p> <p>Our services include:</p> <ul style="list-style-type: none"> • Application receipt, screening, and processing (online/phone/ fax/email); approximately 101,000 annually including new applications and renewals • Customer call center, handling approximately 315,000 calls annually • Administer all case management services, including annual renewals, mid-year evaluations, and demographic updates • Website development/management; program materials development/ distribution; and print/mail fulfillment • Complaints/grievances/appeals • Continuous quality improvement (CQI) program, reporting, and program consulting/support • Administer all outbound correspondence for the FAMIS program, representing approximately 261,000 pieces of correspondence annually
Client/Clinical Services	
<p>Arkansas Title XIX//Hewlett Packard</p>	<p>Contract: Arkansas Medicaid SmartPA Contract Dates: July 2004 – Present (annual auto-renewed contract)</p> <p>As a subcontractor to Hewlett Packard, Xerox provides the following services for the Arkansas Medicaid program:</p> <ul style="list-style-type: none"> • Prospective drug utilization review (ProDUR) services • Xerox-developed SmartPA for automated prior authorization services • Approximately 1,800,000 prior authorizations (PAs) processed annually
<p>Indiana Family Social Services Administration, Office of Medicaid Policy & Planning (FSSA/OMPP)</p>	<p>Contract: Indiana Medicaid PBM Contract Dates: April 2007 – May 2013</p> <p>In 2004, Xerox was awarded a contract by the Indiana Family and Social Services Administration and the Office of Medicaid Policy and Planning to provide clinical and rebate management services in support of Indiana Medicaid. The contract was renewed in July 2007. We provide retrospective drug utilization review (RetroDUR), prior authorization (PA) call center, preferred drug list (PDL), and drug rebate services:</p> <ul style="list-style-type: none"> • Prior authorization services, including Xerox’s SmartPA automated prior authorization tool, with 8.6 million claims edited for automated PAs • Clinical and prior authorization call center and services including RetroDUR • Drug rebate administration services, including CMS/Supplemental rebate • PDL development, maintenance, and management
<p>Kansas Department of Health and Environment, Division of Health Care Finance</p>	<p>Contract: Kansas Medicaid SmartPA and Call Center Contract Dates: February 2011 – January 2013</p> <p>The Kansas Department of Health and Environment awarded Xerox a contract to implement our SmartPA automated prior authorization (PA) tool and to build and process Kansas Medical Assistance Program pharmacy-related PAs with a few exceptions. The implementation was completed on time. We also provided a customer service call center that handled approximately 11,000 PAs annually from providers and prescribers and implemented a searchable Web-based version (Smart Formulary) of the State’s preferred drug list (PDL).</p> <ul style="list-style-type: none"> • Customer service call center • Automated pharmacy prior authorization through SmartPA • Searchable Web-based version of the PDL (SmartFormulary) • Approximately 80,000 PAs processed annually

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
Louisiana Department of Children and Family Services (DCFS)	<p>Contract: Louisiana DCFS Customer Service Center</p> <p>Contract Dates: February 2011 – February 2016</p> <p>In October 2010, DCFS awarded Xerox a contract to provide centralized customer service for a wide variety of human services programs that support hundreds of thousands of Louisianans in need of social services. The project was implemented in two phases: the first within an aggressive three month timeline to support the Child Support Enforcement and Disaster SNAP program and the second within six months of the first phase to support multiple additional programs including SNAP, Temporary Aid to Needy Families (TANF), Child Care Subsidy, Child Care Providers, Child Welfare, and Fraud & Recovery programs. The phase 2 expansion doubled call volumes yet improved services to program constituents through a shared services/shared agent model. Our CSRs resolve 85 percent of all calls without the need for caseworker intervention—a huge time savings for program caseworkers. Both phases of this project were completed on time and to the complete satisfaction of our client.</p> <p>No transaction processing; we provide call center volumes below:</p> <p>The Enterprise Customer Service Center currently has 115 seats and also supports approximately 50 customer (DCFS) remote users and is structured and positioned for further expansion. IVR call volume is approximately 850,000 per month, with approximately 160,000 of those calls transferred to CSRs. This project consistently meets service level agreements.</p>
Minnesota Department of Human Services (DHS)	<p>Contract: Minnesota Medicaid RetroDUR/DRAMS</p> <p>Contract Dates: September 2005 – September 2010 (1st contract), October 2010 – September 2015 (2nd contract)</p> <p>Xerox provides the following services for the Minnesota Medicaid pharmacy program:</p> <ul style="list-style-type: none"> • RetroDUR and provider education services • Annual program assessments • Outcome analysis • CyberFormance • Drug rebate application • Ongoing monthly status reports
Missouri Department of Social Services, HealthNet Division	<p>Contract: Missouri Clinical Management Services and System for Pharmacy Claims and Prior Authorization (CMSP)</p> <p>Contract Dates: March 2001 – February 2003 (1st contract), July 2002 – December 2007 (2nd contract), December 2007 – June 2013, with four one-year options (3rd contract)</p> <p>Xerox is currently fulfilling a third consecutive contract with the Missouri Department of Social Services, HealthNet Division (Missouri Medicaid). Our first contract (2001) consisted in providing retrospective drug utilization review (RetroDUR) services and our second contract (2002) was awarded to provide a set of prior authorization and provider education services, which included drug clinical and fiscal editing, and disease management in addition to RetroDUR. In 2004 the contract was amended to include case management and prior authorization of psychology services, and in 2005 it was amended to add an electronic health record (EHR) system and prior authorization of medical services to the existing pharmacy prior authorization and disease management system. Missouri was one of the first states in the nation to implement a complete EHR solution, which is currently being upgraded to a full Medicaid health information exchange (HIE).</p> <p>In 2007, Xerox won the bid to re-procure the contract, which is now called the Missouri CMSP program. As the State's partner, Xerox is the full integrator of the CMSP program. We are responsible for implementation, project management, and</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<p>ongoing operations of the project, including providing the following services:</p> <ul style="list-style-type: none"> • Clinical services • Drug, medical, and psychology clinical and fiscal editing • E-prescribing • Prior authorization services • Inpatient utilization review • Medication therapy management (MTM)/Pharmacist disease management • ProDUR • Pharmaceutical price posting • RetroDUR and federal reporting • Electronic health record (EHR) portals (separate for providers, pharmacists, and members) • Ad hoc reporting • 4,000 prior authorizations processed daily
<p>Tennessee Department of Finance and Administration, Bureau of TennCare</p>	<p>Contract: Tennessee Medicaid (TennCare) Call Center Contract Dates: September 2011 – August 2016</p> <p>Xerox has provided a 24/7/365 call center for Tennessee Medicaid (TennCare) since 2006, representing two consecutive contract terms. Takeover of the call center began in November 2006 and operations began in January 2007 according to schedule. Our CSRs handle approximately 1,800 incoming calls per week (or 110,000 annually) related to medical appeals for the TennCare population. Appeals can include health plan changes, medical services appeals, pharmacy issues, and reimbursement and billing appeals. CSRS also handles general inquiries and referral requests to other agencies, Medicare, or health plans. There is no transaction processing.</p>
<p>Texas Health and Human Services Commission /Vendor Drug Program (HHSC/VDP)</p>	<p>Contract: Texas Drug Utilization Review (DUR) Contract Dates: November 2012 – October 2015, not including three one-year options (represents second consecutive contract)</p> <p>Xerox has provided drug utilization review (DUR) and other services for the Texas Medicaid pharmacy program since June 2002. We are currently fulfilling a second consecutive contract, providing the following services:</p> <ul style="list-style-type: none"> • RetroDUR and provider education • CyberFormance • Program to detect potential fraud and abuse • Perform outcome analysis • No transaction processing
<p>Texas Health and Human Services Commission /Vendor Drug Program (HHSC/VDP)</p>	<p>Contract: Texas HHSC Prior Authorization Contract Dates: December 2003 - January 2011</p> <p>Xerox provided the following services for the Texas Medicaid program: Call Center for prior authorization</p> <ul style="list-style-type: none"> • Automated SmartPA prior authorization solution
<p>West Virginia Department of Health and Human Resources, Bureau for Medical Services</p>	<p>Contract: West Virginia Medicaid RetroDUR Contract Dates: January 2011 – December 2013</p> <p>In 2010, Xerox was awarded a contract to provide retrospective drug utilization review (RetroDUR) services for the West Virginia Medicaid pharmacy program. Our RetroDUR and accompanying programs reduce suboptimal drug utilization, leading to better therapeutic outcomes for members and a reduction in unnecessary Medicaid expenditures. Xerox also served as the West Virginia RetroDUR vendor from 2000 to 2007.</p>

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<p>Our services include:</p> <ul style="list-style-type: none"> • CyberFormance for DUR reporting, including population-based intervention materials • Population-based interventions • Educational newsletters • Lock-in program • No transaction processing
<p>West Virginia Department of Health and Human Resources, Bureau for Medical Services</p>	<p>Contract: West Virginia SmartPA Contract Dates: February 2012 – January 2014</p> <p>Xerox implemented our automated SmartPA automated prior authorization (PA) solution and provides the following services for the West Virginia Medicaid program:</p> <ul style="list-style-type: none"> • Prospective drug utilization review (ProDUR) services • Xerox-developed SmartPA for automated prior authorization services • Approximately 200,000 PAs processed annually
Long-Term Care (LTC) / Pre-Admission Screening and Resident Review (PASRR) / Level of Care (LOC) Determination Components	
<p>Alaska Department of Health and Social Services (DHSS)</p>	<p>Contract Dates: 2008 - Present</p> <ul style="list-style-type: none"> • Prior authorization for incontinence and enteral supplies; home health, home infusion, and durable medical equipment (DME); Non-Emergency Medical Transport (NEMT) and MedEvac • Nurses performing medical reviews for claims, appeals, and Surveillance and Utilization Review (SUR) departments • Automated authorization for Non-Emergency Medical Transport (NEMT), with support from clinical staff for authorizations that cannot be auto-adjudicated
<p>Colorado Department of Health Care Policy and Financing (DHCPF)</p>	<p>Contract Dates: 1998 - Present</p> <ul style="list-style-type: none"> • Medicaid services: home health, durable medical equipment (DME)/supplies, medical (hearing and optical services), dental • Home and Community-Based Services (HCBS) waiver services: home modifications • Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) services: outpatient physical therapy (PT)/occupational therapy (OT), dental, medical (hearing and optical services) • Automated authorization for Drug Utilization Review (DUR)
<p>Hawaii Department of Human Services, Med-Quest Division</p>	<p>Contract Dates: 2008 - Present</p> <ul style="list-style-type: none"> • Medicaid services: durable medical equipment (DME), magnetic resonance imagings (MRIs), select surgeries, and inpatient behavioral health • HCBS waiver services: personal emergency response system (PERS) • Automated authorizations for Drug Utilization Review (DUR)
<p>Louisiana Department of Health and Hospitals (DHH), Office for the Aging and Adult Services (OAAS)</p>	<p>Contract Dates: 2004 - Present</p> <ul style="list-style-type: none"> • Conducting In-Home assessments for the Personal Care Services (PCS) program • Providing telephonic level of care (LOC) determinations for the PCS program, Program of All-Inclusive Care for the Elderly (PACE), waivers, and nursing facility (NF) admissions • Developing Plans of Care for Personal Care Services participants

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
Mississippi Division of Medicaid	<p>Contract Dates: 2003 to Present</p> <ul style="list-style-type: none"> • Automated authorization for Drug Utilization Review (DUR) • Designing and implementing a Web-based Pre-Admission Screening application that includes a Level I PASRR
Missouri Department of Social Services (DSS), HealthNet Division	<p>Contract Dates: 2002 to Present</p> <ul style="list-style-type: none"> • Automated authorization for Inpatient Behavioral Health and Medical, with support from clinical help desk for authorizations that cannot be auto-adjudicated • Automated authorization for Drug Utilization Review (DUR), with support from clinical help desk for authorizations that cannot be auto-adjudicated • Automated authorization for Durable Medical Equipment (DME), dental, optical and Out Patient Behavioral Health • Home and Community-Based Services (HCBS) Web-based application developed and implemented by Xerox allows State staff to pre-screen, perform the InterRAI assessment, receive a Level of Care (LOC) score to determine if the members meets criteria for HCBS services, document a plan of care, and create service authorizations; also allows the In-Home service provider to log in and see all of the aforementioned outcomes in a read-only format
New Mexico Human Services Department	<p>Contract Dates: 2010 to Present</p> <ul style="list-style-type: none"> • Providing technical and administrative support for the Mi Via Waiver, a consumer directed program
Rhode Island Executive Office of Health and Human Services (EOHHS)	<p>Contract Dates: 2010 to Present</p> <ul style="list-style-type: none"> • Providing Long-Term Support Services (LTSS) technical and operational support for the following program initiatives: <ul style="list-style-type: none"> – The Nursing Home Transition program and the Money Follows the Person Demonstration Grant to transform RI's LTC system and rebalance the LTC expenditures from institutional services to home and community-based services (HCBS) – The development of managed care programs for all Medicaid and Medicare/Medicaid eligible members—the development of the integrated care management programs pathways include a Managed Care Organization (MCO) model and an Enhanced Primary Care Case Management (PCCM), inclusive of medical, behavioral, and long-term services and supports – The development of Health Home programs as defined in Section 2703 of the Patient Protection Affordability Act – The RI PASRR program
Texas Health and Human Services Commission (HHSC)	<p>Contract Dates: 2003 to Present</p> <ul style="list-style-type: none"> • Automated authorization and clinical review for the following Medicaid reviews: <ul style="list-style-type: none"> – Medical services: non-emergency medical transportation (NEMT), dental, home health (DME, supplies, physical therapy, occupational therapy, skilled nursing visits), electrocardiograms (ECGs), and obstetrics (OB) ultrasound over stated limits, transplants, pain pumps) and all high-end radiology multiple medical services provided in institutional settings – Behavioral health reviews include inpatient admissions for clients under 21 years of age; AODA (Accessibility for Ontarians with Disabilities Act) services such as detox (detoxification) and residential treatment; and outpatient (OP) therapy over stated limits • Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) service authorizations include private duty nursing, Durable Medical Equipment (DME), inpatient rehabilitation, physical therapy (PT), occupational therapy (OT), speech therapy (ST), orthotics and prosthetics

Table B-4. Other Government-Funded or Related Healthcare Contracts	
Requirement	Response
	<ul style="list-style-type: none"> Medical necessity determinations for waiver services, Program of All-Inclusive Care for the Elderly (PACE) and nursing facility (NF) services Medical necessity LOC determinations for Community-Based Alternative (CBA), Medically Dependent Children’s Program (MDCP), and STAR+PLUS <p>Note: auto-medical necessity algorithms facilitate determination of services that require the skills of a nurse or that indicate extensive debility</p>
Wyoming Department of Health (DOH), Division of Healthcare Financing (DHF)	<p>Contract Dates: 2008 to Present</p> <ul style="list-style-type: none"> Durable Medical Equipment (DME), Inpatient Rehabilitation, long-term care State-wide assessment, nursing facility (NF) site reviews, PASRR Level II determinations, mortality reviews of waiver cases, disability determinations, residential and Psychiatric Residential Treatment Facility (PRTF), and selected surgical services Designed and implemented a Web-based Level I PASRR referral process
District of Columbia Department of Health (DOH), Medical Assistance Administration (MAA)	<p>Contract Dates: 2008 to Present</p> <ul style="list-style-type: none"> Clinical staff manually reviewing Drug Utilization Review (DUR) requests Implementing a case management system for Home and Community-Based Services (HCBS) waiver programs

2.5 Vendor’s Work Locations

Instructions: The Vendor Key Project Personnel (including but not limited to the Account Director, Account Manager, and Clinical Pharmacist Manager) must be available to participate in-person during PBM-related meetings as scheduled by the State during normal business hours, 8:00 AM until 4:30 PM Eastern Time, Monday through Friday except State of Vermont holidays. The State will not provide facilities for Vendor Key Project Personnel.

Vermont expects that no more than 10% of all staff, including both prime and subcontractor, shall be performing the work on a valid working visa issued by the United States government. The State will not permit project work or business operations services to be performed offshore. At no time shall the vendor maintain, use, transmit, or cause to be transmitted information governed by privacy laws and regulations outside the United States and its territories.

Describe the locations where the Vendor proposes performing work associated with this RFP. Indicate the site or sites from which the Vendor will perform the relevant tasks identified in this proposal. If the site(s) for a specific task change during the contract term, please provide a time line reflecting where the task will be performed during each time period.

Specifically identify where the services identified in RFP Section 2.2 will take place.

Specifically identify where the Key Project Personnel identified in RFP Section 2.5 will be physically located for the duration of the contract.

List any call centers, their related contract responsibilities, and the city and state where they will be physically located for the duration of the Contract.

For each of the deliverables identified in RFP Section 2.7, provide the percentage of work to be done in Vermont.

Xerox will secure office space in the Burlington, Vermont area upon contract award. The site selected in the Burlington area will serve as our operations center for key staff as well as other project staff for the

duration of the contract for services, functions, and tasks performed in Vermont. Xerox acknowledges that the State will not provide facilities for vendor key project personnel. Please see heading Location of Key Personnel, in this section, which cites the location of our key personnel and hours of operation.

Xerox acknowledges that Vermont expects that no more than 10 percent of all staff, including both prime and subcontractor, shall be performing the work on a valid working visa issued by the United States government, and that the State will not permit project work or business operations services to be performed offshore. At no time shall we maintain, use, transmit, or cause to be transmitted information governed by privacy laws and regulations outside the United States and its territories.

In Table B-5, Xerox lists the locations where we propose performing the work associated with the Vermont project, specifically identifying the sites where we will perform relevant tasks including the services identified in RFP Section 2.2, as required.

Table B-5. Project Work Locations and Services Performed including Call Center	
Location	Services/Functions
Burlington, Vermont	<ul style="list-style-type: none"> • Account management and project office functions • Project management and technical lead functions • Post Payment Claims Management • Benefit Design and Consultative Support • Reporting and Analytics • Dual Eligible Demonstration • Single Payer Considerations • Quality Assurance
Pittsburgh, Pennsylvania (Existing Xerox data center)	<ul style="list-style-type: none"> • Primary data center • Point-of-Sale (POS) claims processing system • Automated Coordination of Benefits (COB) • Post Payment Claims Management
Henderson, North Carolina (Existing Xerox facility) *Please see brief description of our Henderson Call Center following this table.	<ul style="list-style-type: none"> • Helpdesk and clinical prior authorization (PA) Call Center • Provider Network Support, Call Center, and Portal • Prior Authorization Program • Quality Assurance
Atlanta, Georgia (Existing Xerox facility)	<ul style="list-style-type: none"> • Management of State and CMS Drug Rebate Programs • Support of Multistate Supplemental Rebate Consortium • Print fulfillment for rebate invoices and letters • Design, development, implementation (DDI)/operations and maintenance
Richmond, Virginia (Existing Xerox facility)	<ul style="list-style-type: none"> • Prior Authorization Program • Print fulfillment for prior authorization (PA) letters • E-Prescribing and E-Prior Authorization Capabilities • Utilization Management Programs • Drug Utilization Review • State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL) • Medication Therapy Management • Management of Physician-Administered Drugs • 340B Program Management • Quality Assurance

Table B-5. Project Work Locations and Services Performed including Call Center	
Location	Services/Functions
Tarrytown, New York (Existing Xerox facility)	Data center business continuity and disaster recovery (BC/DR)
Moon Township, Pennsylvania (Existing Xerox location)	Secure storage for backup copies from our Pittsburgh Data Center
Charlotte, North Carolina (Existing location)	Operations business continuity and call center disaster recovery
Carnegie, Pennsylvania (Walgreens Specialty Pharmacy)	Specialty Pharmacy
El Segundo, California	Design, development, implementation (DDI)/operations and maintenance
Phoenix, Arizona	Design, development, implementation (DDI)/operations and maintenance

Henderson, North Carolina Call Center

Xerox operates a professionally staffed call center in Henderson, North Carolina that will provide helpdesk and clinical prior authorization (PA) calls center services for the Vermont project. This facility is dedicated to providing pharmacy-related services to support 24 different state programs covering Medicaid pharmacy benefit manager (PBM), health information exchange (HIE), electronic health record (EHR), and Medicaid management information system (MMIS) clients. In Henderson, more than 560 clinical and pharmacy services specialists promptly respond to more than 360,000 calls each month. The call center also hosts a Telecommunications Device for the Deaf (TDD) phone line to provide services to hearing-impaired providers and billing agents. Our Henderson call center also supports two large national healthcare payer clients.

Location of Key Personnel

The Agency places particular emphasis on the importance of key personnel being engaged throughout both the implementation and operations phases of the project, requiring that “Key Project Personnel are to be full-time and dedicated solely to the Vermont Medicaid account unless the Vendor provides alternative solutions that meet with the State’s approval.” Xerox appreciates the Agency’s attention to these factors and recognizes that, in large part, the success of a project hinges on Xerox and Agency staff working collaboratively to meet project goals from project initiation through contract end.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

For ease of evaluation, we summarize this information in Table B-6, Location of Key Personnel.

Table B-6. Location of Key Personnel	
Key Personnel	Location
[REDACTED]	<ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED] ■ [REDACTED]
[REDACTED]	<ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED]
[REDACTED]	<ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED]
[REDACTED]	<ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED]

Percentage of Work Performed in Vermont: RFP Section 2.7 Deliverables

In Table B-7, Xerox indicates the percentage work that will be performed in Vermont for each of the deliverables identified in RFP Section 2.7,

Table B-7. RFP Section 2.7 Deliverables: Percentage of Work Performed in Vermont		
Task	Deliverables	Percent
Task 0 – Project Monitoring and Status Reporting	Deliverable 0 – Project Status Reporting (Recurring deliverable)	100 %
Task 1 – Project Initiation and Planning	<ul style="list-style-type: none"> • Deliverable 1 – Project Kick-off Presentation • Deliverable 2 – Project Management Plan • Deliverable 3 – Project Work Plan and Schedule • Deliverable 4 – Monthly Project Status Reports 	<ul style="list-style-type: none"> • 100 % • 100 % • 100 % • 100 %
Task 2 – Requirements Validation	<ul style="list-style-type: none"> • Deliverable 5 – Requirements Methodology and Template • Deliverable 6 – Cross-Walk of RFP Functional against Legacy System Functionality • Deliverable 7 – Detailed Functional and Non-Functional Requirements Traceability Matrices 	<ul style="list-style-type: none"> • 50% • 50% • 50%
Task 3 – System Design	<ul style="list-style-type: none"> • Deliverable 8 – Configuration Design Document • Deliverable 9 – Data Integration and Interface Design Document 	<ul style="list-style-type: none"> • 25% • 75%
Task 4 – Configuration and Development	<ul style="list-style-type: none"> • Deliverable 10 – Client Review of Configuration • Deliverable 11 – Unit Testing Scripts and Results 	<ul style="list-style-type: none"> • 100% • 25%

[REDACTED]

Table B-7. RFP Section 2.7 Deliverables: Percentage of Work Performed in Vermont		
Task	Deliverables	Percent
Task 5 – Testing	<ul style="list-style-type: none"> Deliverable 12 – Documented System Test Results Deliverable 13 – User Acceptance 	<ul style="list-style-type: none"> 50% 100 %
Task 6 – Training >	<ul style="list-style-type: none"> Deliverable 14 – Training Plan Deliverable 15 – Training Materials Deliverable 16 – Documented Evidence of Successful End-User Training 	<ul style="list-style-type: none"> 100 % 100 % 100 %
Task 7 – Deployment	<ul style="list-style-type: none"> Deliverable 17 – Deployment Plan Deliverable 18 – CMS Certification Deliverable 19 – System Documentation Deliverable 20 – Performance SLAs Deliverable 21 – Rollout 	<ul style="list-style-type: none"> 50% 100% 50% 100% 100%

2.6 Existing Business Relationships with Vermont

Instructions: Describe any existing business relationships the Vendor or any of its affiliates and proposed Subcontractors has with Vermont.

Xerox State Healthcare, LLC

Xerox State Healthcare, LLC currently does not have any active engagement or contracted business with the State of Vermont.

Government services in Vermont provided by other subsidiaries of our corporate parent, Xerox Corporation, include: unclaimed property services for the State of Vermont, Office of the State Treasurer and government records management services for 28 towns and cities in Vermont. We provide the International Registration Plan (IRP) processing system including PRISM functionality, and the International Fuel Tax Agreement (IFTA) processing system for commercial heavy vehicles for the Vermont Agency of Transportation, Department of Motor Vehicles.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.7 Medicaid Pharmacy Operations Projects Completed in the Last Five Years

Instructions: Provide a listing and contact information for all implementations and/or services contracts/clients in the Medicaid pharmacy operations space for the last five (5) years, and denote any that are pending litigation or Terminated for Cause or Convenience and associated reasons. If Vendor uses Subcontractors, associated companies and consultants that will be involved in any phase of this project, each of these entities will submit this information as part of the response.

Xerox and our subcontractors bring extensive experience providing the scope of services requested under the Vermont project. In the following sections, we provide a listing and contract information for implementations, services, and clients in the Medicaid operations space for the last five years, denoting any that are pending litigation or terminated for cause or convenience, using the RFP table format. As indicated within the following table, we provide reasons for contracts marked as having business disputes in our response to section 2.8 Business Disputes.

Xerox State Healthcare, LLC (Xerox)

The following table includes Xerox’s standalone pharmacy claims processing and clinical services/technology accounts as well as MMIS/Fiscal Agent accounts with integrated pharmacy claims processing and clinical service/technology components. For many of these contracts, the contract date span reflects multiple consecutive contract awards, representing longstanding, effective working relationships with our customers

Projects completed in the last five years

Ref #	Project Name	Customer Name	Customer Contact	Project Duration	Business Dispute?
1.	Arkansas Medicaid SmartPA	Subcontractor to Hewlett Packard	Brent Breeding, RPh Healthcare Services Manager II Phone: (501) 374-6609 ext. 248 Email Address: brent.breeding-p-d@hp.com	July 2004 – Present (annual auto-renewed contract)	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
2.	California MMIS/Fiscal Intermediary Services/PBM	California Department of Health Care Services (DHCS)	Vicky Sady, Deputy Director, CA-MMIS Division Phone: (916) 373-7719 Email Address: vicky.sady@dhcs.ca.gov	May 2010 – June 2016	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
3.	Colorado MMIS/Fiscal Agent Services/PBM	Colorado Department of Health Care Policy and Financing	Parrish Steinbrecher, Division Director Phone : (303) 866-2336 Email Address: Parrish.Steinbrecher@state.co.us	August 1996 – June 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>

Ref #	Project Name	Customer Name	Customer Contact	Project Duration	Business Dispute?
4.	District of Columbia Medicaid Pharmacy Benefits Management (PBM) Services	District of Columbia Department of Health Care Finance, Medicaid Administration	Linda Elam, PhD, Senior Deputy Director State Medicaid Director DC Department of Health Care Phone: (202) 442 – 9075 Email Address: Linda.elam@dc.gov	February 2008 – February 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
5.	District of Columbia AIDS Drugs Assistance Program (ADAP)	District of Columbia, Department of Health, and HIV/AIDS, Hepatitis, STD, TB Administration (HAHSTA)	Frederick Dorsey, Contracting Officer Office of Contracting and Procurement Phone: 202-727-0017 Email Address: Frederick.Dorsey@dc.gov	April 2012 – August 2013	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
6.	Hawaii Medicaid Fiscal Agent Services/PBM	Hawaii Department of Human Services, Med-QUEST Division	Dr. Kenneth Fink, Administrator Phone: (808) 692-8050 Email Address: kfink@medicaid.dhs.state.hi.us	July 2013 – June 2016	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
7.	Hawaii Medicaid Fiscal Agent Services/PBM	Hawaii Department of Human Services Med-QUEST Division	Dr. Kenneth Fink, Administrator Phone: (808) 692-8050 Email Address: kfink@medicaid.dhs.state.hi.us	January 2009 – June 2013 <i>*See notes in Section 2.8, below</i>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>
8.	Idaho Medicaid Pharmacy Benefit Management (PBM) Services	State of Idaho, Department of Health & Welfare	Last known contact Name and Title: Richard Armstrong, Director Phone Number: (208) 334-5000 Email Address: armstrongr@dhw.idaho.gov	November 2007 – March 2009 <i>*See notes in Section 2.8, below</i>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>
9.	Kansas Medicaid SmartPA and Call Center	Kansas Department of Health and Environment, Division of Health Care Finance	Last known contact: Kelley Melton, Pharm.D. Senior Pharmacy Program Manager Phone: (785) 296-8406 KMelton@kdheks.gov	February 2011 – January 2013 <i>*See notes in Section 2.8, below</i>	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
10.	Indiana Medicaid PBM Services	Indiana Family Social Services Administration, Office of Medicaid Policy & Planning (FSSA/OMPP)	Marc Shirley, R.Ph., Pharmacy Operations Manager Phone Number: (317) 232-4343 Email Address: marc.shirley@fssa.in.gov	April 2007 – June 2013	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
11.	Maryland Medicaid PBM Services	Maryland Department of Health and Mental Hygiene	Athos Alexandrou, Director, Maryland Medicaid Pharmacy Program Phone: (410) 767-5369 Email Address: athos.alexandrou@maryland.gov	August 2006 – July 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>

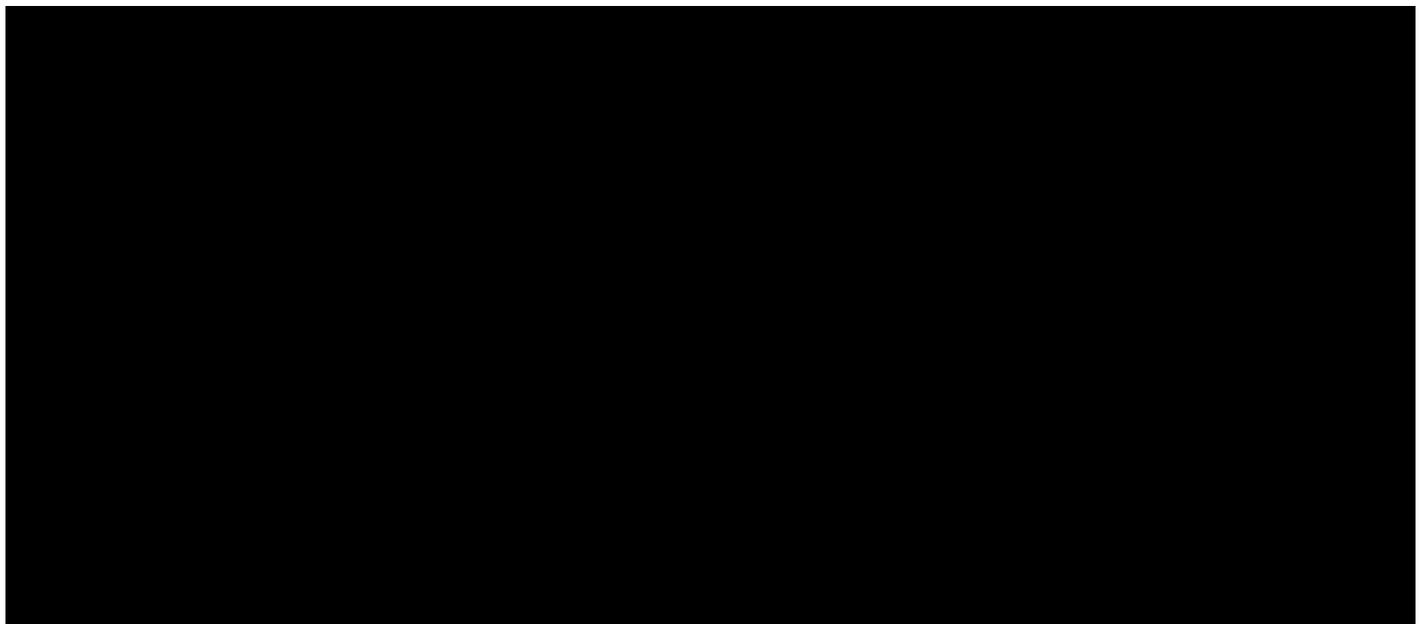
Ref #	Project Name	Customer Name	Customer Contact	Project Duration	Business Dispute?
12.	Massachusetts POPSIII Pharmacy On-line Processing System – Medicaid	Massachusetts Executive Office of Health and Human Services (EOHHS)	Nancy Christensen, Contract Officer Phone: (617) 423-9824 Email Address: nancy.christensen@state.ma.us	October 2001 – June 2016	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
13.	Minnesota Medicaid RetroDUR/DRAMS	Minnesota Department of Human Services	Mary Beth Reinke, Pharm.D. DUR Coordinator Phone: (651) 431-2505, ext. 12505 Email Address mary.beth.reinke@state.mn.us	September 2005 – September 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
14.	Mississippi MMIS/Fiscal Agent Services/PBM	State of Mississippi Division of Medicaid	Rita Rutland, Chief Information Officer Phone: (601) 576-4147 Email Address: rita.rutland@medicaid.ms.gov	January 2002 – July 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
15.	Missouri Clinical Management Services and System for Pharmacy Claims and Prior Authorization (CMSP)	Missouri Department of Social Services, HealthNet Division	Jayne Zemmer, Program Manager Phone: (573) 751-6963 Email Address: jayne.a.zemmer@dss.mo.gov	March 2001 – June 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
16.	Montana MMIS/Fiscal Agent Services/PBM Legacy Operations	Montana Department of Public Health and Human Services	Jeff Buska, Project Director Phone: (406) 442 - 6985 Email Address: jbuska@mt.gov	September 2006 – August 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
17.	Montana MMIS/ Fiscal Agent Services/PBM DDI and Operations	Montana Department of Public Health and Human Services	Jeff Buska, Project Director Phone: (406) 442 - 6985 Email Address: jbuska@mt.gov	April 2012 – February 2019 <i>*See notes in Section 2.8, below</i>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>
18.	New Mexico MMIS/Fiscal Agent Services /PBM	State of New Mexico Human Services Department	Mark Pitcock, Deputy Director, Medical Assistance Program Phone: (505) 827-1344 Email Address: mark.pitcock@state.nm.us	March 2012 – December 2016	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
19.	New Mexico MMIS/Fiscal Agent Services /PBM	State of New Mexico Human Services Department	Mark Pitcock, Deputy Director, Medical Assistance Program Phone: (505) 827-1344 Email Address: mark.pitcock@state.nm.us	September 2005 – December 2012	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>

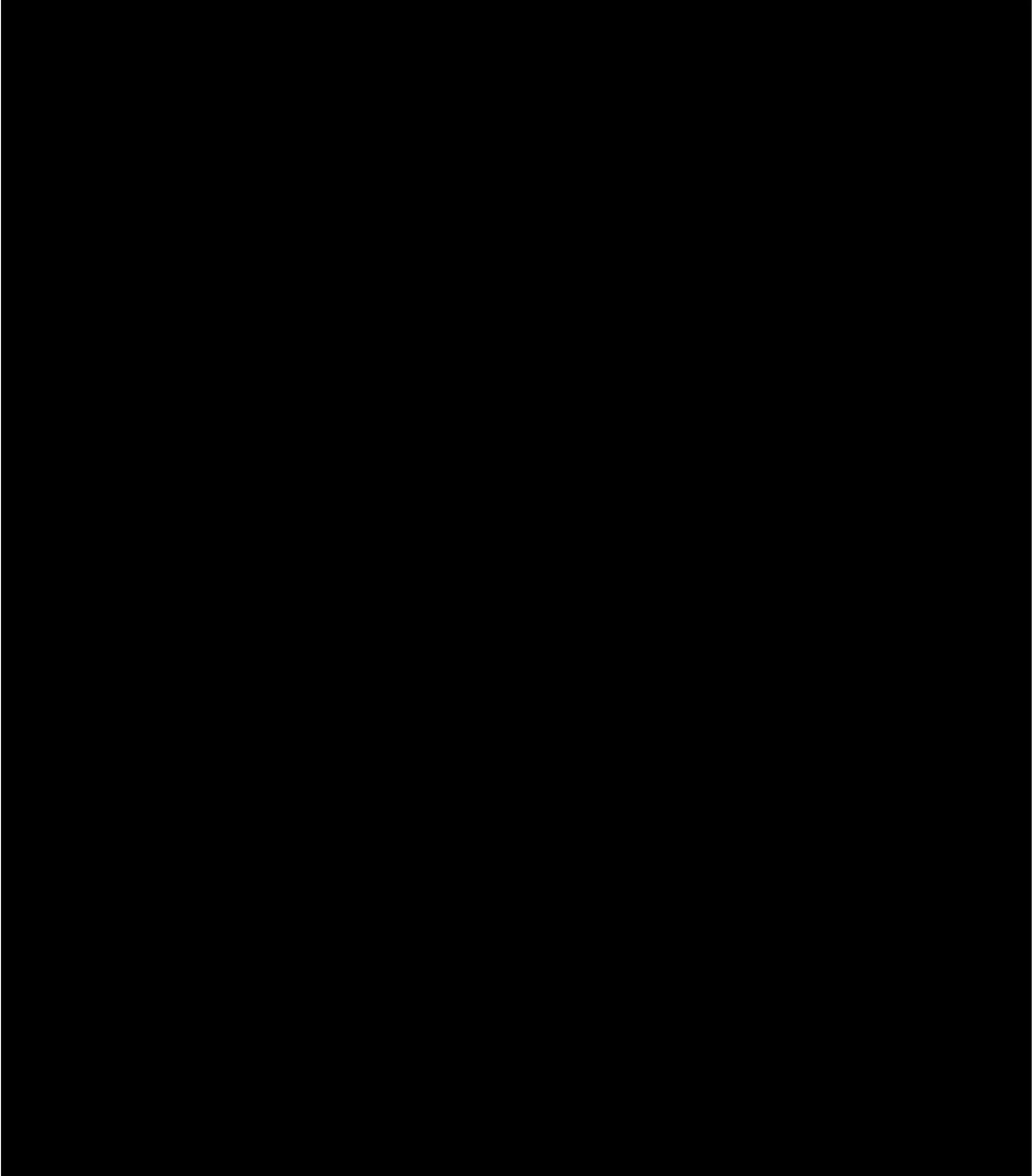
Ref #	Project Name	Customer Name	Customer Contact	Project Duration	Business Dispute?
20.	North Carolina Department of Medical Assistance Prior Authorization Call Center	North Carolina Division of Medical Assistance	Last known contact: Lisa Weeks, PharmD, RPh, Chief, Pharmacy and Ancillary Services Phone: (919) 855-4305 Email Address: lisa.weeks@dhhs.nc.gov	June 2001 – June 2013 <i>*See notes in Section 2.8, below</i>	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
21.	North Dakota Medicaid MMIS/PBM: Implementation for State Administration	North Dakota Department of Human Services	Ms. Jennifer Witham, Chief Information Officer (CIO) Phone: (701) 328 - 2570 Email Address: jwitham@nd.gov	June 2006 – September 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
22.	Ohio Bureau for Children with Medical Handicaps	Ohio Department of Health, Bureau for Children with Medical Handicaps	Patrick Londergan, Contract Officer Phone: (614) 728-7039 Email Address: Pat.Londergan@odh.ohio.gov	December 2006 – June 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
23.	Ohio Job and Family Services Pharmacy Program	Ohio Department of Job and Family Services (ODJFS)	Margaret Scott, RPh, DUR Administrator, Pharmacy Operations Phone: (614) 752-4613 Email Address: margaret.scott@medicaid.ohio.gov	July 2006 – June 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
24.	Texas Drug Utilization Review (DUR) - Medicaid	Texas Health and Human Services Commission/ Drug Vendor Program (HHSC/VDP)	Nahid Assadi DUR Coordinator Phone: (512) 707-6109 Email Address: Nahid.Assadi@hhsc.state.tx.us	November 2012 – October 2015	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
25.	Texas HHSC Prior Authorization	Texas Health and Human Services Commission/Vendor Drug Program (HHSC/VDP)	Nahid Assadi DUR Coordinator Phone: (512) 707-6109 Email Address: Nahid.Assadi@hhsc.state.tx.us	December 2003 – January 2011 <i>*See notes in Section 2.8, below</i>	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
26.	Texas Medicaid Health Partnership (TMPH) MMIS/Fiscal Intermediary Services/PBM	Texas Health and Human Services Commission (HHSC)	Howard G. Baldwin Jr., Special Contract Adviser Medicaid/CHIP Claims Administrator Contract Compliance Director Phone: (512) 462-6203 Email Address: howard.baldwin@hhsc.state.tx.us	February 2003 – August 2014	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>

27.	Virginia MMIS/Fiscal Agent Services/ Provider Enrollment Services/PBM	Commonwealth of Virginia Department of Medical Assistance Services (DMAS)	Name: Frank Guinan, Program Manager Phone: (804) 371- 6453 Email Address: frank.guinan@dmas.virginia.gov	April 2009 – June 2014	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
28.	West Virginia Medicaid Retrospective Drug Utilization Review (RetroDUR)	West Virginia Department of Health and Human Resources, Bureau for Medical Services	Vicki M. Cunningham, R.Ph. Director, Office of Pharmacy Services Phone: (304) 356-4857 Email Address: Vicki.M.Cunningham@wv.gov	January 2011 – June 2014	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
29.	West Virginia Medicaid SmartPA	West Virginia Department of Health and Human Resources, Bureau for Medical Services	Vicki M. Cunningham, R.Ph. Director, Office of Pharmacy Services Phone: (304) 356-4857 Email Address: Vicki.M.Cunningham@wv.gov	February 2012 – January 2015	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
30.	University of Massachusetts Medical School (UMMS) Prescription Advantage Program	University of Massachusetts Medical School (UMMS)	Jeffrey Auger Director of Operations UHealth Solutions, Inc. Phone: (508) 793-1196 Email Address: JAuger@uhealthsolutions.org	January 2013 - December 2014, plus two one- year extensions	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>

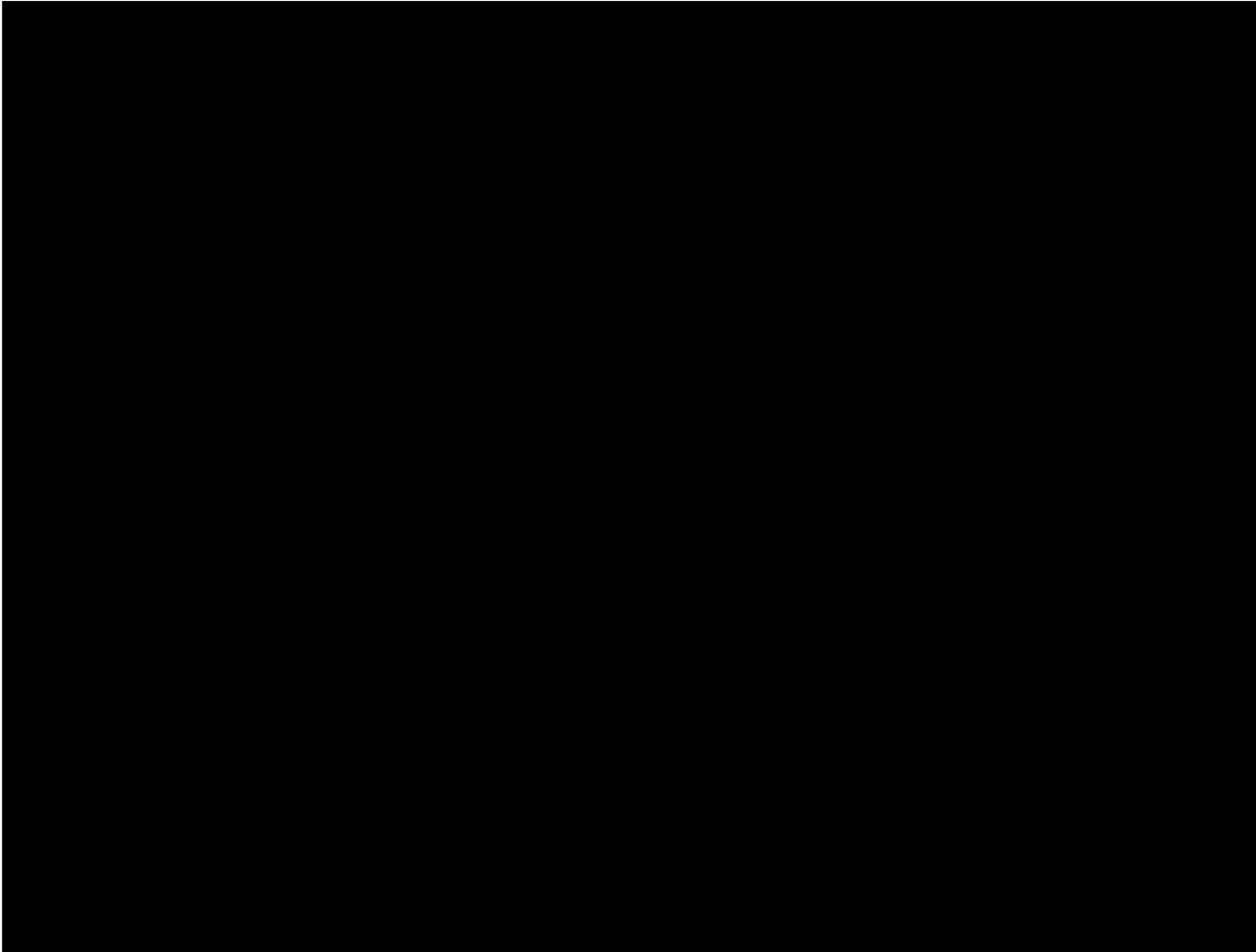


Projects completed in the last five years





Projects completed in the last five years



2.8 Business Disputes

Instructions: Provide details of any disciplinary actions and denote any that are pending litigation or Terminated for Cause or Convenience and associated reasons. Also denote any other administrative actions taken by any jurisdiction or person against the Vendor. List and summarize all judicial or administrative proceedings involving your sourcing activities, claims of unlawful employment discrimination and anti-trust suits in which you have been a party within the last five years. If Vendor is a subsidiary, submit information for all parent companies. If Vendor uses Subcontractors, associated companies and consultants that will be involved in any phase of this project, each of these entities will submit this information as part of the response.

Xerox State Healthcare, LLC

Following, we provide reasons for projects cited as having a business dispute in Proposal Section 2.7 Medicaid Pharmacy Operations Projects Completed in the Last Five Years.

- **Hawaii Medicaid Fiscal Agent Services/PBM;** Hawaii Department of Human Services, Med-QUEST Division; January 2009 – June 2013; Dispute.

Xerox is working with the State related to an overpayment on medical claims paid to a provider. The matter does not affect Xerox's pharmacy benefits management services that were provided to the State under this contract.

- **Idaho Medicaid Pharmacy Benefit Management (PBM) Services;** State of Idaho Department of Health and Welfare; November 2007 – March 2009; Termination for Convenience.

ACS State Healthcare, LLC, the Bidder was the PBM contractor for the State of Idaho. The timing of our services was dependent on the State's MMIS contract for delivery of the State's MMIS. The MMIS contractor, in agreement with the State, extended their go-live date from November 2, 2009 to February 1, 2010 in order to accommodate the MMIS contractor's need for more development time. The extension of the go-live affected ACS in that our ability to interface with the MMIS was substantially delayed causing ACS an increased financial impact. The State would not entertain this impact and unexpected by ACS, the State issued ACS a notice of termination on March 30, 2009. ACS believed this termination was in retaliation to ACS' request to the State to entertain the impact. Following discussions with ACS, the State agreed to rescind the termination and agreed to a mutual termination for convenience. ACS and the State agreed upon a new letter to be issued by the State expressly rescinding the previous letter declaring the previous termination as null and void, and establishing that the contract has been terminated for convenience.

- **Kansas Medicaid SmartPA and Call Center;** Kansas Department of Health and Environment, Division of Health Care Finance; February 2011 – January 2013. Termination for Convenience.

Kansas terminated the contract for convenience because Kansas converted to a managed care based prior authorization program and Xerox's services were no longer required.

- **Montana MMIS/ Fiscal Agent Services/PBM DDI and Operations;** Montana Department of Public Health and Human Services; April 2012 – February 2019. Dispute

Re-planning areas of the contract including the work plan, architectural design issues, and staffing resources.

- **North Carolina Department of Medical Assistance Prior Authorization Call Center;** North Carolina Division of Medical Assistance; June 2001 – June 2013. Termination for Convenience.

A new contractor was engaged by the State to take over all MMIS and PBM operations. North Carolina was extremely happy with Xerox's performance.

- **Texas HHSC Prior Authorization;** Texas Health and Human Services Commission/Vendor Drug Program (HHSC/VDP); December 2003 – January 2011. Termination for Convenience.

This contract had multiple three-month extensions in order for the State to complete its mission and objectives under the contract and there was no further ability by the State to extend the contract.

On an ongoing basis, Xerox State Healthcare, LLC (“Xerox”) is subject to various legal proceedings, inquiries, claims and disputes that arise in the ordinary course of business and that would not be unusual for a company of our size and scope of operations. Set forth below is a disclosure of any administrative actions or proceedings or judicial proceedings taken by any jurisdiction or person against Xerox involving our sourcing activities or anti-trust suits in which Xerox has been a party, within the last five (5) years.

The list does not include: (i) administrative matters that do not involve contested, “trial-type” proceedings, (ii) routine collection matters, (iii) employment disputes or disciplinary actions (Xerox does not normally disclose these types of disputes and actions as they are considered confidential and sensitive information concerning our employees or former employees), or (iv) matters arising outside of the United States. Further information is available upon request. With respect to these matters or actions which may be pending, Xerox does not believe that they would have a material adverse effect on our company’s financial conditions or our ability to carry out the proposed contract if awarded.

As to Xerox’s parent company, Xerox Corporation, Xerox and Xerox Corporation do not believe that any pending matters or actions against Xerox Corporation would have a material adverse effect on our company’s financial condition or our ability to carry out the proposed contract if awarded. Further information with regard to material legal proceedings involving Xerox Corporation, and its subsidiaries, may be found in the periodic disclosures to the Securities and Exchange Commission, under Forms 10-K and 10-Q filed by Xerox Corporation.

Note: Xerox State Healthcare, LLC was previously known as ACS State Healthcare, LLC and changed its name as a result of the acquisition by Xerox Corporation in February 2010.

United States ex rel. Terrence Brown & J. Russell Hixson et al. v. Health Management Systems, Inc. et al.

This was a qui tam lawsuit filed on October 9, 2007, with ACS as one of the plaintiffs, alleging violation of the False Claims Act. It was filed on October 9, 2007 in the US District Court for the Southern District of Iowa, and served on ACS on January 6, 2009. The case was dismissed in September 2009, and the 8th Circuit Court of Appeals upheld the dismissal on July 30, 2010. This case is concluded.

ACS v. Greg Abbott & Amerigroup

In this lawsuit, filed in December 2007, ACS sought a declaratory judgment against the making public of certain trade secrets and financial information. This case was nonsuited in October 2008 and is concluded.

ACS v. Four Thought Group, Inc.

In this lawsuit, filed in February 2008 in the US District Court for the District of Nebraska, ACS sought injunctive and declaratory relief as a result of a contract's being awarded to the defendant. This suit was dismissed in April 2010 and is concluded.

Rafael Valenzuela, MD v. Texas Medicaid & Healthcare Partnership et al.

In this lawsuit, filed on April 28, 2008 in the 116th District Court of Dallas County, Texas, the plaintiff, a physician, alleged fraud, negligence, and business disparagement against nine defendants, including ACS and its ultimate corporate parent Affiliated Computer Services, Inc. This suit was settled in October 2010, and dismissed in January 2011. This case is concluded.

Lara v. ACS

In this lawsuit, filed in January 2009 in Dallas County, Texas District Court, the plaintiff alleged denial of Medicaid benefits. This case is concluded.

Mondragon v. ACS d/b/a Texas Medicaid and Healthcare Partners, et al.

In this lawsuit, filed on January 9, 2009 in Dallas County, Texas Court at Law No. 4 against eight defendants, including ACS, the plaintiff alleged denial of Medicaid benefits. ACS was dismissed from the case by the plaintiff after it informed the plaintiff that it was not the proper party to sue. This case is concluded.

ACS v. Wipro

In this lawsuit, filed in February 2009 in the Delaware Court of Chancery, ACS alleged breach of contract, unjust enrichment, and trade-secret misappropriation by a subcontractor, who counterclaimed for breach of contract and unjust enrichment. This case was settled and is concluded.

Accenture v. ACS

In this action, a private arbitration commenced on May 9, 2011, Accenture sought amounts withheld by ACS from Accenture invoices. ACS was the prime contractor to the State of Texas ("the State") for its Medicaid program, and Accenture was a subcontractor to ACS. ACS was forced to repay the State \$4.6M as reimbursement for staffing increases that the State claimed, incorrectly, had not been made by Accenture. The State refused to reimburse ACS, so ACS sought to recoup this amount from Accenture. This matter was resolved prior to the beginning of the arbitration proceeding and is concluded.

Protest by Public Consulting Group

In 2009, Public Consulting Group protested the award of a Long-Term Care contract to ACS State Healthcare, LLC. This protest was denied. This matter is concluded.

California MMIS Protest

In December 2009, Electronic Data Systems, LLC (“EDS”) filed a protest of the State of California’s award of its MMIS contract to ACS State Healthcare, LLC. The state denied the protest. This matter is concluded.

Montana MMIS Protest

On October 3, 2011, Molina Medicaid Solutions filed a protest with the Montana Department of Administration objecting to the award of the Montana MMIS contract to ACS State Healthcare, LLC (“ACS”). ACS filed a Motion to Intervene in this protest, which was granted on February 3, 2012. On March 4, 2013, the protest was dismissed with prejudice by mutual agreement of the State of Montana, Molina Medicaid Solutions and ACS. This matter is concluded.

Florida Consumer Complaint Line Protest

In 2009, ACS State Healthcare, LLC protested the Florida Agency for Healthcare Administration’s award of its consumer complaint line contract. The protest was later withdrawn. This matter is concluded.

Florida Enrollment Broker Protest

On March 12, 2009, ACS State Healthcare, LLC filed a protest of the Florida Agency for Healthcare Administration’s award of its Choice Counseling Enrollment Broker contract to AHS. This protest was withdrawn. This matter is concluded.

Florida Choice Counseling Enrollment Broker Protest

On July 23, 2009, ACS State Healthcare, LLC filed a protest of the Florida Agency for Healthcare Administration’s award of its Choice Counseling Enrollment Broker contract to AHS. This protest was withdrawn shortly afterward. This matter is concluded.

Louisiana LTC-AS Protest

On August 20, 2009, ACS State Healthcare, LLC (“ACS”) was notified that the contract for Long-Term Care Access Services with the Office of Aging and Adult Services of the Louisiana Department of Health and Hospitals had been awarded to Public Consulting Group (“PCG”). ACS filed a protest of this award on September 3, 2009. On September 16, 2009, ACS was informed that its protest had been granted and that the State would be issuing a new Request for Proposal. PCG appealed the grant of the protest to the Commissioner of Administration in October 2009, but the Commissioner of Administration upheld the invalidation of the contract award to PCG in November. This matter is concluded.

US Department of Labor Protest

On October 4, 2010, ACS State Healthcare, LLC (“ACS”) filed a protest of an award to CSC of a contract with the US Department of Labor’s Office of Worker’s Compensation Programs for medical-bill processing, for which ACS was the incumbent. The General Accounting Office denied ACS’ protest in January 2011. This matter is concluded.

South Carolina TPL Protest

In December 2010, ACS State Healthcare, LLC filed a protest of the award of the State of South Carolina Department of Health and Human Services Third-Party Liability contract Blue Cross and Blue Shield of South Carolina. The Chief Procurement Officer denied the protest in February 2011. This matter is concluded.

Louisiana MMIS Protest

On June 23, 2011, ACS State Healthcare, LLC (“ACS”), filed a protest with the State of Louisiana Department of Administrative Services regarding Louisiana’s award of its Medicaid Management Information System Replacement and Fiscal Intermediary Services contract to CNSI. ACS filed a Supplemental Protest on July 8, 2011. On August 5, 2011, ACS was informed that its protest was denied. This matter is concluded.

Indiana PBM Protest

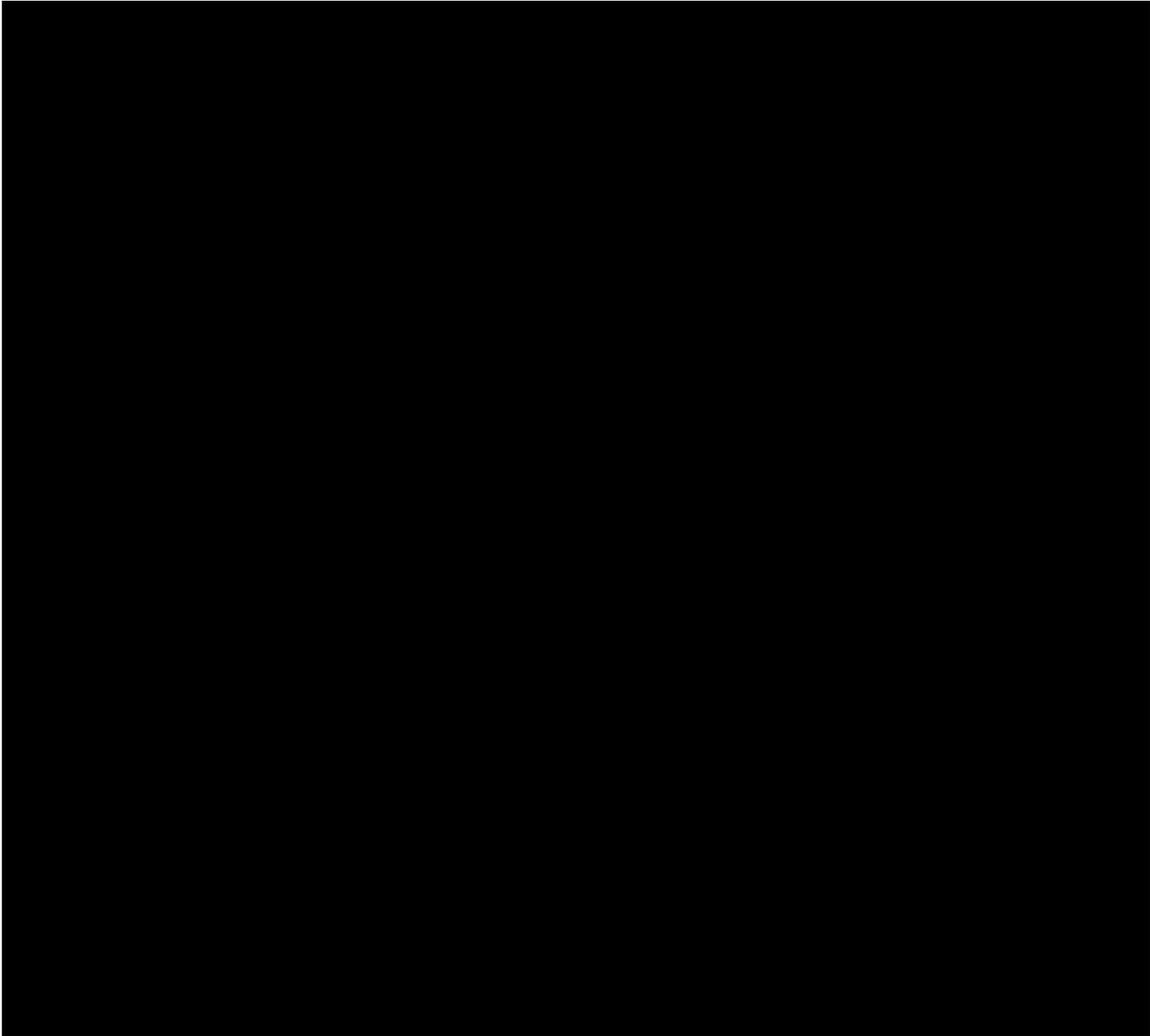
On March 15, 2012, ACS State Healthcare, LLC filed a protest of the award of the Indiana PBM contract to SXC Health Solutions, Inc. The appeal was denied, but ACS filed an appeal of this denial with the Commissioner of the Indiana Department of Administration on April 4, 2012. This appeal was in turn denied. This matter is concluded.

West Virginia MMIS Protest

On December 26, 2012, Xerox State Healthcare, LLC filed a protest of the West Virginia Bureau of Medical Services’ award of its Medicaid Management Information System contract to Molina Medicaid Solutions. This protest was denied in March 2013, and is concluded.

Arkansas MMIS Protest

On September 24, 2013, Xerox State Healthcare, LLC (“Xerox”) filed a protest with the State of Arkansas (“State”) after the State had issued a letter declaring Xerox a non-responsible bidder for the Arkansas MMIS procurement. Xerox’ protest was successful. The State determined that the disqualification was not warranted and invited Xerox to orals. This matter is concluded.



3. Financial Stability

The following questions pertaining to Financial Stability must be answered.

Xerox brings the corporate strength and financial stability to ensure the successful and timely completion of all Vermont PBM Solution DDI project requirements, with no risk to the Department of Vermont Health Access Agency of Human Services (AHS).

We respond to the RFP requirements under the following headings:

- Section 3.1 Dun & Bradstreet (D&B) Ratings
- Section 3.2 Financial Capacity
- Section 3.3 Corporate Guarantee



3.1 Dun & Bradstreet (D&B) Ratings

Instructions: The Vendor must provide the industry standard D&B Ratings that indicates the firm's financial strength and creditworthiness, assigned to most US and Canadian firms (and some firms of other nationalities) by the US firm Dun & Bradstreet (D&B). These ratings are based on a firm's worth and composite credit appraisal. Additional information is given in credit reports (published by D&B) that contain the firm's financial statements and credit payment history.

Table B-8 and Table B-9 demonstrate evidence of our fiscal integrity, financial strength, and creditworthiness.

Table B-8. DNBI [®] Company Summary - Xerox	
Requirement	Response
Company Name	Xerox Corporation (Parent Company)
D-U-N-S [®] Number	04-959-1852
Trade Names	Xerox
D&B Address	45 Glover Ave., Norwalk, Connecticut 06856 Telephone: (203) 968-3000 Facsimile: (203) 968-3917
Mailing Address	P.O. Box 4505, Norwalk, Connecticut 06856
Stock Symbol	XRX
History Status	CLEAR
Financial Condition	GOOD
D&B Rating	5A2

Table B-9. DNBI [®] Company Summary – Xerox State Healthcare, LLC	
Requirement	Response
Company Name	Xerox State Healthcare, LLC – formerly ACS State Healthcare, LLC (Subsidiary)
D-U-N-S [®] Number	07-347-1476
Trade Names	Subsidiary of Affiliated Computer Services, Inc., Dallas, Texas, now known as Xerox Business Services, LLC, a wholly owned subsidiary of Xerox Corporation, a publicly traded corporation on the New York Stock Exchange (NYSE-XRX)
D&B Address	9040 Roswell Road, Suite 700, Atlanta, Georgia 30350 Telephone: (770) 594-7799 Facsimile: (770) 552-6919
History Status	CLEAR
D&B Rating	1R4

3.2 Financial Capacity

Instructions: The Vendor must supply evidence of financial stability sufficient to demonstrate reasonable stability and solvency appropriate to the requirements of this procurement. Vendors must submit the most recent audited financial statement including all supplements, management discussion and analysis, and actuarial opinions. At a minimum, such financial statements and reports shall include: balance sheet; statement of income and expense; statement of changes in financial position; cash flows; and capital expenditures. If the Vendor is a corporation that is required to report to the Securities and Exchange Commission, it must submit its two most recent SEC Forms 10K, Annual Reports. If any change in ownership is anticipated during the twelve (12) months following the proposal due date, the Vendor must describe the circumstances of such change and indicate when the change is likely to occur.

Xerox State Healthcare, LLC (Xerox) is a long-term, financially successful supplier of prescription/pharmacy benefits management (PBM), MMIS, and fiscal agent (FA) systems and services (as well as other government and commercial systems and services, including healthcare), with the financial resources and cash flow required to fully meet the terms of the contract. We bring the financial stability and solvency to perform all required stages of this contract prior to regular operational payments and the financial strength to maintain this contract through contract completion.

Xerox State Healthcare, LLC's financial results are included in the reporting of Xerox Corporation. Xerox Corporation, a publicly traded company (NYSE:XRX) and now with over US\$22 billion in sales, is the world's largest enterprise for technology and business process and document management services. Headquartered in Norwalk, Connecticut, Xerox Corporation is ranked No. 4 in the computer category on FORTUNE magazine's World's Most Admired Companies listing and No. 152 among the FORTUNE 500.

Xerox State Healthcare, LLC is a subsidiary of Xerox Business Services, LLC, which is a wholly owned subsidiary of Xerox Corporation. Xerox State Healthcare, LLC does not maintain its own financial statements as Xerox Corporation, our parent company, prepares consolidated financial statements in accordance with the United States Securities and Exchange Commission (SEC). These consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP), audited by PricewaterhouseCoopers, and submitted to the SEC. In preparing these consolidated financial statements, our parent company, Xerox Corporation, does an analysis of materiality on the overall parent company level, which includes all of the parent company's subsidiaries—including Xerox State Healthcare, LLC.

To provide AHS evidence of our financial strength, stability, and solvency, we provide our parent company's three most recent years of Annual Reports and Form 10-K filings in Attachment A.

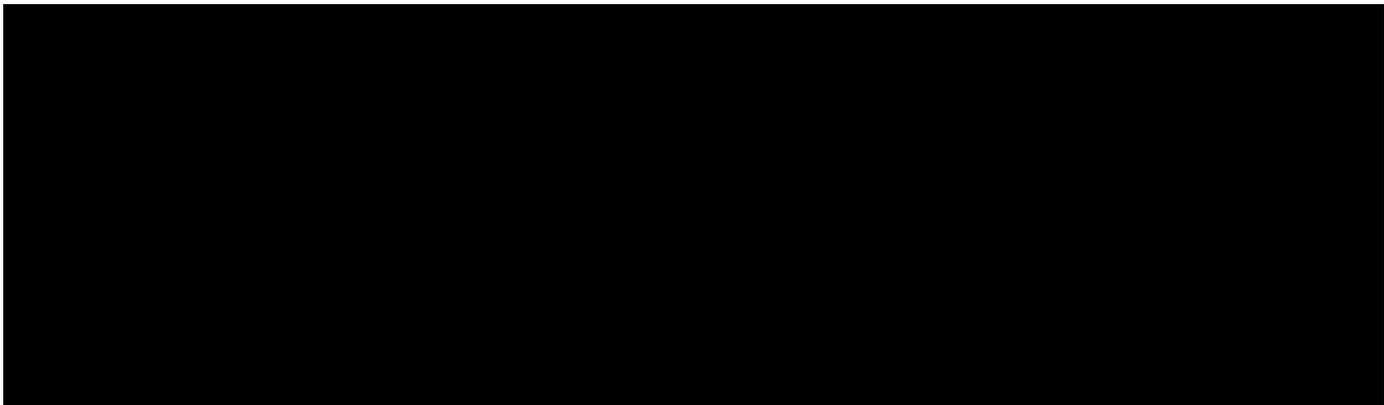
The audited financial statements in Xerox Corporation's Annual Reports contain: balance sheets; statements of incomes and expenses; statements of changes in financial position; statements of cash flows and capital expenditures; notes to financial statements; summary of significant accounting policies and other financial information demonstrating that our financial resources are sufficient to perform the requirements of the Vermont PBM Solution DDI project. Outstanding lawsuits and judgments are also identified in the notes to our audited financial statements in the Annual Reports; however, none of these would affect Xerox's financial performance of the Vermont PBM Solution DDI project.

Table B-10 provides hyperlinks to Xerox Corporation’s Annual Reports and Form 10-K filings from 2010 to 2012 as a convenience for the State evaluator of this proposal.

Table B-10. Xerox Corporation Financial Statements	
Document Attachment	URL Address
Attachment A: Xerox 2012 Form 10-K for the fiscal year ended: December 31, 2012	http://services.corporate-ir.net/SEC.Enhanced/SecCapsule.aspx?c=104414&fid=8645199
Attachment A: Xerox 2012 Annual Report	http://www.xerox.com/about-xerox/annual-report-2012/enus.html
Attachment A: Xerox 2011 Annual Report	http://www.xerox.com/assets/pdf/2011_Annual_Report.pdf

In the following table, please list credit references that can verify the financial standing of your company.

Credit References



3.3 Corporate Guarantee

Instructions: If the Vendor is substantially owned or controlled, in whole or in part, by one or more other legal entities, the Vendor must submit the information required under the “Financial Capacity” section above for each such entity, including the most recent financial statement for each such entity. The Vendor must also include a statement that the entity or entities will unconditionally guarantee performance by the Vendor of each and every obligation, warranty, covenant, term and condition of the contract. If the State determines that an entity does not have sufficient financial resources to guarantee the Vendor’s performance, the State may



require the Vendor to obtain another acceptable financial instrument or resource from such entity, or to obtain an acceptable guarantee from another entity with sufficient financial resources to guarantee performance.

It is important for the well-being of AHS stakeholders that the Agency takes all the necessary steps in ensuring that the selected vendor for the Vermont PBMS project is capable of providing the required services in a stable workplace with low employee turnover. If selected to provide the requested PBM Solution services outlined in the RFP, Xerox Corporation, our parent company, will unconditionally guarantee the performance by Xerox State Healthcare, LLC of each and every obligation, warranty, covenant, term, and condition of this contract. Upon request by AHS, we will provide our written corporate guarantee for execution by Xerox and AHS.

4. General Assumptions

Document the assumptions related to vendor experience in the following table. Vendor may add rows as necessary to the response table.

Vendor Experience Assumptions

Item #	Reference (Section, Page, Paragraph)	Description	Rationale
1.	None	None	None
2.			
3.			

5. Certifications and Other Required Forms

Instructions: Vendors must submit the following required forms with their proposals

- Application Information Sheet
- Certification and Assurances
- Vermont Tax Certificate and Insurance Certification
- Nondisclosure (to be created as needed by Vendor)
- Federal Lobbying Disclosure (to be created as needed by Vendor)
- Certification of Insurance (provided by Vendor)

The required forms are located at the end of this Template (B). The State encourages Vendors to carefully review all of these forms and submit questions regarding their completion prior to the deadline for submitting questions.

Xerox has completed and submits the following forms:

- Application Information Sheet
- Certification and Assurances

- Vermont Tax Certificate and Insurance Certification
- Nondisclosure
- Federal Lobbying Disclosure
- Certification of Insurance

Page Intentionally Left Blank

Application Information Sheet

DEPARTMENT OF VERMONT HEALTH ACCESS

APPLICANT INFORMATION SHEET

(To be included in the proposal packet)

****NOTE:** This information sheet must be included as the cover sheet of the application being submitted. Be sure to complete this form in its entirety. Please fill out and attach a W-9 to this form signed by the duly appointed signing official for your company.

Applicant Organization: Xerox State Healthcare, LLC

Contact Person: Emilio Tiele

Title: Vice President, National Pharmacy Benefits Management Services

Mailing Address: 9040 Roswell Road, Suite 700

Town, State, ZIP: Atlanta, GA 30350

Telephone: 770.829.1453 Fax #: 770-552-6919

E-mail Address: emilio.tieles@xerox.com

Fiscal Agent (Organization Name): Xerox State Healthcare

FY Starts: January 1 FY Ends: December 31

Financial Contact Person: Sarra Kell

Mailing Address: Xerox State Healthcare, LLC 9040 Roswell Road, Suite 700

Town, State, ZIP: Atlanta, GA 30350

Telephone: 678-795-6338 Fax #: 770-552-6919

E-mail Address: sarra.kell@xerox.com

Federal Tax ID Number: 58-2479287

Whom should we contact if we have questions about this application?

Name Emilio Tiele Phone Number p: 770.829.1453 m: 678.231.5707

Page Intentionally Left Blank

Page Intentionally Left Blank

SCHEDULE D RELATED PARTY DISCLOSURE

Please identify all related party relationships including cost purpose and approval process.

Our parent company, Xerox Corporation, has arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. We purchased products, including parts and supplies, from Fuji Xerox totaling \$2.1 billion, \$2.2 billion and \$2.1 billion in 2012, 2011 and 2010, 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 8 – Investments in Affiliates, at Equity in the Consolidated Financial Statements on pages 79-80 of the Xerox Corporation 2012 Annual Report.”

Page Intentionally Left Blank

Nondisclosure

Xerox is submitting our Nondisclosure template for Xerox State Healthcare on the following page.

Page Intentionally Left Blank

Federal Lobbying Disclosure

Xerox does not use federally appropriated funds for lobbying; therefore Xerox is not required to complete a Federal Lobbying Disclosure.

Page Intentionally Left Blank

Certification of Insurance

Xerox is submitting Certification of Insurance forms on the following page.

Page Intentionally Left Blank

6. Exceptions

Instructions: Please return the Proposal Exception Summary Form at the end of this section with all exceptions to items in any Section of this RFP listed and clearly explained or state “No Exceptions Taken.” If no Proposal Exception Summary Form is included, the Vendor is indicating that he takes no exceptions to any item in this RFP document.

The State of Vermont expects the vendor to agree to the State and Agency Customary Contracting Provisions outlined in Attachments C, E and F of this RFP (Section 1.5.5) Exceptions to Attachments C, E and F shall be noted in the bidder’s cover letter and further defined by completing the Proposal Exceptions Summary Form in this Section. Exceptions shall be subject to review by the Office of the Attorney General.

Failure to note exceptions will be deemed to be acceptance of the Standard State Provision for Contracts and Grants as outlined in Attachment C, E and F of the RFP. If exceptions are not noted in the RFP but raised during contract negotiations, the State reserves the right to cancel the negotiation if deemed to be in the best interests of the State of Vermont.

The State reserves the right to reject any proposals, including those with exceptions, prior to and at any time during negotiations.

1. Unless specifically disallowed on any specification herein, the Vendor may take exception to any point within this RFP, including a specification denoted as mandatory, as long as the following are true:
 - a. The specification is not a matter of State law;
 - b. The proposal still meets the intent of the RFP;
 - c. A Proposal Exception Summary Form is included with Vendor’s proposal; and
 - d. The exception is clearly explained, along with any alternative or substitution the Vendor proposes to address the intent of the specification, on the Proposal Exception Summary Form.
2. The Vendor has no obligation to provide items to which an exception has been taken. The State has no obligation to accept any exception. During the proposal evaluation and/or contract negotiation process, the Vendor and the State will discuss each exception and take one of the following actions:
 - a. The Vendor will withdraw the exception and meet the specification in the manner prescribed;
 - b. The State will determine that the exception neither poses significant risk to the project nor undermines the intent of the RFP and will accept the exception;
 - c. The State and the Vendor will agree on compromise language dealing with the exception and will insert same into the contract;
 - d. None of the above actions is possible, and the State either disqualifies the Vendor’s proposal or withdraws the award and proceeds to the next ranked Vendor.
3. Should the State and the Vendor reach a successful agreement, the State will sign adjacent to each exception which is being accepted or submit a formal written response to the Proposal Exception Summary responding to each of the Vendor’s exceptions. The Proposal Exception Summary, with those exceptions approved by the State, will become a part of any contract on acquisitions made under this RFP.

		<p>[REDACTED]</p>	
<p>2. RFP Section 1.5.5 Attachment C, Subsection 4: Appropriations (pg. 13 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>3. RFP Section 1.5.5 Attachment C, Subsection 6: Independence, Liability (pg. 12-13 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
--	--	-------------------	--



		<p>[REDACTED]</p>	
<p>5. RFP Section 1.5.5 Attachment C, Subsection 10: Records Available for Audit (pg. 15 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		[REDACTED]	
6. RFP Section 1.5.5 Attachment C, Subsection 12: Set Off (pg. 15 of 107)	Proposal Section B, 6.0, Exceptions	[REDACTED]	
7. New RFP Section 1.5.5, Attachment C: Limitation of Liability (no page)	Proposal Section B, 6.0, Exceptions	[REDACTED]	



<p>1.5.5 Attachment F, Medicaid Program Contractors, Subsection 3: Inspection of Records (pg. 24-25 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	
<p>11. RFP Section 1.5.5 Attachment F, Subsection 5: Voter Registration (pg. 25 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>12. RFP Section 1.5.5 Attachment F, Subsection 9: Reporting of Abuse, Neglect, or Exploitation (pg. 26-27 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>13. RFP Section 1.5.5 Attachment F, Subsection 10: Intellectual Property/ Work Product Ownership (pg. 27 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



<p>Acceptance (pg. 63 of 107)</p>	<p>Exceptions</p>	<p>[REDACTED]</p>	
<p>15. RFP Section 2.7.6.8.4 Deliverable 20: Performance SLAs (pg. 76 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>16. RFP Section 3.7 Property of the State (pg. 78-79 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
--	--	-------------------	--



		<p>[REDACTED]</p>	
<p>17. RFP Section 3.10 Use of Subcontractors (pg. 80 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



<p>18. RFP Section 3.13.1 Hosted System Requirements (pg. 91-92 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	
<p>19. RFP Section 3.13.1 Hosted System Requirements, subsection 6 (Warranties) (pg. 93)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>20. RFP Section 3.13.4 Liquidated Damages (pg. 93 of 107)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>21. RFP Section 3.13.6 Required Statements (pg. 94)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



		<p>[REDACTED]</p>	
<p>24. Template B: Vermont Tax Certificate and Insurance Certification (pg. 12)</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	
<p>25. Template C: Vendor References, 1.1 Subcontractor References (if applicable) (pg. 4)</p> <p>See also RFP Section 3.12.1.1 Package 1 – Technical Proposal, Section C. Vendor References</p>	<p>Proposal Section B, 6.0, Exceptions</p> <p>See also Proposal Section C, Vendor References, Subcontractor References</p>	<p>[REDACTED]</p> <ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED] ■ [REDACTED] 	
<p>26. Template H: RFP Non- Functional Requirements</p>	<p>Proposal Section B, 6.0, Exceptions</p>	<p>[REDACTED]</p>	



<p>Response, Service Level and Performance Requirements, System Availability and Response Time, RFP Requirement # P1.6 (pg. 1 of 3)</p>	<p>See also Proposal Section H, Non-Functional Requirements, Service Level and Performance Requirements</p>	<p>[REDACTED]</p>	
<p>27. Template I: Technical Requirements Approach, 13.0 Service Level Requirements – Business Process Performance Measures, subsection 2. Point-of-Sale Network System Downtime</p>	<p>Proposal Section B, 6.0, Exceptions See also Proposal Section I, Technical Requirements Approach, 13.0 Service Level Requirements – Business Process Performance Measures, subsection 2</p>	<p>[REDACTED]</p>	
<p>28.</p>		<p>[REDACTED]</p>	



Certification and Assurances

CERTIFICATIONS and ASSURANCES

I/we make the following certificates and assurances as a required element of the bid or proposal to which it is attached, understanding that the truthfulness of the facts affirmed here and the continuing compliance with these requirements are conditions precedent to the award or continuation of the related contract(s):

1. The prices and/or cost data have been determined independently, without consultation, communication or agreement with others for the purpose of restricting competition. However, I/we may freely join with other persons or organizations for the purpose of presenting a single proposal or bid.
2. The attached proposal or bid is a firm offer for a period of 120 days following receipt, and it may be accepted by the DVHA without further negotiation (except where obviously required by lack of certainty in key terms) at any time within the 120 day period.
3. In preparing this proposal or bid, I/we have not been assisted by any current employee of the State of Vermont whose duties related (or did relate) to this proposal, bid or prospective contract, and who was assisting in other than his or her official, public capacity. Neither does such a person nor any member of his or her immediate family have any financial interest in the outcome of this proposal or bid. (Any exceptions to these assurances are described in full detail on a separate page and attached to this document).
4. I/we understand that the DVHA will not reimburse me/us for any costs incurred in the preparation of this proposal or bid. All proposals or bids become the property of DVHA.
5. I/we understand that any contract(s) awarded as a result of this RFP will incorporate terms and conditions substantially similar to those attached to the RFP. I/we certify that I/we will comply with these or substantially similar terms and conditions if selected as a Contractor.
6. I hereby certify that I have examined the accompanying RFP forms prepared by: Joann Culley and Debra Bang for the funding period beginning January and ending December and that to the best of my knowledge and belief, the contents are true, and correct, and complete statements prepared from the books and records of the provider in accordance with applicable instructions, except as noted.

Signature: _____



Date: January 23, 2014

Title: Executive Vice President



NONDISCLOSURE AGREEMENT

Xerox State Healthcare, LLC

Legal Name of Other Party

This mutual nondisclosure agreement ("Agreement") is made by and between **Xerox State Healthcare, LLC**, 8260 Willow Oaks Corporate Drive, Fairfax, VA 22031 ("Xerox") and [**LEGAL NAME and ADDRESS of the OTHER PARTY** ("OTHER PARTY NAME or ACRONYM")].

During the Term of this Agreement, Xerox and [**OTHER PARTY NAME or ACRONYM**] (each individually a "party" and collectively, the "parties") understand and agree that either or both parties may disclose to the other party trade secrets or other information of a confidential and proprietary nature ("Proprietary Information") including, but not limited to, business plans, financial information, protected health information, marketing and sales information, contractual information, operational and technical data and concepts, and other non-public information related to:

a brief (one sentence if possible) description of the purpose for the NDA – usually the identification of the specific opportunity or deal. For example: Request for Proposals No. 11-53-051P for an enterprise time and attendance system solution and related services for Cook County, Illinois.

In consideration of the mutual covenants and obligations set forth in this Agreement, the parties also agree as follows:

1. TERM This Agreement is effective on [**DATE**] ("Effective Date") and shall remain in effect for one (1) year ("Term"), unless extended or terminated earlier in accordance with the provisions of this Agreement. Either party may terminate this Agreement by providing thirty (30) days written notice to the other party.

2. CONTINUING OBLIGATIONS The obligations of the parties under this Agreement shall remain in effect for five (5) years after the termination or expiration of this Agreement unless this Agreement is incorporated in a subsequent teaming agreement, contract, subcontract, or other definitive agreement between the parties, in which case the obligations under this Agreement shall extend for five (5) years beyond the term of that subsequent agreement and any extension or amendment of that agreement.

3. DISCUSSIONS CONFIDENTIAL In addition to the content of disclosures made under this Agreement, the fact *per se* that the parties are communicating about the Proprietary Information shall be deemed to be Proprietary Information and neither party shall disclose this fact except in accordance with the terms of this Agreement, as modified by any subsequent teaming agreement, subcontract, or other mutual agreement.

4. IDENTIFICATION OF PROPRIETARY INFORMATION At the time of disclosure, the disclosing party shall clearly label any written or tangible material that is considered to be Proprietary Information by the disclosing party. Oral information shall not be subject to any nondisclosure obligation under this Agreement unless identified as proprietary or confidential at the time of disclosure, and unless that oral information (or a reasonable description or summary of the contents of the oral information) is reduced to writing within five (5) business days after disclosure and delivered to the other party or sent to the address of the other party set forth in Section 18 of this Agreement ("Notices to Parties").

Nondisclosure Agreement



5. OWNERSHIP OF PROPRIETARY INFORMATION No title, license, intellectual property rights, or any other right of ownership or use shall be granted (expressly, by implication, or by estoppel) to the receiving party under any patent, trademark, copyright, or trade secret owned or controlled by the disclosing party by the disclosure of Proprietary Information.

6. OBLIGATIONS OF THE RECEIVING PARTY In addition to the duty of a party to comply with criminal and civil laws (including, but not limited to, applicable state trade secrets laws, U.S. patent and copyright law, applicable U.S. import and export control statutes and regulations, and the Economic Espionage Act), the party receiving Proprietary Information shall exercise all reasonable care to preserve and protect the Proprietary Information from any unauthorized access, use, disclosure, or theft. For purposes of this Agreement, "reasonable care" shall be at least the same level of care and discretion that is used by the receiving party to protect the trade secrets or other confidential information of the receiving party. In any event, the receiving party shall be non-negligent in handling the Proprietary Information disclosed by the other party.

The receiving party shall restrict access to the Proprietary Information to only those receiving party employees, affiliates, parents, agents, counsel, consultants, and advisors who directly participate in the activities covered by this Agreement, and who have a legitimate need to know that Proprietary Information for purposes of this Agreement, and who also agree to be bound by terms and conditions consistent with this Agreement; provided that, the receiving party shall remain liable for compliance by its employees, affiliates, parents, agents, counsel, consultants, and advisors.

Proprietary Information shall not be reproduced by the receiving party in any form except as required to accomplish the intent of this Agreement. The receiving party shall notify the disclosing party, in writing, promptly after the receiving party becomes aware of any unauthorized access, use, disclosure, or theft of the Proprietary Information and shall identify actions taken by the receiving party to contain and prevent further unauthorized access, use, disclosure, or theft of the Proprietary Information. Notwithstanding any other provision of this Agreement, the obligations of the receiving party under this Section shall survive the expiration or termination of this Agreement.

7. RELIANCE ON PROPRIETARY INFORMATION Each party understands and agrees that the provision of Proprietary Information by the other party under this Agreement does not include, establish, or otherwise provide any express or implied representation or warranty as to the accuracy or completeness of the Proprietary Information. Each party expressly disclaims any and all liability that may be based on the receipt or use of the Proprietary Information, including any errors or omissions, unless that Proprietary Information becomes subject to representations and warranties set forth in a teaming agreement, contract, subcontract, or other definitive agreement between the parties. Nothing in this Agreement shall be deemed to impose any obligation on a party to exchange Proprietary Information with the other party or to purchase, sell, license, transfer, or otherwise make use of any technology, services, or products.

8. LEGAL PROCESS If a subpoena or other legal process concerning any Proprietary Information is served on a receiving party, the receiving party shall notify, in writing, the disclosing party promptly upon receipt of the subpoena or other legal process. The receiving party shall cooperate with any lawful effort by the disclosing party to contest the validity of the subpoena, to seek a protective order, or to pursue other legal process to protect the Proprietary Information. The receiving party shall at all times limit the disclosure of Proprietary Information to disclosure that is required by law or legal process.

9. INFORMATION KNOWN TO RECEIVING PARTY The receiving party shall not be liable for use or disclosure of any Proprietary Information if that Proprietary Information was already legally known to the receiving party prior to receipt from the disclosing party.

Nondisclosure Agreement

10. PUBLICLY AVAILABLE INFORMATION The receiving party shall not be liable for use or disclosure of any Proprietary Information if that Proprietary Information was publicly known, was publicly disclosed in a patent or copyright issued to the disclosing party (subject to applicable intellectual or industrial property law rights and limitations), was provided to the government without restricted rights, was in the public domain as a matter of law, or was available through no breach of this Agreement by the receiving party.

11. INDEPENDENTLY DEVELOPED INFORMATION The receiving party shall not be liable for use or disclosure of any Proprietary Information if that Proprietary Information was independently developed by the receiving party without breach of this Agreement.

12. THIRD PARTY SOURCE The receiving party shall not be liable for use or disclosure of any Proprietary Information if that Proprietary Information was obtained from a third party, and that third party had an unrestricted right to disclose the Proprietary Information at the time the information was disclosed.

13. RETURN OR DESTRUCTION OF PROPRIETARY INFORMATION Upon termination or expiration of this Agreement, or upon request of the disclosing party, the receiving party shall return to the disclosing party all Proprietary Information received during discussions or performance of work under this Agreement. The disclosing party may direct in writing that the receiving party destroy all copies and documentation of all or any part of the Proprietary Information and may require certification of the destruction from the receiving party. If the receiving party makes or prepares notes or other written information in any form about the Proprietary Information while participating in activities under this Agreement, that party shall also deliver those notes or information to the disclosing party or destroy all of the notes or other written information that contain or describe Proprietary Information.

14. WAIVER Any delay or failure by either party to insist on strict performance of any obligation under this Agreement or exercise any right or remedy under this Agreement shall not be a waiver of the right to demand strict compliance in the future, irrespective of the length of time for which the delay or failure continues. No term or condition of this Agreement shall be waived and no breach excused unless the waiver or excuse of that breach is in writing and signed by the party claimed to have waived or excused the breach. No consent to or waiver of any right, remedy, or breach shall constitute a consent to or waiver of any other right, remedy, or breach in the performance of the same obligation or any other obligation under this Agreement.

15. INDEPENDENT PARTIES The parties to this Agreement are independent parties and neither party shall act as agent for or representative of the other party for any purpose. Nothing in this Agreement shall grant to either party any right to make any commitment of any kind for or on behalf of the other party without the prior written consent of the other party. This Agreement shall not constitute, create, give effect to, or otherwise imply a joint venture, partnership, or business organization of any kind. Neither party shall have any obligation under this Agreement to purchase or otherwise acquire any service or item from the other party.

16. SEVERABILITY If all or part of any term or condition of this Agreement, or the application of any term or condition of this Agreement, is determined by any court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of the terms and conditions of this Agreement (other than those portions determined to be invalid or unenforceable) shall not be affected, and the remaining terms and conditions (or portions of terms or conditions) shall be valid and enforceable to the fullest extent permitted by law. If a judicial determination prevents the accomplishment of the purpose of this Agreement, the invalid term or condition (or portions of terms or conditions) shall be restated to conform to applicable law and to reflect as nearly as possible the original intention of the parties.



Nondisclosure Agreement

17. HEADINGS The HEADINGS used in this Agreement are merely for reference, have no independent legal meaning, and impose no obligations or conditions on the parties.

18. NOTICES TO PARTIES Unless otherwise specified in this Agreement, all notices, requests, or consents required under this Agreement to be given in writing shall be delivered by hand, first class mail (postage prepaid), or express delivery service to the person indicated below, unless either party notifies the other party, in writing, of a change in the designated addressee:

To Xerox:
Xerox State Healthcare, LLC
8260 Willow Oaks Corporate Drive
Fairfax, VA 22031

To [OTHER PARTY NAME or ACRONYM]:
[LEGAL NAME of the OTHER PARTY]
[ADDRESS]
[CITY, STATE, and ZIP CODE]

Attn: Contracts Department

Attn: [CONTACT]

19. INJUNCTION AND OTHER REMEDIES Each party acknowledges and agrees that if the receiving party breaches any nondisclosure obligation under this Agreement, the disclosing party will not have an adequate remedy at law. Therefore, the disclosing party shall be entitled to seek an immediate injunction against an alleged breach or anticipated breach of this Agreement from any court of competent jurisdiction. The right to seek and obtain injunctive relief shall not limit the right to pursue other remedies. All remedies available to either party for breach of this Agreement by the other party are and shall be deemed cumulative and may be exercised separately or concurrently. The exercise of a remedy shall not be an election of that remedy to the exclusion of other remedies available at law or in equity.

20. GOVERNING LAW AND VENUE This Agreement shall be governed by, interpreted, construed, and enforced solely and exclusively in accordance with the laws of the State of New York, without reference to the principles of conflict of laws or New York conflict of laws rules, and all disputes shall be adjudicated or otherwise decided solely and exclusively in the state or federal courts of the State of New York. Legal action solely for injunctive relief may be brought in any court of competent jurisdiction.

21. ENTIRE AGREEMENT AND ASSIGNMENT This Agreement shall be binding on the parties and their successors and assigns. Neither party may assign or otherwise transfer this Agreement or any rights, duties, or obligations under this Agreement without the prior written consent of the other party. The contents of this Agreement constitute the entire understanding and agreement between the parties and supersede any prior agreements, written or oral, that are not specifically referenced and incorporated in this Agreement. The provisions of this Agreement shall not be amended except by written agreement signed by both parties.

IN WITNESS WHEREOF the authorized representatives of the parties execute this Agreement:

Xerox State Healthcare, LLC

[Full Legal Name of Other Party]

Authorized Signature

Authorized Signature

Name and Title (Type/Print)

Name and Title (Type/Print)



CERTIFICATE OF LIABILITY INSURANCE

RFP #03410-127-14

DATE (MM/DD/YYYY)
01/08/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH USA, INC. 1166 AVENUE OF THE AMERICAS NEW YORK, NY 10036 Attn: ACS.CertRequest@marsh.com 303099-ALL-CAS-14-15	CONTACT NAME: PHONE (A/C, No, Ext): _____ FAX (A/C, No): _____ E-MAIL ADDRESS: _____														
	<table border="1"> <thead> <tr> <th>INSURER(S) AFFORDING COVERAGE</th> <th>NAIC #</th> </tr> </thead> <tbody> <tr> <td>INSURER A : ACE American Insurance Company</td> <td>22667</td> </tr> <tr> <td>INSURER B : St. Paul Fire & Marine Ins Co</td> <td>24767</td> </tr> <tr> <td>INSURER C : Indemnity Ins Co Of North America</td> <td>43575</td> </tr> <tr> <td>INSURER D :</td> <td></td> </tr> <tr> <td>INSURER E :</td> <td></td> </tr> <tr> <td>INSURER F :</td> <td></td> </tr> </tbody> </table>		INSURER(S) AFFORDING COVERAGE	NAIC #	INSURER A : ACE American Insurance Company	22667	INSURER B : St. Paul Fire & Marine Ins Co	24767	INSURER C : Indemnity Ins Co Of North America	43575	INSURER D :		INSURER E :		INSURER F :
INSURER(S) AFFORDING COVERAGE	NAIC #														
INSURER A : ACE American Insurance Company	22667														
INSURER B : St. Paul Fire & Marine Ins Co	24767														
INSURER C : Indemnity Ins Co Of North America	43575														
INSURER D :															
INSURER E :															
INSURER F :															
INSURED *XEROX BUSINESS SERVICES LLC D/B/A AFFILIATED COMPUTER SERVICES LLC 2828 N. HASKELL AVENUE DALLAS, TX 75204															

COVERAGES **CERTIFICATE NUMBER:** NYC-006326130-25 **REVISION NUMBER:** 11

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC		HDO G27329445	01/01/2014	01/01/2015	EACH OCCURRENCE \$ 2,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 2,000,000 MED EXP (Any one person) \$ N/A PERSONAL & ADV INJURY \$ 2,000,000 GENERAL AGGREGATE \$ 10,000,000 PRODUCTS - COMP/OP AGG \$ INCLUDED \$
A	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS		ISA H08815586	01/01/2014	01/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 2,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
B	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$		ZUP-12P63747-14-NF	01/01/2014	01/01/2015	EACH OCCURRENCE \$ 5,000,000 AGGREGATE \$ 5,000,000 \$
C	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N N	WLR C47876710 (AOS) WLR C47876709 (AZ, CA and MA) SCF C47876722 (WI)	01/01/2014 01/01/2014 01/01/2014	01/01/2015 01/01/2015 01/01/2015	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 EVIDENCE OF INSURANCE

CERTIFICATE HOLDER**CANCELLATION**

XEROX BUSINESS SERVICES LLC DBA AFFILIATED COMPUTER SERVICES LLC 2828 N. HASKELL AVENUE DALLAS, TX 75204	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh USA Inc. Jessica A. May <i>Jessica A. May</i>
---	--

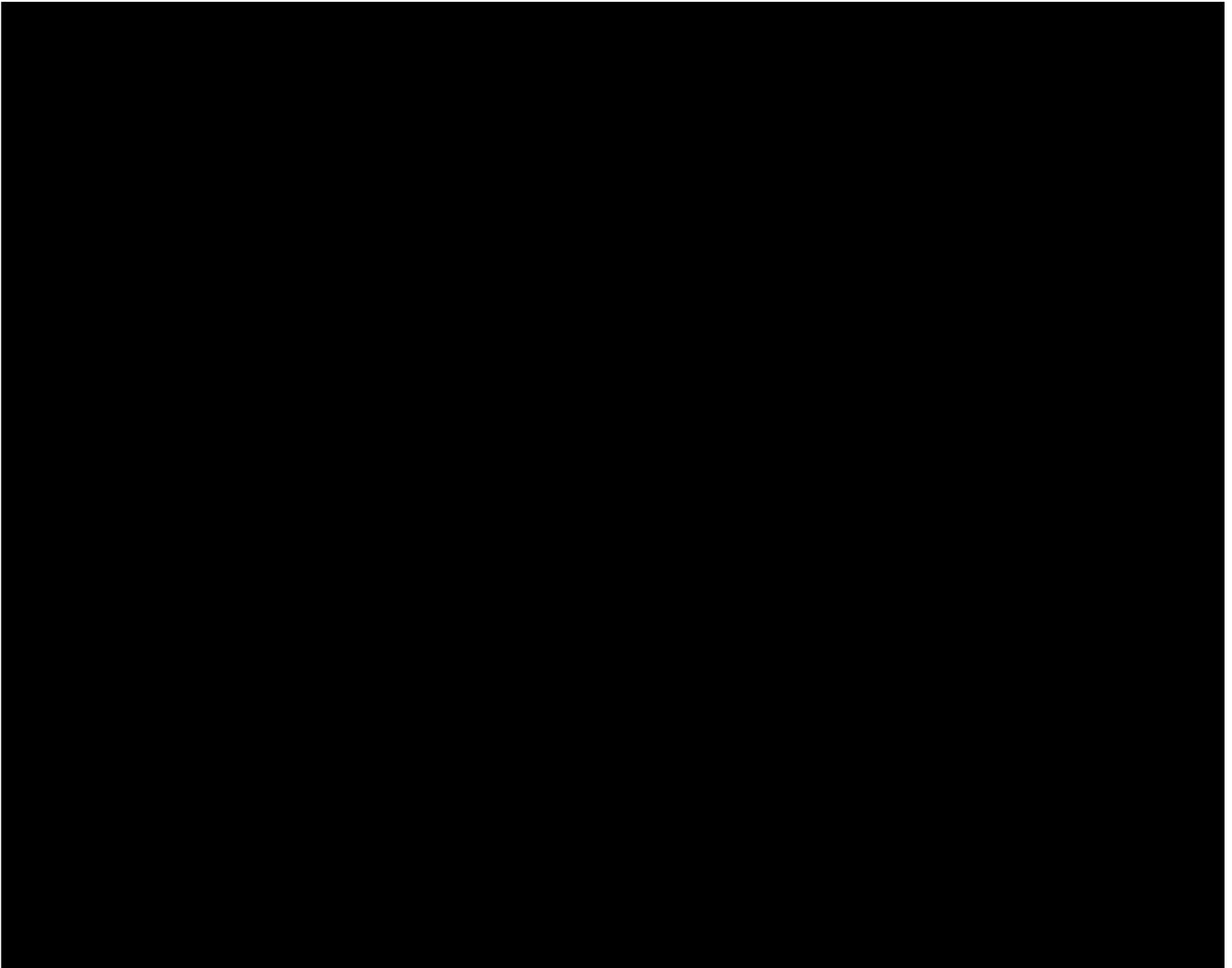
© 1988-2010 ACORD CORPORATION. All rights reserved.

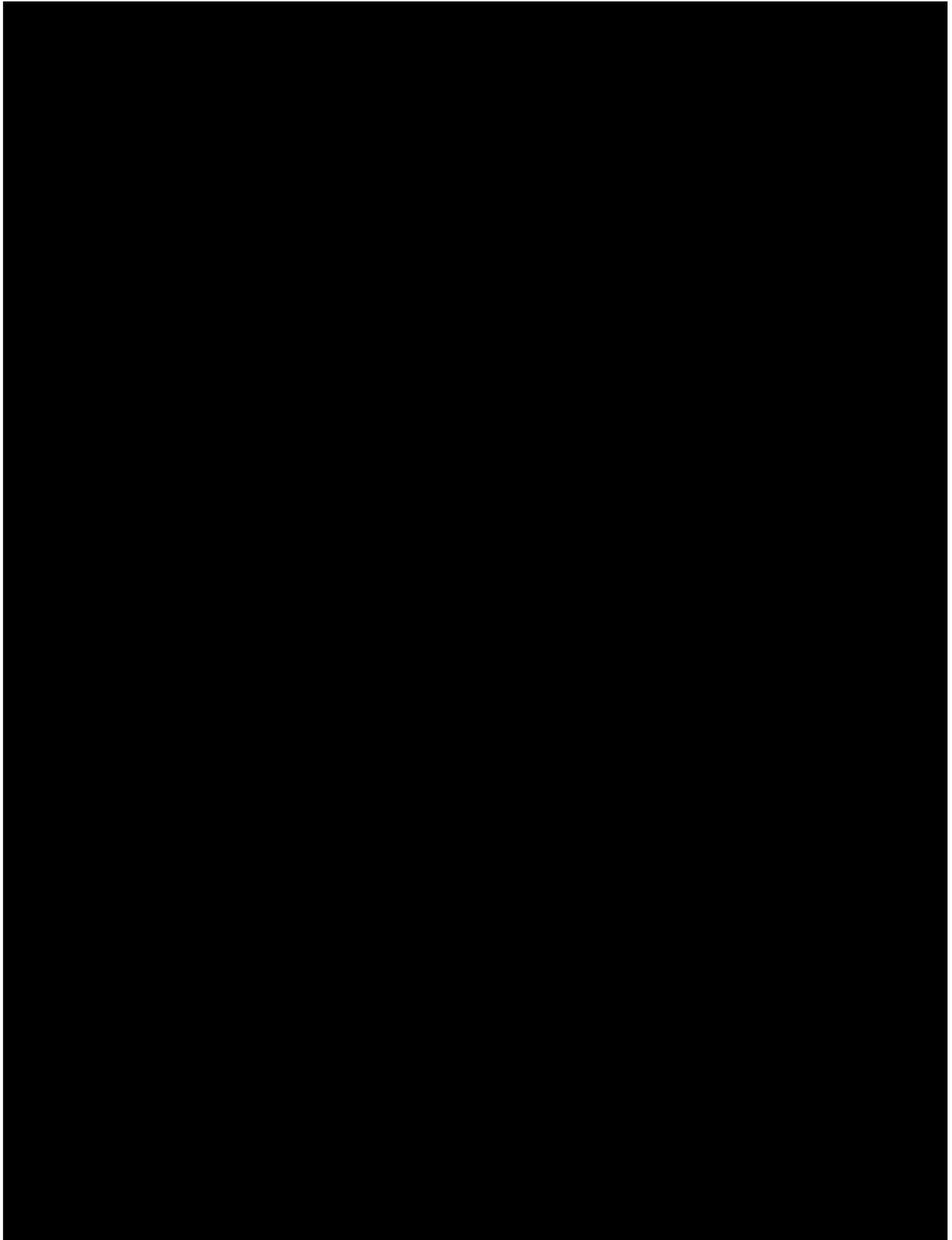
1.0 Vendor's References

Instructions: Include at least three (3) references from projects performed within the last five (5) years that demonstrate the Vendor's ability to perform the Scope of Work described in the RFP and demonstrate the Vendor's ability to meet the qualifications listed in Table 3 in Template A. Include project description, contract dates and contact information (customer points of contact, address, telephone number and email address). The Vendor must explain whether it performed the work as a prime contractor or subcontractor.

Respondents are not to change any of the completed cells in the following table. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

Table 1 Reference 1





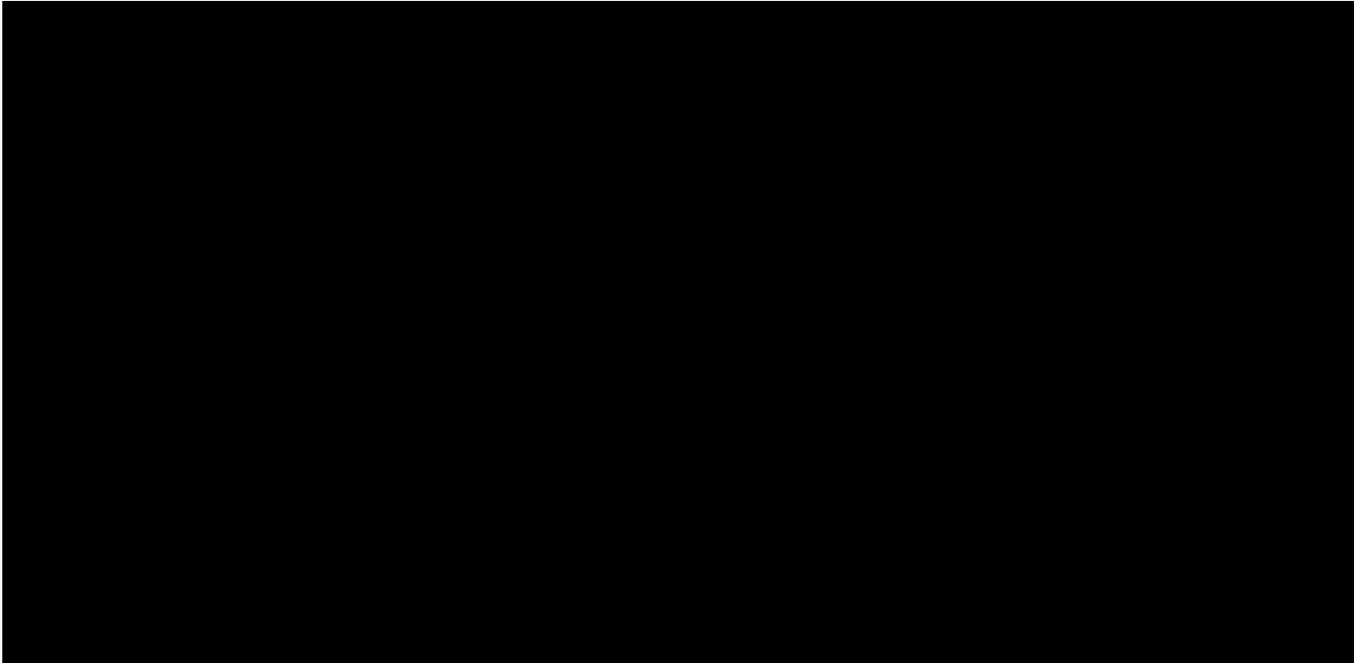
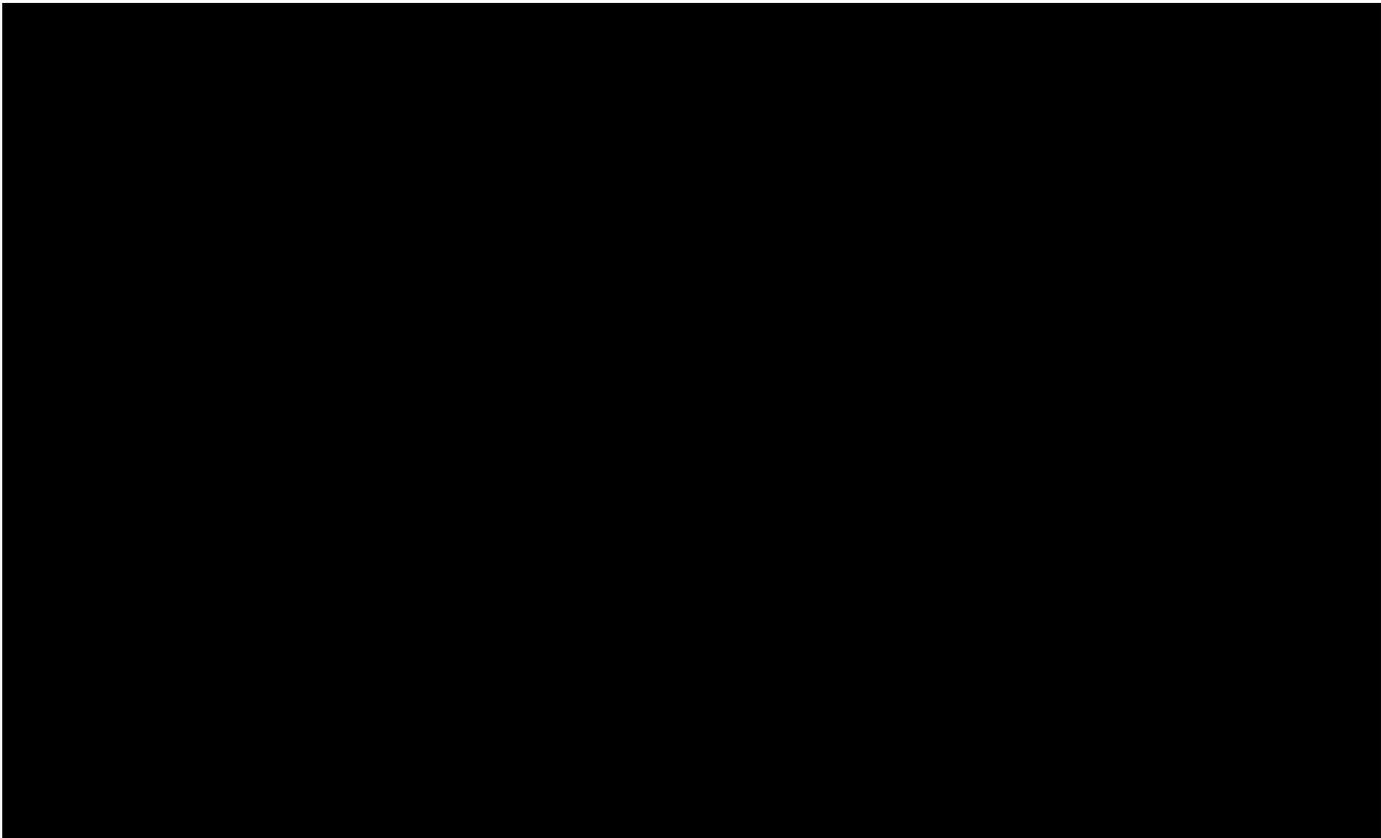
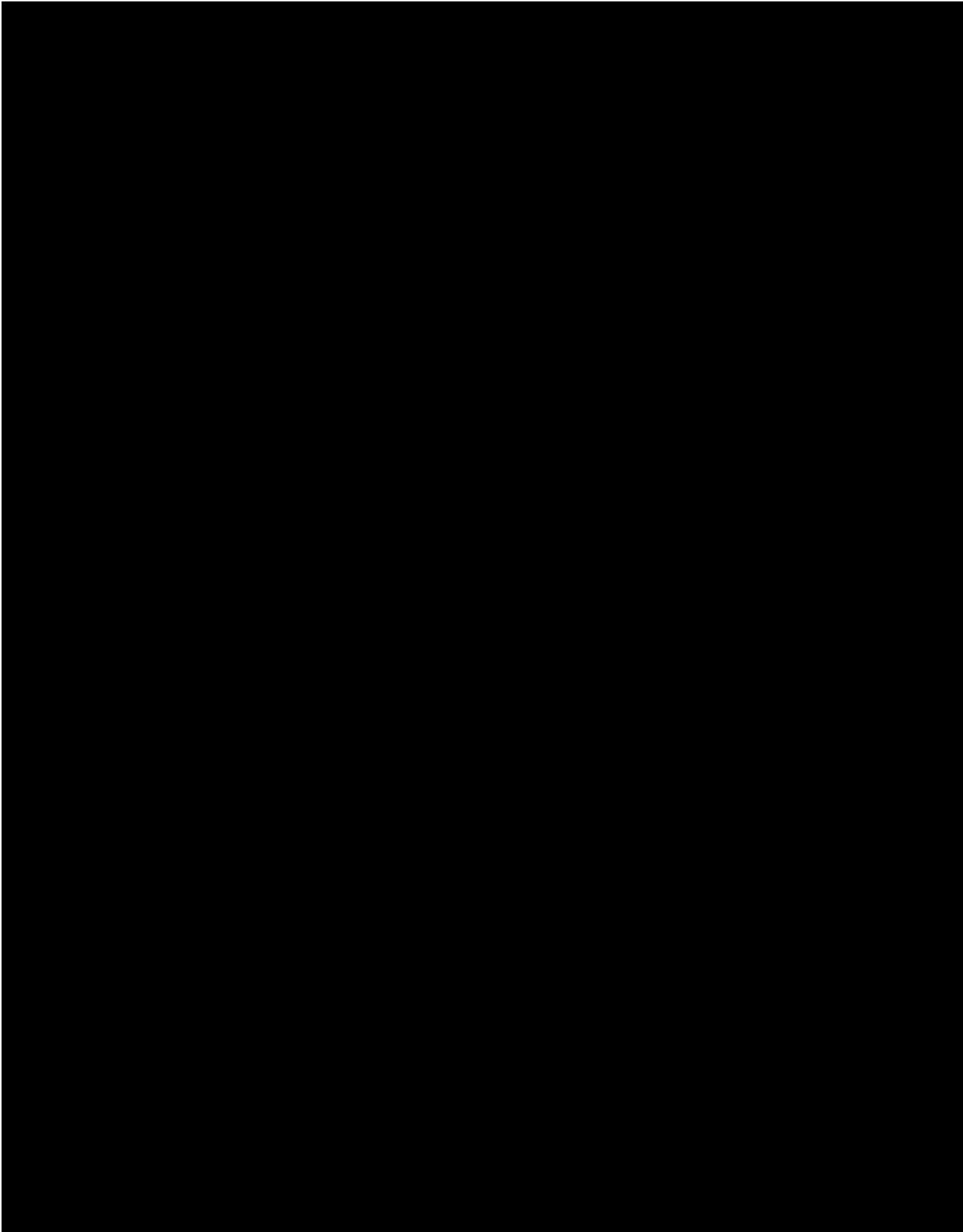
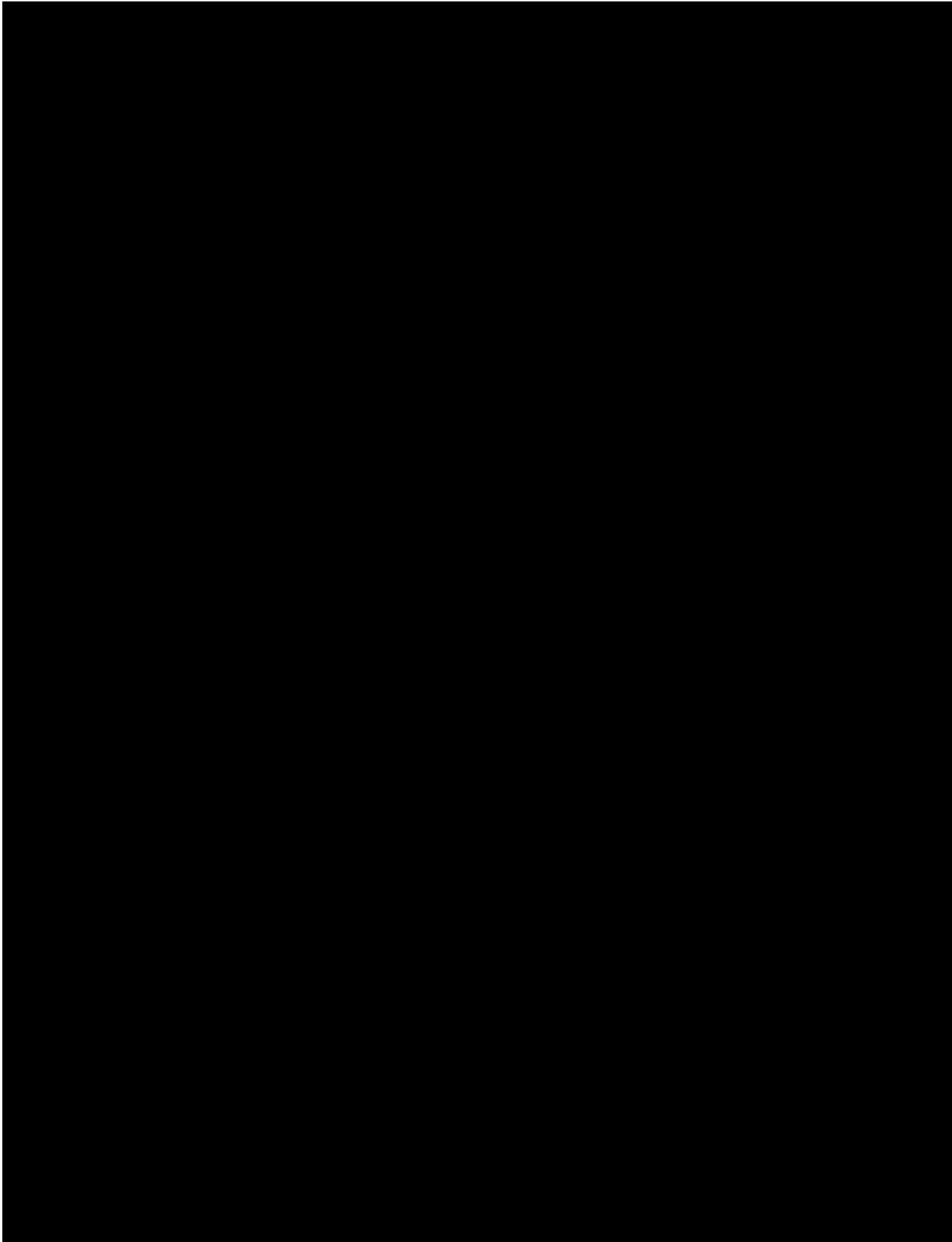
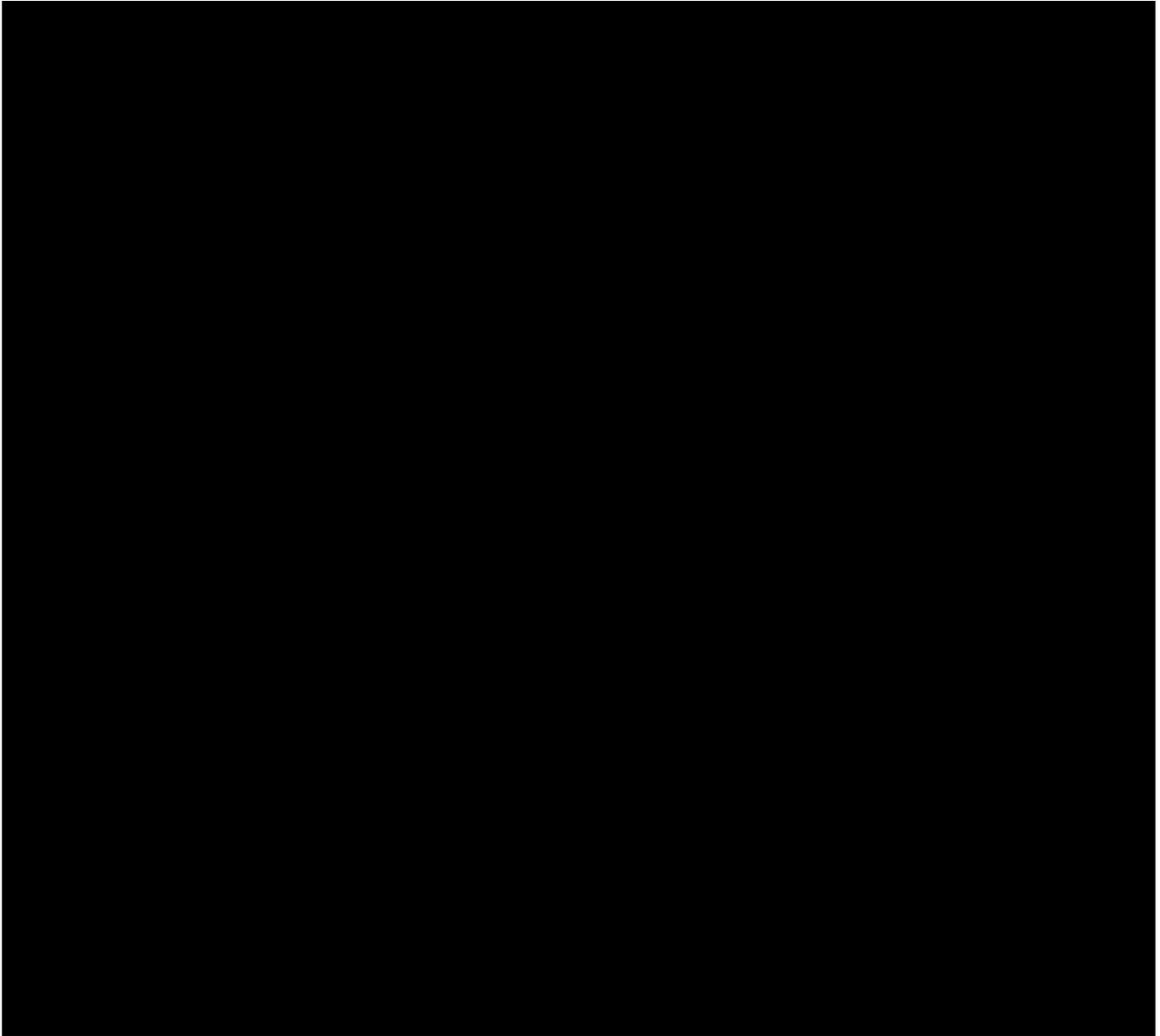


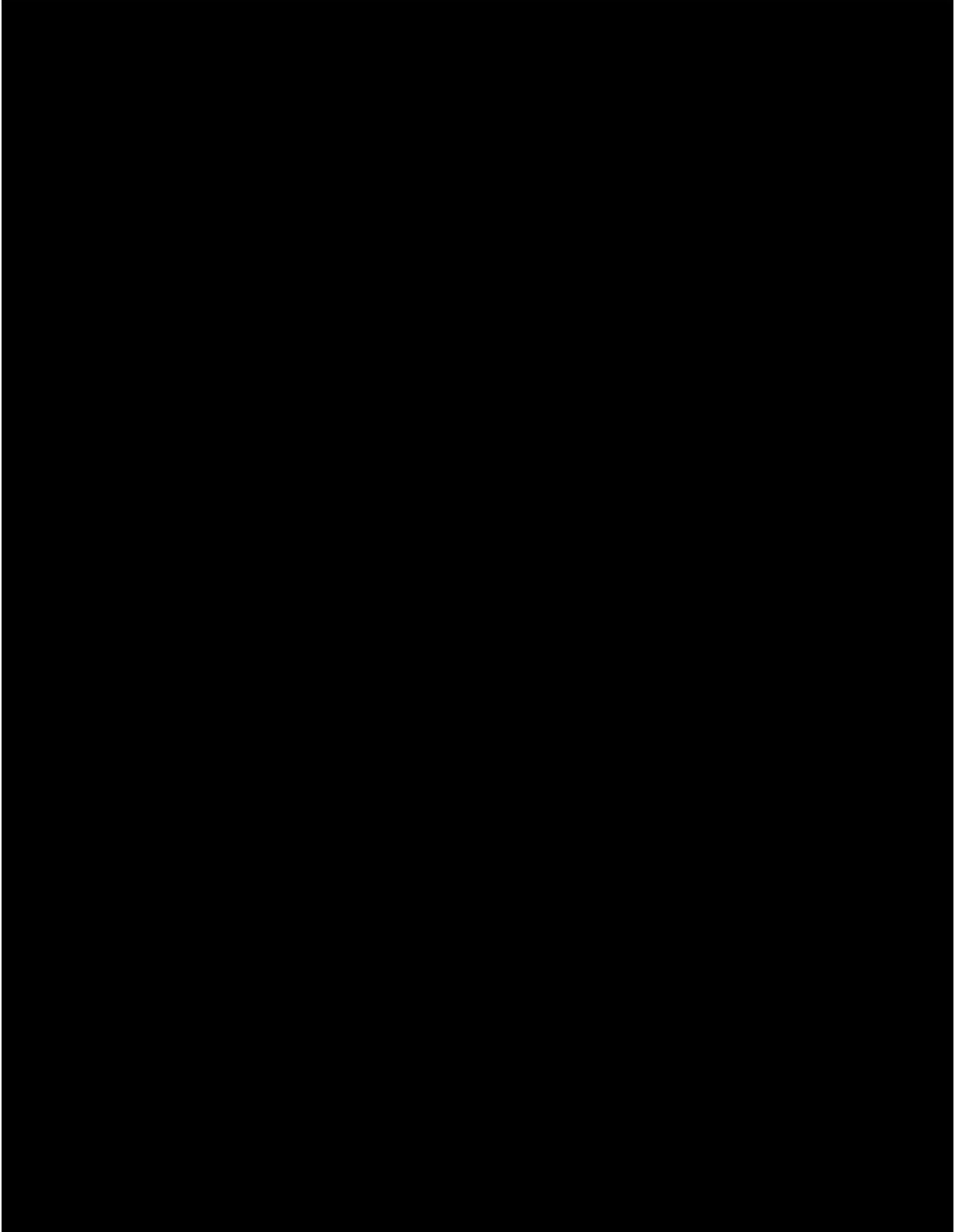
Table 2 Reference 2









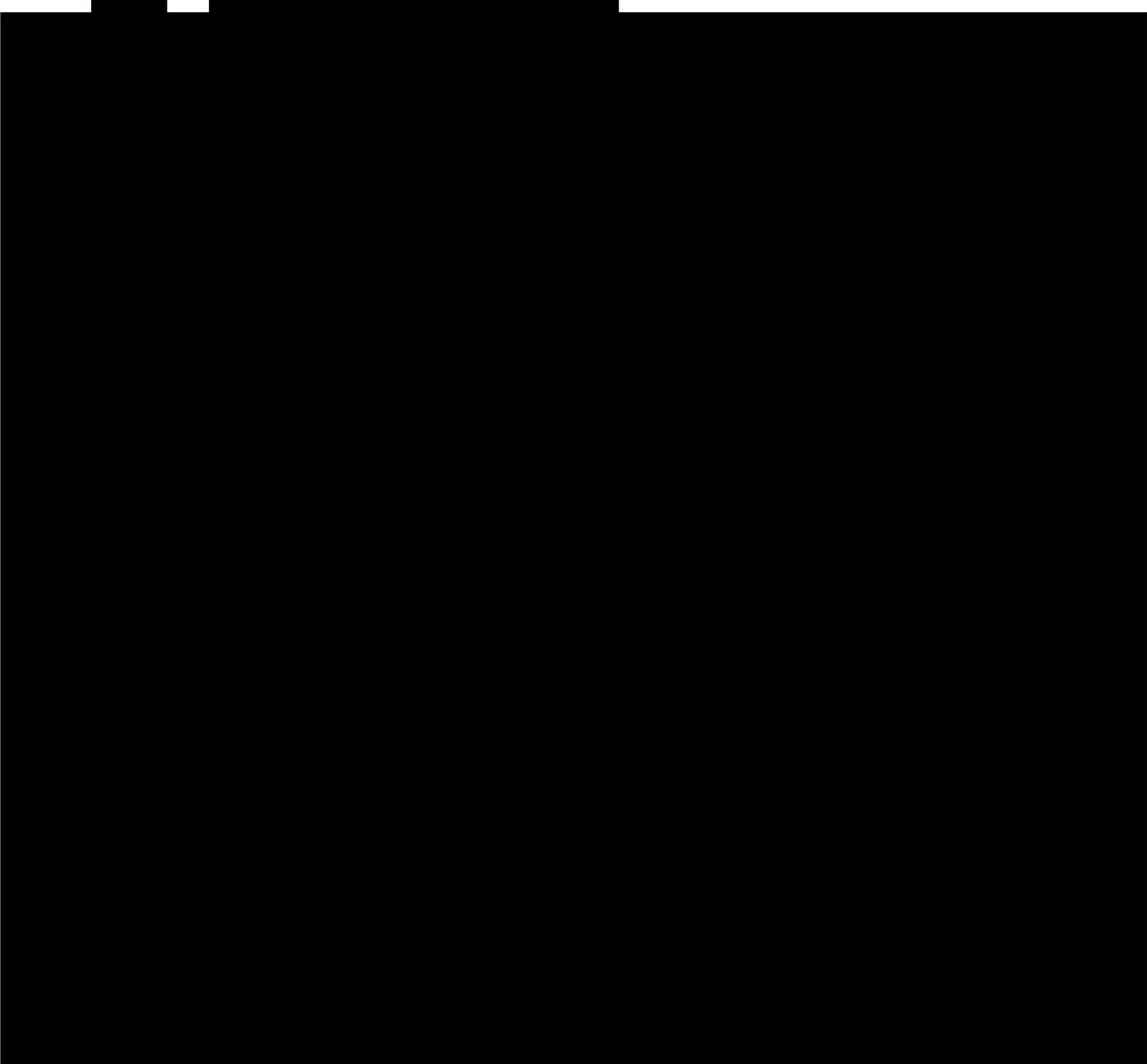


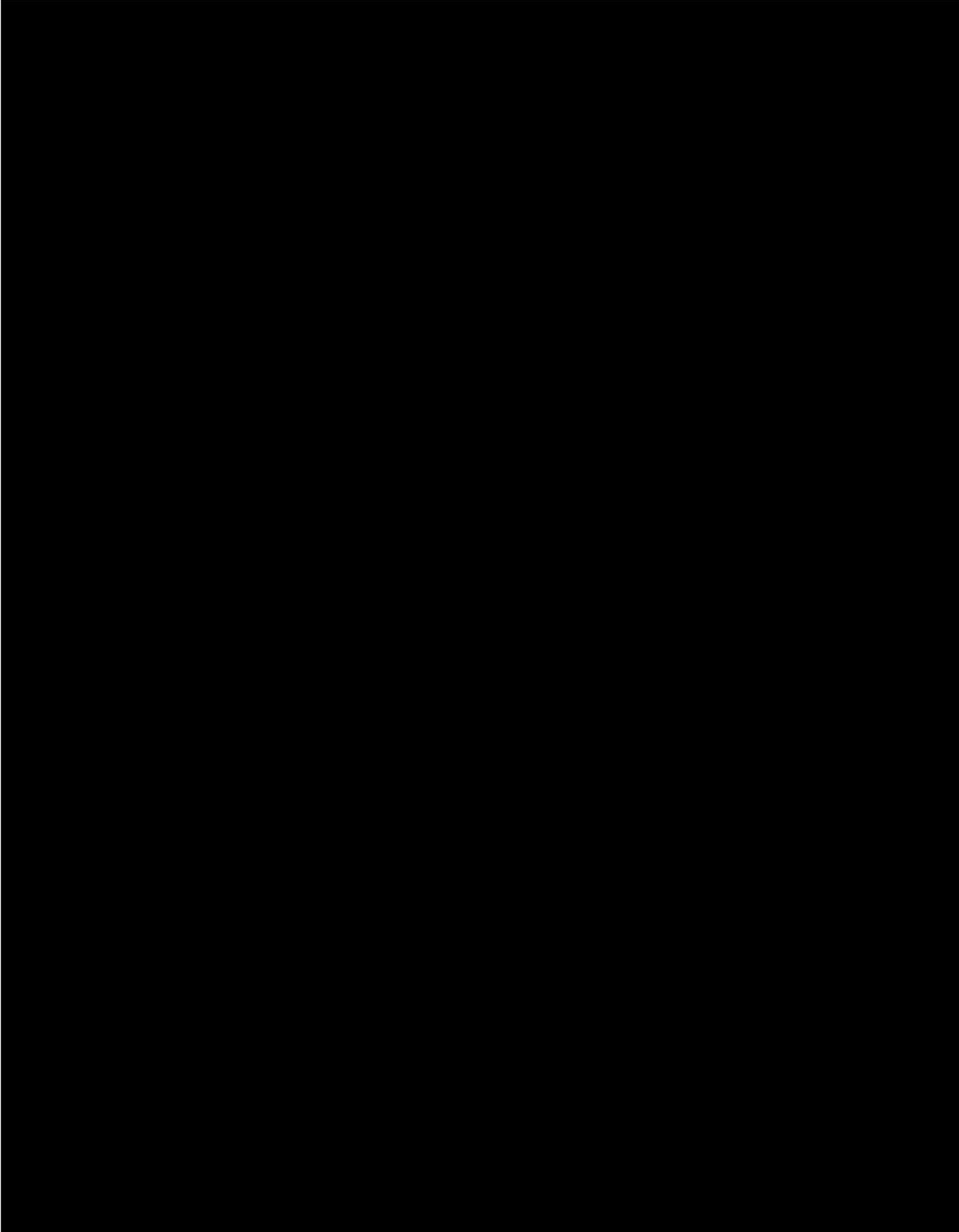


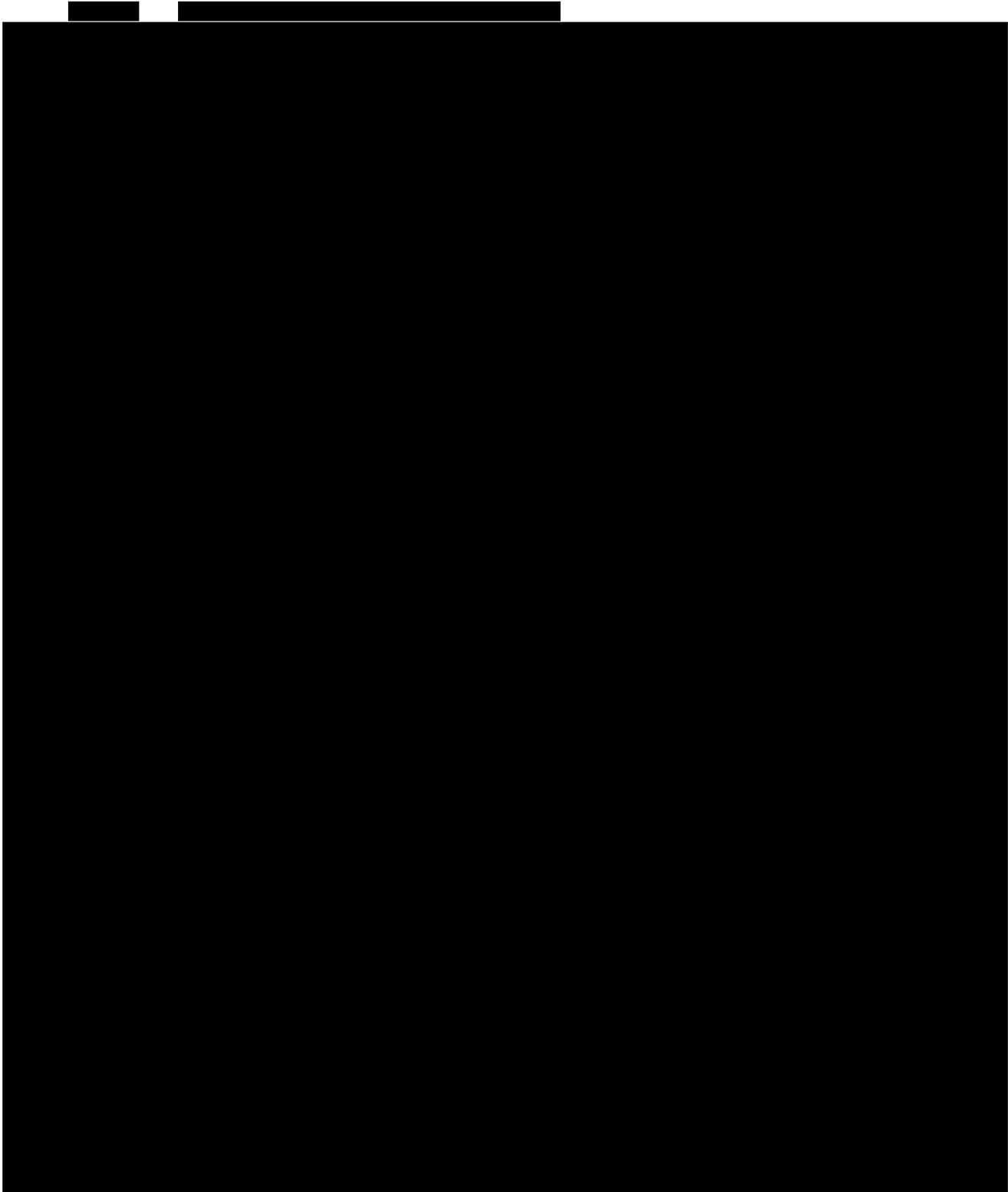
1.1 Subcontractor References (If applicable)

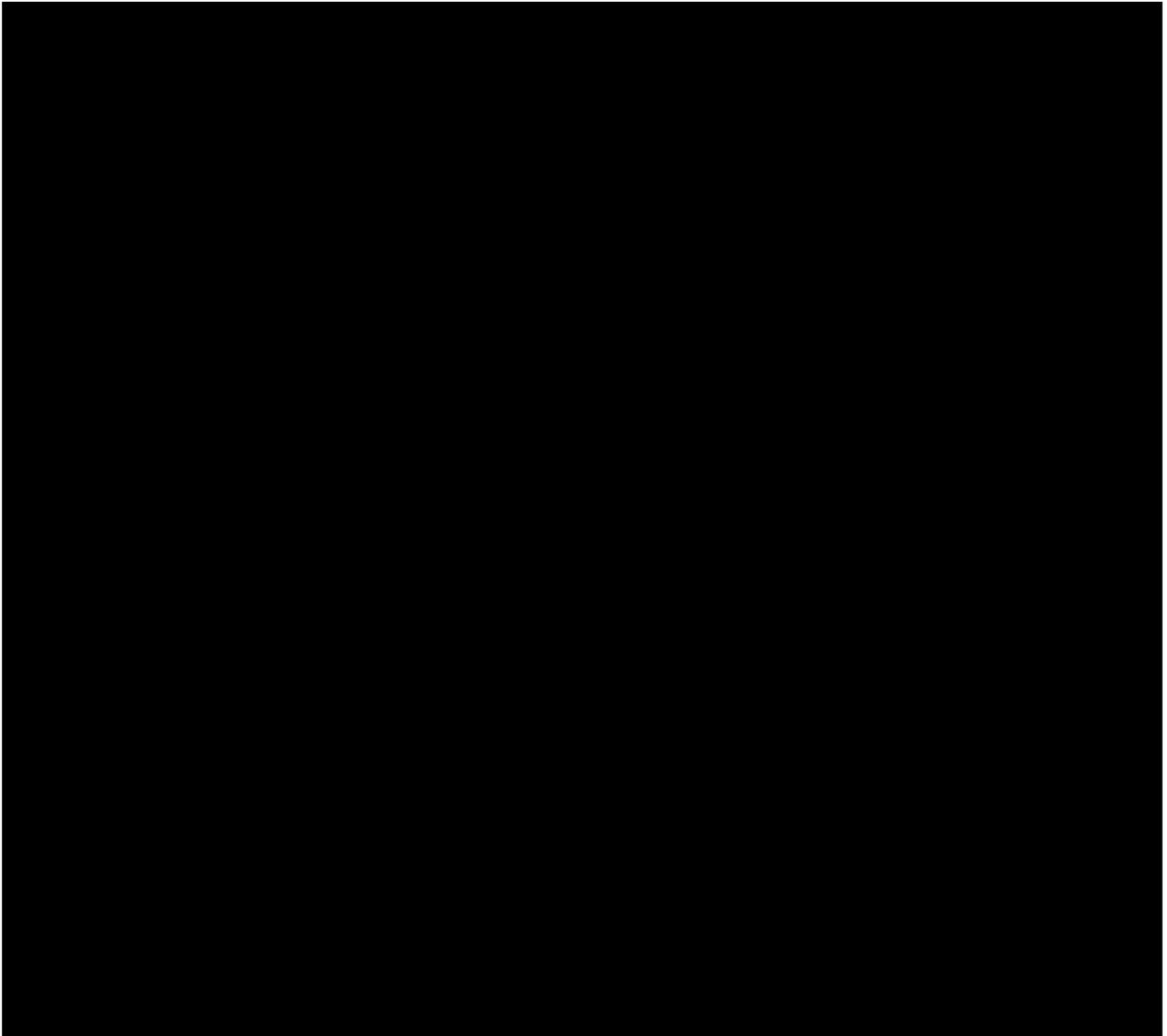
Instructions: If the proposal includes the use of Subcontractor(s), provide three references for each.

Respondents are not to change any of the completed cells in the following table. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

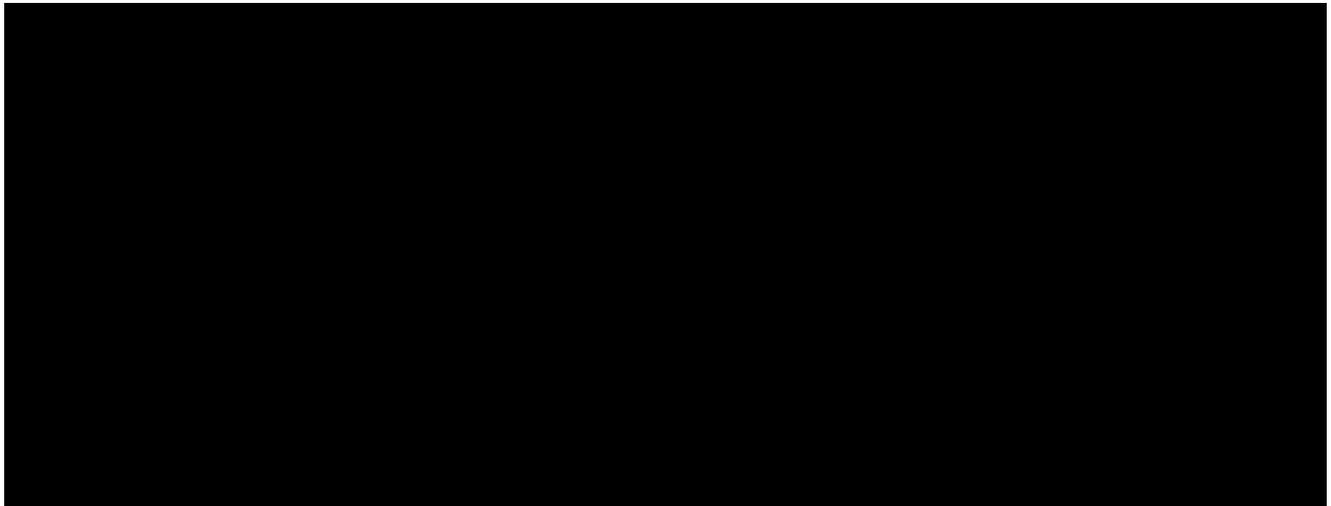




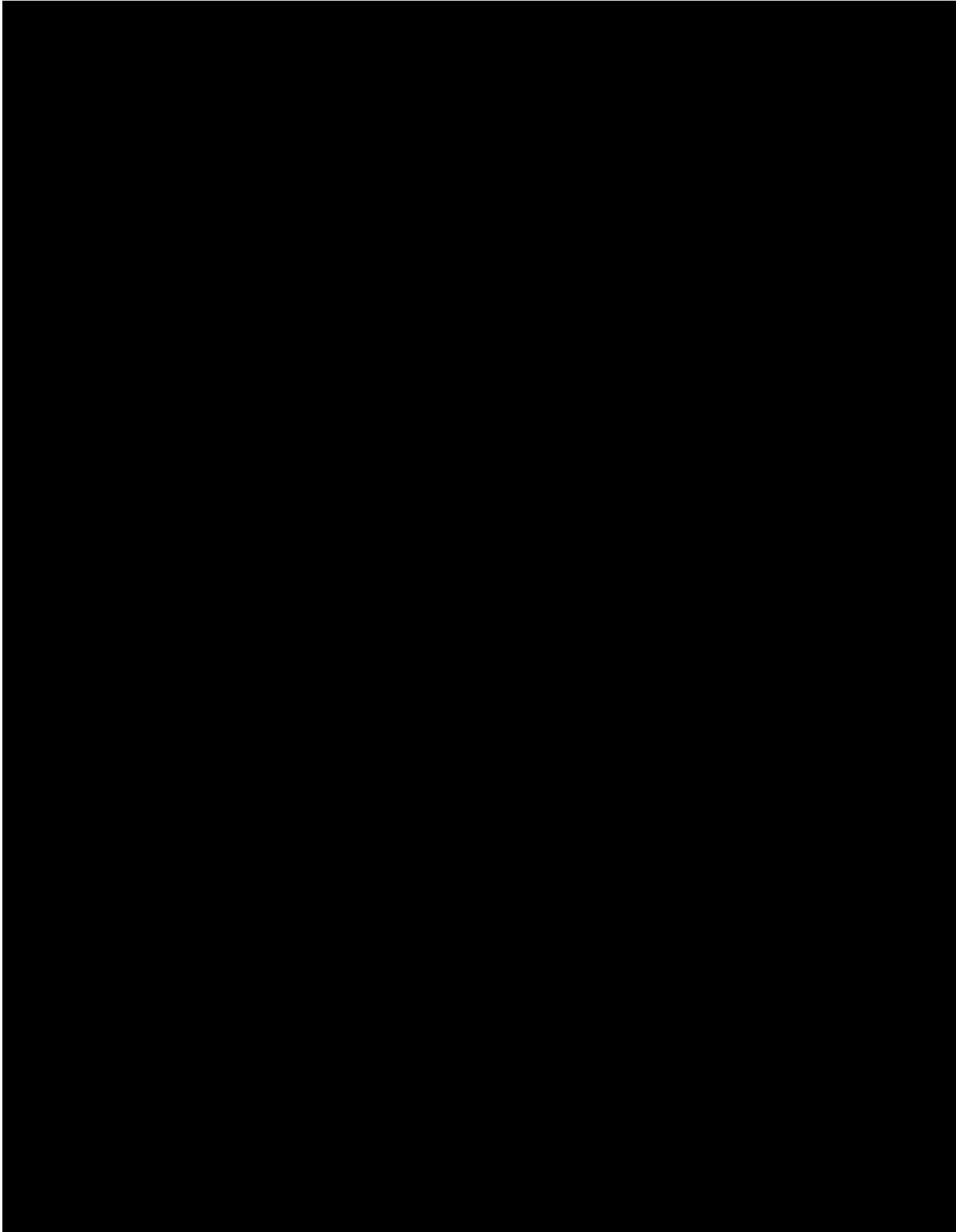


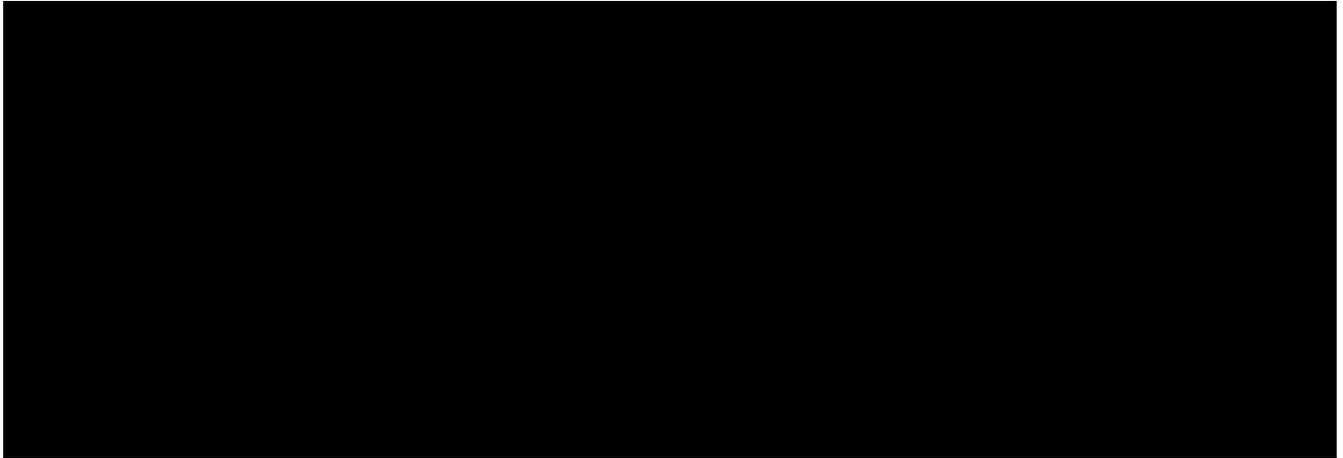


[Redacted]

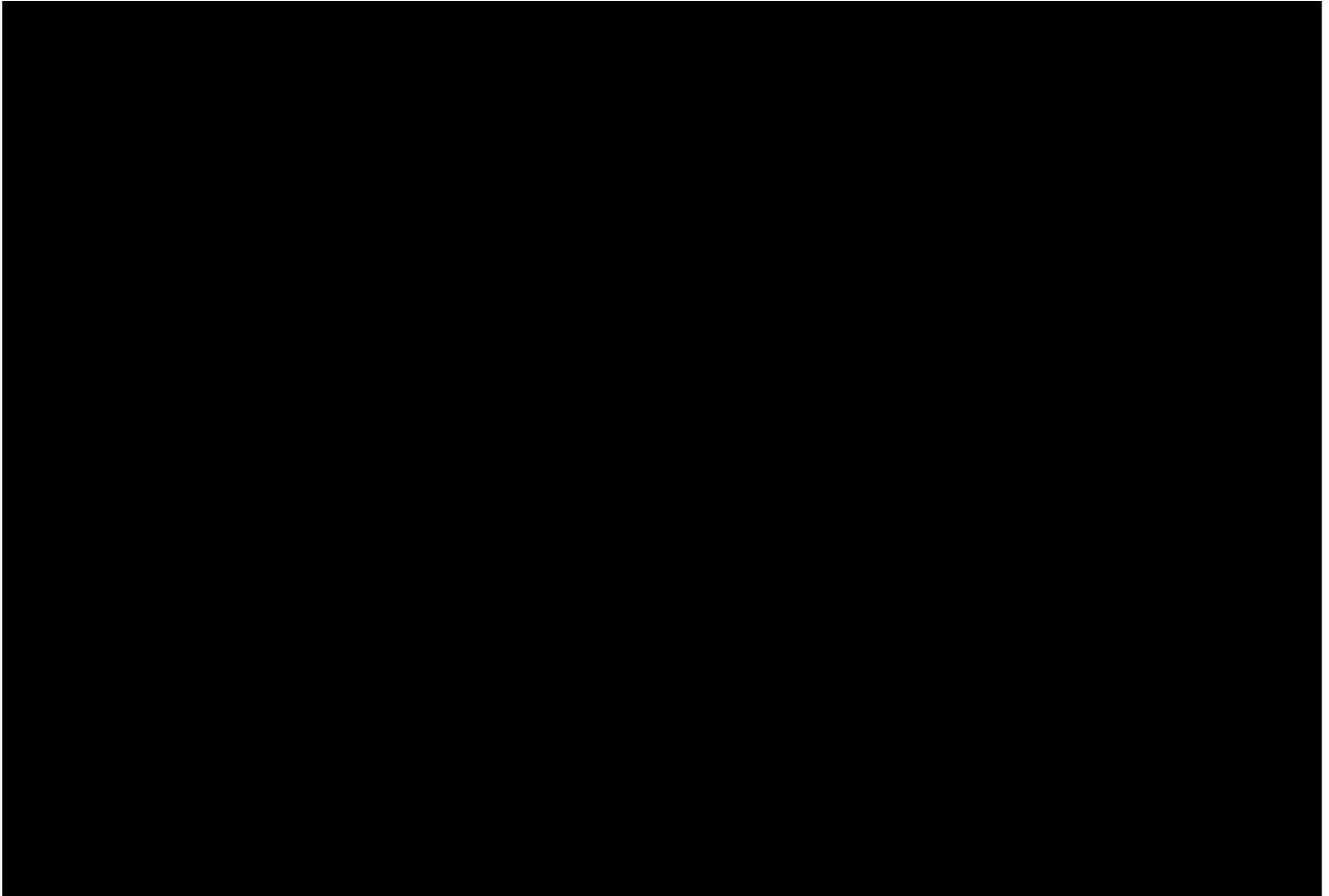


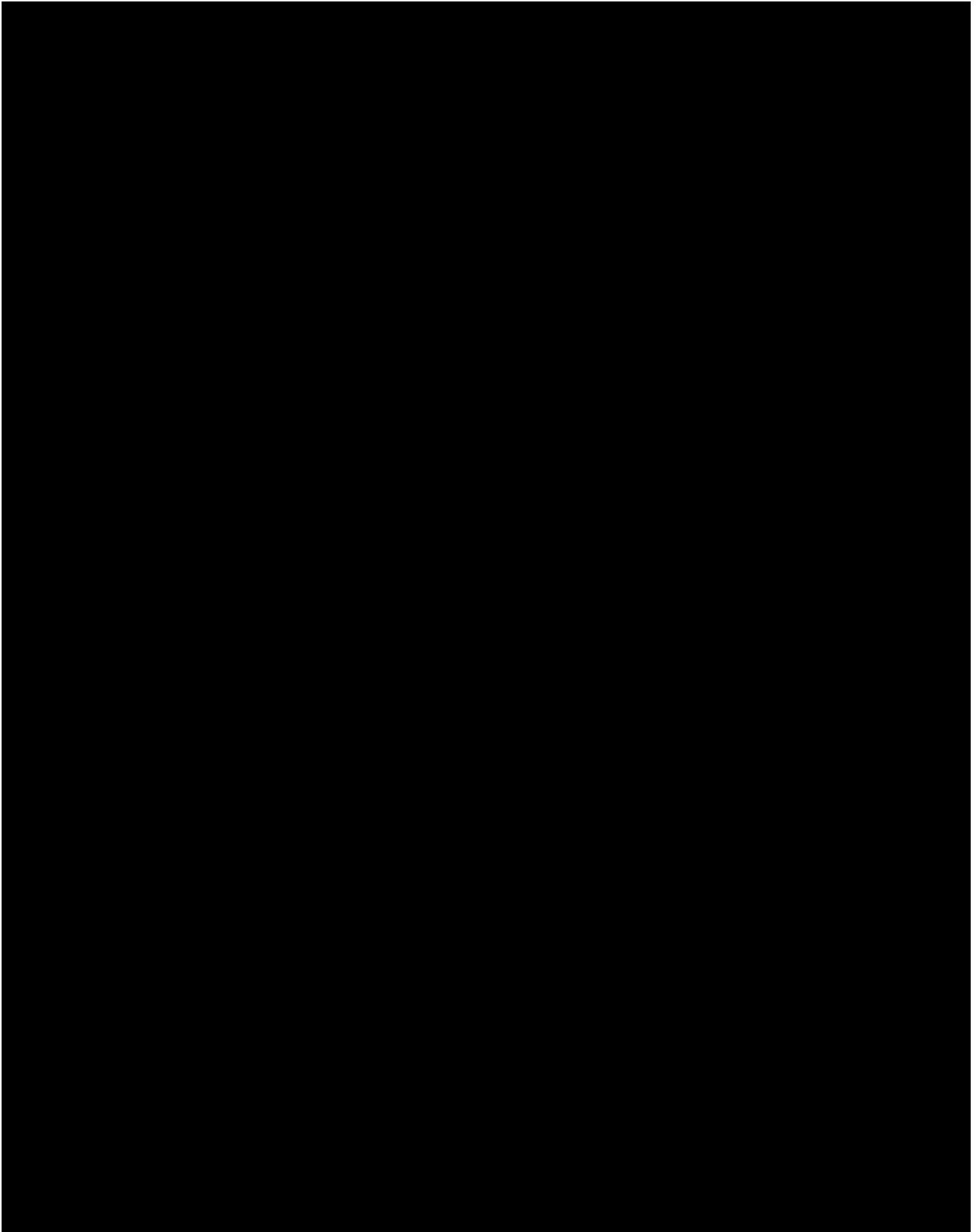
[Redacted]

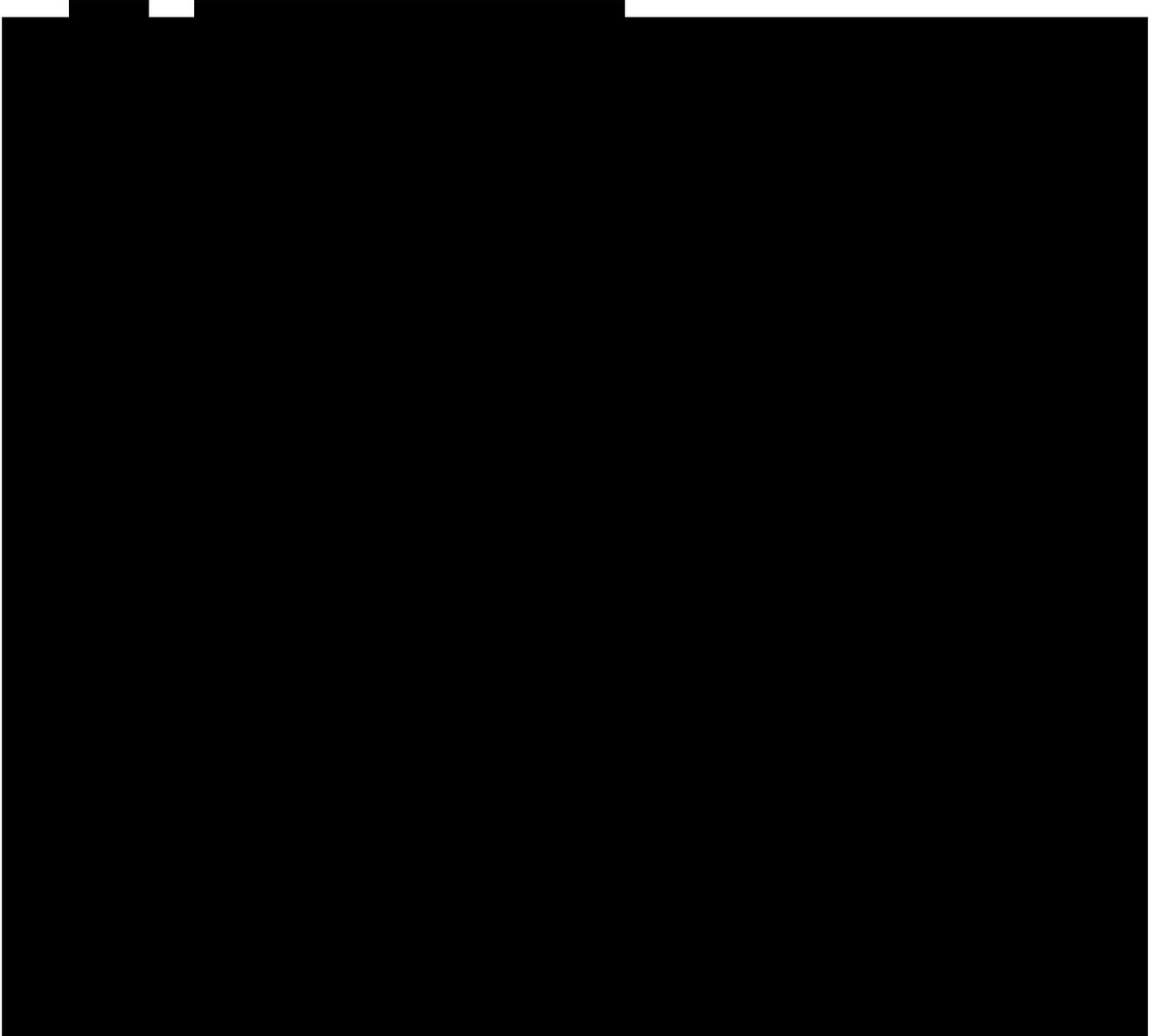
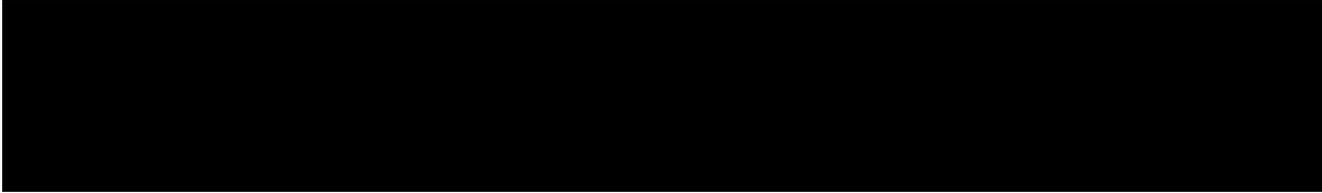


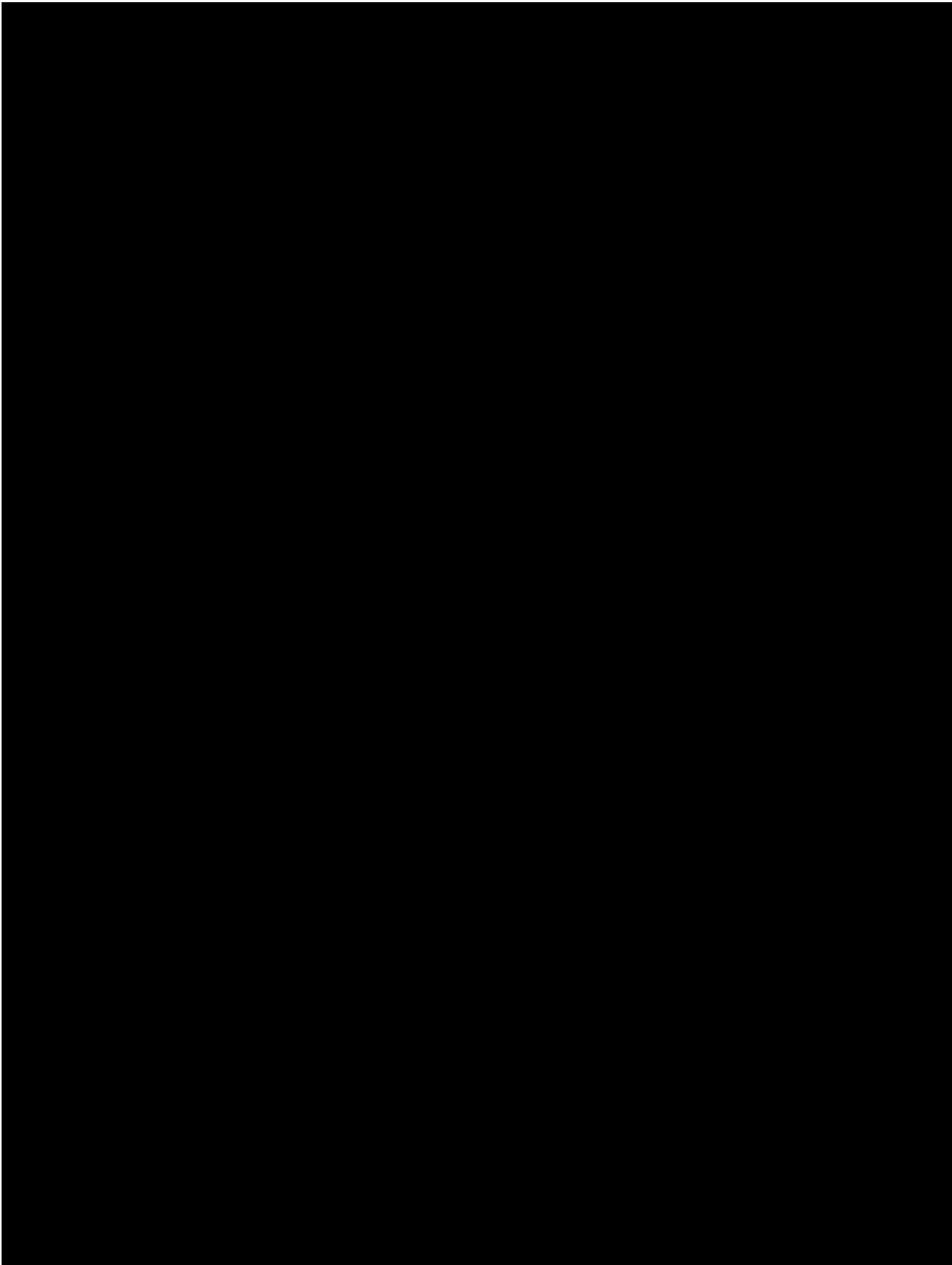


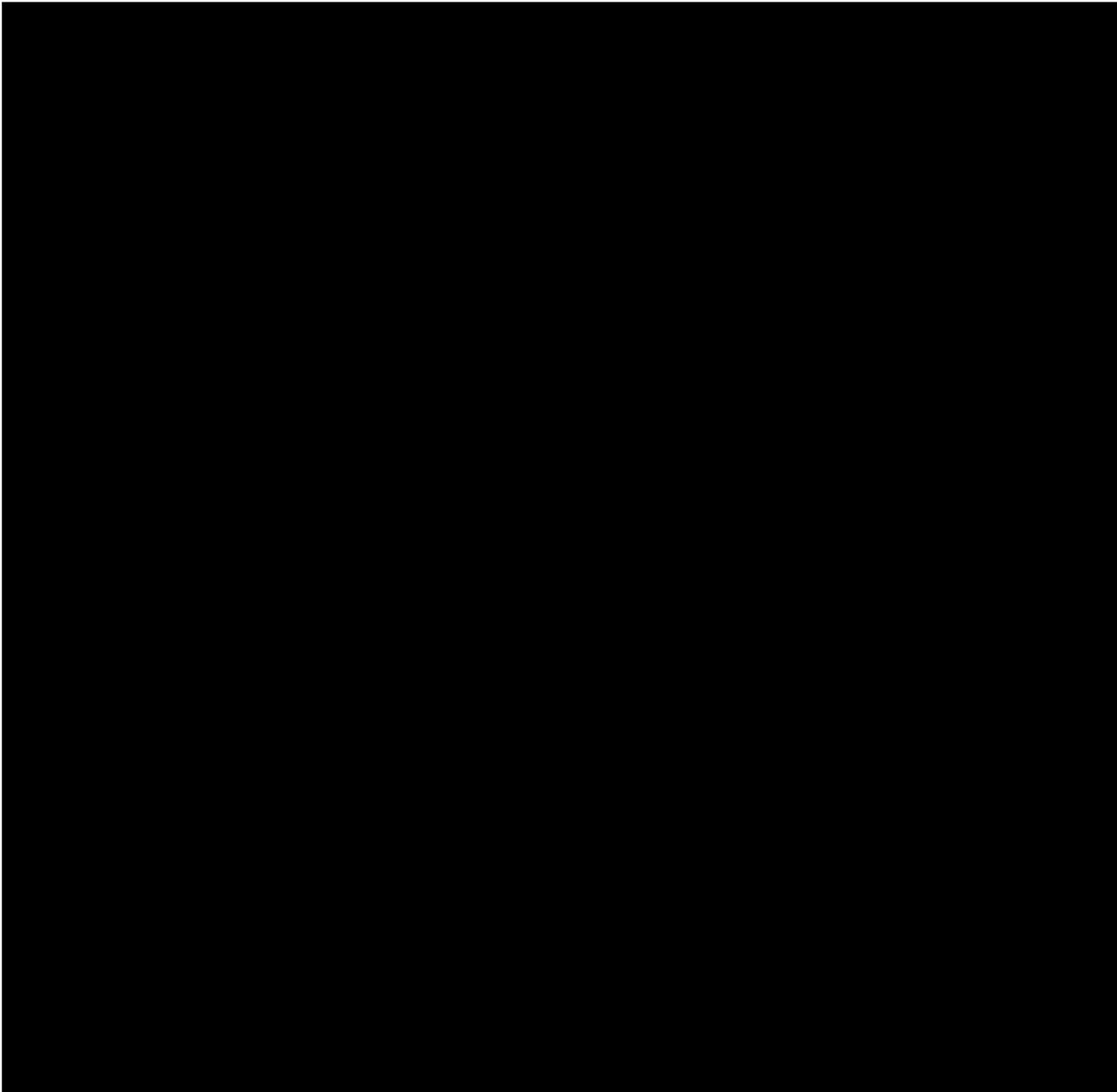
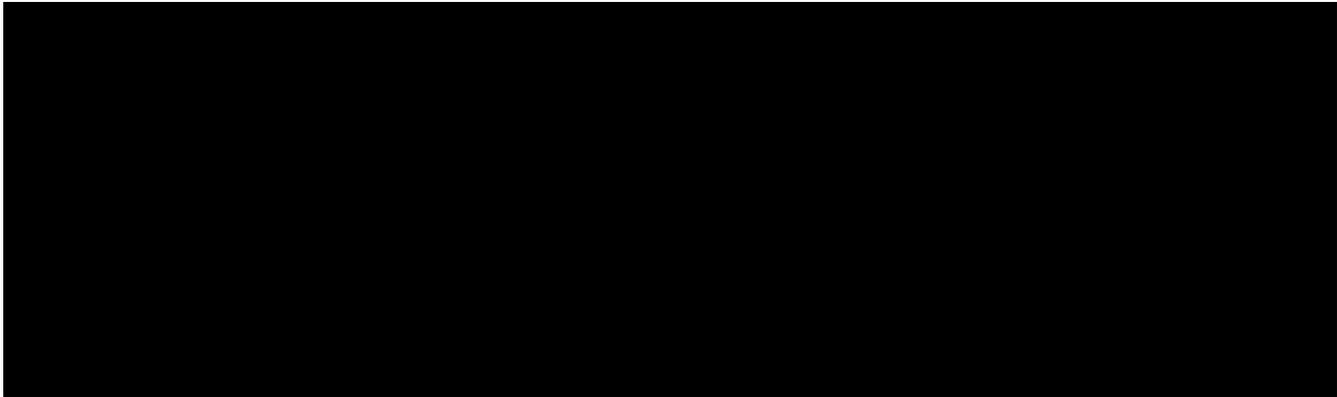
[Redacted]

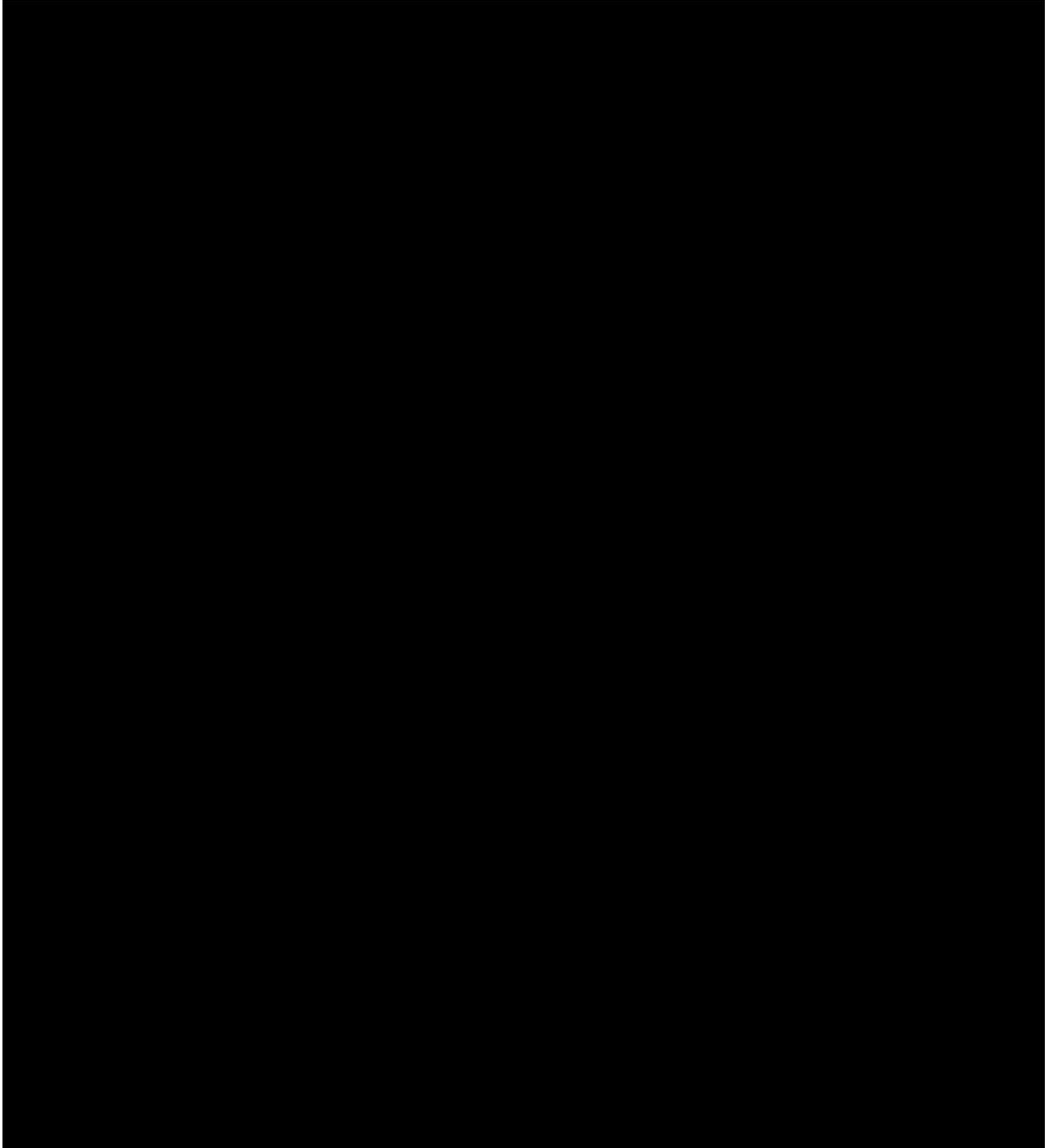












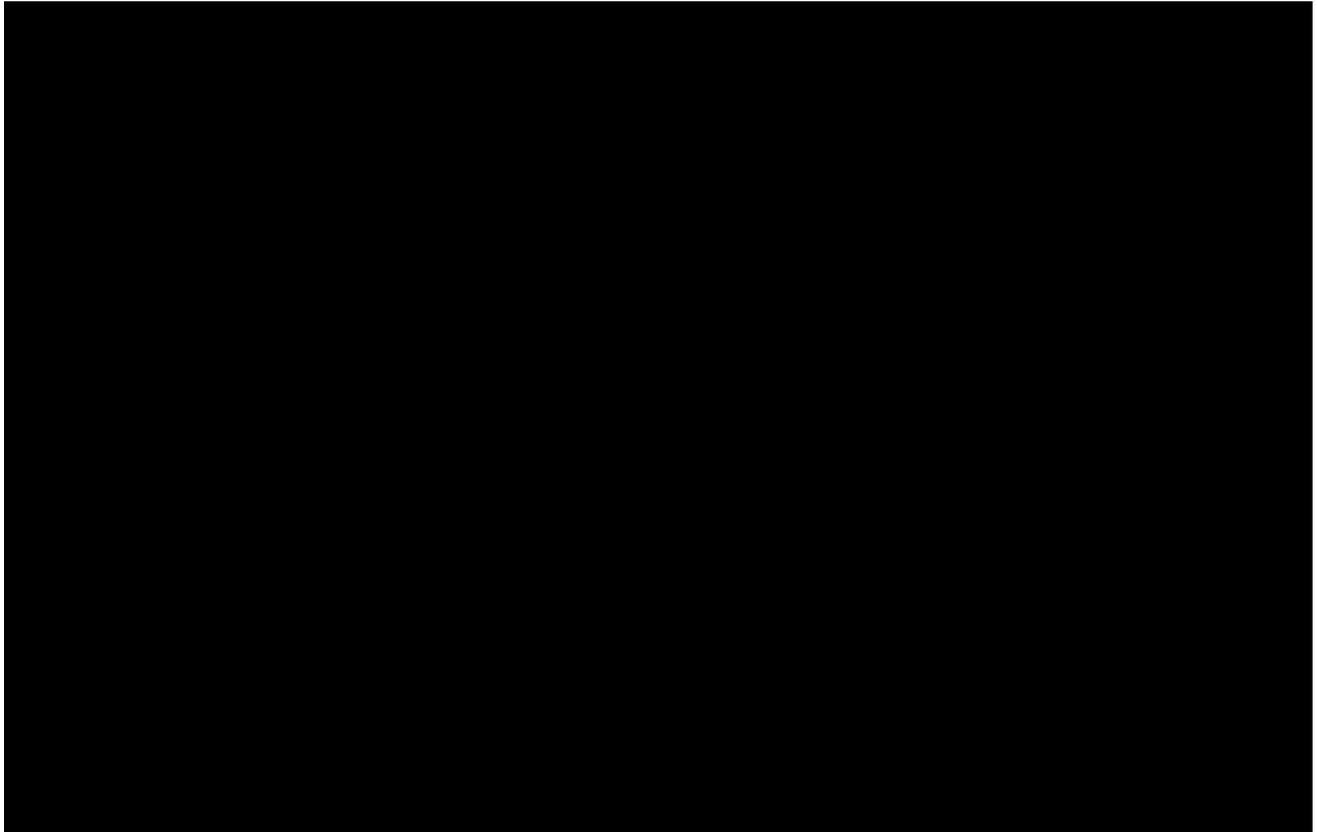
The Vendor must include a narrative of the Vendor’s proposed organization and staffing approach. This response template must include the proposed approach to: organization plan; organization chart; key staff; Subcontractors; staff contingency plan; staff management plan; staff retention and the Vendor’s approach to working with the State project staff.

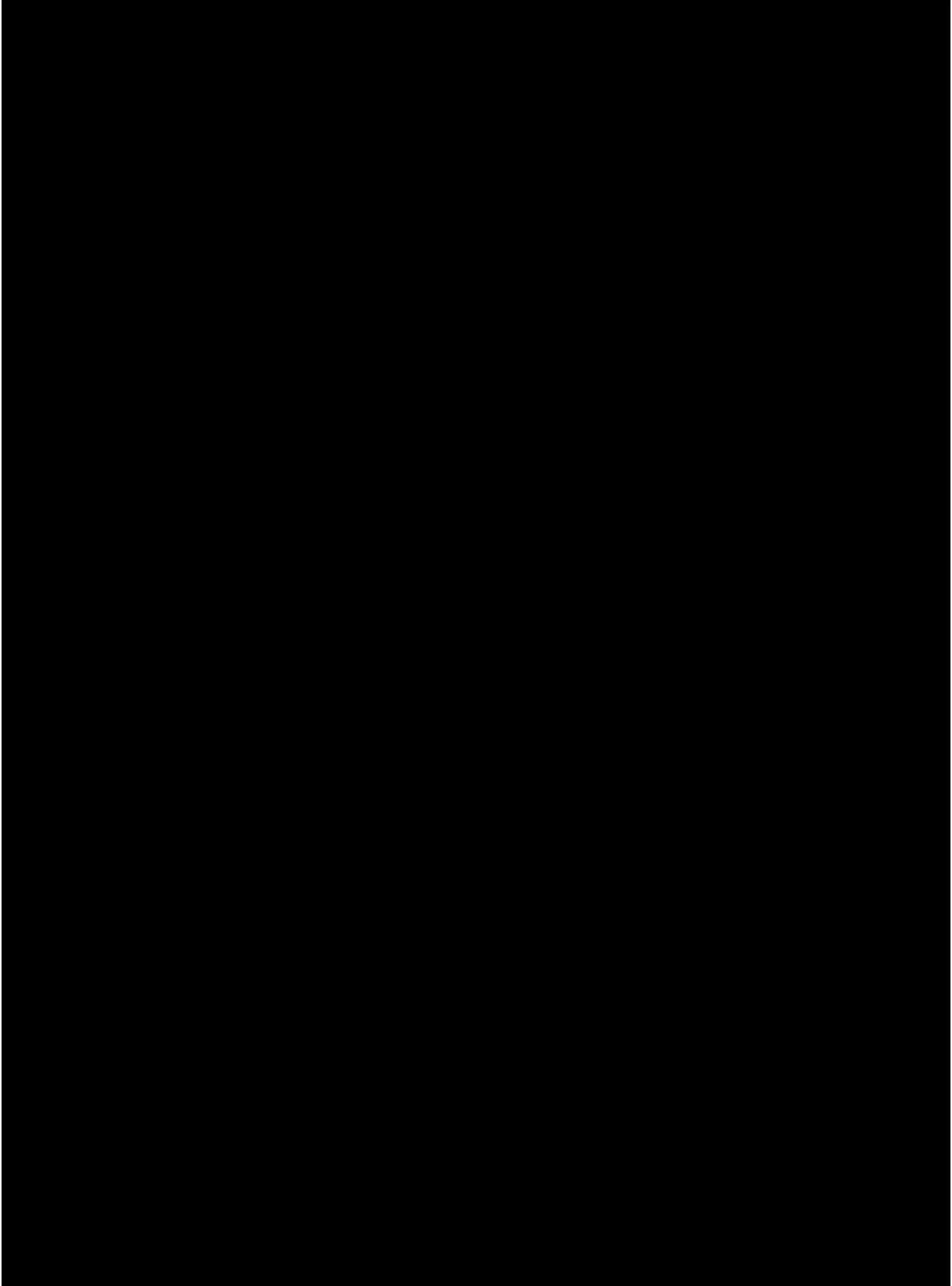
1. Project Organization Plan

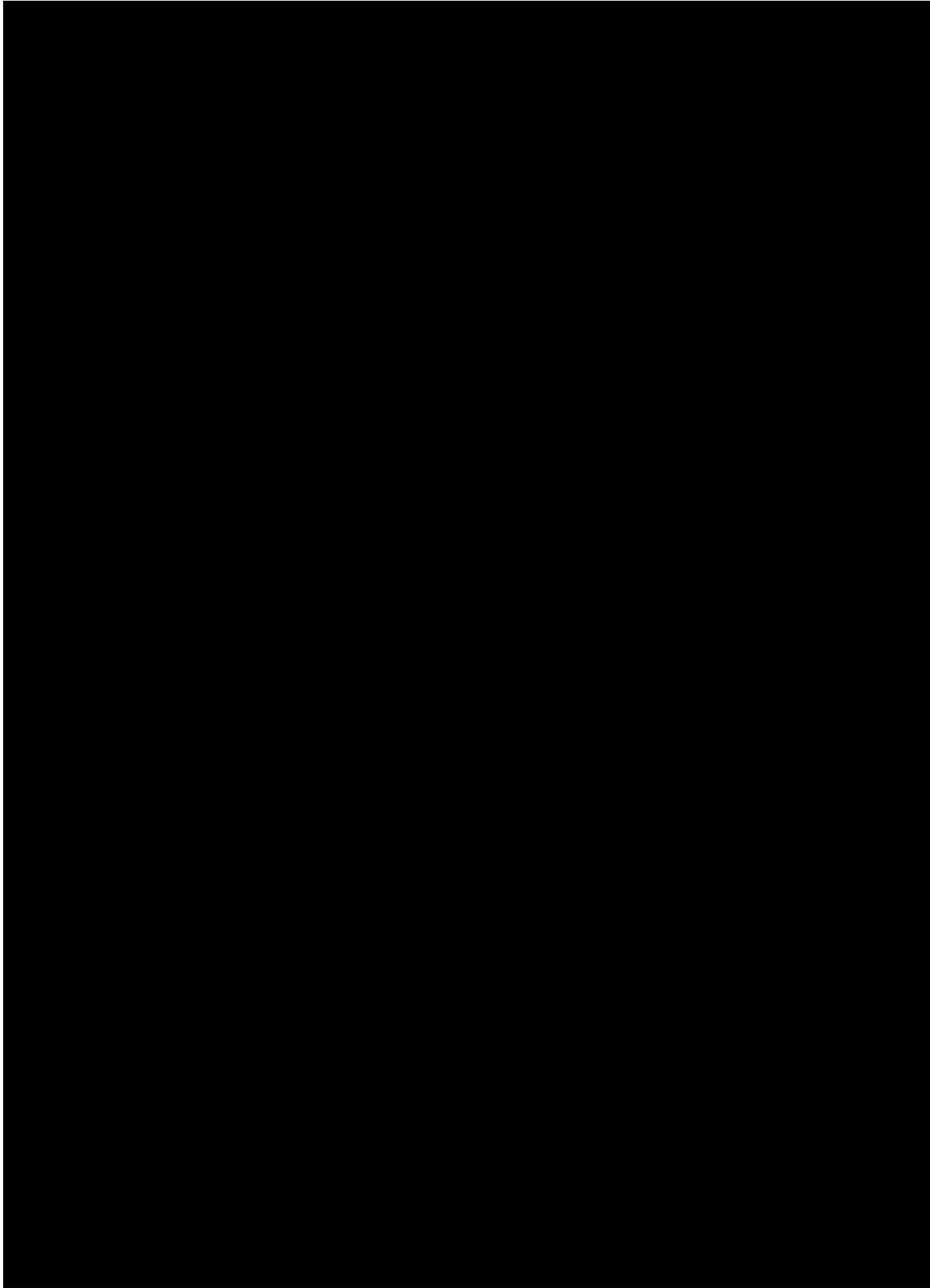
Instructions: The Vendor must describe the integrated staffing organizational plan required to execute the proposed approach and create the deliverables required in the project. The staffing plan should be a balanced complement of Vendor and State project resources. This section includes details regarding the State’s team, proposed use of approved Subcontractors, and the Vendor's expectations of State project resources.

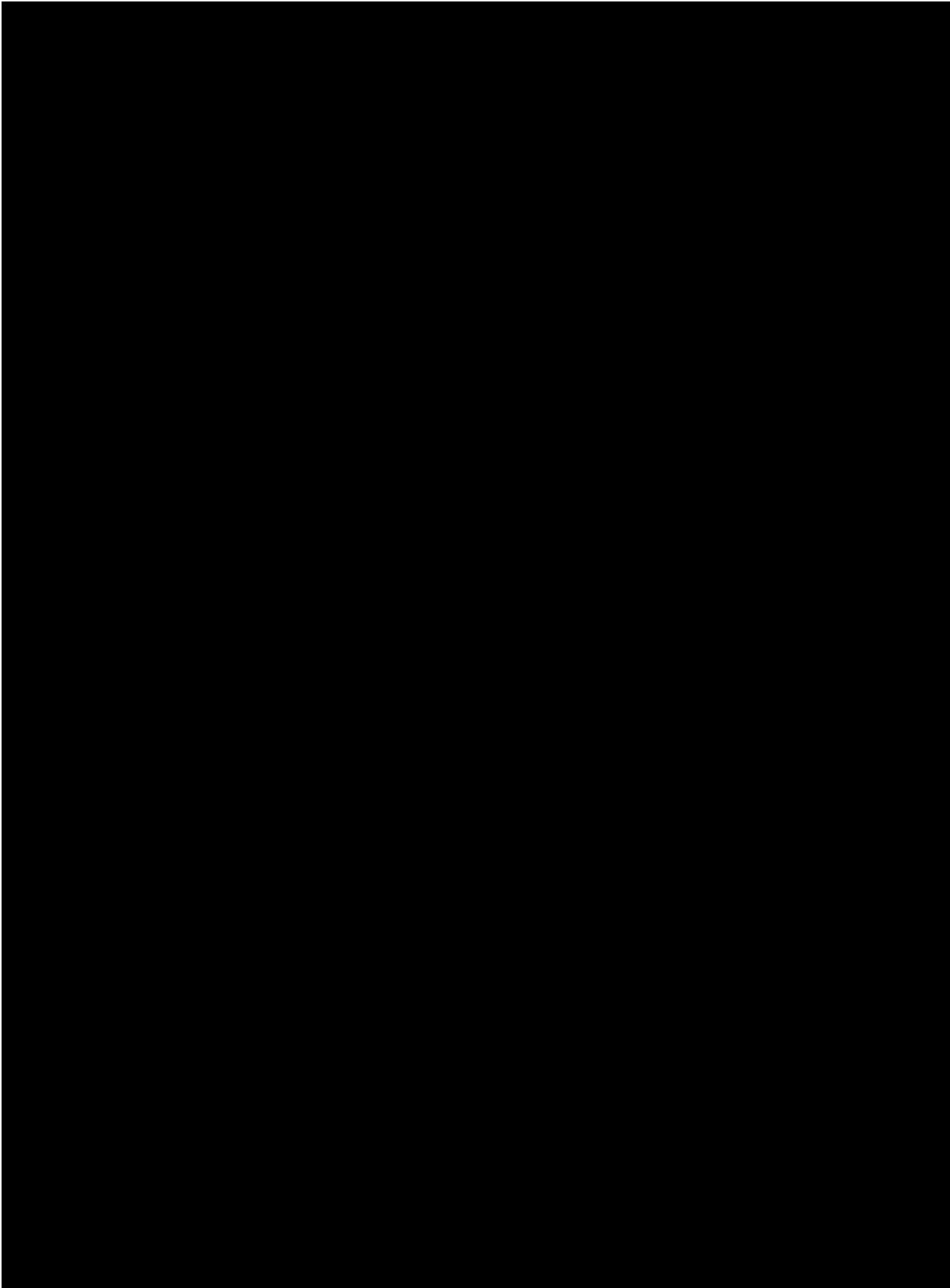
The Vendor must provide a staffing plan detailing the number of personnel, level, roles and responsibilities, and team reporting relationships and identify the approach to providing “shoulder-to-shoulder” links for key staff roles between Vendor staff and State staff. This plan will show proposed Vendor personnel hours by phase, by personnel level and by role for the entire project. The Vendor must identify all Key Project Personnel for the Vendor and key personnel for the State and their proposed project role. Key Project Personnel cannot be replaced without prior State approval during the life cycle of the project.

Refer to RFP sections 2.4 and 2.5 for Vermont’s proposed approach to the staffing plan.



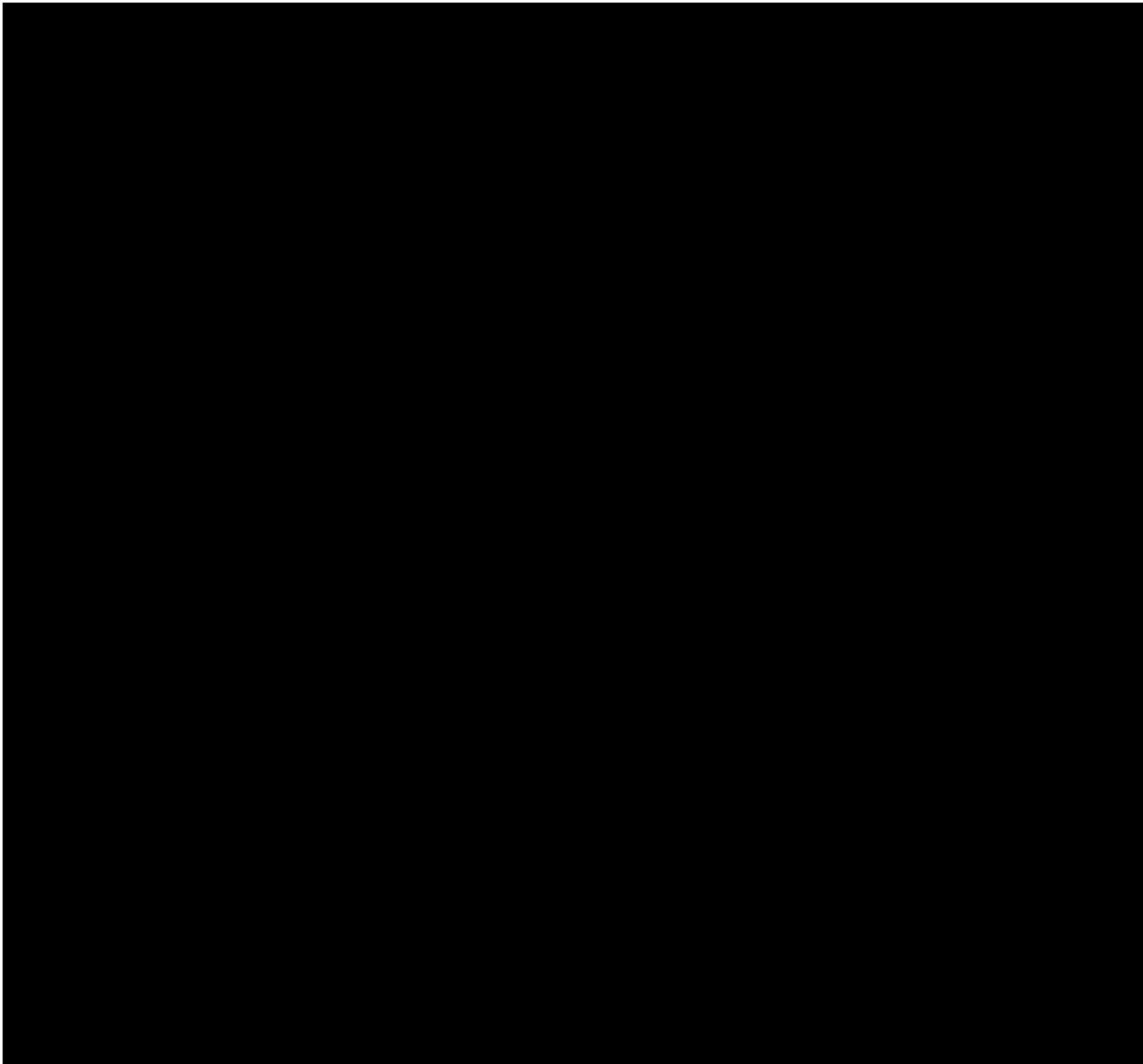


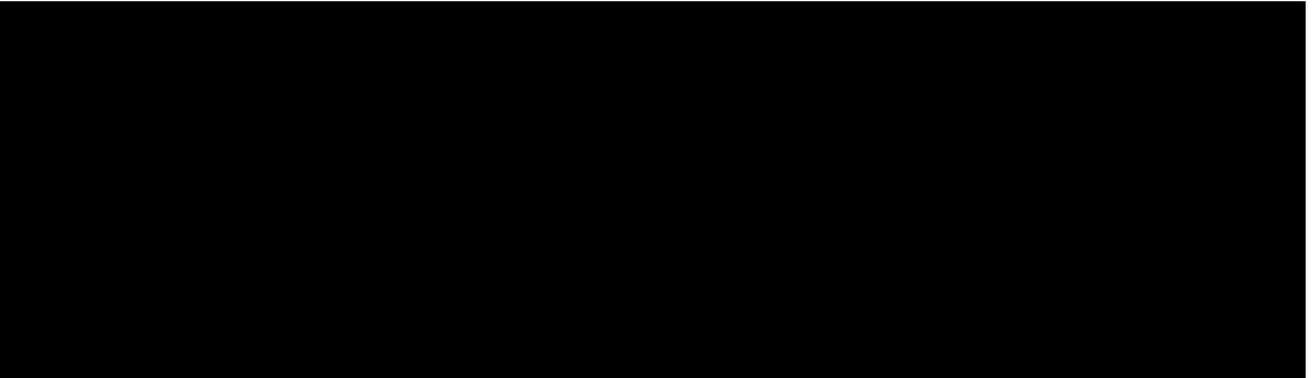
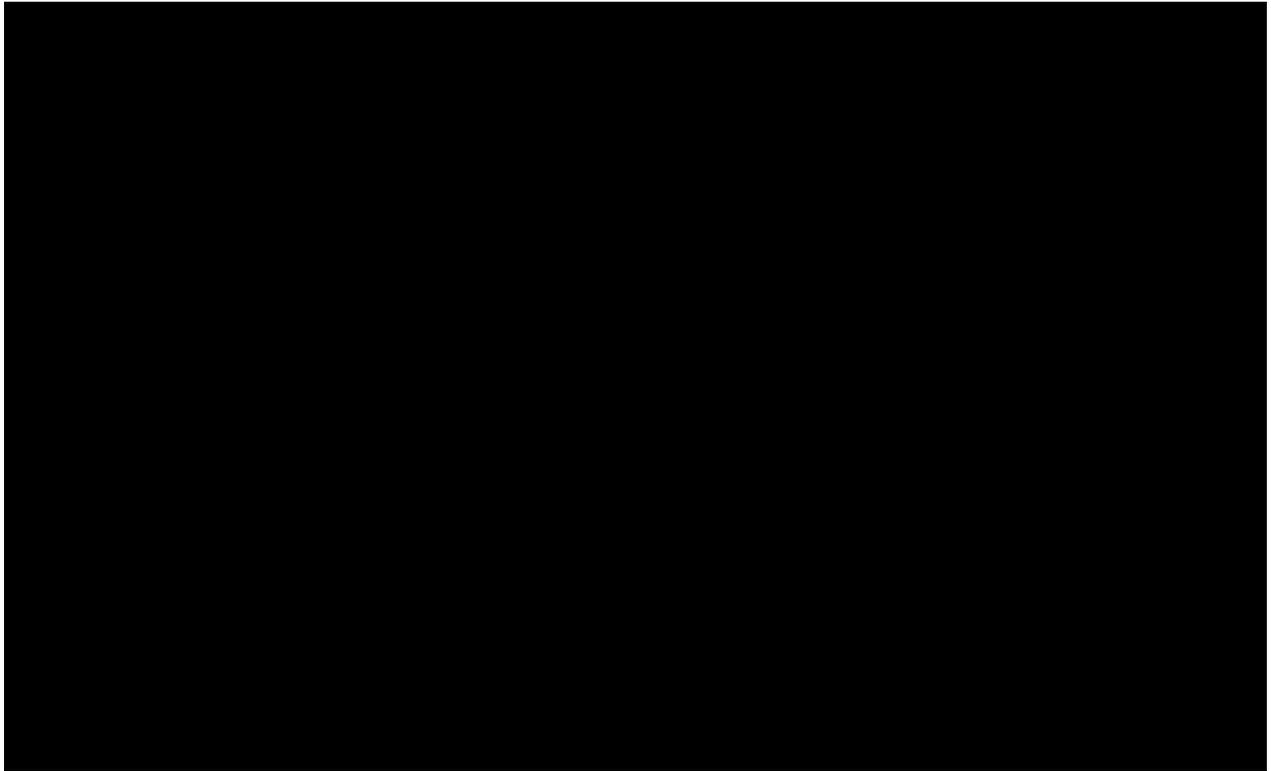




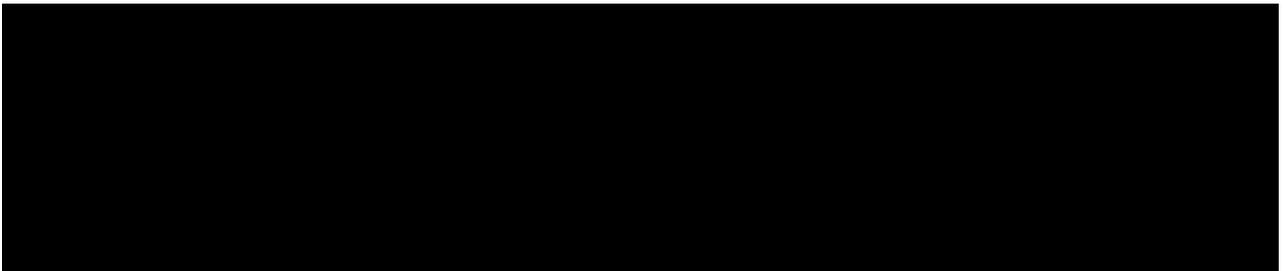


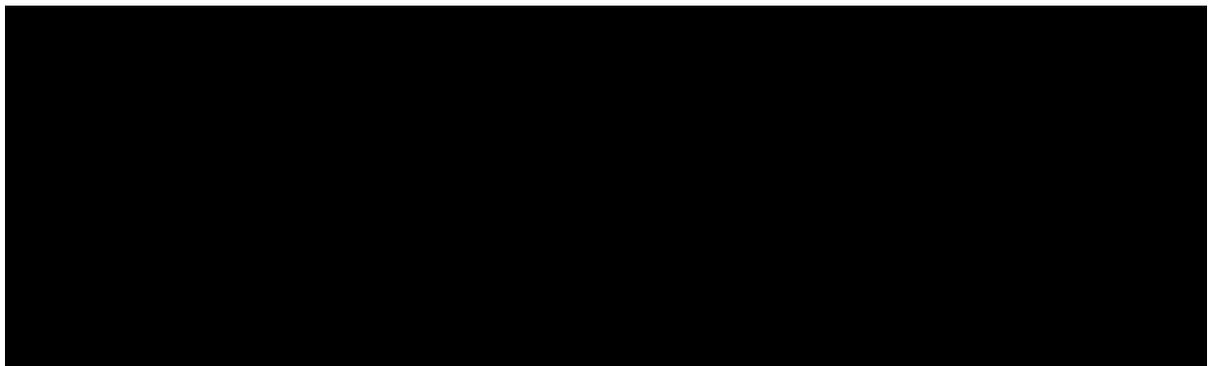
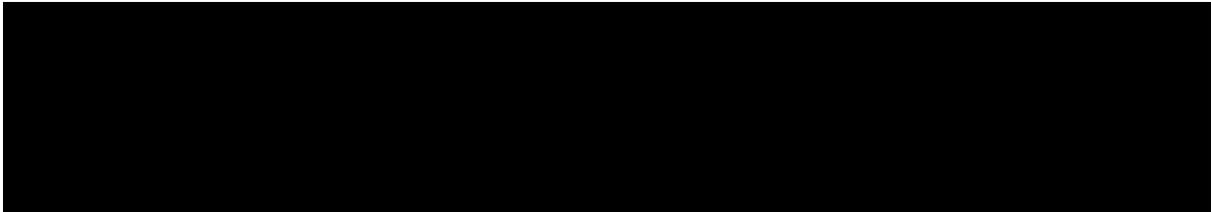
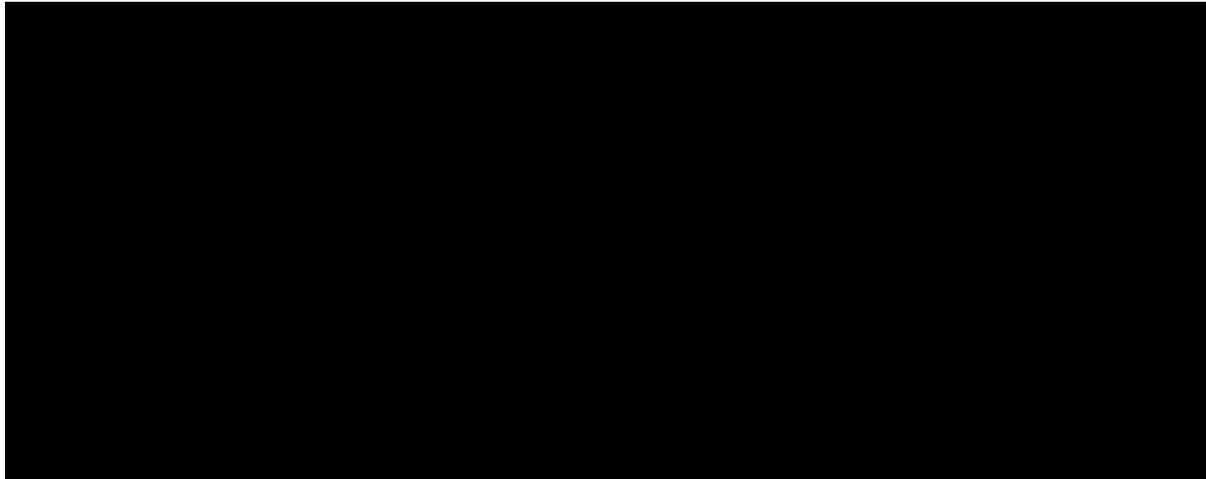
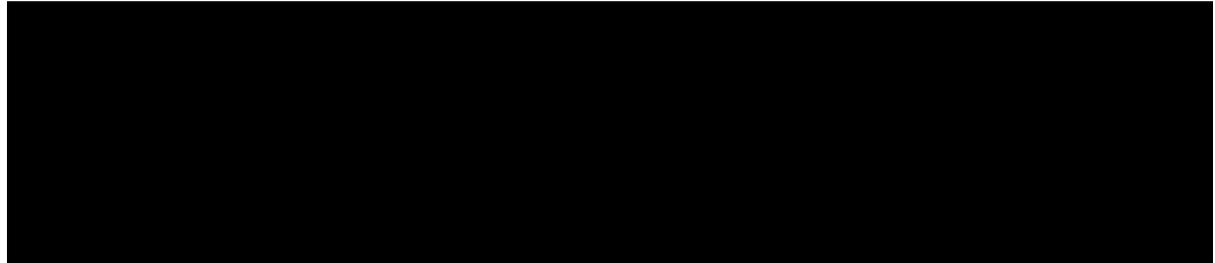
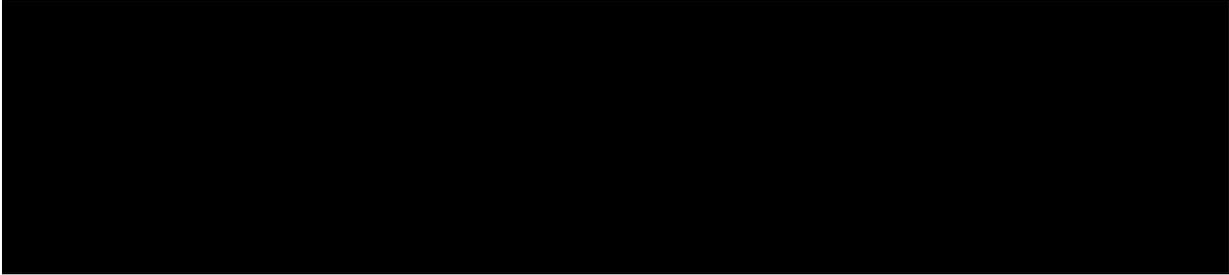
Key Personnel

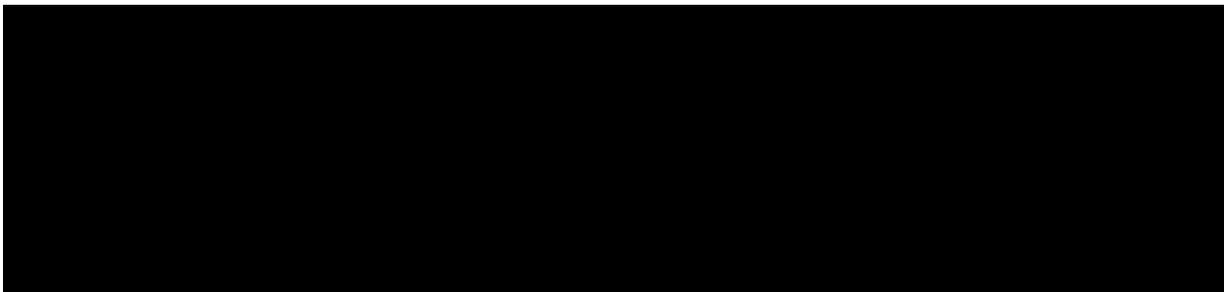
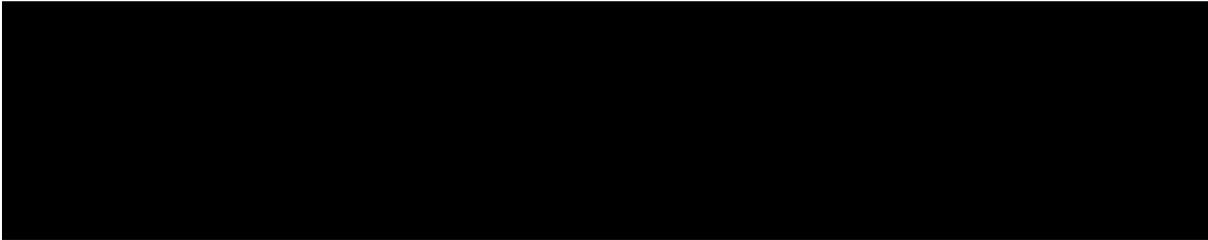
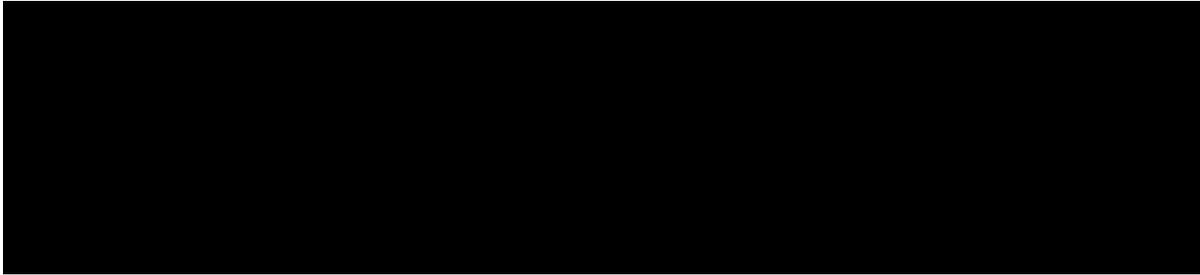


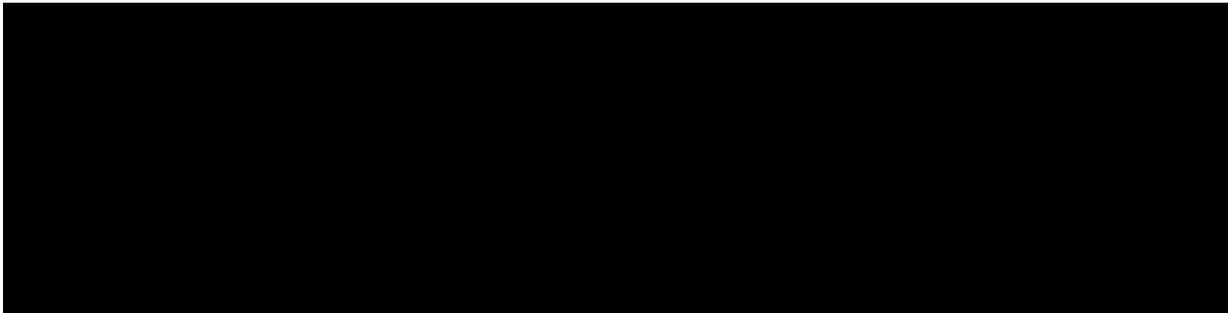
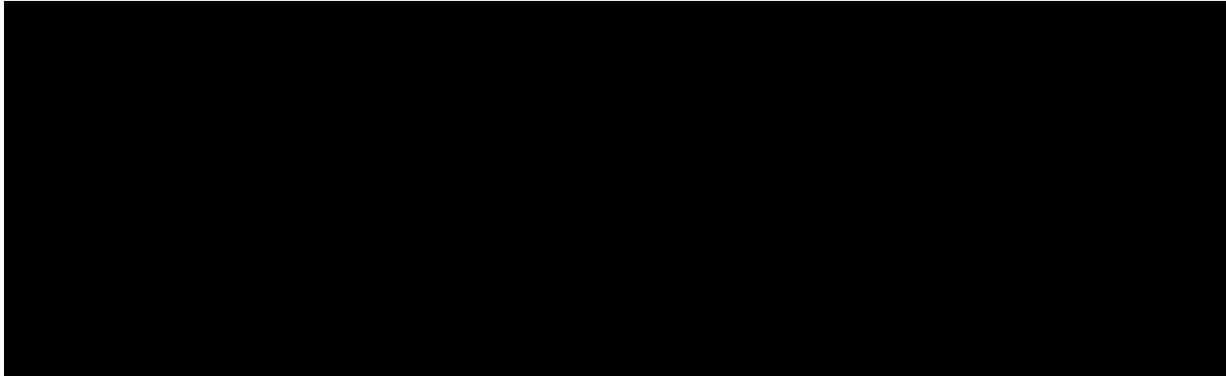


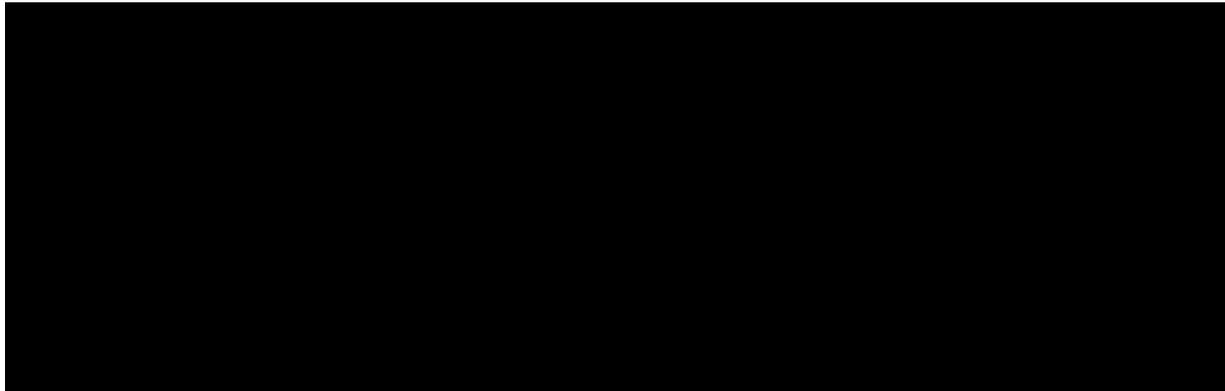
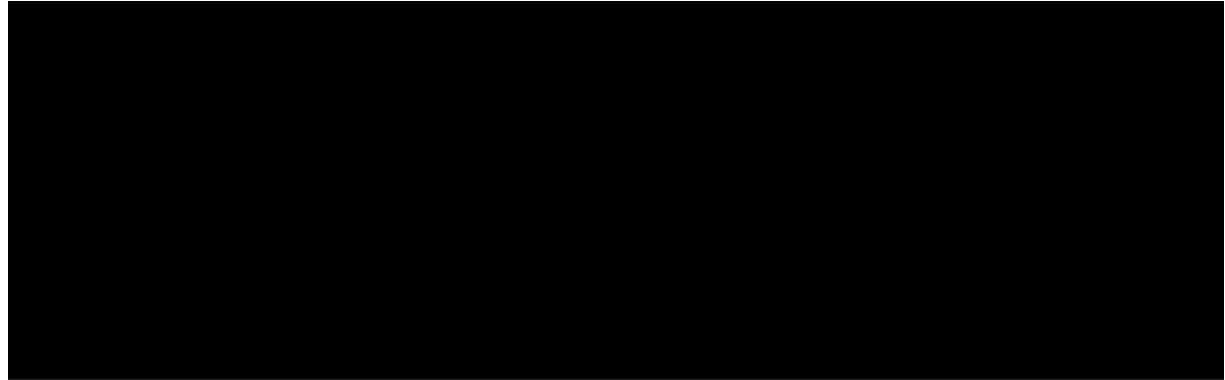
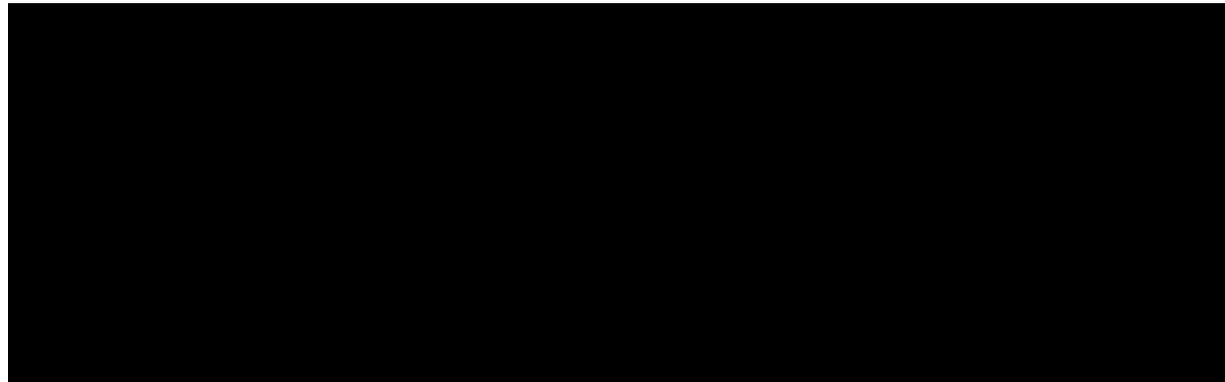
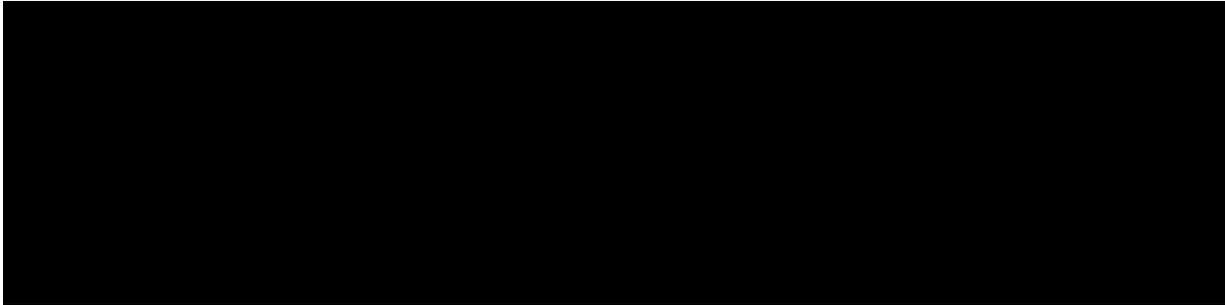
Non-Key Personnel

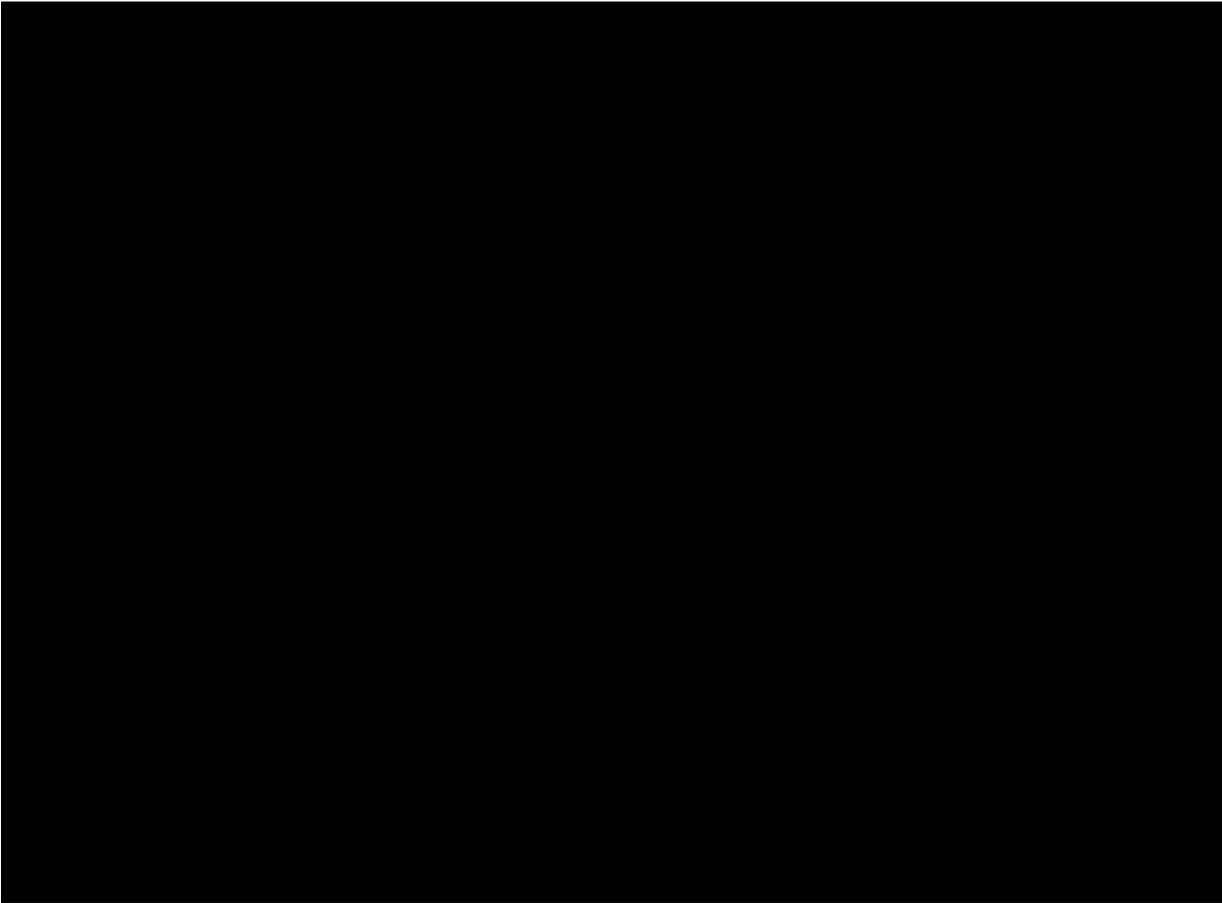


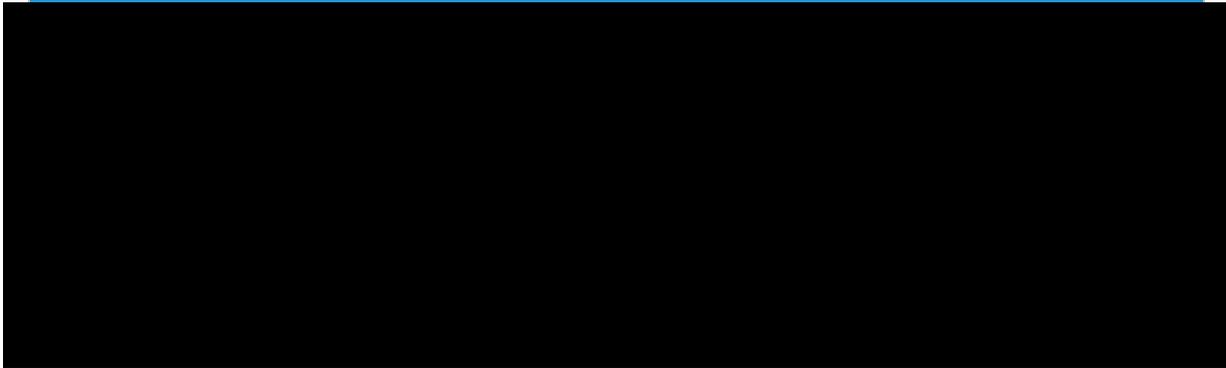
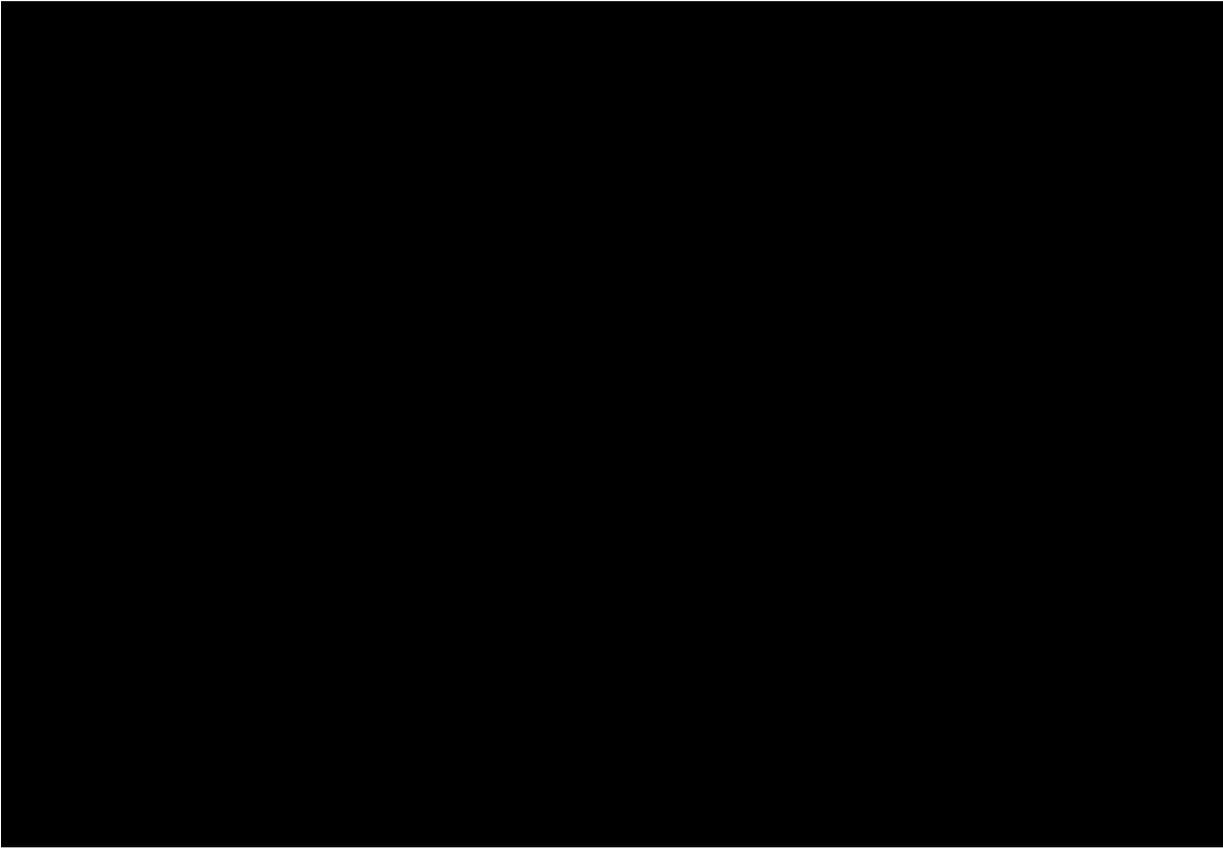


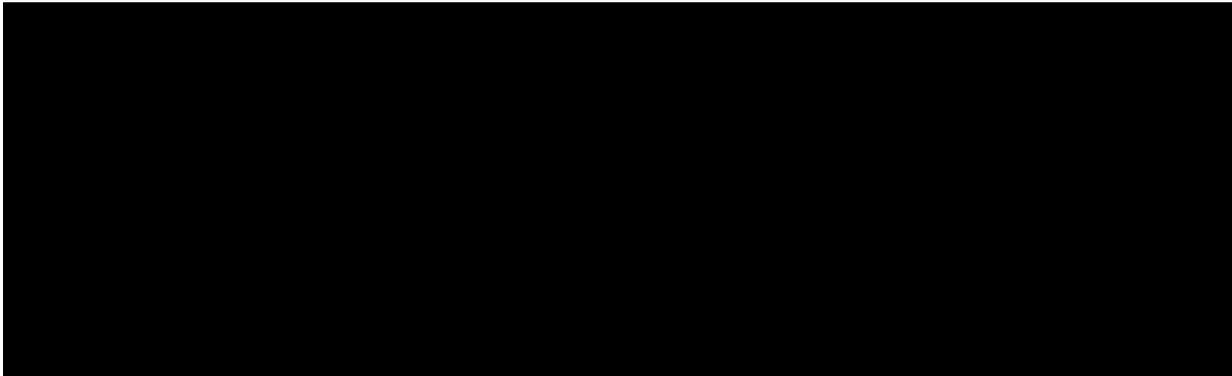
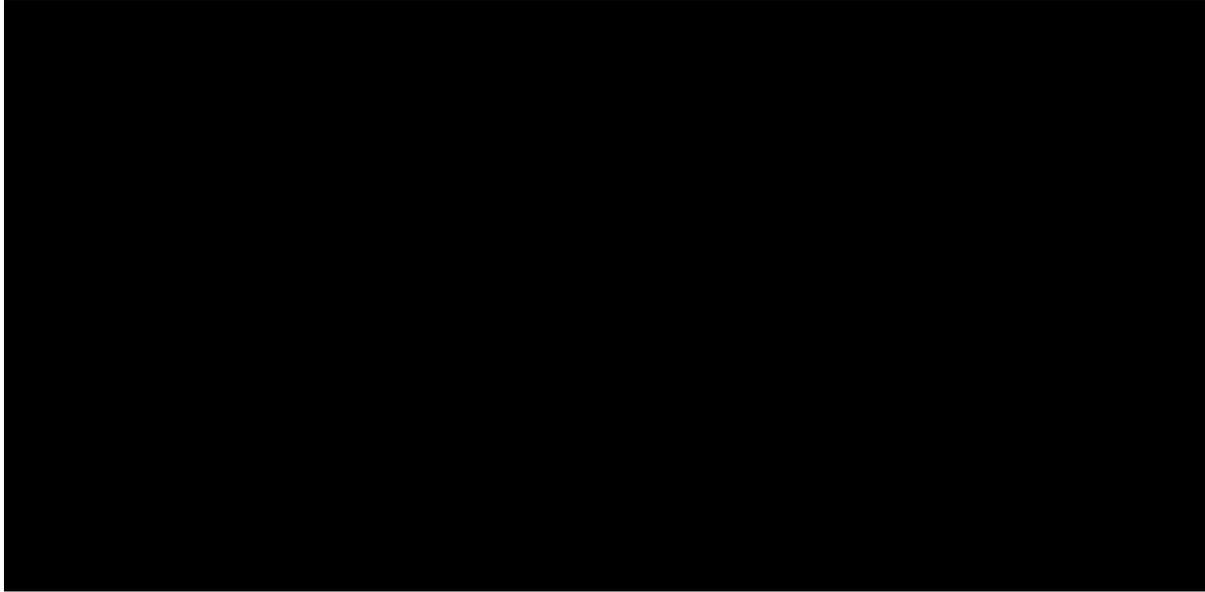


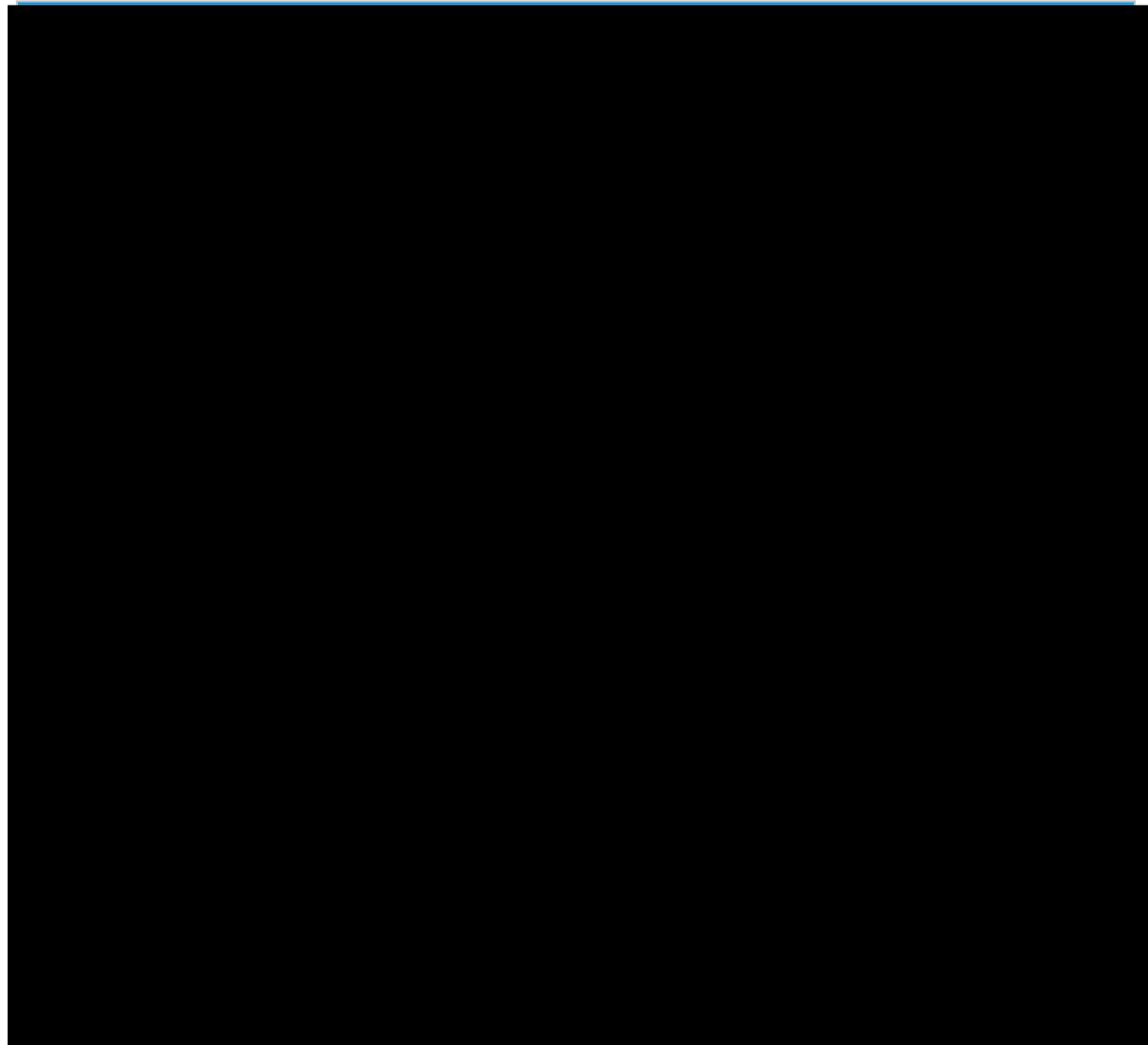
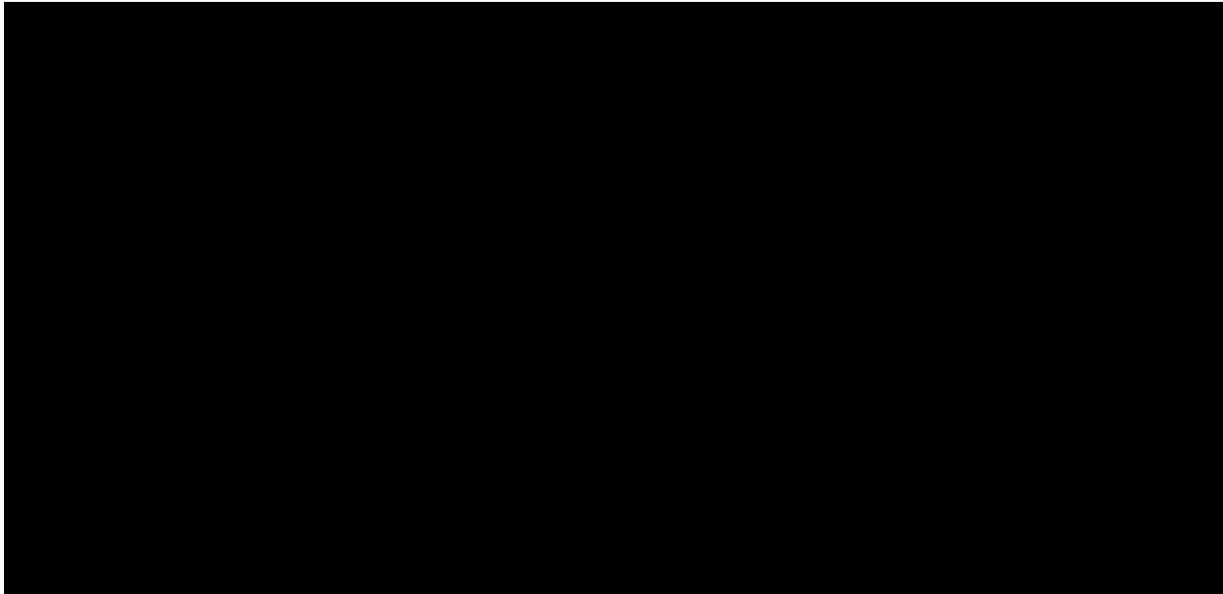


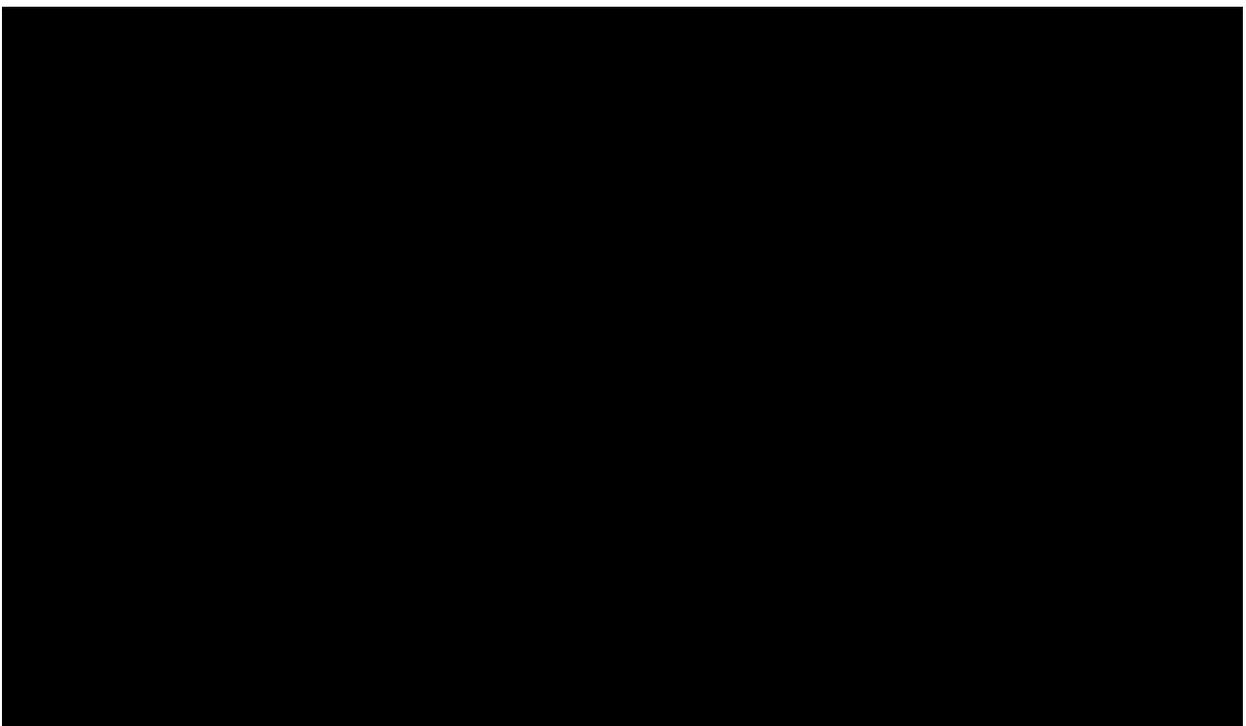
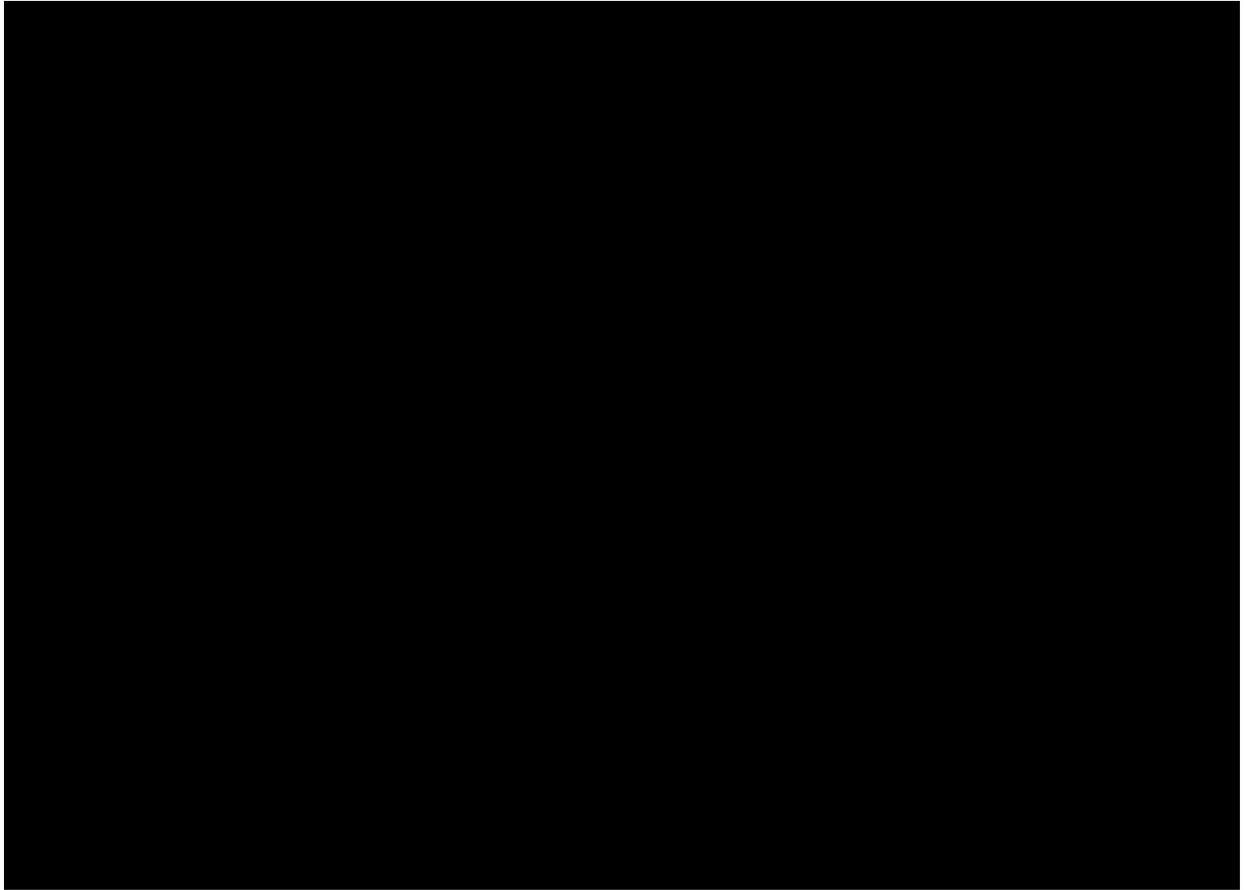














Team Reporting Relationships

As a longtime provider of Vermont PBMS and services to state healthcare agencies nationwide, we base our team reporting relationships on industry best practices and on lessons learned in our operational accounts. Refer to Exhibit D-1, DDI organization chart and Exhibit D-2, operations organization chart for a clear depiction of our team reporting relationships.

Vendor Hours by Phase, Personnel Level and Role

Each phase of the Vermont PBMS project encompasses specific technical needs and business goals. Consequently, the personnel deployed throughout development, operations, and maintenance will vary from phase to phase, depending upon the expertise required to meet the project scope.

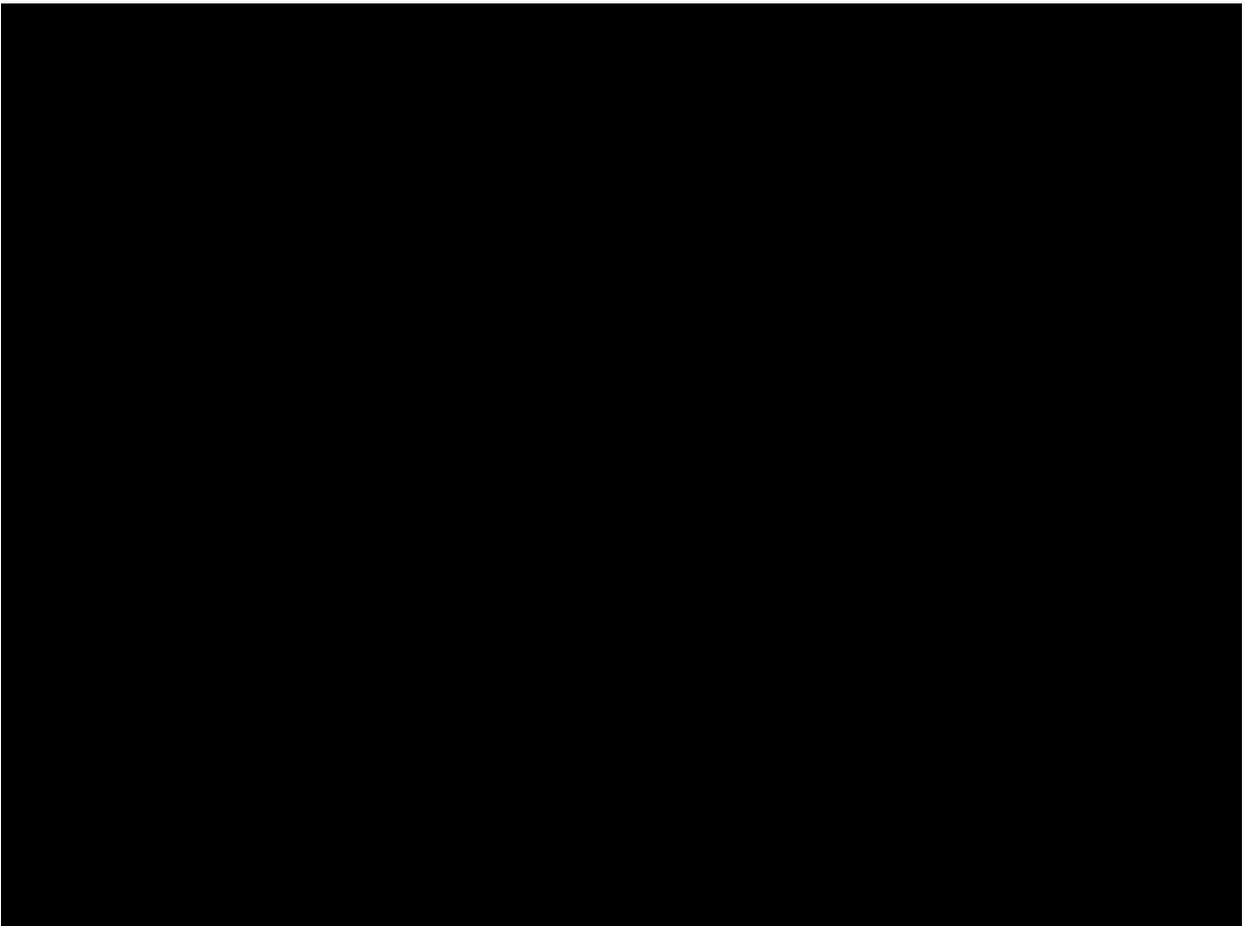
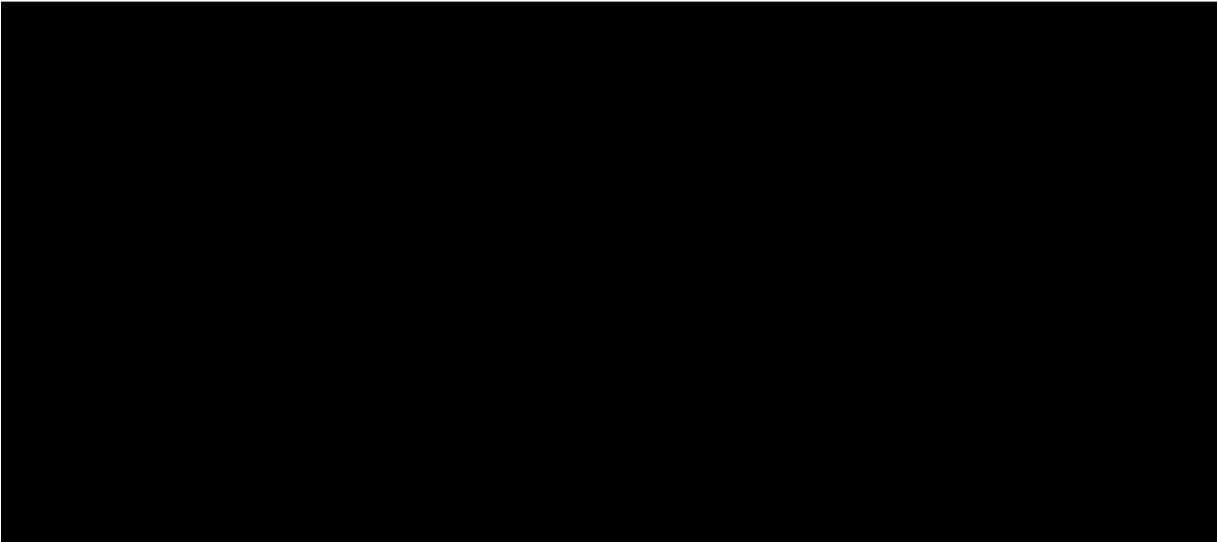
The staff loading charts on the following pages reflect anticipated staffing levels throughout all phases of the project. The charts reflect full-time equivalents (FTEs) by month. One FTE translates to a minimum of forty hours of work per week. Wherever possible, we provide continuity by keeping the same individuals on the staff from phase to phase.

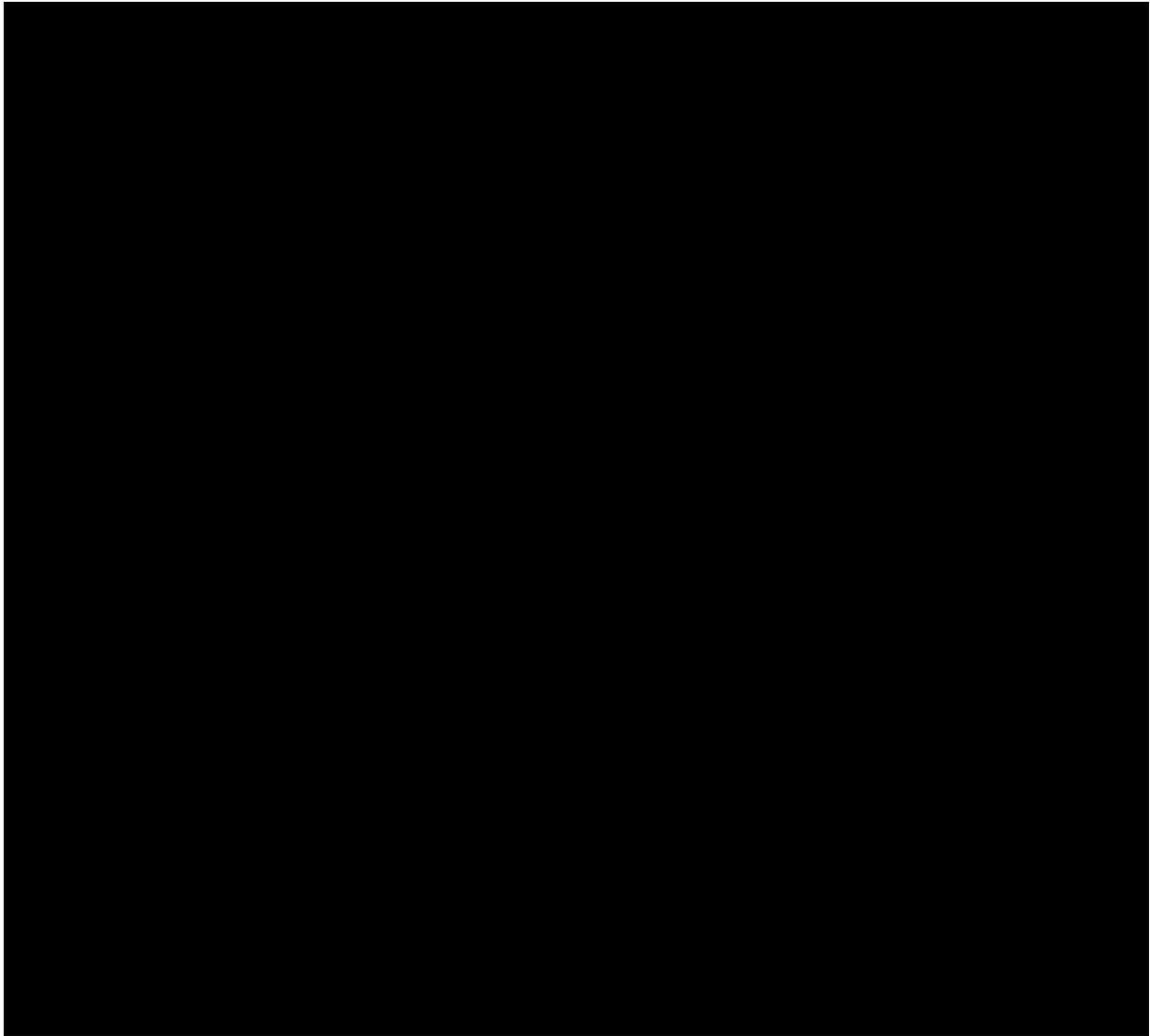
In the following tables, we show proposed Xerox personnel hours by phase, by personnel level, and by role for the entire project. In its answers to bidder questions dated January 7, the State confirmed that the term “personnel level” is defined as synonymous with “role” in this requirement.



While limited work activity for some project phases occurs months prior to peak activity, the project phase timelines illustrated on the staff loading charts are intended to represent peak activity, when the majority of work specific to the particular phase is conducted.

Staff Loading for Implementation Phase

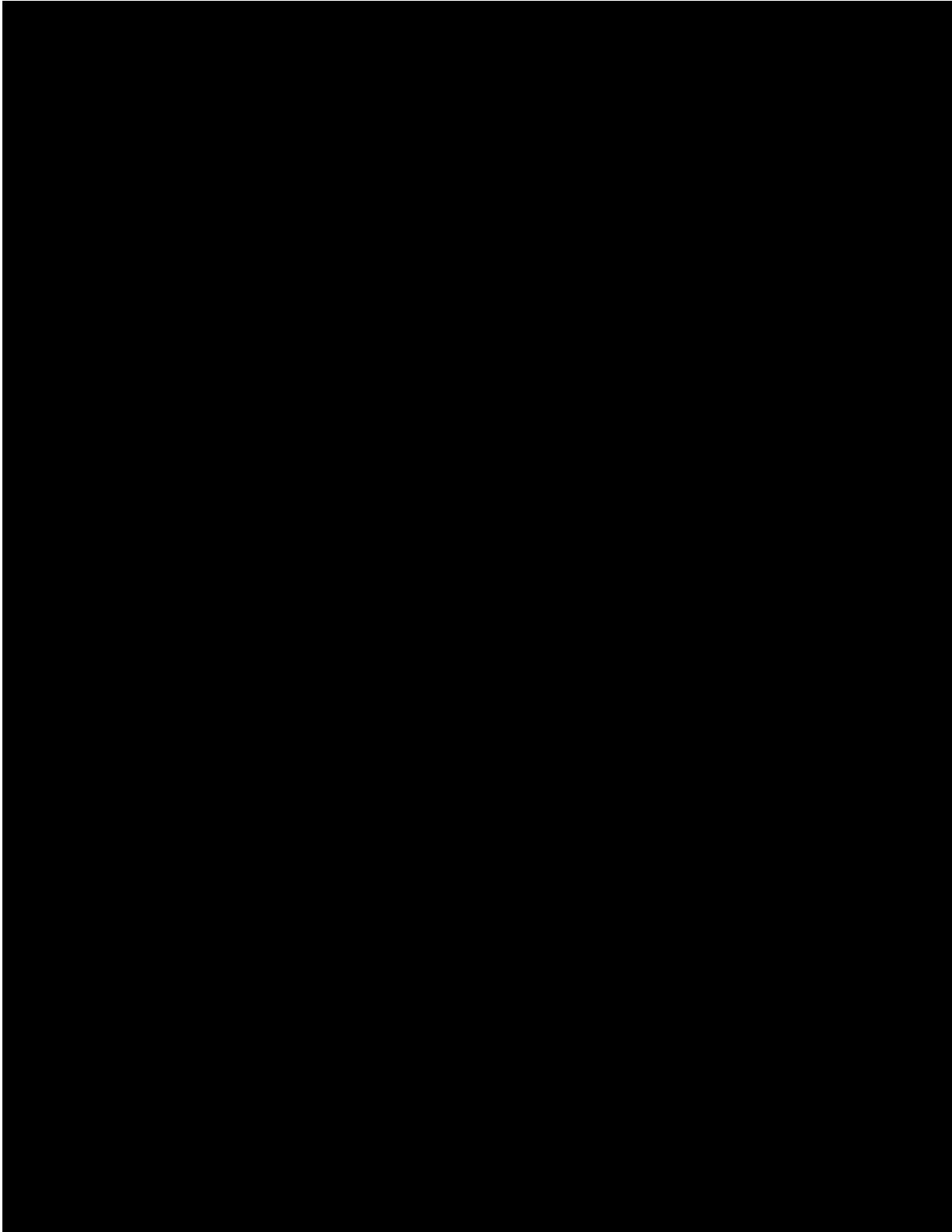


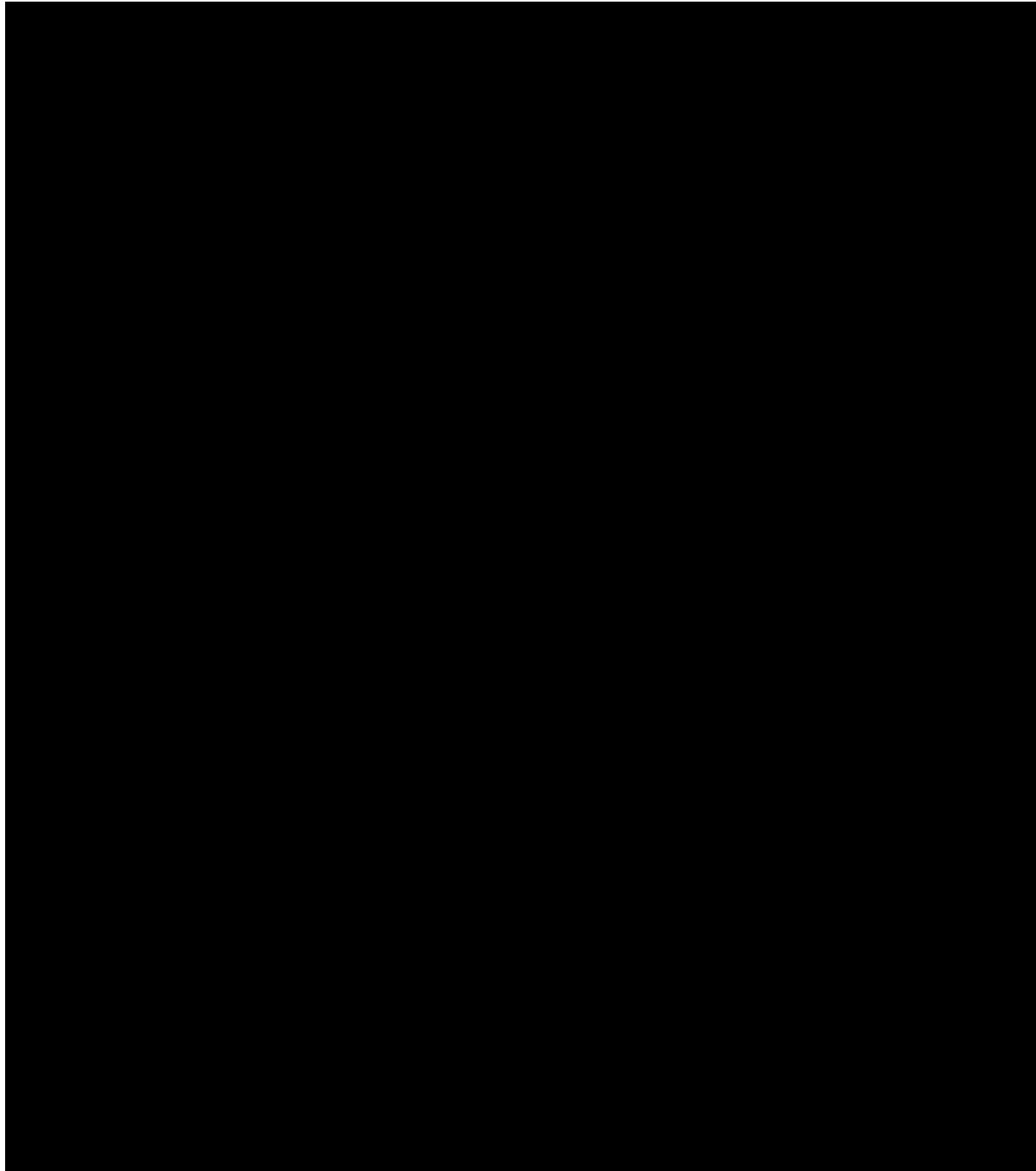


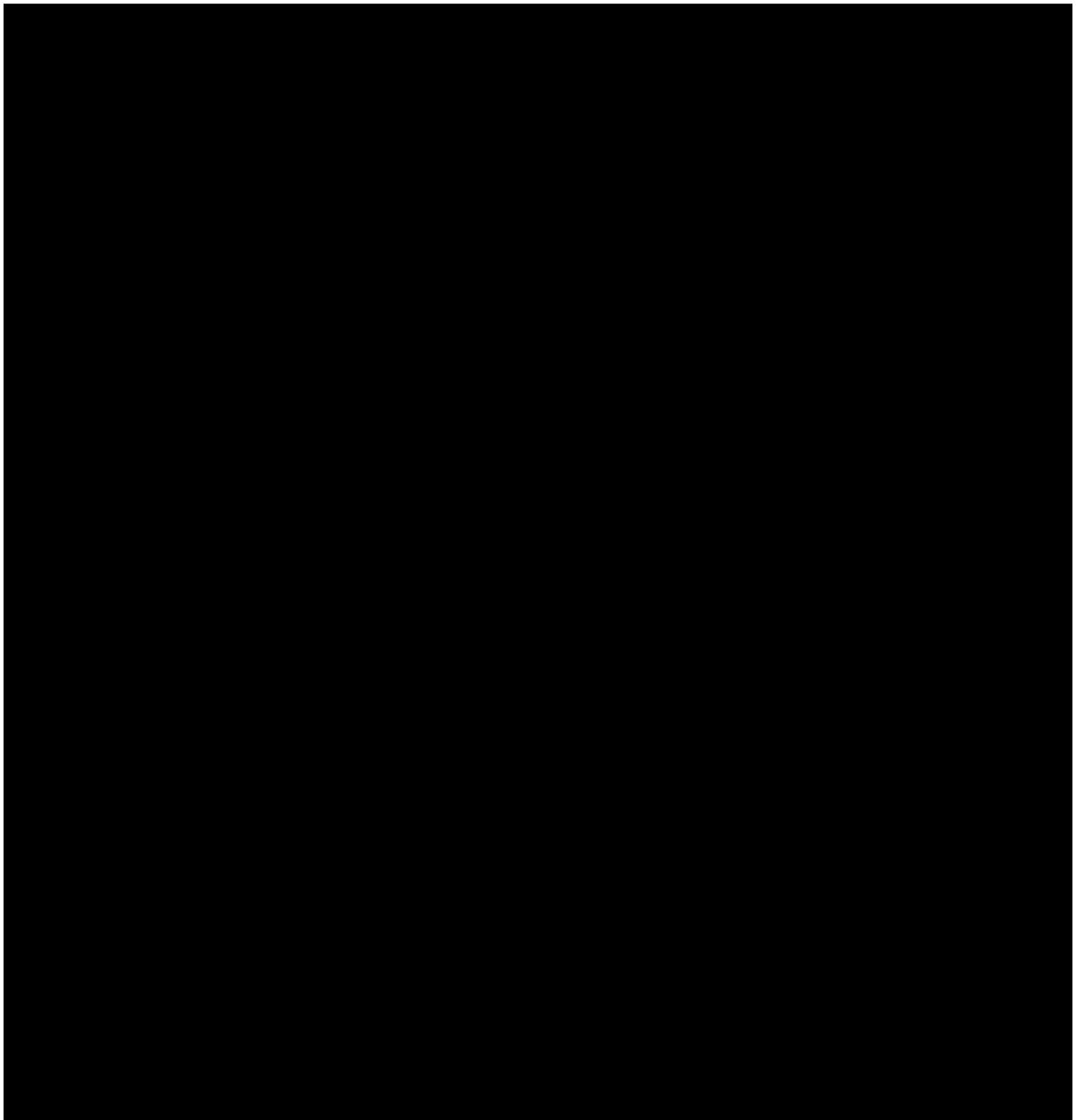
[Redacted text block consisting of multiple lines of blacked-out content]

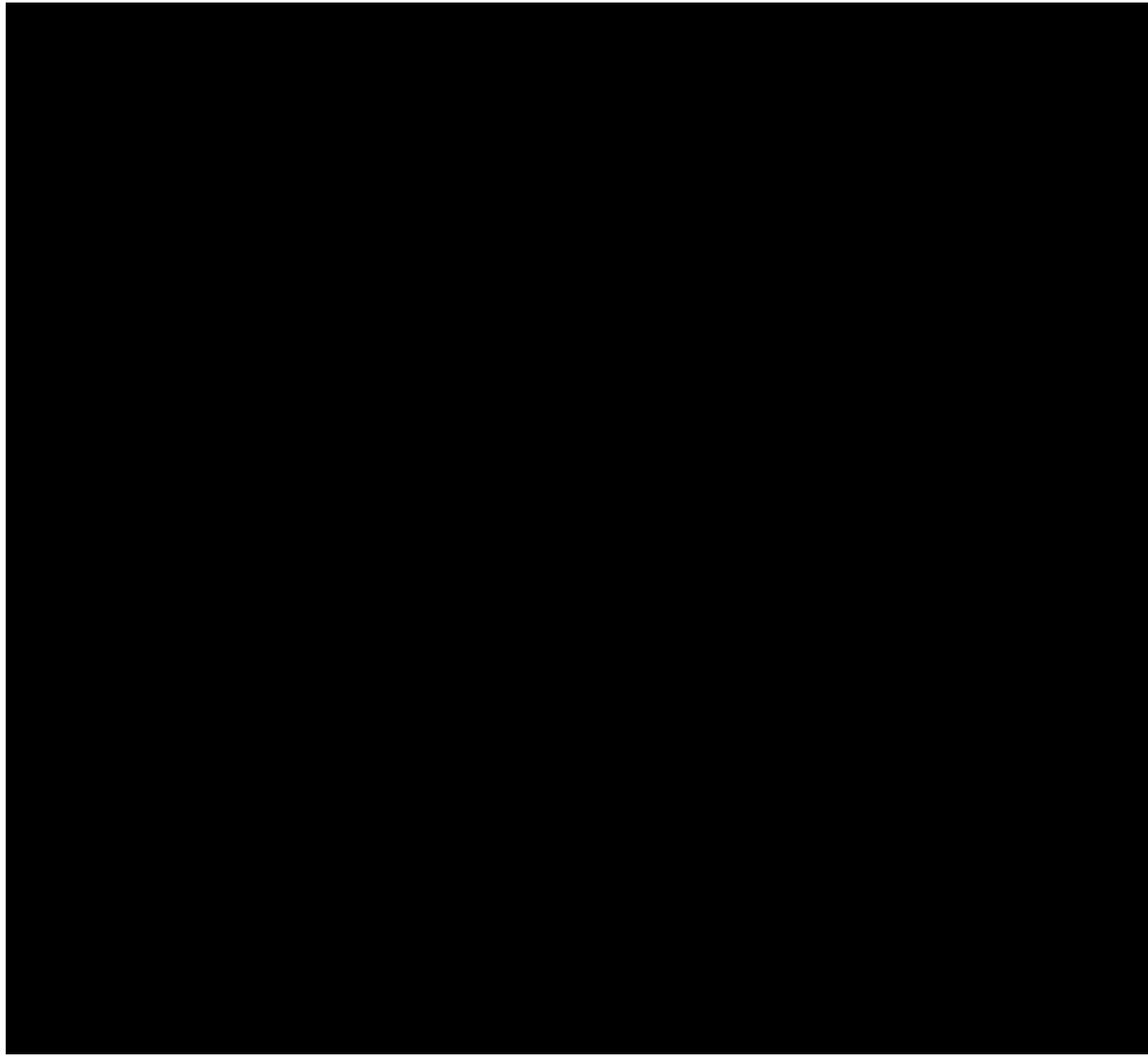
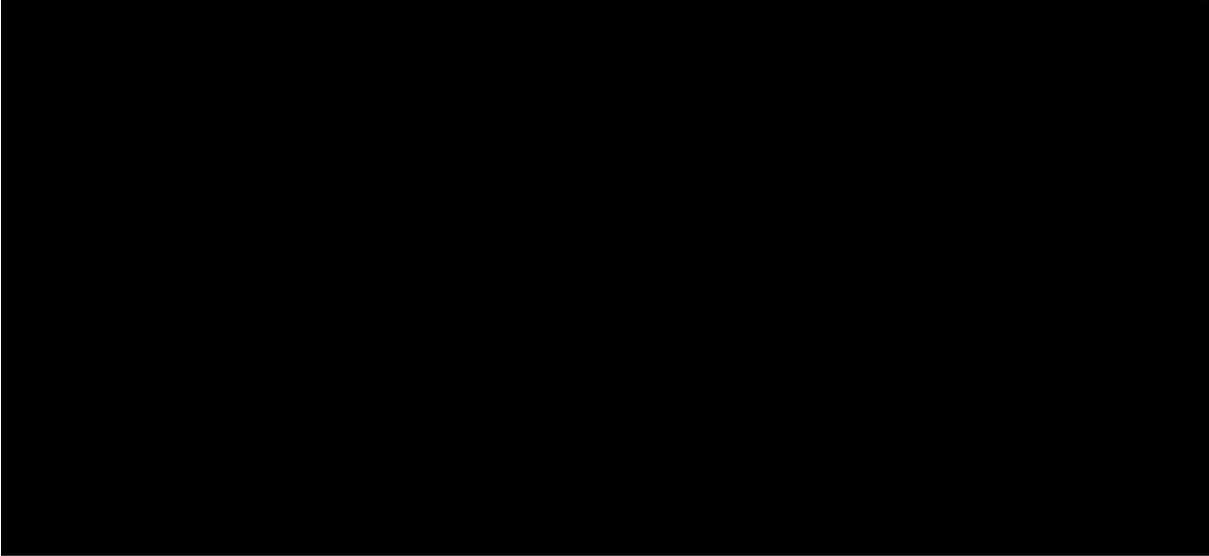


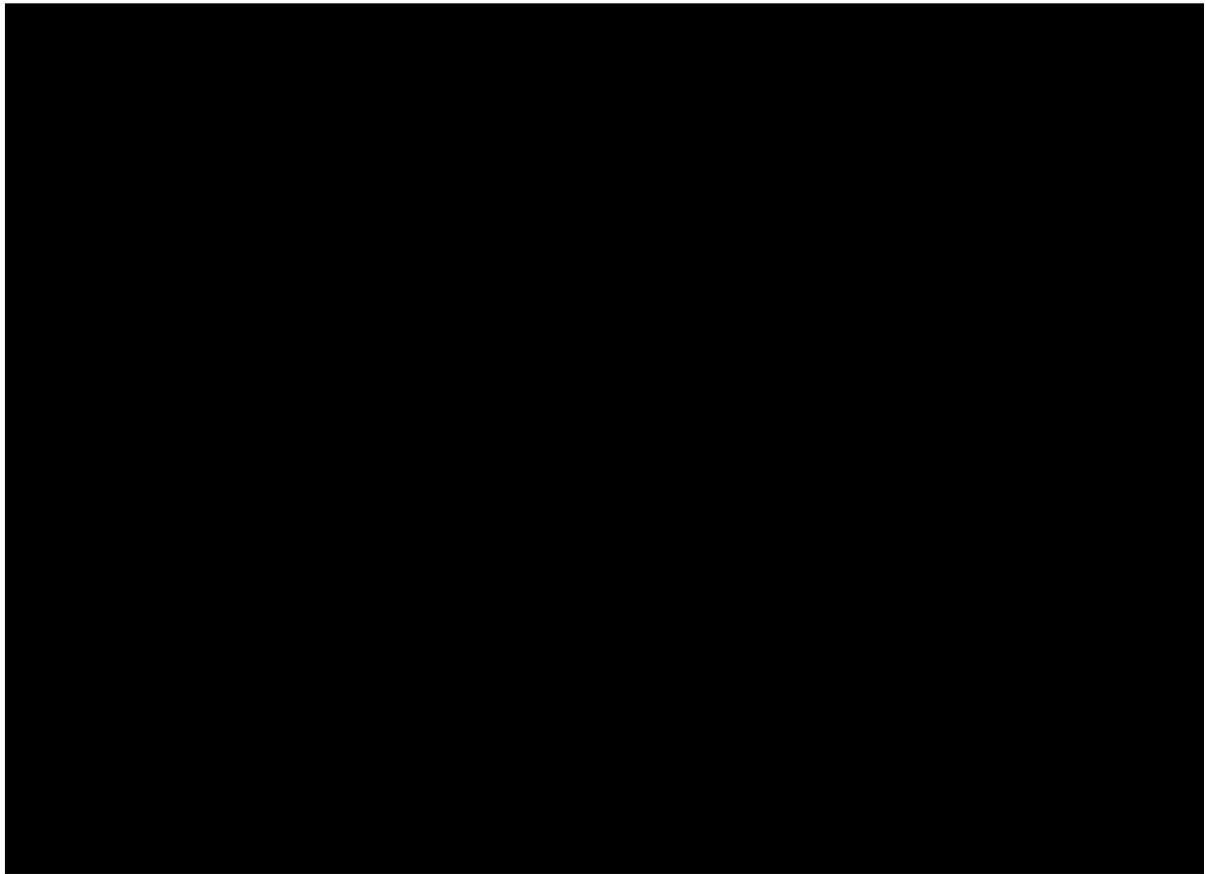
- [REDACTED]
- [REDACTED]
- [REDACTED]

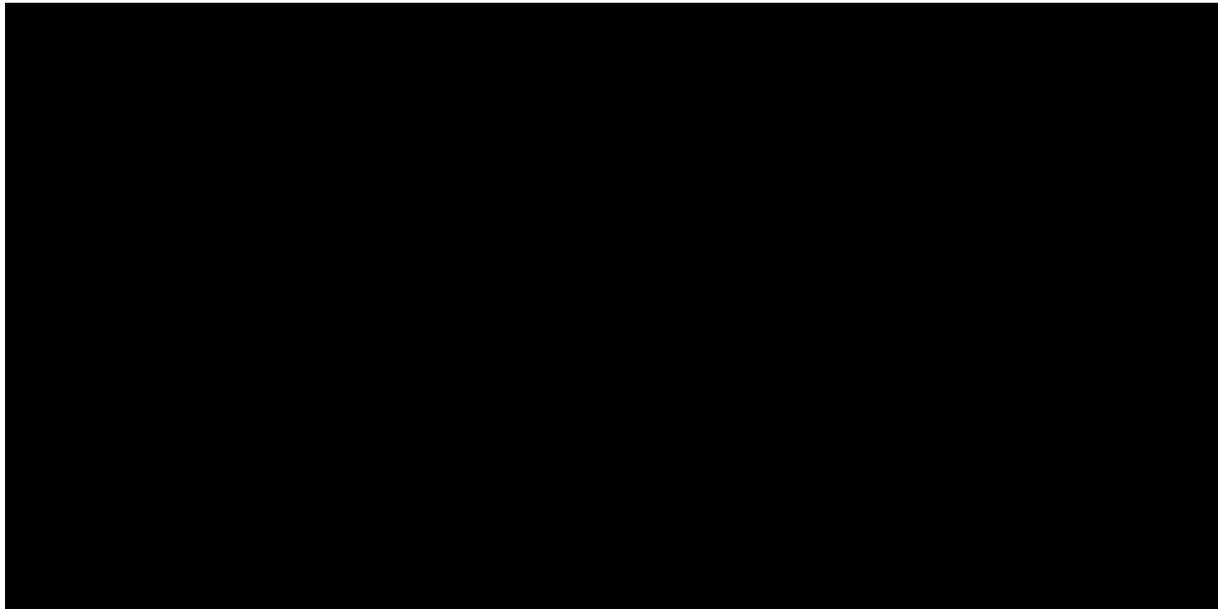
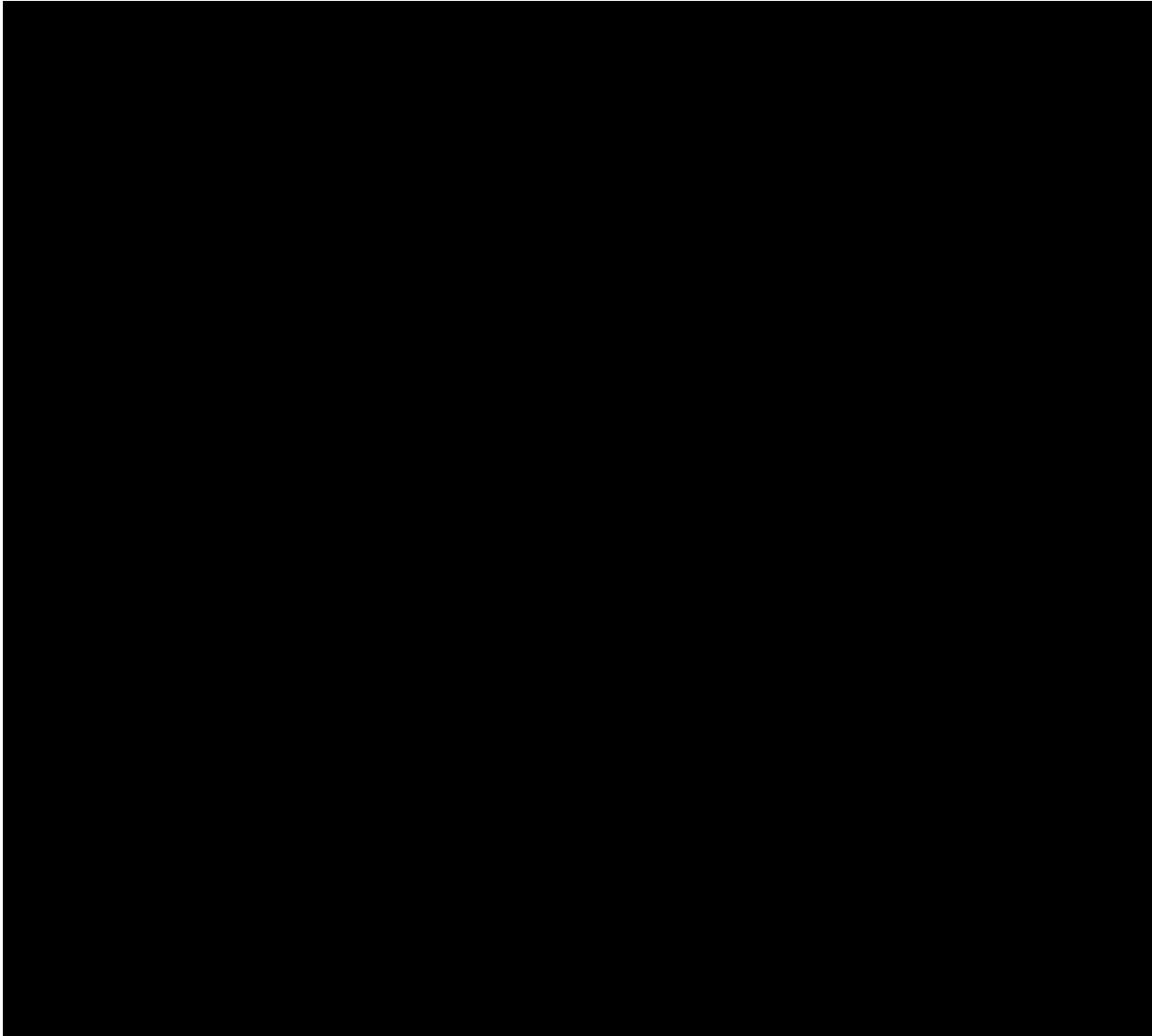




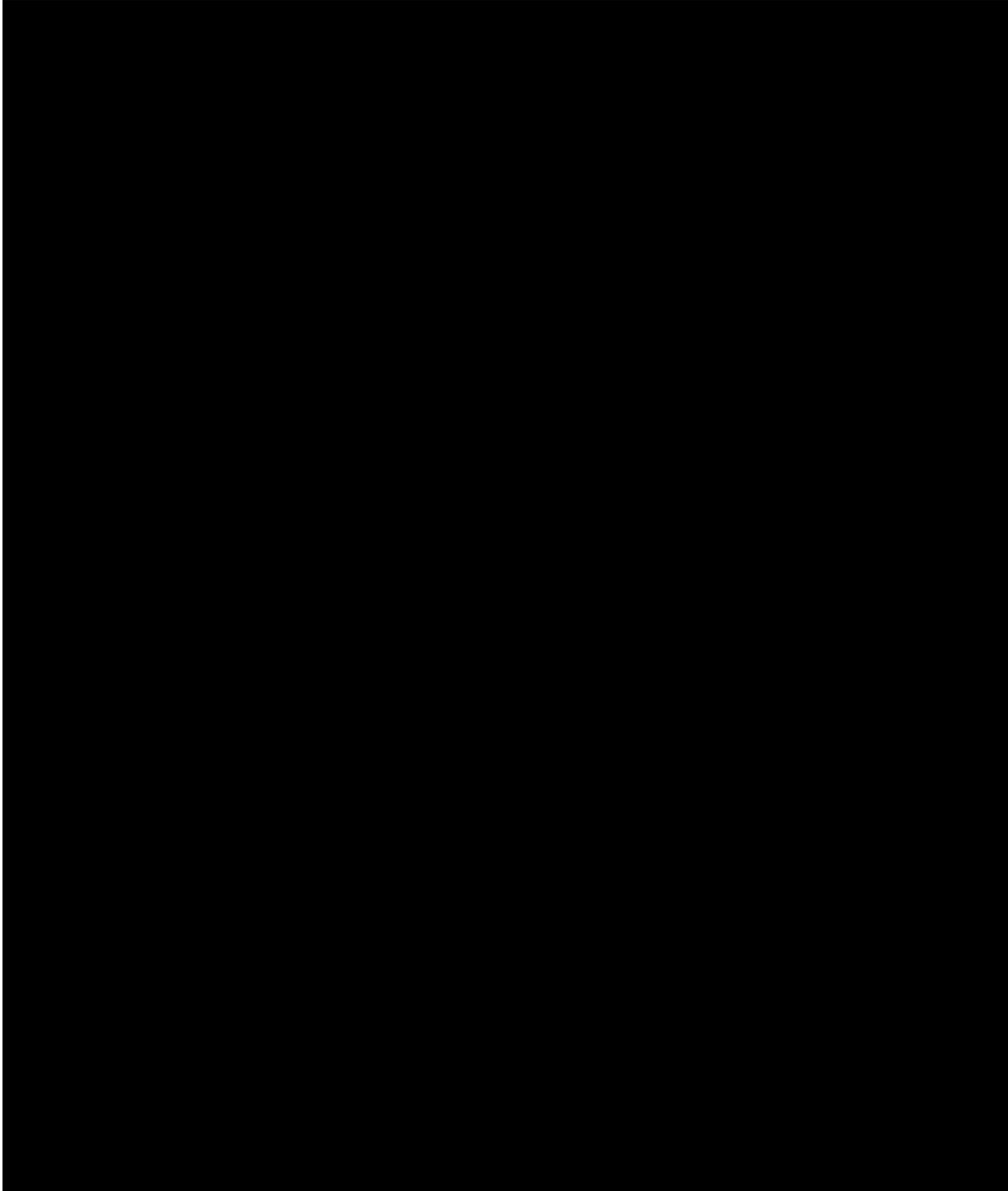






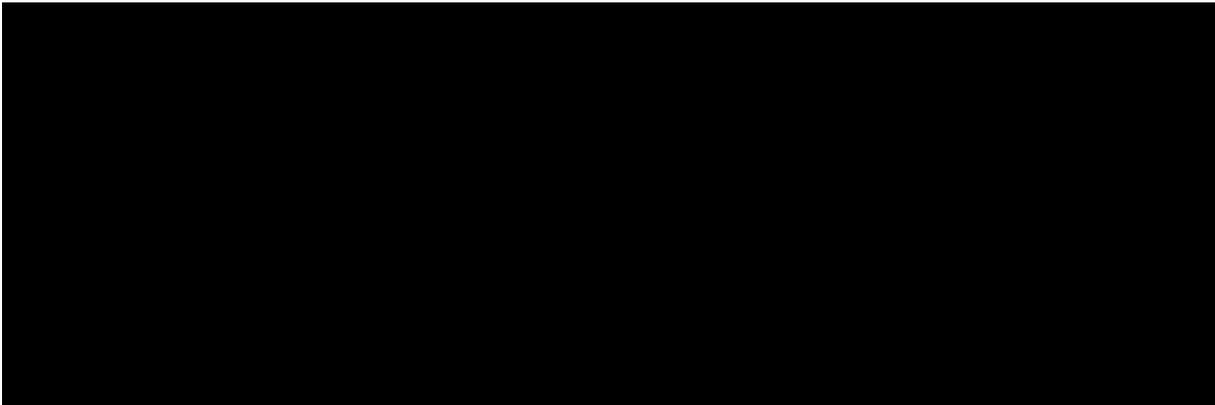


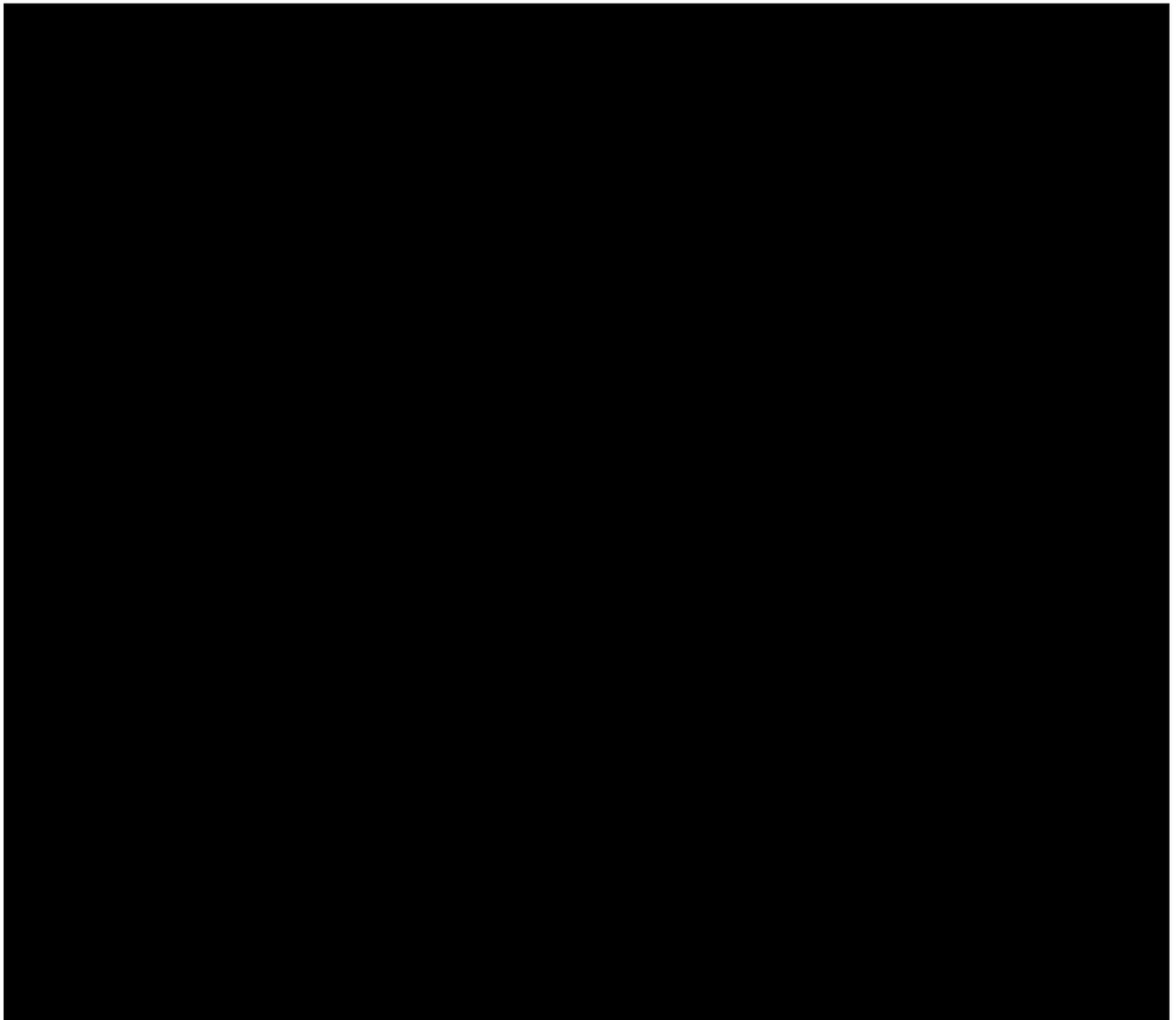
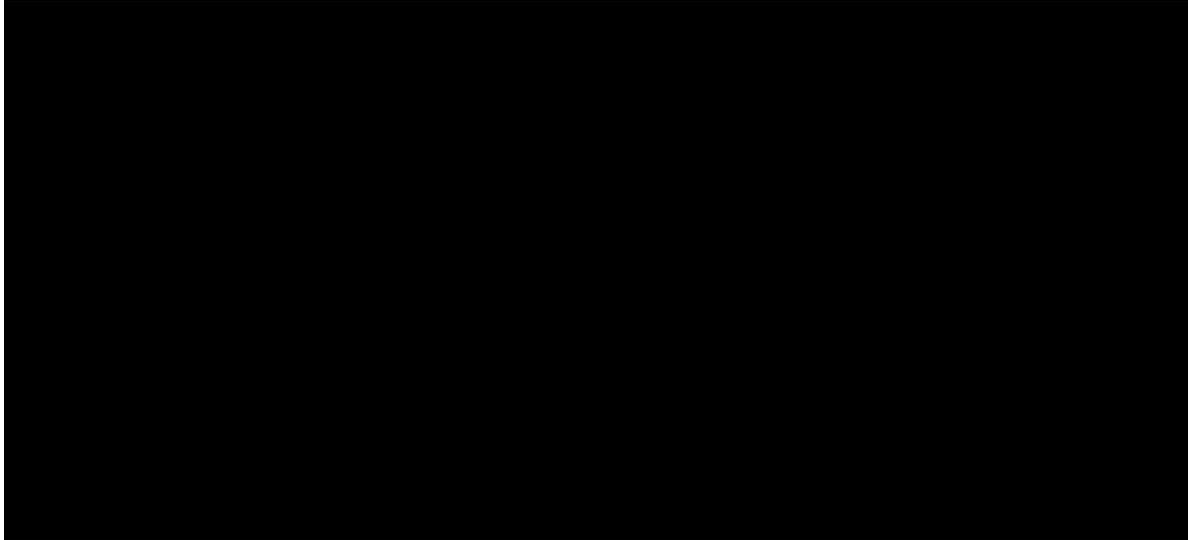
Staff Locations

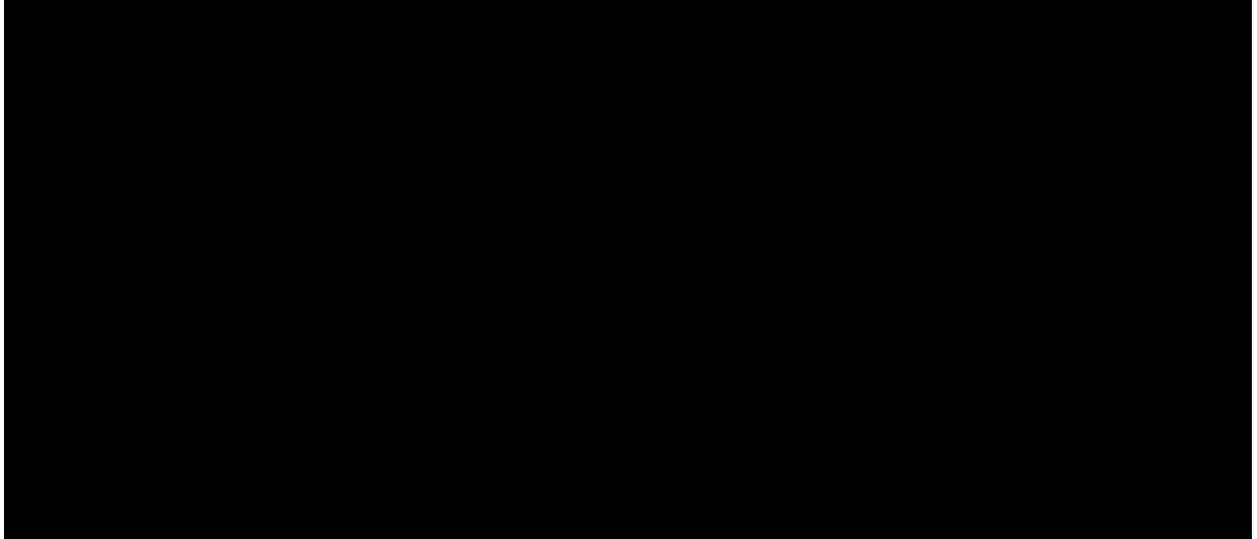


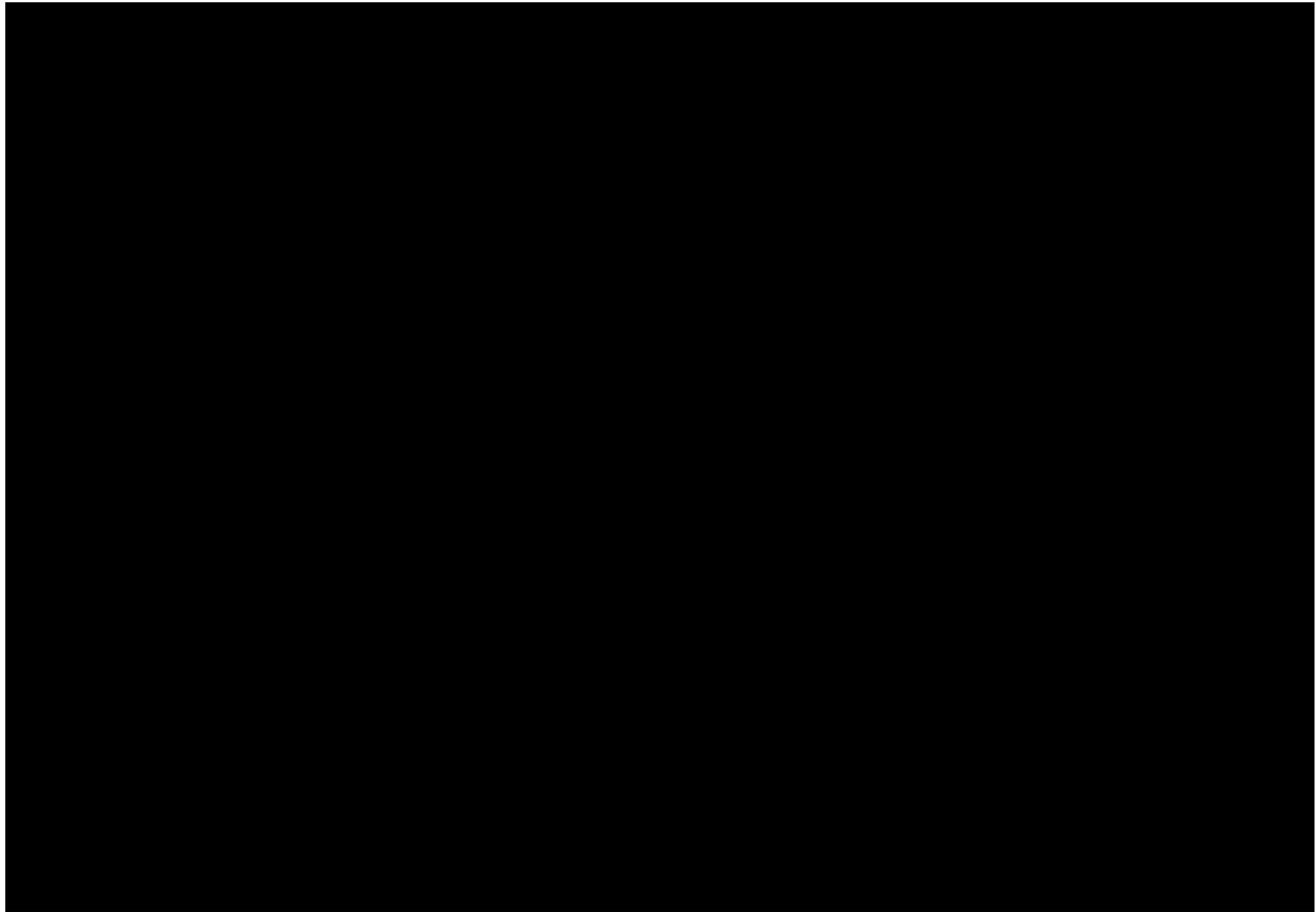
2. Project Organization Chart

Instructions: The Vendor must provide a proposed organization chart showing both the Vendor staff and State staff. The organization chart must denote in the chart, all the key Vendor personnel and State project personnel for this project, and a summary of each key member's high level responsibilities. Vendor Key Project Personnel are to be full-time and dedicated solely to the Vermont Medicaid account unless the Vendor provides alternative solutions that meet with the State's approval. No Key Project Personnel can be added or removed without the State's permission. The Vendor must also identify members of the company's Board of Directors.









[Redacted]

Operations Management

[Redacted]

[Redacted]

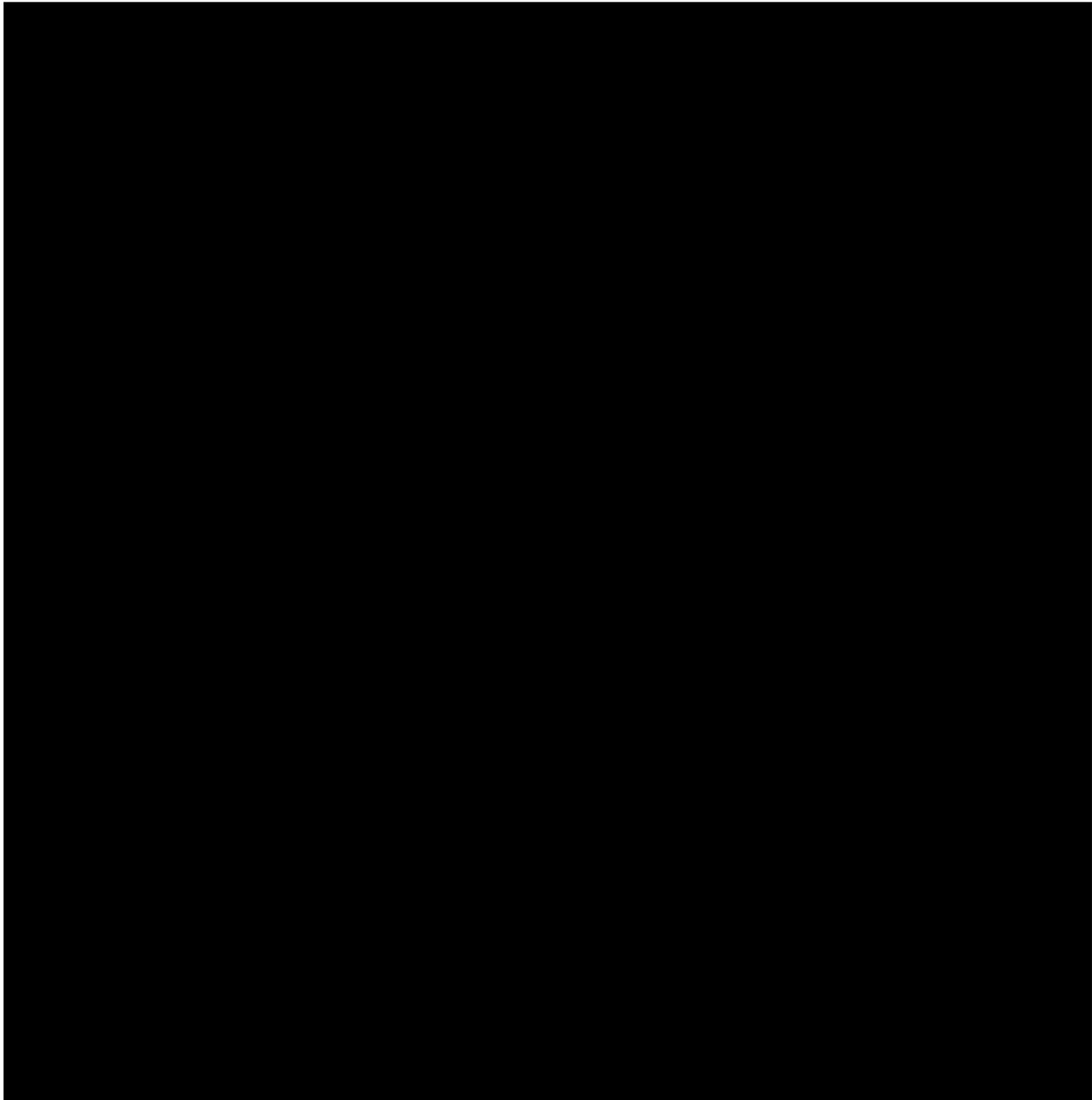
[Redacted]

- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]
- | [Redacted]

3. Vendor Key Personnel

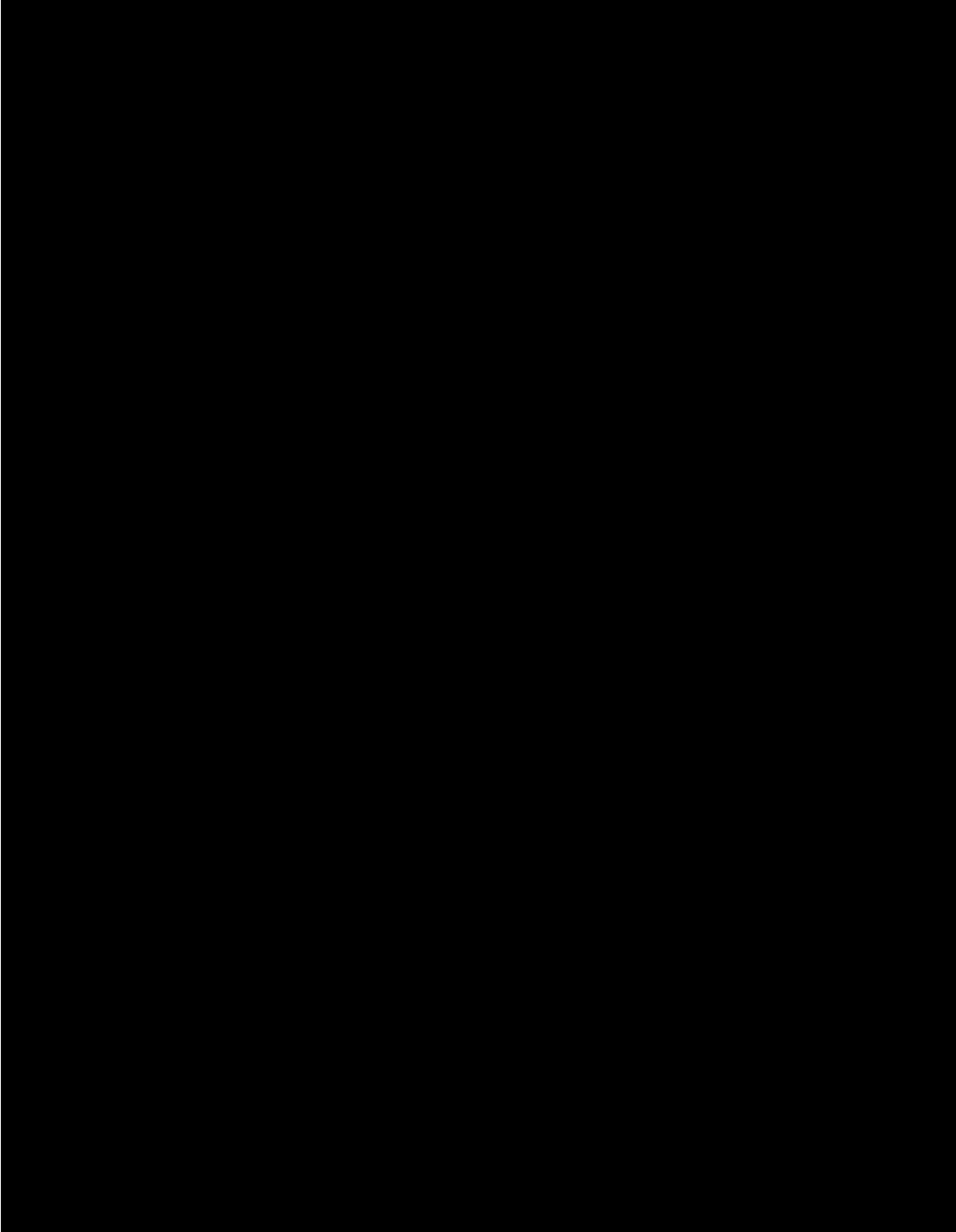
Instructions: The Vendor must identify Key Project Personnel for the project including:

- Name
- Position in Vendor organization
- Proposed role on project
- Experience in the proposed role
- Qualifications for the proposed role
- Role in the last three projects
- Percentage of time the person is committed for the entire project (if not, start and end dates must be provided)

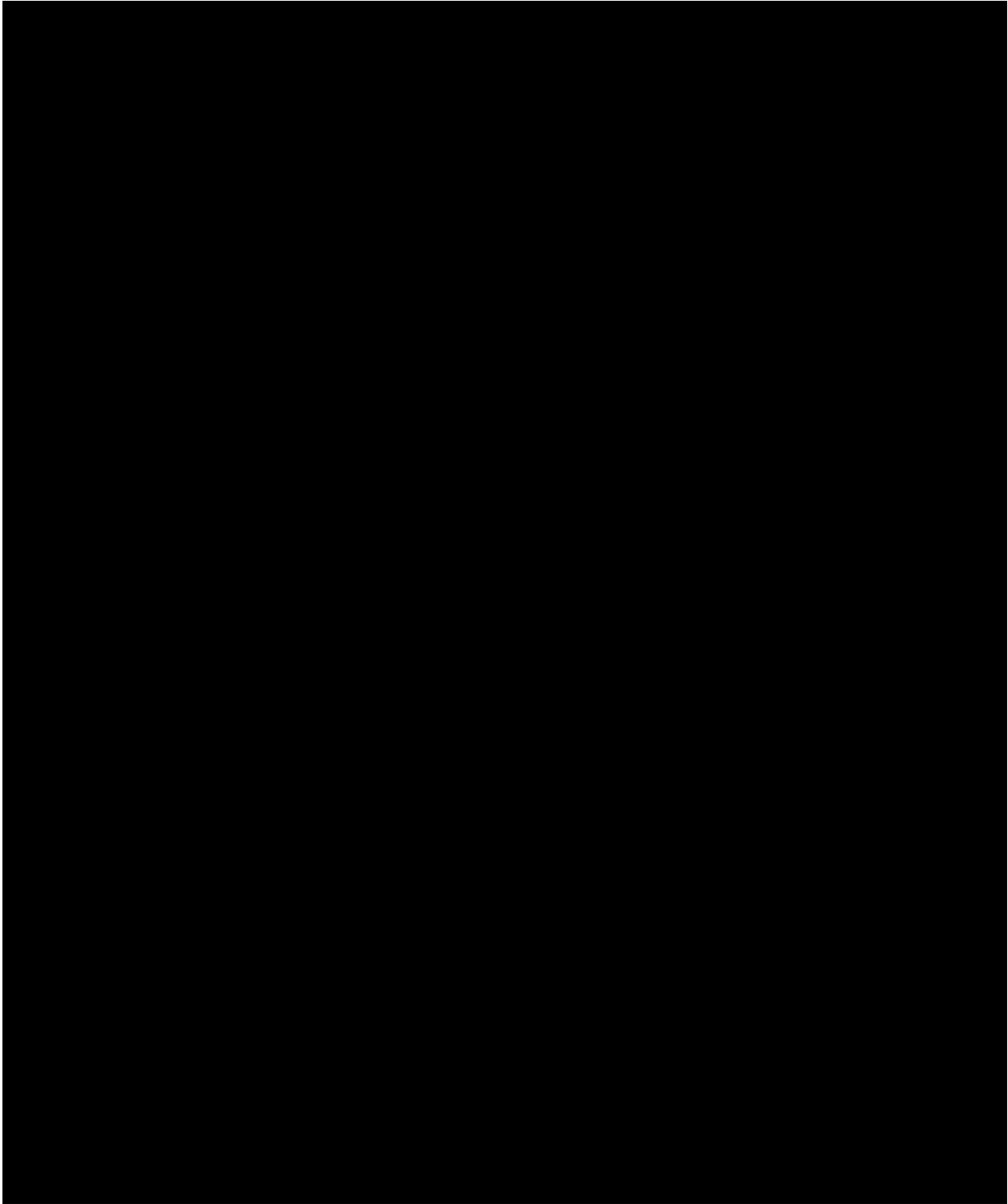


[Redacted]

Table 1. Vendor Key Project Personnel



[Redacted]



3.1 Subcontractors (If Applicable)

Instructions: The Vendor must identify the Subcontractor key staff for the project including:

- Name
- Proposed role on project
- Experience in the proposed role
- Qualifications for the proposed role
- Role in the last three projects
- Percentage of time the person is committed for the entire project (if not, start and end dates must be provided)

[Redacted]

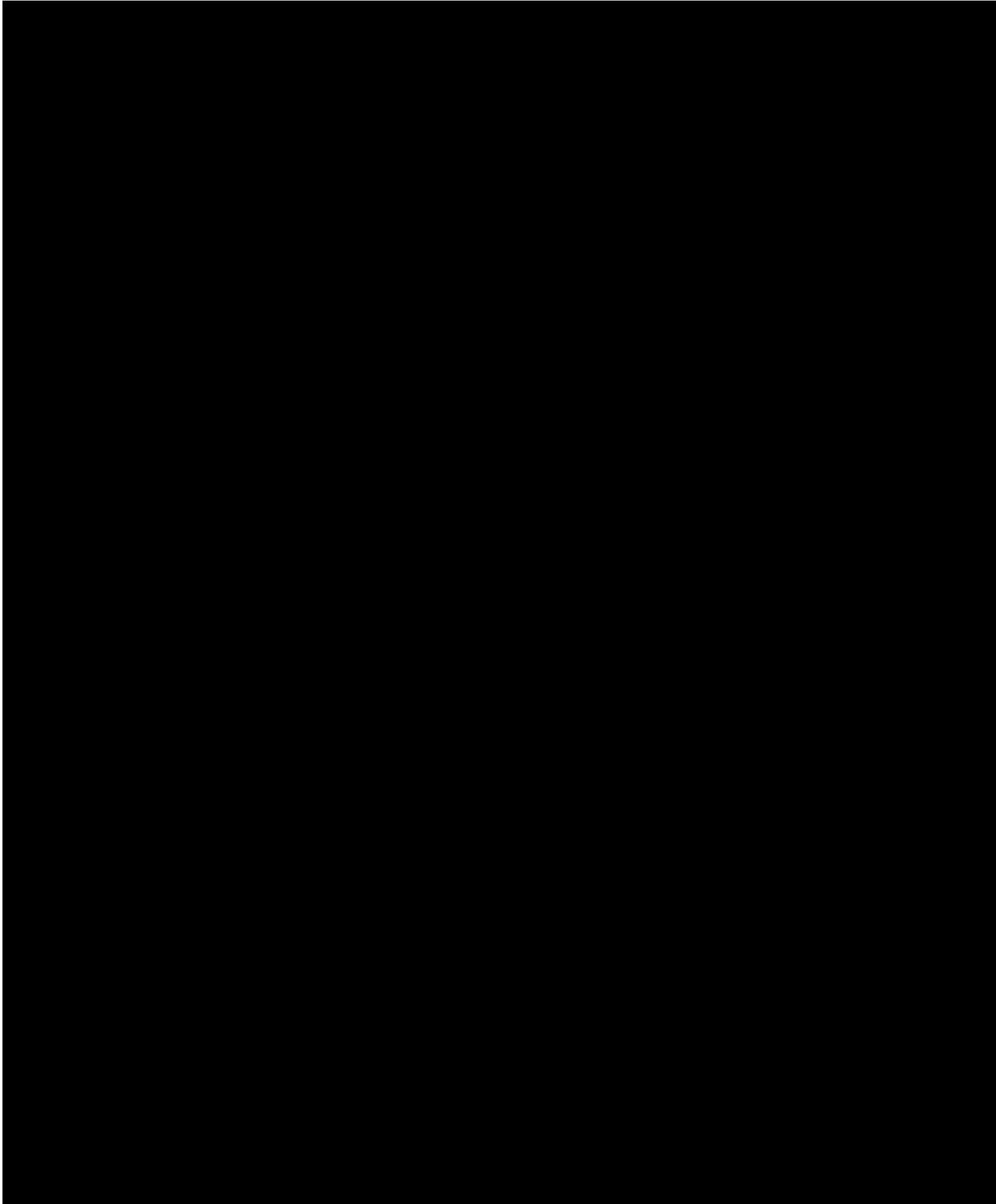
Table 2. Subcontractor Key Staff

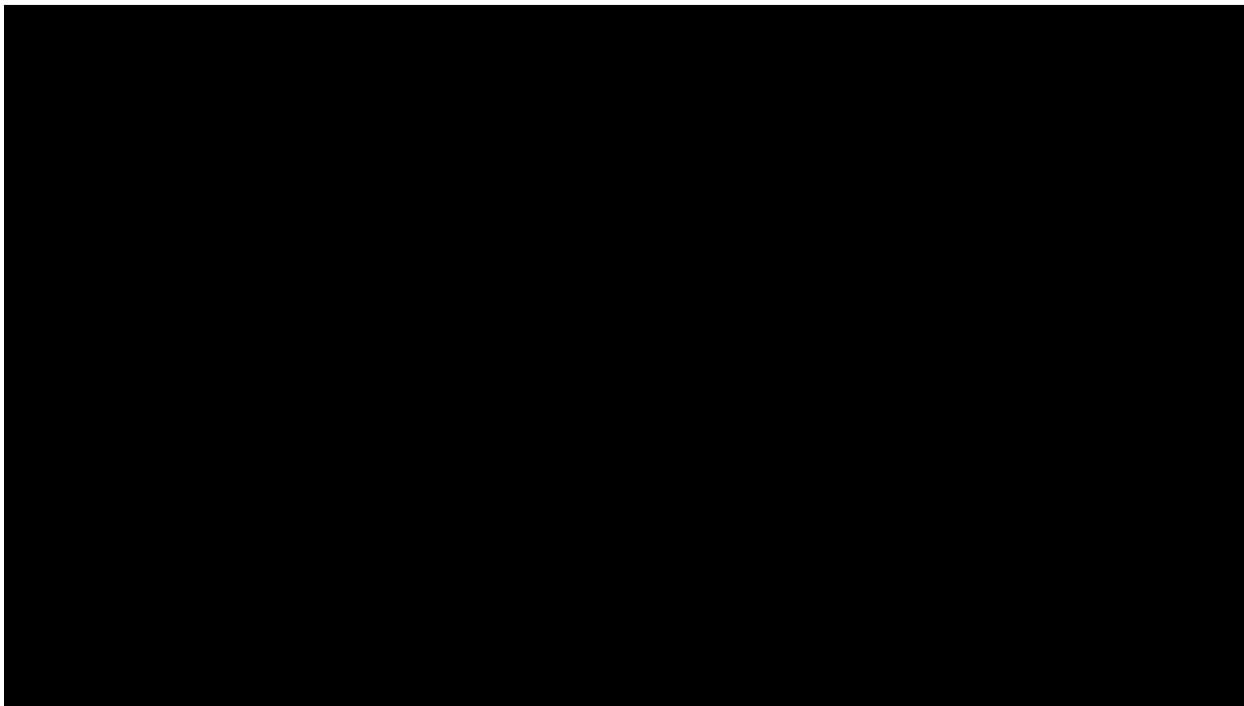
[Redacted]

[Redacted]

4. Staff Contingency Plan

Instructions: The Vendor must provide a contingency plan that shows the ability to add more staff if needed to ensure meeting the project's deliverable due dates and go-live dates.





5. Staff Management

Instructions: Describe internal standards, policies and procedures regarding hiring, professional development and human resource management.

We follow proven standards, policies, and procedures, based on our extensive experience, in managing our hiring, professional development and human resource management.

Hiring

The acquisition and retention of support staff for the Vermont PBMS project begins with efficient recruitment. Our overriding goal for the project is to maintain smooth day-to-day operations during each project phase. This requires a consistent and highly qualified and motivated team.

Our internal and external recruiting programs have proven successful in obtaining highly qualified candidates to satisfy personnel needs for similar PBM projects. Our experiences reflect a history of well-trained staff and low employee turnover throughout the life of our contracts. We are committed to maintaining sufficient staff to meet the responsibilities and qualifications outlined in the RFP.

The principal features of our staffing process include the following:

Flexible Recruiting Solution. Our recruiting solution is scalable and flexible, with integral ability to ramp up or down as dictated by operational plans and necessities. We have extensive experience in hiring personnel, who understand not only the needs of the Medicaid population, but also understand the necessity to meet program goals and performance metrics.



Dedicated Human Resources Staff. Human resources staff includes seasoned professionals who have successfully met human resources-related needs for all phases of contracts.

Corporate Commitment. Our corporate commitment to providing the human resources expertise, tools, systems, and overall resources ensures that all positions, key and non-key, are filled on schedule and with highly qualified and motivated staff.

Continuous Monitoring of Resources. Our account management team, project staff, and the project management department continually monitor and report recruiting and staffing activities and quickly implement action steps to ensure staffing levels are continuously met.

Highly Automated Recruitment and On-Boarding. Our automated recruitment and on-boarding processes and systems provide the efficiency and accuracy to fulfill staffing requirements quickly and efficiently, as well as obtain requisite information for federal, Vermont, and local compliance reporting.

Professional Development

It is important to retain our talented employees because of the efficiency, expertise and productivity they contribute. Opportunities for personal and professional growth provide an effective incentive to retain staff. Accordingly, our staffing plan focuses on methods and procedures to ensure professional development.

Ongoing Learning Opportunities. Stagnation or a lack of growth opportunities and resources for continuous learning is a major reason why employees seek other employment opportunities. To protect institutional knowledge and to ensure professional growth, we have made ongoing training and education a part of the Xerox culture. Whether the employee is a new hire or a seasoned veteran, he or she is provided with professional development learning opportunities.

Ongoing Training. Job satisfaction is often correlated directly to a staff member's competence in performing their responsibilities. Ongoing training is essential to ensure staff proficiency and professional growth. Our staffing plan and training approach both demonstrate our effort to ensure all staff training needs are met. This training applies for both new and existing staff members, who need to receive cross training in other functional areas or remedial training to correct deficient or weak performance. Additionally, our corporate resources include a training unit that develops customized training programs to foster professional development across all our contracts.

Human Resource Management

Human resource management covers how we acquire sufficient numbers of appropriate personnel for the project, how our organization is structured, and how we monitor and report on project staffing.

Our baseline Standardized Process and Resource Kit for Implementing Technology Solutions (SPARK-ITS®) Quality Management System (QMS) human resource management section references organizational charts and a matrix for roles, responsibilities, and deliverables that track

team roles, responsibilities, deliverables assigned to each resource, and backup and succession staff in the event that resources are out of the office, changed to other positions, promoted, or otherwise unavailable. It includes approach, inputs, process steps, and outputs to plan, acquire, orient, develop, and monitor resources. We include organizational charts with defined responsibilities and contact information. The roles in the organization charts are consistent with those key staff (identified by name) and non-key staff (identified by role or position) in the project work plan.

The human resource management component of our Project Management Plan details the strategy for properly staffing the project and defines the approach to communicate resource needs to senior management and other project stakeholders to ensure appropriate staffing. The staffing plan emphasizes the use of current Xerox resources and other subject matter experts in supporting the project's success. It not only includes processes for acquisition of staff, but also for the onboarding, ongoing development, and recognition of staff. Further, the plan provides processes to transition, cross-train, and release staff as the project progresses and the staffing needs change.

6. Training Policies and Procedures

Instructions: Describe Vendor's policies and processes for training and ongoing education of its personnel.

Effective and comprehensive training is essential to any state healthcare program and it is especially important with the implementation of a new system. During the Development Phase of the project, we complete a training assessment to identify the needs of Xerox staff and their associated skills, knowledge, and abilities. This allows us to establish training goals that help us create and provide a dynamic training program that meets the needs of the Vermont PBMS project. Through the assessment and development process, we review existing training materials and design each of our training modules with specific training objectives in mind and targeted to its audience.

In each project we emphasize the need for ongoing and continuous training initiatives. We find that providing staff with the comprehensive job-specific training, while helping them to understand the components and functions of the entire project, provides them a more global understanding of the impact their job duties have on other teams and functions and instills a greater sense of job ownership and satisfaction.

In Table D-57, Xerox Internal Training Programs, we include some examples of the training programs we have developed and delivered at other PBM projects.

Table D-57. Xerox Internal Training Programs	
Project	Description
Mississippi Fiscal Agent Services/PBM	We offer a variety of training options in Mississippi, including: <ul style="list-style-type: none"> • New Hire Training – We have developed specialized training programs for each job function, which help ensure that all Xerox employees receive the appropriate level of training necessary to perform their job activities to the best of their abilities. Our PBM staff receive additional training specific to PBM functions. • Leadership Training – We offer special training programs to our project leadership, which includes mentorship from other Xerox leaders.

Table D-57. Xerox Internal Training Programs	
Project	Description
	<ul style="list-style-type: none"> Employee Development – We encourage our staff to take advantage of career development training whenever possible. We provide staff with licenses to a computer-based training system that offers a multitude of learning opportunities. Additionally, we recently sponsored one of our PBM staff to participate in Project Management Professional (PMP) certification.
Montana Fiscal Agent Services/PBM	In addition to new hire and job-specific training, we also offer ad hoc training on many PBM functions, including PBM production support, DRAMS, and SmartPA. We offer both live and computer-based training and include printed materials and user manuals in our presentations. These presentations are available to both internal and external audiences.
New Mexico Fiscal Agent Services/PBM	<p>We have developed numerous training programs as the PBM contractor including:</p> <ul style="list-style-type: none"> Comprehensive new employee training Specialized training sessions such as pharmacy benefits management functionality <p>We offer just-in-time training when new products or software are released and one-on-one training when appropriate. To enhance our team development, each Xerox employee is encouraged to take classes for personal development in a training environment offered through the Xerox corporate intranet.</p>

We have extensive training experience and our training processes are designed to be flexible. New technologies offer cost-effective, highly accessible delivery methods providing training at the learner’s convenience while reducing travel costs, travel time, and environmental impact. For example, Xerox uses computer-based training (CBT) courses to train more than 120,000 employees in over 750 locations worldwide on topics such as ethics, HIPAA, and legal compliance.

We identify learning needs and develop courseware at different levels to meet the varied knowledge levels and needs of targeted learners:

- **Instructor-led training sessions** – Participants come together in one location at the same time, using interactive media throughout the session. A Xerox training professional is on-site to conduct training in the classroom setting at a Xerox training facility or other training location.
- **Self-directed Web-based training** – Students access tutorials and presentations individually at their convenience from the Web and complete training modules at their own pace. A learner participates in training at his or her convenience using recorded presentations, self-paced CBT modules, quizzes, and evaluations
- **Web-based instructor-led training** – A Xerox training professional conducts training via a Webcast with attendees participating from a centralized location such as the Xerox training facility or from disparate, remote locations. We support remote learning, where a learner and instructor are not in the same physical location but may work together via a Webinar or other remote information sharing tools.

SPARK-ITS Training Methodology

Our approach to training Xerox staff, as well as State staff and other users, is based upon our proven Standardized Process and Resource Kit for Implementing Technology Solutions (SPARK-ITS®) Quality Management System (QMS). The SPARK-ITS Training methodology includes processes to address a variety of training needs and learner groups:

- Project team training for Xerox project staff
- Training on project-specific methodology, processes, and toolsets
- Functional, business process, and technical training needed to fulfill job duties
- Training on the technical PBM solution being deployed

We carefully design our training methods to target the Agency's needs and the needs of the learners, from traditional classroom training to the latest Web-based instruction,

Our training methodology is aligned with the reliable industry-standard model for effective instructional design known as Analysis, Design, Development, Implementation, and Evaluation (ADDIE). Our systematic approach to the development of training courses, whether instructor-led training (ILT) or computer-based training (CBT), consists of the five processes represented in the ADDIE instructional system design model:

- **Analysis**
 - Assessing the knowledge level of the user groups and their associated skills and/or abilities
 - Determining the desired behavior change
 - Understanding the business processes that must be supported by training
 - Identifying the training needs
- **Design**
 - Reviewing and evaluating existing training materials and documentation
 - Determining learning objectives and training methods
 - Designing training curriculum
- **Development**
 - Creation of training materials using multiple media and approaches
- **Implementation**
 - Delivery of training according to the approved training plan
- **Evaluation**
 - Reviewing and refining each stage of the design process
 - Reviewing written test scores, feedback, and survey results
 - Observing skills learned
 - Analyzing and reporting on evaluation results
 - Modifying training materials based on evaluation

ADDIE ensures that the need for training is assessed, materials and curriculum designed and developed, implementation logistics coordinated, and training evaluated, for continuous improvement. Exhibit D-3 depicts the flow of the ADDIE training lifecycle aligned with SPARK-ITS QMS Training Methodology.

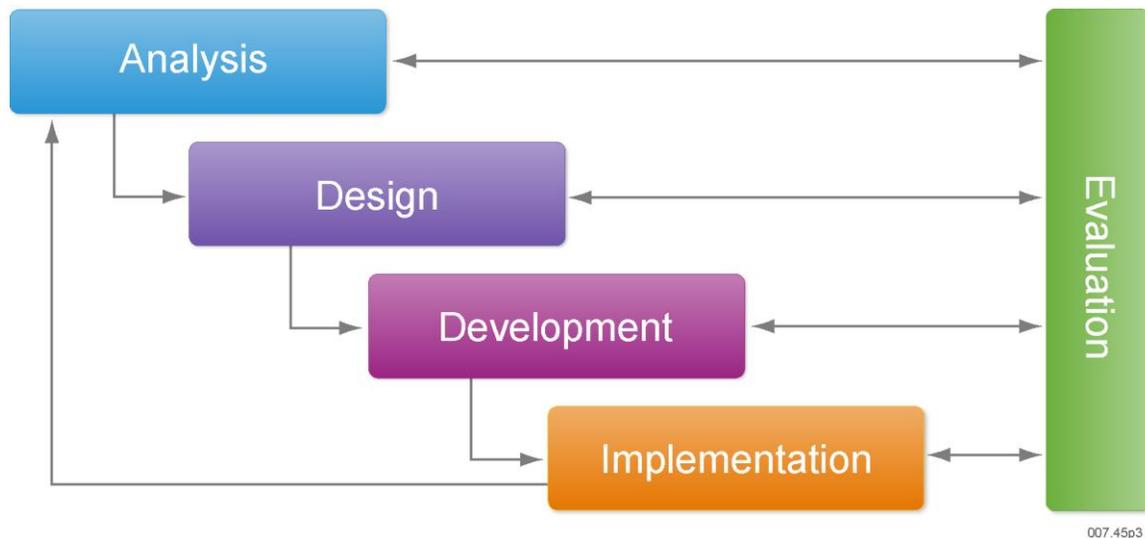


Exhibit D-3. ADDIE Training Lifecycle

ADDIE is a proven method to developing and evaluating training programs. Our approach to training Xerox staff is based upon our proven SPARK-ITS Quality Management System.

Coordination of PBM Training Programs and Materials

Xerox, in collaboration with the Agency, develops a Training Plan that documents our approach for coordinating the rollout, delivery, publication, and distribution of all PBM training programs and materials.

The Training Plan includes a detailed description of the course content, activities, learners, methods, logistics, environments, resources, materials, anticipated outcomes, and timelines required to meet the Agency’s training objectives. The Training Plan is a dynamic document, changing over time from specialized activities needed at the beginning of a large project to those more appropriate to a stable, highly functioning account.

We develop user and instructor training materials integrated with the desktop procedures and user manuals created to support the operating environment for the business and technical courses required by the Agency. Training materials are developed for use by Xerox staff and other trainee groups in both classroom and online formats and cover the features of the PBM solution and operations.

HIPAA Training and Compliance

We provide detailed training and support for Xerox staff on the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and HIPAA compliance for all transactions involving the PBM. Training is provided to all new employees and all employees are required to take refresher training annually. All of the training presentations and materials are carefully reviewed for compliance with HIPAA and PBM privacy and security guidelines to confirm they meet the highest standards of confidentiality.

Evaluation and Quality Improvement

As we have described throughout this section, we develop a detailed Training Plan that describes our approach to developing, delivering, updating, maintaining, and conducting a broad spectrum of comprehensive training programs. We offer trainees the opportunity to participate in post-training surveys (see Exhibit D-4). We leverage several rating elements, which we work with the Agency to define. We provide survey results to the Agency and report on actions taken as a result of these surveys.

Course Evaluation Form						
Your Name (Optional):			Course Name:			
Course Date:			Instructor's Name:			
Project:			Course Location:			
Directions - Respond to each question by checking the column that most accurately reflects your experience.						
The Course	1 Strongly Agree	2 Agree	3 Neutral	4 Disagree	5 Strongly Disagree	Not Applicable
Provided information necessary for me to develop new skills						
Materials were current, accurate and job-related						
Length was suitable for the information provided						
Materials will be useful to me back on my job						
Allocated time for completion of participant activities was appropriate						
Objectives addressed the skill requirements of my job						
I would recommend this course to others who have the same needs						
The Instructor	1 Strongly Agree	2 Agree	3 Neutral	4 Disagree	5 Strongly Disagree	Not Applicable
Clearly presented the objectives of this course						
Established and maintained effective communication						
Demonstrated competent presentation skills						
Was well prepared to teach this course						
Effectively used supporting materials and visual aids						
Initiated and maintained personal credibility						
Demonstrated effective questioning skills and techniques						

008.45p3

Exhibit D-4. Sample Trainee Survey

Participants provide post-training feedback to help the Xerox training team measure the effectiveness of training modules.

Training Facilities

Xerox proposes to use our Burlington facility, which includes a training classroom and is fully functional and able to support all of the ongoing training needs for the PBM project, including remote training through WebEx. Because flexibility and scalability are necessary components of a well-planned facility to support evolving needs of the project, our training classroom is

designed around this multi-faceted training approach and can support the training needs of Xerox staff as well as Agency staff, providers, and other stakeholders.

New Employee Training

All Xerox employees participate in new employee training programs specific to their job functions. These programs include testing and comprehension assessments to help ensure our staff are fully prepared to begin their job duties. These sessions offer an excellent opportunity to promote ongoing learning and an ongoing mechanism to increase education and awareness about PBM functionality.

Tracking Attendance

We track attendance of in-person and WebEx sessions and record the number of participants, the identities of individual attendees, and training materials presented at the training. We track, analyze, and report statistical information related to class attendance, training evaluations, and test scores. We also incorporate feedback comments received from participants about effectiveness and accessibility of training content, accessibility of training materials, and other comments.

Based on the collected evaluation information, we prepare a summary report for the Agency following each training session. The report includes:

- Number and type of training sessions
- Materials and presentations used or referenced during the session
- Training locations
- Number of trainees
- Evaluation results
- Feedback survey results and user comments
- Any Xerox recommendations for improving the course and for follow-up training

Working with Subject Matter Experts

Xerox works closely with the Agency's subject matter experts throughout the organizational readiness preparation process. This includes scheduling and conducting interviews, reviewing our training plans, and clarifying training and readiness expectations and requirements. Through this interview process, we revise and update our training plans to help ensure that Xerox staff and all stakeholders receive the necessary training for a smooth implementation and system roll-out.

Ongoing Training Programs

Over the life of the project, our training activities and materials are dynamic, changing over time from the specialized activities needed at the beginning of a large implementation to a more standardized and stable curriculum for ongoing operations.

We maintain training materials throughout the operational period and update them as necessary. The Training Plan is reviewed and revised annually and submitted to the Agency for review and approval before the beginning of the next contract year. We collaborate on end user and provider training to ensure that the authorized end users understand and can successfully use and execute PBM business processes to meet the training needs not only during implementation, but also throughout the life of the project.

We provide regular and ongoing training sessions, including modules for a variety of topics such as the drug reference data and functions, NCPDP reject codes, Pro-DUR, exception handling rules created or updated, billing procedures, and how to work with the MMIS. We work with the Agency to determine the frequency and numbers of training sessions required. We publish all training schedules on the PBM SharePoint site.

As new initiatives occur, our training team acts swiftly to identify the training effort needed to help ensure Xerox staff are fully prepared and armed with the information they need. This process includes identifying the target population for training, developing new and/or updating existing training materials and modules, and developing a Training Plan and schedule to best meet the needs of the target audience.

7. Staff Retention

Instructions: Describe Vendor's process and methodology for retaining Vendor personnel and ensuring that Key Project Personnel are available noted in Section 2.5 of the RFP.

The Vermont PBMS project requires a dedicated project team with the knowledge, skills, and experience to accomplish the scope of work and partner with the Agency to create and operate Vermont's next-generation PBM system. By engaging a team that remains committed to the project as it moves through the major project phases, the Agency achieves continuity of service and strengthens its stewardship of the pharmacy program and its resources.

Staff Retention and Development

It is important to retain our talented employees because of the efficiency, expertise and productivity they contribute. Accordingly, our staffing plan focuses on methods and procedures to ensure staff retention and professional development. Exhibit D-5 identifies some of our proven methods for retaining staff.

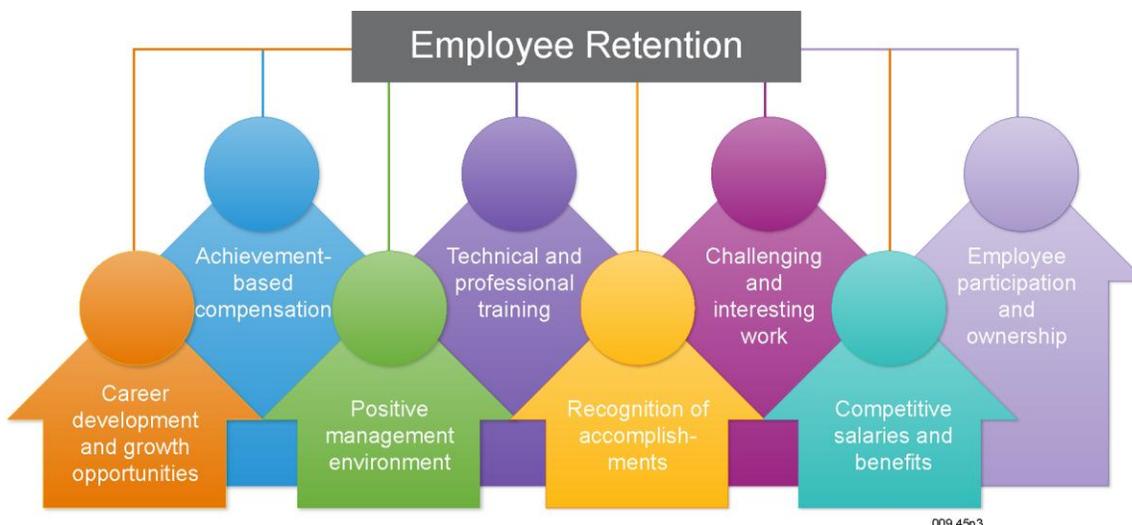


Exhibit D-5. Employee Retention

ACS has developed successful methods to promote employee retention.

Our retention techniques ensure that the project is manned with highly qualified personnel. Our principal retention techniques and practices include:

Competitive Compensation. A key component of our staffing program is a comprehensive compensation package based on industry surveys conducted in the local hiring community. Competitive salaries, comprehensive benefits, and performance incentives are used to attract and retain a well-qualified workforce. Attrition rates are continually monitored and compensation is assessed, as necessary, to ensure that it remains competitive.

Achievement-Based Compensation (ABC). Xerox uses achievement-based compensation (ABC), an objective-based pay-for-performance system that is proven to reward results, to drive significant improvements in quality, employee morale, productivity, and attendance. Employees receive rewards for top performance in their functions while gaining opportunities for growth and income. Program objectives are linked with employee goals and service enhancements through reward achievement.

Clients benefit from the highest level of consistent service, cost savings, and superior customer service as a result of project staff members who understand the relationship between increased performance, customer satisfaction, and their personal bottom line. The ABC system uses our resource-related benchmarks to observe and exceed our clients' requirements. ABC algorithms are set to reward employees not only for the quantity of work but also for the quality of work produced.

The ABC model is one of Xerox's most powerful employee retention tools, reducing attrition rates and moving absenteeism for one client from 13 percent to 3 percent, a general trend for clients across the board.

For example, in the Xerox Texas Medicaid account, as a direct result of ABC, we realized productivity gains of 30 percent in claims processing, 10 percent in prior authorizations, and 10 percent in customer care, while maintaining or in most cases improving quality at the same time.

These are just a few specific, real life examples of potential improvement gains. On average, Xerox experiences 10–30 percent improvements in productivity using ABC. Xerox’s experience, on average, with ABC implementation includes:

- 14 percent improvement in customer satisfaction
- 6.6 percent increase in transaction volumes completed
- 10–30 percent reduction in FTEs required to perform equivalent volume
- 26 percent reduction in total monthly compensation
- 19 percent increase in average compensation per FTE
- 64 percent decrease in absenteeism
- 12 percent reduction in average handle time

Ongoing Learning Opportunities. Stagnation or a lack of growth opportunities and resources for continuous learning is a major reason why employees seek other employment opportunities. To protect institutional knowledge and to ensure professional growth, we have made ongoing training and education a part of the Xerox culture. Whether the employee is a new hire or a seasoned veteran, they are provided with professional development learning opportunities.

Job satisfaction is often correlated directly to a staff member’s competence in performing his or her responsibilities. Ongoing training is essential to ensure staff proficiency and professional growth. Our staffing plan and training approach both demonstrate our effort to ensure all staff training needs are met. This training applies for both new and existing staff members, who need to receive cross-training in other functional areas or remedial training to correct deficient or weak performance. Additionally, our corporate resources include a training unit that develops customized training programs to foster professional development across all our contracts.

Professional Advancement. Promotion from within, whenever possible, is a key component of our retention strategy. Successful career development often depends on the staff member’s manager. Our managers work with staff to identify individual career goals and establish developmental plans that provide the formal and informal knowledge and skill development opportunities necessary for career advancement. Together, employees and managers secure those learning opportunities. When opportunities or vacancies arise, the project manager ensures that these opportunities are communicated and posted for potential current-staff candidates and consideration is given to qualified individuals who are interested in learning new skills and attaining upward mobility.

Professional Certifications, Licenses, and Continuing Education. Support to obtain professional certifications, licenses and continuing education to maintain certifications are provided to employees where these certifications and licenses are pertinent to their positions.

Excellent Work Environments. Establishing positive work environments that are conducive to quality performance, each employee’s well-being, and job satisfaction is a prime consideration. Our technologically equipped project facilities provide efficient and pleasant work environments that convey the company’s respect and concern for its staff.

Recognition and Rewards. Employees who contribute to a positive work environment are recognized in several ways. We provide several financial and non-financial rewards for

employees who excel in the performance of their duties including “Spot Awards” and “Special Recognition Awards.”

Job Rotation. Job rotation allows us to hire the best people, provide them with opportunities to gain new experience, and retain them with a combination of training, career development, and incentive programs.

8. Use of Vermont Staff

Instructions: Describe the required staffing of business and technical resources the State must provide to support the creation of all deliverables. The staffing plan will include the number of resources (both business and technical), anticipated role and responsibilities, level of participation (e.g., part time, full time) and necessary capabilities / skills.

The State may not be able or willing to provide the additional support the Vendor lists in this part of its Proposal. The Vendor therefore must indicate whether its request for additional support is a requirement for its performance. If any part of the list is a requirement and if the State is unable or unwilling to meet the requirements, the State may reject the Vendor’s Proposal.

Xerox acknowledges and affirms the State’s interest in the potential need of bidders on this project to require additional support in the form of State staff. We recognize that a Steering Committee has been established to help guide the project and help ensure that we have the resources required to successfully execute the project. We also recognize that the State has established a Project Team to discharge the responsibilities identified in RFP section 2.4.1, State of Vermont Project Responsibilities. We depict the Steering Committee and the Project Team on our organizational charts.

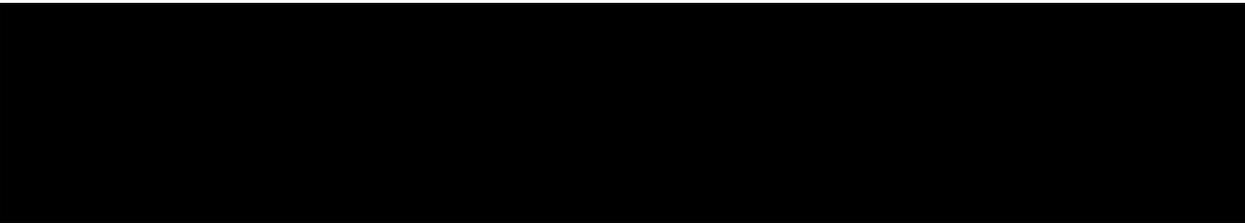
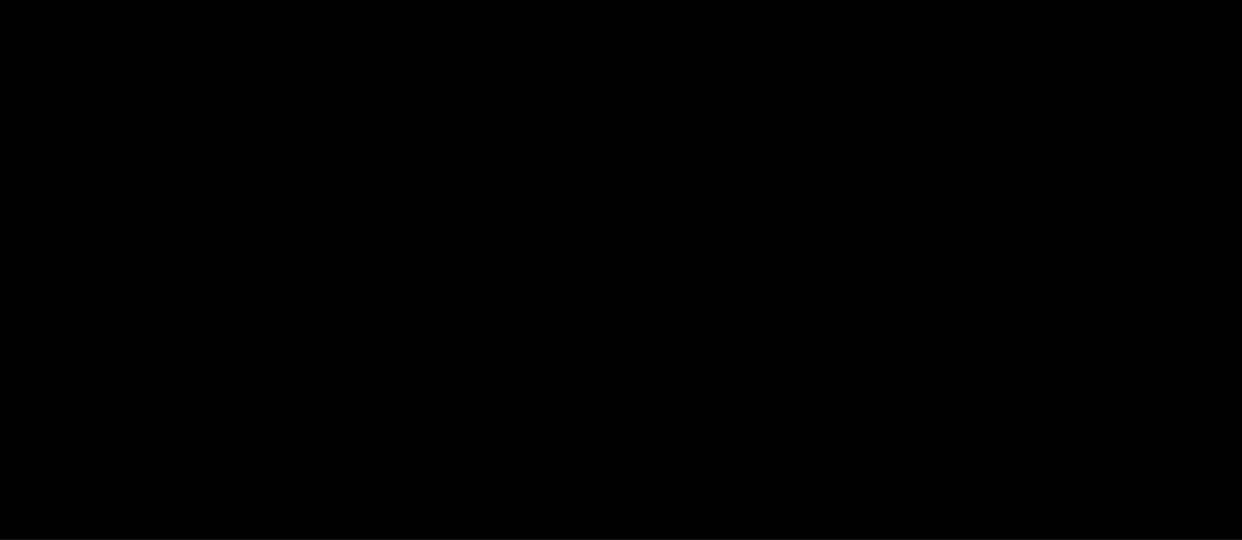
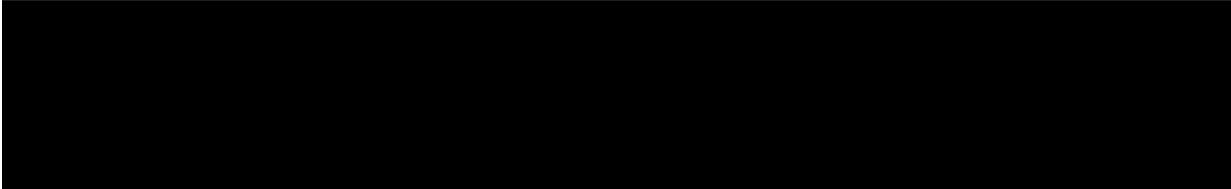
For this project we propose a fully turn-key system that is already operational in other states. Xerox is prepared to and intends to provide full and adequate staffing for the project. We gladly offer the State the opportunity to provide support in some aspects of the program and work collaboratively with the State. For example, in our experience with similar projects in other states, usual and customary State participation often includes providing guidance in meeting applicable State policies, approving deliverables and activities, and participation in user acceptance testing, at the state’s discretion. This may include the support of State personnel to be named at contract award.

9. Time Commitment

Instructions: Please submit a statement and a chart that clearly indicate the time commitment of the proposed Key Project Personnel and the Vendor’s proposed team members for the work. Please include a statement indicating to what extent, if any, the Key Project Personnel may work on other tasks or assignments unrelated to the project during the term of the Contract. Also, please state other potentially conflicting commitments that shall be concurrent with the proposed project.

The State may reject any proposal that commits the proposed Key Project Personnel or any proposed personnel to other assignments during the term of the Contract, if the

State believes that any such commitment may be detrimental to the Vendor's performance.



10. Project Organization and Staffing Assumptions

Document the assumptions related to the project organization and staffing in the following table. The Vendor may add rows as appropriate.

Xerox appreciates the opportunity to identify assumptions used in determining project organization and staffing for this proposal. After careful consideration, we arrived at the staffing assumptions listed in Table 3.

Table 3. Project Organization and Staffing Assumptions

Item #	Reference (Section, Page, Paragraph)	Description	Rationale
1.	Section 1. Project Organization Plan, page 1, paragraph titled Vendor Hours by Phase, Personnel Level and Role	Changes to the staffing plan may be required as project details and scope are further defined.	Xerox has made every effort to propose a staffing plan that represents the actual levels of staff during the project. However, roles, responsibilities, deliverables, and other considerations may change due to progressive elaboration of the project solution.
2.	Section 1. Project Organization Plan, page 1, paragraph titled Vendor Hours by Phase, Personnel Level and Role	The staffing plan was developed assuming a standard eight-hour workday, with no work planned for weekends or holidays.	The RFP defines normal business hours as 8:00 AM until 4:30 PM Eastern Time, Monday through Friday except State of Vermont holidays.
3.	Section 4. Staff Contingency Plan, page 35	If a given task or activity falls behind schedule, we have the option of either assigning more resources or requiring existing project personnel to work overtime or on weekends.	Assigning more resources or requiring overtime is the first tier of our contingency plan.
4.	Section 1. Project Organization Plan, page 1, paragraph titled Vendor Hours by Phase, Personnel Level and Role	The staffing plan is based on the RFP and may be subject to revision after the project begins, at which time the staffing plan is finalized for the Agency review and approval. Similarly, as Xerox and the Agency work together through each phase, they may mutually agree to adjust staffing levels through a controlled change request process.	The opportunity to revise the staffing plan allows Xerox to reduce staffing levels when possible and to ramp up staffing when needed to meet RFP requirements.
5.	Section 8. Use of Vermont Staff, page 48	State staff will be available as specified in the RFP and by the staffing plan.	It is possible that over time, state staff roles, responsibilities, deliverables, and other considerations may change due to progressive elaboration of the project solution.

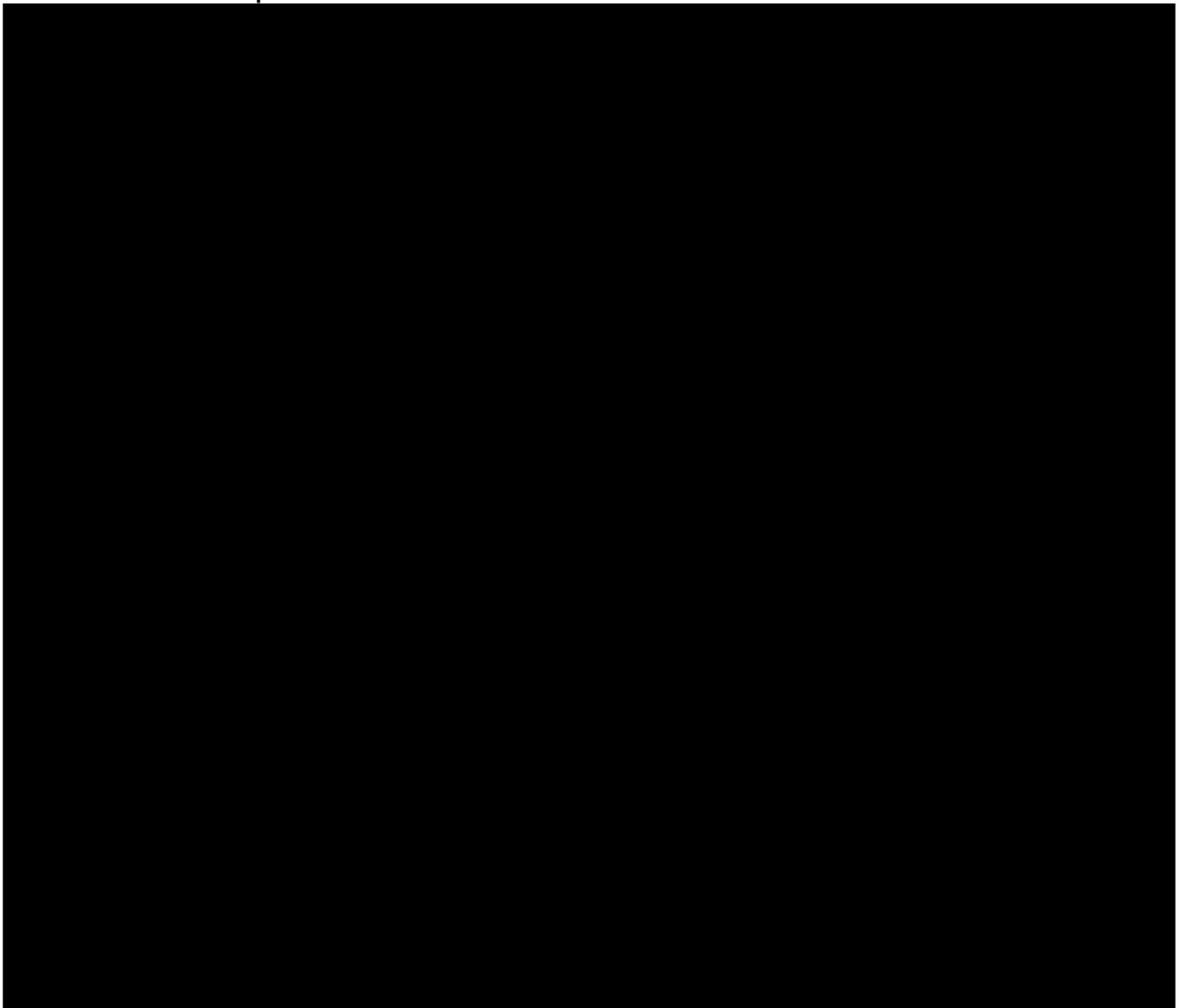
1.0 Staff Experience

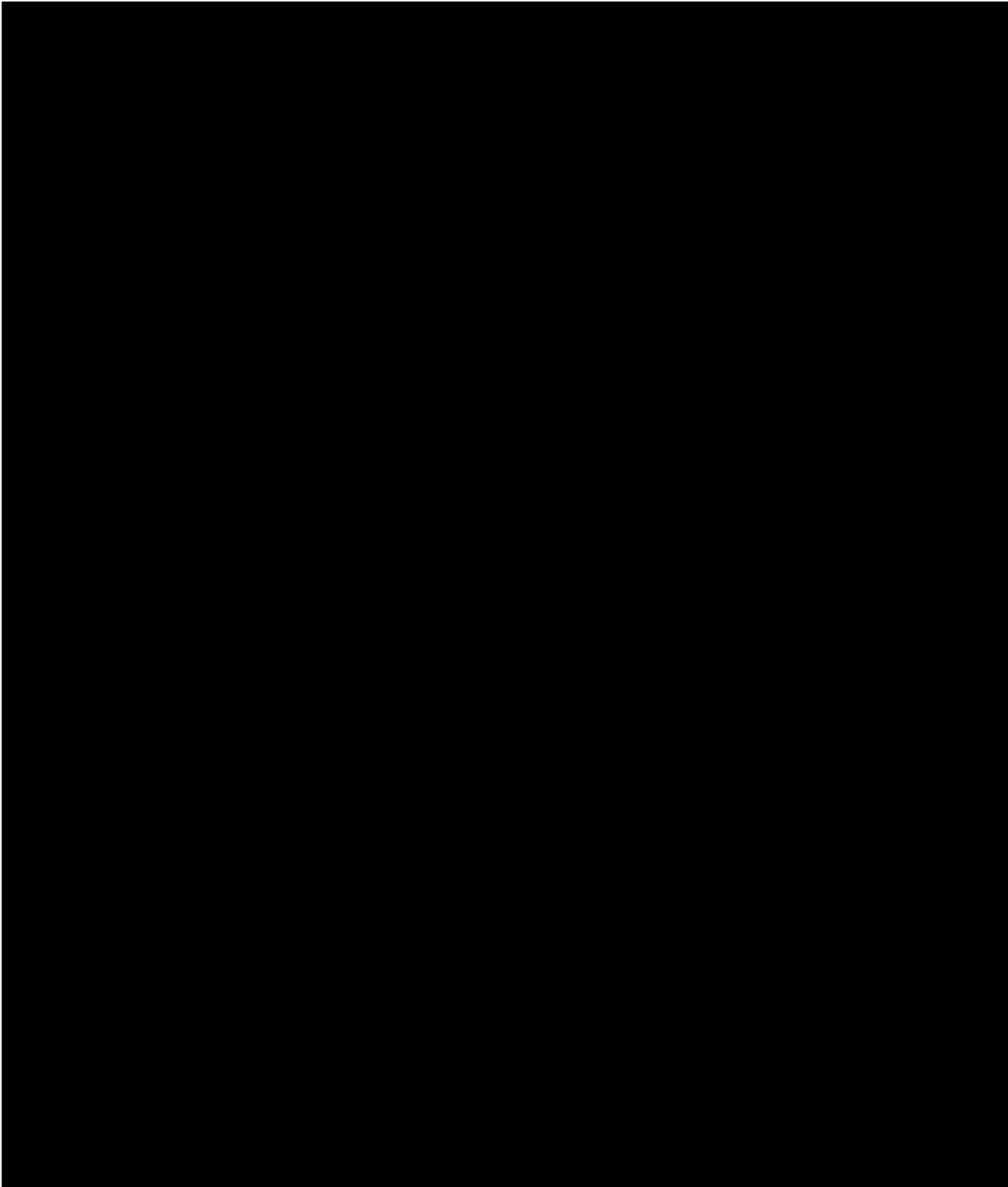
The Vendor must provide a completed Staff Experience reference form for each proposed Key Project Personnel (includes both the Vendor and Subcontractor staff).

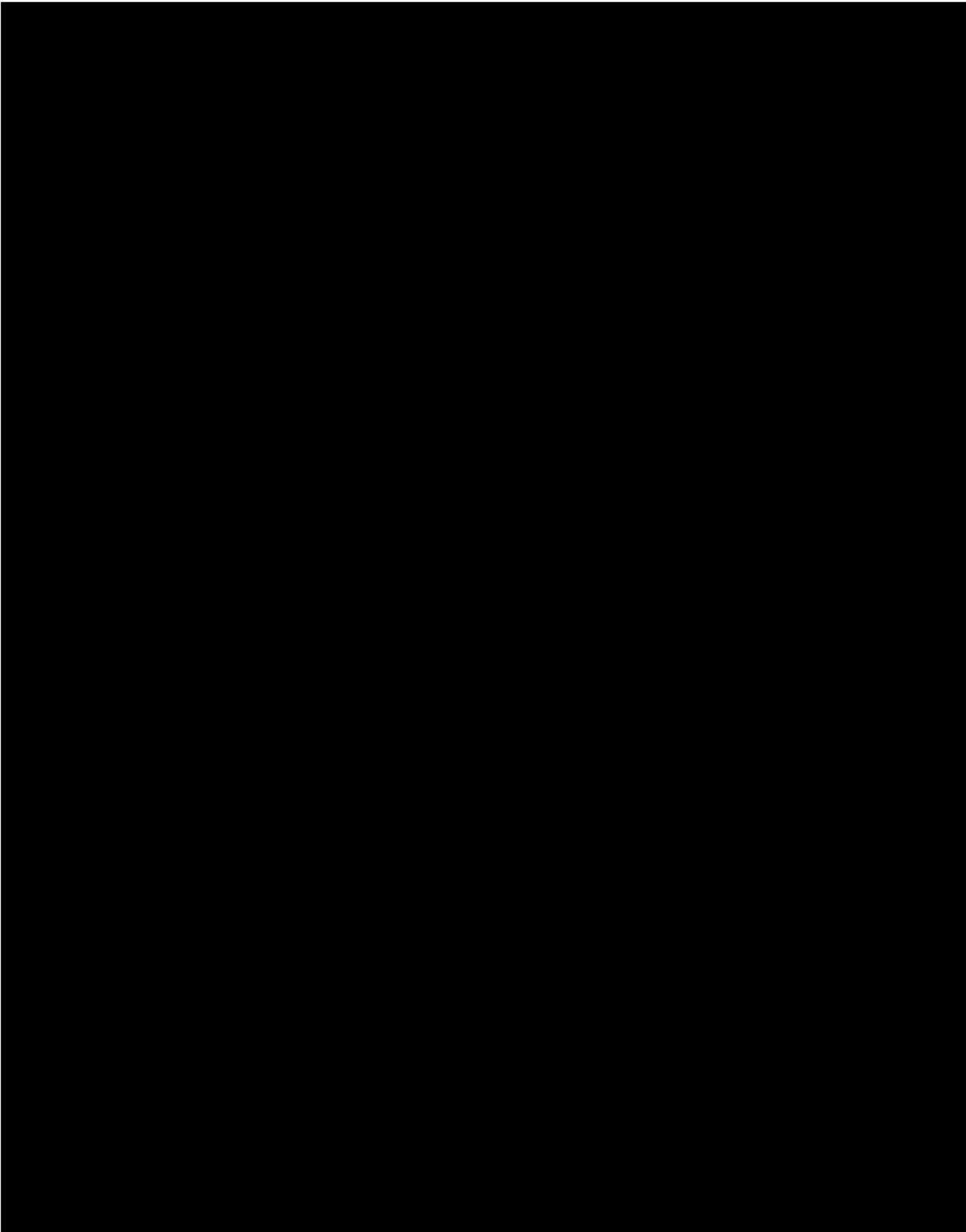
Instructions: For each project experience listed, indicate the client name and client contact information, whether the project was for a public sector agency, project name, start and end dates the team member performed the role, duration of the experience and whether the project included software and/or services implementation / configuration. The Vendor may duplicate Table 1 in its entirety, once each per Key Project Personnel.

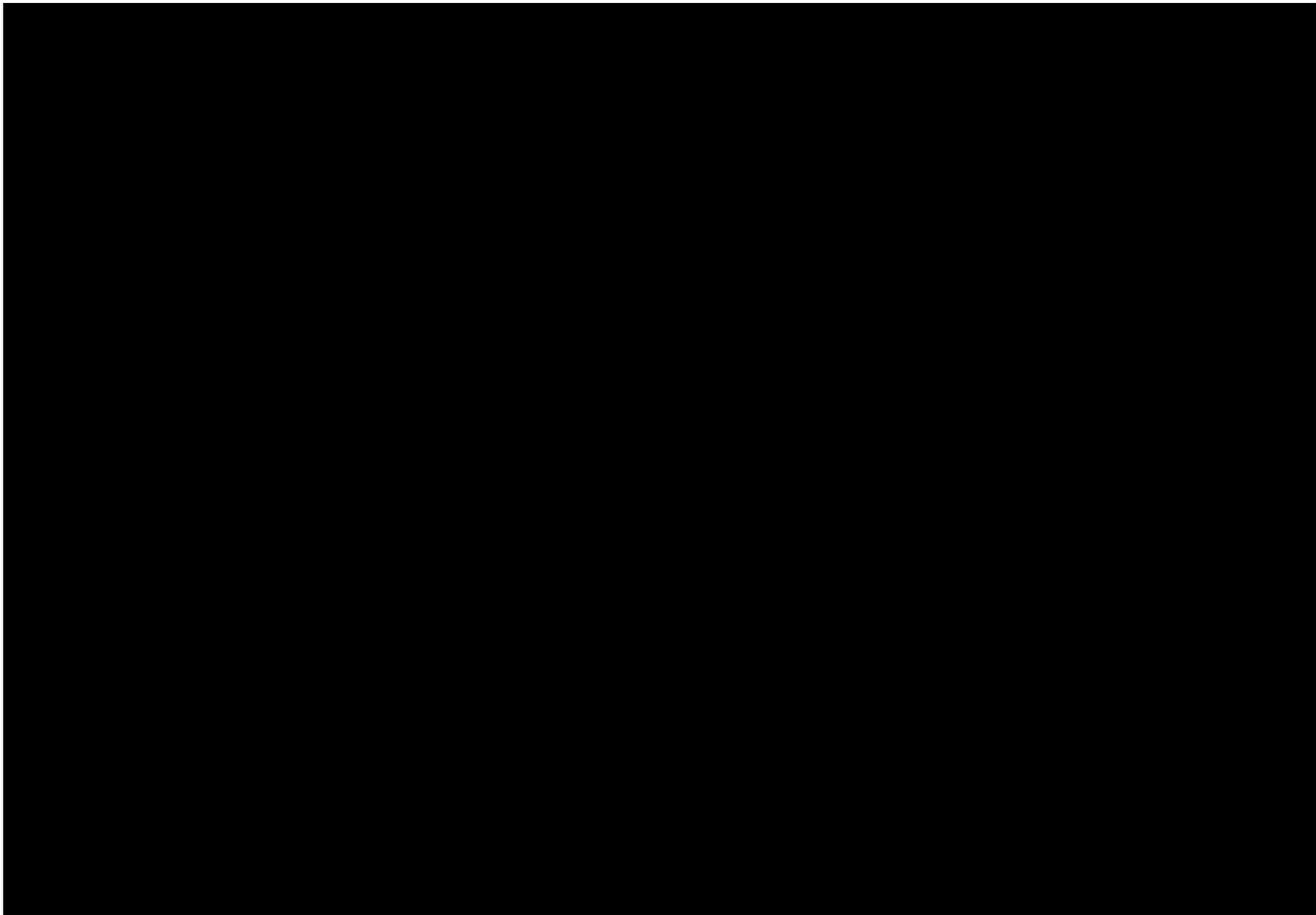
Respondents are not to change any of the completed cells in the following table. Any changes to the completed cells in the following table could lead to the disqualification of a respondent.

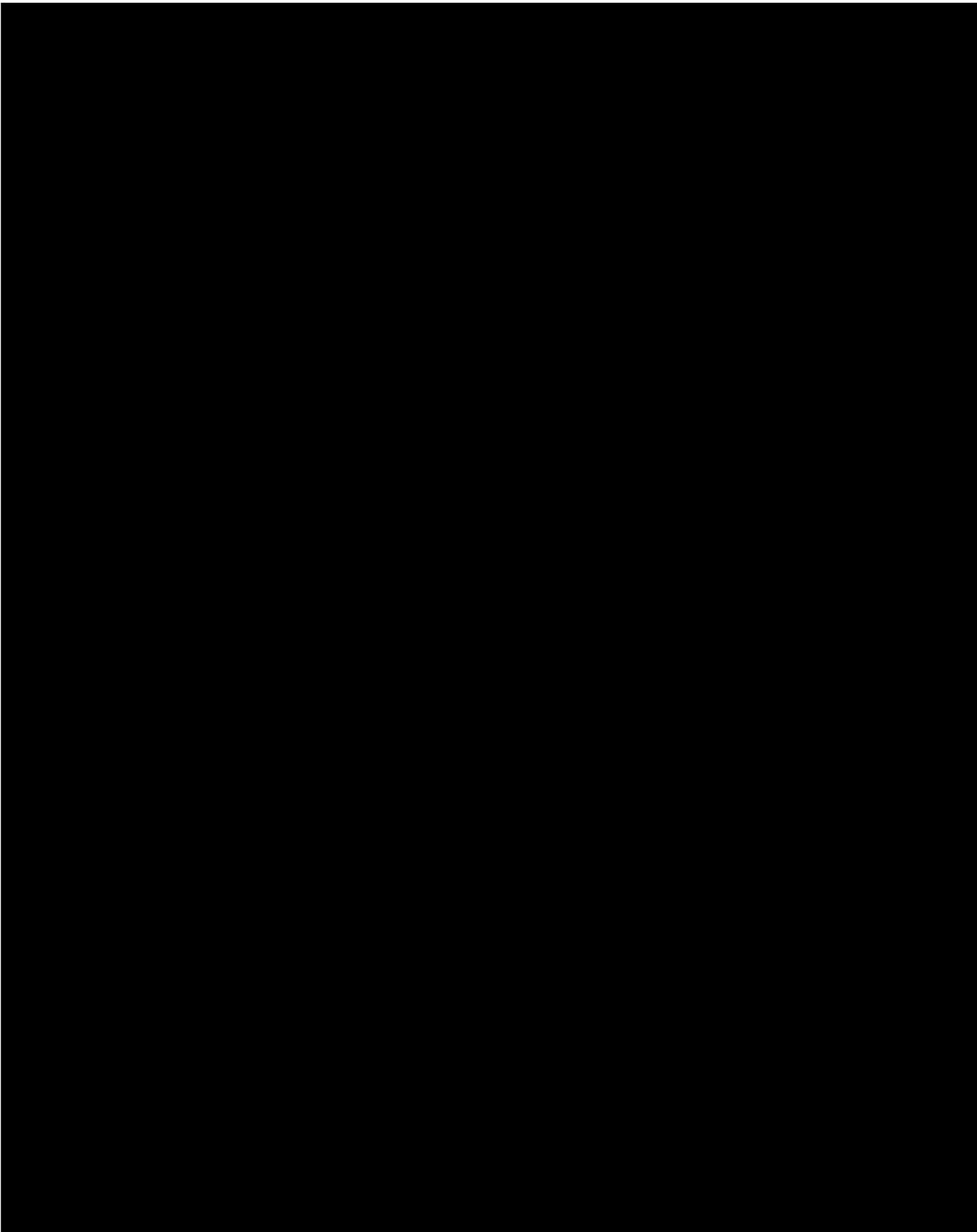
Table 1. Staff Experience

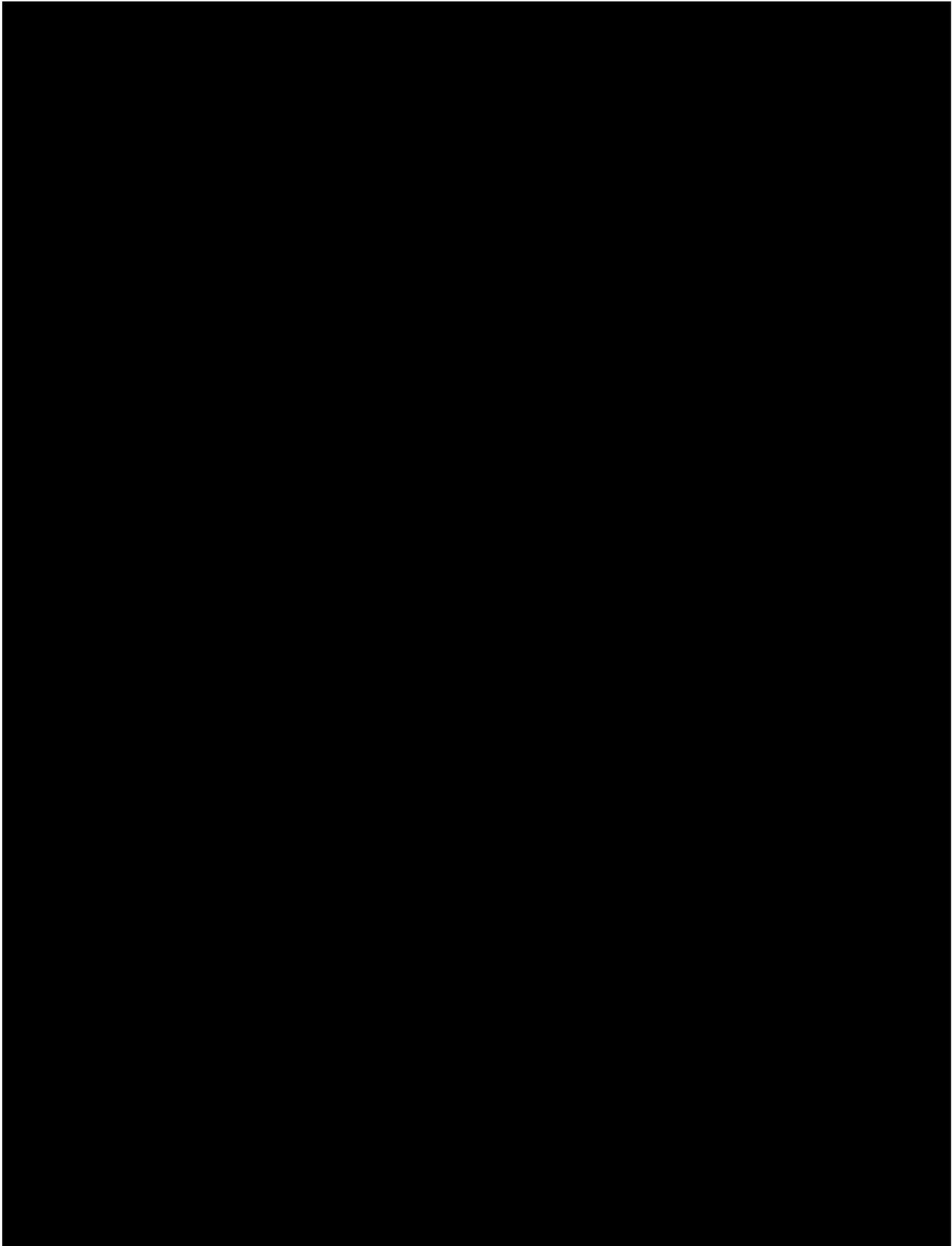




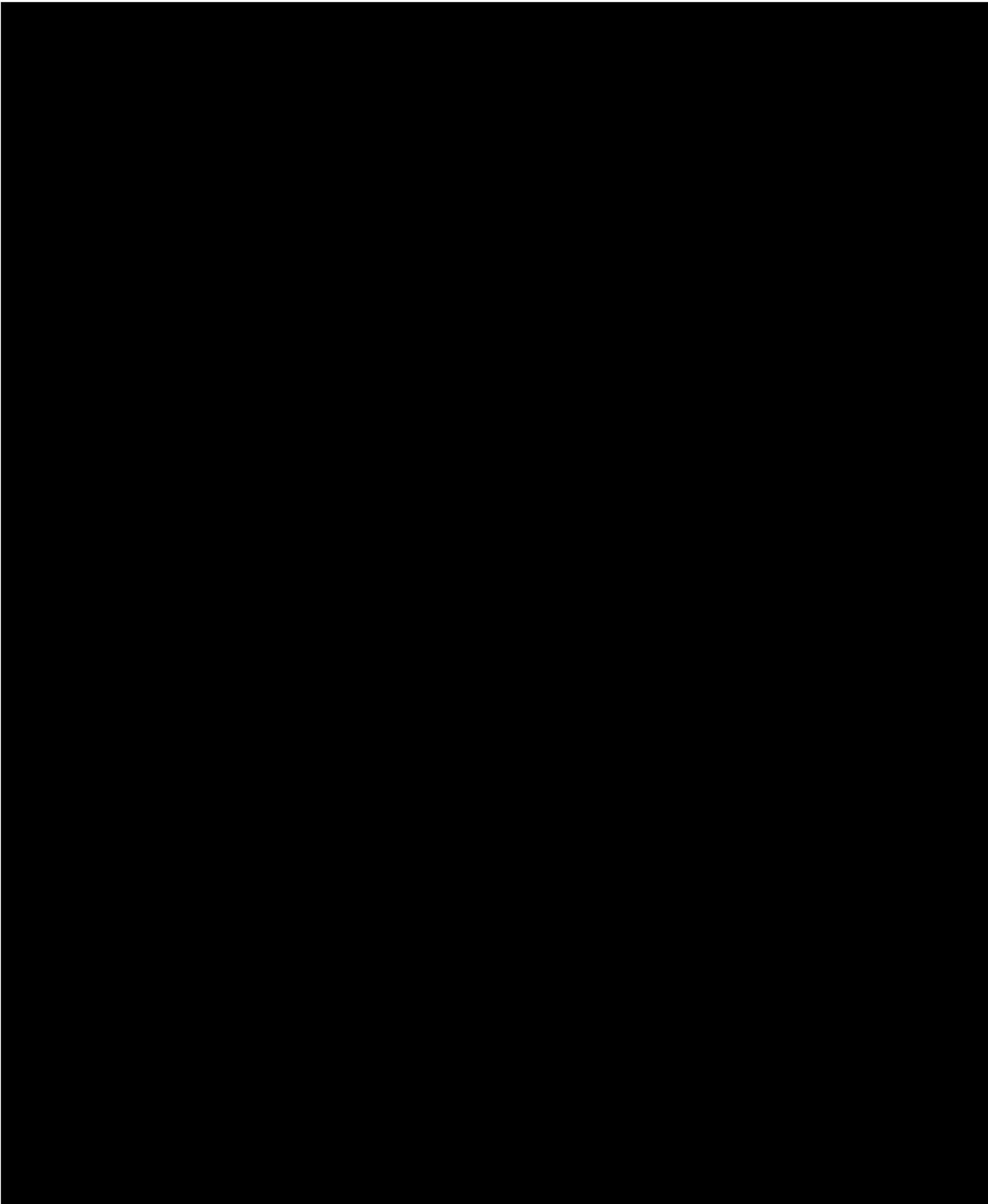


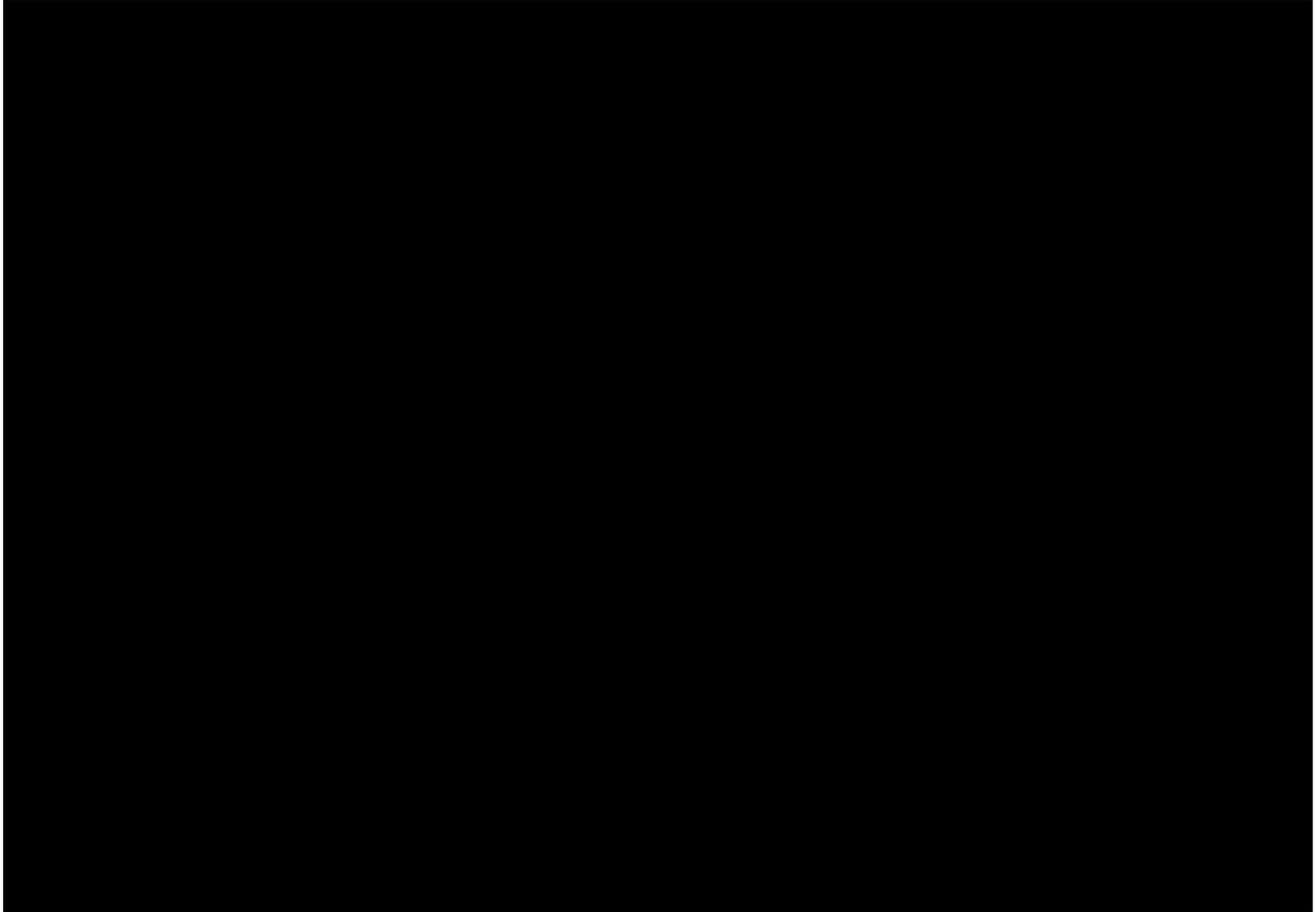










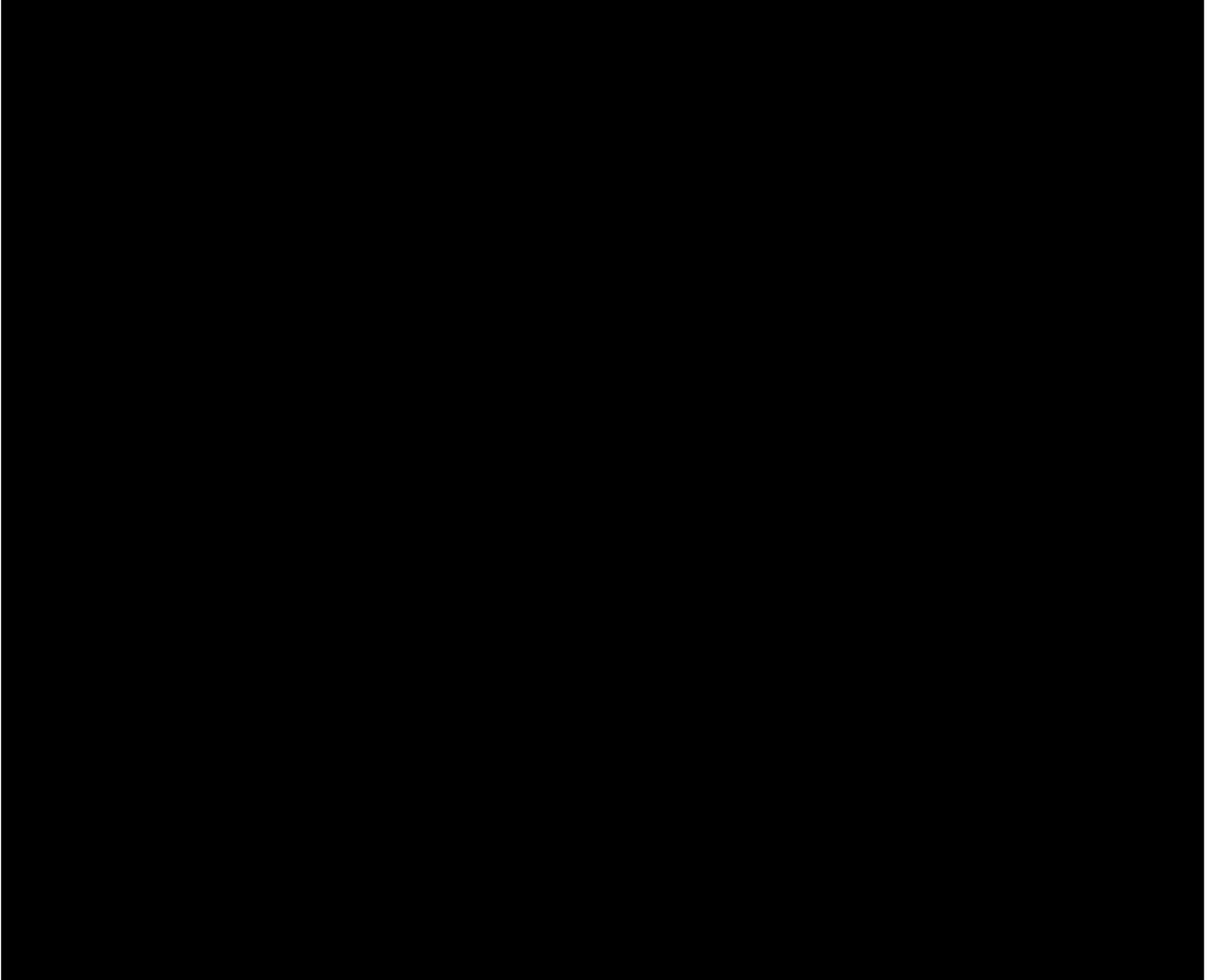


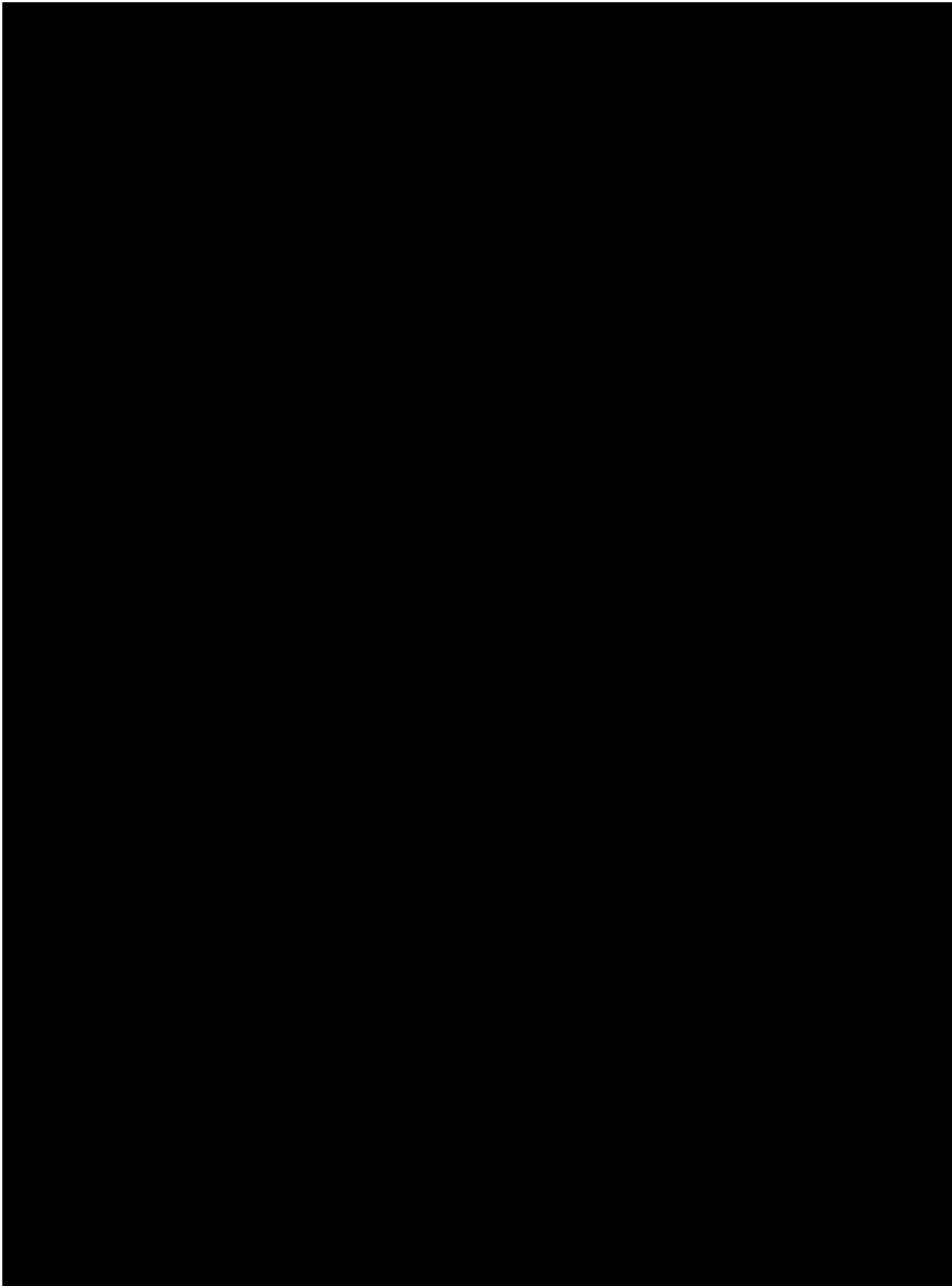
2.0 Resumes

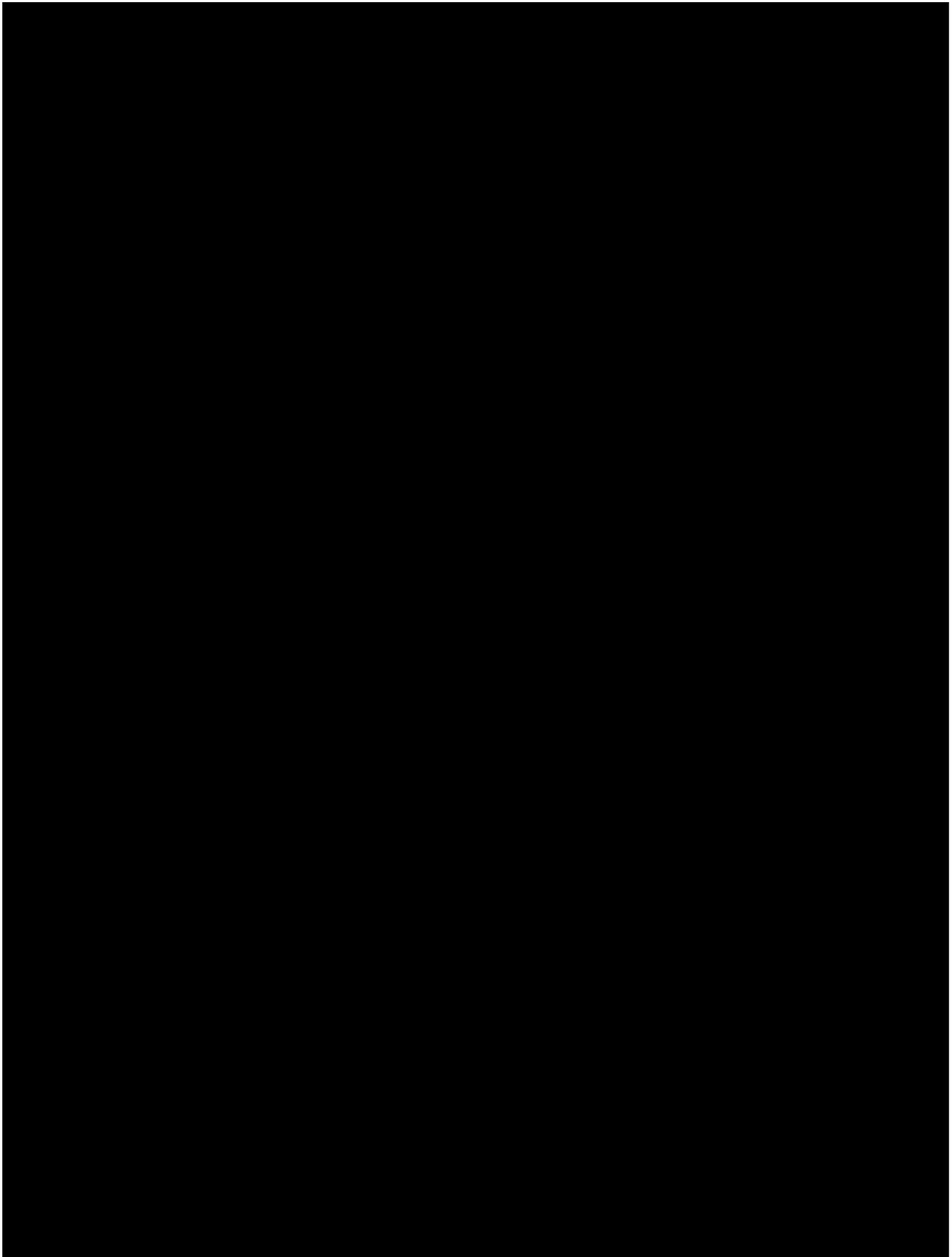
Instructions: The Vendor must complete this section and attach resumes of all proposed Key Project Personnel to this section of the proposal. Each person identified in Section 1 of this template should be included in this section.

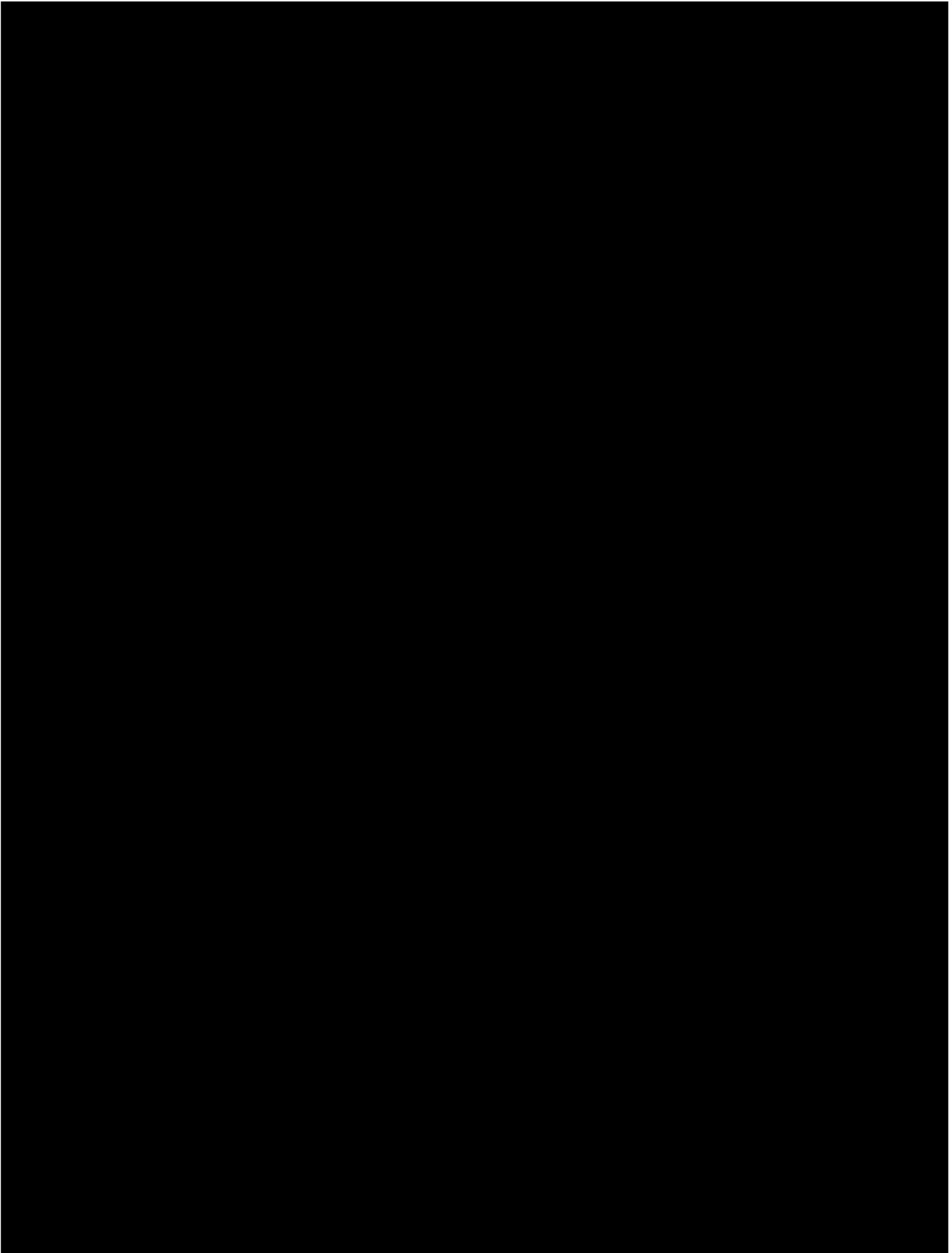
Each resume must demonstrate experience germane to the position proposed. Resume should include work on projects cited under the Vendor's corporate experience, and the specific functions performed on such projects.

List of Resumes

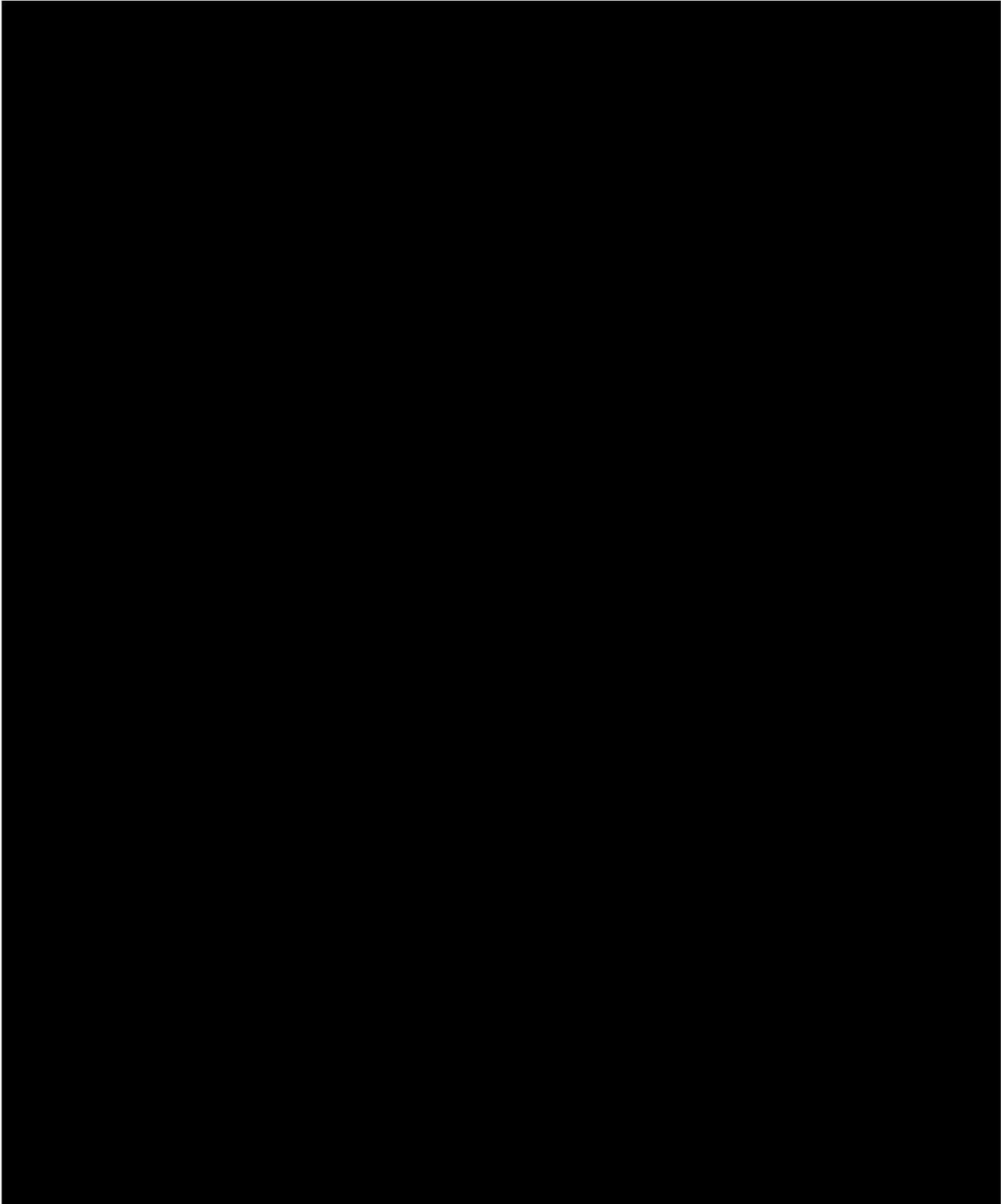


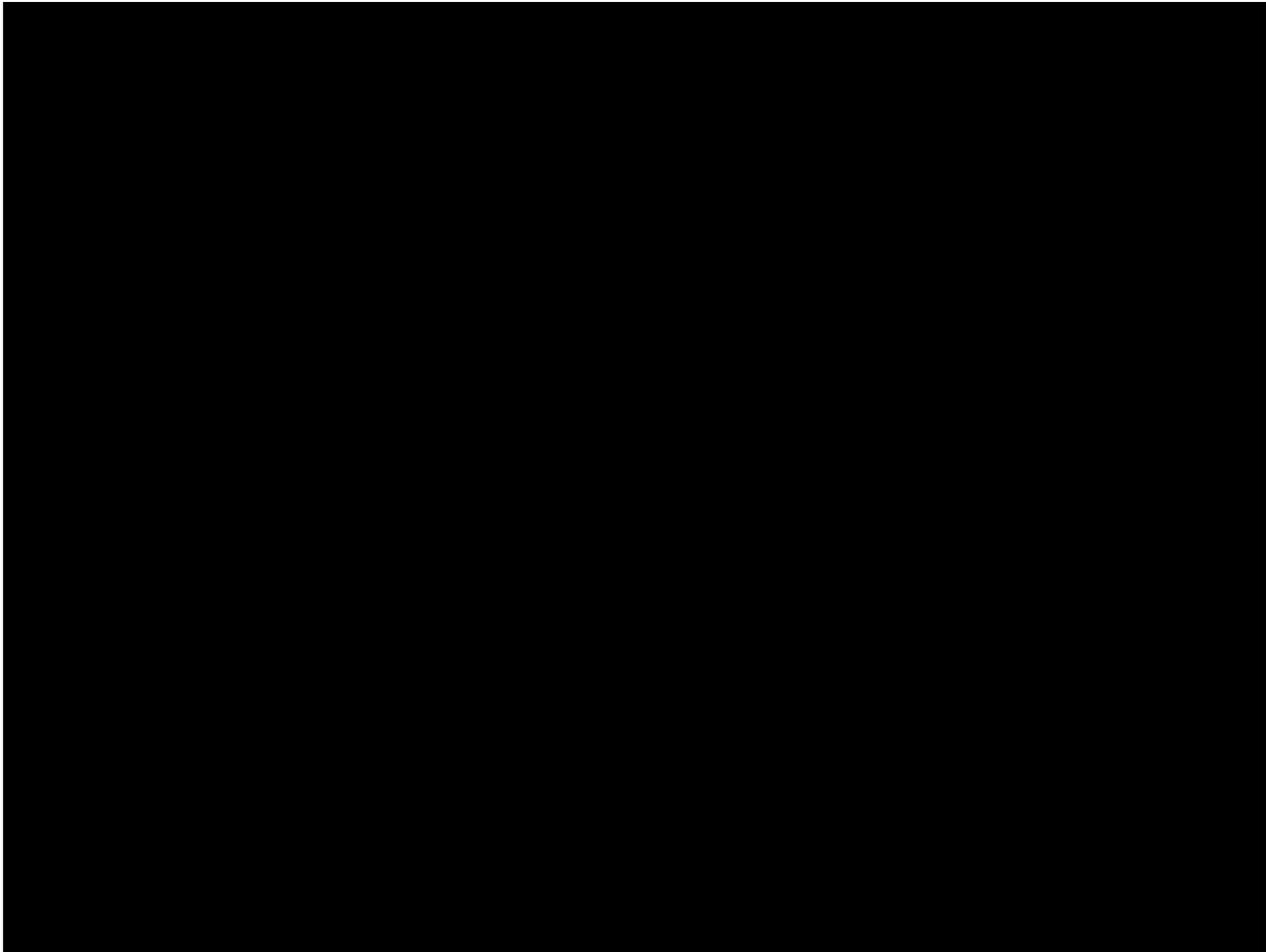


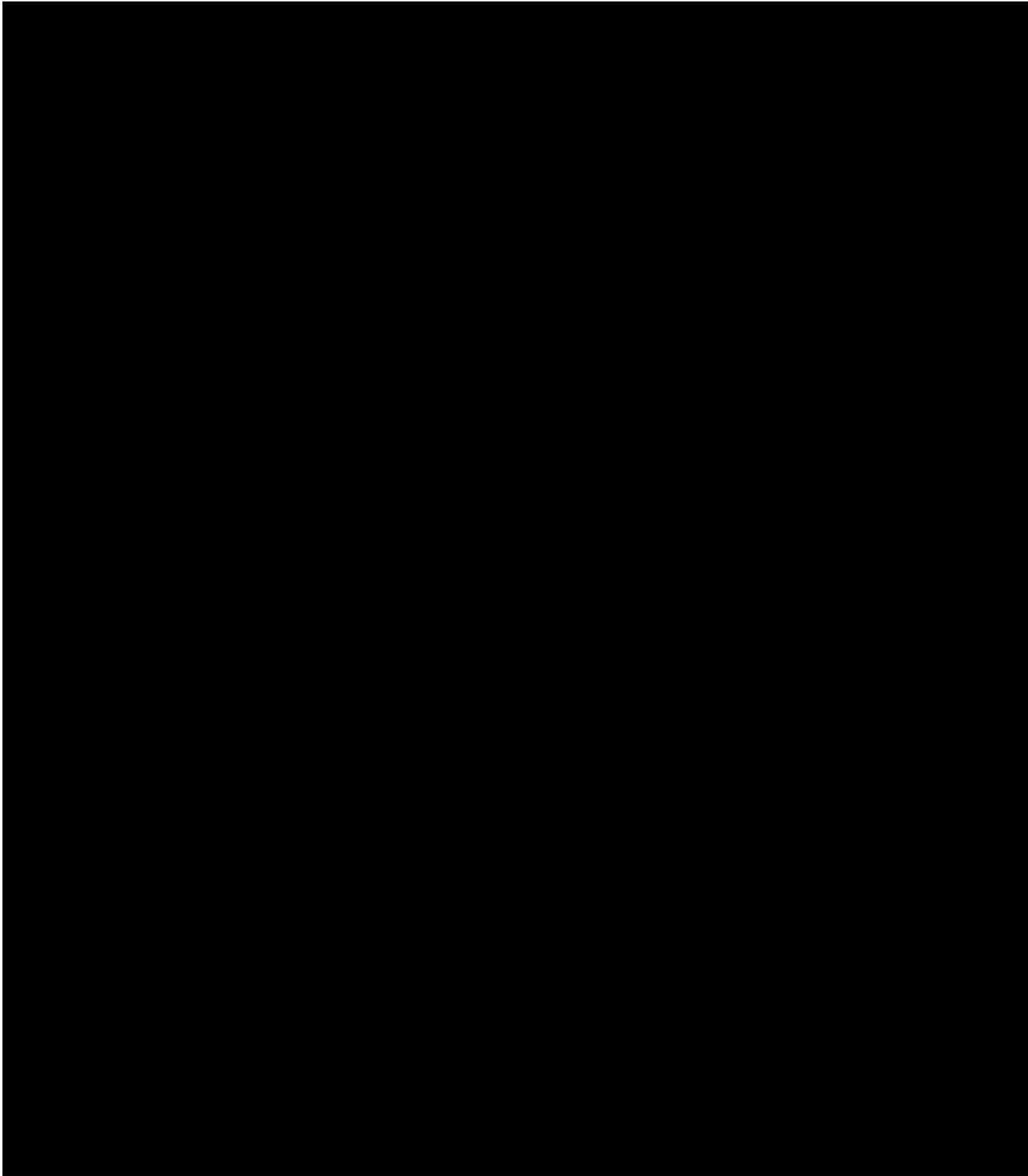


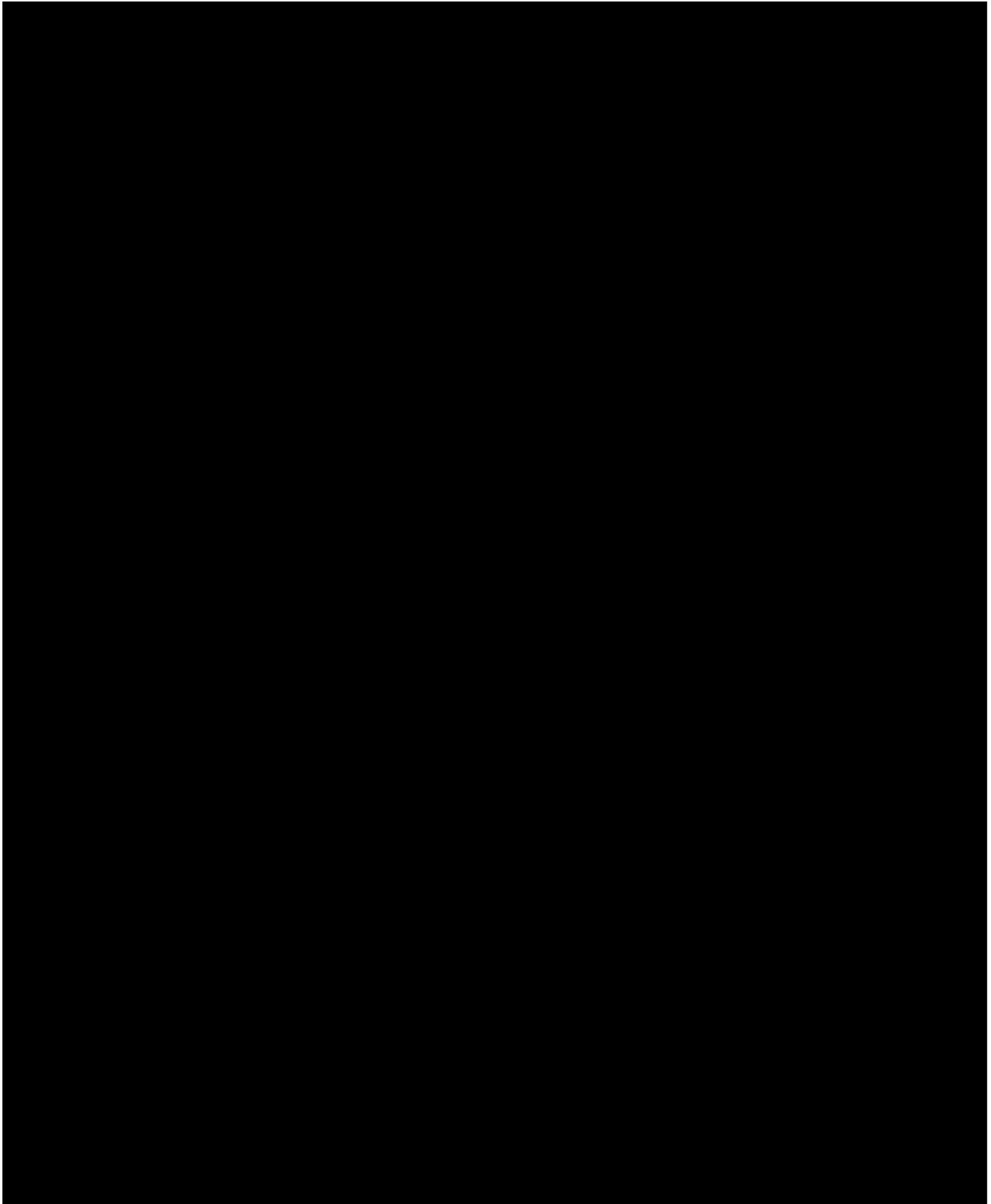


Page Intentionally Left Blank



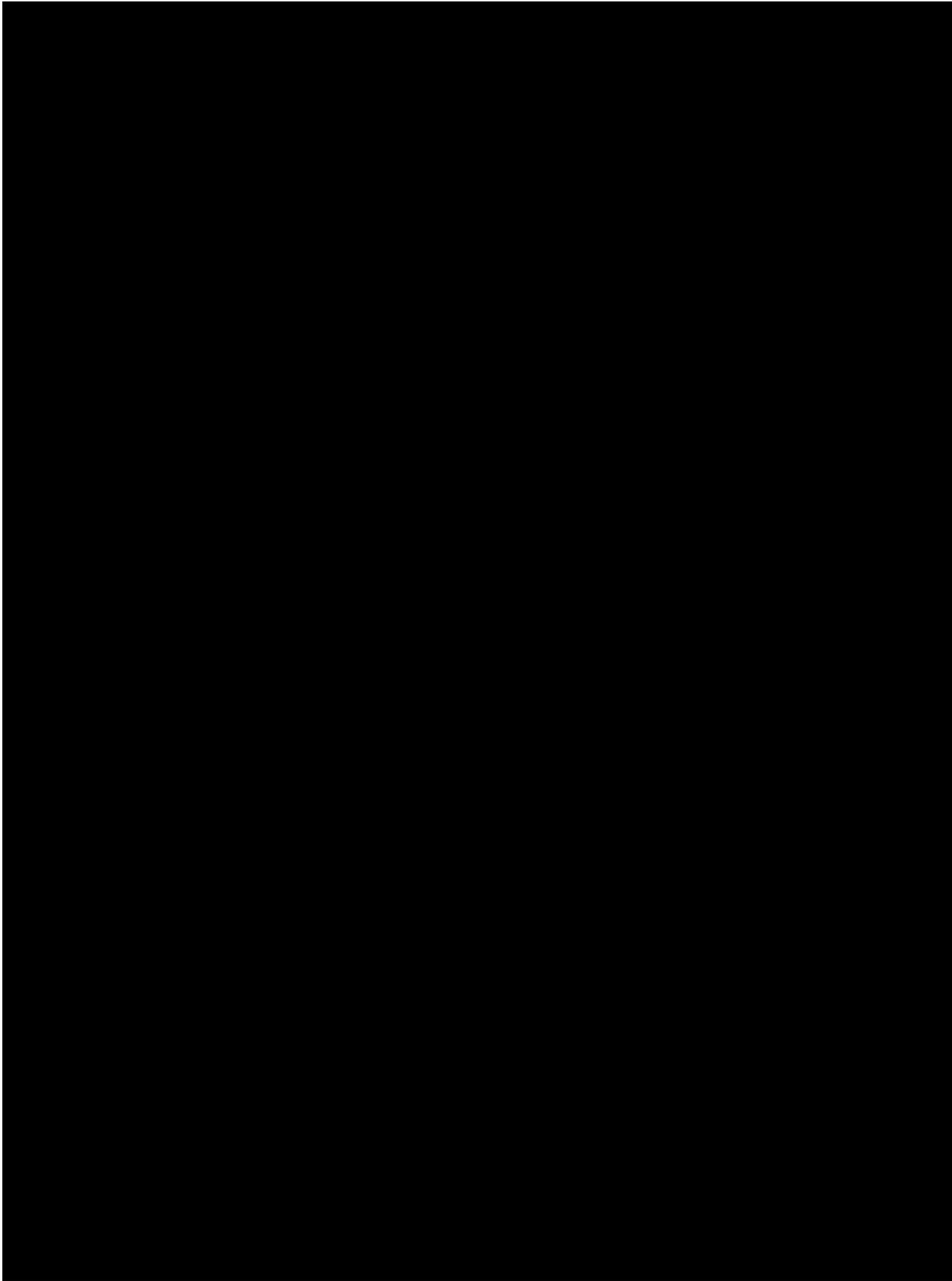


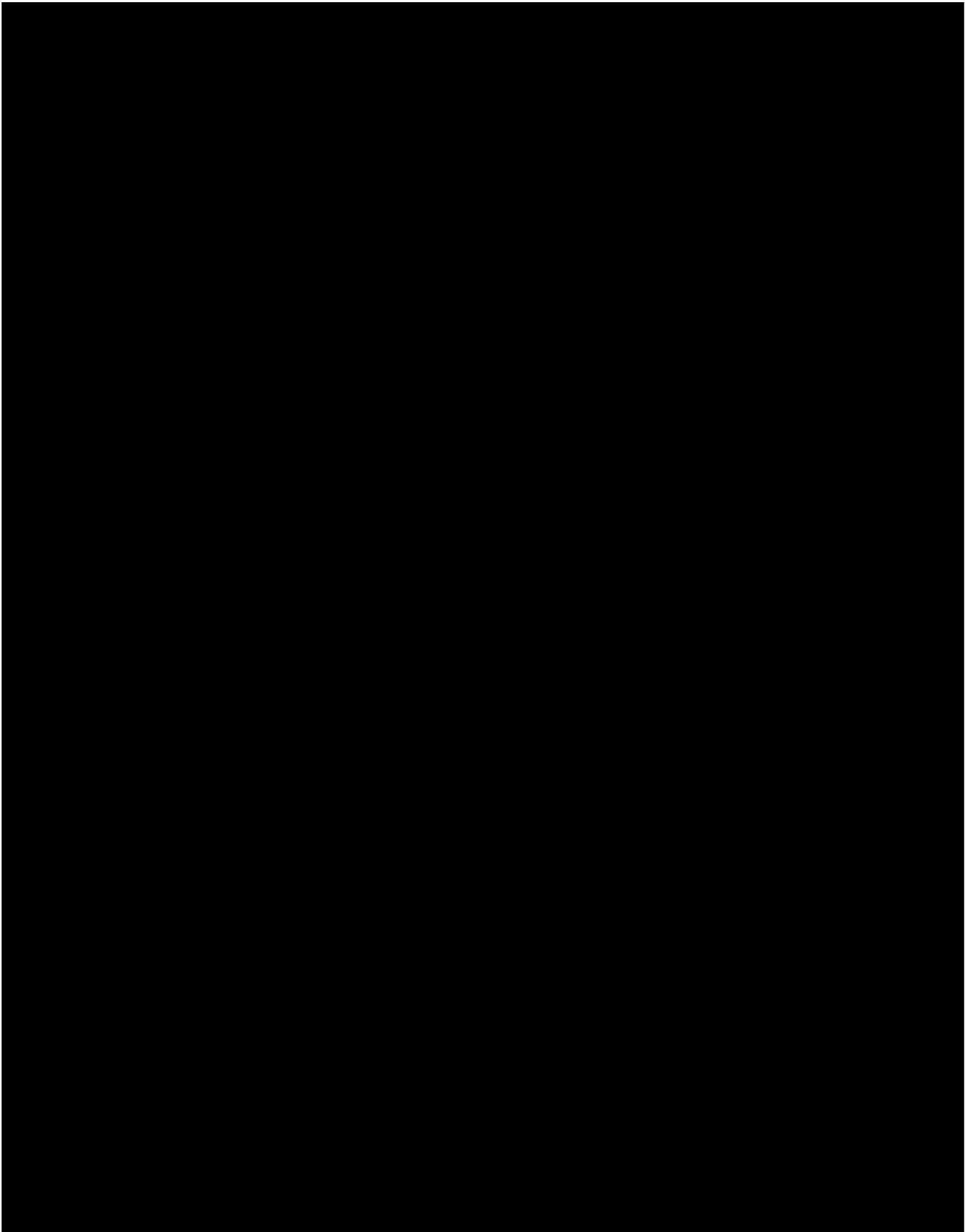






Page Intentionally Left Blank





**State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response**

RFP Vendor Instructions

This workbook contains Functional Requirements for the system desired by State of Vermont HHS. The response codes below should be used by Responders to indicate the fit of their solution to the State of Vermont HHS Requirements specified in this workbook.

This template must be completed and submitted as an MS Excel file as part of the response to this RFP.

Responses	Definition
<i>Response Code: How will this Functional Requirement be met by your solution?</i>	Please note that all requirements must be met by one of the possible solution options described below.
	Indicate if the requirement will be met by selecting either: <u>Yes Comply</u> or <u>Not Comply</u> :
	Y = Comply - The State of Vermont HHS Requirement will be met by the Vendor solution.
	N = Not Comply – The State of Vermont HHS Requirement will not be met by Vendor's solution. Please indicate in the Vendor Response Comments column the reason that requirement cannot be satisfied.
<i>Vendor Response Comments</i>	For more details regarding the approach for meeting a requirement, or combination of requirements, or overall functional area, use the template provided in Response Template G.
<i>Description of Other Fields</i>	Below describes the information fields provided for each requirement and their usage.
	RFP Req #: Identification number for requirement. This should be used to refer to requirements in correspondence.

ID	Section Title	
----	---------------	--

- FR1 Claims Processing
- FR2 Pharmacy Benefits Management
- FR3 Financial

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
Point-of-Sale (POS)			
FR1.1	The Vendor's POS claims processing system must support online, real-time operations for receipt, adjudication, and notification to billing providers regarding the disposition of a claim (e.g., as payable, denied, or requiring more information).	Y	
FR1.2	The Vendor's POS claims processing system must adhere to the most current version of the National Council for Prescription Drug Program (NCPDP) Implementation Guide functionality for Governmental Programs to allow appropriate reimbursement and coordination of a beneficiary's benefits.	Y	
FR1.3	The Vendor's POS claims processing system must support NCPDP Multi-Ingredient Compound functionality to process compounded claims in accordance with current Department policy and procedures.	Y	
FR1.4	The Vendor must support implementation and ongoing support of providers' interaction with the Vendor's POS systems including, but not limited to, the following	Y	
	1. Establish testing procedures	Y	
	2. Coordinate with network vendors to ensure smooth operation of the POS system	Y	
	3. Certify provider practice management systems (e.g., service bureaus, switches, etc.) as compatible and ready to interface with the Vendor's POS system	Y	
FR1.5	The Vendor's POS claims processing system must be capable of adding, changing, or removing adjudication rules, edits, and customized transmission messages to accommodate Department-required changes for its current and future pharmacy programs.	Y	
FR1.6	The Vendor's POS claims processing system must support, at a minimum, the following:	Y	
	a. The ability to track and report on the specific adjudication rule in effect by date of service and date of payment, and the date the rule was changed, added or deleted	Y	
	b. Adjudication rules customized for each of the Department's programs by category codes within Medicaid, eligibility status, beneficiary attributes (e.g. age, sex, medical condition, etc), ambulatory, long-term care, hospice or other residential setting, drug or drug class (e.g. brand/generic status, drug coverage status, preferred drug list status or other attributes), Medicare-Medicaid dual eligible status and other criteria specified by the Department.	Y	
	c. The ability to look up the PDL status of a drug at a claim and NDC level	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR1.7	The Vendor's POS claims processing system must support unique edit and claims processing logic as specified by the Department for each of its individual programs including, at a minimum, the following:	Y	
	a. Prescriber Validation – Validate the prescriber entry on the claim using either a National Provider (NPI) check digit or an HCIdesa National Provider Identifier/DEA Lookup from the NCPDP, and/or the Department's Master Provider Index as specified by the Department.	Y	
	b. Co-Payments – Calculate different co-payment amounts for different pharmacy programs, for different drugs, and for beneficiaries based on age or any other specifications provided by the Department.	Y	
	c. Prior Authorization (PA) Requirements – Edit for drugs requiring PA or bypass PA requirements when authorization is granted for the date of dispensing or automated authorization is allowed based on pharmacy or medical claims history files. In particular, system must be capable of displaying expiration dates of prior authorizations at POS.	Y	
	d. Diagnosis-Specific Requirements – Edit for drugs requiring submission of specific diagnosis codes.	Y	
	e. Age-Specific Requirements – Edit for drugs requiring specific beneficiary age restrictions	Y	
	f. Other Reference Files – Apply Department-specified payment criteria based on First DataBank, Medi-Span, or other reference files approved for use by the Department.	Y	
	g. Preferred Drug List and Other Formulary Requirements – Deny payment for drugs requiring PA, non-preferred, non-covered drugs or drug classes not covered by a beneficiary's pharmacy program and notify the provider through an online, real-time response. Exceptions must be allowed when approved by the Department or based on Department-approved criteria.	Y	
	h. Authorized Providers – Limit payment for selected drugs, classes, or specific Department programs to authorized prescribers as designated by the Department. For example, limit certain dosage forms of buprenorphine to prescribers with an X-DEA number.	Y	
	i. Compounded Drugs – Capture, edit, and adjudicate compounded drug claims as specified by the Department. Must be able to apply edits at ingredient level detail	Y	
	j. Quantity, Days Supply, and Frequency of Service – Validate claims to assure that the quantity of services is consistent with the Department's policy (i.e., verify drug specific minimum and maximum quantity limitations are followed including any days supply limitations and frequency limitations).	Y	
	k. Benefit Restrictions – Impose pharmacy benefits restrictions that apply to a given recipient including, but not limited to: benefit restrictions based on the lock-in program, living arrangements (e.g., ambulatory versus long-term care settings), and eligibility for the Department's different pharmacy programs.	Y	
	l. Approved Manufacturers – Deny payment for drugs distributed by manufacturers not participating in the federal manufacturer drug rebate program, except as directed by the Department for specific pharmacy programs or products.	Y	
	m. Proposed Less-Than-Effective Drugs – Deny payment for drugs that the federal government has identified as proposed less-than-effective under the Drug Efficacy Study Implementation (DESI) program and as identical, related, or similar to such drugs.	Y	
	n. Other CMS-Restricted Drugs – Deny payment for any drug that CMS identifies as restricted.	Y	
o. Sanctioned Providers – Deny payment for sanctioned providers (e.g., pharmacies or prescribers) designated by the federal government and the State.	Y		

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR1.8	The Vendor's POS claims processing system must provide NCPDP standard messages in addition to customized transmission response messages as specified by the Department for its current or future programs including, but not limited to, the following:	Y	
	a. Bill [Health Plan] and [phone number]	Y	
	b. Bill Medicare Part B	Y	
	c. Bill Medicare Part D [name] and [phone number]	Y	
	d. Program has no pharmacy benefit	Y	
	e. Bill as Medical Supplier	Y	
	f. PA expires on [date]	Y	
	g. Drug not covered – included in long-term care per diem rate	Y	
	h. Doctor not authorized, pharmacy not authorized, doctor/NDC not authorized, or pharmacy/NDC not authorized related to the Lock-In Program (message must return authorized pharmacy)	Y	
FR1.9	The Vendor must be able to process POS, batch electronic claims (e.g. batch adjustments), and paper claims. Paper claims to be processed by the Vendor within 14 days of receipt	Y	
FR1.10	The Vendor must create electronic imaged copies of all paper claims and attachments within 24 hours of receipt.	Y	
FR1.11	The Vendor must notify the Department staff of any and all claims that have been erroneously processed by the claims processing system, and present a corrective action plan to the Department within five business days. The Vendor must initiate corrective actions, at no additional cost to the Department, only after the written approval of the Department.	Y	
FR1.12	The Vendor must analyze probable erroneous payments that have been brought to the Department's attention by providers or that have been identified through the Department's evaluation of paid claim samples.	Y	
FR1.13	The Vendor must base its POS transmissions and batch electronic transmissions on NCPDP and other required transactions and code sets. As additions and updates are available, the Vendor must continue to be in compliance and, at no additional cost to the Department, the Vendor must:	Y	
	a. Implement new and updated NCPDP and other required transactions and code sets	Y	
	b. Maintain compatibility with pharmacies using the previous version data elements and those providers using the updated version(s), according to the timeline approved by the Department	Y	
FR1.14	The Vendor must adjudicate primary, secondary, and tertiary pharmacy claims for the Department's current programs and any future programs consistent with the Department's coverage and reimbursement policies and procedures specified in the Vermont Provider Manual, the Pharmacy Provider Manual, Department PDL, the VT Medicaid State Plan, and other Department documentation. The Department's current programs are:	Y	
	a. Medicaid	Y	
	b. Dr. Dynasaur	Y	
	c. VPharm	Y	
	d. Healthy Vermonters	Y	
	e. VMAP(Ryan White HIV MA program)	Y	
	f. Dual Eligibles	Y	
	g. General Assistance	Y	
	h. Long Term Care	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR1.15	The Vendor must provide automated audit trails to document, identify, and track chronological records and transactions throughout the Vendor's systems including, but not limited to, additions, deletions, and changes to PDL and formulary maintenance	Y	
FR1.16	Vendor's System must be capable of recording the PDL status of a drug on an NDC level, and capable of a look-up or query of PDL status of a drug on an NDC level.	Y	
FR1.17	Vendor's must maintain detailed electronic documentation outlining the specific benefit design structure that supports and represents the Department's pharmacy benefits in the Vendor's system	Y	
FR1.18	The Vendor must provide functionality to apply different reimbursement logic or benefit coverage as specified by the Department including, but not limited to, the following:	Y	
	a. Ingredient Cost and Dispensing Fee Payments based on pharmacy network for compounded drugs, 340B drugs, specialty drugs, and other	Y	
	b. Based on program, category code or other program specifications, beneficiary age, drug or drug class, Medicare-Medicaid dual eligibility, beneficiaries residing in a nursing facility, and other	Y	
	c. . DVHA "lower of" reimbursement logic as outlined in the Vermont Medicaid State Plan included in the Procurement Library	Y	
Coordination of Benefits (CoB)			
FR1.19	The Vendor must validate claims to determine whether there is a liable third party (or parties) that must be billed prior to billing the Department's programs including, but not limited to, the following:	Y	
	a. Denying payment for claims when a beneficiary is covered by one or more carriers until the billing provider indicates the claim has been fully adjudicated (paid or denied) by the other payer(s)	Y	
	b. Utilizing the Department's, vendor's or external sources of TPL data and eligibility records to ensure that all payment opportunities are exhausted	Y	
	c. Processing claims where multiple third parties are liable, at a minimum, must be able to correctly process claims where either the Department or an external insurer is the tertiary payer. Must be able to identify and/or assign multiple funding sources depending on the payer, if the payer is an Agency program.	Y	
	d. Overriding COB editing as specified by the Department	Y	
	e. Maintaining indicators to identify Medicare Part B drugs and process the claim balance remaining after subtracting the Medicare Part B payment for beneficiaries dually enrolled in Medicare and any of the Department's programs	Y	
	f. Coordinating benefits automatically with all primary payers including capturing and storing the primary payer's data	Y	
	g. Obtaining maximum cost avoidance and reimbursement for beneficiaries covered by third parties	Y	
FR1.20	The Vendor must report TPL plan information to billing providers when another payer is primary (or available) including, but not limited to:	Y	
	a. Payer names, identifiers, addresses, phone numbers	Y	
	b. The payer's Bank Identification Number (BIN) and Processor Control Number (PCN).	Y	
FR1.21	The Vendor must be able to support the Department's current COB process for mail order pharmacy coverage from another insurer.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
Provider Support			
FR1.22	The Vendor must maintain telephone support for technical and business operations. The Vendor must maintain call center services and help lines to respond to providers about questions and issues including, but not limited to, general eligibility questions, claims inquiries, prior authorizations, operational questions and problems, clinical/drug inquiries, and general provider support. The Vendor must supply all required information systems, telecommunications, and personnel to perform these operations. Each of the following help lines must be available through a designated telephone number:	Y	
	a. Pharmacy Support Services Help Line available toll-free 24x7x365 to respond to questions on coverage, claims processing, pricing, reimbursement and other pharmacy-related issues. .	Y	
	b. Prescriber Support Services Help Line (including toll-free telephone and toll-free fax access) available 24X7X365, to handle PA requests from prescribers, drug dispensing questions, or other requests from providers.	Y	
FR1.23	The Vendor must provide operational and customer service that is scalable to meet the Department's future needs and includes, but is not limited to, the following:	Y	
	a. An automated call distribution voice-response system;	Y	
	b. Capacity to handle all telephone calls at all times including times of peak call volume and to meet the Department's needs and performance expectations with acceptable call completion and abandonment rates	Y	
	c. Management tracking and reporting capabilities	Y	
	d. A Quality Assurance program that includes call sampling and follow up to confirm efficient handling and caller satisfaction	Y	
	e. Language translation services	Y	
	f. Call response from individuals with hearing or visual impairments	Y	
	g. Access to a pharmacist consultant 24 hours a day	Y	
	h. A reference document with guidelines on how to handle caller inquiries	Y	
i. A backup system available to operate in the event of line trouble or other problems	Y		
FR1.24	The Vendor must implement and maintain a provider contact and problem resolution tracking and document management system which, at a minimum, documents and tracks contacts with providers, identifies issues and describes the problem resolution. The Vendor must prepare an analysis of the issues which must be reviewed with Department staff at regularly scheduled meetings at the Department's discretion.	Y	
FR1.25	Vendor must prepare and distribute (subject to the Department's approval) all provider communications including but not limited to, provider notices, newsletters, operational, programmatic, or system changes of any type that impact providers , and clinical notices such as changes to drug coverage. Communications must be distributed in a variety of formats including, but not limited to direct mail, Vendor web portal, DVHA website, email, fax, phone.	Y	
FR1.26	The vendor must interface with the State of Vermont's Master Provider Index database in order to maintain a database of current contact information for providers. The Vendor must research any undelivered provider communication and make reasonable attempts to identify a new address for such providers.	Y	
FR1.27	The Vendor must design, develop, and implement customized provider portals for the Department that support the needs of the pharmacy programs. Vendor must support, update, and maintain the portals to meet the needs of the Department. The vendor must guarantee any data exchange on its website between the Vendor and the Department and/or providers will be secure.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR1.28	The Vendor must update its portals, maintained for the Department, after the content of such updates has been approved by the Department. The Vendor's postings to its website must include, but not be limited to:	Y	
	a. Important communications and alerts to providers	Y	
	b. Drug Utilization Review (DUR) Board meeting schedules, meeting agendas and notices, policies, meeting minutes, member contact information	Y	
	c. Other Department-designated committee activities.	Y	
	d. Provider forms and reference policies or links to forms and policies, if applicable.	Y	
	e. Drug information including the Vermont Preferred Drug List (PDL), special drug policies, Maximum Allowable Cost (MAC) policies and prices, frequently asked questions from manufacturers or providers.	Y	
	f. Manuals including the Pharmacy Claims Processing Manual and links to the Vermont Medicaid Provider Manual.	Y	
	g. Special provider policies and requirements including e-prescribing support.	Y	
	h. Web-based PA requests.	Y	
	i. Other documents as specified by the Department	Y	
FR1.29	Vendor must keep current electronic versions of Department-approved Pharmacy Provider Manual which must include payer sheets, instructions on POS, batch, and paper claims processing. The Vendor must post the Manual(s) on the provider portals and/or website and, on an on-going basis, maintain and update these manuals. Any modifications must be submitted to the Department for approval prior to implementation of revisions.	Y	
E-Prescribing		Y	
FR1.30	The Vendor must provide electronic prescribing companies (e.g., SureScripts-RxHub) access to the data for the Department's various programs including, but not limited to:	Y	
	a. Beneficiary eligibility	Y	
	b. Preferred Drug List including drug's PDL status, alternative choices within the class and their PDL status	Y	
	c. Beneficiary drug claims history	Y	
	d. Other Department specified data.	Y	
FR1.31	The Vendor must work with the Department to meet the Department's goals for electronic prescribing and for providing information to prescribers and pharmacies promoting electronic prescribing	Y	
FR1.32	The Vendor must provide, at a minimum, monthly reporting on e-Prescribing activities such as number of e-prescriptions, number of requests for eligibility, medication history, or PDL inquiries, and any technical or operational issue identified during the specified time period. Vendor must have quality assurance process in place to assure system integrity and display of required information.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
Prior Authorization Program			
FR2.1	The Vendor must manage and operate a prior authorization (PA) program and procedures for the Department that encompasses drugs processed through the pharmacy benefit and physician-administered drugs processed through the medical benefit. Components of the program will include, but not be limited to:	Y	
	1. Implementation of the operational processes to support drug coverage decisions for all clinical and non-clinical criteria	Y	
	2. Operation of a provider call center staffed with appropriate clinical personnel	Y	
	3. Notifications of decision to providers and beneficiaries	Y	
	4. Compliance with all Department PA rules, regulations, and policies	Y	
	5. Support of the grievance and appeal process	Y	
FR2.2	6. Detailed reporting and analysis on all aspects of the PA program	Y	
	The Vendor must comply with all Department PA requirements including, but not limited to, providing a telephone call center which must:	Y	
	1. Be accessible 24x7x365 – except for Vendor downtime approved in advance by the Department	Y	
	2. Support PA processing through toll-free telephone, toll-free facsimile, mail, and web-based requests through provider portal	Y	
FR2.3	3. Be compatible with real-time electronic editing of medication requests based on current paid claims history, beneficiary eligibility, provider eligibility, and reference medical data supplied to the Vendor	Y	
	4. Be staffed with appropriate technical and clinical personnel including clinical pharmacists	Y	
	The Vendor must have functionality to automatically override PA requirements during POS processing based on data available from pharmacy claims paid by the Vendor and on medical claims history files provided by the Department to the Vendor.	Y	
	FR2.4	The Vendor must include a review of the beneficiary's eligibility record as part of their PA processing to retrieve the information needed for PA determinations including, but not limited to:	Y
a. Program eligibility		Y	
b. Existence of authorized prescribers		Y	
c. Existence of program coverage restrictions		Y	
d. Existence of alternative insurance (ex. Part B or primary commercial coverage)		Y	
FR2.5	d. Other elements specified and approved by the Department	Y	
	The Vendor's PA process must allow determinations based on various data elements identifying drug products including, but not limited to, the following:	Y	
	a. The first 9-digits of a product's NDC	Y	
FR2.6	b. First DataBank, Medispan, or equivalent, therapeutic classification system	Y	
	The Vendor must send required notifications to the beneficiary and provider when PA is approved or denied. Notifications must include the required components as outlined by the State.	Y	
FR2.7	The Vendor must coordinate and provide support to the Department and other State personnel who oversee the appeals process if an appeal results from a denied PA.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.8	The vendor must interface with the State of Vermont's Master Person Index database in order to maintain a database of current contact information for beneficiaries. The Vendor must research any undelivered beneficiary communication and make reasonable attempts to identify a new address for such beneficiaries.	Y	
FR2.9	The Vendor must allow for the dispensing of at least a 72-hour supply (or other Department-approved amount) of a drug product in an emergency situation as specified by the Department, except for non-covered drug classes or products.	Y	
FR2.10	The Vendor must maintain an electronic version of a PA policies and procedures manual, including, but not limited to:	Y	
	a. Clinical criteria	Y	
	b. Department-approved product protocols	Y	
	c. Criteria for PA processing	Y	
	The information will be available on DVHA's website and/or the provider portals	Y	
FR2.11	The Vendor must provide a PA system, accessible to designated state staff and providers, which maintains and allows the query of all pertinent information about PA requests and determinations including, but not limited to, the following:	Y	
	a. Requesting provider name	Y	
	b. Date and time of request	Y	
	c. Beneficiary identifiers	Y	
	d. Requested drug name, strength, form, and quantity	Y	
	e. Program eligibility of the beneficiary	Y	
	f. Request status (i.e., approved, pending, denied)	Y	
	g. Reason for denial or exception	Y	
	h. Authorization begin and end dates	Y	
	i. Date and time of action on the request	Y	
	j. Authorization of a 72-hour emergency drug supply	Y	
k. Comprehensive and flexible "free-text" notation functionality.	Y		
FR2.12	The Vendor's PA system must have flexible administrative reporting and include functionality to retrieve and track PA determinations using multiple search fields including, but not limited to: pharmacy program, beneficiary name, beneficiary unique identification number, provider name or ID, drug, date of authorization, and authorization status	Y	
FR2.13	FR2.16 The Vendor's system must include functionality to support the Team Care and Pharmacy Home (Prescriber/Pharmacy Lock-In) programs including, but not limited to, the following:	Y	
	a. Implement claims processing customized edits and transmission messages	Y	
	b. Support beneficiary lock-in for a specific drug, drug class, drug DEA schedule, and other parameters as defined by the Department	Y	
	c. Support the capability to lock members into one or more specific providers (pharmacies and/or prescribers).	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
	b. Support identification of potential Team Care eligible beneficiaries in the claims processing system using state defined criteria,	Y	
	c. Provide detailed reporting information to the Department on program activities including, but not limited to, prescription utilization, cost per beneficiary, and parameters of the lock-in	Y	
FR2.14	The Vendor must comply with State and federal policies and procedures for beneficiary or provider appeals including, but not limited to, the following:	Y	
	a. Notifying providers and beneficiaries of their appeals rights in accordance with the Department's policy	Y	
	b. Coordinating with State personnel who oversee the grievance and appeals process	Y	
	c. Preparing the appropriate reports and documents to support the Vendor's actions resulting in the request for an appeal from a beneficiary or provider	Y	
	d. Providing the services of a clinical pharmacist to engage in peer discussions with state Medical Director and other Department clinical personnel to address an appeal related to pharmacy benefit services	Y	
	e. Providing resources to address appeals related to claims disputes	Y	
	f. Complying with the mandates and timelines stipulated by the Department	Y	
FR2.15	The Vendor must continuously review and evaluate PA protocols and criteria, and the appropriateness of continued PA, suggestions for drugs appropriate for electronic or manual PA's. These reviews and evaluations must encompass drugs processed through the pharmacy benefit and physician-administered drugs processed through the medical benefit. The Vendor must analyze historical PA determinations and drug claims data and must provide quarterly recommendations and protocols for PA to the Department for review and approval.	Y	
FR2.16	The Vendor must provide detailed monthly operational, clinical, and financial reporting on all prior authorization activities, including but not limited to: number of PA's, denial/approval rates, number of electronic vs. manual PA's, drug and overall health care savings, and return on investment. Reports should be available by drug, drug class, beneficiary, provider, and other defined parameters.	Y	
FR2.17	The Vendor must, develop and maintain approved protocols and criteria for coverage of products	Y	
	a. Not listed on the PDL	Y	
	b. Typically not covered	Y	
	c. Exceeding the Department's SMAC rates	Y	
	d. Not meeting other clinical or technical criteria	Y	
Drug Utilization Review and Management			
FR2.18	The Vendor's RetroDUR management system must include data warehouse analytic/reporting tools, clinical rules, algorithms, and profiling including, but not limited to, identifying prescribing and utilization patterns which fall outside best practice guidelines.	Y	
	The Vendor's RetroDUR management system must have functionality to merge medical service claims provided by the Department with pharmacy claims to identify and monitor drug usage including, but not limited to:	Y	
	a. Overutilization	Y	
	b. Underutilization	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.19	c. Therapeutic duplication	Y	
	d. Drug-disease contraindications	Y	
	e. Drug-drug interactions	Y	
	f. Incorrect drug, dosage, or duration of therapy	Y	
	h. Drug-induced illness	Y	
	i. Beneficiary clinical abuse and drug misuse	Y	
	j. Therapeutic appropriateness	Y	
	k. Other criteria identified by the Department or its DUR Board	Y	
FR2.20	The Vendor must conduct regular ProDUR and RetroDUR program activities that meet all state and federal requirements. Vendor must conduct regular program review, facilitate quarterly evaluations of criteria and interventions, recommend draft standards and criteria, and implement approved changes. RetroDUR activities must encompass drugs processed through the pharmacy benefit and physician-administered drugs processed through the medical benefit. Actions include, but are not limited, to the following:	Y	
	a. Conduct clinical and financial analyses and literature reviews related to its ProDUR and RetroDUR activities and report findings to the Department and DUR Board regularly	Y	
	b. Assess the effectiveness of ProDUR and RetroDUR practices and provide clinical and financial summary reports at least quarterly	Y	
	c. Implement DUR Board recommended changes after Department approval	Y	
	d. Generate educational materials for prescribers, pharmacies, and beneficiaries to support Department-approved interventions	Y	
FR2.21	The Vendor must monitor and report on the outcomes of its DUR educational efforts quarterly or as otherwise specified by the Department.	Y	
FR2.22	The Vendor's RetroDUR management system must have clinical pharmacist oversight.	Y	
FR2.23	The Vendor must draft and finalize, with support from the Department, the CMS annual DUR report as described in Section 1927(g)(3)(D) of the Social Security Act and the required cost savings analysis including, but not limited to, the following:	Y	
	a. Provide the draft CMS-required DUR Annual Report to the Department at least 30 days prior to the due date	Y	
	b. Incorporate any changes recommended by the Department into the CMS annual report	Y	
	c. Perform additional research requested by the Department	Y	
	d. Upload per CMS protocol the final CMS-required DUR Annual Report to the Department at least 10 days prior to the due date for Department approval and submission.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.24	The Vendor must facilitate the DUR Board meetings and prepare Department-approved meeting materials including, but not limited to, the following:	Y	
	a. Prepare, distribute, and post meeting agendas and materials to DUR Board members at least 14 days prior to the DUR Board meeting	Y	
	b. Present in person, all items on the agenda related to DUR activities, PDL recommendations, and drug related information at the DUR Board meetings.	Y	
	c. Record meeting minutes including all PDL changes and action items, and forward them to the Department within 3 days after the meeting for Department approval	Y	
	d. Post meeting minutes on the website 5 days after the DUR Board meeting.	Y	
	e. Assure that all DUR Board actions are implemented on a timely basis	Y	
FR2.25	The Vendor's designated (Key Personnel) Clinical Pharmacist must manage and direct the Department's DUR program and PDL activities and act as the Vendor's representative at the DUR Board meetings. During planned or unplanned absences, Vendor must provide replacement personnel to fill this role.	Y	
FR2.26	The Vendor's designated (Key Personnel) Clinical Pharmacist must proactively research, analyze, present findings, and advise the Department and/or the DUR Board on topics requested by the Department including, but not limited to:	Y	
	a. PA requirements and clinical criteria	Y	
	b. Prescription spending trends focusing on the Department's programs and on national trends	Y	
	c. Cost containment strategies	Y	
	d. RetroDUR	Y	
	e. Educational materials for DUR	Y	
	f. POS claims processing	Y	
	g. Reimbursement strategies for product costs, dispensing fees, and beneficiary cost sharing	Y	
	h. ProDUR	Y	
	i. Reconsiderations and appeals	Y	
	Resources a – e must consider drugs processed through the pharmacy and physician-administered drugs processed through the medical benefit.	Y	
FR2.27	The Vendor must facilitate the DUR Board's use of clinical subject matter experts in reviewing various classes of drugs or individual drugs, if such expertise is needed.	Y	
FR2.28	The Vendor must maintain the drug coverage lists specific to the Department's programs as defined by the State. These include the Department's Preferred Drug List, clinical criteria document, covered OTC's, and other coverage lists.	Y	
State Maximum Allowable Cost Program (SMAC)			
FR2.29	The Vendor must administer the Department's MAC program, by setting rates on prescription and over-the-counter multiple-source generic and brand products. The Vendor's methodology for calculating the MAC must be available and transparent to the Department.	Y	
FR2.30	The Vendor must set MAC rates on all multiple-source drugs rated as therapeutic equivalents (A-rated) according to the FDA Approved Drug Products with Therapeutic Equivalence Evaluations, unless otherwise directed by the Department.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.31	The Vendor must comply with the requirements explained at www.cms.hhs.gov/reimbursement for Federal Upper Limits and Medicaid Prescription Drugs under DRA (the Deficit Reduction Act of 2005). Updates to the FUL will be made on a timely basis.	Y	
FR2.32	The Vendor must monitor the Department's MAC rates to assure products are available at the MAC rates and are appropriate estimates of providers' actual acquisition costs.	Y	
FR2.33	The Vendor must publish weekly additions, deletions, and revisions to the MAC rates on the Vendor and/or provider portals. The MAC list will be posted in a searchable and downloadable format	Y	
FR2.34	The Vendor must notify the Department at least ten business days prior to placing a MAC rate on a product, when a MAC has never been previously placed on that product.	Y	
FR2.35	The Vendor must ensure the Department's MAC rates, when compared with Federal Upper Limit (FUL) rates published by CMS, in aggregate, do not exceed FUL rates for CMS-specified products. This includes, but not limited to, taking the following actions:	Y	
	a. Monthly compare the Department's Medicaid expenditures and utilization on CMS-specified FUL products to what would have been paid if the FUL rates were used	Y	
	b. Prepare a monthly summary report of findings for the Department	Y	
	c. Prepare an action plan within ten business days of becoming aware that the Department's Medicaid expenditures exceeded, in aggregate, projected expenditures if the FUL rates had been used	Y	
FR2.36	The Vendor must provide regular reports on the operational status of the MAC program in addition to cost savings reports at least quarterly.	Y	
Reporting and Analytics			
FR2.37	The Vendor must provide management reports to the Department, on a schedule to be determined in negotiation with the State, to support PBM analytics. Examples of all current reports are included in the Procurement Library. The reports must include, but are not limited to:	Y	
	a. Utilization Reports	Y	
	b. Financial Reports	Y	
	c. Auditing Reports	Y	
	d. Preferred Drug List Reports	Y	
	e. Claims Processing Reports	Y	
	f. Coordination of Benefits (COB) Reports	Y	
	g. Net Cost Reporting	Y	
FR2.38	The Vendor's reporting system shall provide data dashboard capabilities to facilitate real time graphical display of key outcome and performance metrics with drill-down capability aligned with user's role and permissions	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.39	The Vendor's reporting system shall have the capability to generate and display population, program and client based dashboard reports.	Y	
	Population and program based dashboard reports may include but not be limited to:	Y	
	1. Characteristics of a population (e.g., Number and percentage of program participants by program type, Population distribution by eligibility or drug criteria, Participants enrolled in multiple programs / services, etc.)	Y	
	2. Program information (e.g., PA's received and status / disposition, referrals received, appeals with status, etc.)	Y	
	3. Solution performance and quality assurance reports (e.g., Solution performance according to agreed upon SLAs, Fraud, waste and abuse detection indicators)	Y	
FR2.40	The Vendor's reporting system shall allow the user to drill down in order to view more detailed information about a specific metric, where available	Y	
FR2.41	The Vendor's reporting system shall provide the capability to present data in graphical and/or GIS map format	Y	
FR2.42	The Vendor's reporting system shall provide the capability for reports to be automatically generated and distributed on a periodic basis	Y	
FR2.43	The Vendor's reporting system shall allow the user to configure report preferences	Y	
FR2.44	The Vendor's reporting system shall allow users to subscribe to reports so that they will be sent to them electronically upon periodic creation	Y	
FR2.45	The Vendor's reporting system shall allow the user to export information presented and underlying information with a granularity consistent with the user's access rights (jpg, pdf, xls, csv, etc.)	Y	
FR2.46	The Vendor's reporting system shall provide report formatted for printing on standard paper sizes	Y	
FR2.47	The Vendor's reporting system shall create an auditable list of all users that access reports and which reports they access	Y	
FR2.48	The Vendor's reporting system shall provide the ability to suppress data sets with a sample size of zero or a sample size that does not meet the threshold for de-identified/anonymous data	Y	
FR2.49	The Vendor's reporting system shall notify users of the estimated time required to run a report if it exceeds a predefined time limit	Y	
FR2.50	The Vendor's reporting system shall allow queuing of reports	Y	
FR2.51	The Vendor's reporting system shall include version control for all reports	Y	
FR2.52	The Vendor's reporting system shall provide a mechanism to archive and remove reports in order to prevent a proliferation of reports	Y	
FR2.53	The Vendor's reporting system shall have the capability to generate and display standard ("canned") reports as defined by the Department that users can view and export, but not customize	Y	
FR2.54	The Vendor's reporting system shall allow users specify "favorite" reports and will automatically identify frequently used reports	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.55	The Vendor's reporting system shall display a list of standard reports available to the user. The list shall include, but is not limited to:	Y	
	i. Report title	Y	
	ii. Last update date	Y	
	iii. Last run date	Y	
	iv. Planned run frequency	Y	
FR2.56	The Vendor's reporting system shall allow generation of reports with an 'as-of' date that may not be the same as the current date	Y	
FR2.57	The Vendor's reporting system shall display a list of parameter-based reports available to the user. Parameter based standard reports may include:	Y	
	i. Existing reports that are currently generated and published	Y	
	ii. Demographics, utilization, and other population based reports.	Y	
	iii. Beneficiary centric reports	Y	
FR2.58	The Vendor's reporting system shall allow users to specify one or multiple parameters for the report. Parameters may include, but are not limited to:	Y	
	i. Reporting period (last month, last quarter, customized date range, etc.)	Y	
	ii. Population characteristics (age range, gender, program participation)	Y	
	iii. Geography (zip code, region, county, census)	Y	
	iv. Beneficiary or Provider -based analyses	Y	
	v. Threshold-based and exception reporting vi. Percent change reporting	Y	
	vii. Changes over time	Y	
FR2.59	The Vendor's reporting system shall allow for the user to sort and filter report data	Y	
FR2.60	The Vendor's reporting system shall provide the ability to upload a data set (e.g., list of beneficiary names or UID's) for use as a parameter	Y	
FR2.61	The Vendor's reporting system shall provide the option of saving the report parameters in order to re-run it another time	Y	
FR2.62	The Vendor's reporting system shall provide the ability to perform calculations (e.g., unique count, average, etc.)	Y	
FR2.63	The Vendor's reporting system shall provide the ability to compare the data from one reporting period to another	Y	
FR2.64	The Vendor's reporting system shall provide the ability to identify statistical outliers	Y	
FR2.65	The Vendor's reporting system shall provide the ability to build and save reports and report templates. These reports will have filtering capabilities and must be easy to build and modify by the user	Y	
FR2.66	The Vendor's reporting system shall allow the user to view and select available data sources for use in a query. Data sources may include, but are not limited to:	Y	
	a. Any data accessible within the Vendor solution	Y	
	b. Any data accessible through integration with other data systems	Y	
	c. Data from other external sources that may be imported for use in the query	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.66	The Vendor's reporting system shall provide a standards-based interface/integration capability which can be triggered by a user to request that data be obtained from The Vendor's reporting system and imported to other authorized systems (e.g. MMIS solution, integrated eligibility solution, program integrity solution)	Y	
FR2.67	The Vendor's reporting system shall allow the user to share the queries with other users	Y	
FR2.68	The Vendor's reporting system shall make timely, accurate, and complete decision support information available to authorized users through the application and standardized tools	Y	
FR2.69	The Vendor's reporting system shall provide for appropriate class of reporting and business intelligence tools for different type of users (e.g. executive, analyst, operations staff)	Y	
FR2.70	The Vendor's reporting system shall provide the ability to provide access via multiple formats (Portable Document Format (PDF), Microsoft Excel, Microsoft Access, HTML)	Y	
Quality Assurance			
FR2.71	The Vendor must develop and implement quality assurance processes and adopt best practices learned from other customer deployments, consistent with industry standards, principles, and processes including, but not limited to:	Y	
	a. Recurring process reengineering evaluation to ensure processes are aligned with best practices and opportunities for process improvement are realized.	Y	
	b. Continuous performance measurement and improvement through the use of technical reviews, internal audits, and Vendor provider satisfaction surveys, or other assessment tools (e.g. reporting on operational metrics).	Y	
	c. Ongoing Vendor staff training.	Y	
	d. Implement Quality Improvement Processes for recurring processes.	Y	
FR2.72	The Vendor must conduct client Satisfaction Surveys at least biannually, or as specified by the Department. The Vendor's surveys must include, but are not limited to:	Y	
	a. Performance inquiries consistent with the duties and responsibilities of the Vendor and any SubVendor.	Y	
	b. Performance expectations and measurement criteria for managing the ongoing long-term business relationship with the Vendor and for monitoring performance.	Y	
	c. Inquiries on technology, quality, responsiveness, delivery, cost and continuous improvement.	Y	
	The Department, in its sole discretion, may modify these requirements.	Y	
FR2.73	The Vendor must immediately notify the Department of any system, program, or operational deficiencies or defects identified. The Department will establish the severity level and approve timelines for fixes or resolutions.	Y	
FR2.74	The Vendor must provide corrective action plans to the Department within 3 business days of the discovery of severe defects found through internal quality control reviews and identify options for corrective actions. The Vendor must initiate corrective actions plans, at no additional cost to the Department, only after the written approval of the Department.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR2.75	The Vendor must provide audit trails to document, identify, and track chronological records and transactions throughout the Vendor's systems including, but not limited to, additions, deletions, and changes to:	Y	
	a. Master file data related to beneficiaries, providers, drugs, pricing, and other reference data	Y	
	b. Prior Authorizations	Y	
	c. Beneficiary Lock-Ins	Y	
	d. All edits encountered, resolved, or overridden	Y	
	e. POS transactions, including data submitted by providers and responses sent to the provider	Y	
FR2.76	The Vendor must sample and reconcile its claims processing system and files to ensure accurate and timely payments including, but not limited to, the following:	Y	
	a. Conduct a random sample of a minimum of 500 claims each quarter	Y	
	b. Stratify the sampling technique by variables, such as the Department's programs, reimbursement methodology, product type (e.g., sole-source, multiple-source, generics, etc.), or as specified by the Department for each reporting quarter	Y	
	c. Report quarterly review findings to the Department	Y	
	d. Provide an action plan to address processing errors	Y	
FR2.77	The vendor must implement a continuous process improvement program to reduce administrative burden on the Department, providers, and beneficiaries. This process must be regularly assesses and continue throughout the duration of the contract.	Y	
FR2.78	The Vendor must maintain a log of operational, clinical, programmatic, and claims processing issues which will be reviewed in weekly team meetings with Department staff. Each issue will be analyzed and a resolution determined on a timeline approved by the Department. Issues not resolved on a timely basis will be subject to penalty.	Y	
FR2.79	Upon the State's decision to proceed with implementation of the State's Dual Eligible Demonstration Program, the Vendor must comply with all federal and state rules, regulations, and CMS requirements related to the implementation of a pharmacy benefit program for Vermont's Dual eligible population. Vendor must also comply with all sections of the Part D Prescription Drug Benefit Manual (PDBM) found at: http://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovContra/PartDManuals.html in the delivery of PBM services in support of the Duals Program.	Y	
FR2.80	Upon the State's decision to proceed with implementation of the State's Dual Eligible Demonstration Program, the Vendor must meet all Department timelines and tasks related to the design, development, and implementation of the Duals Demonstration Pharmacy Benefit.	Y	
FR2.81	Upon the State's decision to proceed with implementation of the State's Dual Eligible Demonstration Program, the Vendor must agree to provide adequate staff and systems for ongoing operational, clinical, and programmatic support of the Duals Demonstration Pharmacy benefit program.	Y	

State of Vermont - Pharmacy Benefits Management
 Template F - RFP Functional Requirements Response

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
Drug Rebate Management			
FR3.1	The Vendor must manage the Department's manufacturer drug rebates for the following programs:	Y	
	a. Federal OBRA'90 rebate program	Y	
	b. State supplemental rebate program	Y	
	c. State-only rebate program	Y	
	The requirements in this section apply to all of the Department's rebate programs	Y	
FR3.2	The Vendor must comply with the provisions explained at www.cms.hhs.gov/MedicaidDrugRebateProgram and Section 1927 of the Social Security Act.	Y	
FR3.3	The Vendor must maintain an electronic policies and procedures manual documenting all aspects of the Vendor's administration of the Department's manufacturer drug rebate programs.	Y	
FR3.4	The Vendor must not engage in any contracts or agreements during the Contract, and any renewal thereof, to receive direct compensation from pharmaceutical manufacturers (e.g., fees associated with data, rebates, rebate management, compliance, or clinical programs) which pertain to prescription claims data collected from the Department's programs.	Y	
FR3.5	The Vendor must conduct a review of rebate contracting and program performance at least quarterly with representatives from the Department.	Y	
FR3.6	The Vendor must integrate the following Department claims data to calculate manufacturer rebates owed to the Department including:	Y	
	a. NDC claims data paid by the Vendor	Y	
	b. Practitioner and outpatient hospital claims data for physician-administered drugs paid by the Department and forwarded to the Vendor.	Y	
FR3.7	The Vendor must calculate the total rebate amounts due from each manufacturer based on:	Y	
	a. The number of units paid per an NDC	Y	
	b. Unit rebate amounts applicable for the Department's programs, which are (1) distributed by CMS for the Federal Medicaid rebate program; (2) Supplemental unit rebate amounts as negotiated by the multi-state rebate pool; and (3) rebates required for participation in State-funded plans	Y	
FR3.8	The Vendor must invoice manufacturer rebates quarterly (or by other time periods specified by the Department or CMS) including, but not limited to, the following requirements:	Y	
	a. Invoice 100% of participating manufacturers for Federal, State supplemental, and State-only rebates no later than 60 days after the end of the quarter, or in compliance with the timelines of the Federal government and the Department for generating manufacturer drug rebate invoices	Y	
	b. Submit the manufacturer rebate invoice summary for the Department's approval at least three business days prior to invoicing participating manufacturers.	Y	
FR3.9	The Vendor's rebate invoicing format and reported data elements must comply with CMS standards and with CMS policies and procedures for original invoices, for any needed prior period adjustments for previously invoiced quarters, and for interest on outstanding balances owed by a manufacturer.	Y	

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR3.10	The Vendor must provide manufacturers with electronic invoices and claims level detail in a format agreed upon with the Department.	Y	
FR3.11	The Vendor must utilize pre-invoicing quality control edits to proactively reduce manufacturer disputes of invoiced rebate amounts (e.g., quarter-to-quarter percent change in rebate amount invoiced by NDC, rebate amount exceeds reimbursed amount, quantity exceeds expected amounts, etc.). The Vendor must obtain Department approval on all pre-invoicing edits and must provide an audit trail of all pre-invoicing adjustments along with justification recorded into the Vendor's rebate management system. The Vendor must provide the Department a quarterly report of each adjustment and related justification by NDC.	Y	
FR3.12	The Vendor must provide a pre-invoicing capability to convert unit types, when mismatches occur between the pharmacy claim unit types paid and the CMS unit rebate types.	Y	
FR3.13	The Vendor must track and process prior period adjustments including, but not limited to, the following:	Y	
	a. Maintain all quarters of manufacturer drug rebate invoices and other information to accommodate prior period adjustment processing including a minimum of 12 quarters (available online)	Y	
	b. Identify and process, at NDC level, any corrections to rebate information received from CMS or from a manufacturer	Y	
	c. Provide capabilities to manually enter and report corrections at the NDC level on manufacturer drug rebate invoices.	Y	
FR3.14	The Vendor must process prior period adjustments, calculate interest-due amounts, and work to resolve outstanding rebate disputes including those originating prior to the Contract.	Y	
FR3.15	The Vendor must provide a rebate dispute resolution process that complies with CMS Best Practices for Dispute Resolution and must meet all State and Federal requirements for pursuing recoveries in a timely manner.	Y	
FR3.16	The Vendor must provide a method to extract claims and other documentation for NDCs that are in dispute.	Y	
FR3.17	The Vendor must compare invoices to the Reconciliation of State Invoice (ROSI) returned by a manufacturer to determine which NDC and rebate amounts are in dispute.	Y	
FR3.18	The Vendor will provide documentation, upon Department request, of its repeated efforts to resolve aged disputes.	Y	
FR3.19	The Vendor must correct invoice records at the quarter and NDC level to support the dispute resolution process and log the updated amounts into its rebate management system.	Y	
FR3.20	The Vendor must maintain an automated drug rebate dispute tracking system. This system must track by labeler and NDC: the manufacturer name, manufacturer code, invoiced amount, invoiced quantity, manufacturer's paid quantity for the NDC, unpaid quantity (positive or negative), rebate amount per unit, unpaid rebate amount, dispute reason, interest owed, and quarter.	Y	
FR3.21	The Vendor must automatically recalculate the utilization for each disputed NDC for all manufacturers after all adjustments have been recorded and log the updated amounts into its online rebate management system.	Y	
FR3.22	The Vendor must, at least annually or as directed by the Department, attend and actively participate in CMS-sponsored dispute resolution meetings on behalf of, or in addition to, the Department's staff. Costs associated with Vendor staff attending such meetings will be the Vendor's responsibility.	Y	

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR3.23	The Vendor must reconcile payments received from manufacturers with the amount invoiced by program, category code, quarter, and National Drug Code (NDC).	Y	
FR3.24	The Vendor must maintain the original and corrected invoice information at the NDC level.	Y	
FR3.25	The Vendor must identify discrepancies between the rebate amount due and total amount paid to pharmacy (e.g., rebate amount exceeds amount paid). The Vendor must determine reasons for any discrepancy (e.g., pharmacy billing errors, CMS imposed manufacturer penalty) and resolve the discrepancy. The Vendor must log such resolutions in its online rebate management system.	Y	
FR3.26	The Vendor must calculate and invoice interest on unpaid quarterly manufacturer rebate amounts in accordance with Federal notifications. The Vendor must report interest invoicing separately from rebates.	Y	
FR3.27	The Vendor's manufacturer drug rebate management system must house and maintain data by program, category codes, quarter, NDC, and claim including, but not limited to:	Y	
	a. Listings of manufacturers participating in the Federal manufacturer drug rebate program	Y	
	b. Federal unit rebate amounts for the Department's Medicaid program	Y	
	c. Supplemental rebate amounts	Y	
	d. State-only rebate amounts	Y	
	e. Rebate invoiced claims data including physician and outpatient hospital administered drugs paid by the Department and pharmacy prescriptions paid by the Vendor's POS claims processing system	Y	
	f. Rebates received	Y	
	g. Pre-invoicing adjustments to unit rebate amounts and utilization	Y	
	h. Recalculated invoice amounts based on data submitted from manufacturers	Y	
	i. Manufacturer invoices	Y	
	j. Prior period adjustments	Y	
k. Manufacturer disputes	Y		
l. Dispute resolutions and utilization adjustments supporting dispute resolution	Y		
FR3.28	The Vendor's manufacturer drug rebate management system must have functionality to maintain complete records of all rebate data and transactions.	Y	
FR3.29	The Vendor's manufacturer drug rebate management system must provide online access for Department-designated staff.	Y	
FR3.30	The Vendor's manufacturer drug rebate management system must retain rebate records conforming to Federal regulations and notifications or as otherwise specified by the Department.	Y	
FR3.31	The Vendor's manufacturer drug rebate management system must have functionality to age the accounts.	Y	
FR3.32	The Vendor's manufacturer drug rebate management system must have functionality to apply adjustments for any given time period.	Y	

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR3.33	The Vendor's manufacturer drug rebate management system must have functionality to allow multiple select keys and sort preferences including, but not limited to	Y	
	a. by manufacturer	Y	
	b. by year/quarter	Y	
	c. by type of rebate	Y	
	d. by program or category code	Y	
	e. claim level	Y	
FR3.34	The Vendor must provide automated audit trails to document, identify, and track chronological records and transactions throughout the Vendor's systems including, but not limited to, additions, deletions, and changes to:	Y	
	a. Original rebate invoices	Y	
	b. Rebate interest billing	Y	
	c. Pre-invoicing adjustments	Y	
	d. Rebate write-offs	Y	
	e. Prior period adjustments	Y	
	f. Rebate accounts receivable and balances	Y	
	g. Dispute resolution	Y	
FR3.35	The Vendor must import into its manufacturer drug rebate management system all historical quarterly rebate data available from the Department's current rebate Vendors.	Y	
FR3.36	The Vendor must assume all administrative and management tasks associated with rebates for historical quarters as well as future quarters occurring during the Contract.	Y	
FR3.37	The Vendor must generate and transmit to CMS a file of all manufacturer rebate invoices quarterly as required by CMS. This will include, but not be limited to, original invoices, interest amounts, prior period adjustments, and adjustments resulting from resolved disputes.	Y	
FR3.38	The Vendor must provide quarterly drug rebate information in a form compatible for the Department's submission of the Quarterly Expense Report of the Medicaid Budget and Expenditure System (CMS-64) reporting requirements on or before 15 days following the close of a quarter's end.	Y	
FR3.39	The Vendor must deliver operational rebate reports to the Department within two business days after the reporting period or as otherwise specified by the Department. The Vendor must provide reports online for the Department-designated staff in downloadable versions of Microsoft® Excel or other Department-specified format.	Y	
FR3.40	The Vendor's online manufacturer drug rebate management system and operational rebate reporting functionality must separately report manufacturer rebate payments by:	Y	
	a. Quarter	Y	
	b. Program	Y	
	c. Rebate type (e.g., Federal, State, Supplemental)	Y	
	d. Drugs crossed-walk from Healthcare Common Procedure System (HCPCS) codes to NDCs by the Vendor (i.e., practitioner and outpatient hospital claims for physician-administered drugs)	Y	
	e. Prescription claim level	Y	
	f. Funding Source	Y	

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR3.41	The Vendor must provide pre-invoicing quality control, operational reports to the Department prior to invoicing manufacturers quarterly. Reports will include, but are not limited to, NDCs for which:	Y	
	a. Rebate amounts exceed total reimbursement plus payment from other insurers	Y	
	b. Rebate amounts exceed quarter-over-quarter variability thresholds (e.g., +/- 15%)	Y	
	c. Pre-invoicing adjustment amounts have been made by the Vendor	Y	
	d. Zero rebate amounts are listed on the CMS file	Y	
	e. Reimbursement has been made by the Vendor but the NDC is not found on CMS rebate file	Y	
FR3.42	The Vendor must reconcile drug rebate data with the Department's fiscal records monthly, quarterly, and annually. Such efforts must include detailed reports that identify adjustments, unit amount rebate changes, write-offs, and other accounting transactions that impact the Department rebate reporting.	Y	
FR3.43	The Vendor must provide operational rebate reports, in a format and schedule agreed upon and approved by the Department, which track:	Y	
	a. Rebate recoveries	Y	
	b. Current reporting period disputes by manufacturers with aged disputes for previous quarters	Y	
	c. Adjustments and recoveries resulting from dispute resolution activities	Y	
	d. Pre-invoicing adjustments, unit rebate amount changes, write-offs, and other accounting transactions	Y	
	e. Current and past accounts receivable by manufacturer	Y	
	f. Interest billed and collected	Y	
	g. Feasibility determinations of rebate write-offs	Y	
	h. Amount rebated compared to amount paid by quarter, manufacturer, and NDC	Y	
FR3.44	The Sovereign States Drug Consortium (SSDC) is a Medicaid supplemental drug rebate program that allows participating states to pool their prescription utilization numbers to obtain supplemental rebates from pharmaceutical manufacturers. The Vendor must administer the Supplemental Rebate program on behalf of the State, including participating in all required activities with the SSDC and its designees, and identifying and implementing opportunities with the SSDC to maximize the supplemental rebate amounts returned to the State.	Y	
FR3.45	The Vendor must support the State in its engagement with the SSDC and its PBM Vendor as the SSDC negotiates supplemental rebates with manufacturers. This support includes, but is not limited to:	Y	
	a. Provide utilization and rebate modeling analytic capabilities	Y	
	b. Provide the necessary utilization, URA, and other data files on a timely basis as required by the SSDC	Y	
	c. Make recommendations and submit all potential rebate arrangements to the Department for approval prior to acceptance	Y	
	d. Perform modeling that incorporates rebate data and determined net cost to the Department associated with individual PDL decisions for a drug	Y	
	d. Participate along with State staff and/or represent the Department in all SSDC meetings, conference calls, and other venues during which rebate business is conducted	Y	

Req. #	Requirement	Response Code (Y or N)	Vendor Response Comment(s)
FR3.46	The Vendor must work with the SSDC and its PBM Vendor to support the State in administration of the supplemental rebate program. This support includes, but is not limited to	Y	
	1) Calculate, prepare and issue manufacturer invoices	Y	
	2) Work with manufacturers to obtain fully executed supplemental rebate agreements (SRA)	Y	
	3) Work with the Department on any needed revisions to the SRA annually	Y	
	4) Track, reconcile, resolve all collections, disputes, adjustments	Y	
	5) Provide all required reporting and analysis	Y	
FR3.47	The Vendor will maintain those data systems used to calculate the Supplemental Rebates. In the event material discrepancies are discovered, the Vendor will promptly make an appropriate adjustment, which may include a credit as to the amount of the Supplemental Rebates or a refund to Manufacturer.	Y	
FR3.48	The Vendor shall maintain electronic claims records for the most recent four quarters that will permit the Manufacturer to verify through an audit process the supplemental rebate summaries.	Y	
Financial Management			
FR3.49	The Vendor must, as requested by the Department, process post-payment claim reversals for pharmacy claims, such as TPL adjustments and other adjustments.	Y	
FR3.50	The Vendor must, as requested by the Department, process financial gross adjustments to pharmacy payments, such as corrective actions identified from post-payment audit findings and other adjustments.	Y	
FR3.51	The Vendor and any SubVendors must cooperate with financial audits by Department staff, other State departments, the United States Department of Health and Human Services, State or Federal designees, or others authorized to perform audits relating to the work and deliverables rendered by the Vendor and any SubVendors. Vendor and SubVendor audit support must include, but is not limited to:	Y	
	a. Enable read and copy access to files, documentation, and personnel including inventory control files, beneficiary eligibility files, preferred drug list, diagnosis files, provider master files, all pricing files, adjudicated claims file, all software and operating manuals, all documentation along with rules, regulations, memos, internal reports, training manuals, and detail design documentation	Y	
	b. Enable access to computer resources including, but not limited to, all application programs and libraries, all system programs and libraries, the operating system along with job accounting and software	Y	
	c. Notify audit staff within 24 hours of any changes made to computer programs and edit logic between processing runs related to audit activities	Y	
	d. Provide the ability to retrieve and print claims	Y	
	e. Provide the personnel and resources necessary for automated or manual sampling of claims and reference file data including the retrieval of historical data.	Y	

1.0 Functional Requirements Approach

The Vendor must provide a narrative overview of how the proposed solution that will meet the Pharmacy Benefit Management (PBM) requirements. The following questions pertaining to Functional Requirements are a required portion of the RFP response and will be evaluated by Vermont.

Instructions:

Use these response sections to provide specific details of the proposed approach to meeting the functional requirements in each process area. Responses should, when necessary, reference requirements using the appropriate RFP Requirement Numbers from Template F - RFP Functional Requirements.

Responses in this section must be highly focused on the Pharmacy Benefits Management (PBM)-specific business processes and requirements. Vermont also expects the Vendor to propose their approach for meeting the Functional Requirements included in Template F, and should be focused on PBM-specific processes and business needs. Additionally, the Vendor should indicate any dependencies on existing systems or processes to provide the specified functionality. Vermont is not soliciting generic or marketing descriptions of Vendor capabilities.

The primary objective of this procurement is to contract the services of a Vendor that will be responsible for all facets of the day-to-day operational administration of the Vermont's Pharmacy Benefit Management program including adjudicating pharmacy claims and providing an array of clinical, programmatic, financial, analytic, and benefit management services. The Vendor must be innovative and proactive in employing business techniques that ensure enhanced quality of care under the State pharmacy benefit while controlling the growth of pharmacy benefit expenditures. The Vendor shall research and recommend to the State sound clinical and fiscal policies that will ensure meeting and maintaining the primary objective.

The services and systems to be provided include, but are not limited to the following:

Claims Processing and Operational Support -

- Point-of-Sale (POS) claims processing system
- Automated Coordination of Benefits (COB)
- Provider Network Support, Call Center, and Portal
- Post Payment Claims
- E-Prescribing and E-Prior Authorization Capabilities

Pharmacy Benefit Management and Clinical Programs -

- Utilization Management Programs
- Prior Authorization Program
- Drug Utilization Review
- State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL)
- Specialty Pharmacy
- Benefit Design and Consultative Support
- Management of Physician-Administered Drugs
- Support of Drug Appeals Process

- Reporting and Analytics
- Quality Assurance

Financial Management -

- Management of State and CMS Drug Rebate Programs
- Support of Multistate Supplemental Rebate Consortium
- 340B Program Management
- Financial Management
- Dual Eligible Demonstration

Additional Services -

- Medication Therapy Management
- Single Payer

Functional Reviews Overview of Functional Requirements

Xerox's response to the AHS Functional Requirements Approach describes how our proposed solution will meet the PBM Functional Requirements in the RFP.

The following sections provide narrative, screenshots, and process documentation to describe features and functionality of our proposed PBMS. Further, the subsections provide correlation to the detailed requirements in Section F - Functional Requirements.

- 1.1 Claims Processing and Operational Support
 - 1.1.1 Point-of-Sale (POS) claims processing system
 - 1.1.2 Automated Coordination of Benefits (COB)
 - 1.1.3 Provider Network Support, Call Center, and Portal
 - 1.1.4 Post Payment Claims
 - 1.1.5 E-Prescribing and E-Prior Authorization Capabilities
- 1.2 Pharmacy Benefit Management and Clinical Programs
 - 1.2.1 Utilization Management Programs
 - 1.2.2 Prior Authorization Program
 - 1.2.3 Drug Utilization Review
 - 1.2.4 State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL)
 - 1.2.5 Specialty Pharmacy
 - 1.2.6 Benefit Design and Consultative Support
 - 1.2.7 Management of Physician-Administered Drugs
 - 1.2.8 Support of Drug Appeals Process
 - 1.2.9 Reporting and Analytics
 - 1.2.10 Quality Assurance
 - 1.2.11 Medication Therapy Management
- 1.3 Financial Management
 - 1.3.1 Management of State and CMS Drug Rebate Programs

- 1.3.2 Support of Multistate Supplemental Rebate Consortium
- 1.3.3 340B Program Management
- 1.3.4 Financial Management
- 1.3.5 Dual Eligible Demonstration
- 1.4 Additional Services
 - 1.4.1 Single Payer
- 2.0 Functional Requirements Approach Assumptions

1.1 Claims Processing and Operational Support

The Vendor must ensure claims processing policies and procedures are in compliance with all applicable state and federal laws, regulations, rules, and policies. Claims adjudication is the responsibility of the Vendor. However, provider payments are made by the State's current MMIS Contractor. Under this scenario, the Vendor transmits the adjudicated claims electronically to the MMIS Contractor, and the MMIS Contractor performs all of the tasks associated with payments to providers and reporting to the State. In adjudicating claims the Contractor would perform a number of prescribed functions, including applying DUR edits, Prior Authorizations, and COB functions. Please elaborate on how you would support compliance and operations in each of the key areas below.

Claims Processing and Operational Support

With more than 20 years of experience is incorporated into the design and construction of our claims processing system. The result is a proven system capable of efficient timely and accurate processing of AHS's pharmacy claims.

By carving out the pharmacy system and services from the Vermont Medicaid Management Information System (MMIS), AHS takes an important step forward in modernizing technology and managing the state's resources expended for the Vermont pharmacy programs. With Xerox, AHS will benefit from an experienced and reliable partner that specializes in the services outlined in the RFP's specifications. As we demonstrate in our response, Xerox is the ideal vendor to provide the Vermont PBM system and services under the new contract.

Xerox offers:

- 4 decades Medicaid experience
- 20+ years' Medicaid PBM experience
- 21 pharmacy programs nationwide processing 250 million claims annually

We bring more than 40 years of Medicaid and 20 years of PBM experience to the Vermont PBMS project. We provide AHS with innovative solutions throughout the contract term.

Interfaces between Existing and Future MMIS (A2.5)

Xerox agrees to support real-time or batch interfaces with the systems requiring integration and data sources referenced in the RFP (ACCESS/Integrated Eligibility, Health Connect, HSE Platform and the existing and replacement MMIS), leveraging point-to-point and secure file transfer with legacy systems and Vermont's HSE Platform, Oracle SOA Suite and Service Bus for replacement systems. Xerox's confirms that our PBM solution functions independently from the MMIS, has the ability to interface with Vermont's current MMIS system, and the new Core MMIS system once chosen at a later date

Our PBM solution, using ESB-enabled architecture, supports any type of service calls and service-based interfaces. The underlying MITA-aligned architecture eliminates barriers between different application communication protocols and diverse data types. This provides enhanced system-to-system data sharing, industry-standard interoperability and collaboration across disparate healthcare programs, agencies, and/or health information and insurance exchange protocols. The system has the capability to support files, data, and protocols exchange through Extensible Markup Language (XML), Extensible Stylesheet Language Transformations (XSLT), Hypertext Transfer Protocol (HTTP), Secure HTTP (HTTPS), TCP/IP, Simple Mail Transfer Protocol (SMTP), Web Services Interoperability (WS-I), Web Services Description Language (WSDL), SOAP, 1.1 or 2.0, File Transfer Protocol (FTP), Secure File Transfer Protocol (SFTP), CONNECT: Direct, or other means of secure transmission.

Comply with Federal and State Regulations

Xerox agrees that we will responsible to make any system modifications necessary to comply with all Federal and State regulations and mandates, which include (but are not limited to) eligibility verification, POS edits and drug monitoring, prior authorization, drug utilization review, billing and reimbursement, and to meet the deadlines imposed for such changes for the duration of this contract

There have been more fundamental changes in healthcare regulations in the past three years than in the previous fifteen combined. The influence of the transition from NCPDP 5.1 to D.0, transition from ICD-9 to ICD-10, the Affordable Care Act, cost-based reimbursement, and the focus on value, not volume, in pharmacy services all show that Medicaid outpatient pharmacy service delivery is not stagnant. It is dynamic, vibrant, and changing. The most important feature of a successful pharmacy administration solution is a solid, business-aligned platform that is easily adapted and evolved to changing conditions.

Xerox has invested its own capital to develop the Vermont PBMS. We continue to invest as necessary to stay in front of the curve in support of federal regulations. Ongoing development of the PBMS is guided by the Xerox Clinical Services Division, Government Services Information Technology (IT) Division, Medicaid Information Technology Architecture (MITA) Center of Excellence, and National Standards/Operations Consulting groups. These groups work together to ensure that the PBMS remains aligned to federal guidance and best practices in delivery methodology.

Xerox leverages its investments for changes in federal regulations for all customers, so the Agency is not responsible for the entire financial burden as federal regulations continue to change over time. While difficult to estimate the order of magnitude of potential savings given the large number of recent federal changes and those likely to occur in the future, we believe Xerox offers significant savings over the contract term with our depth of experience and talent overseeing federal regulations.

Having PBM OS+ and DRAMS shortens the process for implementing changes and allows users to examine system processing criteria and outcomes easily online and via reports. This flexibility is mandatory in the MITA-aligned environment required by CMS, and in the changing world of pharmacy service delivery dictated by industry best practices, federal and state regulatory changes now and into the future.

We apply the knowledge gained from supporting 21 pharmacy programs nationwide with similar services to those identified in the RFP. As the nation's leading PBM for government programs, we have attained a level of Medicaid and PBM understanding and hands-on experience that is unequaled in the industry.

Our systems, clinical, and operations teams provide a tightly integrated, highly cooperative group of Medicaid experts to support AHS's goals and objectives for the new contract. They stand ready to ensure a successful implementation and operation of the PBMS.

Our PBM support and operations include services such as producing provider publications, attending weekly status meetings, producing management reports, maintaining all systems, rebate administration, and receiving and mailing paper documents.

Xerox proposes a customized version of our Pharmacy Benefits Management PBM OS+ to meet and exceed the RFP's claims processing requirements. PBM OS+ is a proven system currently operational for ten Medicaid programs— Colorado, District of Columbia, Hawaii, Maryland, Massachusetts, Mississippi, Montana, New Mexico, Texas and Ohio—and in the process of implementation in California and North Dakota. It is also the pharmacy system used to process claims for the U.S. Agency of Labor (DOL) and other non-government programs.

PBM OS+ is Health Insurance Portability and Accountability Act (HIPAA)-compliant, Medicaid Information Technology Architecture (MITA)-aligned, and incorporates n-tier, client/server application architecture, and relational database management system (RDBMS). Its flexible architecture allows it to accommodate increased transaction capacity, greater claims volume, automated prior authorization (PA) processing via SmartPA, and increased numbers of members and providers with no disruption or degradation of service.

The system's adjudication performance is technologically sound, reliable, and capable of supporting increased claim volumes well-beyond the approximately 2.5 million claims per year generated by the Vermont pharmacy services programs. Claims are completely adjudicated in less than a second, even on peak submission days such as the first of the month. The system is supported 24/7 by a dedicated technical team of professionals very familiar with the system and the unique AHS claims processing requirements of the Vermont pharmacy services programs.

The automated prior authorization component of the system, SmartPA, virtually eliminates the need for prescribers to submit PA requests for the majority of drugs requiring review prior to approval and subsequent payment. Instead, SmartPA automatically and systematically applies approved clinical criteria during the point of sale (POS) transaction. This automated process enables AHS to expand the number of drug classes requiring PA, thereby providing improved clinical efficacy and reducing program costs— achieving more with less. SmartPA uses a highly sophisticated clinical rules engine to determine if evidence-based criteria for appropriate drug utilization are met.

In this section, we respond to the RFP's claims processing and operational support requirements.

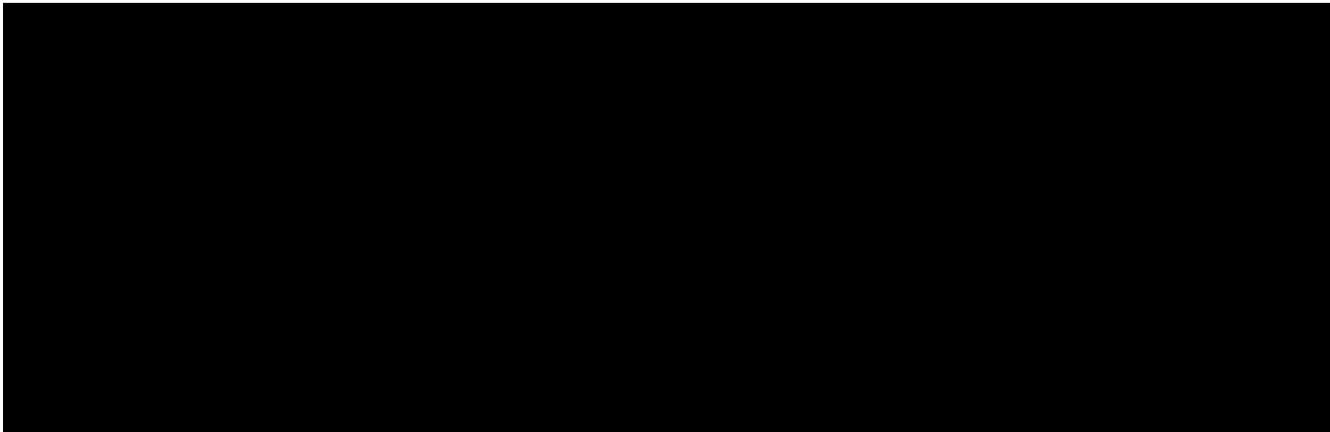
We provide our response to the remaining claims processing and operational support requirements within the following sections:

- 1.1.1 POS Claims Processing System
- 1.1.2 Automated Coordination of Benefits (COB)
- 1.1.3 Provider Network Support, Call Center, and Portal
- 1.1.4 Post Payment Claims
- 1.1.5 E-Prescribing and E-Prior Authorization Capabilities

To support the Vermont AHS project, our solution utilizes automated batch updates from the following external sources to populate the PBM OS+ reference database with current and historical information:

- **First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus):** Proven in thousands of installations, FDB MedKnowledge is the world's most widely used integrated drug knowledge database. Xerox contracts with FDB to receive FDB MedKnowledge updates on a weekly basis to ensure up-to-date information is available for claims processing, prior authorizations, and reporting. The FDB file includes an entire list of products, including legend and over-the-counter (OTC) medications, durable medical equipment, supplies, and injectable drugs. The list provides standard drug identifiers, pricing information (historical and current), and clinical information.
- **Centers for Medicare and Medicaid Services (CMS) data:** Xerox receives the CMS drug tape quarterly and applies the information to the PBM OS+ drug file. The CMS tape contains information related to the federal drug rebate program such as labeler, term date, DESI, and URA. Although much of this information is already reported by FDB, the FDB information lags and could allow PBM OS+ to approve claims for medications that were no longer covered under the federal rebate program. Xerox began merging in this information from the CMS tape in January 2008 to overcome the time lag. A similar load process to FDB MedKnowledge is used to process the CMS tape.

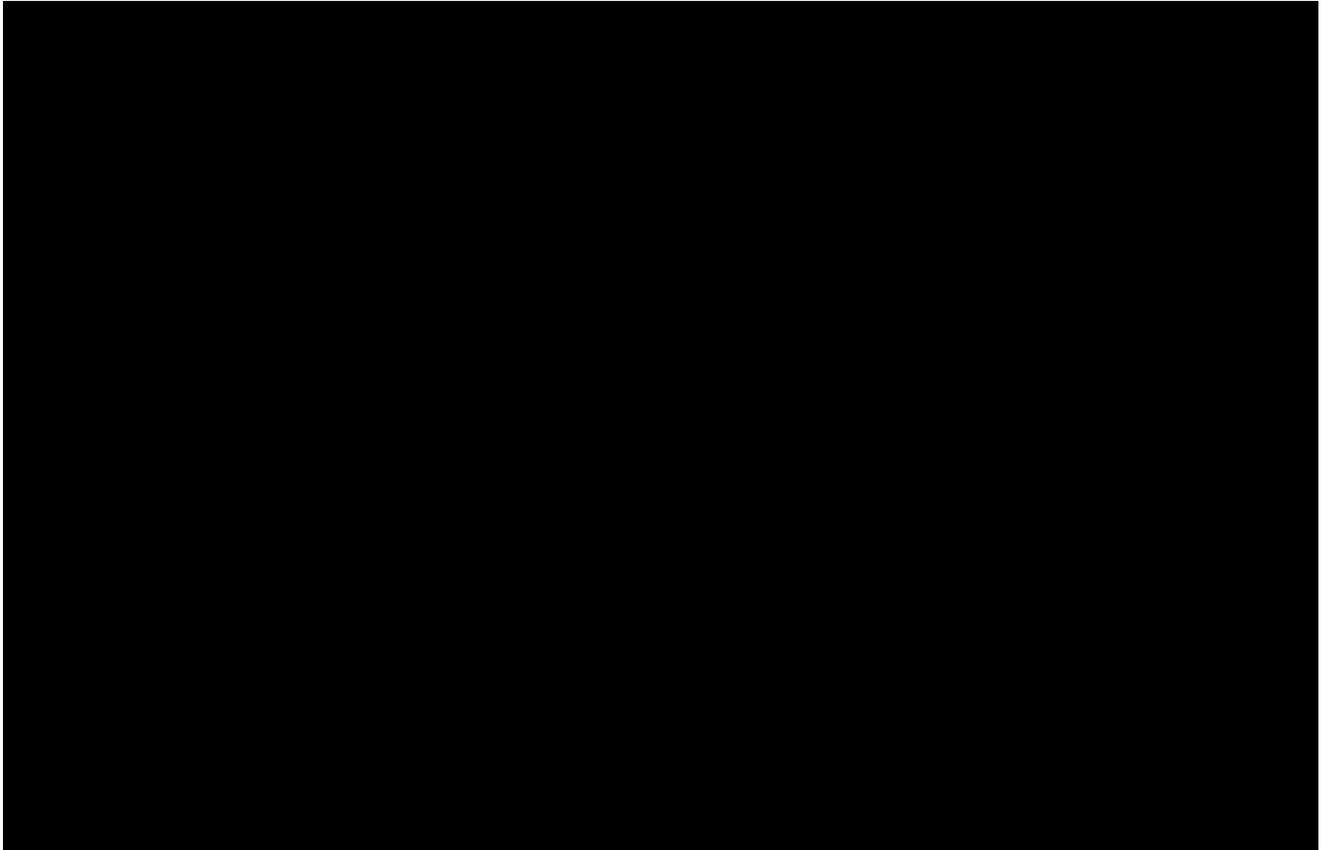
In addition to batch updates, reference data is easily maintained by authorized AHS staff using online Web pages. Data is stored with date spans so that current and historical information is available. Xerox also maintains a separate pricing table that accommodates state-specific pricing as shown in Exhibits G-1 and G-2.



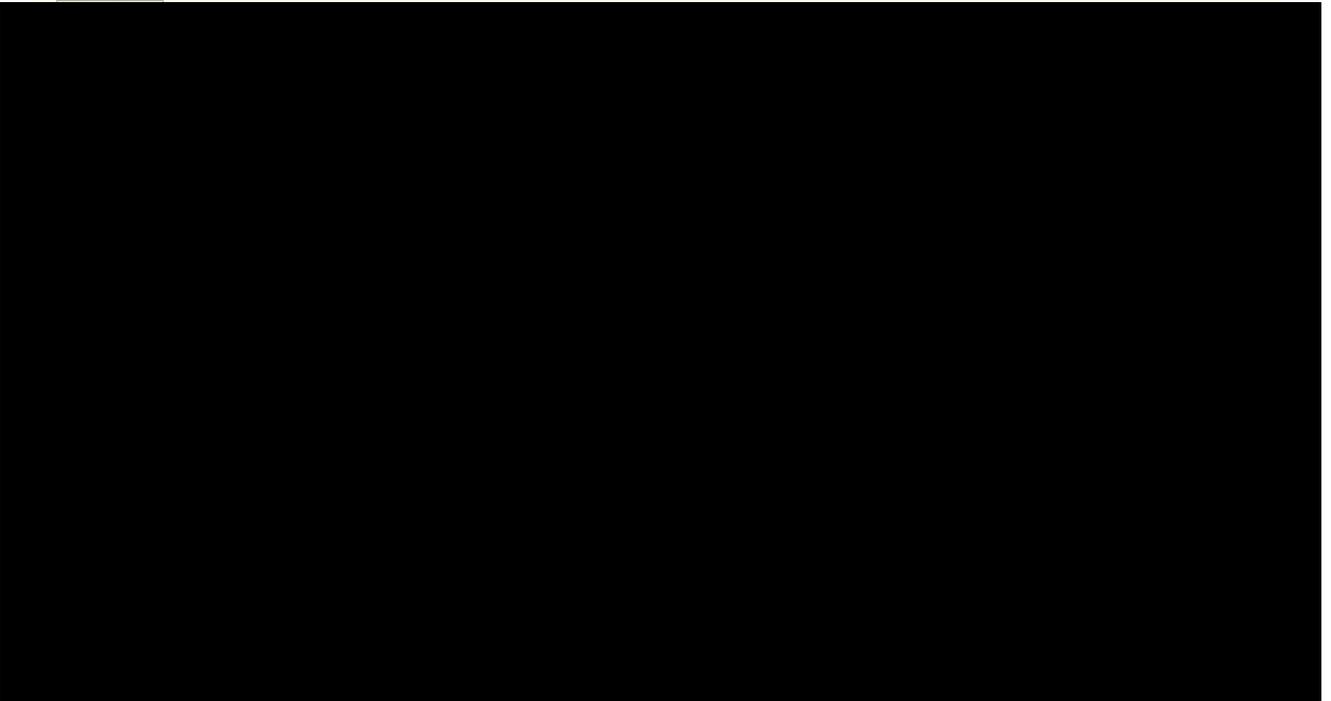
Services Covered by the State Plan

To ensure services submitted for payment are covered by the State Plan, PBM OS+ uses a benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan. Drug program functionality (which is linked to benefit plans) enables more specific coverage and exclusion criteria. Xerox will work with AHS to configure the plan structure, covered services, and other details to align with the State Plan and AHS policy.

When processing pharmacy claims, the system uses a combination of member eligibility, prior authorization information, and the benefit plan(s) assigned to the member to determine drug coverage and other related information. PBM OS+ maintains unique benefit plans that define coverage as shown in Exhibit G-3.



Each member is assigned to a plan or multiple plans. When a member is active in more than one plan, applicable coverage is determined through a hierarchy established during implementation as shown in Exhibit G-4.

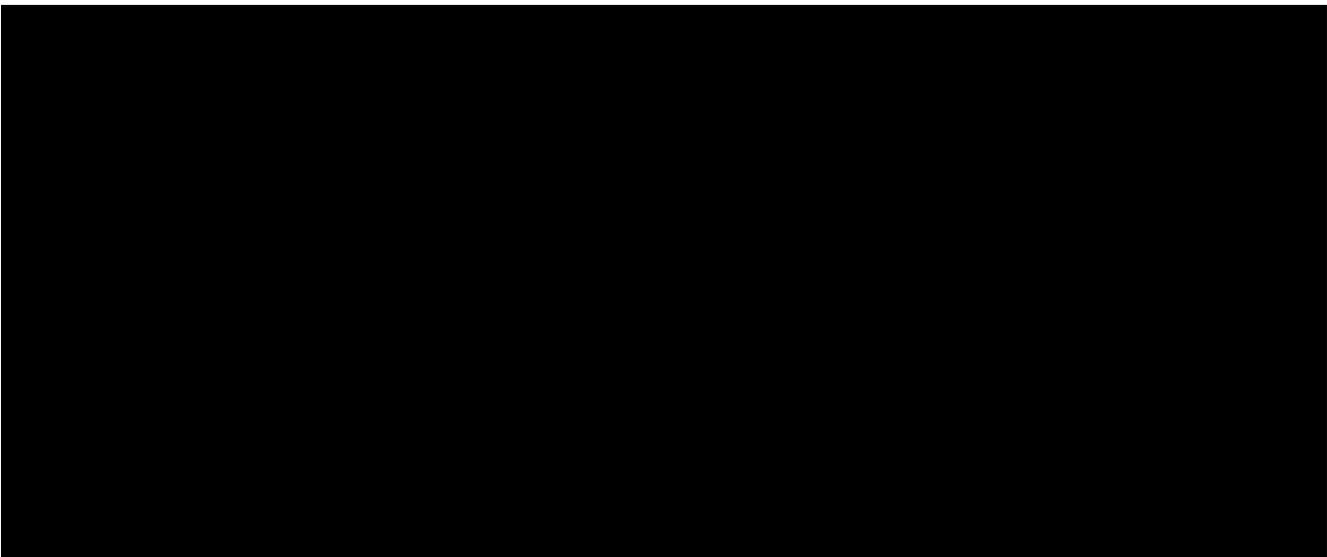
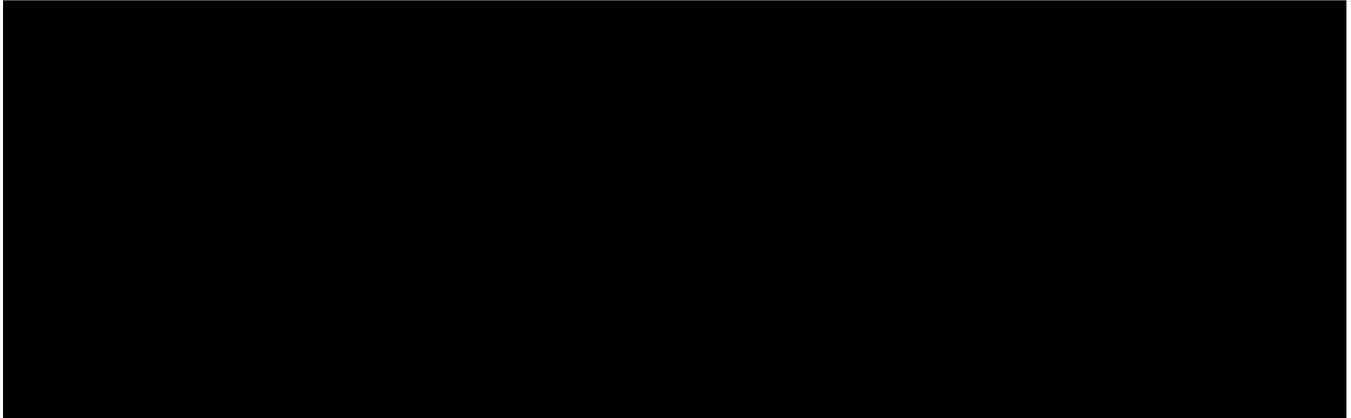


Archived Reference and Claims Data

Xerox recognizes that there is occasionally a need to retrieve archived data to support the processing and duplicate claim detection of older claims. In the following text, we describe our approach to support this requirement.

Reference Data

The system stores unlimited reference date spans that contain data effective during the date span, as shown in Exhibits G-5 and G-6. Therefore, it is not necessary to use archived reference data to process older claims. The system automatically uses the data effective on the claim's dispense date when processing older claims.



Retrieving Archived Claims History

The system stores five years of claims history online that is available for duplicate check and other system audits requiring claims history when processing claims. Claims older than five years are stored in the PBMS data warehouse. For reprocessing claims with dispense dates older than the online claims history, the following process is performed to pull the claims from the PBMS data warehouse and move them back to the online claims history database to perform duplicate check and other system audits on older claims.



- **Step 1:** AHS enters an archive retrieval request online in our change control tool, Silk Central, which allows Xerox and AHS to track the request from inception through implementation.
- **Step 2:** AHS develops the claim selection criteria for the claims that need to be pulled from the data warehouse. Xerox assists AHS as needed.
- **Step 3:** AHS performs a data warehouse query based on the selection criteria to identify the list of transaction control numbers (TCNs) to be pulled. Use of the data warehouse allows large data sets to be collected, manipulated, and downloaded without affecting POS transaction processing.
- **Step 4:** AHS reviews results of the query to ensure that the query pulled the right claims.
- **Step 5:** AHS notifies Xerox of the approval of the criteria and when the archive retrieval should be run in production. With AHS approval, Xerox retrieves the claims from the data warehouse and loads them to the production online claims history file.
- **Step 6:** Xerox runs a query after the completion of the archive retrieval to demonstrate that the correct claims were retrieved.

Once the claims are loaded to production, AHS can adjust the individual claims online that need to be reprocessed. The archive retrieval process coupled with the data warehouse selection process provides AHS with a structured and efficient approach to manage archive retrieval requests and the processing of older claims.

The Edit Process

PBM OS+ includes an entire suite of edits and audits to ensure that claims meet AHS policies and rules prior to payment. PBM OS+ evaluates claims quickly and accurately. Claims are edited according to Agency policy. PBM OS+ completely processes claims and posts all edits to the claim without stopping during the adjudication process. The exception to the complete processing cycle occurs when there is a fatal edit that makes continued editing illogical. For instance, if the claim is for an ineligible member, the adjudication process stops, as further edits depend on the member's information.

Claims Directly Data Entered by AHS (FR1.1)

PBM OS+ includes a direct data entry Web page that allows AHS staff to enter claims, as shown in Exhibit G-7. The Web page captures the same information that a provider would enter through a claim processed at POS.

The direct data entry feature supports real-time adjudication of manual claims so that AHS staff immediately knows the final status of the claim without waiting for a batch cycle. As claims are entered, PBM OS+ performs online edits according to AHS policy in effect on the claim's dispense date. AHS may utilize the system's exception control functionality to define different edit dispositions for manual and POS claims.

A claim is suspended for manual intervention based on exceptions (e.g. Provider ID not on file) that post to the claim during the adjudication process. Based on Agency rules, AHS may choose to suspend a claim rather than deny it for various reasons—for example when the claim processes before provider or member enrollment data is available in the PBMS.

A suspended claim can be viewed and edited using the same Web page for direct data entry. The system displays the errors posted to the claim causing it to suspend. The user may correct data on the claim and then re-submit the claim for adjudication. The adjudication engine will perform one of the following:

- Re-suspend the claim if more edits post to the claim causing it to suspend.
- Deny the claim if the claim failed some exception resulting in a deny status.
- Pay the claim if all problems have been resolved.

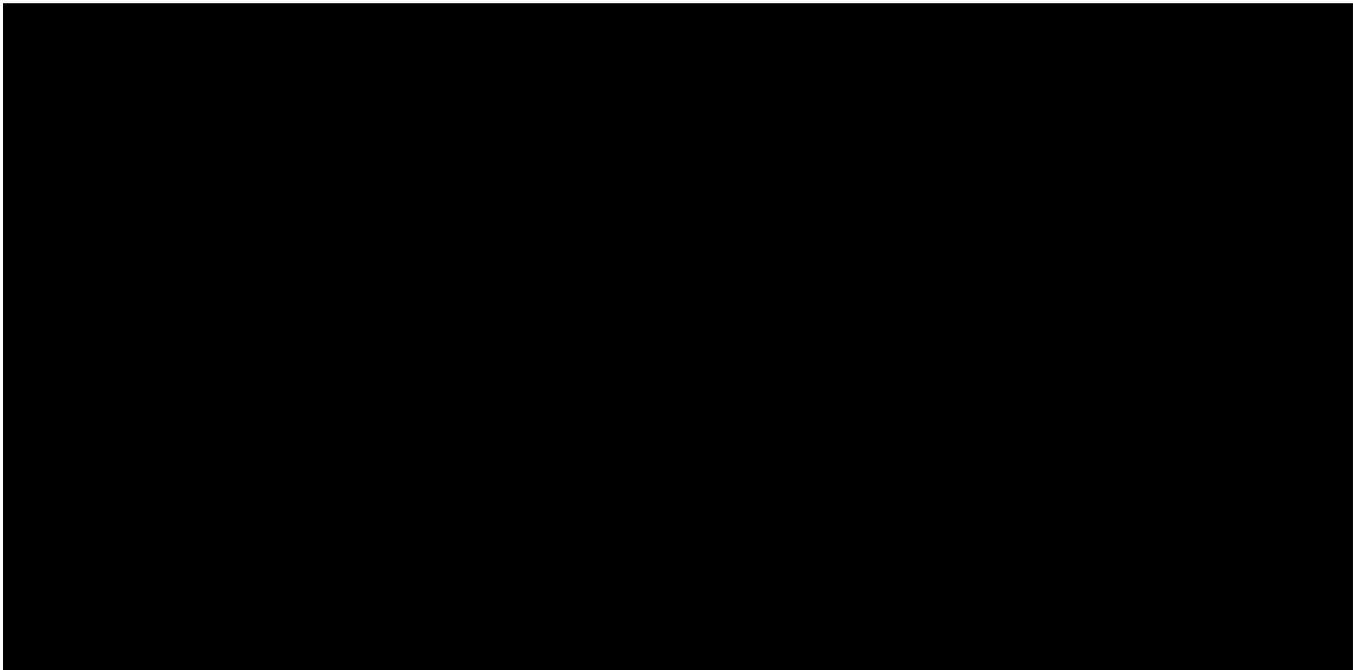
PBM OS+ tracks all edits posted to a claim in the adjudication cycle and stores the edits with the claim. Additionally, the system maintains the following information:

- Resolution, override, force, and deny indicators
- Date the error was resolved, forced or denied
- ID of the user that completed the action

The system maintains a complete online audit trail of claims manually entered directly into the system and then further resolved based on the edits posted to the claims.

Claim Reversals Entered By AHS

AHS can reverse a claim transaction online as shown in Exhibit G-8. A claim reversal results in the system creating a negative image of the original claim transaction. The negative image is retained in the system's claims history database and is a duplicate of the original claim except all the fields are negative, including dollar amounts and unit fields. The system assigns a new transaction control number (TCN) to reversals to uniquely identify the reversals. Once created in PBM OS+, the reversal is passed to the Vermont MMIS where it is reported on the provider's remittance advice and reflected in the provider's check or accounts receivable balance, if applicable.



Batch Adjustments

Our adjustment solution provides functionality to accurately identify and adjust previously adjudicated claims due to Prompt Payment Interest Schedules. The mass adjustment process allows many claims to be identified, pulled, and reprocessed together as a batch. Adjustments are processed through the full adjudication cycle, including data validation, pricing, and auditing. Benefits and service limitations, such as prior authorizations, are also re-applied during the adjustment adjudication.

The process begins by AHS and Xerox working together to identify the selection criteria for the claims that need to be adjusted. Next, we create ad hoc queries using Business Objects and the PBMS data warehouse to identify the claims that meet the selection criteria. AHS and Xerox review the list of claims and financial impact reports should the claims be adjusted. We work with AHS to finalize the list of claims and then run the mass adjustment to adjust the claims according to a schedule approved by AHS.



Online Coordination of Benefits (FR1.19)

PBM OS+ uses other coverage information to validate claims using the most current TPL information to ensure that all payment opportunities are exhausted and that AHS is the payer of last resort. The data fields in the interface files are stored in the PBM OS+ database. This data allows the system to determine whether a liable third party must be billed before AHS. Depending on AHS rules, if the member has valid TPL coverage, PBM OS+ can deny the prescription with messaging instructing the pharmacy to bill the other payer first. We have experience implementing COB rules that vary for each of our Medicaid clients.

AHS realizes extensive savings through the effective application of cost avoidance. During claims adjudication, the system reviews the nine third party payer segments on the incoming claim and uses the rules established by AHS to determine how to process each segment. The same adjudication rules that applied to the first third party resource are applied to each succeeding resource. Table G-1 shows the detailed information that the pharmacy can submit with each third party payer segment.

Table G-1. Third Party Payer Segment
Other payer coverage type
Other payer ID qualifier
Other payer ID
Other payer date
Internal control number
Other payer amount paid count
Other payer amount paid qualifier (up to 9 of these)
Other payer amount paid (up to 9 of these)
Other payer reject count
Other payer reject code (up to 5 of these)
Other payer patient responsibility amount count
Other payer patient responsibility amount qualifier (up to 25 of these)
Other payer patient responsibility amount (up to 25 of these)
Benefit stage count
Benefit stage qualifier (up to 4 of these)
Benefit stage amount (up to 4 of these)

Providing accurate messages to pharmacies regarding TPL is an important step in effective COB. PBM OS+ returns claim messages to pharmacies during claims adjudication including information for all TPL carriers effective on the claim’s date of service (e.g. carrier code, policy number, policy holder, effective dates of coverage). PBM OS+ fully supports all NCPDP standard D.0 reject codes, and also associates an internal Xerox exception code(s) with each reject code to provide custom messaging capabilities. Table G-2 includes possible TPL situations and how the system responds to each situation. During DDI, we will customize these rules for AHS according to its business policy.

Table G-2. System Response to TPL-Detected Coverage	
Situation	PBM OS+ System Response
There is a third party or primary payer of record and no billing effort has been made	The claim is denied based on AHS-specific criteria pending further action
All the primary or third party payors of record have denied the claim	The system recognizes the claim as correctly billed to the appropriate parties and then adjudicates the claim based on AHS criteria
All third parties have been billed and have made partial payment	If the drug is covered, the claim balance is paid in full when AHS has been identified as the payer of last resort
The third party has been billed and has paid the maximum allowable charge	The claim is adjudicated and no additional payment is made

Prospective Drug Utilization Review (ProDUR)

Our Prospective Drug Utilization Review (Pro-DUR) solution screens drug claims in real-time against predetermined medical standards and criteria and promotes clinical safety, therapeutic efficacy, and appropriate drug use.

Xerox was the first pharmacy claims processing vendor to integrate an online, real-time claims adjudication system with Pro-DUR to automatically screen for medical appropriateness, member eligibility, and benefit coverage, all at the same time. Today, we support 10 Medicaid pharmacy programs with Pro-DUR processing and clinical support to enhance Pro-DUR rules.

Our Pro-DUR Approach

- Enhances the quality of care rendered to members
- Baseline set of edits/alerts defined
- Pro-DUR messages and advisements that provide precise conflict and alert information
- AHS staff can quickly and efficiently modify DUR criteria online to meet evolving policy changes

The Omnibus Budget Reconciliation Act of 1990 (OBRA '90) established the guidelines for the Pro-DUR editing incorporated within PBM OS+. OBRA '90' requires Medicaid pharmacists to review a member's entire drug profile before filling prescriptions, including evaluation of edits such as drug therapy problems, therapeutic duplication, and drug-disease contraindications. Additionally dispensing pharmacists must offer to discuss unique drug therapy regimens when filling a member's prescriptions.

PBM OS+ uses First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus) as the source for therapeutic criteria to support the OBRA '90 guidelines. FDB's clinical modules contain information on thousands of drug interactions, age and disease contraindications, and dosing and length of therapy limitations. The system applies updates provided by FDB on a weekly basis, ensuring the most current clinical data is utilized in Pro-DUR processing. The system features online, interactive file maintenance capability for update and display of drug file data. Using FDB's reference data as a starting point, AHS can review criteria and severity indexing, and then modify and update the Pro-DUR data and rules as necessary to meet modifications required by AHS' DUR Board.

AHS is able to maintain, as well as enhance, its current Pro-DUR program with PBM OS+ by utilizing its customizable and flexible features to provide cost containment, while still retaining clinical relevancy. The system's Pro-DUR functionality executes real-time Pro-DUR decisions by applying high-performance, table-driven clinical rules of member-specific drug data. Our Pro-DUR solution minimizes false positives through the customization of Pro-DUR criteria and appropriate dispositions, resulting in fewer Pro-DUR alerts, while the alert messages sent are more meaningful and detailed.

Electronic Prescribing (E-Prescribing)

The Surescripts payer enablement solution supports electronic media to transmit member's benefit and prescription-related information between the prescriber, dispensing pharmacy, and the PBMS through a secure network. Medicaid member eligibility, benefit, and medication history data, which is supplied by Xerox, is available through the Surescripts network.

Payer enablement creates a state-wide open system concept, so that prescribers and providers may use their preferred e-prescribing interface to support Medicaid members. Historically, solutions required prescribers and providers to use a specific user interface while e-prescribing for Medicaid members.

We are a Surescripts partner certified with the Surescripts e-prescribing network. The Surescripts e-prescribing network services allow physicians to electronically send prescriptions from their offices to more than 54,000 retail pharmacies and six of the largest mail order pharmacies. With this partnership, payer enablement provides physicians with electronic access to their patients' prescription benefit coverage, eligibility coverage, formulary, and medication history—which helps to improve safety and enables doctors to prescribe medications at the lowest cost to the patient.

E-Prescribing Features

- Review of which medications are covered before writing prescriptions
- Improved patient safety
- Paperless prescriptions
- Less time to fill prescriptions
- Tools to enhance the member's service

Electronic Prior Authorization (E-Prior Authorization)

E-Prior Authorization (ePA) is a paperless solution for real-time medication prior authorizations integrated into the e-Prescribing workflow. ePA leverages the eligibility and formulary patient data to provide notification of PA requirements and subsequent data exchanges enabling automated PA processing.

Xerox is fully positioned to implement the electronic prior authorization standards through the Surescripts network. Surescripts has worked with NCPDP to develop an end-to-end ePA solution that delivers verified, standardized messages that enable the integration with EMR/EHR software and PBMS's that are certified for electronic prescribing messaging.

The ePA solution consists of the initial alert to the physician of a required PA, and the subsequent transactions to facilitate the creation and processing of PAs in real-time, dynamic messaging. Xerox will leverage the existing rules engines to assist with the integration of the Surescripts solution.

Post Payment Claims

PBM OS+ supports the efficient correction of claim data due to submission errors, rate changes, claims paid or denied in error, legislative budget mandates, and other reasons including Third-Party Liability (TPL). The PBM OS+ claims history database stores adjudicated, paid, and denied claims which are available to be voided or adjusted at any time by Agency and/or Xerox staff or providers.

The system accepts voids (reversals) and re-bills (adjustments) of previously adjudicated claims in POS real-time and electronic batch formats. It supports the most current standard NCPDP transactions for voids and re-bills—B2 and B3. Additionally, Agency and/or Xerox staff and providers can enter voids and re-

bills online through the system's Web pages. Re-bills are processed through the full adjudication cycle, including data validation, pricing, and auditing.

1.1.1 Point-of-Sale (POS) Claims Processing System

The State of Vermont is seeking a vendor who will operate a real-time (POS) online claims processing system with current NCPDP format and guidelines with an emphasis on drug utilization review (DUR), utilization management (UM), prior authorization, messaging, processing and reimbursement for clinical services (MTM, Immunization administration, and other), and 340B eligible drugs. The Vendor's POS claims processing system must be capable of adding, changing or removing adjudication rules, edits and customized transmission messages to accommodate Department-required changes for its current and future pharmacy programs. The POS claims processing system may include point-of-sale durable medical equipment claims processing, such as diabetic supplies. In addition, the system should be capable of processing both NDC and UPC codes. The system must be capable of displaying the formulary status of a drug. The Vendor must describe their approach to providing a Point-of-Sale system.

Xerox's 20+ years of claims adjudication expertise minimize the implementation risk to AHS. Our proposed system, PBM OS+, is highly secure, configurable, customizable, and ready to meet the needs of the Vermont pharmacy services programs.

Overview

The system has many features designed to automate processes and accommodate program policies with minimal effort, such as allowing authorized AHS users access to Web pages to perform queries and update data. The system can easily accommodate a wide variety of claims adjudication requirements through the setting of system parameters and database tables via user-friendly Web pages. The system can accommodate AHS policy changes quickly and efficiently and in many cases without programmer intervention.

Performance, reliability, and functional capabilities make PBM OS+ the ideal solution for the Agency's claims adjudication needs. The system processes claims in less than one second and capable of processing extremely high peak volumes—volumes that would paralyze lesser systems—while maintaining clinical and functional integrity. The superior design of PBM OS+ has allowed Xerox to avoid extended downtimes, response delays, and functional inadequacies that can plague other pharmacy systems.

PBM OS+ is a fast and efficient claims adjudication system that will meet the needs of AHS well into the future. The system consists of hardware and software that provides real-time claims adjudication of NCPDP-compliant pharmacy claims received via a switching network that connects AHS enrolled pharmacies to the system. Once received, the system screens each claim, applies edits and audits such as beneficiary and pharmacy eligibility and enrollment, prices the claim using Vermont' drug formulary, and reports back to the submitter in real-time regarding the outcome of the adjudication. The system sends adjudicated claims, at least daily, to the MMIS for payment and enterprise data warehouse (EDW) population. Finally, a copy of all pharmacy POS claims is maintained in the PBMS data files.

Claims Adjudication Highlights

- Programs in 20 states and the District of Columbia rely on Xerox to provide pharmacy claims adjudication and specialized pharmacy services
- Active involvement with the National Council for Prescription Drug Programs (NCPDP)
- Highly customizable system through the setting of system parameters and database tables via the system's Web pages

POS Claims Processing System (FR1.1 and FR1.2)

PBM OS+ captures and performs real-time adjudication of pharmacy claims submitted via point-of-sale (POS) devices, a switch, and the Internet, in accordance with AHS policy. The system accepts pharmacy transactions in the National Council for Prescription Drug Programs (NCPDP) Telecommunications Version D.0 format and is Health Insurance Portability and Accountability Act (HIPAA)-compliant. We modify the system at the direction of AHS to remain fully NCPDP compliant throughout the term of the contract and to accept subsequent versions of the NCPDP transaction format.

Point-Of-Sale Device/Switch Vendor Claims

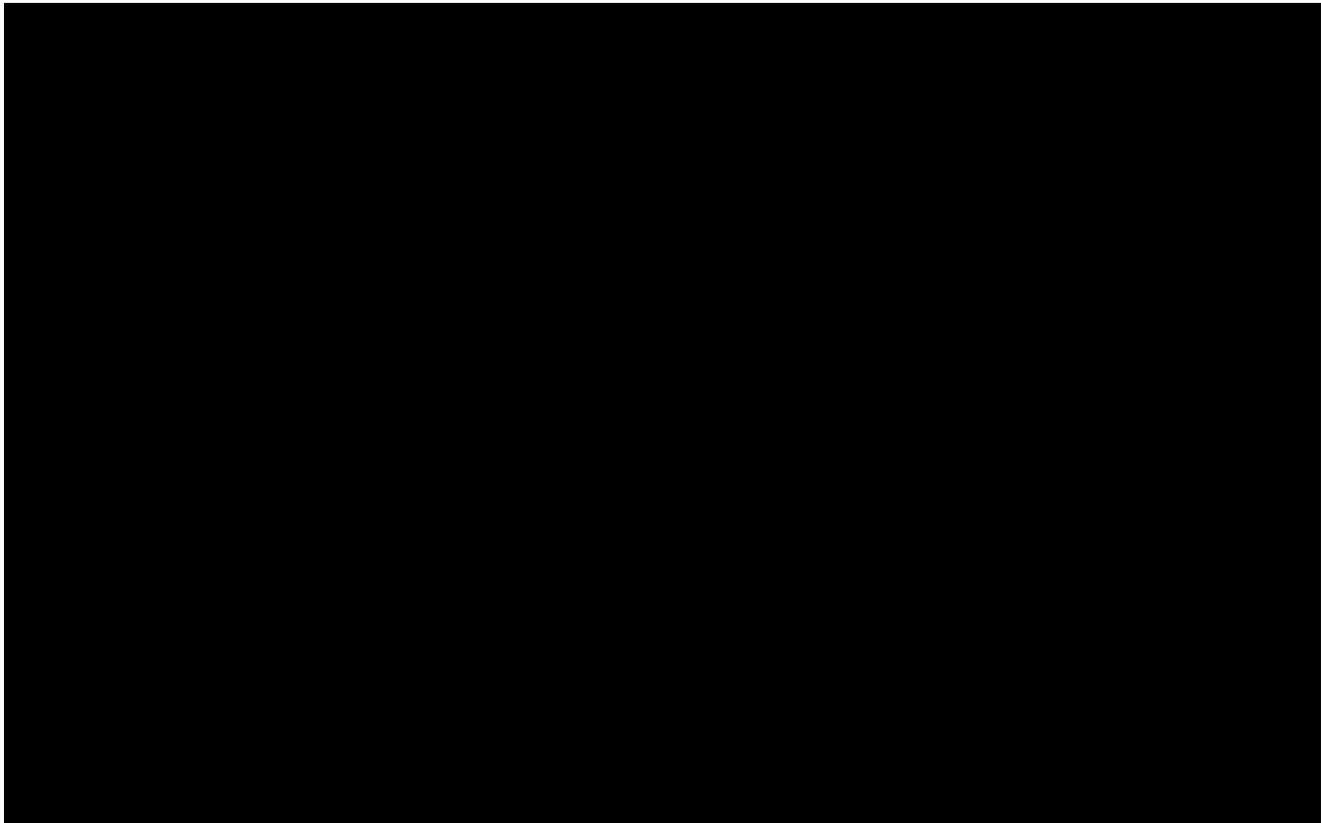
Our Pittsburgh, Pennsylvania data center houses PBM OS+ and is connected through secure, dedicated telecommunications links to the nation's largest telecommunications transaction switch vendors including, Emdeon, RelayHealth, QS/1 Data Systems, and eRx Network. Through these links, virtually all retail pharmacies throughout the United States communicate with Xerox in real-time for processing POS claims.

Pharmacies submit claims to PBM OS+ for adjudication of their services using a POS device at the pharmacy and the claims are routed to PBM OS+ through switch vendors. POS claims are completely adjudicated by the system in less than a second. Adjudication includes editing for beneficiary eligibility, drug coverage and benefit limitations, pharmacy enrollment, third party liability (TPL), prospective drug utilization review (Pro-DUR), and prior authorization. Pricing is performed using the Vermont pharmacy services programs' formularies.

Xerox maintains a close relationship with the switch vendors in case there is a drop in connectivity or a problem in receiving claims. Xerox works together to solve any communication problems between the switch vendor and PBM OS+ so that claims processing is seamless.

Internet Claims

As shown in Exhibit G-9, PBM OS+ includes Web pages that allow authorized AHS and providers to enter non-POS pharmacy claims. The system captures the same information that a provider would enter through a claim processed at POS. The system completely adjudicates the claim real-time, using the same adjudication logic as POS claims, so that the submitter immediately knows the final status of the claim without waiting for a batch cycle.



Transaction Control Number (TCN)

All pharmacy claims are subject to specific business rules and adjudication logic as determined by AHS, to ensure that only valid claims for eligible beneficiaries and covered drugs are reimbursed to enrolled providers. Regardless of submission method, PBM OS+ uniquely identifies each claim and assigns it a TCN. The TCN format is shown in Exhibit G-10.

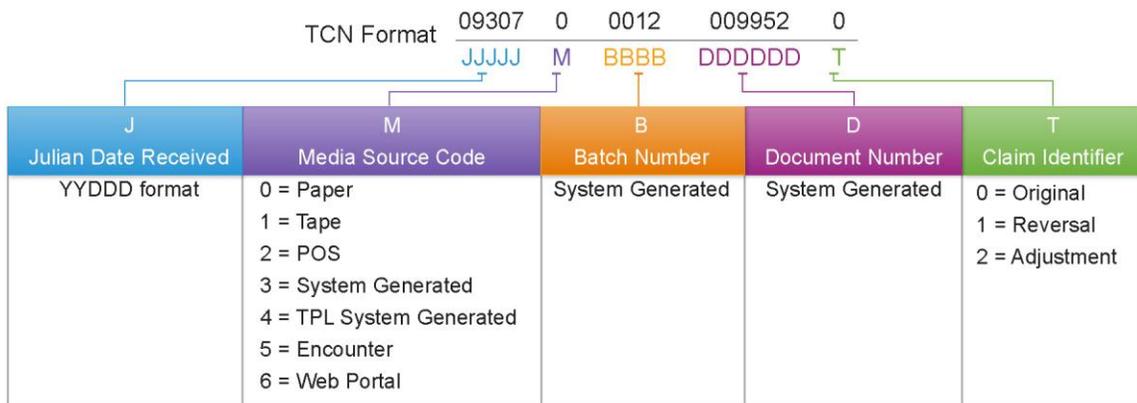
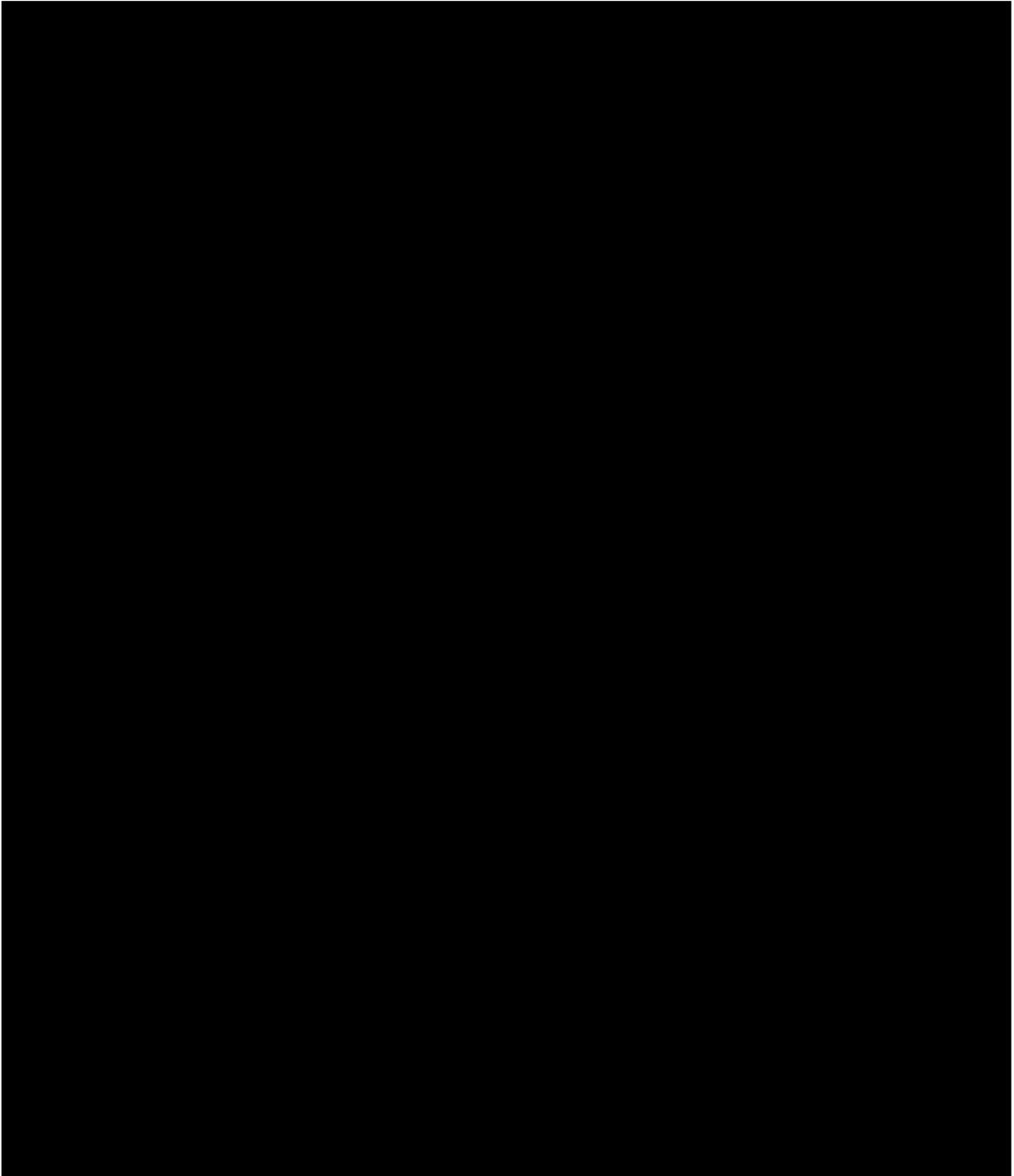


Exhibit G-10. Unique TCN
A unique TCN is assigned to every claim.



Claims Adjudication (FR1.5)

PBM OS+ completely processes claims and posts all edits to the claim during the adjudication process. The exception to the complete processing cycle occurs when there is a fatal edit that makes continued editing illogical. For instance, if the claim is for an ineligible beneficiary, the adjudication process stops, as further edits depend upon the beneficiary's information. Exhibit G-11 illustrates the steps involved in the claims adjudication process.



Edits and Audits

PBM OS+ includes an entire suite of edits and audits to ensure that claims meet AHS policies and rules prior to payment. The system edits claims quickly and accurately. Pharmacy claims adjudication includes the following edits and audits:

- Editing
 - Required fields, formats and valid values
 - Beneficiary eligibility
- Drug coverage and benefit limitations
 - Pharmacy network participation
 - Prescriber participation
 - TPL
 - Prior authorization via SmartPA
- Auditing
 - Duplicate check
 - Pro-DUR and other clinical edits
- Pricing

Once POS claims adjudicate, PBM OS+ immediately remits a message to the pharmacy indicating claim status using the NCPDP Telecommunication Standard response format and the appropriate reject code(s). Xerox uses systematic controls to ensure that all claims are processed completely and are accounted for throughout processing. Production control and on-call staff monitor the system 24/7 and are trained to resolve system problems.

PBM OS+ supports NCPDP standard reject codes and associates internal exception codes to each NCPDP reject code. The exception code provides more information regarding the reason that the system posted the reject code. The system provides the ability for AHS staff to create customized exception codes (edits) to meet specific needs. The system uses the exception code database to assign the disposition of each edit, which can vary based upon factors such as document type, media type, and claim type.

In the following sections, we provide further details regarding the system's editing and auditing capabilities.

Data Validation and Timely Filing: PBM OS+ performs initial editing to ensure that the format of the claim is valid. It also compares the date of the prescription to the adjudication date to ensure that the prescription has a valid date of service falling within the AHS-defined submittal window. The system checks to ensure that the date of service is not for a future date. It also compares the eligibility add date to the adjudication date when eligibility was added retroactively and ensures that the difference does not exceed an AHS defined submittal window for retroactive beneficiary eligibility. If the date of service is invalid, PBM OS+ posts the "Invalid Dates" edit to the claim.

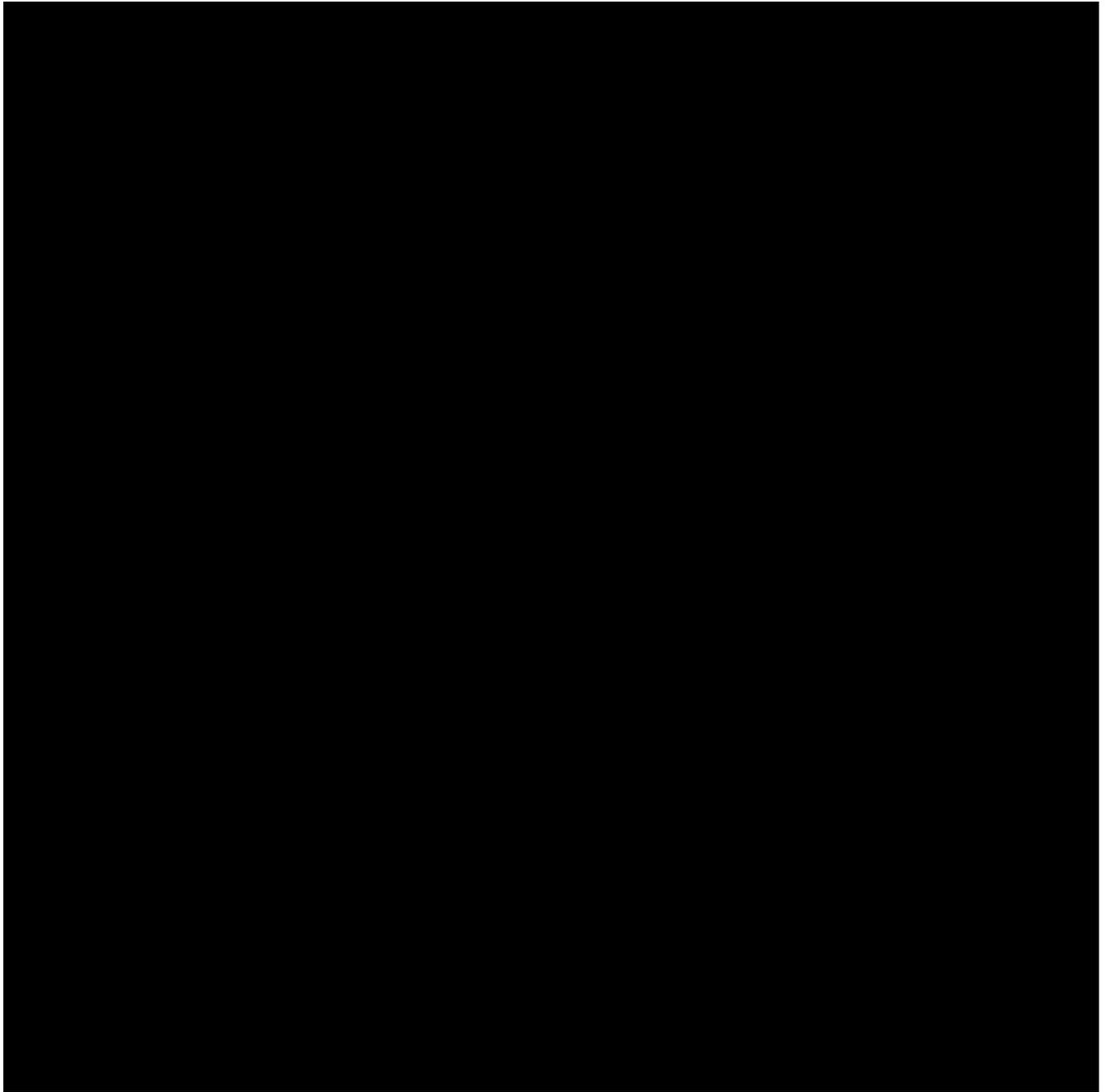
Beneficiary Eligibility Edits: PBM OS+ includes an eligibility interface with the current and future Vermont MMIS. The pharmacy system verifies that the beneficiary is on the eligibility database, has an active status, and is authorized to receive pharmacy claim benefits for the claim date of service.

Lock-In Edits: PBM OS+ provides AHS the option of “locking in” a beneficiary with a particular provider for case management purposes or to prevent the beneficiary from abusing the program by obtaining drugs from multiple prescribers or pharmacies. When a claim is received for an eligible beneficiary who is locked in, the physician and/or pharmacy provider number on the claim must match the number on the lock-in span in the beneficiary database.

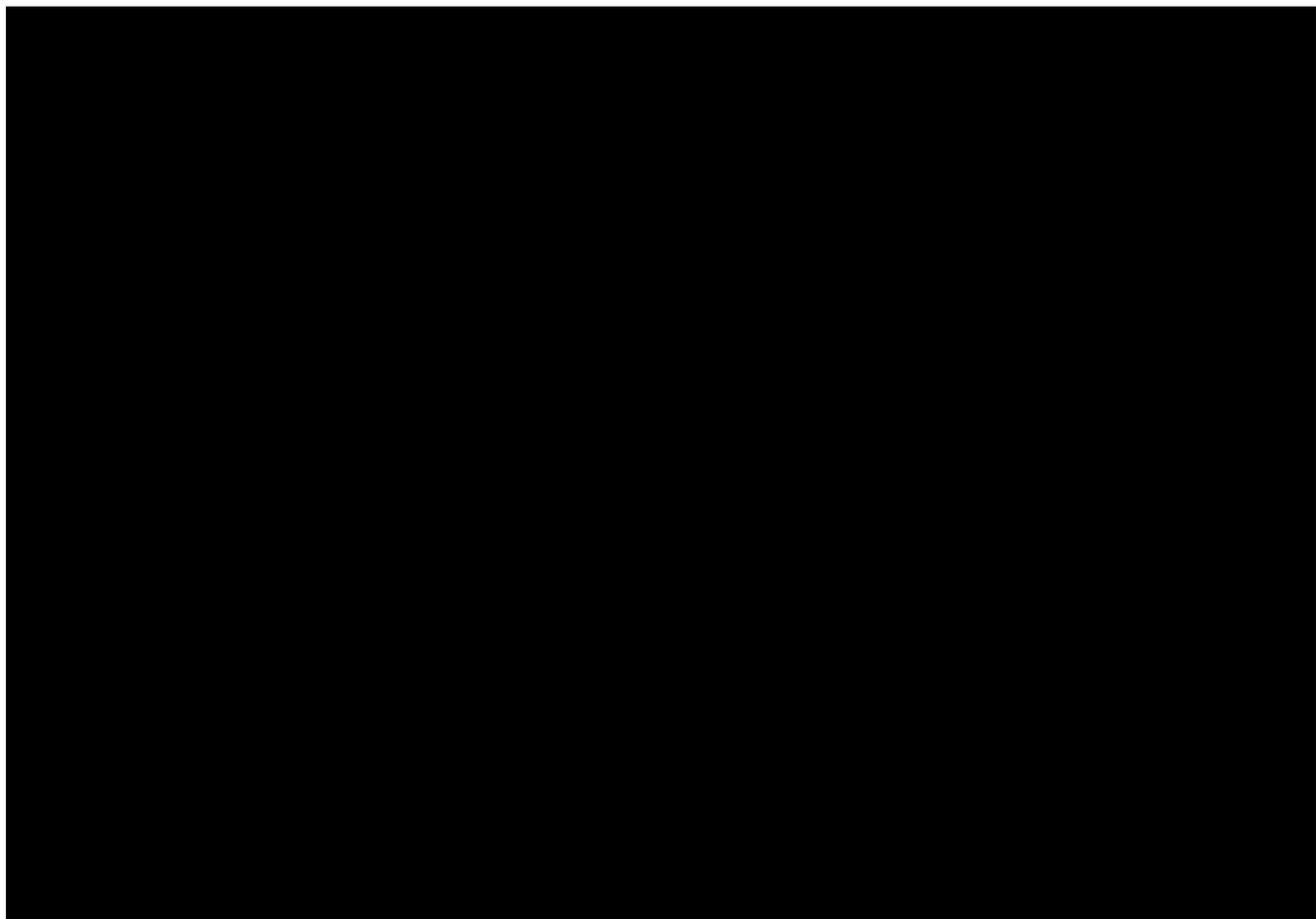
Provider Eligibility Edits: Claims must be submitted using a valid pharmacy and prescriber, as stored in the provider database. If the pharmacy ID is missing, invalid, or does not match the provider database, PBM OS+ denies the claim, and a message with the appropriate NCPDP reject code is sent back to the pharmacy. In the same manner, PBM OS+ can also require a valid prescriber ID for a claim to pay.

Benefit Plans: PBM OS+ maintains unique benefit plans that define coverage. Each beneficiary is assigned to a plan or multiple plans, which are used to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan. When processing pharmacy claims, the system uses the combination of allowable eligibility span, prior authorization information, and the benefit plan(s) assigned to the beneficiary to determine drug coverage and other related information.

The plan information table enables authorized users to add, change, and delete benefits via the plan Web page shown in Exhibits G-12 and G-13, without the need for a programmer. Changes made through the plan Web pages immediately update the tables used by the claims processing function.



Study Implementation [DESI] or Generic Mandatory), and allowed dispense as written (DAW) codes.



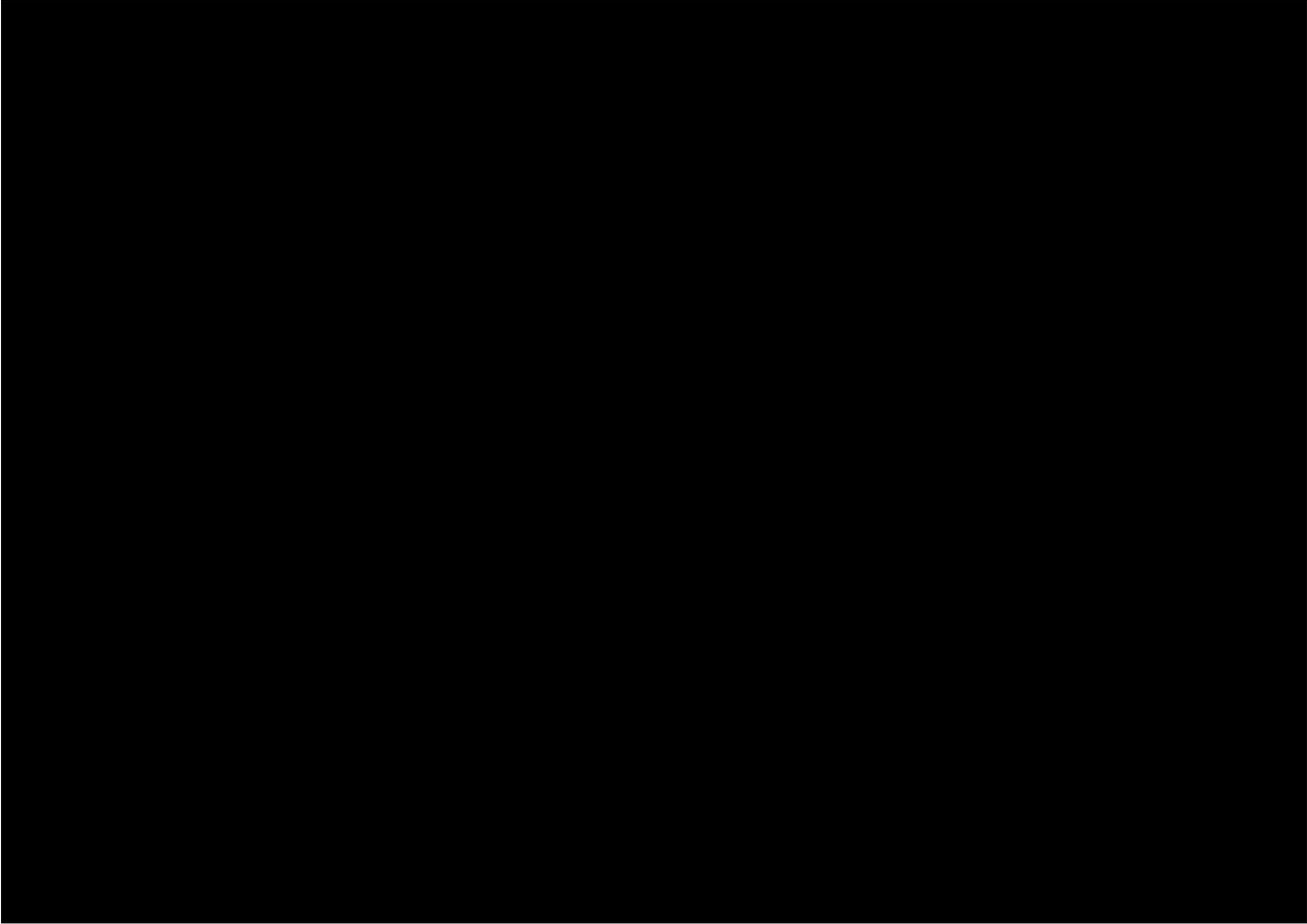
POS Claims Processing System (FR1.7.J)

Drug Program: The drug program functionality allows users to set quantity, age, dollar, and dosing limitations by drug type and attach custom messaging when appropriate. In addition to the ability to attach custom messaging, AHS can also dictate the NCPDP reject and claim exception codes. For example, in the plan file, when the user sets a drug as not covered, exception code 4114/reject code 70 posts to the claim when that drug is submitted. With the system’s drug program functionality, AHS is limited on the selection of the NCPDP reject code (depending upon the situation) but can chose any exception code that it wishes.

POS Claims Processing System (FR1.7.B)

Beneficiary Co-Payment Amounts: The system’s benefit plan capabilities feature an online co-payment function that supports the entry of parameters such as effective dates, co-payment amount, and co-payment percentage, as shown in Exhibit G-14. During claims processing, the system recognizes applicable co-payment amounts and deducts the correct amount from the payment made to the pharmacy.





Prescription Expiration Edits: PBM OS+ edits the claim for expired prescriptions. PBM OS+ checks the field that carries the “Date Written” against the “Date of Service” field. If the difference between the two is greater than the time limits established by AHS, the claim denies. Additionally, it checks the field that contains the “Number of Authorized Refills” against the “Refill Number” field. If the refill number is greater than the refills authorized, the claim denies.

Third Party Liability (TPL): TPL is maintained with eligibility data and is used during adjudication processing to advise the pharmacy of the possibility that the beneficiary has other pharmacy coverage that must be applied prior to payment by AHS. We obtain information on a beneficiary’s other insurance coverage through the eligibility interface with AHS. Please refer to Response Section 1.1.2, Automated Coordination of Benefits for additional details about the TPL process.

POS Claims Processing System (FR1.7.N)

Drug Edits: Xerox uses the First Databank (FDB) MedKnowledge™, and Centers for Medicare and Medicaid Services (CMS) data to populate the drug database in PBM OS+ and to perform drug edits such as verifying that the claim’s National Drug Code (NDC) is not obsolete.

POS Claims Processing System (FR1.3 and FR1.7.I)

Compound Claims Edits: Although the system supports compound prescription processing of up to 99 ingredients, we adhere to the NCPDP recommendation of allowing up to 25 ingredients per claim. PBM OS+ processes the ingredients in the compound as individual line items. Each ingredient is subject to edits and audits such as Pro-DUR and prior authorization.

Partial Fill Edits: The system accommodates NCPDP partial fill functionality enabling pharmacies to electronically bill partial fill transactions. This accommodates situations in which a pharmacy's stock on hand is not sufficient to fill the entire amount intended to be dispensed on a prescription. Partial fill editing ensures prescription compliance and avoids fraud and abuse by denying completion claims that are billed for more or less of a drug than would be expected based on the amount intended to be dispensed and the amount dispensed on the initial fill.

Early Fill Edits: The system can be set either to enforce or to ignore early refill edits. A control is used in the plan database to specify what percentage of the original supply must be used before a refill is allowed. Authorized users set the Early Refill guidelines to be a percentage of product used or by days, such as 25 days must pass before a new prescription can be filled. PBM OS+ also has the flexibility to set refill edits based on drug, generic sequence number (GSN), or all claims, which allows the user to set a look back period for each criterion.

POS Claims Processing System (FR1.7.C)

Prior Authorization: Our SmartPA component is used to perform prior authorization functionality. SmartPA virtually eliminates the need for prescribers to submit prior authorization requests for the majority of drugs requiring review prior to approval and payment. Instead, SmartPA automatically and systematically applies complex clinical and fiscal criteria during the POS transaction. SmartPA uses a sophisticated clinical rules engine to determine if AHS-specific evidence-based criteria for appropriate drug use are met. SmartPA executes real-time decisions at the POS by employing high-performance; table-driven clinical rules fueled by beneficiary-specific drug and medical diagnosis data. PA start and termination dates are displayed at POS when a beneficiary's PA is viewed by a claims submitter. Please refer to Response Section 1.2.2, Prior Authorization Program for additional information about the authorization process.

Duplicate Check: PBM OS+ reviews all paid claims for a beneficiary in order to determine whether an exception for a duplicate claim should be posted to the claim in process. Generally, a claim is considered a duplicate of a previously paid claim when the beneficiary IDs, dispense dates, and generic code numbers (GCNs) match. If appropriate, the system posts an exception to the claim indicating that there is potential duplication or confirmed exact duplication of a previously paid claim.

Pro-DUR: PBM OS+ has comprehensive Pro-DUR auditing. The system automatically reviews each drug claim submitted prior to dispensing to identify such problems as drug-drug interactions, therapeutic duplication, and incorrect dosage or duration of treatment. Please refer to Response Section 1.2.3, Drug Utilization Review for further detail about Pro-DUR functionality.

Pricing

PBM OS+ pays pharmacy claims only for drugs/products that are covered in the program-specific formularies, in accordance with coverage criteria as determined by AHS. The system utilizes the FDB MedKnowledge, and CMS data to populate the formulary database. In addition to standard drug identifiers, pricing information, and clinical information, the system maintains a separate pricing table that can accommodate State Maximum Allowable Cost (SMAC).

Many pricing parameters are rules-driven, enabling authorized staff to make changes quickly and easily online in a real-time environment. The parameters are flexible and allow the user to define pricing at a variety of levels. The user can then define the comparison to be done during claims adjudication, if applicable, or set a price category to pay and a certain amount with no comparison. The system maintains a complete audit trail for inquiry by authorized staff.

The system can assign pricing rules to specific categories such as compound drugs, diabetic supplies, or generic drugs and use the system list functionality to further specify details such as provider or claim type. The pricing section can also define benefit maximums such as a copay max, spend down amount, or maximum benefits for beneficiaries or specifically for Medicare Part D claims.

The system allows unlimited pricing iterations for each NDC that are date-specific. Additional pricing features include separate pricing categories for the following services, when applicable to the program:

- Compound drugs
- Schedule II drugs
- Diabetic supplies (including insulin, needles, supplies, and tests)
- Non-drug items
- Over-the-counter (OTC) drugs
- Generic drugs
- Brand drugs
- Dispense as written (DAW) override pricing
- Department-specific

POS Claims Processing System (FR1.18.A)

The online coverage and pricing methodologies component includes an ingredient cost basis field that allows AHS to define the pricing methodology and the associated percentage adjustment to be used in calculating claim reimbursement. Each category, such as brand name drugs, OTCs, non-drug items, etc., may have different pricing rules associated with it.

Claims for 340B drugs are priced utilizing acquisition cost and dispensing fees, while single ingredient and compound ingredient drug claims utilize the following pricing methodologies currently accommodated:

- Average wholesale price (AWP) (Note: AWP price is obtained from MediSpan)
- Estimated acquisition cost (EAC)
- Direct price
- State maximum allowable cost (SMAC)

Other department customized pricing:

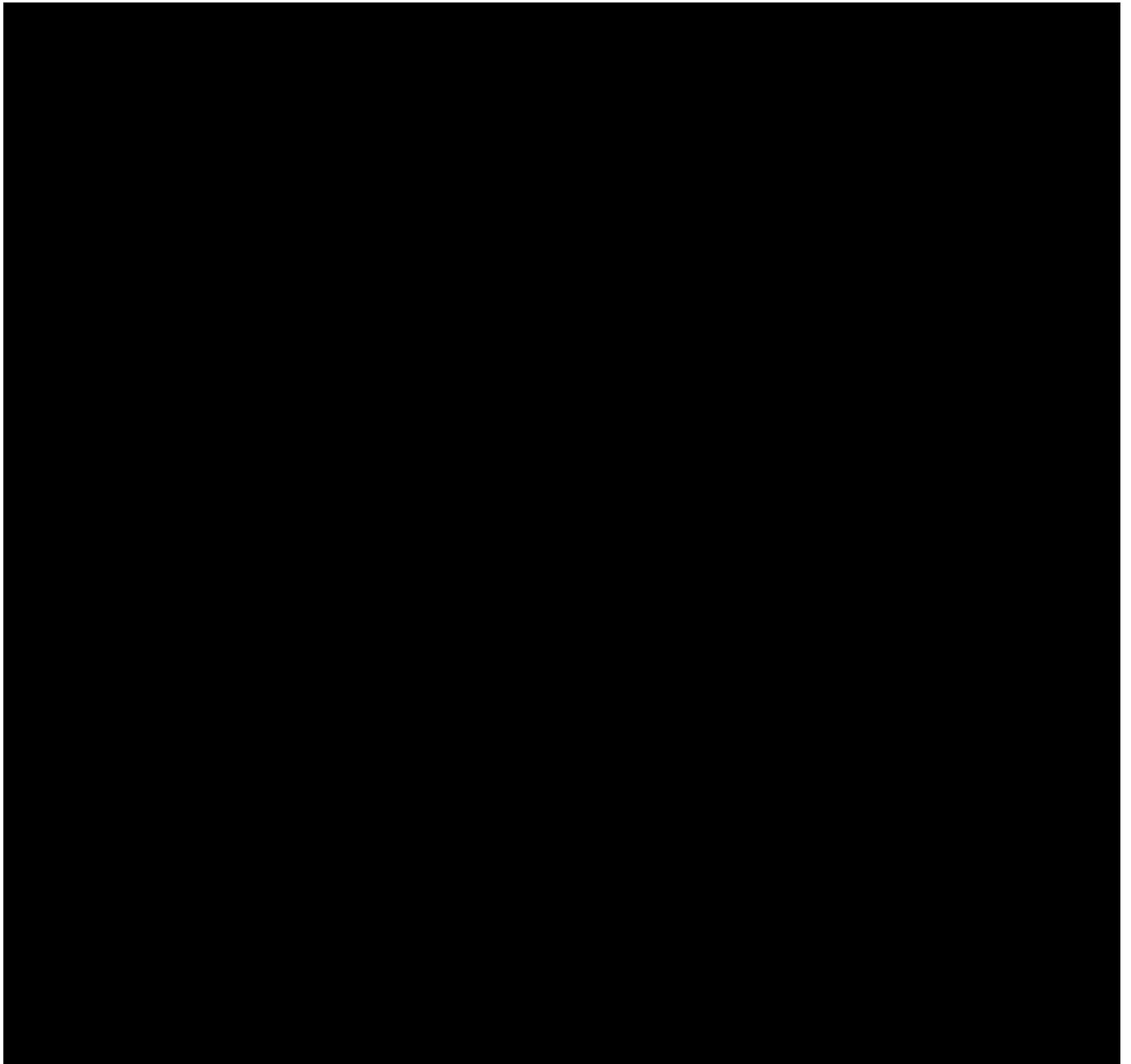
- Federal MAC (or federal upper limit – FUL)
- Medicaid AWP (MCD)
- Submitted cost
- Suggested wholesale price (SWP)
- Wholesale acquisition cost (WAC)

Eligibility Inquiry

Eligibility verification functionality gives pharmacies an opportunity to verify beneficiary eligibility before dispensing drugs. PBM OS+ accepts NCPDP E1 standard transactions at POS and returns the appropriate response detailing the eligibility coverage information and utilizes the message fields to return any program restrictions such as lock-in provider information and any other plan information restrictions defined by AHS.

Updating Beneficiary Records Online

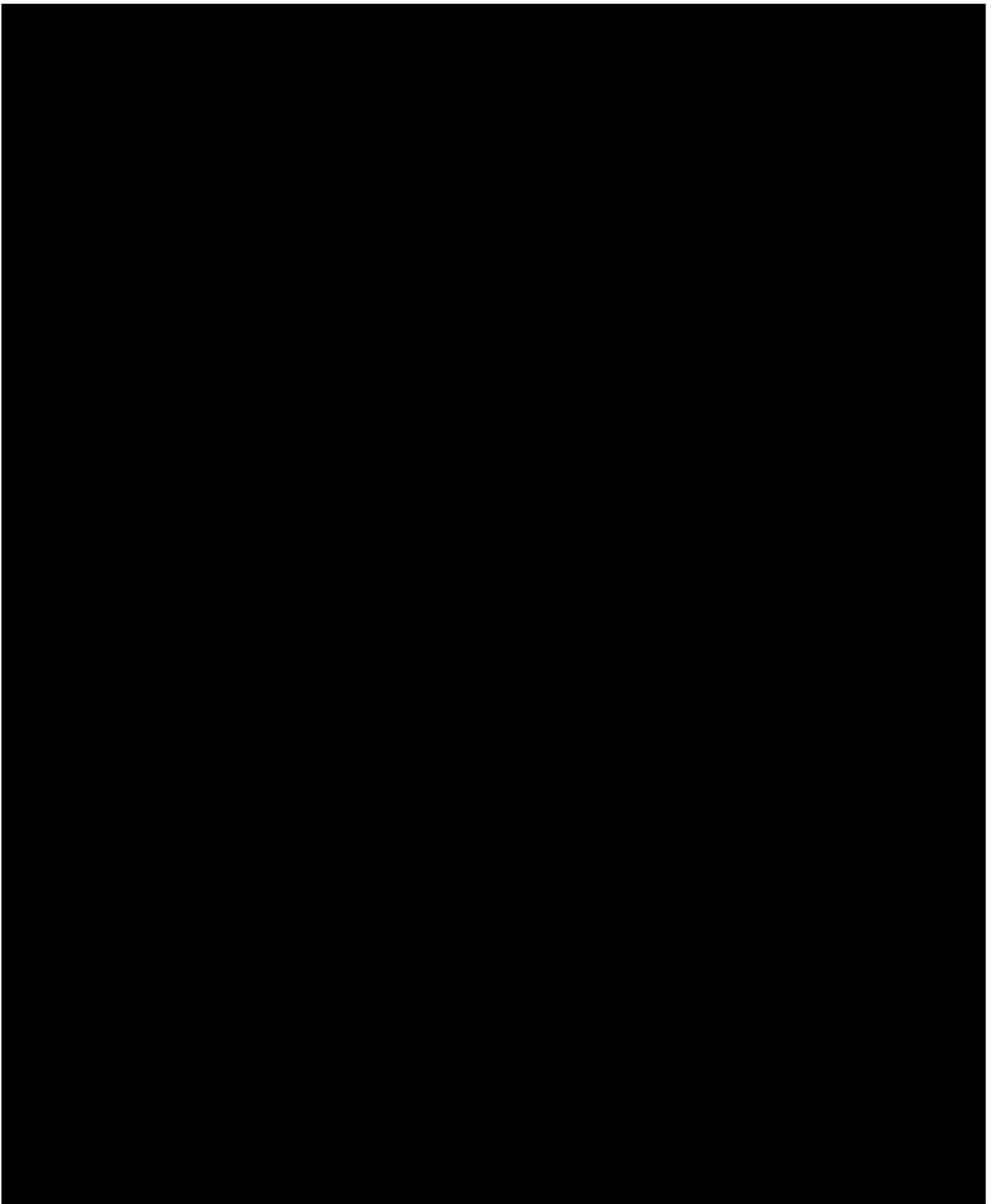
The system provides online, real-time functionality that allows authorized AHS staff to add, delete and update beneficiary eligibility or construct new beneficiary eligibility in the event of emergency medical card issuance by DHS to enable immediate prescription filling via the POS PBMS. The system maintains unlimited eligibility segments with begin and end dates for each beneficiary. Exhibit G-15 displays beneficiary demographic and eligibility data that is updatable by authorized users.



Reasonable and Customary Charge Data

Xerox utilizes the National Drug Data File Plus (NDDF+) obtained from FDB to populate the reference drug database in PBM OS+ on a weekly basis with any new or updated information. Xerox maintains close communications with FDB. All updates, changes, and bulletins that are applicable to the drug database, including pricing changes such as reasonable and customary charge data, new drug entities, or naming convention changes are maintained via online Web pages, as shown in Exhibit G-16, and communicated to technical, clinical and functional representatives of the Xerox team. The team is responsible for reviewing, assessing and disseminating this information for further evaluation and/or action required on behalf of clients.





Returning the Status of Errors

Pharmacies submit claims to PBM OS+ for adjudication and payment of their services using a POS device at the pharmacies. Claims are completely adjudicated by PBM OS+ in less than a second. Adjudication includes editing for beneficiary eligibility, drug coverage and benefit limitations, pharmacy network enrollment, TPL, Pro-DUR, and other clinical edits. The system completely processes claims and returns a claim status and any errors or alerts associated with the processing, as shown in Table G-3. During DDI, we will meet with AHS to define and develop edits currently not supported by the system and noted in Table G-3.

POS Claims Processing System (FR1.7.M)

Table G-3. Sample Edits and Alerts		
Requirement	Reject Code	PBM OS+ Functionality
Edit failures based on AHS-supplied edit criteria	Appropriate reject and exception code based on edit criteria encountered	PBM OS+ includes an entire suite of edits and audits to ensure that claims meets AHS policies and rules prior to payment. PBM OS+ edits claims quickly and accurately. Claims are edited according to AHS policy.
Pro-DUR alerts	<ul style="list-style-type: none"> • 88 DUR Reject • 79 Refill too soon and cannot override at POS 	PBM OS+ has comprehensive Pro-DUR auditing. The system automatically reviews each drug claim submitted prior to dispensing to identify such problems as drug-drug interactions, therapeutic duplication, and incorrect dosage or duration of treatment. The system alerts the provider to the potential problem, and the provider uses his or her professional judgment to determine the most appropriate intervention.
Beneficiary or coverage restrictions	<ul style="list-style-type: none"> • 65 Beneficiary not covered • 75 PA required • 76 Quantity restrictions • 70 Product / service not covered • Other reject codes based on coverage restrictions 	The system verifies that the beneficiary is on the eligibility database, has an active status, and is authorized to receive pharmacy claim benefits for the claim date of service. Eligibility is determined by comparing the claim date of service with the beneficiary's eligibility coverage date spans on the eligibility database. If the beneficiary is ineligible on the dispensing date, PBM OS+ posts an exception to the claim.
Prior authorization missing	75 Prior authorization required	Our SmartPA component is used to perform prior authorization functionality. SmartPA virtually eliminates the need for prescribers to submit prior authorization requests for the majority of drugs requiring review prior to approval and payment. Instead, SmartPA automatically applies complex clinical and fiscal criteria during the POS transaction. SmartPA uses a sophisticated clinical rules engine to determine if AHS-specific evidence-based criteria for appropriate drug use are met.
Required coordination of benefits (COB)	41 Submit claim to other insurance	COB data is maintained in the beneficiary eligibility database. PBM OS+ validates the claim using the most current COB information to determine whether a liable third party must be billed before AHS pays for the claim.

Table G-3. Sample Edits and Alerts		
Requirement	Reject Code	PBM OS+ Functionality
Refill too soon	<ul style="list-style-type: none"> • 88 DUR Reject • 79 refill too soon and cannot override at POS 	The system can be set to enforce or to ignore early refill edits. A control is implemented in the plan database to specify what percentage of the original supply must be used before a refill is allowed. For example, if the percentage is set to 20 percent, 80 percent of the originally dispensed supply must be used. That means a 30-day prescription can be refilled six days before the prescription ends. The system's custom record enables exempting a plan benefit detail line from the refill too soon edit.
Requires generic substitution	22 Missing/invalid dispense as written (DAW)/product selection code	If a branded medication is submitted and generic medication is available. The system posts an edit. This edit can always require a prior authorization or the system can allow the pharmacy to submit an allowed DAW code.
Requires unit dose (or not)	<ul style="list-style-type: none"> • AH unit dose packaging only payable for nursing home recipients • 554 special packaging indicator value not supported • DT missing/invalid special packaging indicator 	The system has an edit that denies a claim if the NDC shows a unit dosed medication. The system does not have an edit to require unit dosing. During DDI we will work with AHS to define the requirement and create a unit dose edit according to AHS requirements.
Package size not approved	55 Non Matched package size	During DDI, we will work with AHS to understand what type of package size edits they want to apply to the claim and then we will configure the system accordingly. For instance, we can edit for package size not on file or other edits based on AHS input.
Drug Efficacy Study Implementation (DESI) is not covered	70 Product / service not covered with an exception code linked to DESI	The FDB file indicates if a drug is a DESI drug. We can use NCPDP Reject 70 (NDC Not Covered) that is associated with exception 4690 (DESI drug) to indicate that the drug is a DESI drug if noted by FDB.

Upon completion of the adjudication process, PBM OS+ immediately remits a message to the pharmacy indicating claim status of paid or denied, using the NCPDP Telecommunication Standard response format and the appropriate reject code(s). PBM OS+ supports all NCPDP standard reject codes and associates internal exception codes to each NCPDP reject code. The exception code provides more information regarding the reason that the system posted the reject code.

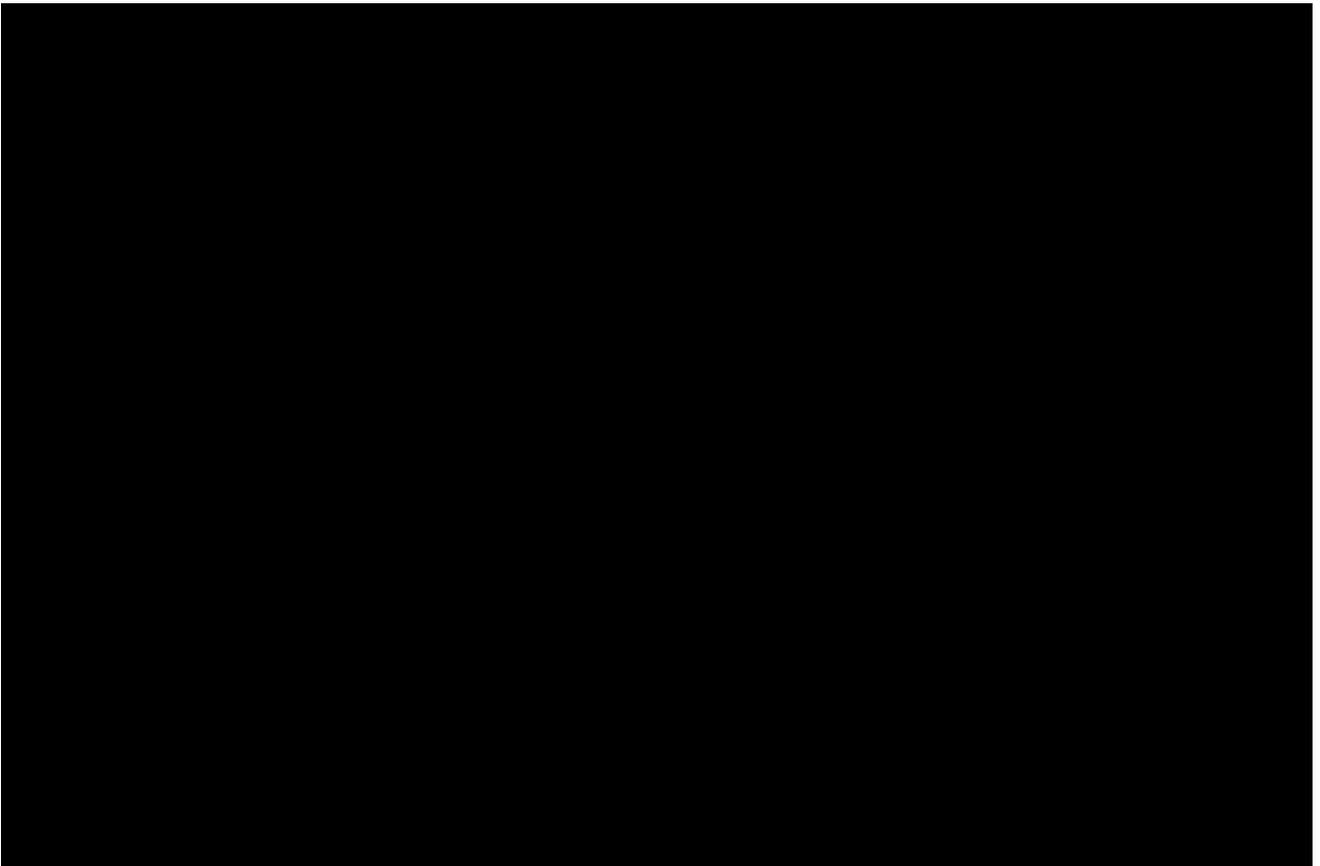
The system provides the ability for Xerox staff to create customized exception codes (edits) to meet specific AHS needs. The system has two types of exception codes: base and AHS-specific. Base exception codes are general system functionality that is used by all Medicaid programs. AHS-specific exception codes are created to meet AHS requirements.

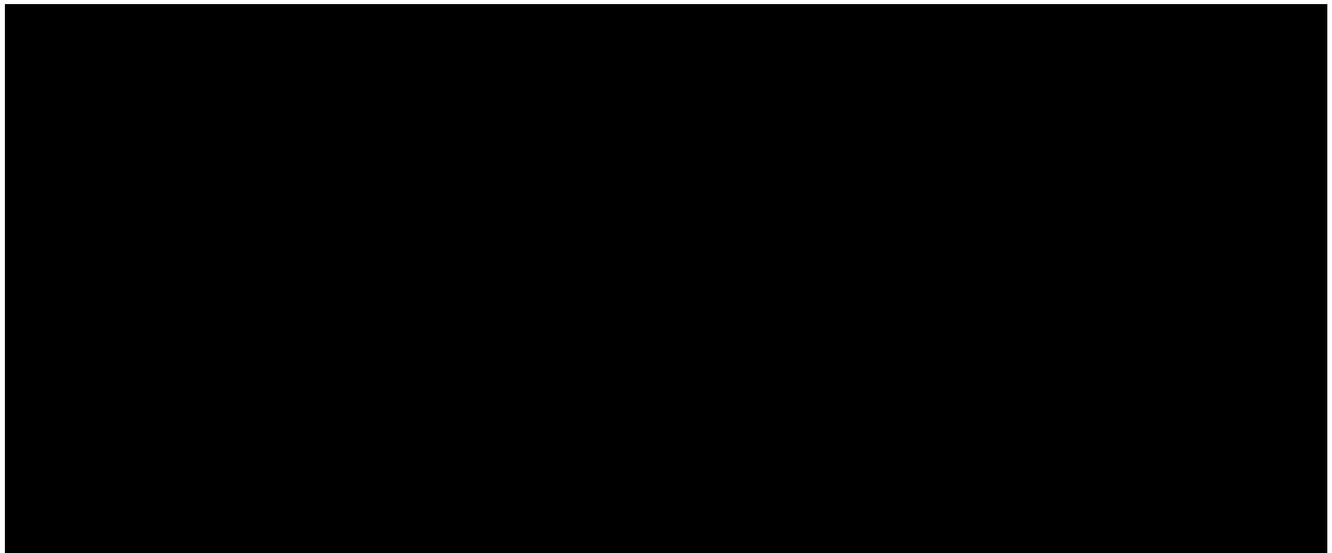
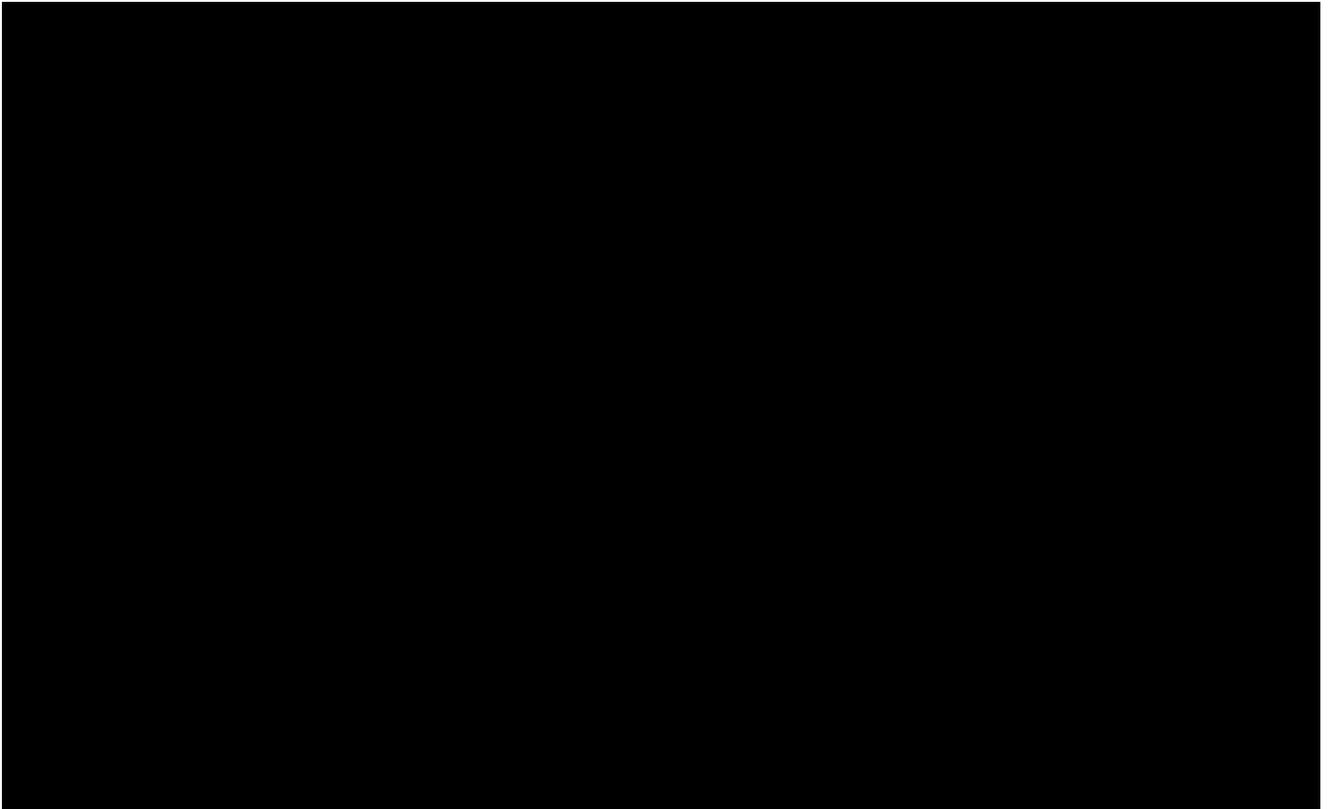
POS Claims Processing System (FR1.8)

Edit and Exception Codes

PBM OS+ uses the exception code database to assign the disposition of each claim error, which can vary based on factors such as document type, media type, and claim type. For each two-digit NCPDP reject code (such as edit 75 for Prior Authorization Required), PBM OS+ maintains four-digit claim exception codes, as well as another four-digit program-specific explanation of benefits (EOB) code for more detailed edits. Pharmacy POS responses include the NCPDP reject code and response message text, explaining in simple terminology the reason for a claim denial. The claim denial information can also be viewed on a claim inquiry.

The customization of claim exception code dispositions has considerable impact on adjudication results and claims payment. For instance, dispositions can be set across the board for a particular claim exception code, so that any claim (of any document and media type and any claim format) posting a certain exception code denies. The ability to set claim exception code dispositions according to claim media is very useful in situations such as Pro-DUR edits posting on paper or batch claims. In such cases, a beneficiary has already obtained the drug submitted for reimbursement, so Pro-DUR edits are irrelevant and can be set to bypass for these claim submission media types. In addition, exceptions are associated with groups and plans (benefit design) and can be set for a single plan, multiple plans, or all plans. Exhibits G-17 through G-19 illustrate PBM OS+'s claim exception code functionality.

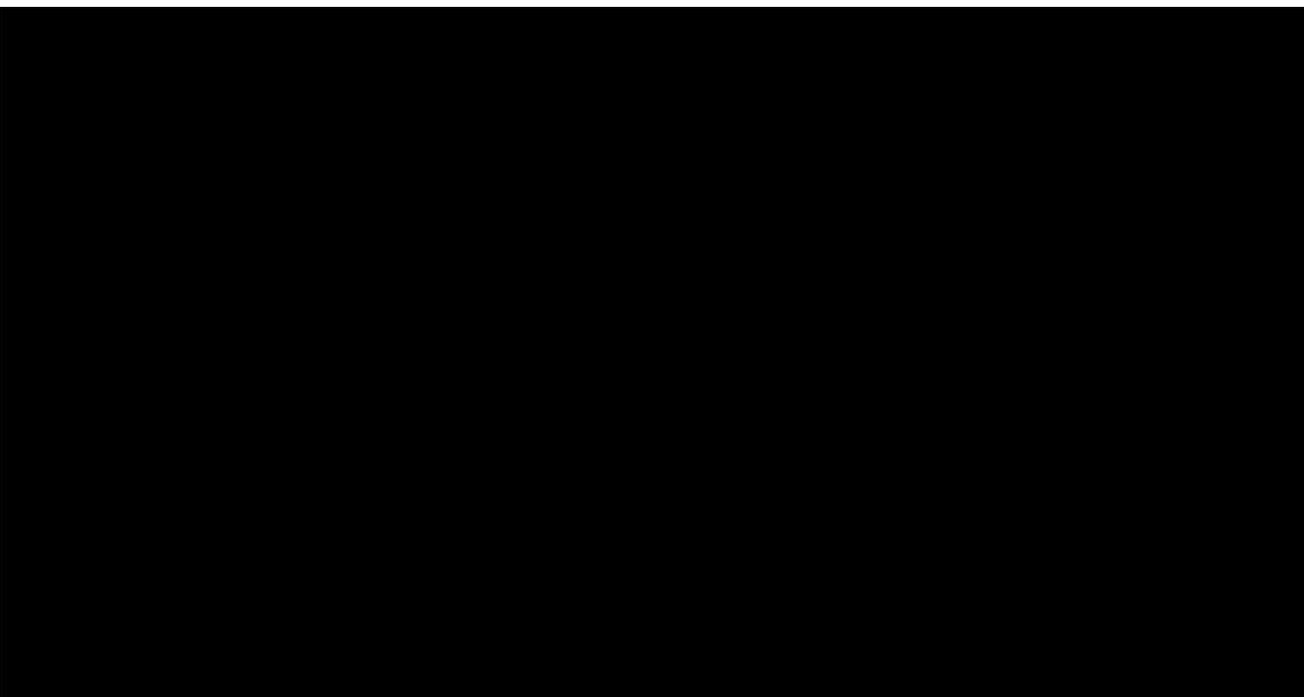




Beneficiary Lock-In (FR 2.13)

As a part of the beneficiary maintenance and inquiry functions within PBM OS+, authorized users access the lock-in records tab to view, update, or add spans locking beneficiaries into particular providers, such as a single pharmacy, managed care organization (MCO), or prescribing provider for certain services. This page allows the user to see or enter information such as the lock-in type, provider ID, provider name, and begin/end dates for the lock-in span. Exhibit G-20 shows an example of the beneficiary lock-in function.





PBM OS+ provides AHS the option of “locking in” a beneficiary to a particular provider for various reasons, such as preventing beneficiary abuse of the system by visiting multiple providers or pharmacies. When a claim is received for an eligible beneficiary who is locked in, the physician and/or pharmacy provider number on the claim must match the number on the lock-in span in the beneficiary database. If there is no match, the claim is denied and PBM OS+ sends an NCPDP reject code 45/exception code 4090 when the prescriber ID does not match the prescriber lock-in. NCPDP reject code 50/exception code 4691 is posted when the pharmacy ID does not match the pharmacy lock-in. If a prescriber is part of an affiliation or doctor’s group, the lock-in may be specific to the individual prescriber or to the affiliation group.

Beneficiary Eligibility

PBM OS+ provides several options to ensure that beneficiaries are eligible to receive the services. This includes editing related to overall eligibility, coverage within a defined AHS benefit plan, enrollment in an MCO or Lock-in program, or receiving medication through a waiver program, carve-out mental health program, or disease management program.

Beneficiary Eligibility: The system verifies that the beneficiary is on the eligibility database, has an active status, and is authorized to receive pharmacy claim benefits for the claim date of service. Eligibility is determined by comparing the claim date of service with the beneficiary’s eligibility coverage date spans on the eligibility database.

Benefit Plans: PBM OS+ maintains unique benefit plans that define coverage. Each beneficiary is assigned to a plan or multiple plans. When a beneficiary is active in more than one plan, applicable coverage is determined through a AHS-specific hierarchy PBM OS+ uses the benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan.



When a beneficiary is receiving medication as part of another program, such as a waiver, carve-out mental health, or disease management program, the claim will follow the rules that have been established for those plans, thus limiting the service via the coverage provided.

Lock-In Edits: PBM OS+ provides AHS the option of “locking in” a beneficiary with a particular provider for case management purposes or to prevent the beneficiary from abusing the program by obtaining drugs from multiple prescribers or pharmacies. When a claim is received for an eligible beneficiary who is locked in, the physician and/or pharmacy provider number on the claim must match the number on the lock-in span in the beneficiary database or an exception will post notifying the submitter of the reject information.

POS Claims Processing System (FR1.7.A)

Pharmacy and Prescriber Enrollment

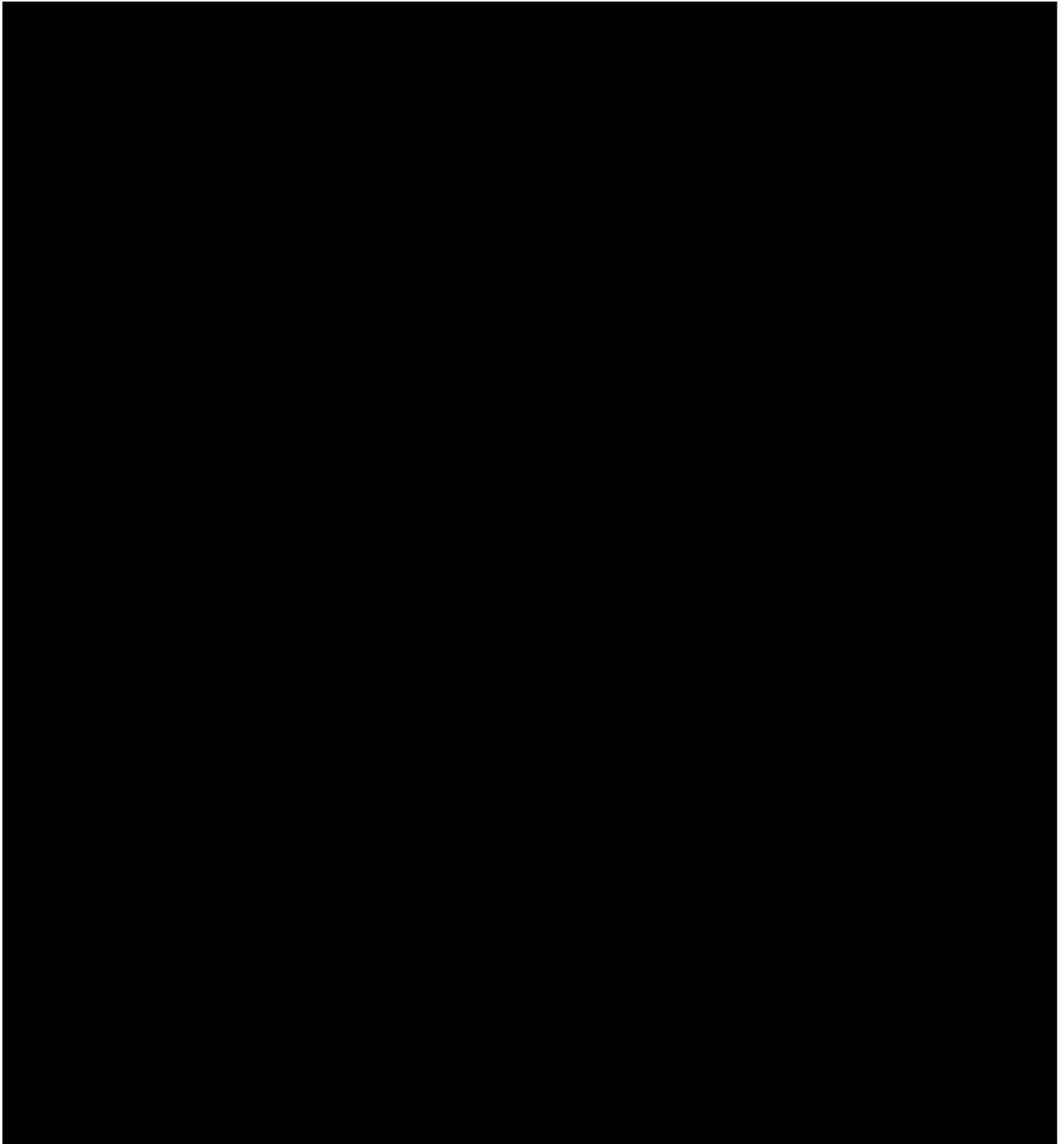
Claims must be submitted using a valid pharmacy and prescriber ID, as stored in the provider database. If the pharmacy ID is missing, invalid, or does not match the provider database, PBM OS+ denies the claim, and a message with the appropriate NCPDP reject code is sent back to the pharmacy. In the same manner, PBM OS+ can also require a valid prescriber ID for a claim to pay.

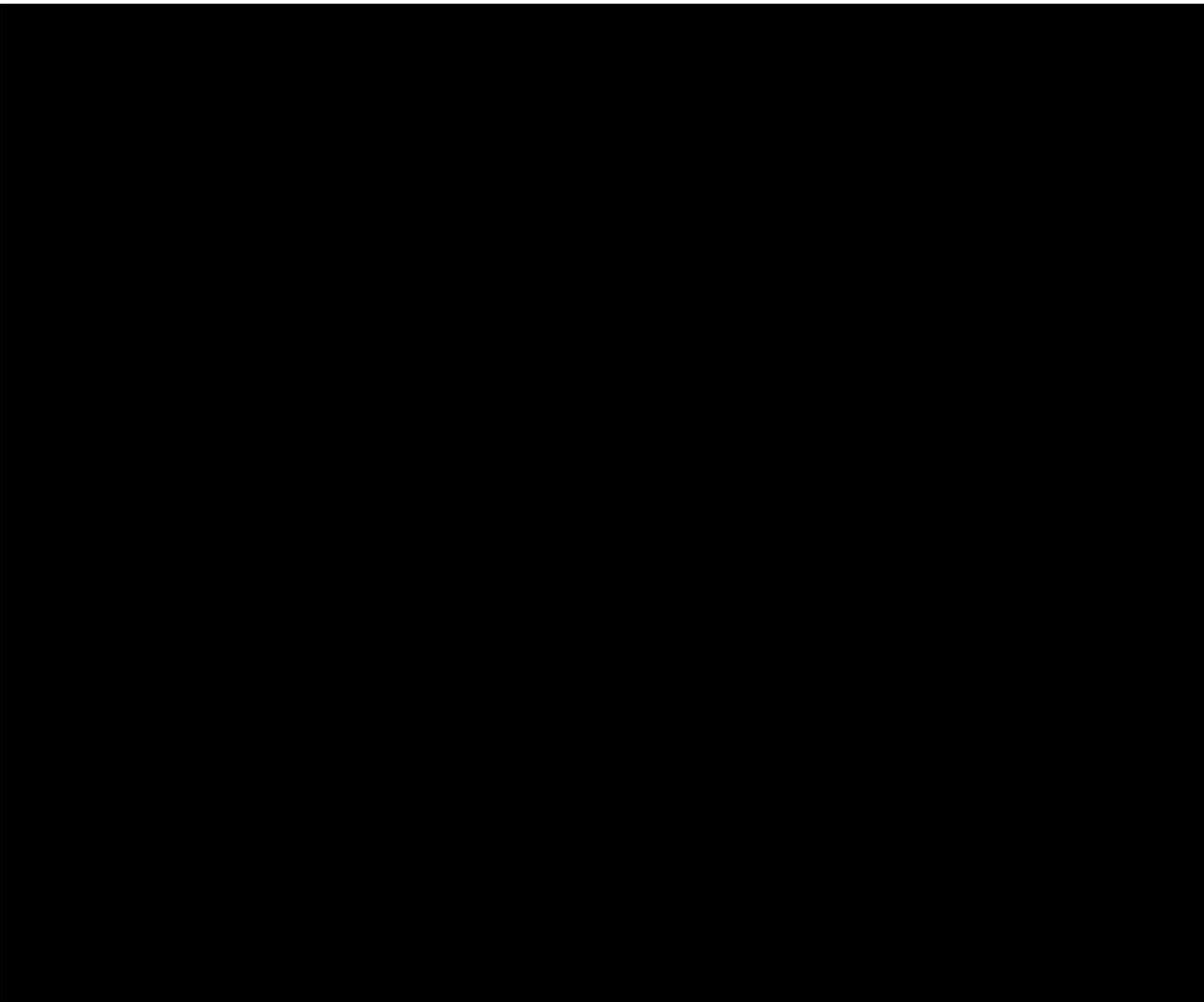
A valid prescriber must have an active NPI and/or DEA number.

Further, the system rejects the claim if the pharmacy or prescriber are not considered active on the drug dispense date. PBM OS+ maintains active date spans for pharmacy and prescribing providers, so that the system can continue to pay valid claims for services rendered during time spans when the providers were active.

The system’s provider component allows access to detailed information for a pharmacy or prescriber. Information is accessed via provider number, name, or location such as city or state. Xerox supports multiple Provider ID types including National Provider Identifier (NPI), NCPDP, drug enforcement agency (DEA), State License and State Medicaid IDs. PBM OS+ retains information about each provider, including address, phone number, DEA number, provider group affiliation, and specialty. A notation is made in a physician’s file if that physician is under review for inappropriate prescribing practices. If requested by AHS, Xerox can deny or suspend claims for providers on review.

Exhibits G-21 and G-22 illustrate some of the detailed information maintained for a pharmacy provider.





Duplicate Check

The system supports two types of duplicate check edits that are based on NCPDP standards and details for how to post each edit:

Edit 83 (duplicate paid claim): This edit looks for beneficiaries that go to another pharmacy and try to get the same medication on the same day. PBM OS+ reviews paid claims for the in-process claim's beneficiary ID. The system evaluates previously paid claims for the following data:

- Beneficiary ID
- Date of Service
- GCN

If the in-process claim's data matches a paid claim's data, the system posts reject code 83 alerting the pharmacy that the claim is a possible duplicate.

PBM OS+ uses the generic code number (GCN), not NDC, to screen for duplicate claims, thereby preventing the payment of multiple claims for a drug made by different manufacturers.



NCPDP status D (duplicate of paid status) or exact duplicate: This edit checks for the same pharmacy sending an identical claim back through the system. PBM OS+ reviews paid claims for the in-process claim's beneficiary ID. The system evaluates previously paid claims for the following data:

- Beneficiary ID
- Pharmacy ID
- Date of service
- Product ID
- Prescription Number
- Refill Number
- NDC

If the in-process claims data matches a paid claim's data, the system returns a status of D (not paid or denied) and returns the financial information that was returned on the originally paid claim.

Processing Claims Using UPC Codes

The National Drug Data File Plus (NDDF+) file obtained from FDB contains Universal Product Codes (UPC) for non-prescription drug products. The UPC codes are structured by NDDF+ to the same 11-digit format used for NDC drug codes.

PBM OS+ is fully capable of processing pharmacy claims submitted with UPC codes without the need for modification of the claims processing engine.

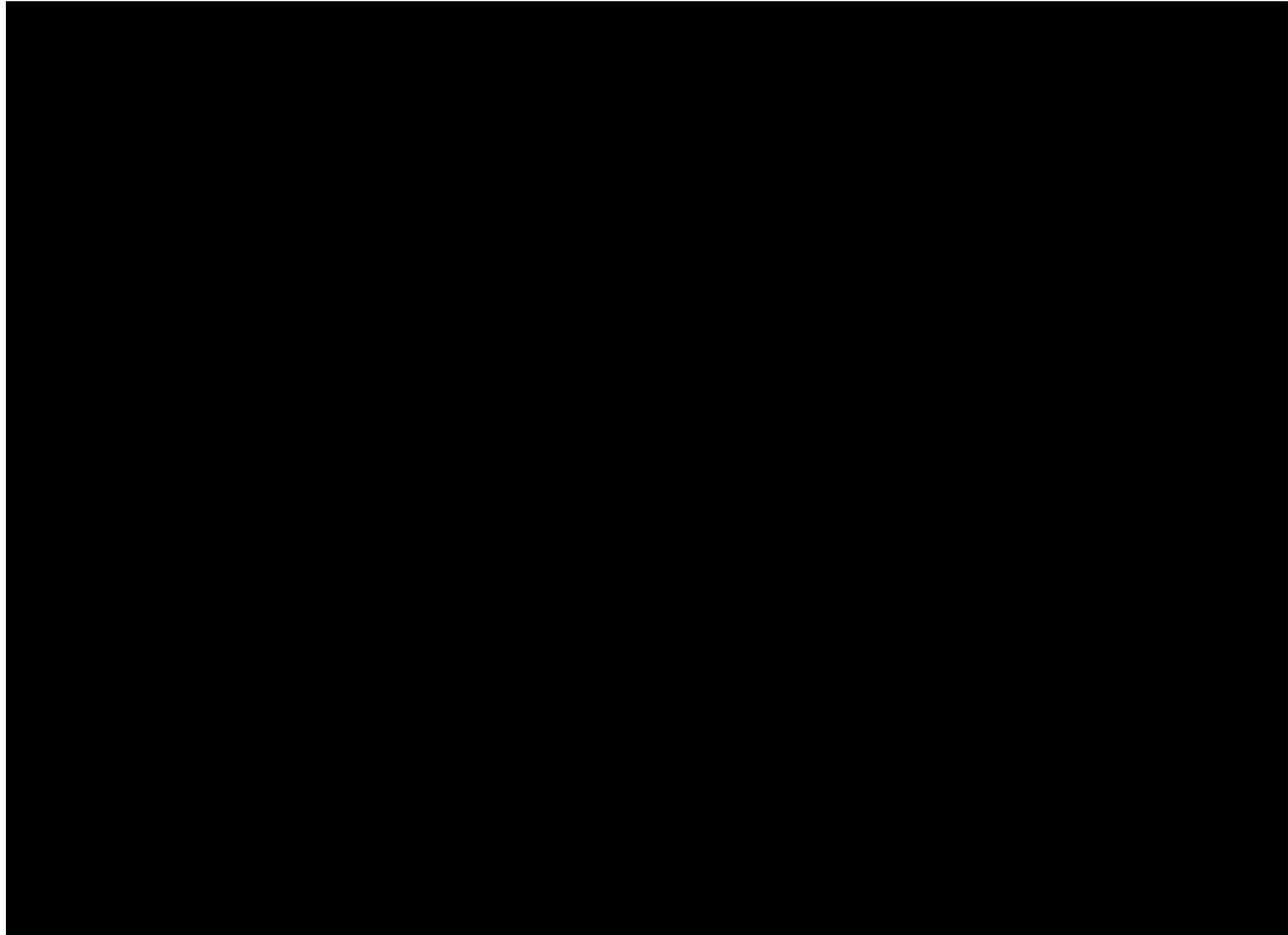
Service Limitations

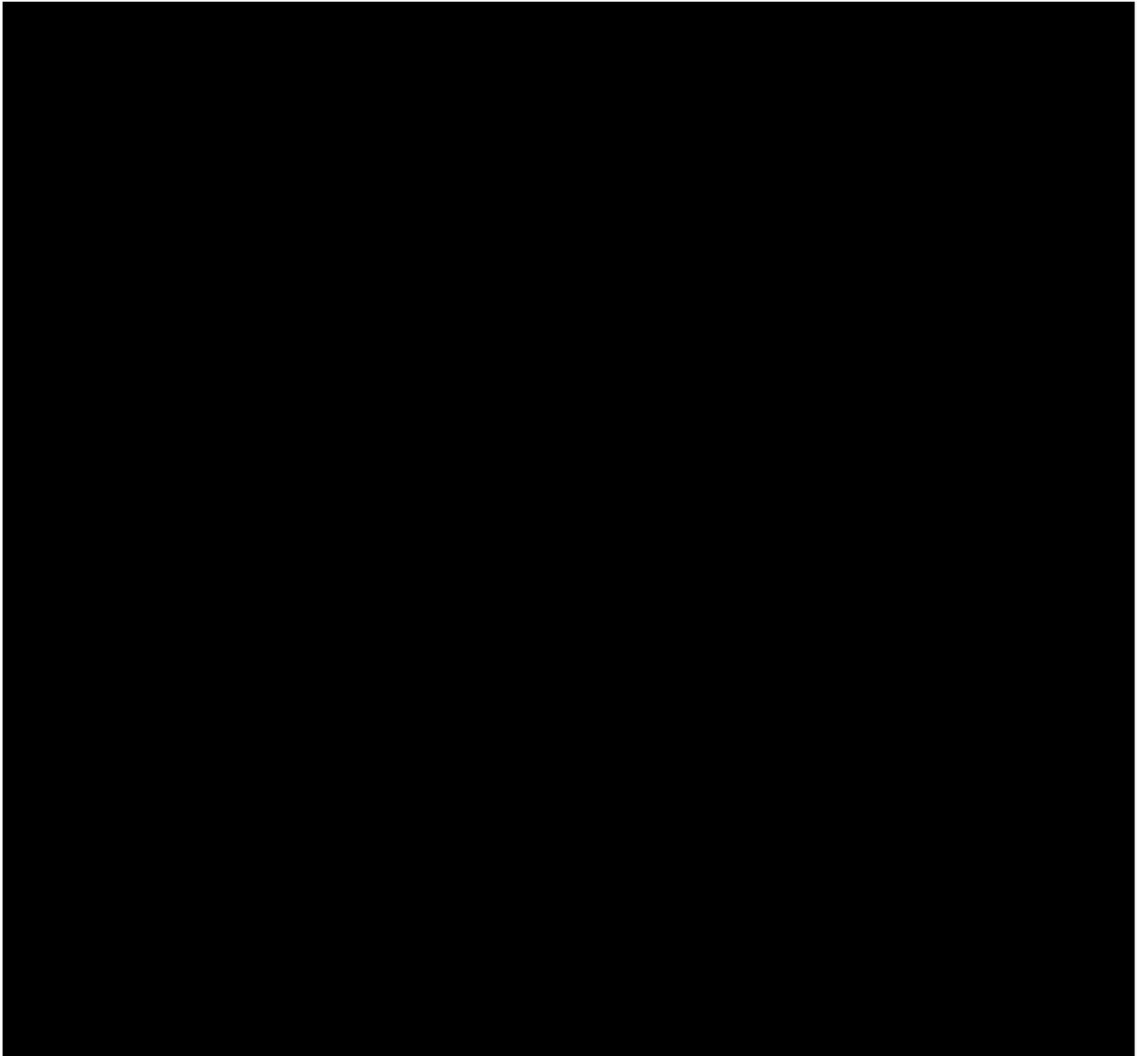
In order to provide the most comprehensive approach to enforcing service limits, PBM OS+ defines limits at varying levels to be used within claims adjudication. Benefit plans define coverage and limitation at the plan level, drug programs (including PDL) focus on drug type limitations, and prior authorizations allow additional abilities to override (or ignore) limitations set more generically in other parts of the system.

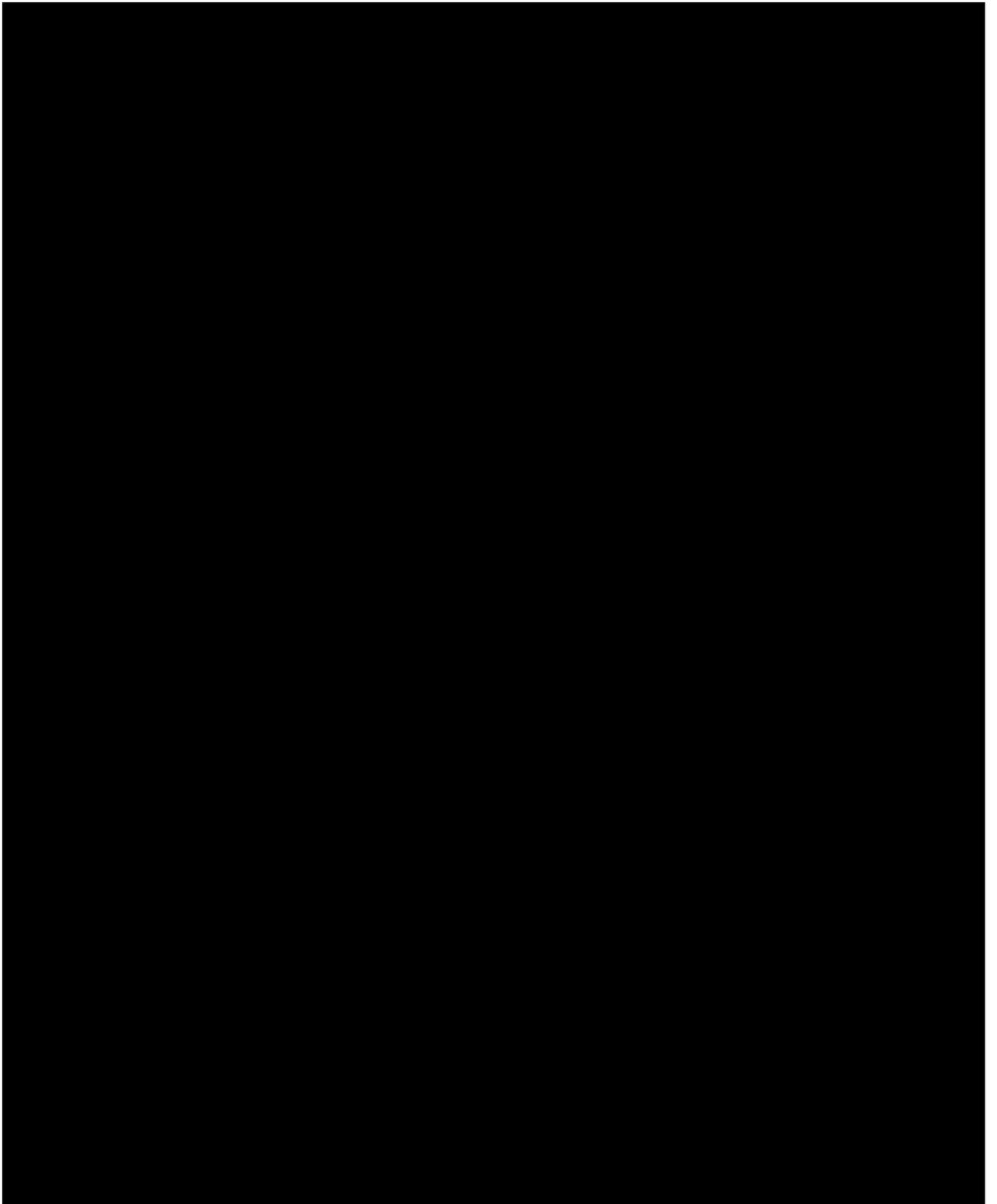
Benefit Plans: PBM OS+ maintains unique benefit plans that define coverage. Each beneficiary is assigned to a plan or multiple plans. PBM OS+ uses the benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan. Drug program functionality (which is linked to benefit plans) enables more specific coverage and exclusion criteria. PBM OS+'s Plan Limits and Custom Detail Web pages are shown in Exhibit G-23 and G-24. When processing claims, the system uses the combination of allowable eligibility span, prior authorization information, and the benefit plan(s) assigned to the beneficiary to determine drug coverage and other related information.

Drug Program: The PBM OS+ drug program functionality allows users to set quantity, age, dollar, and dosing limitations by drug type and attach custom messaging when the limits are exceeded, as shown in Exhibit G-25. In addition to the ability to attach custom messaging, AHS can also dictate the NCPDP reject and claim exception codes. For example, in the plan file, when the user sets a drug as not covered, exception code 4114/reject code 70 posts to the claim when that drug is submitted. With the system's drug program functionality, AHS is limited on the selection of the NCPDP reject code (depending upon the situation) but can choose any exception code that it wishes.

Prior Authorization: Our SmartPA component is used to perform prior authorization functionality. SmartPA virtually eliminates the need for prescribers to submit prior authorization requests for the majority of drugs requiring review prior to approval and payment. Instead, SmartPA automatically and systematically applies complex clinical and fiscal criteria during the POS transaction. Using the prior authorization Web pages, AHS maintains the allowable units and dollar amounts for each approved prior authorization. Please refer to Response Section 1.2.2, Prior Authorization Program for additional information about the authorization process.

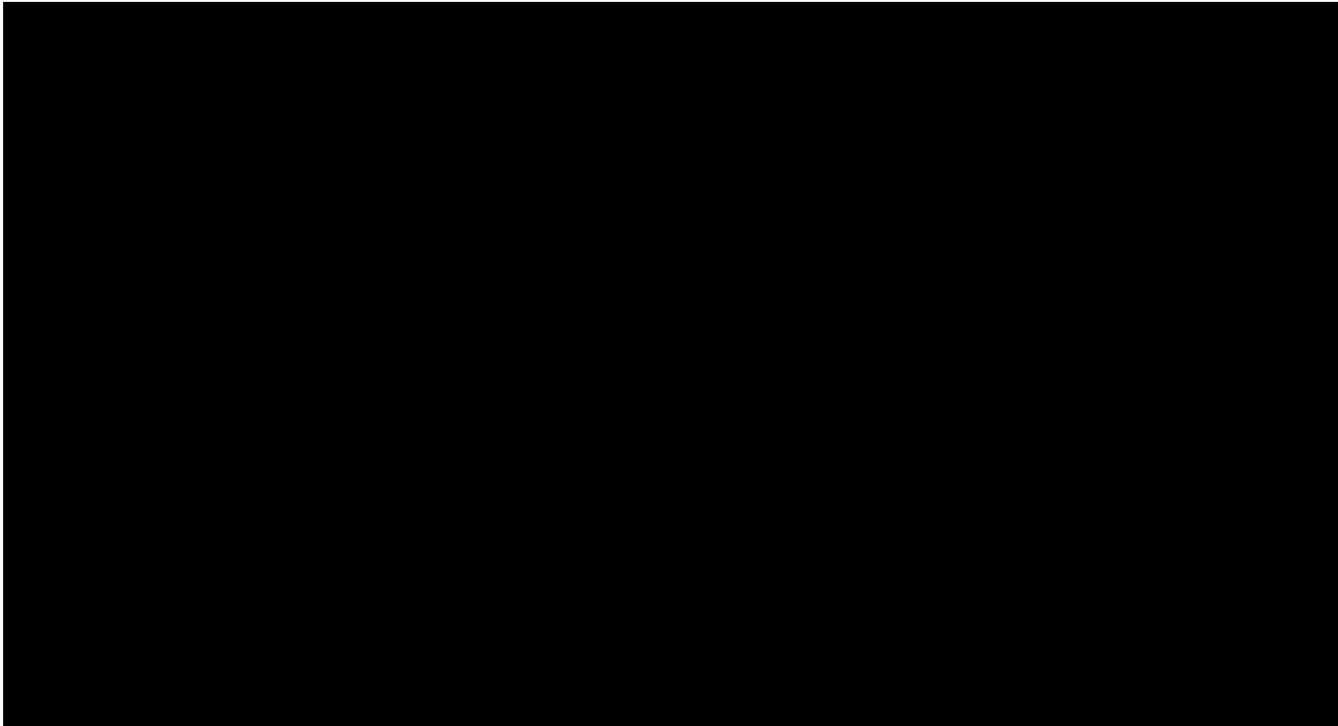






Drug Formulary

PBM OS+ pays pharmacy claims only for drugs/products that are covered in the program-specific formularies, in accordance with coverage criteria as determined by the Agency. We use the FDB MedKnowledge™ to provide core industry standard descriptive and pricing information for drug items within the PBM OS+ drug database. This data is updated weekly via an FDB interface. The system contains a formulary for each pharmacy benefit program supported by the Agency. The user enters search criteria to locate the appropriate record. Formulary information is viewed on the Web page shown in Exhibit G-26.



340B Providers

The Xerox PBMS supports identification of 340B providers and their exclusion from the federal drug rebate program managed in our DRAMS application. 340B (Public Health Service) providers can be identified on the PBMS provider database by an existing indicator. This field is currently captured from provider interfaces and is not displayed on the provider Web page. 340B providers are also linked to a specific network within the system to further define them as 340B providers.

DRAMS identifies 340B providers as ineligible providers via the Maintain Ineligible Provider page and excludes all of their claims (unless the rebate program specifically indicates that 340B claims should be invoiced) for their specified period of ineligibility. The second method used in DRAMS for identifying claims, which are ineligible for rebate, occurs when provider 340B status information is sent at the claim level from the claims processing system. There is a field on the claim extract that indicates whether the claim is a 340B claim.

For more information on the 340B process, please refer to Response Section 1.3.3, 340B Program Management.

MTM Immunization Administration

Medication Therapy Management (MTM) is a partnership of the pharmacist, the beneficiary and other health professionals that promotes the safe and effective use of medications and helps beneficiaries achieve the targeted outcomes from medication therapy.

Vermont believes that any MTM program implemented must include the analytical, consultative, educational, and monitoring services provided by pharmacists to help beneficiaries get the best results from medications through enhancing understanding of medication therapy, increasing adherence to medications, controlling costs, and preventing drug complications, conflicts, and interactions.

The State is interested in developing an MTM program that will comply with all Part D requirements for such programs, will be offered to both Medicaid and Medicaid/Medicare eligible populations, and will be integrated into and coordinate with other State initiatives such as the Vermont Chronic Care Initiative (VCCI). This is envisioned as utilizing a combination of community pharmacists who currently see beneficiaries on a regular basis and supply their medication needs, and State and/or Vendor clinical pharmacists who will coordinate with the DVHA, community pharmacists, the VCCI program, and other stakeholders to assure continuity and coordination of MTM services. Pharmacists should be reviewing medication regimens for any potential problems such as drug interactions, duplications of therapy, appropriate dosing, dosage forms, and routes of administration, medication adherence and compliance, side effects, cost optimization such as promoting generic utilization, and assuring compliance with the State's PDL.

The MTM program goals are:

- Strive to reach optimum therapeutic outcomes for targeted beneficiaries through improved medication usage.
- Reduce the risk of adverse effects.
- Be developed in cooperation with licensed and practicing pharmacists and physicians.
- Be furnished by pharmacists or other qualified providers.
- Distinguish between services in ambulatory and institutional settings.
- Be coordinated with any care management plan established for a targeted individual under Vermont's Chronic Care Initiative Program (VCCI).

DIRECT CARE PRO is Xerox's Medication Therapy Management (MTM) Web-based portal that uses well-established, evidence-based treatment standards of care that improve health outcomes and reduce the incidence of morbidity associated with chronic conditions or inappropriate use of medications.

DIRECT CARE PRO is not limited to MTM transactions. The Pharmacist also has the capability to document the administration of Immunizations for a beneficiary and bill for the drug cost and the administration of the drug through an 837 (X 12 HIPAA compliant transactions) for reimbursement. A CDC vaccine information form is also printed through the application and provided to the beneficiary upon administration of the Immunization.

For more information on the MTM process, please refer to Response Section 1.2.11 – Medication Therapy Management.

Durable Medical Equipment (DME) and Supplies

NDDF Drug File Updates: Xerox contracts with FDB to receive FDB MedKnowledge updates on a weekly basis to ensure up-to-date information is available for claims processing, prior authorizations, and reporting. The FDB file includes an entire list of products, including legend and over-the-counter (OTC) medications, durable medical equipment, supplies, and injectable drugs. The list provides standard drug identifiers, pricing information (historical and current), and clinical information.

Invoices for Durable Medical Equipment (DME) and Supplies: DRAMS processes DME and supplies invoicing in the same manner as it does supplemental invoicing. Like supplemental rebate programs, DME rebate programs require contracted URA data to be loaded into the system in order to calculate invoice amounts. Data from paid claims is also loaded into the system so that NDC specific information such as date of service, paid date, NDC, and paid units are available for calculations and invoice generation.

Once the DME supply contracts and claims data are loaded, the pre-invoice processing and actual invoice generation proceeds in the same manner as supplemental invoice generation.

POS Claims Processing System (FR1.16)

Preferred Drug List Status

Authorized AHS staff can utilize PBM OS+ online Web pages to indicate PDL status for any individual drug item, as shown in Exhibit G-27. Further, the system maintains a complete audit trail of PDL updates, which is available for inquiry by authorized AHS staff.

Additionally, Xerox can receive a batch PDL interface from AHS that automatically updates the preferred status for any individual drug item. The batch process generates reports that we submit to AHS staff to ensure that all PDL data is updated correctly.

Attachments

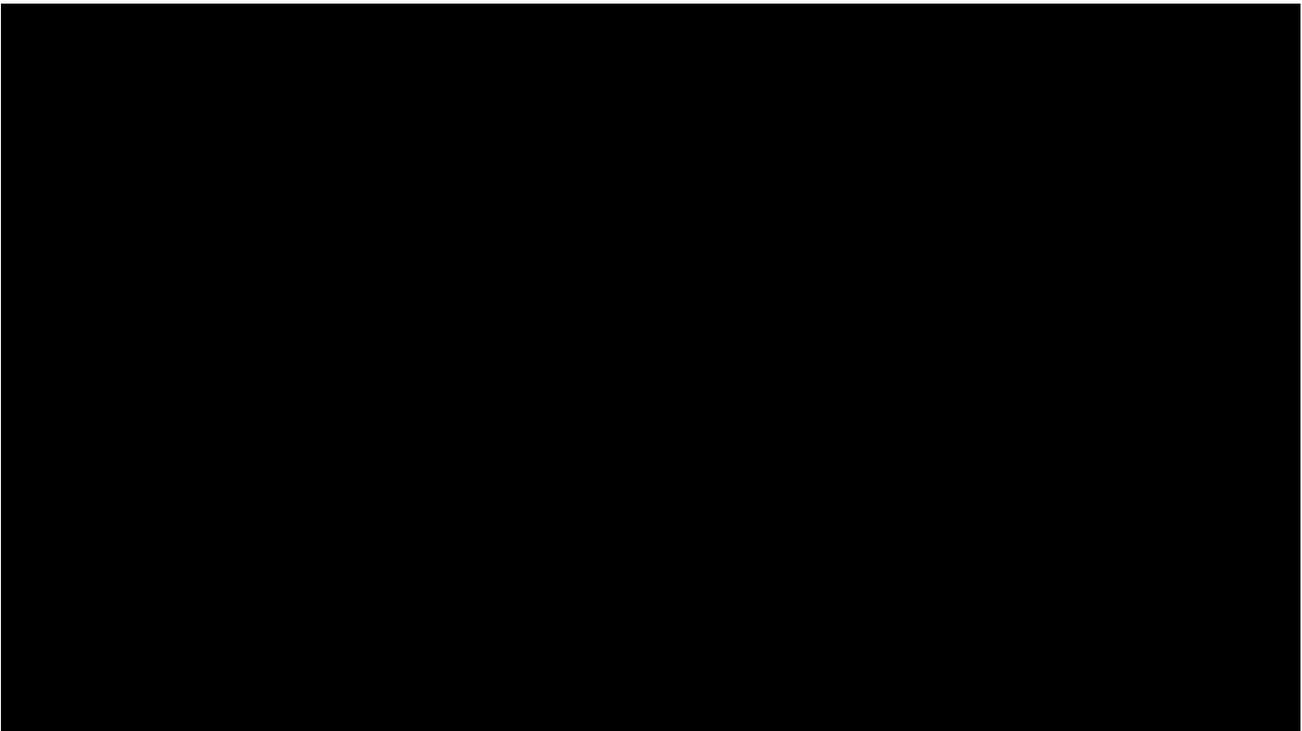
PBM OS+ maintains edits within the system that ensure all required attachments are submitted for particular claims as well as determine whether a prescribed drug requires authorization, and if so, whether authorization was granted prior to dispensing the drug. The system will be enhanced during DDI to provide an indicator on the drug file or PA screen that indicates attachments are necessary, along with a custom message to alert the pharmacy of the attachment requirement.

PCCM Referral / Prior Authorization

The adjudication process includes editing for a wide variety of standard rules as well as program specific policy allowing the system to determine which claims should be paid and which should be denied payment. As a part of this process, functions within PBM OS+ such as the definition of benefit plans and indicators contained therein, are used to ensure that when a particular plan requires a referral or prior authorization, it exists prior to indicating a claim is available for payment.

Special Programs

PBM OS+ maintains unique benefit plans that define coverage for Medicaid and other special programs. Each beneficiary is assigned to one benefit plan or multiple plans. When a beneficiary is active in more than one plan, applicable coverage is determined through an AHS-specific hierarchy that contains available plans for the group and an associated rank. In the event of overlapping eligibility in multiple programs where a beneficiary is active in multiple plans, this rank is used to determine which plan should be utilized for the payment of services as shown in Exhibit G-28.



1.1.2 Automated Coordination of Benefits (COB)

The Vendor must validate claims to determine whether there is one or more liable third party that must be billed prior to billing the State's programs including, but not limited to, the following:

- Denying payment for claims when a beneficiary is covered by one or more carriers until the billing provider indicates the claim has been fully adjudicated (paid or denied) by the other payer(s);
- Utilizing the Agency's TPL data, the Vendor's external TPL data, and eligibility records to ensure that all payment opportunities are exhausted;
- Processing claims where multiple third parties are liable, some of which may be other state programs;
- Overriding COB editing as specified by the AHS;
- Maintaining indicators to identify Medicare Part B drugs and process the claim balance remaining after subtracting the Medicare Part B payment for beneficiaries dually enrolled in Medicare and any of the AHS's programs;
- Coordinating benefits automatically with all primary payers including capturing and storing the primary payer's data; and
- Obtaining maximum cost avoidance and reimbursement for beneficiaries covered by third parties.

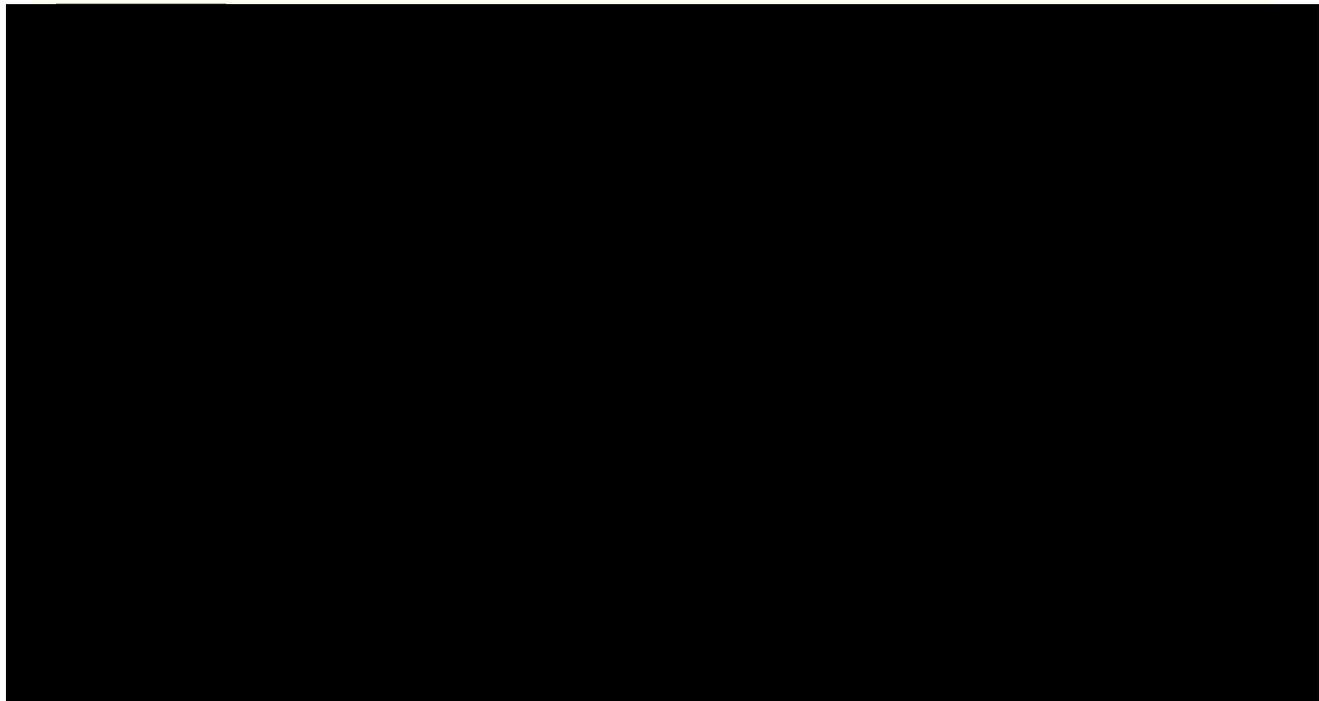
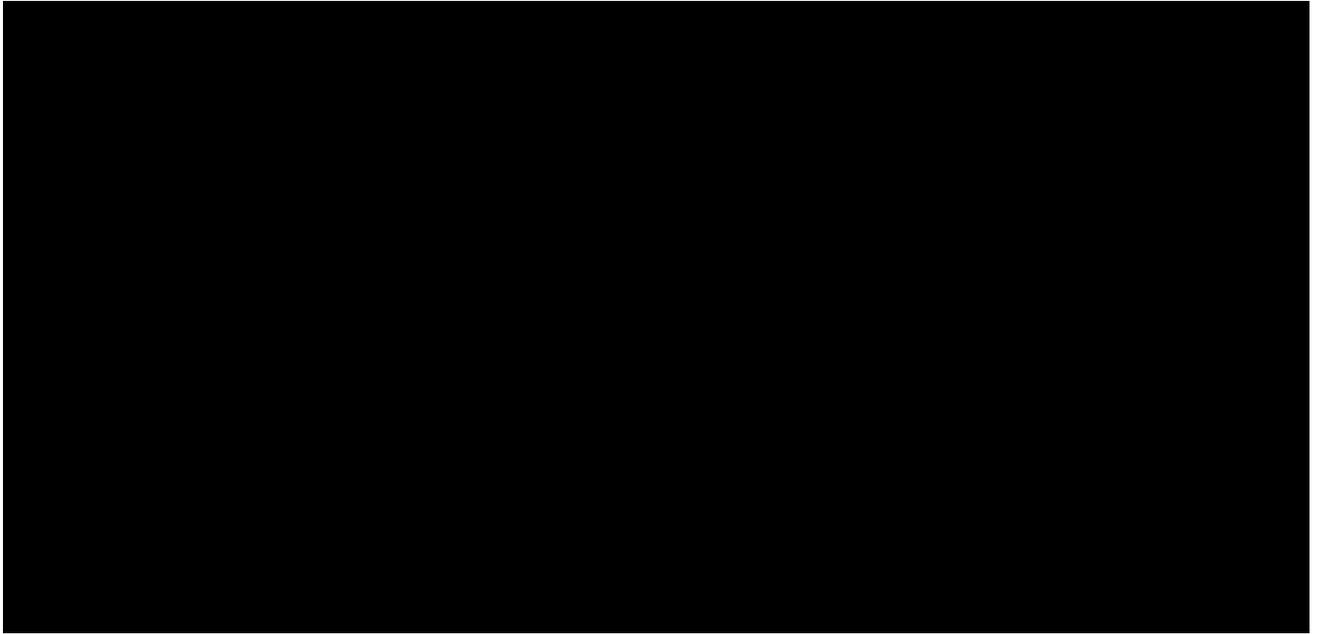
The Vendor must describe their approach to providing coordination of benefits.

Deny Payment for Claims with Third Party Carriers (FR1.19)

Xerox solutions help ensure the Agency is the payer of last resort and that is critical to keeping spending in line and avoiding unnecessary costs. This is so that dollars can be maximized to provide the best possible service to beneficiaries. Our PBM OS+ system denies claims for clients with appropriate third-party coverage. The system provides insurance information in the POS message to the pharmacy along with notice of denial of payment. Our systems utilize the AHS's TPL data, our external TPG data, and eligibility records to ensure all payment opportunities are exhausted.

Ensure all Payment Opportunities are Exhausted (FR1.19)

The PBM OS+ system has the ability to interface with multiple MMIS programs to send TPL information including third-party coverage, enrollment in Managed Care Organization (MCO), or Medicare Part D assignment. The TPL information is stored in the PBM OS+ database and available online by authorized users as shown in Exhibit G-29 and Exhibit G-30. During claims adjudication, the system uses the TPL data and TPL rules established by the AHS to determine when to cost avoid (deny) or pay the claim for post-payment TPL "pay-and-chase."



Cost Avoidance (FR1.19, FR1.20)

Cost avoidance of claims is accomplished during claims adjudication. The cost avoidance process may begin with the presence of a TPL indicator on the eligibility interface or when a provider submits a claim with documentation of other coverage. When other coverage exists and the AHS rules dictate, Xerox ensures that providers have billed the other carrier before submitting a claim. PBM OS+ requires the provider to submit proof of the other carrier’s payment or denial with the claim before the AHS makes any payments.



PBM OS+ has standard COB logic and TPL rules that are customized to meet the needs of AHS. The RFP identifies these high-level business rules to use when processing claims to ensure that AHS is the payer of last resort:

- If there is a TPL payment amount reported on a claim, PBM OS+ deducts it from the amount payable by the Agency.
- If the member has known or suspect TPL coverage, the system flags the claim for post payment subrogation by the Agency.

During requirements gathering meetings, Xerox will meet with the Agency to gain a complete understanding of when to deny claims versus pay and flag claims for TPL subrogation. We will configure and test PBM OS+ COB/TPL rules according AHS requirements.

PBM OS+ uses other coverage information to validate claims using the most current TPL information to ensure that all payment opportunities are exhausted and that AHS is the payer of last resort meeting this requirement. The data fields in the interface files are stored in the PBM OS+ database. This data allows the system to determine whether a liable third party must be billed before AHS. Depending on AHS rules, if the member has valid TPL coverage, PBM OS+ can deny the prescription with messaging instructing the pharmacy to bill the other payer first. We have experience implementing COB rules that vary for each of our Medicaid pharmacy program clients.

The Agency realizes extensive savings through the effective application of cost avoidance. During claims adjudication, the system reviews the nine third party payer segments on the incoming claim and uses the rules established by AHS to determine how to process each segment. The same adjudication rules that applied to the first third party resource are applied to each succeeding resource.

Providing accurate messages to pharmacies regarding TPL is an important step in effective COB. PBM OS+ returns claim messages to pharmacies during claims adjudication including information for all TPL carriers effective on the claim’s date of service (e.g. carrier code, policy number, policyholder, effective dates of coverage). PBM OS+ fully supports all NCPDP standard D.0 reject codes, and also associates an internal Xerox exception code(s) with each reject code to provide custom messaging capabilities. Table G-4 includes possible TPL situations and how the system responds to each situation. During DDI, we will customize these rules for AHS according to its business policy.

Table G-4. System Response to TPL-Detected Coverage	
Situation	PBM OS+ System Response
There is a third party or primary payer of record and no billing effort has been made	The claim is denied based on AHS-specific criteria pending further action
All the primary or third party payors of record have denied the claim	The system recognizes the claim as correctly billed to the appropriate parties and then adjudicates the claim based on AHS criteria
All third parties have been billed and have made partial payment	If the drug is covered, the claim balance is paid in full when AHS has been identified as the payer of last resort
The third party has been billed and has paid the maximum allowable charge	The claim is adjudicated and no additional payment is made

Table G-5 illustrates the sample TPL-related exception code message assignment for NCPDP reject code 41. During DDI, we will customize these codes for AHS according to its business rules.

Table G-5. NCPDP Reject Code 41 – Submit Claim to Other Processor	
Exception Code	Description
4062	TPL on member table; not on claim
4419	The carrier is equal to '09200' - '09201' - '09212' and the other amount paid is greater than zero and/or the other insurance indicator is not equal to '2'
4558	Medicare coverage is present
4559	TPL payer amount less than 20%
4636	Other payer amount paid insufficient
4863	Member covered by private insurance
4831	Submitted Medicare copay amount exceeds plan limit
4962	Claim indicates other coverage but MMIS files do not have TPL information on file. Pay the claim but post the exception. No EOB required.

Claim TPL Data

The pharmacy may send TPL data on the claim. During claims adjudication, the system reviews the nine third party payer segments on the incoming claim and uses the rules established by the Agency to determine how to process each segment. The same adjudication rules that applied to the first third party resource are applied to each succeeding resource. The following list shows the detailed information that the pharmacy can submit with each third party payer segment:

- Other payer coverage type
- Other payer ID qualifier
- Other payer ID
- Other payer date
- Internal control number
- Other payer amount paid count
- Other payer amount paid qualifier (up to 9 of these)
- Other payer amount paid (up to 9 of these)
- Other payer reject count
- Other payer reject code (up to 5 of these)
- Other payer patient responsibility amount count
- Other payer patient responsibility amount qualifier (up to 25 of these)
- Other payer patient responsibility amount (up to 25 of these)
- Benefit stage count
- Benefit stage qualifier (up to 4 of these)
- Benefit stage amount (up to 4 of these)

Mail Order Pharmacy Coverage (FR1.21)

Xerox's automated COB solution can process claims from a third party, whether it be a retail claim or a mail order claim, using indicators on a claim to dictate which rules the system needs to use during adjudication. If the primary claim was a mail order claim and comes to PBM OS+ for processing, the system will use mail order rules during adjudication to determine final cost to the pharmacy after all COB rules are taken into consideration. The system will continue to look for presence of Other Payers when there is data on the beneficiary file indicating other coverage is active.

1.1.3 Provider Network Support, Call Center, and Portal

The Vendor must be the first point of contact for providers with questions, concerns and complaints and must implement and maintain a provider contact and problem resolution tracking system. The system must, at a minimum, document and track contacts with providers, identify issues and describe problem resolution. The Vendor must review the data submitted by providers, obtain any corroborating information, and prepare an analysis of the issues. The analyses must be reviewed with Department staff at regularly scheduled meetings. The Vendor is responsible for provider communications and must maintain current contact information for the provider networks.

The Vendor must implement a pharmacy and prescriber provider portal and provide support, updates, and maintenance customized to meet the needs of the State. The vendor must guarantee any data exchange on its website between the Vendor and the State or providers will be secure.

The Vendor must describe their approach to providing a portal that supports effective communications with providers.

Xerox offers several options for provider network support including our provider relations staff, our state of the art 24x7x365 call center and our provider portal. Together these services and solutions provide operational efficiency and enhanced quality and performance for all of Vermont's providers.

Xerox Provider Network Support (Requirements: FR1.22, FR1.23, FR1.24, FR1.25, FR1.26, FR1.27)

Vermont providers are able to contact Xerox through multiple channels when questions arise concerning eligibility, claims processing, prior authorizations, or State policy. The majority of providers interact with Xerox through a phone call to the call center.

Our established call center in Henderson, North Carolina was built in 2003 and specializes in providing pharmaceutical and clinical support for customers nationwide. There are more than 400 clinical and pharmacy services specialists on staff in the call center. Our Henderson site is open 24/7, and promptly responds to more than two million calls and 180,000 faxes each year.

Highlights

- Henderson, NC call center focused solely on pharmacy benefit management programs
- 24/7 operations
- State-of-the-art telecommunications system providing sophisticated call routing, call tracking and reporting

Xerox’ highly trained staff handle a wide range of call types including general eligibility questions, claims inquiries, prior authorizations, operational questions and problems, clinical/drug inquiries, and general provider support. Approximately 40 percent of Henderson’s call volume is comprised of prior authorization (PA) requests from providers and prescribers. Our staff members are also trained to handle questions about pharmacy services, standard NCPDP reject codes, and plan designs and benefits that are related but fall outside of PA services. Pharmacy technical support makes up 30 percent of our monthly phone volume, and recipient support accounts for the remaining 30 percent.

Xerox Call Center Services

Xerox’ extensive government pharmacy call center support experience includes providing technical and clinical assistance to 11 State and 9 Commercial PBM clients. We have satellite call center locations in Cary, NC, Raleigh, NC, Houston, TX, Baltimore, MD, and Washington, DC, but the main hub for call center activity is in Henderson, NC. All call centers are supported by a scalable, flexible technology platform, with toll-free telephone and fax numbers supported by sufficient lines to respond to anticipated growth and periodic peaks. The following table depicts our clients.

Table G-6. XEROX Current Call Center Clients				
Client Type	Client Name	Pharmacy Services Help Desk	Clinical Help Desk	Other
Medicaid	Colorado	✓	✓	
	District of Columbia	✓	✓	
	Hawaii	✓	✓	
	Maryland	✓	✓	
	Massachusetts	✓		
	Mississippi	✓		
	Montana	✓		
	New Mexico	✓		
	Ohio BCMH	✓	✓	
	Ohio JFS	✓	✓	
	Wyoming	✓	✓	
Workers’ Comp	M. Joseph	✓		
Commercial	Chargeurs Wool	✓		
	Commercial Payer Precertification (4)		✓	
	Commercial Payer PHL (2)	✓		
	Commercial Payer Mail Order Delivery			✓

Xerox Call Center Technology

Xerox provides all required information systems, telecommunications, and personnel to perform the required call center support functions described in the RFP. The call center’s voice environment is scalable, technologically sound, and operationally efficient. The below table provides an overview of our call center technology.

Table G-7. Call Center Technology Platform	
Component	Features
Avaya S8700 PBX/Automatic Call Distribution (ACD)/Call Management Telephony	<p>Our telecommunications system includes all necessary switching, ACD, and other hardware, software, and connectivity to ensure an efficient and effective call center. The following features contribute to the telecommunications environment:</p> <ul style="list-style-type: none"> • Provides sufficient telephone lines and trunks to handle all incoming calls • Provides capability for greeting/educational messages while callers are in queue • Offers speed dial, conference call capacity, transfer, and other features • Supports conventional digital circuits and stations, internet protocol (IP), integrated services digital network (ISDN), and primary rate interface (PRI) • Allows ACD administration to route calls effectively and minimize wait times and busy signals. Advanced ACD call routing features include touch-tone routing, as well as skills-based and best-service routing to efficiently route incoming calls, while minimizing wait times and busy signals. ACD groups can be defined based on an inquiry’s anticipated complexity (e.g., eligibility verification, policy clarifications). • Supports real time statistics and historical reporting through integrated platform, including average speed to answer, talk time, and abandonment rate • Supports customizable greeting messages, including estimated wait time
ULTRASelect by Verint Systems	<ul style="list-style-type: none"> • Allows real time performance monitoring, call recording and storage of three months of call performance to ensure quality delivery of service • Provides evaluation templates and reporting
OmniTrack	<ul style="list-style-type: none"> • Supports contact record management and tracking for help desk inquiries, workflow, and reporting • Allows real time and historical reporting (i.e., open/closed inquiries, grievances/appeals, and aging)
RightFAX	<ul style="list-style-type: none"> • Sends and receives faxes 24/7/365, with a total of 48 channels (fax lines) available • Automates the receipt and assignment of faxes into the workflow for processing
TELEform	<ul style="list-style-type: none"> • Accepts PA faxes for approved customers; faxes go directly into TELEform for OCR data capture • Creates standardized electronic forms from different free-form documents • Automates scanning and indexing for provider and rebate contracts being archived in OnBase
OnBase Document Imaging Solution	<ul style="list-style-type: none"> • Used for workflow and archiving of PAs; images are used to manually key PAs into claims adjudication system (OS+) • Used for archiving and storage of claim documents and other documents to support PBA operations, including rebate administration, Pro-DUR, and Retro-DUR

Xerox uses the Avaya S8700 PBX software version 5.0 with Intuity LX Voicemail. Avaya is an industry-standard (touch-tone) technology and is installed in all of our pharmacy call centers.

Our Avaya solution enables advanced forecasting, monitoring, and reporting, and provides information and management tools to monitor and analyze call center operations performance. The system is capable

of providing multiple messages (including educational messages) and automated scripts for the caller to navigate to obtain information or services. The Avaya system provides an administrative interface to the Automatic Call Distribution (ACD) feature of the servers. By setting up various parameters within the Avaya system, we can match callers with the call center staff person best able to serve them.

The Avaya phone system ensures that all calls are answered on the first ring. Callers hear a greeting, and are delivered to the next available agent. If no representatives are available, callers are sent to a queue. They remain in queue, in the order their call was received, until the next representative becomes available. We are sized appropriately to handle a large inbound call volume within required service levels. We are fully capable of ensuring that less than one percent of calls ring busy. In the past four years, our ring busy rate has been zero percent. A review of our historical performance for our PBM clients shows our average abandoned rate has consistently been three percent or less.

In addition to being available by phone, the call center is also able to receive facsimile (fax) and other electronic PA requests. Our Document Management System (DMS) is scalable and able to handle a high volume of simultaneous fax requests from multiple sources. Images of each fax are digitally captured and stored for retention purposes, eliminating the need for paper and the risk of HIPAA sensitive information being compromised. Xerox works directly with client representatives to create general or customized fax forms. We will publish these forms to the provider community and on our website.

Our DMS system delineates the type of medication requested, and routes it to the appropriate call center personnel for evaluation. Multiple workflow queues may be created so that varying priority levels are assigned to incoming fax requests (ex. a critical care drug class may be assigned a higher priority than a preventative care drug class). Call center staff process fax requests in between phone calls for maximum efficiency and quick turnaround. Additionally, the call center is able to receive PA requests via email and from the Web. Regardless of the method used to initiate the request, the call center processes PA requests within 24 hours.

Additional features that are part of our pharmacy call center include Expert Agent Selection (EAS) skills-based routing and best-service routing, along with a host of additional advanced ACD features (i.e., based on primary agent, highest skill level available). Our solution provides both graphical monitoring of real time data and a messaging marquee or ticker tape display of the real time data on each computer desktop screen. This marquee keeps representatives, supervisors, and managers informed of how many calls, if any, are waiting in the queue. Xerox call center management uses these monitoring and reporting tools to not only ensure performance and operational standards are being met, but also to identify and proactively address potential issues. We also support TTY phone calls for deaf callers and have a language translation service available for callers for which English is not their primary language. Taken together these technological features ensure that all callers will be able to obtain the help they need.

Xerox' enhanced telecommunications solution has the following features that provide a flexible and powerful telecommunications environment:

- Assigns incoming calls to available representatives in an efficient and equitable manner, and ensures that callers experience as short a wait as possible
- Automatically places callers in queue and provides greeting messages, as well as educational messages while callers are in queue and holding for the next available representative

- Allows calls to be monitored by a supervisor to evaluate the representative's performance on content, customer service skills, and efficiency
- Provides sufficient telephone lines and trunks to handle all incoming calls, thus virtually eliminating the possibility that a caller receives a busy signal
- Provides transfer capabilities to other internal Xerox resources so callers do not have to hang up and redial another number. This allows pharmacy technicians or CSR to escalate calls quickly and efficiently to a pharmacist when necessary.

The Xerox Omnitrack call documentation system is used by agents to document key aspects of each call. Omnitrack allows agents to document the date and time of the call, the identity of the caller, reason for the call and other pertinent details unique to each call. The Omnitrack database allows searching and querying to provide both immediate information useful to the agent while on the call and analytical information that Xerox and AHS can use to identify trends, analyze call patterns to detect common problems and to determine opportunities to improve program policy and processes to streamline provider interaction and compliance. This data will be shared with AHS during regularly scheduled meetings.

Xerox provider relation staff, in conjunction with call center staff, provide information and assistance to providers on a wide range of topics. Both groups can provide updates on State policy and Xerox processes to improve the effectiveness of the provider community. Xerox distributes information via telephone, fax, email and through information posted on the portal. This array of communications options allows providers to use the method with which they are most comfortable and helps ensure providers are never confused about what they need to do or how they need to do it.

The provider relations staff prepare and distribute, subject to the Department's approval, all provider communications including but not limited to, provider notices, newsletters, operational, programmatic, or system changes of any type that impact providers, and clinical notices such as changes to drug coverage. These communications can be distributed in a variety of formats including, but not limited to direct mail, web portal, DVHA website, email, fax, phone.

Xerox Call Management

Xerox Help Desk CSRs adhere to established operational procedures that have proven successful in a variety of customer service environments. When an inquiry is received via the Help Desk, the CSR discusses the nature of the problem with the caller and collects all necessary information in our contact management component, OmniTrack. All calls are categorized and documented, so that reporting can be performed on a daily, weekly, or monthly basis.

The CSR works to courteously and efficiently resolve the issue, while remaining within program guidelines and ensuring HIPAA compliance. If, for some reason, a CSR is unable to handle an inquiry or there is an issue with the call, the inquiry is immediately escalated to a supervisor. Escalations are handled within 24 hours. Any required follow-up calls are completed within 24 hours, as well, and the ticket is then closed. When a caller requires clinical assistance, the call is escalated to the prior authorization (PA) review unit or the onsite/on call pharmacist as appropriate. Our call center is staffed with registered pharmacists available 24/7 for questions or escalated calls. We also work with the AHS staff to develop

policies and procedures to ensure timely, appropriate access to information to support appeals and special circumstances.

Complaints are noted and will be forwarded to AHS for review. We will work collaboratively to determine the format of the Complaint Report, and will provide it to AHS at an agreed-upon interval. As all calls are recorded, they may be retrieved electronically and provided to the agency upon request.

Call Center Quality

Xerox takes call center quality very seriously. We support a diverse group of clients including state Medicaid accounts, commercial payer accounts, workers' compensation accounts, and federal accounts. Each of our clients has different requirements and priorities but all are focused on call center quality.

Call quality starts with recruiting and training. Xerox has a rigorous employee recruiting and selection process developed over many years of call center operations. We work closely with our clients to ensure we understand and have documented correctly the client's policies, priorities and program information. This information is included in our Online Client Summary; a Web tool available via browser at each agent's station. This document clearly and neatly presents the critical information needed by the pharmacy help desk or clinical staff to assist callers as efficiently and accurately as possible. Agents can quickly refer to the tabbed reference material presented in the Online Client Summary to ensure the information they provide to callers is correct. Xerox corporate and call center policies and procedures are also immediately available online for agents to help guide their workflow and decisions.

To assist management in monitoring and evaluating performance, Xerox uses ULTRASelect, an advanced call-monitoring tool, to record, silently monitor, and grade the performance of each customer service representative. Callers to the call center hear a prerecorded message that notifies them that the call may be recorded for quality assurance purposes.

We have a well-defined quality assurance process to ensure each representative consistently exceeds quality expectations. ULTRASelect captures screen shots of exactly what the agent is doing during a call and combines that with the audio of the call. This potent combination allows quality analysts to see and hear what the call center representatives are doing and saying during each call. The quality analyst is able to ensure that correct and consistent information is being delivered and that call center representatives follow proper procedures, access all appropriate information sources, and properly document the results of each interaction in our OmniTrack case management tool.

Our QA process includes a one-on-one review with the quality analyst and the call center representatives. We meet at least bi-weekly with each call center representative to discuss quality evaluations that have been conducted during that time period. We meet more frequently if deemed necessary due to substandard performance. The sessions are interactive, and we allow the call center representatives to review and evaluate themselves using calls that have been recorded by the ULTRASelect system. The result is a consistent stream of evaluation and feedback, which allows steady growth and development.

Another component of call quality from the caller's perspective is the ability to be clearly understood and to understand the information provided by the agent. Xerox ensures all callers, regardless of their native language, are able to communicate clearly with our agents. We accomplish this by using a commercial call translation service provided by Certified Language International (CLI). CLI provides telephone

interpretation services for 175 languages. CLI provides live operator assistance 24/7/365 with an average connection time of 18 seconds. This service allows all callers to communicate clearly and quickly in the language with which they are most comfortable thus ensuring a higher quality call experience.

Business Continuity

ACS has a fully integrated overflow and disaster recovery plan in place. The Henderson, North Carolina call center facility was built in 2003, and is equipped with the latest in redundant telecommunications technology. The site has redundant voice and data circuits entering the building via different access points to reduce the risk of outage due to local fiber cuts. The site is linked to local and long distance carriers via a SONET ring to further reduce the likelihood of a fiber cut outside the immediate area.

The Avaya phone switch is equipped with a redundant processor should the primary fail. The entire site is protected (including call center representatives' cubicles) from power outages by an Uninterruptible Power Supply (UPS) and generator backup. We perform a weekly test of the UPS and generator to ensure its ability to sustain power to the site in the event of an outage. In this way, issues are found proactively and may be addressed before a disaster strikes. In our six-year history in Henderson, the site has never been affected by power issues or outages.

In addition, we have a national agreement with SunGard Availability Services to provide call center space and technology in the event of a disaster. Should a disaster render the Henderson site inoperable, we have a full-scale Business Continuity Plan in place with SunGard. Xerox would have access to call center space within the SunGard facility immediately upon declaration of a disaster. Each year, we conduct a Disaster Recovery Test at our SunGard recovery location to ensure that the plan is complete, actionable, and updated. Though we have never experienced an outage or a disaster in our Henderson location, we are prepared should an emergency situation arise.

Approach to Provider Portal

Web Portal Best Practices: Xerox-developed Web portals adhere to industry standards including World Wide Web Consortium (W3C) and government accessibility standards, including Americans with Disabilities Act (ADA) Design Standards. Our PBMS Web Portal provides single sign-on to the PBMS components, is compatible with standard browser technology such as Internet Explorer, which makes it accessible to nearly any user with Internet access. The portal adheres to industry best practices and standards for Web design. This includes the use of cascading style sheets (CSS), browser compliance, and context sensitive help. Further, the portal is developed in compliance with section 508 of the Federal Rehabilitation Act of 1973(29 USC 794d), which requires that electronic information is accessible to persons with disabilities.

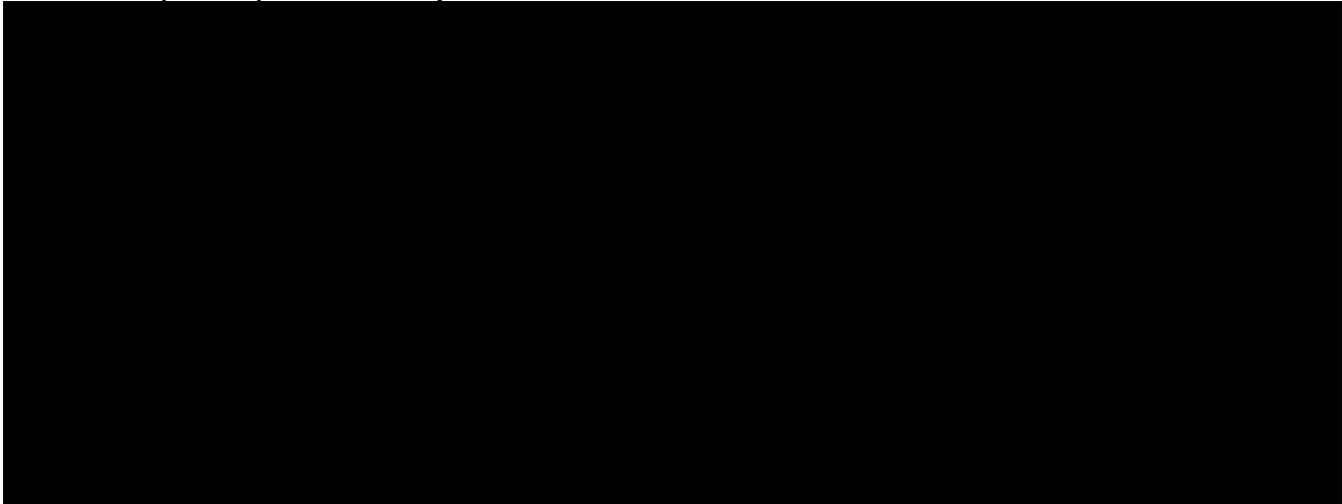
Compliance with these standards includes the use of descriptor tags for all form elements and graphics, certain format elements, and the use of compliant color schemes for proper text contrast. Compliance of pages in portal is confirmed using automated compliance testing tools. The use of CSS allows the separation of document content from presentation. Using global CSS across all pages enforces a consistent look and feel to all of the pages within the portal.

Online help is developed using MadCap Flare WebHelp. WebHelp provides a cross platform, cross browser compatible help file for the Web. Features of WebHelp include indexing, search functions, and

print support. Accessing the help link on a page provides the user with help documentation specific to that page including how to use the application function in question and any policy information that may be relevant to that application function.

Screens and Functionality

Xerox proposes a Vermont PBMS Portal as a public, non-authenticated website to provide a single point of entry to all components of PBMS. Links on the Vermont PBMS Portal will take the user to PBM OS+, SmartPA, DRAMS, Business Objects, or OnBase where user names and passwords are required for access to the appropriate application depending on the business needs of the user. Additional links will be available to take providers to the new provider portal or a Vermont SMAC website developed by Xerox, to take manufacturers to RebateWeb, and to take AHS and Xerox staff to the project repository in SharePoint. An example of a portal created by Xerox is shown in Exhibit G-31.



Standard Web page functionality: Our Web pages offer considerable functionality and ease of use with many readily apparent and appreciable navigation features. Users navigate through the screens using point-and-click functionality to open new Web pages via tabs, buttons, and hot links. Our Web pages have been designed after soliciting feedback from several experienced user focus groups concerning organization and display of data. Features include the following:

- Access to allied functions dynamically from a particular page
- Use of tabs and expansion fields such as the “+” box for entry of data that is entered infrequently
- “Copy, cut, and paste,” “point and click,” and “drag and drop” functionality
- Highlighting via the use of colors or bold text
- Dropdown boxes with full code descriptions for selection of data for all fields with valid values
- Hot keys and other online navigation mechanisms using dropdown or pull down menus
- Cursor sensitive hyperlinks

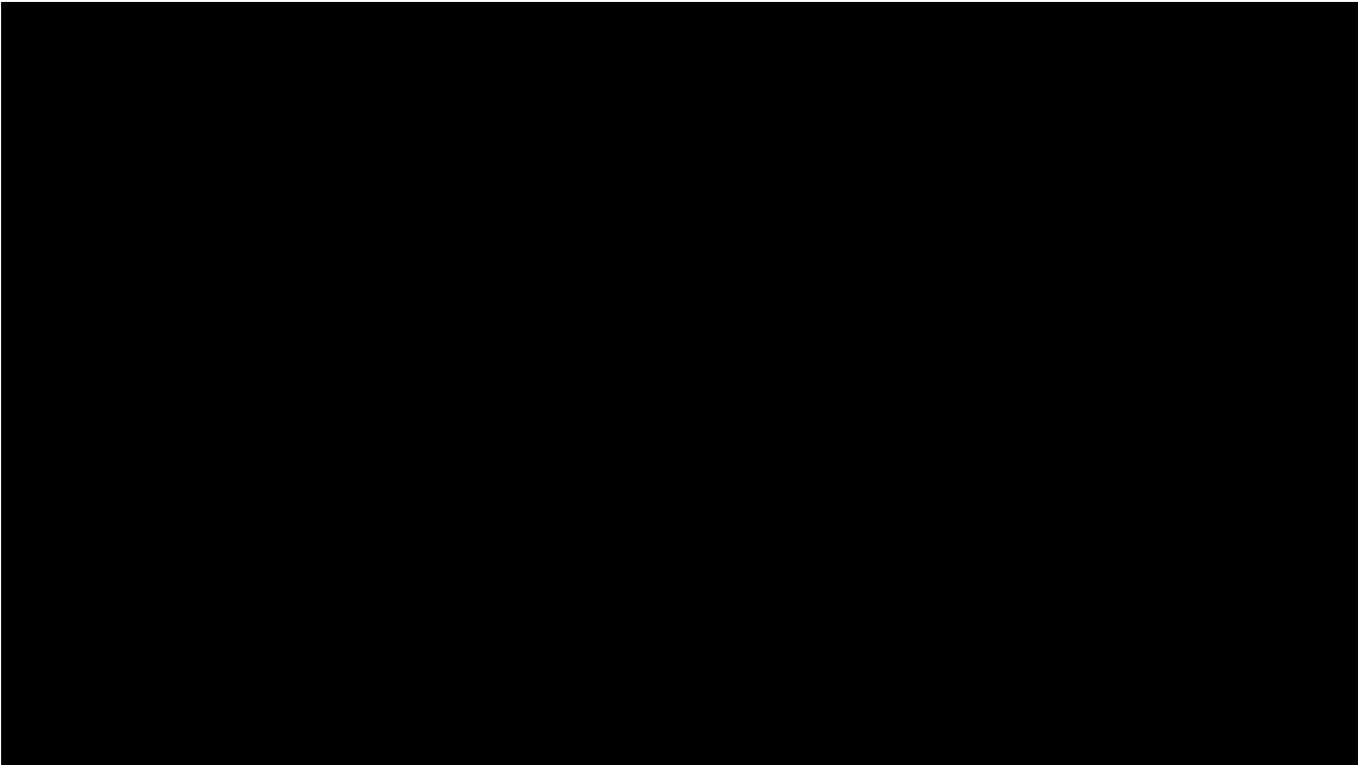
Provider Network Support, Call Center, and Portal (FR1.25)

Provider Network Support, Call Center, and Portal (FR1.28.A, FR1.28E, FR1.28F and FR1.28H)

Provider portal: Xerox will work with AHS to develop and maintain a customized Vermont provider portal accessible to pharmacies, prescribing providers, and AHS staff. The provider portal automates and standardizes communications with providers. The portal will provide capabilities including:

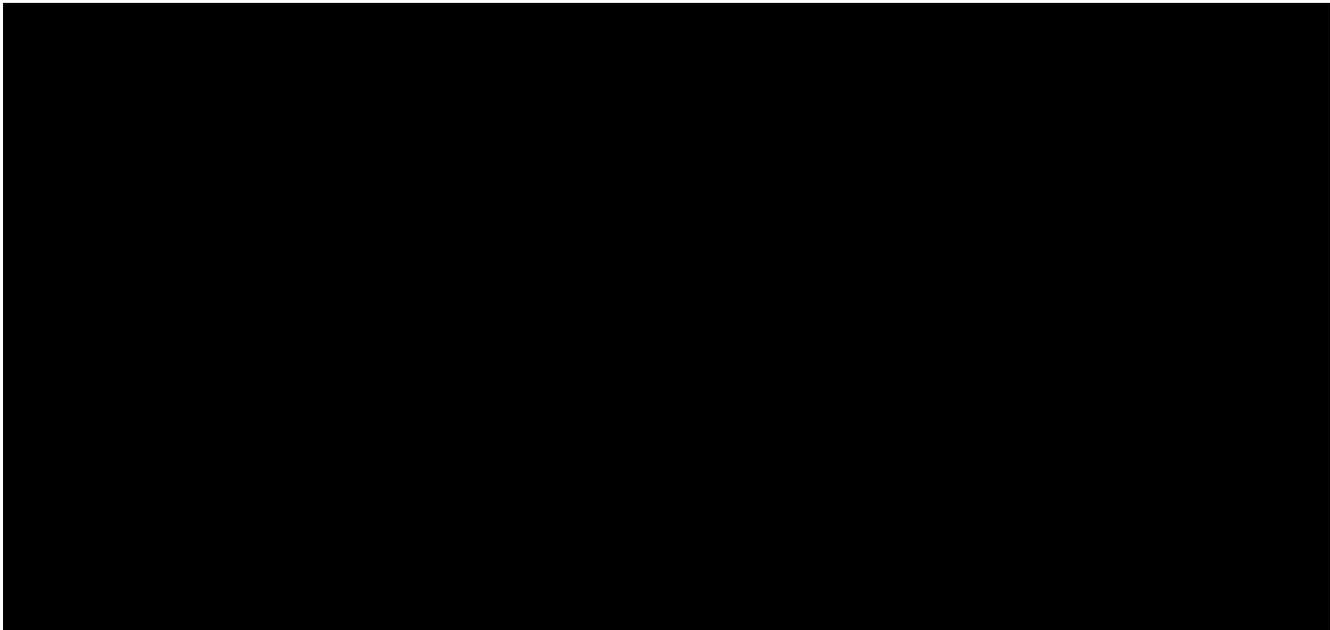
- Submission and viewing of prior authorization requests and dispositions
- Vermont Preferred Drug List (PDL)
- Provider notices and newsletters
- Operational and system updates
- Provider alerts
- Links to Pharmacy Claims Processing Manual and to Vermont Medicaid Provider Manual
- Provider and Manufacturer FAQ section
- Direct data entry of claims by pharmacy providers and AHS staff
- Publication of policy and procurement changes
- Interactive provider help
- Secure email between AHS and providers
- Submission and response of transactions other than the POS transactions

SMAC Website: During DDI, Xerox develops an Internet site for Medicaid-enrolled pharmacy providers to receive program information and updates specific to Vermont's SMAC pricing program. Exhibit G-32 shows the home page for a SMAC website that we built for our Medicaid accounts.

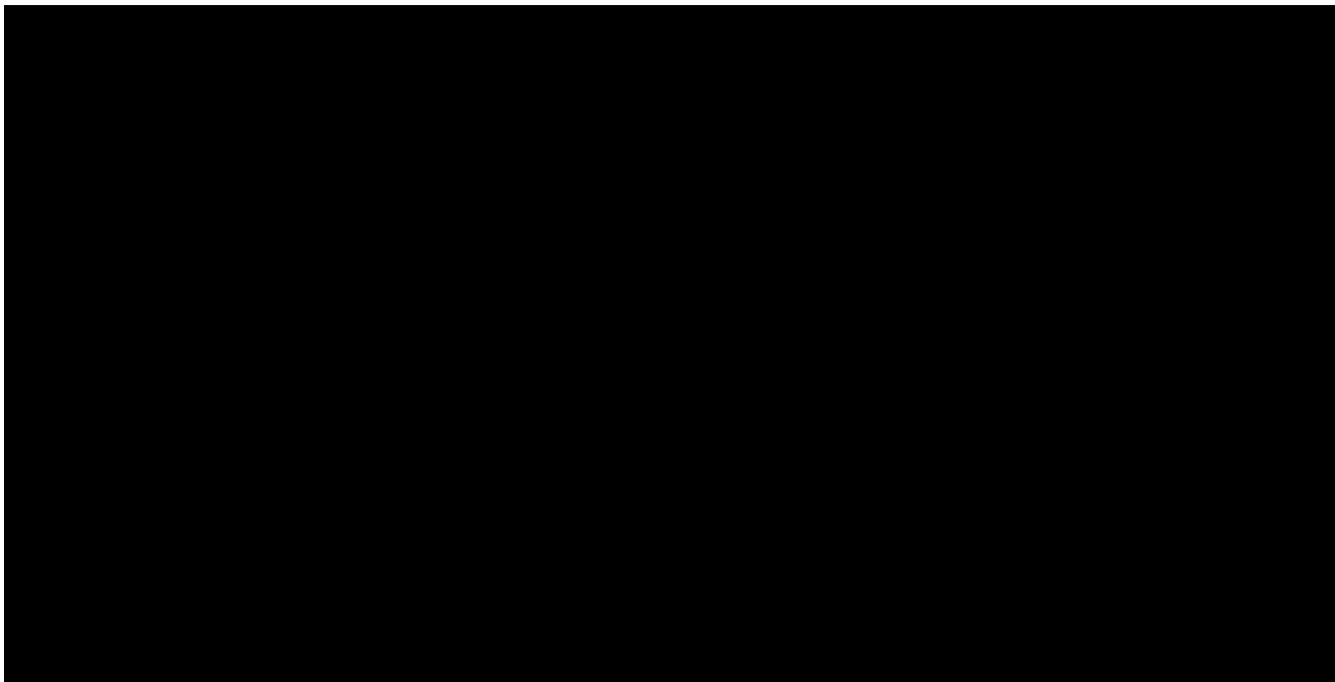


The site includes contact information, forms to be used for requesting an adjustment to established SMAC prices, the most recent SMAC price list, and a frequently asked questions (FAQ) section to address questions or issues brought by providers.

Manufacturer portal: RebateWeb, as shown in Exhibit G-33, provides portal communications between drug manufacturers and AHS staff. The portal allows drug manufacturers to view invoices, submit Reconciliation of State Invoices (ROSI) and Prior Quarter Adjusted Statement (PQAS), and to communicate dispute information.



PBM OS+ Web interface: PBM OS+ is viewed through a user-friendly Web-based graphical user interface (GUI) for AHS and Xerox staff access. Web pages provide extensive functionality for inquiry and update of all data that supports claims processing. The system records an audit trail for all updates to data made on the Web pages. We use a standard search function to inquire on records for providers, beneficiaries, claims, drugs, and reference data. This function includes the ability to use a wildcard search when only a partial name or description is entered, which allows authorized users to view lists of data where they may have broader search parameters than a single code. Exhibit G-34 illustrates an example of this type of search.



No downloads or plug-ins are required to use the Web pages. Our PBM OS+ provides a Web-based user interface, or portal that is a single point of entry for all classes of users, including AHS and Xerox staff. Based on the user ID, the system grants access to the functions and data based on specific user roles assigned to a user's security profile.

Provider Network Support, Call Center, and Portal (FR1.27)

Security Overview

By applying the security protocols set forth, Xerox guarantees the security of all data exchanges between authorized State personnel, providers, and Vendor personnel.

The Xerox Security, Privacy, and Confidentiality Plan addresses the steps Xerox takes to provide a physically and technically secure environment for the PBMS, data stored in the system, the portal, data exchanges, and data and materials archived as required. Our plan details how we adhere to State and Federal statutes and regulations – including HIPAA regulations regarding security and privacy of personal health information (PHI). Xerox's Minimum Necessary Standard Policy sets forth provisions for ensuring appropriate access, use, disclosure, and requests of PHI in accordance with the HIPAA Privacy Rule.



Xerox security protocols provide a defense-in-depth methodology that incorporates multiple layers of security to provide administrative, physical, and technical safeguards during all phases of the project. Our approach is grounded in solid, proven experience managing security for systems contracts. The system's security and privacy capabilities are defined and woven into the system architecture to protect against unauthorized access to services, processes, servers, networks, applications, and databases.

Our security approach fully aligns with HWAA's three-fold security objectives of integrity, confidentiality, and availability. We meet these objectives by employing safeguards including:

- **Physical barriers** – Physical site security includes building access restrictions, zoned access areas, intrusion detection, security cameras, and entry card readers.
- **Technical barriers** – Our network is protected by restricted access systems, anti-virus software, outer/inner firewalls, demilitarized zone (DMZ) staging, and Secure File Transfer Protocol (SFTP). Data is protected using data encryption and data masking.
- **Administrative barriers** – Security policies and procedures include background checks for staff, periodic training, visitor protocols, and a documented process for reporting suspected breaches.

Access to PBM OS+ is limited to authorized users including AHS and Xerox staff, and any other personnel AHS deems necessary. Each individual's access can be customized allowing inquiry and/or update authority to specific functional areas of the system depending on their role. When a user signs on, the user ID and password are verified and the system determines which information and functions the user is allowed to access.

All information obtained in performance of the contract is treated as confidential and only used or divulged when necessary for proper discharge of our obligations. Confidentiality agreements are a component of our employment and contractor policies. All staff is instructed that confidential information be to be used only for approved purposes and shared only on a need-to-know basis. Confidentiality agreements, as well as the chain of trust and HIPAA-related policies and procedures, are maintained for all employees that come in contact with confidential data.

The safeguards we have established protect data and records from theft, viruses, mischief, tampering, loss, and destruction. Our security protocols ensure all activity under the contract is fully secure and protected and that we are adhering to Xerox and AHS security standards. The security of AHS and Xerox personnel who work on our project sites and the protection of information about program participants are of paramount importance.

1.1.4 Post Payment Claims

As requested by the State, the Vendor must process post-payment claim reversals for pharmacy claims, such as Third-Party Liability (TPL) adjustments and other adjustments.

Post-Payment Claim Reversals (FR 3.49)

PBM OS+ supports the efficient correction of claim data due to submission errors, rate changes, claims paid or denied in error, legislative budget mandates, and other reasons including Third-Party Liability

(TPL). The PBM OS+ claims history database stores adjudicated, paid, and denied claims that are available to be voided or adjusted at any time by authorized Agency and/or Xerox staff or providers.

The system accepts voids (reversals) and re-bills (adjustments) of previously adjudicated claims in POS real-time and electronic batch formats. It supports the most current standard NCPDP transactions for voids and re-bills—B2 and B3. Additionally, authorized Agency and/or Xerox staff and providers can enter voids and re-bills online through the system’s Web pages. Re-bills are processed through the full adjudication cycle, including data validation, pricing, and auditing.

The system supports individual voids and re-bills of previously adjudicated claims and mass adjustments when a large number of claims must be corrected:

- **Individual Claim.** Agency and/or Xerox staff or a provider initiates individual voids and re-bills either manually or through electronic claims submission. For provider voids and re-bills, the transaction includes the pharmacy ID, prescription number, and date of service, which are used to locate the claim to be voided or adjusted. For manually entered voids and adjustments entered by Agency and/or Xerox staff online, the user enters the re-bill reason code and the TCN of the original claim that is being voided or adjusted.
- **Mass Adjustment.** The system has the capability to perform ad hoc mass adjustments at authorized Agency and/or Xerox staff request when a large number of claims need to be voided or adjusted for reasons such as a retroactive policy change or price adjustments.

Claim Voids

A claim void results in the system creating a negative image of a previously adjudicated claim and the negative image is retained in the PBM OS+ claims history database. Once created in PBM OS+, it is passed to the Vermont MMIS where the void is reported on the provider’s RA and reflected in the provider’s check or accounts receivable balance, if applicable. When PBM OS+ performs a void of a previously adjudicated claim, a new reversal record is created for the voided claim, as shown in Exhibit G-35. The reversal record is a duplicate of the adjudicated claim except all the fields are negative, including dollar amounts and unit fields.



034.45p3

Exhibit G-35. Claim Void

Voids create one new record for each claim voided.

Claim Re-Bills

When PBM OS+ performs an adjustment to a previously adjudicated claim due to a re-bill, it creates two new records for each previously adjudicated claim adjusted—a reversal record and an adjustment record—as shown in Exhibit G-36. The claim reversal is a negative image of the previously adjudicated claim and negates the dollar and unit amounts. The adjustment claim is a new version of the claim with the updates applied.



Exhibit G-36. Claim Adjustment

Adjustments create two new records for each claim adjusted.

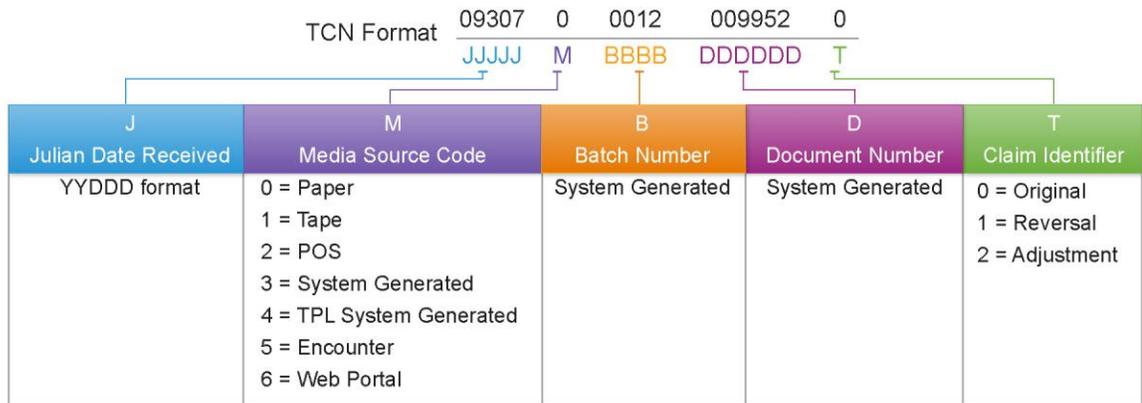
Both records are retained in the PBM OS+ claims history database. Once adjudicated in PBM OS+, the records are passed to the Vermont MMIS where the re-bill is reported on the provider's RA and reflected in the provider's check or accounts receivable balance, as appropriate. Re-bills accomplish a net change in the reimbursement of a claim to a provider rather than a complete reversal. The adjustment claim will always price based on the dates of service, which means that covered service, service limits, and other adjudication criteria, as well as the applicable fee or rate, will apply to the adjustment claim based on the service date.

History Only Transactions

In addition to supporting voids and re-bills that affect the provider's payment, the system also provides functionality to enter voids and adjustments that do not affect the provider's payment but simply adjust history. For example, if a check or EFT is voided or stale-dated (meaning the provider never received payment) in the Vermont MMIS, it requires history-only voids of the claims that were included in the check or EFT. Agency and/or Xerox staff can enter history only voids and adjustments online to reflect this occurrence.

Transaction Control Number (TCN) Assignment

The system assigns a new TCN to reversals and adjustments as shown in Exhibit G-37. The TCN uniquely identifies the reversal or adjustment. It is assigned using the same pattern as a claim TCN. The last digit of the TCN signifies the type of transaction submitted.



027.45p3 E

Exhibit G-37. Unique TCN

A unique TCN is assigned to every reversal and adjustment.

Claim Void and Adjustment Audit Trail

Whenever a history claim is voided or re-billed, whether initiated from a mass adjustment request or individual claim request, it is linked to the void or re-bill using TCN pointers. PBM OS+ has no limit to the number of times a claim can be re-billed and keeps a complete and accurate audit trail of each re-bill. The history claim points forward to the void or re-bill and the re-bill or void points backward to the history claim. Through this process, chains are created that consist of the various versions of a claim all linked together by TCN pointers. Exhibit G-38 shows history information related to a claim, including voids or re-bills associated with the claim.

Claim Reversals Entered by Agency and/or Xerox staff

Agency and/or Xerox staff can reverse a claim transaction online as shown in Exhibit G-39. A claim reversal results in the system creating a negative image of the original claim transaction. The negative image is retained in the system's claims history database and is a duplicate of the original claim except all the fields are negative, including dollar amounts and unit fields. The system assigns a new transaction control number (TCN) to reversals to uniquely identify the reversals. Once created in PBM OS+, the reversal is passed to the Vermont MMIS where it is reported on the provider's remittance advice and reflected in the provider's check or accounts receivable balance, if applicable.

1.1.5 E-Prescribing and E-Prior Authorization Capabilities

The State is interested in promoting the electronic exchange of information to support administrative simplification. Currently, pharmacy benefit eligibility verification, medication history and preferred drug list (PDL) information is made available to all Electronic Medical Records (EMR) statewide. This is accomplished through the PBM's existing infrastructure and the network exchange services with AllScripts Healthcare Solutions, Inc. and SureScripts, LLC. The State wishes to continue its work on refinements to the PDL interface to assure accurate and meaningful displays of formulary and coverage limitations to prescribers at the time of prescribing. In addition, the State wishes to expand these capabilities by providing the means to perform electronic prior authorizations through the EMR.

The Vendor must describe their approach to work with the State to meet the goals of the program for electronic prescribing and electronic prior authorization and for providing prescribers and pharmacies information promoting both. More information can be found in the Single Formulary and Electronic Prior Authorization Recommendations (2012) document in the Provider Library.

Xerox partners with Surescripts to provide e-Prescribing and e-prior authorization capabilities that result in increased efficiency and accuracy and reduced healthcare costs. E-Prescribing reduces healthcare costs and improves safety and efficiency to an estimated 170,000 beneficiaries eligible for

Vermont's various medical assistance programs. E-Prior Authorization (ePA) is a paperless, real time medication prior authorization solution that integrates into the e-Prescribing workflow providing a seamless process for your prescribing community.

In 2012, Vermont ranked 7th in the nation in the Surescripts Safe-Rx™ Awards for its level of e-Prescribing. By the end of 2012, 82% of physicians and 93% of pharmacies were actively e-Prescribing in Vermont. To support and increase e-Prescribing adherence, Xerox implements and supports the Surescripts payer enablement solution. Xerox is an experienced e-Prescribing vendor. Today, we support e-Prescribing in Ohio, Massachusetts, Montana, New Mexico, and Texas. These five states e-prescribe over 70 million prescriptions annually.

The Surescripts payer enablement solution supports the secure electronic transmission of beneficiaries' benefit and prescription data between the prescriber, dispensing pharmacy, and the PBMS. The Medicaid beneficiary eligibility, benefit, and medication history data supplied by Xerox is made available to prescribers through the Surescripts network.

Payer enablement creates a state-wide open system concept, so that prescribers and providers may use their preferred e-Prescribing interface to support Medicaid members. Historically, solutions required prescribers and providers to use a specific user interface while e-Prescribing for Medicaid members.

We are a Surescripts partner certified with the Surescripts e-Prescribing network. The Surescripts e-Prescribing network services allow physicians to electronically send prescriptions from their offices to more than 54,000 retail pharmacies and six of the largest mail order pharmacies. With this partnership, payer enablement provides physicians with electronic access to their patients' prescription benefit coverage, eligibility coverage, formulary, and medication history—, which helps to improve safety, and enables doctors to prescribe medications at the lowest cost to the patient.

The solution includes the uploading of data files and the responses to interactive X12 5010A1 transactions for eligibility verification and NCPDP SCRIPT standard transactions for medication history accessibility at the point of care. We assemble the data and transaction information that is sent to Surescripts from databases within the PBMS. In Texas and New Mexico, we support e-Prescribing by sending electronic files, formatted in the Surescripts standard requirements and following the Surescripts recommended schedule. Xerox identifies the best schedule that meets the Agency's data needs.

In addition to the current e-Prescribing processes with Surescripts, Xerox is poised to implement the emerging e-Prior Authorization functionality, which leverages the existing transactions to add elements that support the automated prior authorization process. With our existing robust rules engine we are positioned to integrate the Surescripts solution of electronic prior authorization messaging with the EMRs into current automation.

E-Prescribing Features

- Review of which medications are covered before writing prescriptions
- Improved patient safety
- Paperless prescriptions
- Less time to fill prescriptions
- Tools to enhance the member's service

Pharmacy Benefit Eligibility (FR 1.30)

At any given point in time, there are an estimated 170,000 beneficiaries eligible for Vermont's various pharmacy programs. One of Xerox's primary responsibilities is to safeguard and maintain the beneficiary

eligibility data repository through a daily interface exchanged between the MMIS and PBMS. AHS staff can also update the eligibility database online through PBMS user-friendly Web pages. Once the daily MMIS interface is successfully processed, the PBMS automatically creates the Surescripts e-Prescribing network's eligibility interface using the latest information supplied by the MMIS and information entered online by AHS staff. The eligibility files are utilized by Surescripts to perform initial patient matching algorithms; however, the prescriber's e-Prescribing system can send real-time eligibility verification requests using our established, secure connection with Surescripts.

Preferred Drug List / Formulary

We use the First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus) to provide core, industry-standard descriptive and pricing information for drug items within the PBMS drug database. The system stores a formulary compliant with e-Prescribing standards for each pharmacy benefit program supported by AHS. This data is updated weekly via an FDB interface and staff updates the formularies and rates online through PBMS Web pages on a daily basis. Once the weekly FDB interface is successfully processed, the PBMS automatically creates the Surescripts e-Prescribing network's formulary interface using the latest information supplied by FDB and information entered online. Surescripts makes available formulary information to the point of care physicians through the EMRs.

Xerox follows the Surescripts Prescription Benefit Implementation Guide to adhere to the transferring messages needed to provide beneficiary information such as the formulary to physicians. As part of that process, a formulary and benefit file—made up of a formulary, alternatives, benefit coverage and benefit copay list types, quantity and gender limits, cross-reference and classification lists—is created. The Surescripts format of the formulary file contains several optional sub-sections of data. The formulary file is constructed to support a single plan, or multiple plans if required. Xerox will coordinate with AHS to determine the number of plans and what sub-sections AHS prefers to support. Compliant with the Surescripts process, we send electronic files in the Surescripts format to support e-Prescribing. The PBMS database table structure supports and enables the storing of the formulary data elements to be extracted via scheduled batch processes.

This sharing of data enables prescribers to select medications that are on formulary and are covered by the beneficiary's drug benefit. It also informs prescribers of lower cost alternatives—such as generic drugs—and ultimately ensures that the staff in the pharmacy receives a “clean” script. Unnecessary phone calls from pharmacy staff to physicians related to drug coverage are reduced. Prescribers access prescription benefit information through software from a vendor that is certified for these services.

Medication History

The PBMS maintains a complete history of claims data for each eligible beneficiary. Claims history provides the complete account of a beneficiary's medication history and is utilized with e-Prescribing as an important clinical decision tool for prescribers. The prescriber's e-Prescribing system can send real-time medication history requests using our established, secure connection with Surescripts. The criteria for returning claims history data can be customized to meet the requirements and regulations of AHS. Xerox supports additional opt-out features and drug filtering as requirements and state regulations dictate.

Surescripts Interfaces

We accommodate the frequency of file updates based on best practices and in agreement with AHS and Surescripts. As a result, we support automatic updates through both real-time transactions and data file transmissions of formulary files and beneficiary eligibility.

Real-time Transactions. The transactions used to support the real-time requests of eligibility and medication history reports utilize a Hypertext Transfer Protocol Secure (HTTPS) Transmission Control Protocol/Internet Protocol (TCP/IP) connection.

File Transmissions. With our current Medicaid clients and for the PBMS project, data files are pushed daily and weekly to the certified secure Surescripts environment using our corporate secure file transfer protocol (SFTP)—MOVEit DMZ—with a specific task and job name. We propose to use MOVEit DMZ to send the eligibility and formulary files to the Surescripts system. MOVEit DMZ is an extremely secure file transfer server that lets Xerox manage and govern the exchange of large, sensitive mission-critical files. Our process automatically checks and validates the response files generated from Surescripts following the transfer of data to Surescripts. The response files indicate if the file transfers were successful and if any errors were encountered. PBMS on call staff reviews the response files and responds to system problems 24/7.

We manage all transactions in accordance with the CMS final rule published in the April 2009 *Federal Register* for electronic prescriptions and collaborate with AHS to adhere to Vermont state specific legislation. Table G-8 identifies the data, format, and method of transport.

Table G-8. Payer Enablement E-Prescribing Data Interfaces		
Data Type	Format	Transport Method
Real-Time Inbound Transactions and Responses		
Eligibility	Surescripts X12 5010A1 required format	Secure HTTPS TCP/IP connection
Medication History	NCPDP SCRIPT Standard transaction	Secure HTTPS TCP/IP connection
Acute Care Medication History	NCPDP SCRIPT Standard transaction	Secure HTTPS TCP/IP connection
Outbound Files		
Eligibility	Surescripts eligibility file format	SFTP scheduled MOVEit task
Formulary	Surescripts formulary file format	SFTP scheduled MOVEit task

Xerox conforms to the Surescripts compliance protocol and has been certified to transmit electronic prescriptions since 2004. Prior to using Surescripts for transmissions of electronic prescriptions, a vendor must meet the Surescripts compliance agreement. To comply, the vendor must adhere to the current Surescripts Network Operations Guide (NOG). These responsibilities are in the areas of certification requirements, production operations requirements, directory management, training, and support.

Electronic Prescribing Roadmap (FR 1.31)

Xerox continually works with Surescripts and partners to implement new standards and keep abreast of future standards and opportunities to grow and promote e-Prescribing capabilities. Experienced staff assesses current and future technology and functionality and customize the solution based on the goals and

requirements of AHS. Xerox can spot trends in transaction activity and take action based on the data. Communication and promotion of e-Prescribing is enabled through outreach activities and communications channels such as provider bulletins, partnerships with Vermont sister agencies, and dissemination through State Medical and Pharmacy Associations.

Electronic Prescribing Data and Reporting (FR 1.32)

Transaction data including the number of eligibility and medication history requests, and details on the requesting provider, beneficiary, and vendor are recorded and available for reporting. Surescripts data is also received by the PBMS on a monthly basis and is available for customized reporting.

PBMS utilizes the NCPDP Prescription Origin Code field on the D.0 transaction to identify how the prescription was received at the pharmacy. If the origin code has a value of “3” on an incoming claim, this indicates the prescription was received electronically at the pharmacy. The origin code is stored with the claim in the PBM OS+ claims database and can be viewed online and used in reporting.

Xerox will collaborate with AHS to identify data elements and requirements for monthly reports. Reporting support and measurements include:

- PBMS origin code report from claims
- PBMS e-Prescribing transaction data and monitoring
- Surescripts monthly standard report cards and data via optional reports supplied by point of care vendors and pharmacies

Xerox’s e-Prescribing solution positions the Vermont pharmacy services programs for the future as well as the present. As healthcare technology becomes more advanced and the field moves toward population health management, AHS will have an e-Prescribing foundation that enables the movement and management of healthcare information in a safe, secure, and knowledge-based manner.

Electronic Prior Authorization

Xerox is fully positioned to implement the electronic prior authorization standards through the Surescripts network. Surescripts has worked with NCPDP to develop an end-to-end ePA solution that delivers verified, standardized messages that enable the integration with EMR/EHR software and PBMS that are certified for electronic prescribing messaging.

The ePA solution consists of the initial alert to the physician of a required PA, and the subsequent transactions to facilitate the creation and processing of PAs in real-time, dynamic messaging. Xerox will leverage the existing rules engines to assist with the integration of the Surescripts solution. The ePA solution will also fit seamlessly in with existing operational processes for PAs that require further clinical review or require intervention as a result of a denied outcome. Prescribers will have the option of contacting the call center to continue the PA process when needed.

1.2 Pharmacy Benefit Management and Clinical Programs

Pharmacy Benefit Management services support the program in the following areas: drug benefit management services, drug utilization review, utilization management programs, and PDL management. All of these services must encompass drugs processed through both the pharmacy benefit and those physician-administered drugs processed through the medical benefit. In regards to the specific services identified below, the Vendor must describe their approach to providing these PBM services to the State.

Introduction/Roadmap- overview of services

Xerox is prepared to support the Agency of Human Services (AHS) need for a pharmacy benefit management solution. We offer a suite of services and technology that allow us to provide AHS experienced and high quality drug benefit management, drug utilization review, utilization management, and PDL management programs.

We provide our response to the remaining pharmacy benefit management and clinical programs within the following sections:

- 1.2.1 Utilization Management Programs
- 1.2.2 Prior Authorization Program
- 1.2.3 Drug Utilization Review
- 1.2.4 State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL)
- 1.2.5 Specialty Pharmacy
- 1.2.6 Benefit Design and Consultative Support
- 1.2.7 Management of Physician-Administered Drugs
- 1.2.8 Support of Drug Appeals Process
- 1.2.9 Reporting and Analytics
- 1.2.10 Quality Assurance
- 1.2.11 Medication Therapy Management

1.2.1 Utilization Management Programs

Utilization Management programs include but are not limited to:

- Prior authorizations, quantity limits, and step therapy
- Development and dissemination of clinical criteria, procedures for its application, and proper documentation of all clinical decisions
- First reconsideration review of denials by a clinical pharmacist when requested and access to independent physician reviewers
- Proper notification of all denials and approvals to members and prescribers within timelines established by applicable law and State policies

The Vendor must describe their approach to utilization management.

Utilization Management Programs

Xerox is capable of providing tailored utilization management edits and clinical criteria through the combined use of Prospective Utilization Review (Pro-DUR), pharmacy prior authorization using SmartPA and call center staff, and preferred drug list (PDL) management.

Pro-DUR (FR2.20)

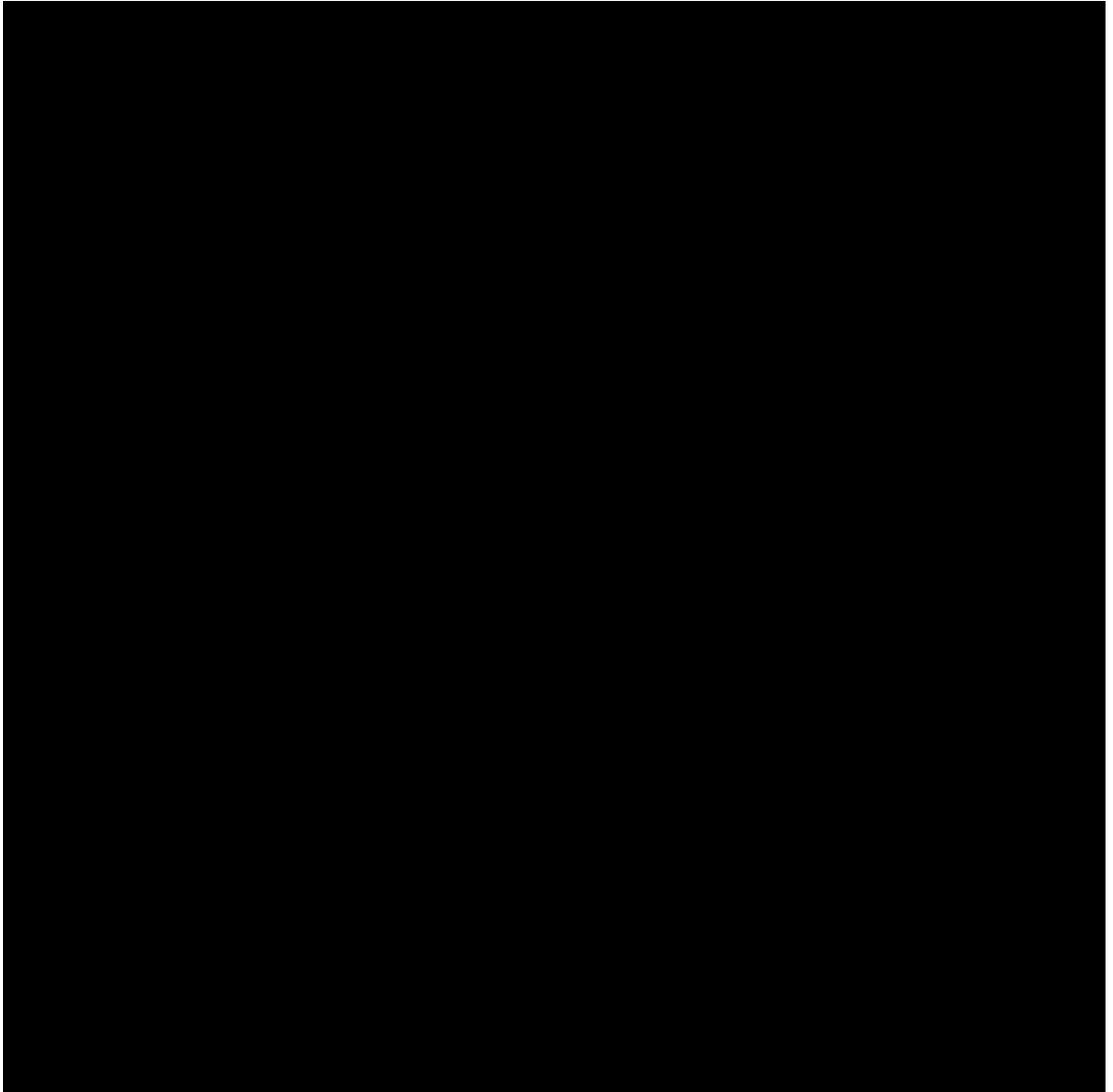
PBM OS+ has comprehensive Pro-DUR auditing which is a parameter-driven Web-based interface which allows edits to be modified quickly and simply, with no programming experience required. Pro-DUR supports drug-drug interactions, drug-disease interactions, age and gender limits, step-therapy, and quantity limit edits. Furthermore, our solution supports the ability to create customized therapeutic categories and groups within program edits, which target specific population issues and treat them more efficiently.

PBM OS+ uses First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus) as the source for therapeutic criteria to support the Omnibus Budget Reconciliation Act of 1990 (OBRA '90) guidelines for Pro-DUR editing. FDB's clinical modules contain information on thousands of drug interactions, age and disease contraindications, dosing, and length of therapy limitations. Using FDB's reference data as a starting point, AHS can review criteria and severity indexing, and then modify and update the Pro-DUR data and rules as necessary.

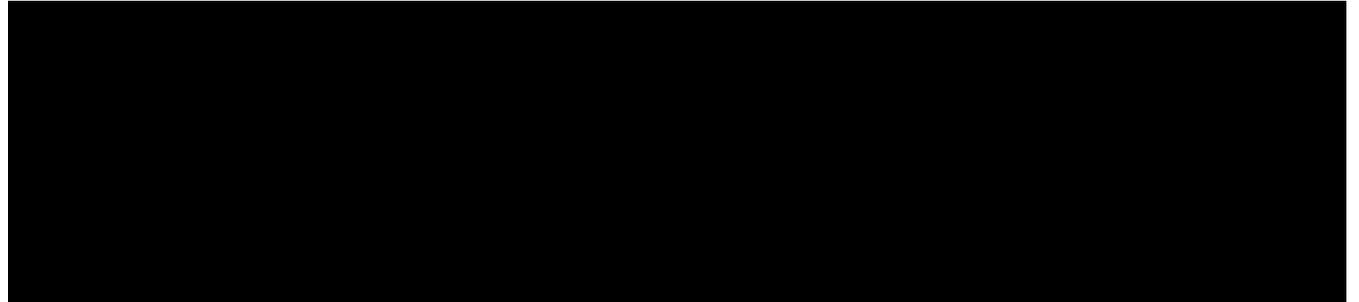
To support the Pro-DUR process, PBM OS+ offers extensive flexibility and a full-range of user-friendly Pro-DUR functions, including the following:

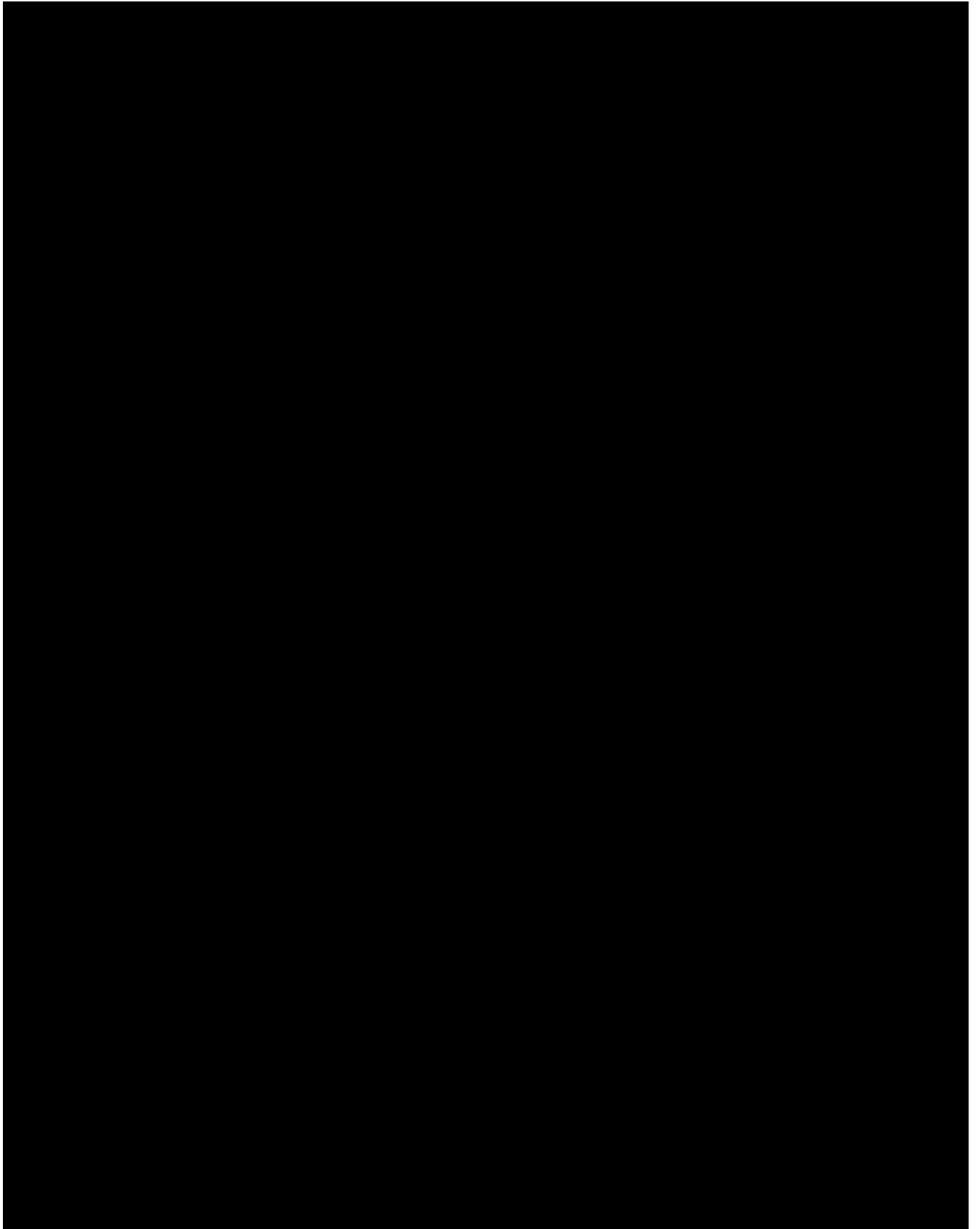
- Menu-driven design for ease of use
- NCPDP version D.0 transaction and clinical intervention standards NCPDP response format enabling providers to offer immediate counsel Customizable edits for quick and easy modifications
- Fully customizable criteria for Pro-DUR conflict edits, including those for over utilization, underutilization, therapeutic duplication, drug-to-drug interaction, incorrect drug dosage, and inappropriate duration of drug treatment
- Audit trail reports
- Comprehensive package of Pro-DUR reports

The system's Pro-DUR process automatically reviews each drug claim submitted by a pharmacist (prior to dispensing) to determine if the claim conflicts with any other prescriptions for the beneficiary, or if it suggests inappropriate use. In less than a second, the system searches for drug therapy problems that may result from possible conflicts. Exhibit G-40 defines the Pro-DUR process.



The system identifies problems such as drug-to-drug interactions, therapeutic duplication, incorrect dosage, or inappropriate duration of treatment. Table G-9 demonstrates how Pro-DUR edits analyze the data related to the incoming claim.





The system reports three levels of clinical severity for drug-to-drug interactions:

- **Severity Level One:** Indicates a contraindicated drug combination; it requires action to reduce the risk of severe adverse interaction that is likely to occur in some beneficiaries.
- **Severity Level Two:** Indicates a drug-to-drug interaction that is moderate; it recommends conservative action to reduce the potential of severe adverse consequences, although they are not likely to occur in most beneficiaries.
- **Severity Level Three:** Indicates a drug-to-drug interaction that is unknown; it recommends that the pharmacist assess the risk to the beneficiary and take action as needed.

PBM OS+ sends a message alerting the pharmacist of any potential problems, and the pharmacist uses his or her professional judgment to determine the most appropriate intervention. This empowers the pharmacist to actively communicate issues that affect the beneficiary's quality of care.

The system formats Pro-DUR messages or advisements to provide precise conflict and alert information and to accompany both pay and deny status claims, depending on the severity level of the conflict. The dispensing pharmacist uses this information and professional judgment to determine if the prescription should be dispensed. The pharmacist determines the appropriateness of the prescribed therapy and intervenes in the event of a suspected problem.

Pharmacy Prior Authorization Services

Our 20+ years in the pharmacy marketplace makes Xerox the ideal vendor to provide the prior authorization services. The PBM OS+ and SmartPA systems along with call center management of prior authorizations will provide automated, integrated, online, real-time clinical reviews based on best practices and AHS established PDL and clinical criteria.

SmartPA. SmartPA is a sophisticated clinical rules engine that decreases PA turnaround times and provides the flexibility needed to adapt to changes. The Web-based, user-friendly interface allows non-programmers to update parameters that take effect immediately. SmartPA operates on a rules based engine using medical and pharmacy claims to provide clinical review at point of sale. The pharmacist submits a prescription to the PBM system, which checks the claim for eligibility and initiates an authorization request. SmartPA automatically queries administrative data (medical claims, pharmacy claims, available encounter claims, and behavioral health data) and applies complex screening criteria according to AHS policies, PDL, and clinical criteria. Most prescriptions are reviewed in less than a second with no involvement from staff.

Call Center PA Management. In addition to PA requests handled by SmartPA, Xerox will review prior authorization requests at our Henderson, North Carolina call center. Henderson is a professionally staffed call center that currently supports 21 different state Medicaid pharmacy programs, health information exchange (HIE), and electronic health record (EHR) clients; and two large national healthcare payer clients. The site is staffed with pharmacists, pharmacy technicians, and customer service representatives (CSRs) that respond to inquiries by phone, fax, and/or mail from prescribers and pharmacies. The call center staff is trained to respond to PA requests using state specific criteria and clinical judgment.

Pharmacist Review of First Reconsideration Denials. The Henderson, North Carolina site is staffed with clinical pharmacists ready to respond to reconsideration of denial requests. When a request for reconsideration is received the clinical pharmacist will document the request, investigate and research any additional information needed, and work with the physician or other healthcare providers to resolve the request. The pharmacist will complete the reconsideration in the time allotted per AHS and provide a final response to the reconsideration request. Xerox will collaborate with local physicians to provide physician input for reconsideration requests.

Pharmacy Prior Authorization Notification. Xerox supports communication with providers and beneficiaries through the automatic generation of approval and denial notices related to PA determinations. The generation of these notices conforms to guidelines set forth by AHS. PA notices are generated for providers and beneficiaries according to preset criteria using AHS-approved schedules and templates. Denial notices include language specific to the reason for the denial. Beneficiary notices include information regarding the beneficiary’s right to a fair hearing. These templates and the general content of notification letters are easily modified based on program specific changes.

Clinical Criteria Development & Dissemination

Based on our extensive PDL experience, Xerox will work with AHS to provide the DUR Board with continual recommendations for the PDL. Xerox understands that the clinical and financial landscape is not static, but rather a dynamic landscape that is constantly evolving. Xerox clinicians monitor multiple clinical resources on a daily basis to identify new indications or changes to indications that impact PDL decisions and existing or future PDL clinical criteria. Xerox’s clinical team keeps abreast of new drugs and new developments via subscriptions to FDA newsletters, medical and pharmacy journals, and regular review of clinical databases. The team also tracks new generics and pricing changes from FDB on a weekly basis. As a standard, as new medications come to market, Xerox reviews each one to determine what—if any—impact these medications will have on the PDL. Xerox will inform AHS of all new drug products and provides relevant clinical information for review and evaluation of clinical effectiveness and safety.

Xerox completes a comprehensive clinical review and provides supporting documentation (e.g., appropriate studies and publications, efficacy and safety data, disease category and demographic information for affected Medicaid population) for new drugs that represent a substantial breakthrough in therapy. When applicable, new drug information is presented to the DUR board and Pharmacy and Therapeutics (P&T) Committee at scheduled meetings.

On a weekly basis, Xerox’s clinical team will review new generics in the FDB drug reference database and conduct analyses to measure impact to AHS PDL program. The clinical team carefully examines brand and generic alternatives in order to maximize PDL coverage. We will develop and disseminate full therapeutic class reviews, PDL change documents, financial analyses, and any necessary update advisements for the DUR Board and P&T Committee on behalf of AHS.

Xerox has years of experience providing comprehensive clinical, financial, and administrative support to state DUR Board and P&T Committees. [REDACTED]

[REDACTED] This will ensure smooth, seamless, and effective meetings. Following each DUR Board and P&T Committee meeting, Xerox produces minutes from the meeting and disseminates DUR Board and

P&T Committee recommendations to AHS. When final decisions are made, Xerox will work with AHS to schedule and implement these changes in the PBM OS+ and SmartPA systems. Xerox will also provide AHS with notifications for prescribers and updates to be posted on the PDL. Provider documentation and communications such as email blasts, bulletins, flyers, and newsletters are media types used to disseminate program and system information to submit requests for prior authorization accurately.

1.2.2 Prior Authorization Program

An aggressive and effectively managed Prior Authorization (PA) program has been demonstrated to provide savings to the State's pharmacy program, while at the same time improving prescribing practices and overall quality of care. The State seeks modern state of the art prior authorization systems and capabilities. These services must encompass drugs processed through both the pharmacy benefit and those physician-administered drugs processed through the medical benefit. The PA program must be capable of utilizing medical codes such as CPT and ICD-10 codes to make PA determinations in an automated fashion through POS. In addition, the PA process must accommodate the electronic submission of forms (via provider portals) to the provider call center(s) for manual PA determinations. Both pharmacies and prescribers should have an electronic means to check on the status and expiration date of a PA through the provider portals. Additionally, the State is interested in detailed and ongoing analyses of program success focused on evaluation of drugs, criteria, return on investment, and recommendations for change. Lastly, the State is interested in implementing a PA process through the electronic medical records of provider practice management systems as soon as technology makes this feasible. The Vendor must describe their approach for conducting Prior Authorizations now and in the future.

Xerox's flexible and comprehensive automated prior authorization (PA) solution uses multiple data sets including various types of medical and pharmacy claims to adjudicate point-of-sale (POS) prior authorization determinations that reduce administrative burden on providers and yield proven savings.

Over the past decade, Xerox has focused on pharmacy prior authorization (PA) innovation. Our clinical and technical experts have worked to identify process inefficiencies and to develop alternative solutions to reduce the administrative burden on providers and program staff. This work has simplified processes for prescribers and pharmacists, and improved the level of service provided to the Medicaid beneficiary community. Today, the combination of a sophisticated automated PA tool, known as SmartPA, and proven pharmacy PA processes yield significant savings for a large number of State Medicaid programs, while increasing the overall efficacy and efficiency of their pharmacy programs. In 2012, SmartPA saved 13 states a cumulative savings estimate of \$386 million with an average savings per edit of approximately \$491,000.

Automated Prior Authorizations using Medical and Pharmacy Claims History (FR2.1.1)

The architecture behind SmartPA produces a clinically and technically sound solution from which the Agency will immediately realize the benefits of increased automation, cost savings, and improved beneficiary outcomes.

SmartPA is fully integratable system that can be used by the Agency to contain escalating prescription drug expenditures and streamline the PA process for beneficiaries and medical providers, ensuring seamless review and approval of drugs that meet specific clinical criteria. SmartPA uses a table-driven rules engine that examines up to 24 months of patient-specific drug and medical claims data. The clinical rules engine uses prescription drug criteria for numerous drug classes to determine whether program-approved evidence-based criteria are met, ensuring improved clinical efficacy and reduction of costs for Vermont.

SmartPA seamlessly integrates into the PBM OS+ claims adjudication process and is invoked each time a claim is processed for a drug that requires prior authorization. It determines if the authorization is approved or pending and returns the appropriate response to PBM OS+.

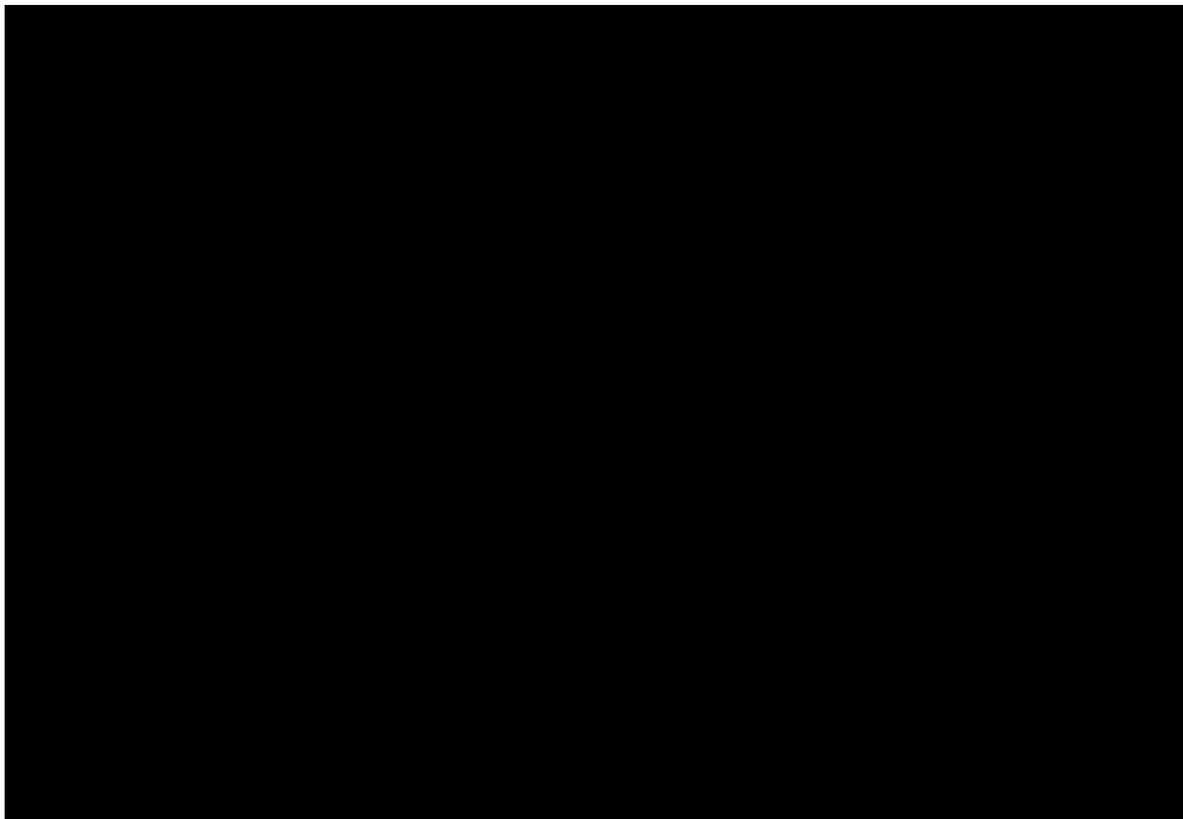
SmartPA automatically queries up to 24 months of administrative data (medical claims, pharmacy claims, and behavioral health data) and applies complex screening criteria according to Agency PA policies. Pre-defined evaluations cover a wide range of criteria including, but not limited to the following:

- Narcotic overutilization
- Patient safety issues
- Provider specialty
- Refill-too-soon
- Step therapy
- Preferred drug list
- Dose optimization
- Maximum quantity

As a claim adjudicates through the SmartPA system, it generates a collection of flags marked with specific labels detailing which criteria were met or failed. The system determines if the authorization is approved or denied and returns the appropriate response. If Agency criteria are met, the system returns a message indicating the prescription meets the criteria and is approved. If the criteria are not met, the system sends a message stating that the provider must supply additional clinical evidence to the call center for approval of the claim. To document the results of the evaluation, SmartPA generates a PA record that is stored in the PA database.

SmartPA Process (FR2.17)

SmartPA virtually eliminates the need for prescribers to submit PA requests for the majority of drugs requiring review before approval and payment. Instead, SmartPA automatically and systematically applies complex clinical and fiscal criteria during POS adjudication according to the Agency's PA edit criteria. This automated process enables expanded PA use by the Agency, providing improved clinical efficacy and reducing program costs. SmartPA minimizes the delays typically associated with the PA process. Refer to Exhibit G-41, for a visual of the SmartPA process.



Automating Prior Authorizations Using Medical and Pharmacy Criteria (FR2.1.4, FR2.2.3, FR2.4, FR2.5, FR2.10)

PA approval rules are developed based on Agency-defined PDL and clinical criteria such as medical limit, step therapy, age, gender, and quantity. Rules criteria incorporate information such as NDC, HICL, GSN, GCN, and/or therapeutic class, quantity, days' supply, units, age, and start and stop dates of approval. The SmartPA clinical rules searches the client's profile, automatically querying up to 24 months of administrative data (e.g., demographics, medical claims, pharmacy claims, and behavioral health data), and applying it to the Agency's medical and pharmacy criteria. Based on the history and criteria, the drug claim is approved or denied, and the respective response is returned to the pharmacy within normal POS response time requirements. Smart PA's sub-second response time facilitates real-time processing, during the POS transaction.

Xerox analyzes and shares PA best practice from other Medicaid programs to identify new opportunities for the program. We maintain a Xerox SmartPA library that contains more than 2,000 SmartPA clinical algorithms that can be provided to the Agency for review and approval. Our flexible rules engine allows us to customize the existing criteria and/or add new rules quickly and efficiently. SmartPA is fully compliant with ICD-10 diagnostic and procedural codes. Management of physician-administered drugs is fully integrated into our SmartPA solution.

Manual Review and Emergency 72-hour Supply (FR2.2.2, FR2.9)

In addition to our automated PA solution, the system accepts manual PA requests submitted by authorized providers via toll-free telephone, toll-free fax, mail, and web-based requests through a provider portal.



These PAs are reviewed manually and linked to the SmartPA system for easy review and adjudication. Requests that do not meet PA criteria and are not automatically approved at the POS can be electronically routed to the pharmacy call center for manual review and update.

Xerox understands that for certain requests it must allow for the dispensing of at least a 72-hour supply or other Department–approved amount of a drug product in an emergency situation as specified by the Department, except for non-covered drug classes or products.

Automation Results (FR2.2.1)

History shows the SmartPA system to be extremely reliable. Additionally, Table G-10 illustrates electronic and manual transaction totals and averages across all of Xerox’s SmartPA clients in 2012.

Table G - 10. SmartPA 2012 Transaction Summary				
Client	# of SmartPA Rules	Electronic Transactions	Manual Transactions	Total Transactions
CO	8	112,725	6,005	118,730
NC	35	5,564,490	191,470	5,755,960
MO	234	5,336,951	156,633	5,493,584
IN	23	5,232,512	33,144	5,265,656
AR	131	2,835,498	20,932	2,856,430
MS	64	1,326,974	1,186	1,328,160
MA	138	758,791	161,219	920,010
MD	15	563,818	1,769	565,587
OH	84	457,658	35,572	493,230
MT	25	409,560	3,782	413,342
WV	48	139,096	NA	139,096
KS	40	96,198	6,398	102,596
HI	4	476	14	490
Totals		22,834,747	618,124	23,452,871
Averages		1,756,519	51,510	1,804,067

Evidence-Based Approach to Rule Updates (FR 2.15, FR2.17)

The process for developing new PA criteria is systematic and scientifically sound. All new criteria and criteria modifications go through a rigorous internal Xerox peer-review process before being placed into production. Xerox’s clinical staff reviews medical literature resources such as those listed below and

identifies new PA opportunities or changes to existing PA criteria daily. Xerox also collaborates with clients and researches requests from staff and consultants on potential PA areas.

Examples of evidence-based/medical literature resources include:

- American Hospital Formulary Service Drug Information
- United States Pharmacopoeia-Drug Information
- DrugDex/Micromedex
- Drug Effectiveness Review Project
- Intergovernmental Agreement for Evidence-Based Policy Research
- Peer reviewed clinical and scientific literature
- Official product labeling
- Relevant guidelines obtained from professional groups through a consensus-derived process
- Experiences of practitioners with expertise in drug therapy
- Drug therapy information supplied by pharmaceutical manufacturers
- Subscriptions to journals and newsletters (pharmacy and medical)
- Email list with Center for Drug Evaluation and Research at the FDA (daily)
- Email list with Medwatch at the FDA
- Medscape email notifications (weekly) and journal scan on Medscape site
- Weekly First Databank (FDB) updates
- New drugs
- Traditional literature searches
- Online access to Virginia Commonwealth University medical library
- Online access to St. Louis College of Pharmacy and Washington University School of Medicine Medical libraries

If any changes need to be made or new criteria developed, clinicians that have expertise or specialization in a particular area are assigned to the PA protocol development process.

Exhibit G-42 provides an overview of the process that Xerox uses in the clinical criteria development process when evaluating proposed criteria.

The following is an overview of the components we use in the clinical criteria development process when evaluating proposed clinical criteria.

Literature Search. Our clinical pharmacists continuously review clinical resources to generate ideas for new clinical criteria or to identify how literature affects current criteria and collaborate with each client to develop specific prior authorization requirements. The clinical pharmacists identify the specific medical criteria necessary to comprehensively address the prior authorization criteria in question. Depending on the clinical topic, clinical pharmacists or physicians that have expertise or specialization in a particular area are assigned to the protocol development.

Clinical Requirements Document Development/Update. Xerox develops a Clinical Requirements document for each SmartPA edit that includes detailed information such as the clinical algorithm, drug information (e.g., drug lists by GSN/GCN, dose limitations, PDL status, etc.), diagnosis codes (i.e., ICD-9 and ICD-10 codes), procedures codes, and provider specialty codes.

Clinical Requirements Document Review/Approval. Xerox reviews the requirements document with the Agency. If changes are needed, Xerox updates the document and schedules another review with the Agency for final approval.

Rule Writing. Xerox writes the SmartPA rule into the rules authoring system based on the approved requirements document.

Rules Testing/Test Cases. Xerox utilizes a test case manager application that automates the testing process. Clinical business analysts create test cases that test criteria scenarios and validate that the rules are working based on the clinical requirements. Xerox subsequently provides the client with test case reports that allows review and approval of the rule. For the Agency, rules are tested concurrently in PBM OS+ to assure the Agency that in addition to clinical requirements, the rule fits technical and billing requirements as well. These comprehensive test results are submitted to the Agency for approval.

Production. After each algorithm has been reviewed and approved, it is placed into the client- specific set of clinical rules.

SmartPA Clinical Proposal Update (FR2.15, FR2.17)

Each rule has a corresponding SmartPA clinical proposal that produces a “big picture” view. The clinical proposals are created so that business users with minimal technical training may review and understand the rule. Components of the proposal include approval criteria, denial criteria, Visio flowcharts, and appendices that include such detail as targeted drugs, diagnosis codes, and procedure codes.

SmartPA clinical proposals maintain a historical document showing all changes such as policy changes made to prior authorization edits and criteria. Exhibit G-43 illustrates changes to a clinical proposal. The Proposal Update History tracks all changes to the criteria including policy changes.

PROPOSAL UPDATE HISTORY

Date	Change
6/7/12	V1 – Proposal created
6/11/12	V1.2 – Removed denials on <u>Dx</u> criteria and added in arrows to continue to additional criteria.
7/12/12	V1.3 – Added generic NDCs in GCN 92999 (omeprazole 40mg) to Appendix A. Added GCN 94639 to Appendix A (<u>Aciphex</u> 20mg). Removed all NDCs related to generic GCNs 18992 and 18993 from Appendix A (brand only will remain in Appendix A). Added criteria in box #2 for plans 400, 410, 500, 600, 620 and 900-if not these plans, then No PA Required. Changed NSAID criteria in last box to at least 20 DOT in the past 60 days.
8/7/12	V1.4 –Re-worked Appendix A to remove NDC lists and code with 4 separate GCN groups (using the FDBDRUG function) instead of the NDC lists.
8/16/12	V1.4 – Changed “days of therapy” on NSAID box to “days supply”. We need to approve a PPI on same day an NSAID is filled for at least 20 days supply.
11/15/12	V1.5 – Added <u>Nexium</u> GCNs 12867, 12868, 33128, and 33135 to Appendix A and created Appendix I with the four GCNs. For the new <u>Nexium</u> GCNs, no PA is required if the DOS is before 1/1/13. If the DOS is on or after 1/1/13, the new <u>Nexium</u> GCNs go through the rest of the algorithm. For Prilosec OTC 20 mg tablets (GCN 08454), if the DOS is on 9/15/12 through and including 12/31/12, the GCN go through the rest of the algorithm. If the DOS is not during the above time frame, no PA is required.
4/1/13	V2 – Added plan code 920.

Exhibit G-43. SmartPA Clinical Proposal Update History

Changes to the SmartPA Clinical Proposal are tracked in the Proposal Update History section.

Rules Engine Updates (FR2.17)

Xerox’s SmartPA rules engine provides users the flexibility to tune individual parts of the rule using its table-driven functionality. Authorized users can set traces to determine overall rule decisions, as well as each function included in the rule, to validate internal operations of each rule. Our system includes all tuning and debugging functions listed in this requirement.

A particular strength of the clinical rules engine is its flexibility. The rules engine is a table-driven platform. Therefore, a non-programmer (i.e., a clinician) can easily make changes to the existing criteria to meet the changing needs of the Agency. This flexibility ensures that the SmartPA system can be modified as the needs of the Agency and program evolve. As necessary, we can tailor the clinical rules engine and the rules engine applications to meet and exceed Agency requirements. Below we provide examples of the SmartPA functionality.

The SmartPA rules engine provides authorized users access to the rules editor allowing the user to set the rule’s order of steps. Exhibit G-44 shows the table-driven editor for building and diagramming the order of steps. Users build rules and add, insert, delete, copy, and paste sections of logic. Users may also diagram the order of steps with the TRUE and FALSE statements at the bottom of the screen.

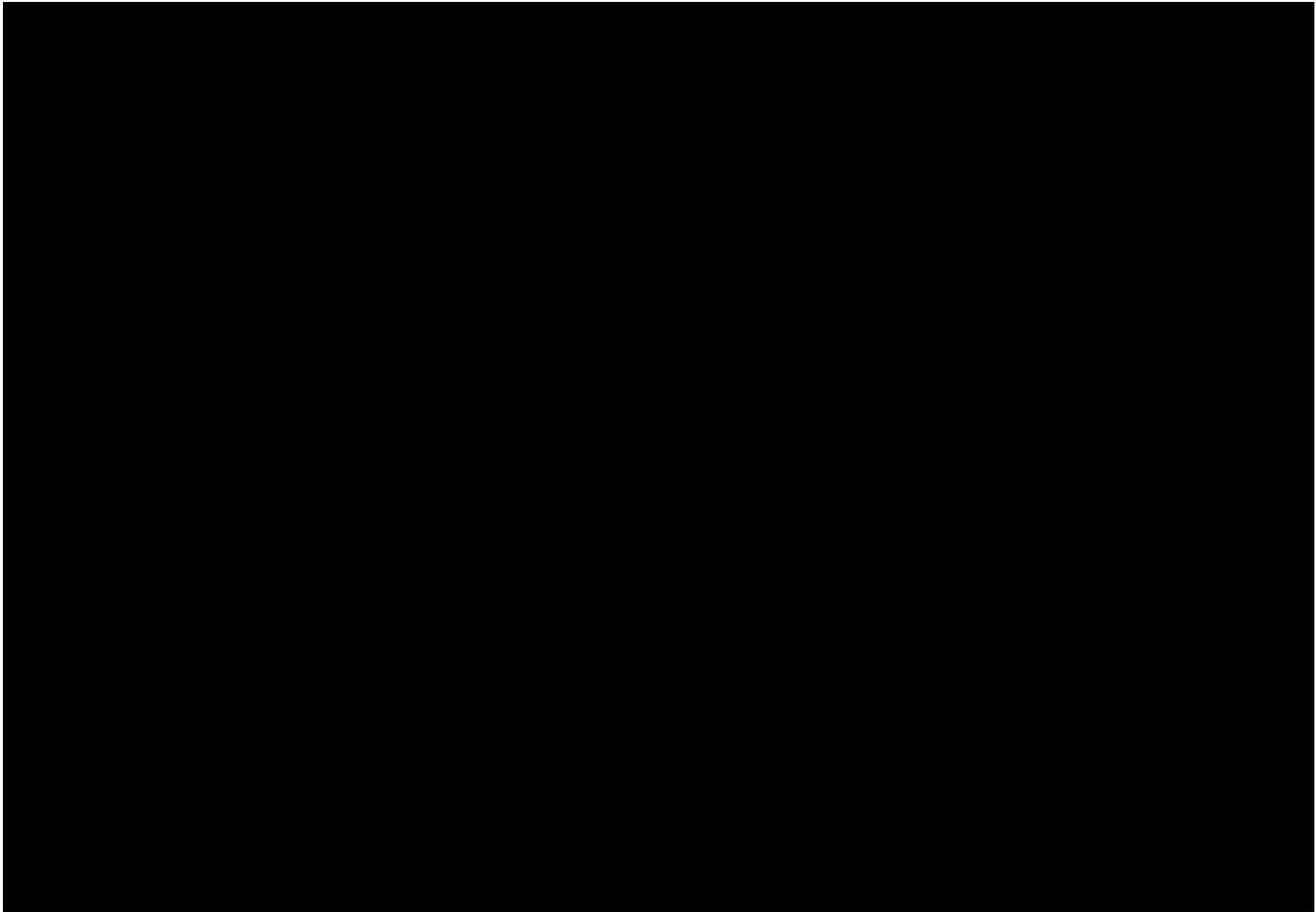
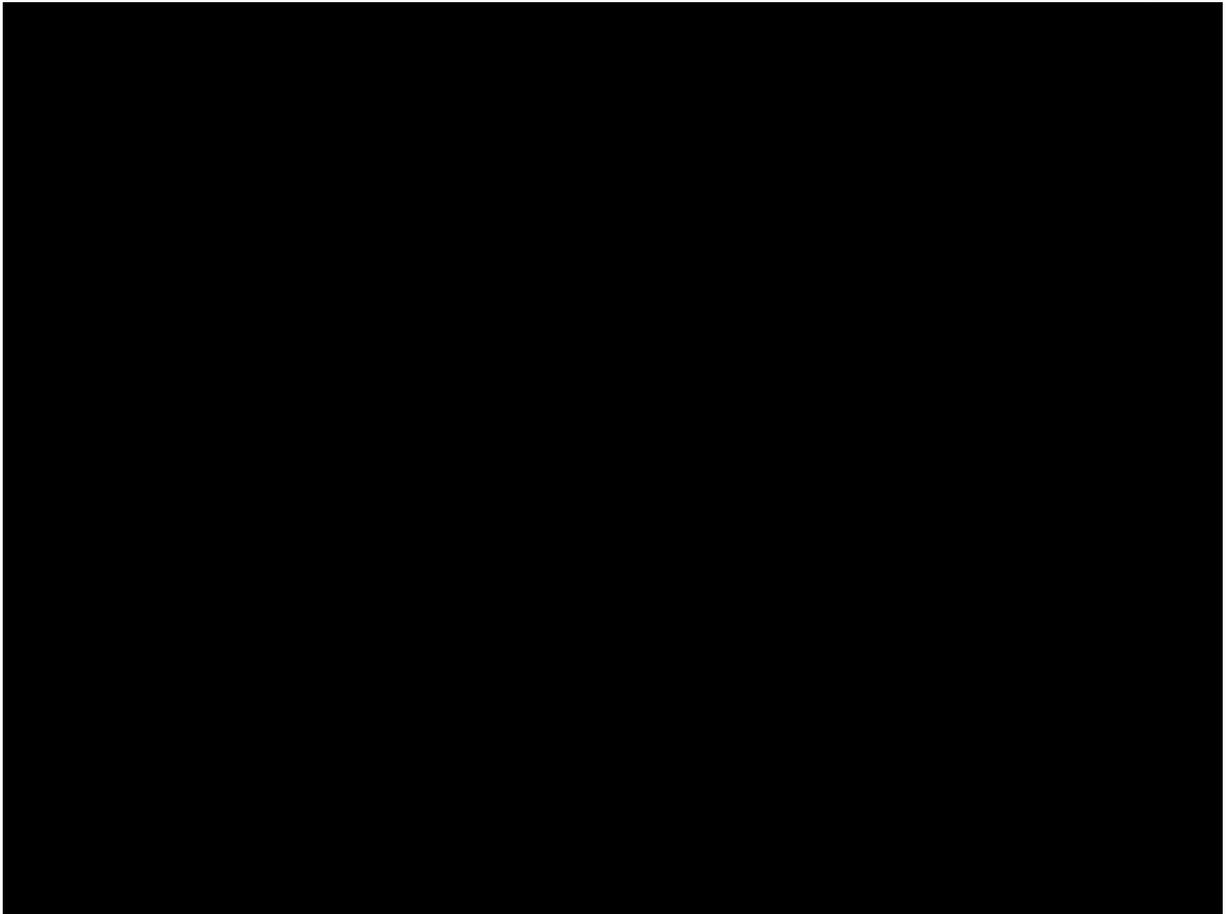


Exhibit G-45 is available after the entire rule is written and provides a complete view of the prior authorization criteria sequence.



SmartPA Rules Library (FR2.10, FR2.15)

The SmartPA system comes with proven production rules from other Medicaid programs that both Xerox and Agency staff can access to promote new rule development and rule updates. Since SmartPA is in use for more State Medicaid Agencies than other automated PA solutions, we can tap our significant experience and knowledge base to continually improve and adjust the Vermont clinical rules.

Furthermore, Xerox applies and shares PA best practices from other Medicaid programs to identify new opportunities. Exhibit G-46 shows the library that contains the SmartPA clinical rules across our SmartPA Medicaid programs.





Xerox also publishes and emails all SmartPA clients a monthly SmartPA Clinical Newsletter that includes the information such as new clinical edits, drug approvals, new indications, FDA drug safety notifications, upcoming FDA Advisory committee meetings and journal watch.

Perform Impact Analysis and Report Results (FR2.1.6, FR2.16)

Xerox proactively performs impact analysis and reports results to monitor clinical edit and prior authorization rules. Detailed monthly reports include operational, clinical, and financial reporting on all prior authorization activities, including number of PA's denial/approval rates, number of electronic vs. manual PA's, drug and overall medical savings and return on investment. Reports are available by drug, drug class, beneficiary, and provider. Exhibit G-47, SmartPA Cost Savings Analysis, illustrates a SmartPA cost savings report that includes information on the impact to the three major areas:

- POS – Includes total number of claims evaluated at the POS, approval/denial statistics and associated savings by edit and overall. In the example below, the overall POS automation rate was 87 percent.
- Call Center – Includes the number of call center requests compared to the number of POS denials. Typically, Xerox sees that only about 8-10 percent of POS denials result in a call center request.
- Net Savings – Savings are net of substitute therapy.

Prior Authorization Notifications (FR2.1.3, FR2.6, FR2.8)

Xerox supports communication with providers and clients through the automatic generation of approval and denial notices related to PA determinations as shown in Exhibit G-48. All data used to populate the notifications is stored and accessible in PBM OS+ and replicated in the data warehouse.

Whether a PA is approved or denied, both the beneficiary and prescriber receive a notification. The generation of these notices conforms to guidelines set forth by the Agency. PA notices are generated for providers and clients according to preset criteria using Agency-approved schedules and templates. Denial notices include language specific to the reason for the denial. Client notices include information regarding the client's right to a fair hearing.

Xerox understands that it must interface with the State of Vermont's Master Person Index database in order to maintain a database of current contact information for beneficiaries. Moreover, it must research any undelivered beneficiary communication and make reasonable attempts to identify a new address for such beneficiaries.

Xerox supports communication with providers and beneficiaries through the automatic generation of approval and denial notices related to PA determinations. The generation of these notices conforms to guidelines set forth by the Agency. PA notices are generated for providers and beneficiaries according to preset criteria using Agency-approved schedules and templates. Denial notices include language specific to the reason for the denial. Beneficiary notices include information regarding the beneficiary's right to a fair hearing. These templates and the general content of notification letters are easily modified based on program specific changes.

Approved and Denied Authorizations Based on PA Criteria (FR2.12, FR2.3)

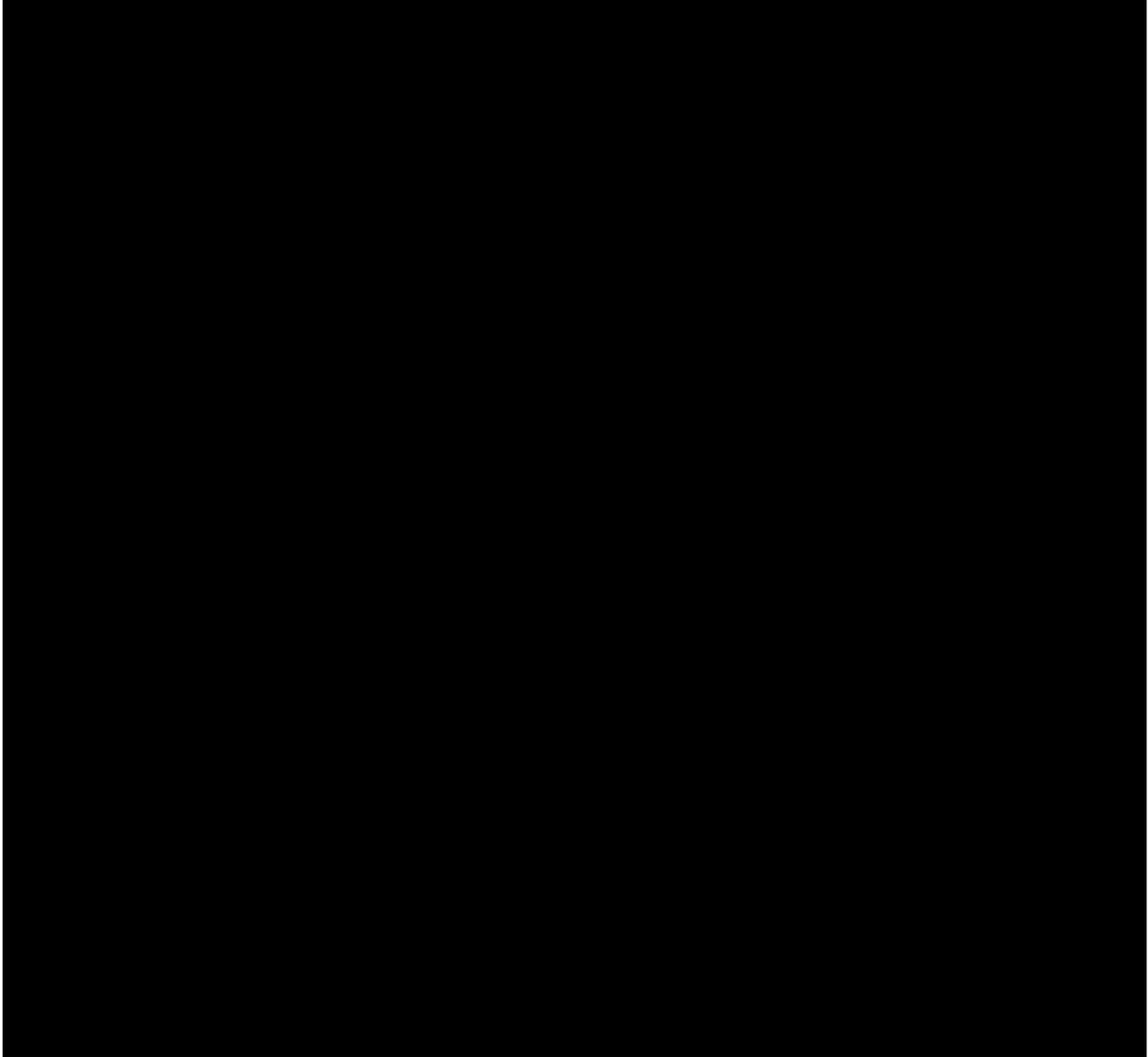
If a request meets Agency criteria, a PA record is created in the PA database; all information related to the request is retained in PBM OS+ and serves as a record of PA status. Every claim requiring a PA uses the information stored in the PA records and updates the data when the claim is approved for payment, so that a subsequent claim has current information for its adjudication.

All PAs are stored in the PBM OS+ PA database, which is accessible to Vermont staff and other authorized users. Each PA request received is assigned a unique number for easy identification, whether entered manually or generated by SmartPA. Authorized users can retrieve and update a PA request by its unique number, prescribing provider, dispensing provider, client ID, and dates of service.

Additionally, the pharmacy call center staff can update the PA status of a request that was initially denied at POS by SmartPA based on additional information provided by the provider. The application allows authorized users such as pharmacy call center representatives or Agency users to override the specific relevant criterion, as appropriate. The final outcome, which may or may not be an approved PA, is received after SmartPA re-evaluates the additional information and updates the PA status.

As shown in Exhibit G-48, the following PA determination information is presented to the user via the SmartPA link:

- Basic claim data (A)
- Rules determination or outcome (B)
- Messages and questions that provide call center staff additional information (C)
- Lists of drug claims in the beneficiaries history (D); the highlighted claim is the one being evaluated



Lock-In Edits (FR2.13)

PBM OS+ provides the Agency with the option of “locking in” a beneficiary with a particular provider for case management purposes or to prevent the beneficiary from abusing the program by obtaining drugs from multiple prescribers or pharmacies. When a claim/encounter is received for an eligible beneficiary who is locked in, the physician and/or pharmacy provider number on the claim/encounter must match the number on the lock-in span in the client database or an exception will post notifying the submitter of the reject information.



Third Party Liability (FR2.4)

In PBM OS+, Third Party Liability (TPL) is maintained with eligibility data and is used during adjudication processing to advise the pharmacy of the possibility that the client has other pharmacy coverage that must be applied prior to payment by the Agency. We obtain information on potential other insurance coverage through the eligibility interface.

Grievances and Appeals (FR2.1.5, 2.7, 2.14)

Xerox understands that it must comply with notifying providers and beneficiaries of their appeals rights in accordance with the Agency's policy. Xerox staff must coordinate efforts with State personnel who oversee the grievance and appeals process, prepare the appropriate reports and documents to support Xerox's actions resulting in the request for an appeal from a beneficiary or provider. Additionally, Xerox must provide the services of a clinical pharmacist to engage in peer discussions with state Medical Director and other Agency clinical personnel to address an appeal related to pharmacy benefit services, provide resources to address appeals related to claims disputes, and comply with the mandates and timeliness stipulated by the Agency.

The entry, routing, and tracking of grievances and appeals are a standard business process. Our workflow management solution, OnBase, easily supports these workflows. We work with the Agency to define the details of the grievances and appeals process, setting up a workflow to require completion of the necessary standard tasks and all of the levels of review required by State and Federal policies.

For example, claim reconsiderations are received from providers via paper claims that contain attachments that explain the reasons that the provider has requested reconsideration of a claim denial. The claim and its attachment are imaged and stored in OnBase.

Once in OnBase, claim reconsiderations are routed via the OnBase workflow feature to the Account Manager for review and routing to the Agency for approval to move forward. If the claim denies again, the provider has the option to start the formal appeals process and work with the Agency through multiple levels of review to resolve the denied claim.

Pharmacy Call Center Services (FR2.1.2, 2.2.1, 2.2.4)

Xerox supports call center services from our call center located in Henderson, North Carolina. The site is staffed with pharmacists, pharmacy technicians, and customer service representatives (CSRs). Today, we respond to inquiries from prescribers and pharmacies in the call center. In addition to these stakeholders, under the new contract we will provide the Agency with the option to respond to tier-one client calls regarding general questions about the pharmacy program.

The Henderson call center processes in excess of 400,000 phone calls per month. Xerox staff answer calls 24/7 and provide prompt, courteous, efficient, and complete call center services to program stakeholders.

Our success in providing call center services is based on three major components of our operation: people, processes, and technology. It is the skillful integration of these three elements that has driven the following results:

- Answered 108,679 calls with an average answer speed of 14 seconds between July 2012 and June 2013
- Achieved an abandonment rate of 1.5 percent for this same time period

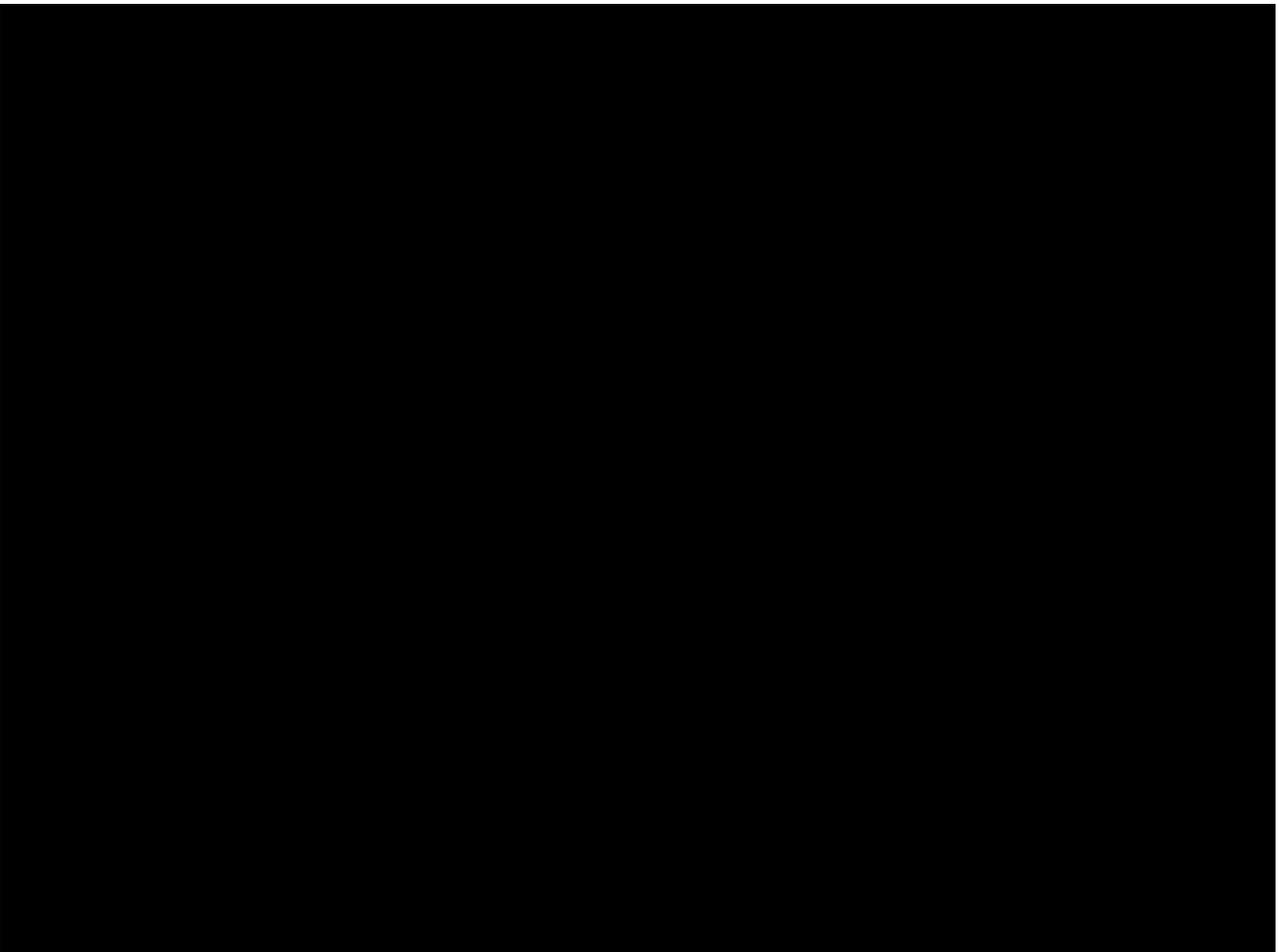
These results demonstrate that we offer the Agency an experience level that no other contractor can match.

Pharmacy Help Desk Services (FR2.2.1)

Our Henderson call center will also take over responsibility for responding to technical calls related to the PBMS. These calls include inquiries from providers, pharmacies, the Agency, and Xerox related to general technical support, system processes, password reset procedures, and system troubleshooting. We respond to these calls 24/7. We log all calls in our call tracking tool, OmniTrack, and use appropriate tools to assist with system troubleshooting.

PA System for Search, View, Query with PBM OS+ (FR2.11a-k)

PBM OS+ is viewed through a user-friendly Web-based graphical user interface (GUI) for Agency and Xerox staff access. Web pages provide extensive functionality for inquiry and viewing of all data that supports claims processing. We use a standard search function to inquire on records for providers, clients, claims, drugs, and reference data. Each component uses a standard search portlet with a single criterion or multiple criteria tailored to the needs of that particular component as shown in Exhibit G-49.



In this example, the system allows the user to narrow the results of a search by criteria such as date, claim status, claim type, transaction control number (TCN), prescription number, and prescribing provider. The search returns an online summary of claims matching the entered search criteria. The user can sort the claims in the online summary by column in ascending or descending order, or filter the information as needed and select a claim from the profile summary to view detailed information about the claim.

The PBM OS+ search function includes the ability to use a wildcard search when only a partial name or description is entered, which allows authorized users to view lists of data where they may have broader search parameters than a single code. Exhibit G-50 illustrates an example of this type of search.

1.2.3 Drug Utilization Review

Drug Utilization Review (DUR) activities for the State include, but are not limited to: prospective and retrospective Drug Utilization Review including provider profiling, educational outreach, peer-to-peer education, and activities related to assuring best practice compliance assurance. The State has a focus on management of drugs of abuse and drugs used for substance abuse treatment, management of psychotherapeutic drugs in adults and children, treatment of chronic pain, ADHD, asthma and other costly and complex chronic conditions. Drug utilization review services must encompass drugs processed through both the pharmacy benefit and those physician-administered drugs processed through the medical benefit.

The Vendor must describe their proposed approach to providing Drug Utilization Review services.

Xerox offers the Agency a relationship with a partner who is dedicated to Medicaid for the long term evidenced through a long history of success in clinical pharmacy and technology services across the country. A strong project team—combined with the support of nationwide resources—ensures our capacity to meet all requirements of the DUR program.

Our proposed organizational approach focuses on three principles: comprehensive understanding of the Agency's procedures and policies, responsiveness to the Agency's evolving needs, and a stable project staff of experts proving that our people make the difference. All requirements for implementation and ongoing operation and maintenance outlined in the RFP are responded to in the following sections.

Drug Utilization Review (DUR) Solution (FR2.18)

Xerox's retrospective DUR analysis tools have been proven to improve the quality of pharmaceutical care and reduce unnecessary Medicaid program expenditures. Xerox's clinical rules system provides state-of-the-art technology, which applies benchmark or client-specific algorithms to trend provider and recipient habits across more than 90 different diseases and medication-use evaluation areas. A particular strength of

our clinical rules system is its flexibility. Xerox’s rules engine is a table-driven platform, which means it is not “hard-coded.” This means that a non-programmer (i.e., a clinician) can easily make changes to the existing criteria to meet the changing needs of the Agency. This flexibility ensures that Xerox’s system can be modified as the needs of the Agency evolve. As necessary, we tailor the clinical rules system and the rules engine applications to meet and exceed our client’s requirements. As an example, for Texas Medicaid, Xerox has saved more than \$87 million since 2007 because of DUR intervention strategies proving Xerox is offering systems that will support the pharmacy programs goals – to assure access to and availability of safe, efficacious, and clinically appropriate drug therapy at the lowest cost possible.

Scope of Activity (FR2.18)

Xerox currently provides drug utilization review (DUR) support and technical and administrative support for DUR Committee meetings for eleven clients. We leverage our experience to share ideas for program improvement and enrichment. Currently, we perform administrative and clinical functions to support DUR Committee activities for the following state clients:

- California
- Maryland
- Minnesota
- Missouri
- New Mexico
- Ohio
- Texas
- Virginia
- Washington, DC
- Wyoming
- West Virginia

Medicaid Fee for Service (FFS) is a unique and complex program with multiple facets that stem from both federal and state legislative levels. Accordingly, Xerox stays abreast on the most up-to-date legislative, clinical, and financial changes in order to best advise our clients of potential impact and outcomes. Xerox offers broad experience with the design, development, implementation, and ongoing administration of DUR services.

The sections that follow outline Xerox’s plan to operate the DUR program consistent with OBRA ’90.

CyberFormance Analytic and Reporting Tool (FR2.19)

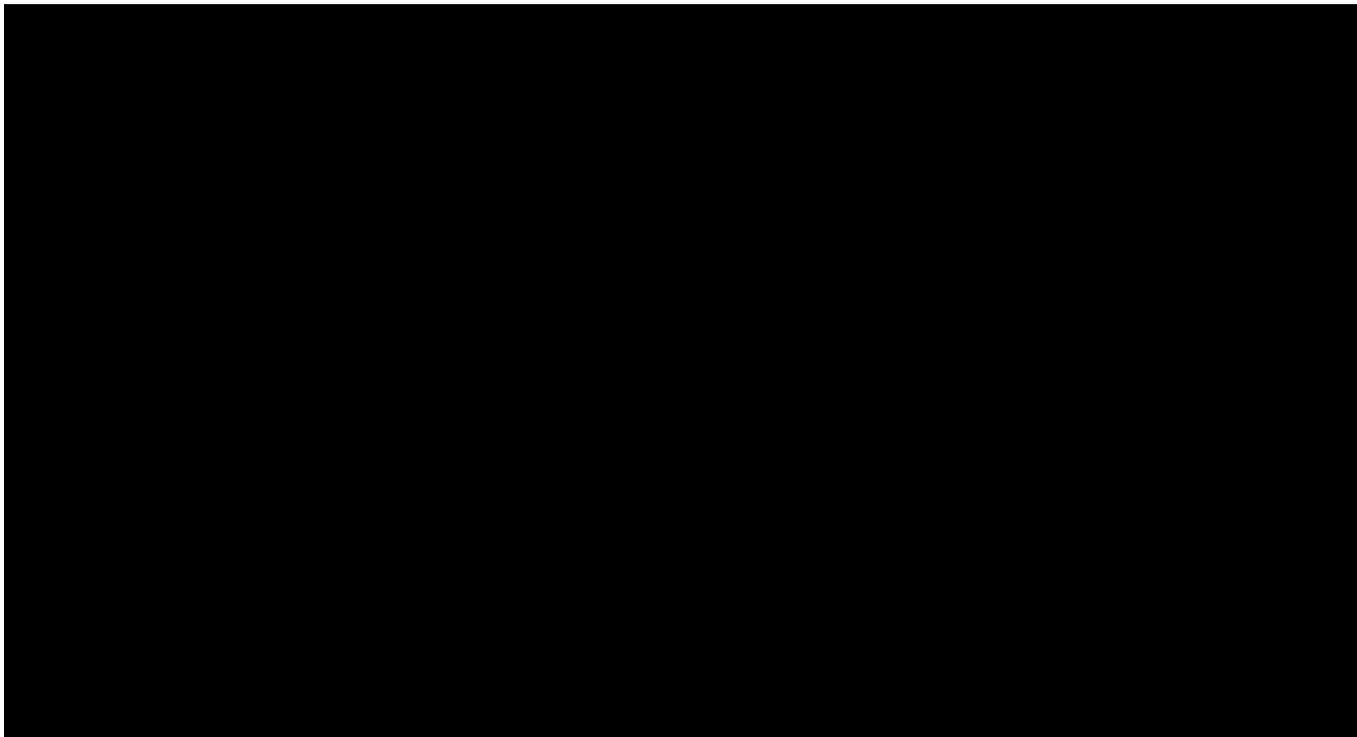
Xerox provides its proven *CyberFormance* Web-enabled application to the Agency. With this tool, the Agency can create sophisticated utilization and cost reports with a click of the mouse from virtually any computer with internet access. The tool will provide the Agency with trending reports that can help predict future utilization, so that appropriate measures can be taken to control the drug program. The tool also leverages Xerox’s proprietary Clinical Rules System, which queries pharmacy and medical data to identify care management defects that are driving inappropriate or ineffective utilization of pharmaceuticals. This application, along with Xerox’s clinical expertise will help determine the most appropriate and effective intervention strategies for the Agency.

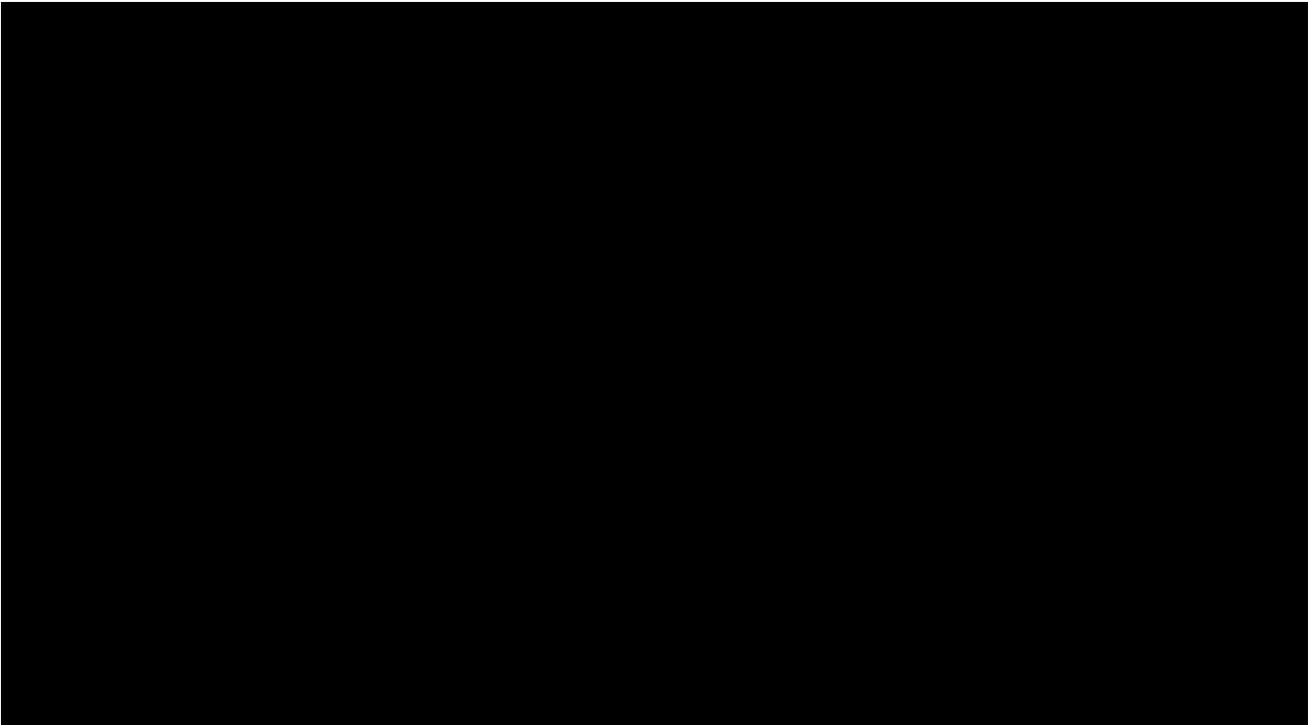
The backbone of the Xerox DUR solution is a flexible table-driven software application with relational database file structures. Our clinical rules system includes a collection of clinical and business rules (comprehensive criteria), in addition to a rules engine that queries data including beneficiary eligibility, provider eligibility, and claims history. As claims pass through the system, it generates a collection of flagged claims marked with specific labels detailing which criteria were met or failed.

The clinical rules system organizes flagged claims to profile the business unit, physician, pharmacy, or beneficiary. The system identifies clients with the following risks:

- Therapeutic appropriateness
- Standard of care issues
- Patient safety
- Medication adherence/persistence
- Drug-drug interactions
- Drug-disease contraindications
- Duplicate drug therapy
- Iatrogenic morbidity
- Over-utilization and under-utilization
- Generic utilization
- Incorrect dose or duration

Exhibits G-51 and G-52 illustrate predetermined standards by clinical area and the capability to drill down to the physician, pharmacist, and beneficiary level within *CyberFormance*.





Potentially serious drug therapy issues are evaluated through a combination of the following:

- Xerox’s drug usage evaluation software
- Rules-based analysis of available medical and drug data
- Expertise of Xerox’s clinical pharmacy staff
- Input from the P&T Committee

The clinical rules system effectively minimizes false positives by identifying meaningful recipient issues for intervention. The solution, which meets and exceeds OBRA 90 requirements, achieves measurable outcomes for quality improvement reports while minimizing the time required of our clients’ clinical staff.

The key features of Xerox’s clinical rules system are:

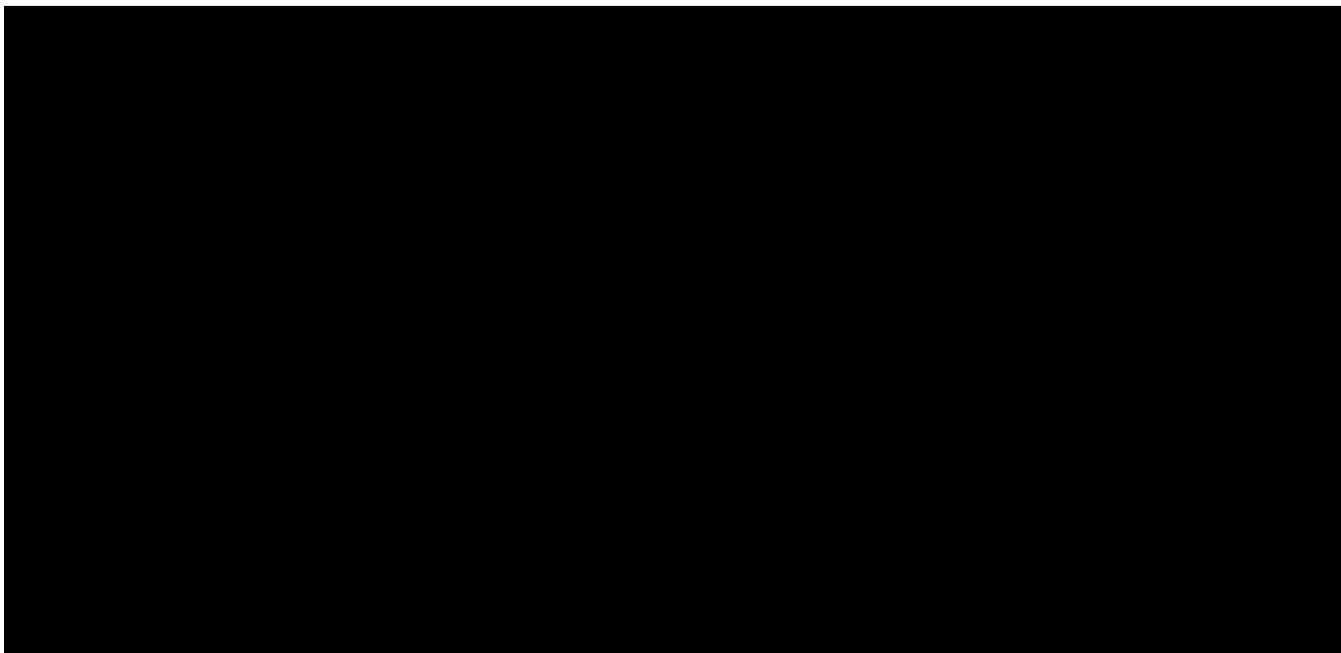
- A rules-based set of sophisticated clinical therapeutic criteria (“clinical rules”) that can be easily adapted to reflect input from the Agency and advisory boards and committees
- Internet and desktop reporting modules that are intuitive, flexible, and interactive
- Ability to distill large amounts of data into meaningful patient and population-based interventions
- Ability to integrate available medical and drug claims supplied by the Agency into one database

This sophisticated clinical rules system is the basis for the clinical analyses that drive the clinical management services that are provided to Xerox Medicaid clients.

Retrospective DUR Activities (FR2.20a-d)

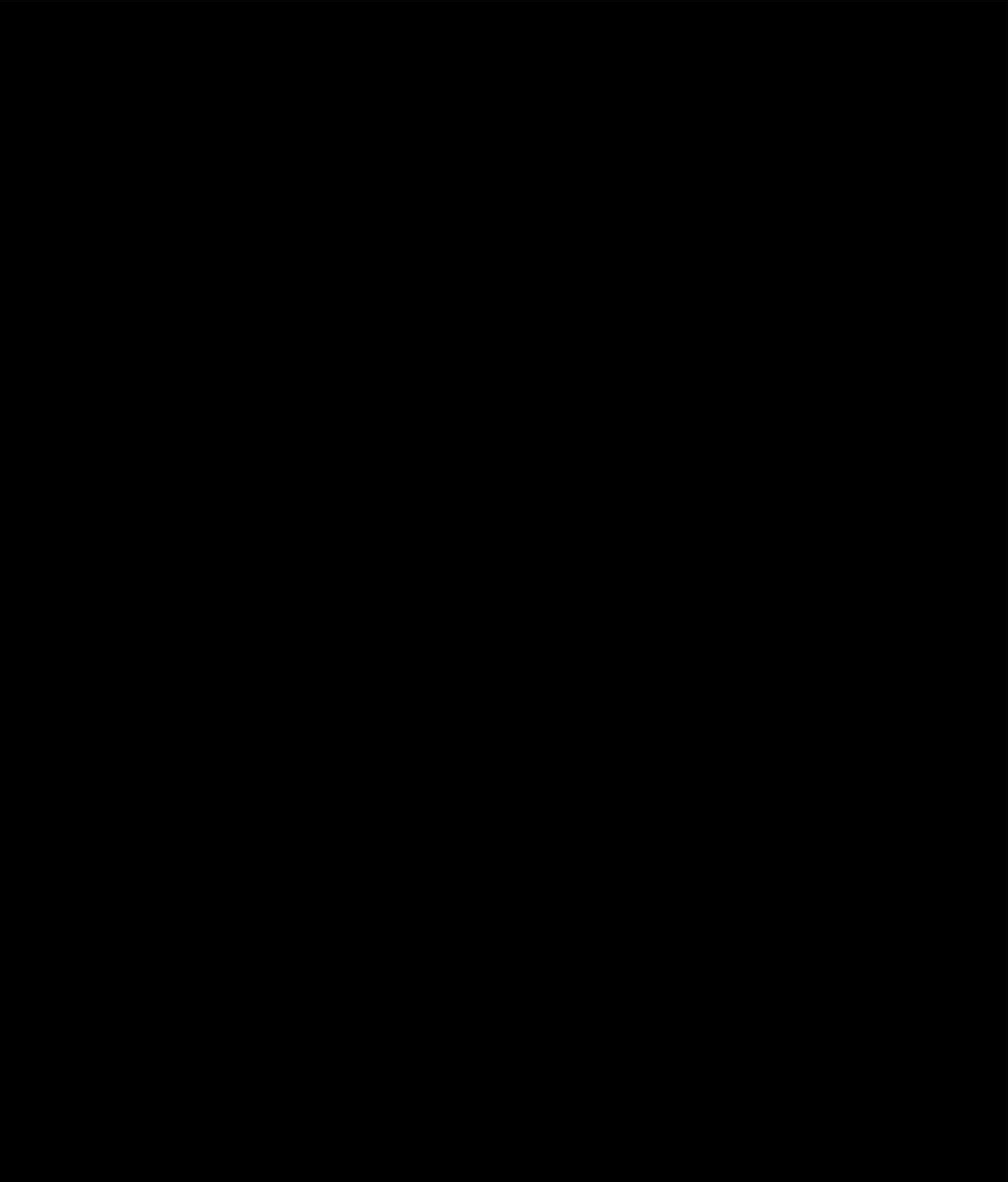
Xerox supports the Agency’s retrospective DUR criteria efforts with multiple data analyses and ensures a proactive approach for criteria development, drug utilization evaluation, education plan development, and annual DUR report completion.

The Clinical Plan*Formance* module within Xerox's Cyber*Formance* identifies exceptions to the Agency-approved evidence-based therapeutic criteria for consideration by the DUR Committee. It provides a single source solution for conducting clinical analyses of drug therapy and disease states. With this information, the application can identify care management or quality improvement issues, progressing downward from a summary perspective to a group-level view, to a recipient-level view, and, ultimately, to a claim-level view. Criteria may be selected based on *disease state and/or clinical area*. The user has the flexibility to target a specific disease and/or make multiple selections for review. Exhibit G-53 illustrates the selection of clinical issues related to bipolar disease.



Xerox provides a clinical proposal for all retrospective analyses. Exhibit G-54 provides an example of an executive summary for a retrospective analysis focused on the overutilization of antibiotics. Performance indicators address high percentages of broad spectrum antibiotics compared to other peers. Materials mailed to providers typically include a cover letter, current treatment guidelines, clients' profiles that do not reflect standard of care, and comment forms. These analyses include both clinically focused issues in addition to fraud and abuse issues.





New clinical literature is published on a daily basis and Xerox’s rigorous, systematic, and comprehensive criteria update process ensures that our DUR system identifies drug therapy that falls outside accepted therapeutic standards of treatment or may cause adverse outcomes for Agency recipients using the most current criteria. Xerox’s clinical rules library is updated as frequently as daily to take into consideration but



not limited to newly marketed drugs, new indications for existing drugs, and new utilization protocols. Continuous quality improvement is key to our team and to that end, we continually review the literature to reaffirm the applicability of existing criteria and to evaluate and prioritize new therapeutic opportunities for program improvement.

At each DUR Committee meeting, as approved by the Agency, Xerox will communicate new and updated criteria in the format of a Clinical Criteria Update Sheet. This update includes the following information:

- New criteria/reason for change
- *CyberFormance* class/disease classification
- New/updated criteria this defines specific diagnoses and/or drugs that are included and/or excluded
- Provider messages
- Clinical references

Retrospective Review Drives Prior Authorization Criteria for Fraud, Waste, and Gross Overuse (FR2.20)

For multiple clients, Xerox conducts statistically valid retrospective analyses on claims to identify patterns of fraud, waste, and gross overuse. From our experience, we have developed adaptive criteria that identify potentially errant claims such as:

- Flagged claims
 - Commonly mis-billed drugs
 - Quantity 10x days' supply
 - Pack size less than one (1)
 - Quantity not divisible by pack size
 - Quantity greater than 1,000
- Standard deviations above mean amount paid or mean quantity
- Duplicate claims
- Refill too soon
- Drug use without an approved indication
- Doctor shopper
- Emergency department overutilization
- Polypharmacy
 - > 10 medications by >= three prescribers and pharmacies
 - > 15 medications by >= three prescribers and pharmacies
 - > 20 medications by >= three prescribers and pharmacies

Retrospective Review Drives Prior Authorization Criteria for Narcotic Analgesic Overutilization (FR2.20)

Xerox clinical pharmacists use the DUR criteria (noted below) included in Clinical Plan*Formance* and identified narcotic analgesic overutilization as an area for prior authorization (PA) criteria for a number of its clients.

- Doctor shopper
 - > eight opiate claims
 - > 150-day supply
 - Prescribed by > three prescribers
 - Dispensed at > three pharmacies
- Overutilization
 - With cancer diagnosis (ICD-9 = 140.x 208.x) in the last two years:
 - > four different opiate medications
 - > eight opiate claims
 - > 150-day supply
- Absence of cancer diagnosis in the last two years:
 - > three different opiate medications
 - > eight opiate claims
 - > 150-day supply
- Multiple prescribers
 - > three different prescribers of opiates

Xerox will develop specific retrospective criteria for the Agency and DUR Board to consider as potential prior authorization criteria for this target area.

Physician Web Ranking (FR2.20)

Xerox's Physician Web Ranking module within *CyberFormance* provides users with the capability to trend prescriber habits and identify those who practice outside their peer's norm. Physician Web Ranking publications are updated on at least a quarterly basis. This application provides the user with the flexibility to trend based on the following parameters:

- Opportunity dollars
- Risk/unit cost
- Number of clinical issues
- Number of drugs
- Pharmacies/patient
- Doctors/patient

Users also have the flexibility to sort providers by practice setting (e.g., office or nursing home), county, or zip code. Physicians included in previous ranking may also be excluded from rankings. This approach identifies providers with the highest impact to the program for intervention and outreach education. The application can be customized with any user-defined clinical topics, cost-based evaluations, or disease management initiatives and allows for the evaluation of a provider's results against benchmark or customized criteria as defined by the Agency.

Population-based Interventions—A Xerox Innovation (FR2.20)

As the innovator of the population-based intervention strategy, Xerox is positioned to produce and mail four quarterly provider educational letters. Retro-DUR population-based interventions encompass available claims processed through the pharmacy benefit and those physician-administered drugs processed through

the medical benefit. Xerox created population-based interventions as a communication vehicle that targets the physician’s behavior instead of a particular member’s situation. This approach provides a much more meaningful and actionable message to the prescriber.

To produce population-based interventions, a focused set of criteria is developed that defines a specific disease state or drug usage issue. Xerox’s table-driven clinical rules engine allows for sophisticated analyses of the Agency’s pharmacy and medical data to identify the entire population of members with the specified issue. Because the criteria that are processed by the rules engine are so sophisticated, false positives are negated. This enables clinical issues affecting thousands of members to be addressed without the need to individually review each profile. Prescribing physicians who treat only one or two members flagged for intervention are filtered, allowing for development of physician outlier profiles based on the number of beneficiaries who are receiving sub-optimal therapy. This approach produces a large multiplier effect; a single intervention to 500 practitioners may address more than 5,000 members.

Management of physician-administered drugs is fully integrated into our Retro-DUR population-based interventions. For example, interventions that have focused on physician-administered drugs include the Biologic Immunomodulators and Multiple Sclerosis interventions.

Xerox produces these broad types of population-based interventions:

- **Drug Usage Evaluation (DUE).** Drug usage evaluation interventions target specific drugs and drug categories where pharmacotherapy is often inappropriate, cost-ineffective, potentially harmful, or of limited clinical benefit.
- **Disease Management.** Disease management interventions target specific disease states with significant opportunities for improving member care.
- **Therapeutic Interchange (TI).** A therapeutic interchange intervention identifies opportunities for more cost-effective drug therapy within selected drug classes.

Table G-11 illustrates some of the clinical issues, such as management of drugs of abuse and drugs used for substance abuse treatment, management of psychotherapeutic drugs in adults and children, treatment of chronic pain, ADHD, asthma and other costly and complex chronic conditions that have been addressed by Xerox’s population-based interventions:

Table G-11. Xerox Population-based Interventions		
Disease Management	Drug Utilization Evaluation	Therapeutic Interchange
Allergic Rhinitis	Antibiotics Overutilization	Angiotensin Modulators
Asthma	Anticonvulsants	Antidepressants
ADHD	Antidepressant Appropriate Use	Antidiabetic Agents
Beta-blocker Post MI	Atypical Antipsychotics Coordination of Care	Antiinfectives
Bipolar Disorder	Benzodiazepine Duration of Use	Atypical Antipsychotics
Cerebral Palsy	Biologics	Beta-blockers
Chronic Noncancer Pain	Carisoprodol Overuse	Growth Hormones

Table G-11. Xerox Population-based Interventions		
Disease Management	Drug Utilization Evaluation	Therapeutic Interchange
COPD	Dose Optimization	Insulins
Depression	Foster Kids – Psychotropic Use	Multiple Sclerosis Agents
Diabetes	Gastrointestinal DUE	Narcotics
Fibromyalgia	Hormone Replacement Therapy	Platelet Inhibitors
Generalized Anxiety Disorder	Influenza Vaccination	Proton Pump Inhibitors
Heart Failure	NSAID DUE	Smoking Deterrents
Migraine	Psychotropic Use in Kids	Statins
Osteoporosis	Polypharmacy	Targeted Immunomodulators
Rheumatoid Arthritis	Sedative/Hypnotics in Children	Ulcerative Colitis Agents
Stroke	Tablet Splitting	Vaginal Estrogen Products

Xerox will develop intervention strategies for approval by the DUR Committee and the Agency prior to initiation. This information is communicated to the Agency for approval through the intervention proposal document. This approval includes the intervention media (e.g., intervention mailings, Web-based communications, etc.) suggested to achieve the desired outcome. Xerox is prepared to produce and mail four interventions on up to four unique topics annually on behalf of and as directed by the Agency.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted text block consisting of multiple lines of blacked-out content]

[Large redacted text block covering the majority of the page content]

[Redacted footer line]

Clinical Pharmacist Support (FR2.20a and 2.22)

The Xerox process for supporting DUR Board Committee activities is systematic and scientifically sound. A peer-reviewed literature search is conducted, and applicable articles are compiled and reviewed by Xerox pharmacists. Reviewed materials include printed, online, and CD-ROM drug information sources, such as MedLine, DrugDex, American Hospital Formulary Service, USP-DI, AMA-DE, Facts & Comparison among others. Clinical practice guidelines, such as Agency for Healthcare Research and Quality (AHRQ), are also used to guide criteria development.

The clinical pharmacists identify the specific medical criteria necessary to comprehensively address the drug therapy problem/issue in question. Depending on the clinical topic, clinical pharmacists or physicians that have expertise or specialization in a particular area are assigned the protocol development.

A standardized initiative proposal form is used to organize the information and documentation concerning the initiative. The clinical pharmacy team regularly reviews documentation that can be leveraged to sharpen criteria such as:

- Consultant-based compendia including the three compendia specified in OBRA 1990:
 - American Hospital Formulary Service Drug Information
 - United States Pharmacopoeia-Drug Information
 - American Medical Association Drug Evaluations
 - DrugDex
- Drug Effectiveness Review Project (DERP II)
- Intergovernmental Agreement for Evidence Based Policy Research
- Peer reviewed clinical and scientific literature
- Official product labeling
- Relevant guidelines obtained from professional groups through a consensus derived process
- Experiences of practitioners with expertise in drug therapy
- Drug therapy information supplied by pharmaceutical manufacturers

Using the following methods, Xerox tracks new developments in pharmacotherapy:

- Subscriptions to journals and newsletters (pharmacy and medical)
- Email list with Center for Drug Evaluation and Research at the FDA (daily)
- Email list with Medwatch at the FDA
- Medscape email notifications (weekly) and journal scan on Medscape site
- Weekly First DataBank (FDB) updates
- New drugs
- Traditional literature searches (Pubmed)
- Online access to Virginia Commonwealth University and St. Louis College of Pharmacy/Washington University Medical School libraries

All new criteria and criteria updates go through a rigorous internal Xerox peer-review process before being placed into production. This process begins with an evidence-based literature search and ends with the criteria being placed into production.

Literature Search. Our clinical pharmacists, on a daily basis, review clinical resources to generate ideas for new clinical criteria or to identify how literature impacts current criteria and also collaborate with the Agency to develop clinical requirements. The clinical pharmacists identify the specific medical criteria necessary to comprehensively address the criteria in question. Depending on the clinical topic, clinical pharmacists or physicians that have expertise or specialization in a particular area are assigned the protocol development. A standardized initiative proposal form is used to organize the information and documentation concerning the initiative. Ideas may also be generated by our customers. For all criteria, the clinical pharmacist also develops a clinical algorithm (i.e., flowchart) based on best-practice guidelines and literature. The algorithm contains all information (e.g., drug lists, ICD codes, Current Procedural Terminology (CPT)/Healthcare Common Procedure Coding System (HCPCS) codes, etc.) required to write the clinical rule.

Internal Peer-Review. Clinical algorithms are presented by the respective clinical pharmacist at the weekly Xerox Clinical Management Services (CMS) meetings. The CMS team meets weekly to review existing and new clinical criteria. The weekly meetings have representation from account management, rules administration, and clinical management services. All team clinicians review the algorithm and provide feedback/comments. Based on this review, the criteria may require additional research and an update of the algorithm.

Rules Writing. After the clinical algorithm has been finalized, it is then used to write the clinical rule.

Data Modeling. The written rule is modeled against Agency data to identify specific clinical/business opportunities.

Clinical Rule Validation. Based on the data modeling step, patient profiles are generated that include profiles of patients who approve/deny on the respective criteria. These profiles are then reviewed by the clinical pharmacist who developed the algorithm to validate the clinical rule. Based on this review, the clinical pharmacist may identify clinical rule changes that are required. If necessary, the clinical pharmacist may request additional profiles for review until the clinician is confident the rule is correctly identifying issues and is validated.

External Peer Review. For all criteria sets, clinical proposals are provided to the Agency that define the criteria and include components such as specific clinical criteria, drug lists, ICD codes, and CPT/HCPCS codes. These proposals are typically presented to the Agency (e.g., Drug Utilization Review Boards, Pharmacy and Therapeutics Committees, pharmacy staff, etc.) for review and approval. After this review, the customer may request changes to the criteria that are then communicated back to the respective clinical pharmacist to create Agency-specific criteria. These changes would then be tested and validated before placed into production.

Production. After each algorithm has been reviewed and validated, it is placed into the customer-specific set of clinical rules.

For all drug-related information including drug indications, Xerox includes evidence-based references that support the respective indications.

Medicaid Program Assessment (FR 2.21)

A successful clinical and drug therapy management program begins with a thorough assessment of a client’s existing program. Xerox provides the Agency with an annual Program Assessment that evaluates the clinical and economic aspects of the Agency’s pharmacy program through sophisticated program assessments of current drug cost, utilization, and opportunities for clinical improvement. The report is compiled by a pharmacist familiar with trends among the top drug classes and with clinical interventions for those disease areas.

Program Summary. This section summarizes the demographic, business, and trend analyses, presents a comparative analysis of drug cost and utilization, and summarizes the opportunities for intervention and savings. Table G-12 shows an example of summary rates for an assessment.

Table G-12. Client Medicaid Program Summary Rates	
Period Covered:	May 2012 – April 2013
Total Rx Claims:	584,626
Total Rx Dollars Paid:	\$42,931,052
Avg. Paid per Claim:	\$73.50
Avg. Paid PUPM	\$78

Business Reports. This section reports the drug utilization and cost analysis for the drug program. Xerox categorizes the reports by therapeutic class, top-ranked drugs, and high impact drug classes. Table G-13 shows an example of the amount paid for the top five therapeutic classes in an assessment. The authoring pharmacist will highlight drug-specific trends and other clinical events that may have changed in the past year.

Table G-13. Client Medicaid Amount Paid per Therapeutic Class	
Therapeutic Class	Paid
Psychotherapeutic Drugs	\$12,121,739
Antiasthmatics	\$4,038,024
Antiinfectives	\$3,702,841
CNS Drugs	\$2,281,198
Gastrointestinal	\$1,988,473
Total	\$42,931,052

Trend Reports. This section reports the fastest growing drug classes and individual drugs by total paid and user numbers. This results from current analyses of the drug utilization and cost trends for the drug program and this includes a section on specialty pharmacy trends. Xerox categorizes the reports by therapeutic class, top ranked drugs, and high impact drug classes. Exhibit G-56 shows the Total Health Record (THR) clinical indicator trends for a designated period of time in the assessment.

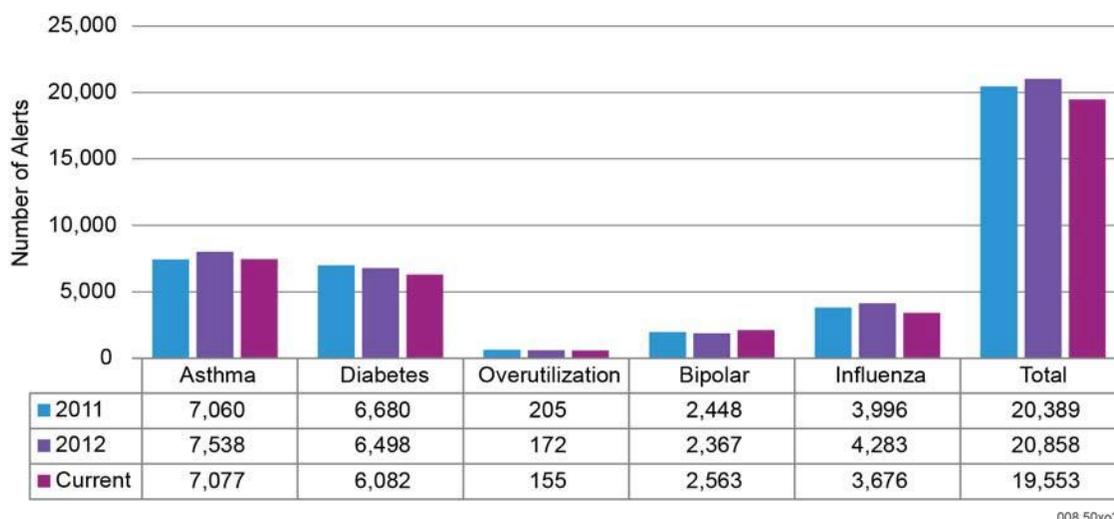


Exhibit G-56. Client THR Indicator Trends

Client statewide Medicaid claims data from May 2012 through April 2013 relative to the ARRA HITECH provisions and the graph illustrates trends in the THR indicators in 2011, 2012, and the current time period.

Clinical Reports. This section uses evidence-based clinical performance indicators to identify the specific areas that can be improved. Table G-14 illustrates the clinical indicator statistics for diabetes reported in a most recent program assessment.

Table G-14. Client Medicaid Evidence-Based Diabetes Clinical Indicators			
Clinical Indicator	Exceptions	Candidates	Ratio
Encourage recommended laboratory tests and preventative screenings	1,818	5,316	34.2%
Absence of foot exams	923	1,165	79.2%
Underutilization of influenza vaccine in patients with diabetes	908	1,479	61.4%
Absence of eye exam	853	1,561	54.6%
Underutilization of antilipemic therapy	391	908	43.1%
Underutilization of antiplatelet therapy	295	1,412	20.9%
Drug-disease contraindication with metformin and thiazolidinediones	137	486	28.2%
Antidiabetic medication compliance	108	404	26.7%
Total	5,433		

CMS Annual Report (FR2.23)

Xerox will be responsible for drafting, finalizing, with the approval of the Agency, the CMS annual DUR report as described in Section 1927(g)(3)(D) of the Social Security Act and the required cost savings analysis including the following:

- Provide the draft CMS-required DUR Annual Report to the Agency at least 30 days prior to the due date
- Incorporate any changes recommended by the Agency into the CMS annual report
- Perform additional research requested by the Agency
- Upload per CMS protocol the final CMS-required DUR Annual Report for the Agency at least 10 days prior to the due date for Agency approval and submission.

Prospective DUR (Pro-DUR) (FR 2.20)

The Omnibus Budget Reconciliation Act of 1990 (OBRA '90) established the guidelines for the Pro-DUR editing incorporated in pharmacy processing systems. OBRA '90 requires Medicaid pharmacists to review a client's drug profile before filling prescriptions, including evaluation of edits such as drug therapy problems, therapeutic duplication, and drug- disease contraindications. Additionally dispensing pharmacists must offer to discuss unique drug therapy regimens when filling a client's prescriptions

PBM OS+ uses First Databank (FDB) MedKnowledge™ (formerly known as the National Drug Data File [NDDF] Plus) as the source for therapeutic criteria to support the OBRA '90 guidelines. FDB's clinical modules contain information on thousands of drug interactions, age and disease contraindications, and dosing and length of therapy limitations. The system applies updates provided by FDB on a weekly basis, ensuring the most current clinical data is utilized in Pro-DUR processing. The system features online, interactive file maintenance capabilities for update and display of drug file data. Using FDB's reference data as a starting point, staff can review criteria and severity indexing, and then modify and update the Pro-DUR data and rules as necessary to meet modifications required by the Agency and applicable advisory boards and committees.

The Agency is able to maintain, as well as enhance, its current Pro-DUR program with PBM OS+ by utilizing its customizable and flexible features to provide cost containment, while retaining clinical relevancy. The system's Pro-DUR functionality executes online real-time Pro-DUR decisions by applying high-performance, table-driven clinical rules of client-specific drug data. Our Pro-DUR solution minimizes false positives through the customization of Pro-DUR criteria and appropriate dispositions, resulting in fewer Pro-DUR alerts, while the alert messages sent are more meaningful and detailed.

To support the Pro-DUR process, PBM OS+ offers extensive flexibility and a full-range of user- friendly Pro-DUR functions, including the following:

- Menu-driven design for ease of use
- NCPDP version D.0 transaction and clinical intervention standards NCPDP response format enabling providers to offer immediate counsel
- Customizable edits for quick and easy modifications
- Fully customizable criteria for Pro-DUR conflict edits, including those for over utilization, underutilization, therapeutic duplication, drug-to-drug interaction, incorrect drug dosage, and inappropriate duration of drug treatment
- Audit trail reports
- Comprehensive package of Pro-DUR reports

The system completely adjudicates POS drug claims in real-time and fully supports and complies with the latest NCPDP D.0 Telecommunication Standard for Pro-DUR communications. Enhanced messages for Pro-DUR can be customized by the Agency and incorporated into the standard NCPDP transaction data fields. This allows providers sufficient information and the capability to override edits when permitted by program policy and resubmit claims for payment resulting in a positive experience for both the client and provider.

Pro-DUR Edits (FR 2.20)

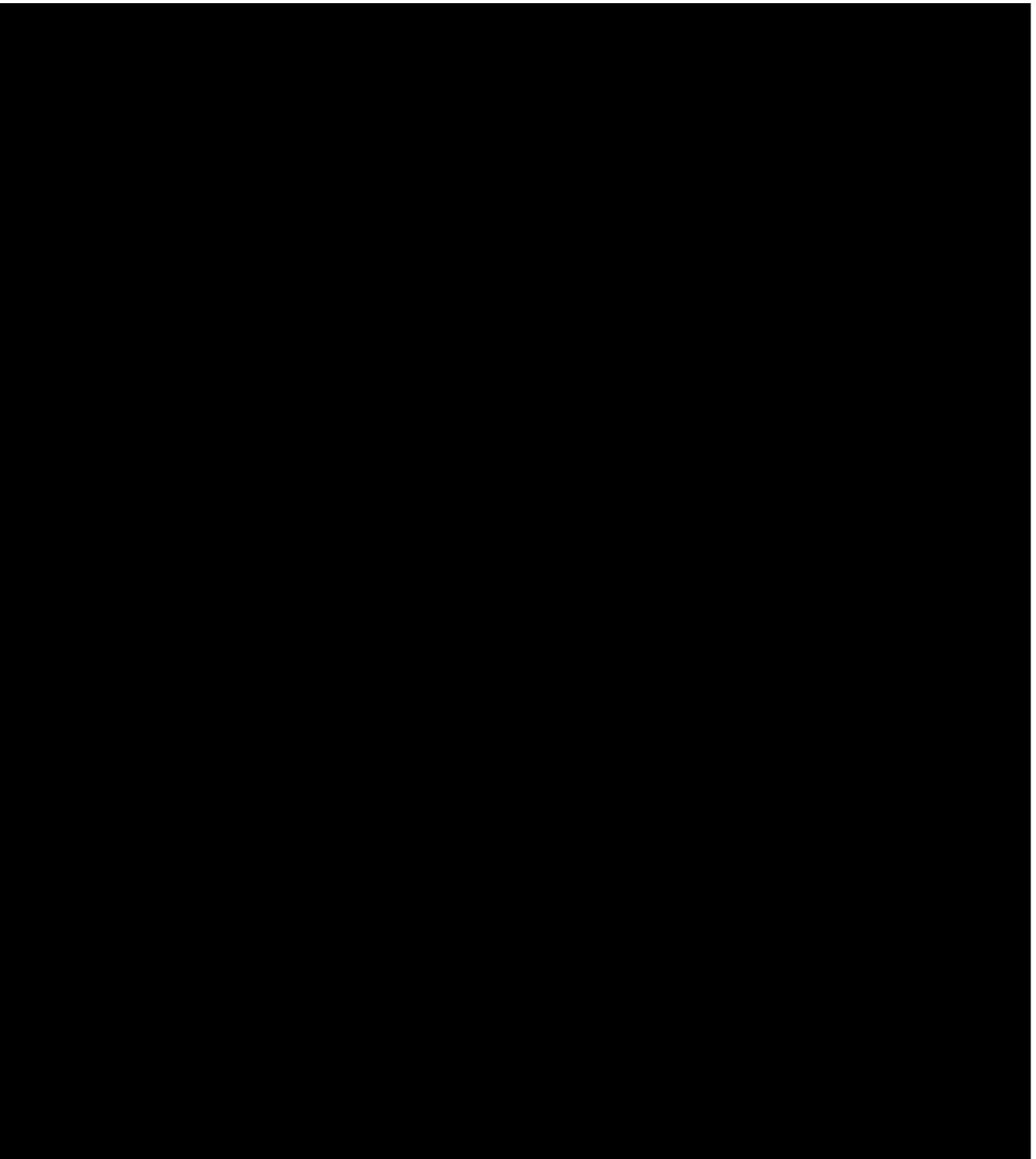
The system’s Pro-DUR process automatically reviews each drug claim submitted by a pharmacist (prior to dispensing) to determine if the claim conflicts with any other prescriptions for the client, or if it suggests inappropriate use. In less than a second, the system searches for drug therapy problems that may result from possible conflicts. The system identifies problems such as drug-to-drug interactions, therapeutic duplication, incorrect dosage, or inappropriate duration of treatment. Table G-15 defines how Pro-DUR edits analyze the data related to the incoming claim.

Table G-15. Pro-DUR Edit Criteria	
Edit	PBM OS+ Process
Age Alert (PA)	<ul style="list-style-type: none"> • Screens claims for the presence of geriatric and pediatric precautions • Compares the client’s age to the reference information on file • Generates a message if the client falls into a contraindicated age category
Sex Alert (SX)	Verifies that prescribed drugs are consistent with a client’s gender using FDB criteria and information on the client eligibility file
Low Dose (LD)	<ul style="list-style-type: none"> • Edits each claim for appropriate drug dosage using clinical • Minimum/Maximum Daily Dose Modules • Sends a reason for service code to the pharmacist when the recommended minimum daily dosage is not dispensed based on the quantity and days’ supply on the claim.
High Dose (HD)	Default denial edit set at two hundred percent of the recommended maximum dose; customizable to Department-specific percentage threshold
Early Refill (ER)	<ul style="list-style-type: none"> • Identifies early refill conditions and provides the ability to deny these claims • Sends the pharmacist a POS message indicating the allowed refill date
Late Refill (LR)	Identifies late refill situations, providing the pharmacist an opportunity to counsel the client on the importance of taking his or her medications as prescribed
Therapeutic Duplication (TD)	Identifies/reports problems involving therapeutic duplication of drugs when a client has prescriptions for two or more drugs from the same therapeutic class
Ingredient Duplication (ID)	Detects ingredient duplication when a client receives two or more pharmaceutical substances where the secondary or lower therapeutic classes match
Drug-to-Drug Interaction (DD)	<ul style="list-style-type: none"> • Detects problems involving the use of drugs that interact with other drugs on current or historical claims for a given client • Reports three levels of clinical severity for drug-to-drug interactions, based on clinical severity and incidence coding, also determining whether to issue a particular DD alert

Table G-15. Pro-DUR Edit Criteria	
Edit	PBM OS+ Process
Excessive Duration (MX)	<ul style="list-style-type: none"> Identifies potential excessive duration situations when the days' supply exceeds the recommended maximum days needed to achieve the modules Accommodates differences in therapy duration based on client age by accessing FDB's recommended durations for pediatric, adult, and geriatric patients
Pregnancy Alert (PG)	<ul style="list-style-type: none"> Generates alerts if the drug is contraindicated for pregnant women Checks client upon data related to in-process claims or if there is a current prescription for pre-natal vitamins
Drug-Allergy Alert (DA)	<ul style="list-style-type: none"> Generates alerts if the patient has a known allergy to the drug or an ingredient in the drug prescribed Checks client's profile for an indication of allergy, as indicated by diagnosis information from medical claims or otherwise gathered
Generic Medications	Ensures the appropriate use of generic medications as a first line therapy based on criteria, including whether to deny brand medications when generics are available

Pro-DUR Example (FR2.20)

The Pro-DUR process accesses various databases such as client, drug, and provider, and stored procedures created by the customization of the Pro-DUR component to accurately process the claim for Pro-DUR edits. Exhibit G-57 shows the process flow and details the steps that are taken to determine if a gender exception exists.



Summary

By using the features of PBM OS+, the Agency is able to apply more refined editing criteria for Pro-DUR. Staff can modify edit criteria and the disposition of a claim failing a specific edit to support the needs of the Agency. Pro-DUR edits are customizable through online changes to the Pro-DUR rules, without programming.



DUR Board Meeting Support (FR 2.24, FR 2.25, FR 2.26, FR 2.27, and FR 2.28)

Xerox understands the responsibility and dedication needed to ensure that each DUR Board meeting is successful and as burden-free as possible to the Agency and the DUR Board members. Providing the technical and administrative support for a DUR Board meeting is crucial in order to have a positive flow and outcome from each DUR meeting. This ensures smooth, seamless, and effective meetings.



1.2.4 State Maximum Allowable Cost (SMAC) Program and the Federal Upper Limit (FUL)

The Affordable Care Act modified the previous statutory provisions that required the Secretary to establish a Federal Upper Limit (FUL) for multiple source drugs. Effective October 1, 2010, the Social Security Act was revised to require that the Secretary calculate a FUL as no less than 175 percent of the weighted average (determined on the basis of utilization) of the most recently



reported monthly average manufacturer prices (AMP) for pharmaceutically and therapeutically equivalent multiple source drug products that are available for purchase by retail community pharmacies on a nationwide basis. The Final Rule and revised FUL prices will most likely not be available until January, 2014.

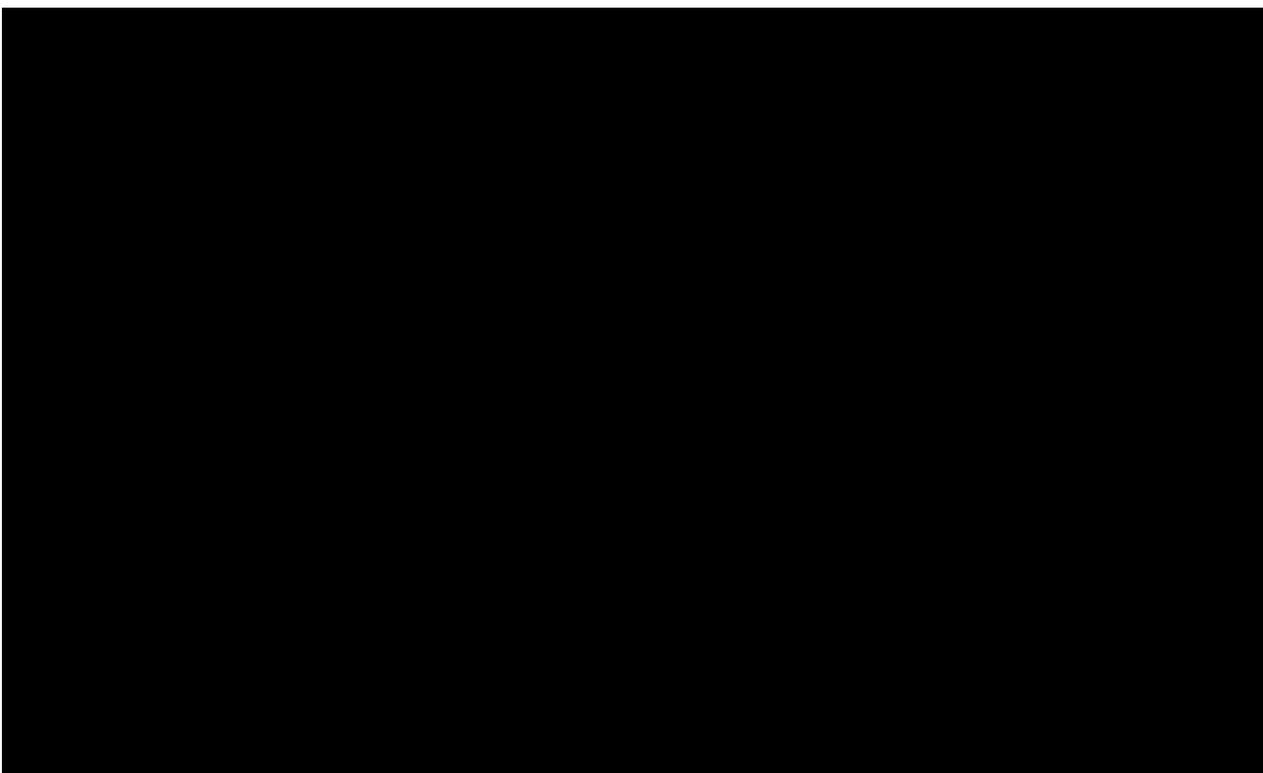
The State Maximum Allowable Cost (SMAC) resembles the federal upper limit (FUL) methodology in that it establishes maximum reimbursement amounts for equivalent groups of multiple source drugs. While basing reimbursement payments off the FUL can save states money, they can potentially achieve additional savings by implementing a SMAC program. For example, States can include more drugs in these programs than are covered under the FUL program and reimbursement rates for drugs under a SMAC can potentially be lower than the established FUL rates.

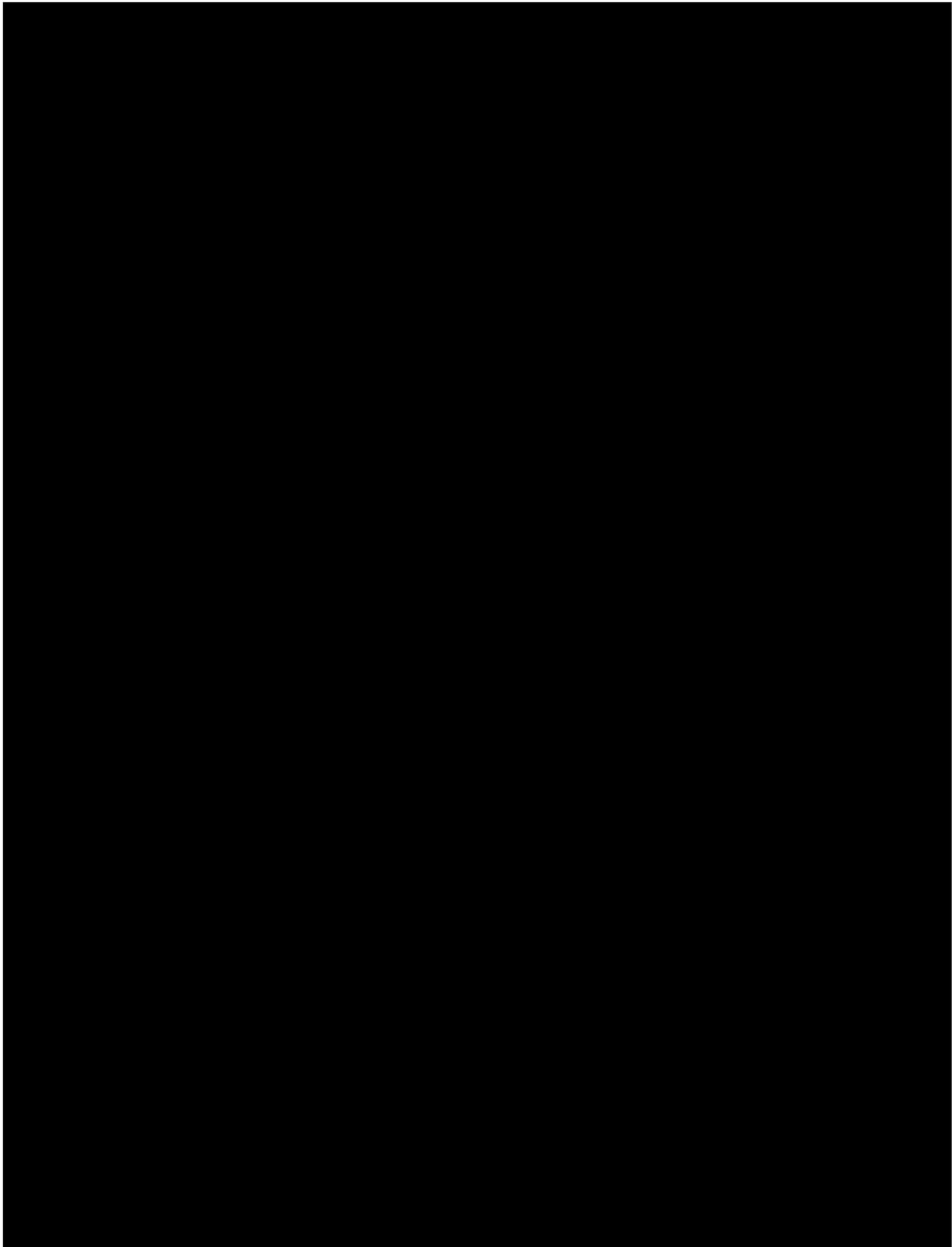
Currently, the pharmacy reimbursement for drugs is the lower of the following calculations:

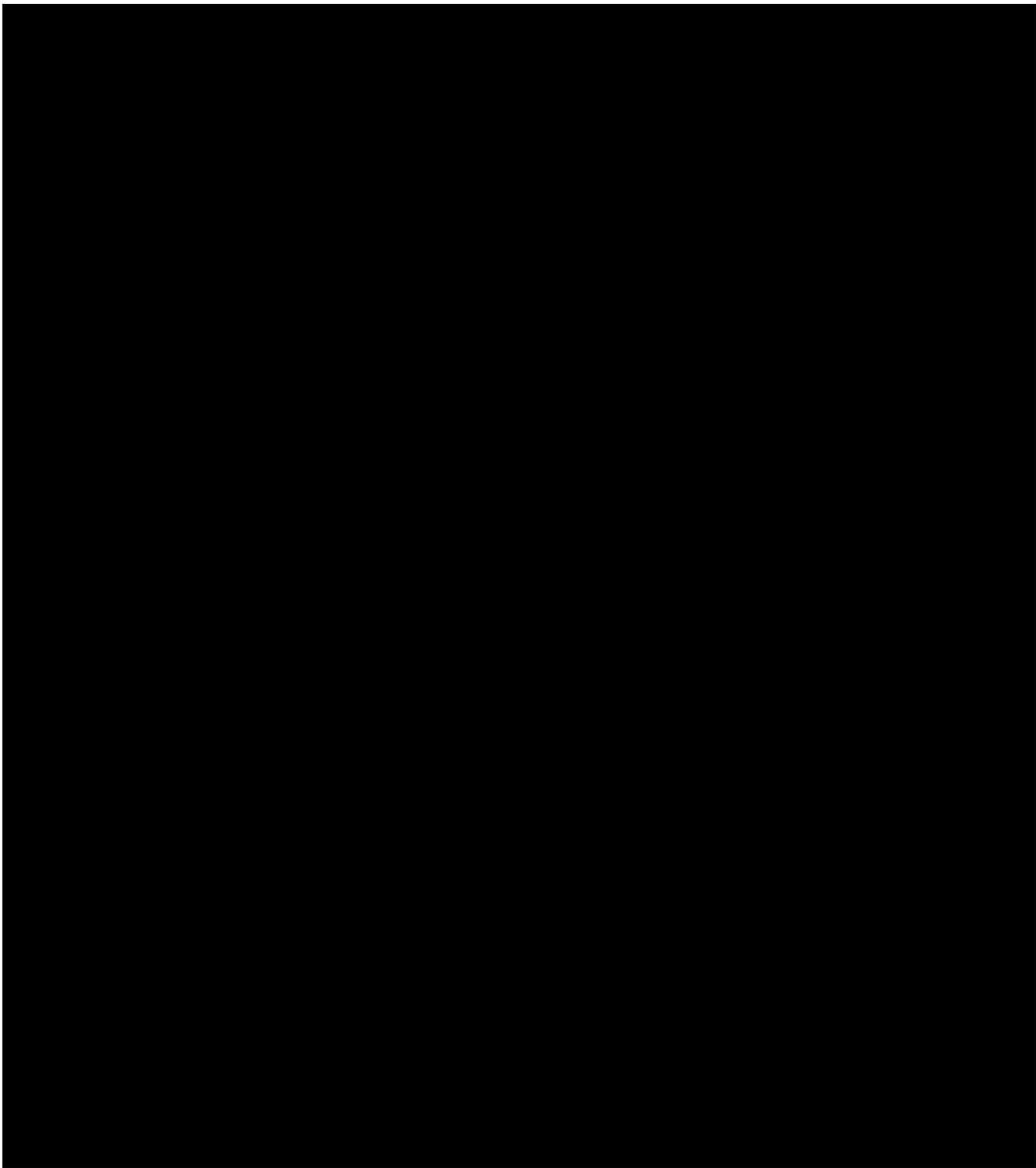
- Average Wholesale Price (AWP) less 14.2% plus a dispensing fee,
- The Federal Upper Limit (FUL) plus a dispensing fee,
- The State Maximum Allowable Cost plus a dispensing fee
- The pharmacy's usual and customary charges

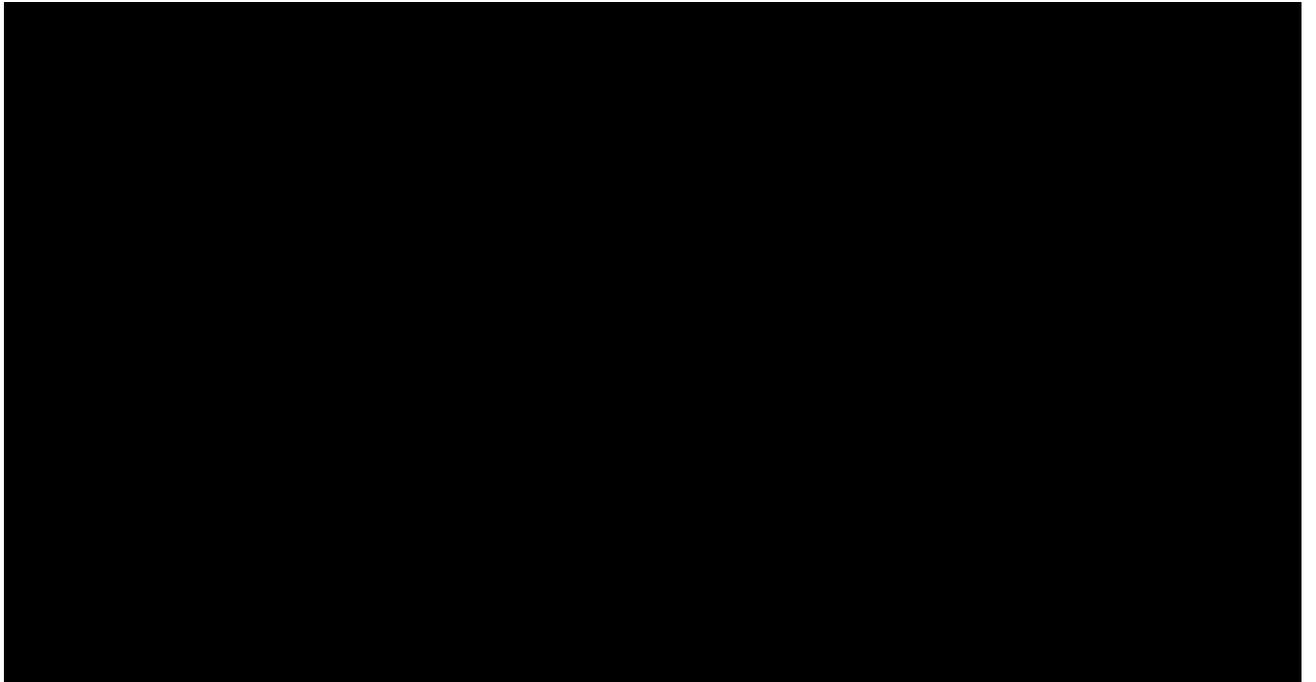
The Vendor must describe their approach to implementing the new FUL rates to be published in 2014, the Vendor's approach to setting MAC rates on drugs, and the Vendor's approach to the administration and maintenance of the State's Maximum Allowable Cost program. The Vendor's MAC must be available and transparent to the State.

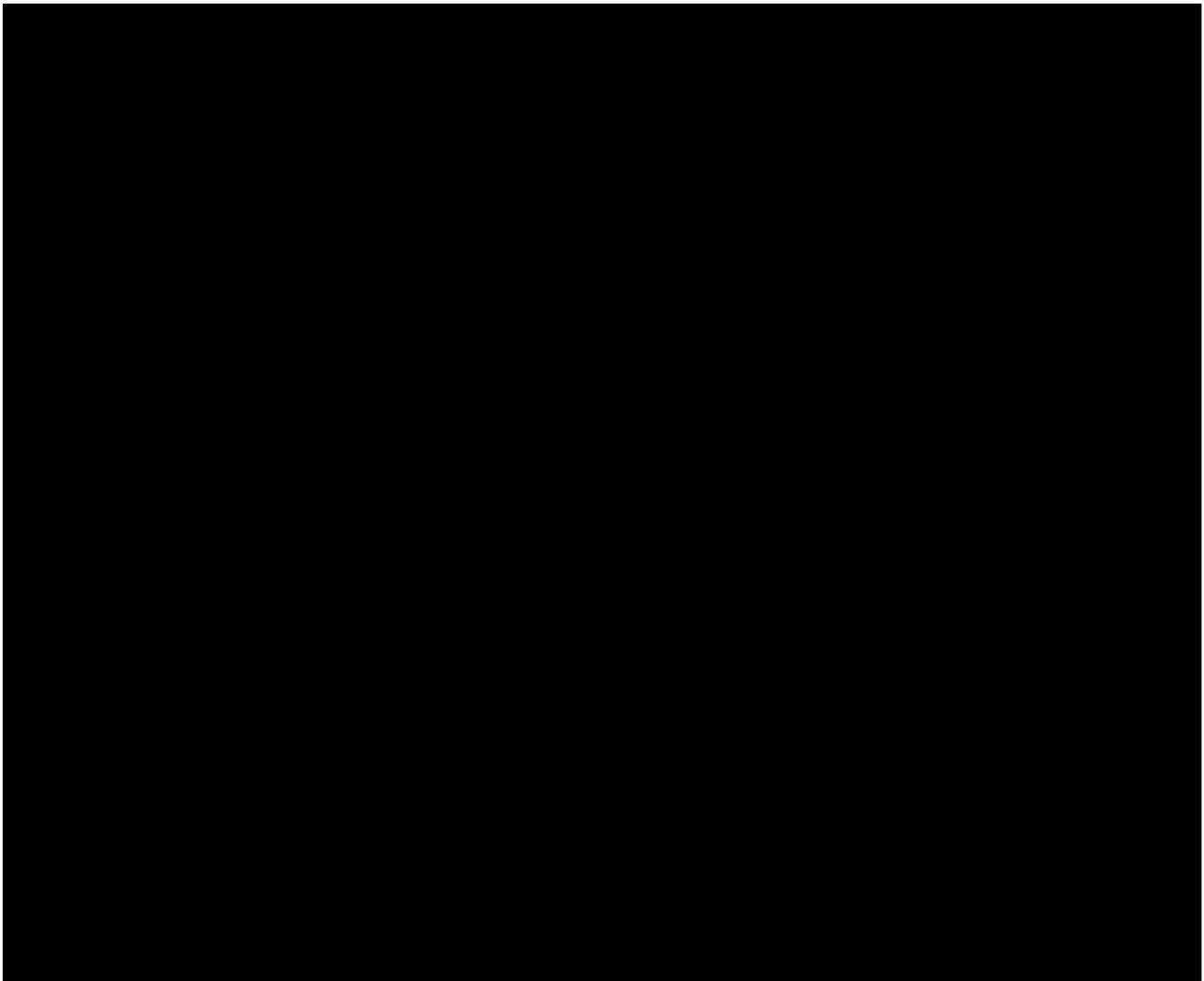
Overview (FR2.29, FR2.30, FR2.31, FR2.32, FR2.33, FR2.34, FR2.35, FR2.36)

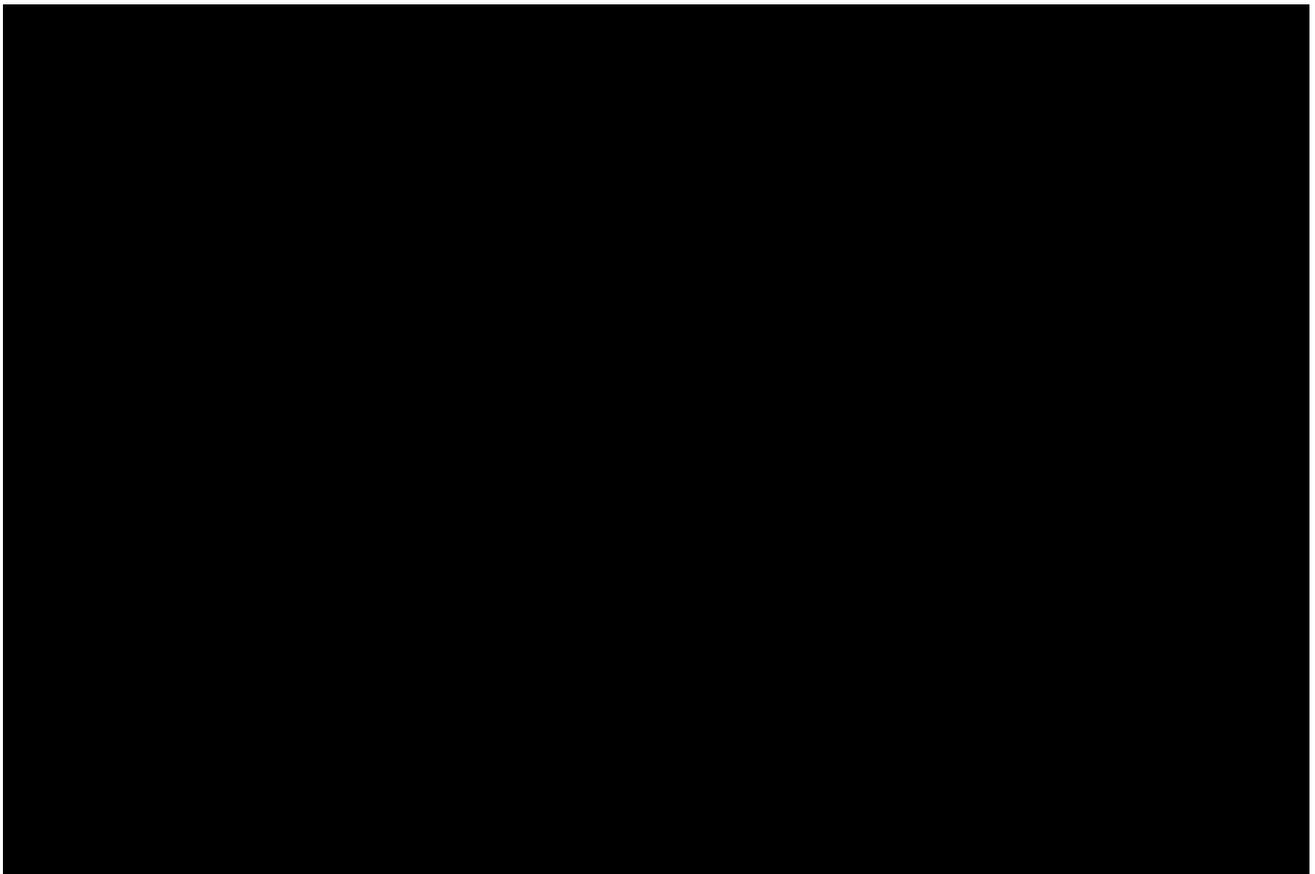
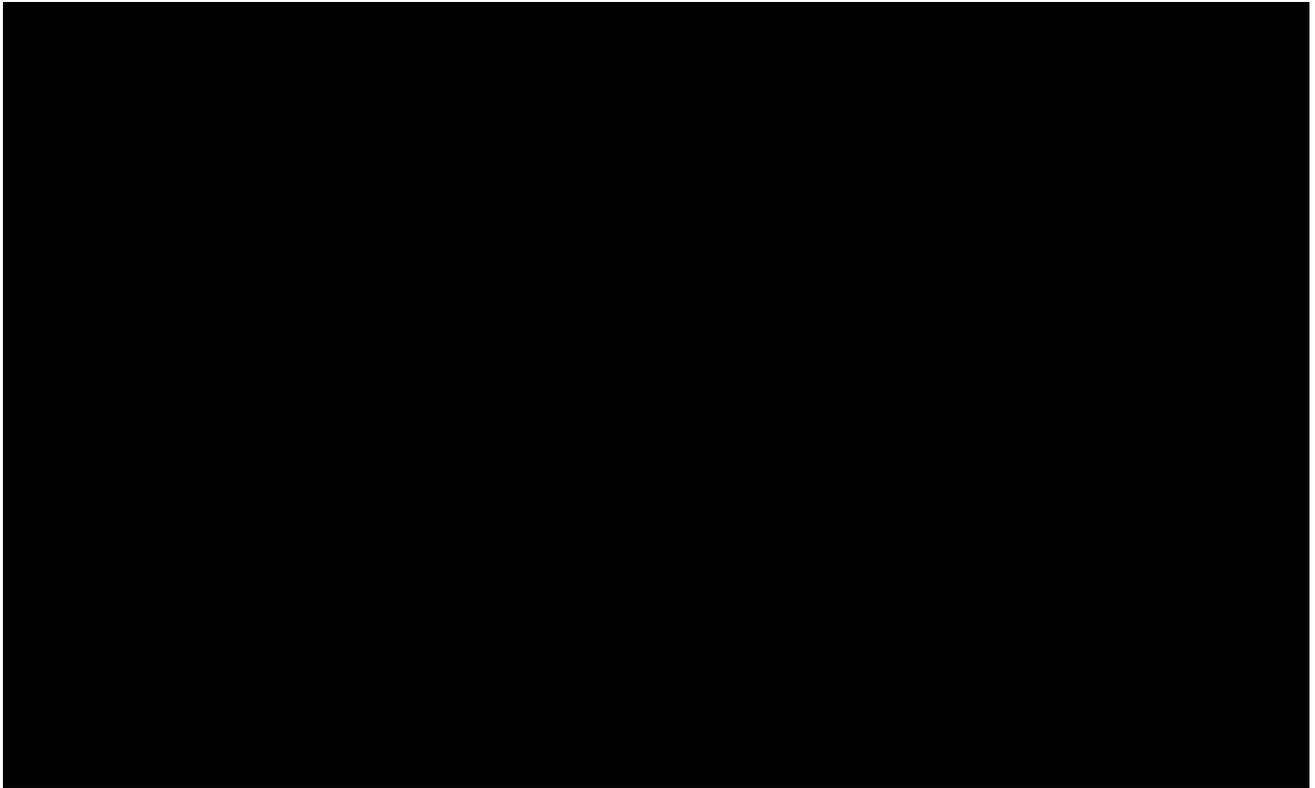


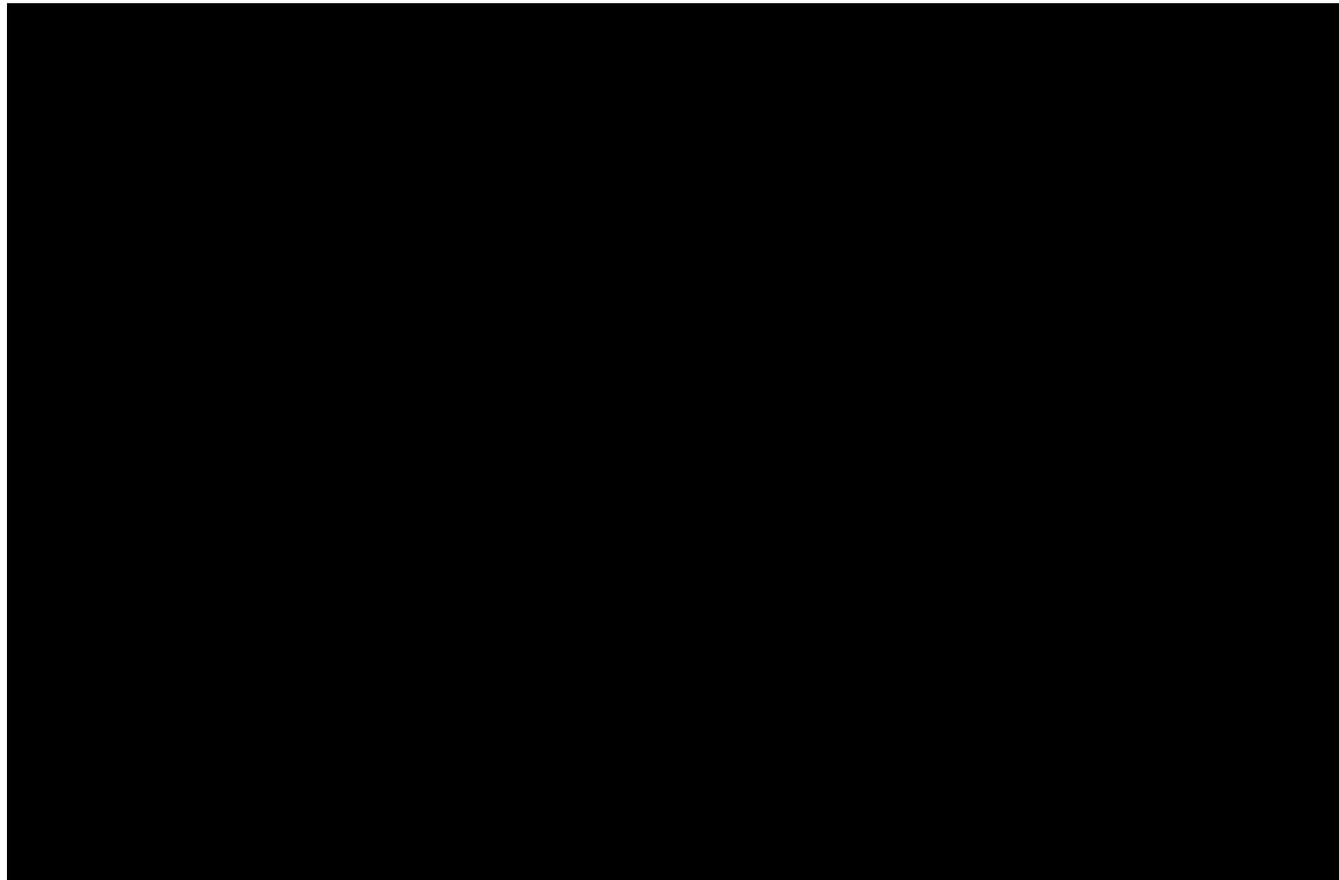
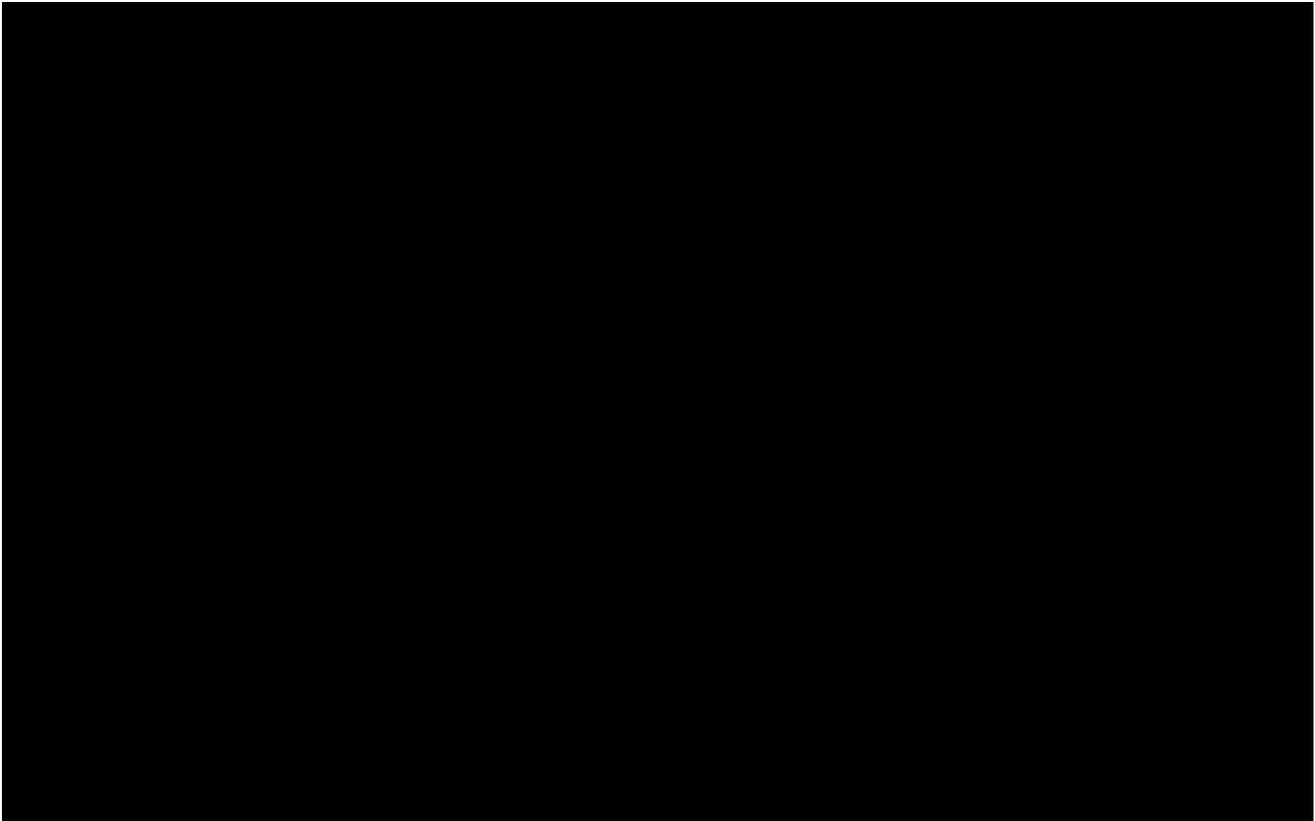








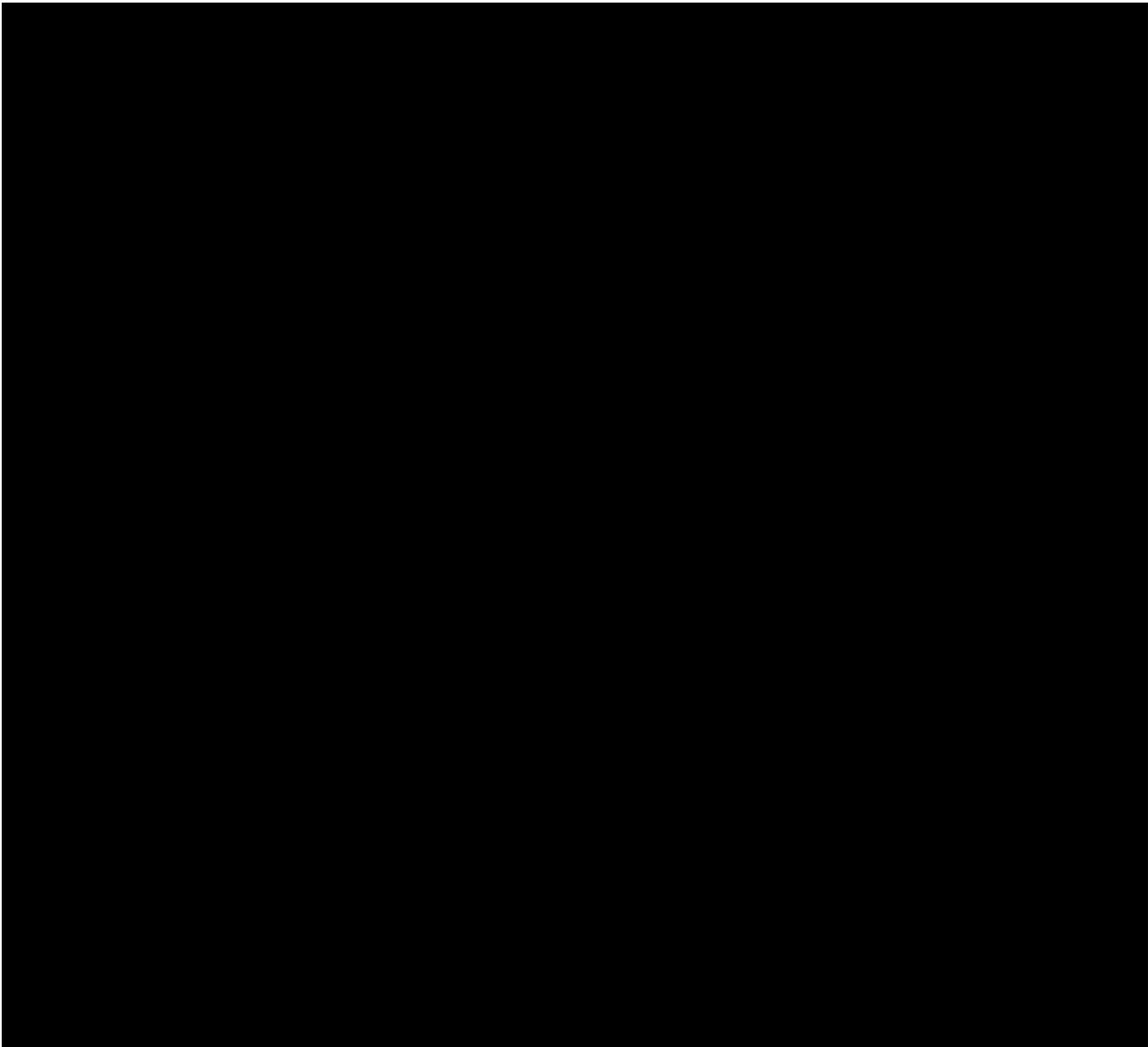


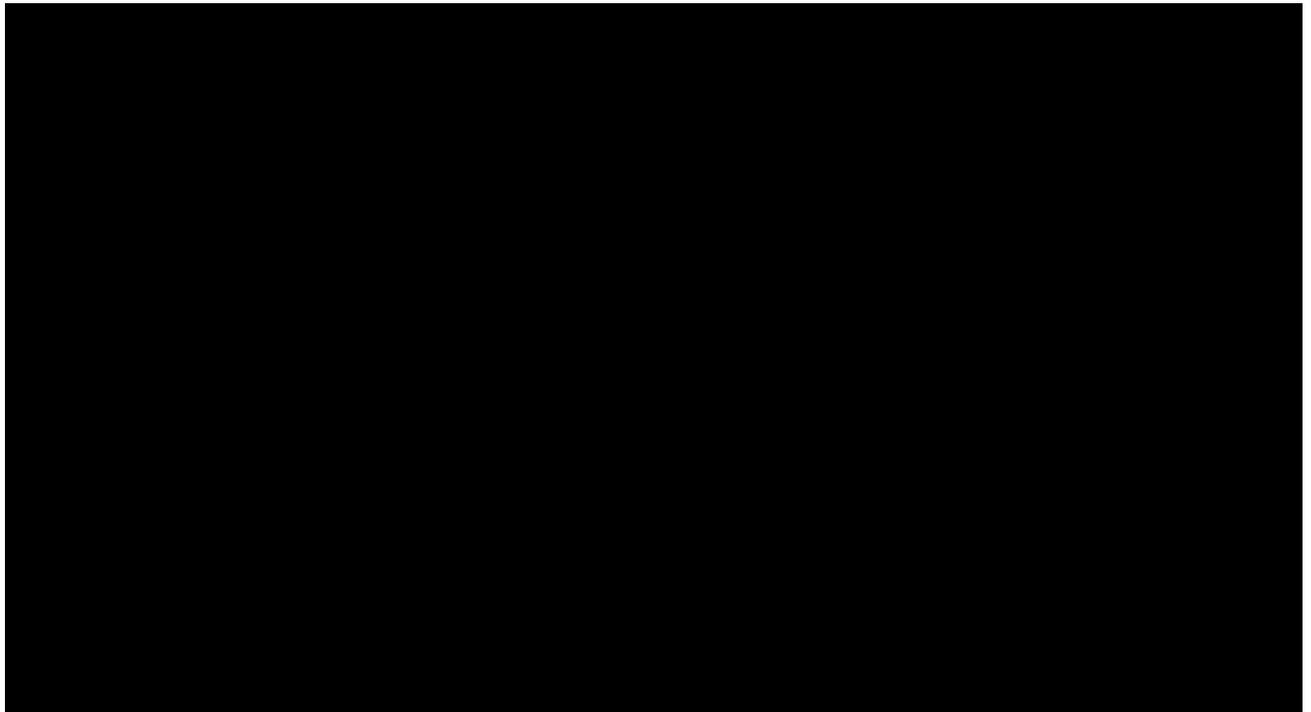


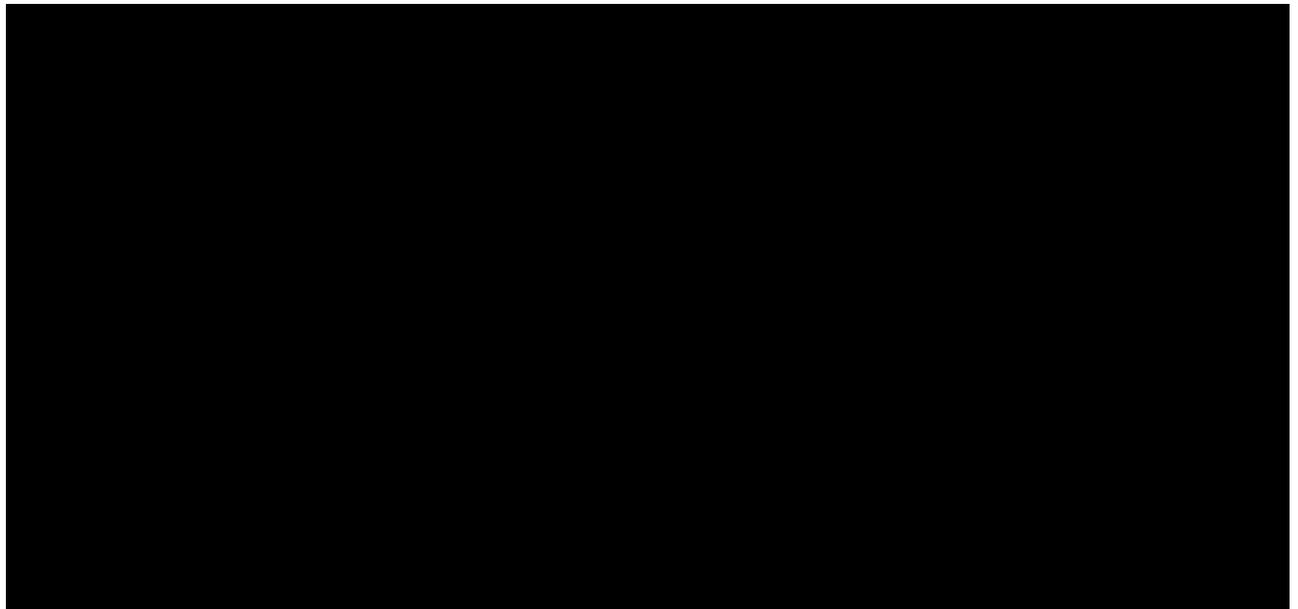
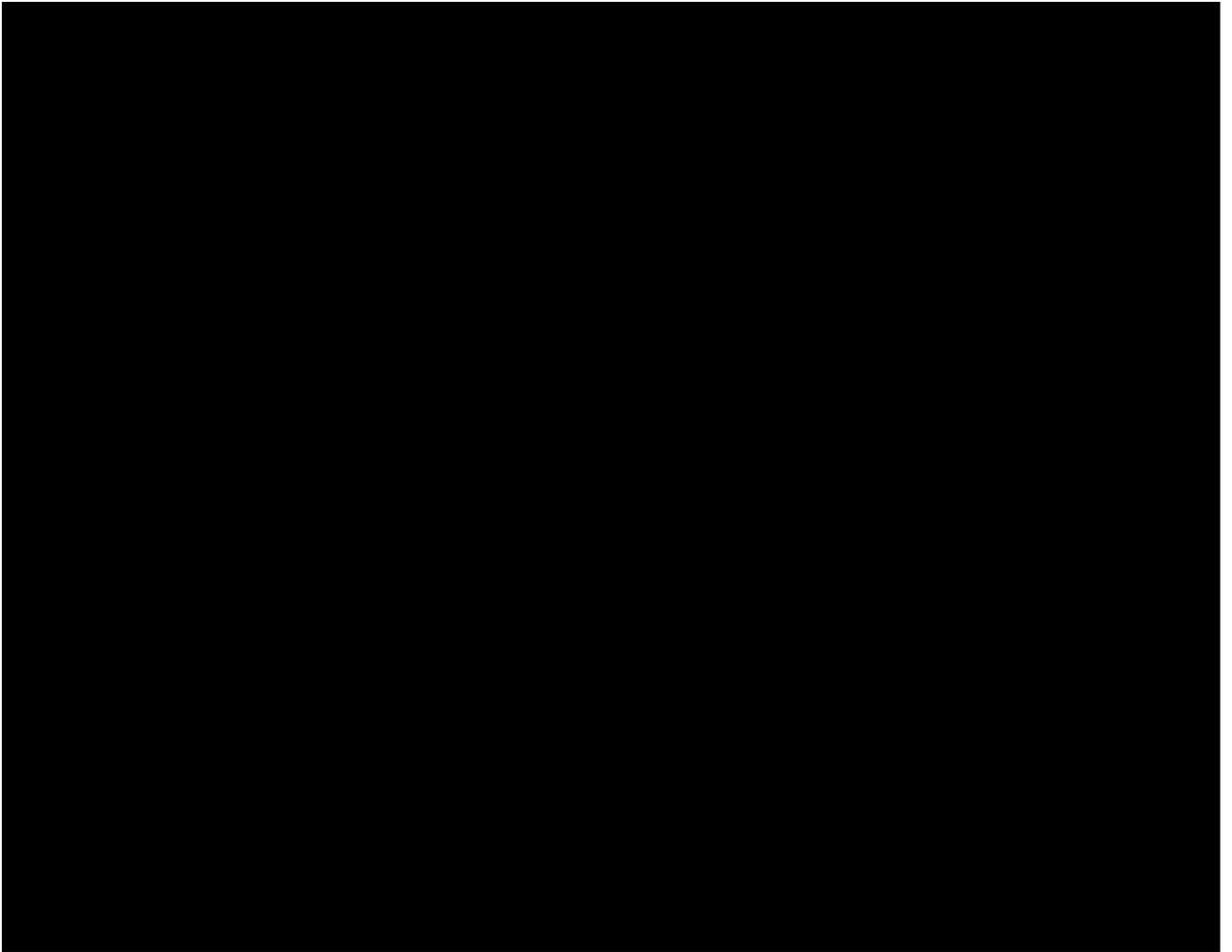
1.2.5 Specialty Pharmacy

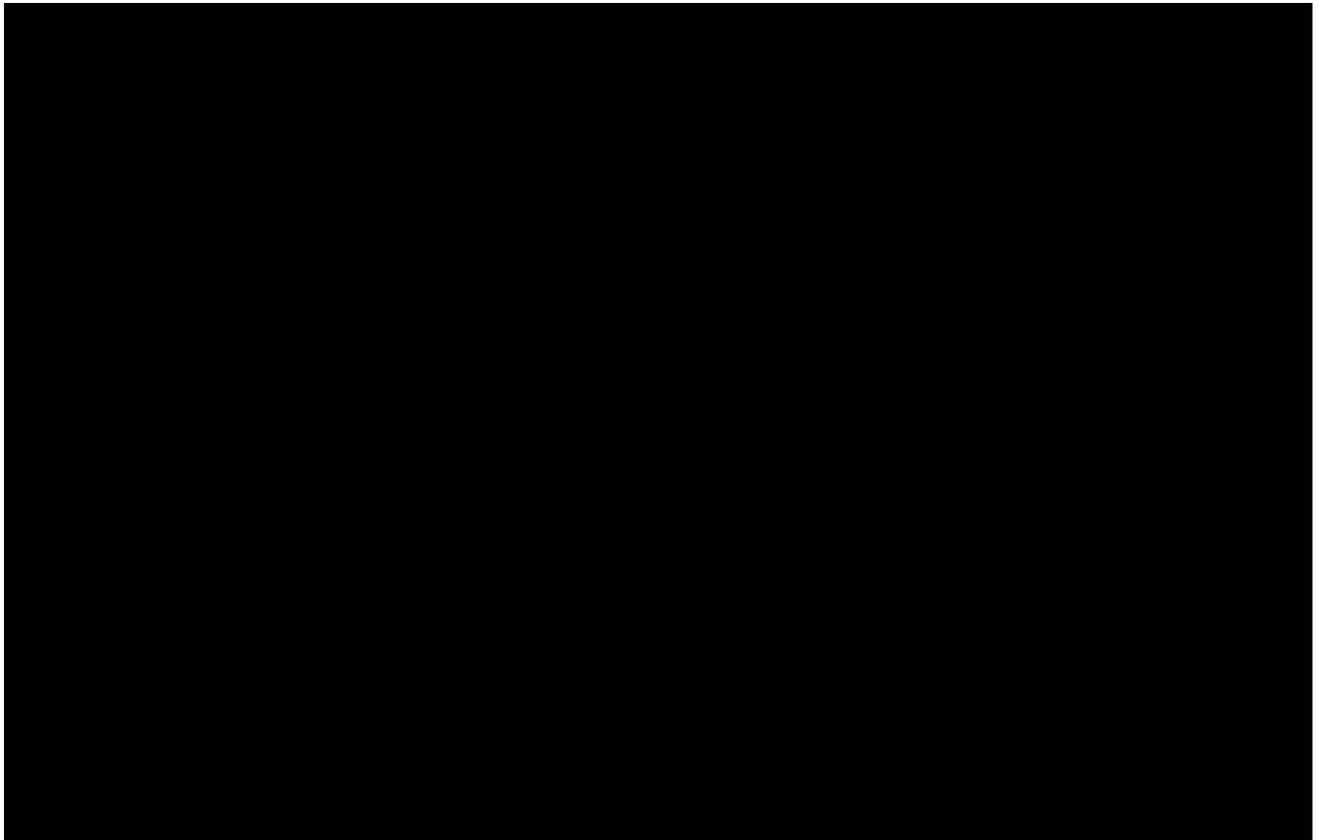
Specialty pharmaceuticals are identified as one of the fastest growing segments of the State's pharmacy program. Industry projections indicate that this segment will continue to grow at a rapid rate. The State currently utilizes specialty pharmacy services for certain specialized drug therapies such as drugs used to treat multiple sclerosis, growth hormone deficiencies, cystic fibrosis, hepatitis C, and other complex medical conditions. Dispensing of specialty medications is limited to the specialty pharmacy for Medicaid beneficiaries when Medicaid is the primary insurer. The State expects that the selected PBM will provide a specialty pharmacy option and expand the program's specialty pharmacy services to support beneficiaries in better managing complex health conditions while managing specialty drug costs.

The Vendor must describe their approach to specialty pharmacy services such as developing, implementing, maintaining and enhancing innovative clinical and cost reduction efforts that ensures the appropriate use of specialty products and the management of complex medical conditions.









1.2.6 Benefit Design and Consultative Support

The Vendor must describe their approach to providing benefit design and support, in particular the ease of implementing and making ongoing programmatic changes to the benefit program. The State is interested in understanding the Vendor's:

- Ability to implement, operationalize and manage the Agency's complex benefit designs with multiple funding sources and various eligibility requirements
- Flexibility in pharmacy reimbursement structures such as Average Acquisition Cost (AAC), National Drug Acquisition Cost (NADAC), Wholesale Acquisition Cost (WAC), and 340B pricing designs
- Ability to modify benefit plans in a timely and cost-effective manner for the Agency
- Ability for the Agency staff to make changes to the benefit design and operational features, such as POS messaging

The Vendor should describe their ongoing approach to enhancing operational, program, and clinical value. It should include the approach to identifying recommendations for program improvements, cost reduction/avoidance strategies, and operational efficiencies. Explain how these will be developed, how the Vendor will work with the State to obtain necessary approvals and buy-in, to implement changes, and measure and report on benefits realization on an ongoing basis.

Xerox's 20+ years of pharmacy claims adjudication expertise minimize the implementation risk to the Agency. Our proposed system, PBM OS+, is highly secure, configurable, customizable, and ready to meet the needs of the Agency's pharmacy services programs.

Overview (FR1.1, FR1.2, FR1.5, FR1.6, FR1.7, FR1.17)

Our proposed system, PBM OS+, includes features designed to automate processes and accommodate program policies with minimal effort, such as allowing authorized Agency users' access to Web pages to perform queries and update data. The system can easily accommodate a wide variety of claims adjudication requirements through the setting of system parameters and database tables via user-friendly Web pages. The system can accommodate Agency policy changes quickly and efficiently and in many cases without programmer intervention.

Performance, reliability, and functional capabilities make PBM OS+ the ideal solution for the Agency’s claims adjudication needs. The system processes claims in less than one second and is capable of processing extremely high peak volumes—volumes that would paralyze lesser systems—while maintaining clinical and functional integrity. The superior design of PBM OS+ has allowed Xerox to avoid extended downtimes, response delays, and functional inadequacies that can plague other pharmacy systems.

PBM OS+ is a fast and efficient claims adjudication system that will meet the needs of the Agency well into the future. The system consists of hardware and software that provides real-time claims adjudication of NCPDP-compliant pharmacy claims received via a switching network that connects Agency enrolled pharmacies to the system. Once received, the system screens each claim, applies edits and audits such as beneficiary and pharmacy eligibility and enrollment, prices the claim using Vermont’s drug formulary, and reports back to the submitter in real-time regarding the outcome of the adjudication. The system sends adjudicated claims, at least daily, to the MMIS for payment and enterprise data warehouse (EDW) population. Finally, a copy of all pharmacy POS claims is maintained in the PBMS data files.

Xerox is confident that our two plus decades of experience successfully providing claims adjudication services to pharmacy programs across the country, coupled with the flexible architecture of PBM OS+, makes Xerox the right vendor for the Vermont PBMS project.

Xerox provides a full array of pharmacy and clinical services, as cited in Table G-16.

Table G-16. Full Array of Pharmacy and Clinical Services	
<ul style="list-style-type: none"> • Pharmacy system DDI, operations, and maintenance • Claims Processing, Adjudication, and Payment • Call Center Services • Preferred Drug List (PDL) Support • Provider Network Contracting & Management • Data Warehouse/Decision Support System (DW/DSS) Services • Automated Prior Authorization Determination • Third Party Liability/Coordination of Benefits • Prospective Drug Utilization Review (ProDUR) • Retrospective Drug Utilization Review (RetroDUR) • CMS Drug Rebate Administration • Maximum Allowable Cost (MAC) Program 	<ul style="list-style-type: none"> • Supplemental Drug Rebate Administration • Managed Care Organization (MCO) Drug Rebate Support • Website Development/Maintenance • On-site and Desktop Pharmacy Auditing • Clinical and Financial Reporting • Provider Education • Cost Containment Consulting • Benefit Design Management • Fiscal Management • Clinical Management Programs and Tools • E-prescribing • Academic Detailing/Population-based Interventions • HCPS Rebate Crosswalk (J-Codes)

PBM OS+ captures and performs real-time adjudication of pharmacy claims submitted via point-of-sale (POS) devices, a switch, and the Internet, in accordance with Agency policy. The system accepts pharmacy transactions in the National Council for Prescription Drug Programs (NCPDP) Telecommunications Version D.0 format and is Health Insurance Portability and Accountability Act (HIPAA)-compliant. We modify the system at the direction of the Agency to remain fully NCPDP compliant throughout the term of the contract and to accept subsequent versions of the NCPDP transaction format.

Complex Benefit Designs: Multiple Funding Sources

PBM OS+ provides several options to ensure that beneficiaries are eligible to receive the services. This includes editing related to overall eligibility from multiple funding sources, coverage within a defined Agency benefit plan, enrollment in an MCO or Lock-in program, or receiving medication through a waiver program, carve-out mental health program, or disease management program.

Beneficiary Eligibility: The system verifies that the beneficiary is on the eligibility database, has an active status, and is authorized to receive pharmacy claim benefits for the claim date of service. Eligibility is determined by comparing the claim date of service with the beneficiary's eligibility coverage date spans on the eligibility database.

Benefit Plans: PBM OS+ maintains unique benefit plans that define coverage. Each beneficiary is assigned to a plan or multiple plans. When a beneficiary is active in more than one plan, applicable coverage is determined through an Agency-specific hierarchy. PBM OS+ uses the benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan.

When a beneficiary is receiving medication as part of another program, such as a waiver, carve-out mental health, or disease management program, the claim will follow the rules that have been established for those plans, thus limiting the service via the coverage provided.

Lock-In Edits: PBM OS+ provides the Agency the option of "locking in" a beneficiary with a particular provider for case management purposes or to prevent the beneficiary from abusing the program by obtaining drugs from multiple prescribers or pharmacies. When a claim is received for an eligible beneficiary who is locked in, the physician and/or pharmacy provider number on the claim must match the number on the lock-in span in the beneficiary database or an exception will post notifying the submitter of the reject information.

Flexible Pharmacy Reimbursement Structures

The system completely adjudicates POS drug claims in real-time and fully supports and complies with the latest NCPDP D.0 Telecommunication Standard for Pro-DUR communications. Enhanced messages for Pro-DUR can be customized by the Agency and incorporated into the standard NCPDP transaction data fields. This allows providers sufficient information and the capability to override edits when permitted by program policy and resubmit claims for payment resulting in a positive experience for both the beneficiary and provider.

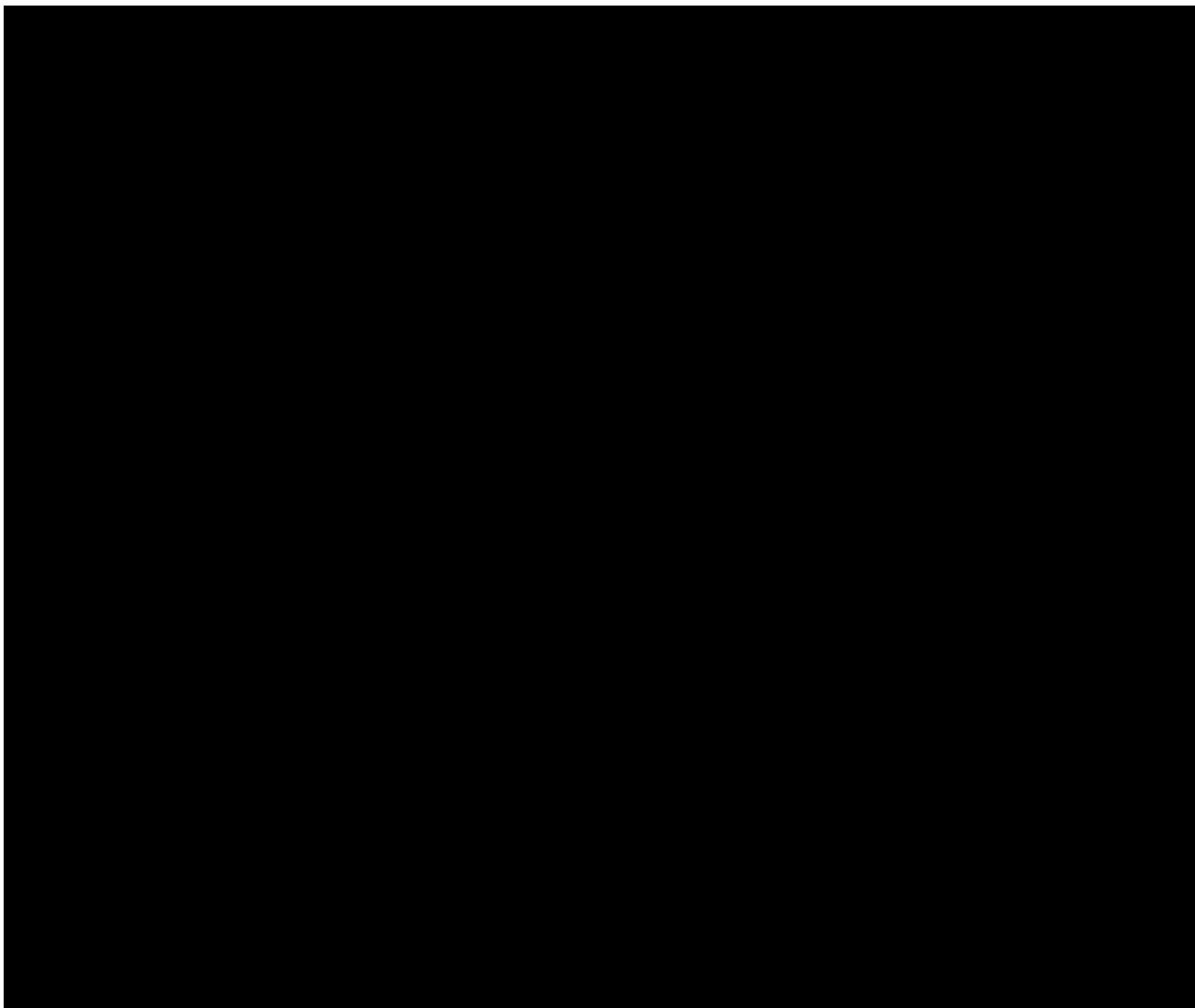
PBM OS+ is flexible in its design, ensuring cost effective system modifications to ensure that the system continues to adhere to updated guidelines from the Agency and CMS throughout the term of the contract and accept subsequent versions of the NCPDP transaction format, either upon release or at the direction of the Agency.

At the customer level within PBM OS+, shown in Exhibit G-63, we are able to configure the system to pay claims according to Vermont policy based on many factors such as program, basis of cost determination and where to start the compare, if a DAW affects the pricing, and many other factors.

As the claims are processed through adjudication and into pricing, a number of factors are considered to determine the provider's final payment amount. The system takes into account the amount submitted by

the provider as well as the amount allowed based on Agency configured pricing methods such as Average Acquisition Cost (AAC), National Drug Acquisition Cost (NADAC), Wholesale Acquisition Cost (WAC), Average wholesale price (AWP), 340B pricing designs, Federal Maximum Allowable Cost (FMAC).

As the claims are processed through adjudication and into pricing, elements such as benefit plan coverage, provider-specific rates for a particular drug, prior authorization amounts that differ from the standard rates are taken into account. Once the claim has completed the pricing process, it compares the calculated allowed amount to the amount submitted by the provider to ensure that the lowest rate is reimbursed.



Cost Effective Benefit Plan Modification

Xerox's proposed PBM OS+ provides the Agency, providers, manufacturers, and other stakeholders new ways of working that allow for greater efficiency, a higher degree of accuracy, more program control, and a deeper view into the rules and policies enforced by PBM OS+. These new ways of working represent dramatic changes to a system that was originally developed in the 1980s. With our proven systems and services, we stand ready to implement a new PBMS that efficiently and effectively supports the Vermont pharmacy services programs well into the future.



We are the company who will provide the Agency with innovative solutions throughout the contract term. Our PBM OS+ for claims processing bring the latest technology to support the Agency's programs. Within minutes of claims adjudicating in PBM OS+, they are replicated in the system's Data Warehouse/Decision Support System (DW/DSS) providing the Agency access to near-real time pharmacy data for reporting. Our solution brings a dynamic, synergistic, fully integrated PBMS complete with clinical innovations that provides the most cost effective benefit to the Agency.

The Agency is continually facing changes to rules governing how claims process. To easily accommodate these changes, Xerox provides a rules-based solution allowing many policy and table changes to be made to PBM OS+ without programmer intervention, and for those changes to be applied immediately in a controlled environment. Our PBM OS+ solution has been designed and developed with these features as part of its core functionality.

The rules-based solution includes the following components:

- **PBM OS+:** Pharmacy Benefits Management Open System Plus (PBM OS+) has many features designed to automate processes and accommodate program policies with minimal effort, such as allowing authorized Agency users access to Web pages to perform queries and update data. The system can easily accommodate a wide variety of claims adjudication requirements through the setting of system parameters and database tables via user-friendly Web pages. The system can accommodate Agency policy changes quickly and efficiently and in many cases without programmer intervention.
- **SmartPA:** This component virtually eliminates the need for prescribers to submit prior authorization (PA) requests for the majority of drugs requiring review prior to approval and subsequent payment. SmartPA automatically and systematically applies prior authorization criteria during the point of sale (POS) transaction by using a highly sophisticated clinical rules engine to determine if evidence-based criteria for appropriate drug utilization are met. Agency users can enter and maintain the SmartPA clinical rules online.

These components allow the Agency to maintain many business rules online. This functionality allows the Agency to respond quickly to changing legislative requirements, regulatory policy, and evolutions in the Vermont pharmacy services program.

Agency Staff Access to Modify Benefit Design and Operational Features

Key components of PBM OS+ provide a means for controlling and revising many of the automated processes of the PBM system through a user interface that is intuitive and user-friendly. The user interface can be operated by the Agency without requiring computer programming to change variable tables and business rules embedded within the program logic of PBM OS+.

Our rules-based solution provides extensive online rules configuration capabilities including entry and maintenance of business rules such as configurable edits, benefit plan administration, formulary maintenance, and prior authorization criteria. Our rules-based solution means changes can be made faster with less risk and lower costs incurred in the modification of business logic and provides the ability for Agency staff to make changes to the benefit design and operational features, such as POS messaging.

1.2.7 Management of Physician-Administered Drugs

The State would like to implement a more rigorous and structured approach to managing physician-administered drugs billed through the medical benefit. This could be achieved by integrating physician administered drugs into all aspects of the Vendor's utilization management programs such as applying quantity limits, step therapy, or clinical prior authorization criteria for such drugs and coordinating with the MMIS vendor to assure consistency in the application of those UM strategies across both benefits. The State is also interested in any innovative management models.

The Vendor should explain its utilization management strategies for managing Physician-Administered drugs and indicate the extent to which they can currently, or could in the future, support the State in improving the overall management of these drugs.

Management of physician-administered drugs is fully integrated into our SmartPA and DUR solutions. Xerox has experience managing physician-administered drugs through the Retro-DUR population-based interventions. Interventions that have been delivered include Biologic Immunomodulators and Agents for treatment of multiple sclerosis. Moreover, our SmartPA rules efficiently incorporate physician-administered drugs for various clinical rules for processing of automated prior authorizations, such as for Injectable Long-acting Antipsychotics and Targeted Immune Modulators.

Physician Administered Drugs in Outpatient Hospital Settings

Xerox has developed a single-source crosswalk table that allows Healthcare Common Procedure Coding System (HCPCS) or J-codes to be mapped to a specific NDC to allow for management of physician-administered drugs through the Retro-DUR population-based interventions and SmartPA Programs.

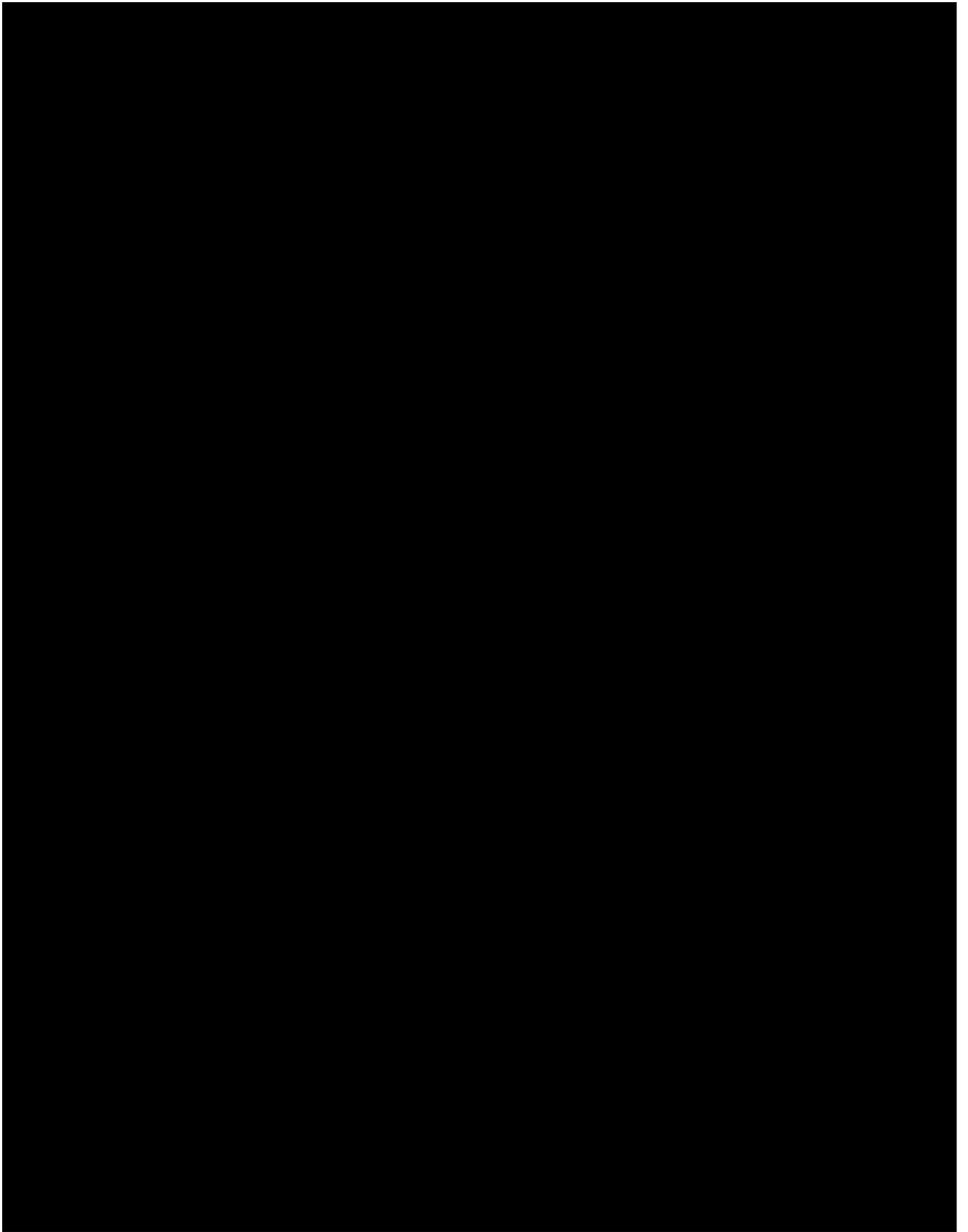
Exhibit G-64 illustrates how the Retro-DUR population-based intervention can be used to target management of physician-administered drugs, such as for the Biologic Immunomodulators.

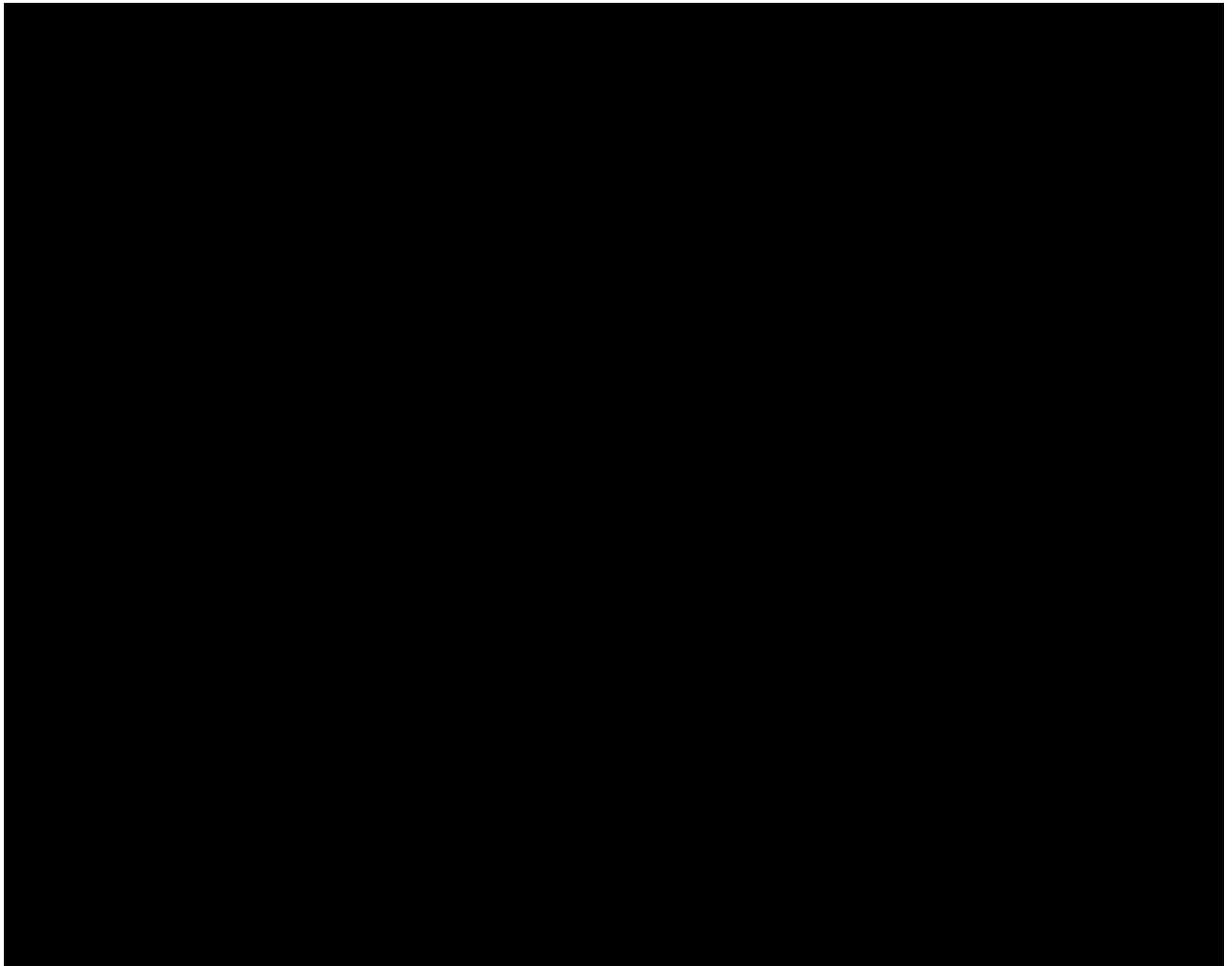
Exhibit G-65 illustrates the use of J-codes for the Biologic Immunomodulators intervention.

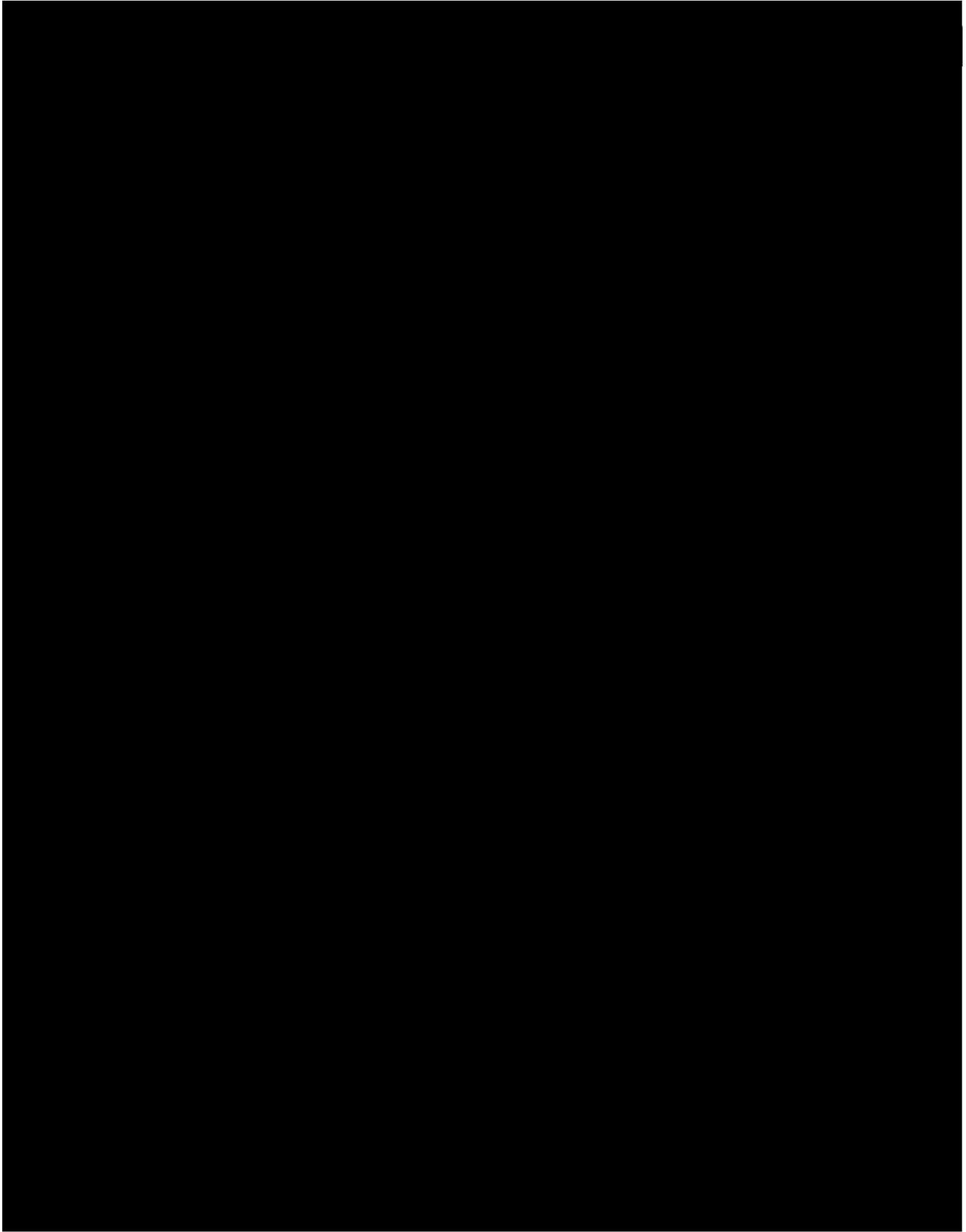
Exhibit G-66 shows a flow chart used for the Targeted Immune Modulators PDL rule in SmartPA.

Each quarter, all HCPCS codes used to bill for drugs including those from physician-administered or outpatient hospital claims are captured. All J-codes that match an existing J-code on the crosswalk are mapped to the relevant NDC, while any newly received J-codes are reviewed by a Xerox pharmacist to determine if they can be accurately mapped to a single NDC.

Xerox performs quarterly updates to the crosswalk table. The updates include the identification of any new codes, changes to code status (temporary to permanent), and changes to the unit conversion factors.







1.2.8 Support of Drug Appeals Process

In addition to the PA process, the State seeks support of the appeal process for drugs whose coverage has been denied. The State receives a number of appeals for drugs either denied through the PA process or for non-covered products. Each of these appeals must go through a thorough physician review process.

The Vendor must describe their approach to supporting the State's appeal process, including, but not limited to

- Notifying providers and beneficiaries of their appeals rights in accordance with the Department's policy.
- Coordinating with State personnel who oversee the grievance and appeals process
- Preparing the appropriate reports and documents to support the Vendor's actions resulting in the request for an appeal from a beneficiary or provider
- Providing the services of a registered pharmacist to address an appeal related to pharmacy benefit services
- Providing resources to address appeals related to claims disputes
- Complying with the mandates and timelines stipulated by the Department of Vermont Health Access (DVHA)

The Vendor must describe their approach for supporting the drug appeals process.

Healthcare requires a process for variance to accommodate unique clinical situations. To that end, Xerox is prepared to assist the Agency in establishing and monitoring critical processes that allow for legal, Fair Hearings, appeals, sanctions, and complaints.

Approach to Drug Appeals Process (FR2.7)

Xerox has extensive experience supporting Medicaid and other public healthcare programs in a variety of roles, including pharmacy program contractor, fiscal agent, enrollment broker, and systems contractor. No matter what role we fulfill, we consider the importance of providers and focus on facilitating provider participation in the program. We have an extensive history of innovation in the health and human services arena, developing products and services that assist our customers with improving the administration of their programs while meeting the challenges of an ever-changing state and federal regulatory landscape.

The first step in any major change initiative needs to be establishing a clear vision of the desired future. Articulating the vision of pharmacy administration in the future enables the organization to align human capital management and business process reengineering along this line of sight. It enables the business side of an organization to more clearly engage and perform its role in providing guidance and direction for the IT side of the business. Constructing a vision of change requires healthcare leaders to understand trends driving the healthcare industry, to be sensitive to customer and constituent needs, rights, and demands, and to focus on the legacy they will produce for future generations. Preferred drug lists and prior authorizations combine clinical and financial factors to assure appropriate utilization.

Our thoughtful consideration of the systems and services required to support the Agency is grounded by decades of supporting numerous pharmacy programs across the country, including two of the three largest Medicaid programs—California and Texas. In total, we provide PBM and specialized pharmacy services to 21 Medicaid programs nationwide. Our extensive experience is a testament to our ability to perform the Agency services required of the RFP.

Notifying providers and beneficiaries of their appeals rights

Xerox supports communication with providers and beneficiaries through the automatic generation of letters and notices related to claims processing and PA determinations as shown in Exhibit G-67. The generation of these letters conforms to guidelines, schedules set forth by the Agency. PA letters are generated for providers and beneficiaries according to preset criteria using the Agency-approved templates, including information on the appeals process and language-specific explanations. These templates and the general content of notification letters are easily modified based on program-specific changes.

All data used to populate the notifications is stored and accessible in PBM OS+ and replicated in the data warehouse for reporting using Business Objects. Whether a PA is approved or denied, both the beneficiary and provider receive a notification. Denial notices include language specific to the reason for the denial. Client notices include information regarding the client's right to a fair hearing.

July 01, 2013

LOVELAND, CO 80537-4891

THIS IS NOT A BILL.

This pharmacy prior authorization has been approved.

CLIENT ID:
CLIENT NAME (L/F/M):
PROVIDER NAME:
EFFECTIVE DATE OF PRIOR AUTHORIZATION: 06/28/13
EXPIRATION DATE OF PRIOR AUTHORIZATION: 06/27/14
DRUG NAME: OXYCONTIN 40 MG TABLET

1. In order for the provider to receive payment for this service, you must be eligible for Medicaid at the time the service was delivered. If you are a member of a Medicaid HMO (health maintenance organization), you may or may not be able to receive these services from the provider listed below. You should contact your HMO to find out if you are able to receive this service from this provider.

2. If you are enrolled in a Medicaid HMO before this prior authorization's services are completely used, you must contact the Medicaid HMO. The Medicaid HMO will authorize and coordinate all services after the enrollment date.

If you have questions regarding this approved prior authorization, please contact your prescribing doctor or dentist.

Exhibit G-67. Client PAR Notice

The PBMS produces PAR approval and denial notices that are sent to clients and providers.

Coordinating with State Personnel

The way to make communications seem effortless is to place the highest priority on establishing and maintaining effective and transparent communications processes, protocols, and techniques. Our Communication Management Plan establishes "what" processes must be enacted and "how" to enact them. Supplementary artifacts such as the Stakeholder Analysis and Communication Event Schedule capture the "who," "when," and "where," for example: The Stakeholder Analysis captures information on internal and external project stakeholders. It captures the roles, names, contact information, and level(s) of communication required. By having this information ready and current, Xerox keeps all parties fully informed of project activity in a timely manner.

The Communication Event Schedule is a comprehensive listing of all regular and/or critical communications events. It serves as a foundation for formal communications to be established at the start of the project. Xerox works with the Agency to determine when and where communications, such as issues

and risks meetings, project status meetings, and weekly status reports should take place. Key attendees and stakeholders are identified for each event.

The result is a complete plan for formal and informal communications for all phases of the project including beneficiary and prescriber communications. Due to the critical nature of beneficiary and prescriber communication, Xerox staff works closely with AHS to define the business processes and communications process and content to ensure the affected parties are fully informed of prior authorization decisions.

Xerox supports the project-wide use of Microsoft® Office SharePoint® as our team collaboration and communication hub. Throughout operations, Xerox maintains the project's SharePoint site, complete with document libraries, baseline work plans, document templates, and procedures. Our SharePoint solution includes the following features:

- **Functionality.** Uses lists to track risks, issues, action items, critical decisions, and change requests. The site also has an event calendar, discussion boards, a contact list, and announcements functionality to facilitate team collaboration and communication.
- **Access.** Provides secure access to timely, accurate, and comprehensive project documentation for authorized AHS Pharmacy System and Xerox users from the convenience of their desktop or laptop. Alerts notify users via email of changes, additions, or removals of list items and documents.
- **Document Management.** Integration with Microsoft Office with document check in/check out, storage, and roll-back of document version history. Tracks information such as author, status, and modification history, and allows authors to categorize, sort, and filter documents by various attributes.
- **Workflows.** Automation, tracking, and notification of work product review and approval processes, such as peer review, document quality review, and AHS Pharmacy System approval.

Appropriate Reports and Documents Supporting Appeal Requests

All decisions made by the Xerox prior authorization team or the SmartPA system are recorded in the SmartPA, PBM OS+ and Omnitrac systems. This includes the original PA request submitted by the prescriber and the clinical criteria used to make the PA determination. This information is available to AHS staff to support the appeal process.

Appeals Service by Registered Pharmacist/Physician

The Xerox clinical call center staff is predominantly pharmacy technicians with support from clinical pharmacists. Licensed pharmacists respond promptly to pharmacy-related questions and appeals that require clinical interventions, reconsiderations, and consultation. Upon receipt of an appeal, call center staff forward the appeal to a clinical pharmacist. The clinical pharmacist documents and reviews the decision and the cause of the appeal, any related patient medical records, and medical literature in order to render an appeal determination based on evidence-based medicine, State guidelines, and clinical judgment. Xerox can escalate the appeal to a medical physician if required to satisfy the appeal process, however, it has been our experience that clinical pharmacists are able to satisfy the vast majority of prior authorization

appeals without further escalation. Each appeal is documented for tracking purposes and completed within a timeframe determined by the State.

Providing resources to address appeals related to claims disputes

Operations includes business services provided by Xerox's key personnel, categorized staff, and other FTEs to deliver the State's Medicaid obligations, programs, and services including:

- Answer provider and member calls
- Process inbound and outbound mail
- Pharmacists perform the following:
 - Respond to pharmacy related questions that require clinical interventions, reconsiderations, and consultation for responses to prior authorization request reconsiderations
 - Help desk pharmacist dedicated during Respiratory Syncytial Virus (RSV) season
 - PA reviews
 - Pro-DUR review and setting of edits
 - Data maintenance
 - DUR Board support
 - Produce annual DUR report
- Drug rebate administration for federal and supplemental rebates
- Maintenance of all systems

Claims Disputes

Complaints and fair hearings are also escalated to the appropriate individual using the Agency-approved workflow to ensure that these issues are handled consistent with the Agency policy and Xerox process. Xerox provides technical and/or business subject matter experts to assist the Agency in resolving claim disputes with providers.

All appeals, complaints, and similar issues received by the call center staff are entered into OmniTrack, our customer contact system, which links all contact information for a member or provider and allows for easy distribution and retrieval of pertinent information. We receive customer inquiries and appeals through the mail, email, and fax, as well as calls to the call center, and document all contacts in the OmniTrack system. The Web page shown in Exhibit G-68, OmniTrack Contact Documentation, supports recording of all the key information about the contact. Contact information is available to all authorized users as soon as it is saved.

Complying with the mandates and timelines stipulated by the Department of Health Access (DVHA)

Assembling a seasoned team of experts to staff the Vermont Pharmacy System and Services Project is of utmost priority for Xerox as it is an important determinant of the project's success. We are confident that our proposed team will ensure effective appeals management. We comply with all mandates and timelines stipulated by the Department of Health Access (DVHA) for the proper processing of appeals requests.

1.2.9 Reporting and Analytics

The Vendor must provide reporting and analytic capabilities / services as described below that will support the reporting and analysis of claims data and PBM operations. The State expects that the Vendor will provide:

- Dashboard capabilities that support various roles of PBM operations and user-defined reporting views / screens based upon different roles, security profiles, etc. of various stakeholders
- Static or "canned" reports that are generated at pre-defined intervals, or on demand by State users

- Parameterized reports that allow State users to select from a defined number of parameters that inform a report. Parameters should include, but not be limited to: date or date range, beneficiary, beneficiary eligibility characteristic, program, drug, pharmacy, etc.)
- Ad hoc querying and reporting capabilities
- Capabilities to support graphical data (e.g., GIS) with presentation parameters configurable by the end-user; drill-down for more detailed information.
- Capabilities to export reporting data as seen in the report as well as the underlying data used to build the report in a variety of data formats
- Capabilities to support advanced analysis such as predictive analysis, root cause analysis, identification of statistical outliers, etc.
- Services to define, create and run, as requested by the State, additional static, parameterized and ad hoc reports in a timely manner, as described in the above descriptions

Examples of all current reports are included in the Procurement Library. The reports must include, but are not limited to:

- Utilization Reports
- Financial Reports
- Auditing Reports
- Preferred Drug List Reports
- Claims Processing Reports
- Coordination of Benefits (COB) Reports
- Net Cost Reports

The Vendor must describe their approach to fulfilling the Reporting and Analytics requirements.

Our comprehensive reporting capabilities provide sophisticated business intelligence and data analytics. Xerox's highly configurable reporting tools meet the evolving needs of the program.

Overview (FR2.37, FR2.38)

Our comprehensive reporting approach provides unparalleled presentation and analysis of program data with a focus on control and flexibility in report content, media, and accessibility. The future changes in the Medicaid environment require powerful tools for efficient management of claims processing and data reporting that yields greater-than-ever control over a pharmacy program.

Xerox's proven functionality in data reporting enables the Agency and Xerox to meet the challenges of managing a pharmacy program in an era of tremendous change and escalating pharmaceutical costs. Our reporting suite includes an extensive library of standard

Systems Reporting Requirements

- Business Objects provides business intelligence and data analytics on clinical and financial data
- Reporting capabilities for
- standard and ad hoc reports
- Pro-DUR, Retro-DUR, PDL, and PA reporting

reports as well as robust ad hoc capabilities. Our solution for data reporting meets and exceeds the RFP's reporting requirements and continues to support PBMS as the program evolves into the future.

Our highly configurable reporting tools provide sophisticated management reporting capabilities and decision support capabilities for technical and non-technical users. The enhanced flexibility of the solution enables the implementation of changes more efficiently. Our Web-based reporting tools allow users to query pharmacy/medical claims history, rebate data, and PA data and quickly produce customized ad hoc and standard reports.

In addition, Xerox houses operational statistics and reports on our SharePoint project repository throughout the contract, which is available for immediate review and retrieval by authorized PBMS personnel at any time.

PBM OS+ uses built-in Oracle features as well as stringent application editing standards that ensure all data captured passes strict referential integrity (RI) rules. Oracle 11g uses RI constraints to prevent an invalid, duplicate, or orphan data entry into the base tables of the database. Integrity constraints can be defined to enforce the applicable business rules.

In addition to data integrity, PBM OS+ has a set of data quality/audit services that we use to check for data anomalies on a periodic basis. These services provide reports that identify data inconsistencies across PBM OS+ databases, online transaction processing (OLTP), and online analytical processing (OLAP). These periodic data quality checks ensure ongoing data quality and consistency across all databases.

The proposed PBMS offers sophisticated and robust reporting capabilities allowing adjudicated claims records as input into the claims reporting function. Standard PBM OS+ management reports, including statistical, operational, and audit reports, are produced by Business Objects. This list of reports contains a mix of clinical and financial reports. The clinical reports identify top pharmacies, top prescribers, top dispensed drugs, and top utilizers by various metrics and cover areas such as Pro-DUR, Retro-DUR, PDL, and PAs. PA reporting contains information on both approved and denied PAs. The financial reports provide a breakdown of amount paid by pricing program, percent savings by these pricing programs, and an executive summary comparing current month figures to the previous month and previous year data for generic, brand, and brand with generic available drugs.

Xerox uses a Business Objects ad hoc report generator to produce reports or other data requirements needed to meet unique reporting requirements. Business Objects is an application that allows users to track, understand, and manage the information stored within various databases. With this tool, users can quickly schedule or customize existing reports. Business Objects' metadata ("data about data") layer allows users to see data elements presented in everyday business terms rather than obscure database terms and no standard query language knowledge is required. The report generator allows users to combine data easily and intuitively and permits drilling, slicing and dicing, advanced ranks and sorts, calculation creation, and complex graphing. Users can quickly create powerful, highly customizable, ad hoc reports that contain tables, charts, hyperlinks, and pictures.

Integrating sensitive health data into a single reporting solution presents unique security requirements. Business Objects integrates seamlessly with PBM OS+'s security components, using defined roles to grant or deny access to specific areas of the reporting solution. The mix of security roles determines how much or how little of the data a user is allowed to access. Users with the highest security level might have access to the entire universe of data, while other more specific users may only have access to information relevant

to their role or job. The roles are configured to support the business needs of the project and can range from executive management to provider specialists. Once the roles have been defined, each user is associated to one or more roles that are assigned the appropriate information access to perform that function.

Users have the capability to control all aspects of report printing. Users can select the font size and style for their report output, as well as choosing from portrait or landscape format as appropriate for the report. Users can select the output medium, such as hard copy or fax. The capability to easily change and manage reports drives the total cost down by reducing training and licensing costs. Sharing common reports that can be sorted and filtered into a seemingly custom report for each user, rather than developing and maintaining private report libraries of many similar reports, lessens the likelihood of duplicating work and reduces the resources required to generate them. The easy use of graphs (available in many formats) makes the focus and contents of many reports intuitively obvious.

Table G-17 presents a list of Standard reports available in Business Objects.

Table G-17. Standard PBMS Reports		
Report Name	Frequency	Description
Weekly Claims Data Entry Summary	Weekly	This report provides weekly claim data entry statistics by volume and type.
Weekly PA Drug Detail by Status Code	Weekly	These reports provide summary and detail information on the volume of PAs by status
Weekly PA Requests	Weekly	
Top Dispensing Pharmacies Ranked by Amount Paid	Monthly	These reports provide a ranking of the top dispensing pharmacies by expenditures and various plan performance metrics.
Top Dispensing Pharmacies Ranked by Number of Prescriptions		
Top Dispensing Pharmacies Ranked by Average Ingredient Cost per Claim		
Top Dispensing Pharmacies Ranked by BWGA (brand with generic alternative) Number of Prescriptions		
Top Prescribing Physicians Ranked by Ingredient Cost	Monthly	These reports provide a ranking of top prescribing physicians ranked by expenditures and various plan performance metrics.
Top Prescribing Physicians of Controlled Substances Ranked by Amount Paid		
Top Prescribing Physicians of Controlled Substances Ranked by Number of Prescriptions		
Top Prescribing Physicians Ranked by Amount Paid		
Top Prescribing Physicians Ranked by Number of Prescriptions		
Top Prescribing Physicians Ranked by Average Prescription Cost		

Table G-17. Standard PBMS Reports		
Report Name	Frequency	Description
Top Prescribing Physicians Ranked by BWGA Number of Prescriptions		
Top Prescribed Drugs Ranked by Amount Paid	Monthly	These utilization reports provide a ranking of the top drugs by payment, category, and various plan performance metrics.
Top Prescribed Drugs Ranked by Number of Prescriptions		
Top Prescribed Injectables Ranked by Amount Paid		
Top Prescribed OTC Drugs Ranked by Amount Paid		
Top Therapeutic Classes Ranked by Amount Paid	Monthly	These reports provide a ranking of top therapeutic classes by amount paid and by the number of prescriptions.
Top Therapeutic Classes Ranked by Number of Prescriptions		
Cost Sharing Savings	Monthly	This report provides cost savings based on client cost sharing initiatives such as copay.
Ingredient Cost Savings	Monthly	This report shows cost savings at the ingredient level.
Claims Payment Summary	Monthly	This report provides ongoing monthly plan performance metrics based upon eligibility and clients utilizing Medicaid pharmacy services (including paid, denied, or rejected claims).
Monthly Denied Claims	Monthly	This report provides summary information on paid and denied claims and detail information on denied claims.
Monthly Payment Summary	Monthly	This report provides a breakdown of plan performance metrics by various payment strategies and claim categories.
Monthly Cost Summary	Monthly	This report provides a breakdown of claims metrics by claim category and media type.
Executive Summary	Monthly/ Yearly	This report provides monthly and year-to-date plan performance metrics and allows for comparison to the previous year.
Top Utilizers Ranked by Amount Paid	Monthly	These reports provide a breakdown of top utilizers ranked by amount paid, and top utilizers of controlled substances ranked by amount paid and volume of prescriptions.
Top Utilizers Ranked by Number of Prescriptions		
Top Utilizers of Controlled Substances Ranked by Amount Paid		

Table G-17. Standard PBMS Reports		
Report Name	Frequency	Description
Top Utilizers of Controlled Substances Ranked by Number of Prescriptions		
Age-Sex Utilization Summary	Monthly	This report provides a breakdown of utilizers categorized by age and gender.
Monthly PA Status	Monthly	This report provides summary and detailed prior authorization information by status code.
Number of Utilizers by Age Group	Monthly	These reports provide a breakdown of utilizers and costs by age group.
Total Cost by Age Group		
Generic Utilization Summary by Amount Paid	Monthly	These reports provide a summary of generic utilization by amount paid and number of prescriptions.
Generic Utilization Summary by Number of Prescriptions		
Average Number of Prescriptions per Utilizer	Monthly/ On Demand	This report provides a summary of the average number of claims per utilizer.
Top 25 Drugs by Amount Paid	Monthly	These reports provide a breakdown of the top 25 drugs and therapeutic classes ranked by
Top 25 Drugs by Number of Prescriptions		
Top 25 Therapeutic Classes by Amount Paid		
Top 25 Therapeutic Classes by Number of Prescriptions		
Average Expenditure per Paid Claim	Monthly	This report provides a breakdown of average expenditures by paid claims, utilizers, and per client per month.

Analysis of Vermont’s Pro-DUR program is essential to determine the impact of DUR edits and to determine if modifications to the program are appropriate. Pro-DUR reports contain statistics that show at a minimum, the total number and frequency of edits and total cost savings for each product and therapy class by Pro-DUR alert type.

The Business Objects reporting solution produces detailed reporting to track cost avoidance activity and frequency of Pro-DUR alerts by type and drug. The system calculates cost savings realized at the individual criterion level. Additionally, the reporting identifies providers who may be unresponsive to alerts or with high use of pharmacy Pro-DUR edit override codes. Typical reports rank pharmacies based on the number of Pro-DUR edits of a particular type.

Xerox works with the Agency to determine any additional Pro-DUR reporting needs during development and throughout the life of the contract.

Table G-18. Pro-DUR Reports		
Report Name	Frequency	Brief Description
Pro-DUR Edit Summary by Pharmacy	Monthly	Overall summary of Pro-DUR edits with pharmacies ranked by the total number of edits. Includes both paid and denied claims.
Pro-DUR Edit Summary by Prescriber	Monthly	Overall summary of Pro-DUR edits with prescribers ranked by the total number of edits. Includes both paid and denied claims.
Pro-DUR Edit Summary by Utilizer	Monthly	Overall summary of Pro-DUR edits with program client (utilizers) ranked by the total number of edits. Includes both paid and denied claims.
Pro-DUR Edit Summary by Generic Drug Name	Monthly	Overall summary of Pro-DUR edits by Generic Drug Name ranked alphabetically. Includes only paid claims.
Pro-DUR Edit Summary by Claim Status	Monthly	Overall summary of Pro-DUR edits with edit codes ranked by the total number of edits. Separate sections for paid and denied claims.
Pro-DUR High Dose Edits by Pharmacy	Monthly	These reports provide a listing of Pro-DUR pharmacies ranked by the number of edits posted, per the specific edit named in the report title. Reports include both paid and denied claims.
Pro-DUR Low Dose Edits by Pharmacy	Monthly	
Pro-DUR Excessive Duration Edits by Pharmacy	Monthly	
Pro-DUR Early Refill Edits by Pharmacy	Monthly	
Pro-DUR Late Refill Edits by Pharmacy	Monthly	
Pro-DUR Drug/Gender Edits by Pharmacy	Monthly	
Pro-DUR Drug/Age Edits by Pharmacy	Monthly	
Pro-DUR Drug/Drug Edits by Pharmacy	Monthly	
Pro-DUR Therapeutic Duplication Edits by Pharmacy	Monthly	
Pro-DUR Drug/Pregnancy Edits by Pharmacy	Monthly	
Pro-DUR Reasonableness Edits by Pharmacy	Monthly	

Business Objects offers great flexibility and choice of data elements for analyzing costs and claim activity for such data items as drug name, NDC, and therapeutic class code (specific) description. Additional

claims activity data related to beneficiaries, prescribers, and pharmacies is available to enhance the overall analytical capabilities for the program.

1.2.10 Quality Assurance

The Vendor must develop and implement quality management and assurance, using best practices consistent with industry standards, principles, and processes including, but not limited to:

- Implement Quality Improvement Processes for recurring processes
- Continuous performance measurement and improvement through the use of technical reviews, internal audits, and Vendor provider satisfaction surveys, or other assessment tools; (for example)
- Ongoing Vendor staff training

The Vendor must describe their approach to providing a quality assurance program. On a regular basis our quality assurance analyst within the project management team conducts quality assurance reviews, audits, and sampling on work products and documentation to confirm they align to SPARK-ITS standards and the Agency's requirements.

Summary of Xerox Quality Assurance Processes (FR2.71, FR2.73, FR2.74, FR2.77)

Xerox uses a number of proven methodologies that allow identification, analysis, and evaluation of work processes that are candidates for continuous improvement.

At the foundation of a solid continuous improvement approach is a strong management commitment to understanding the interdependency of operations, staff, processes, and the customer. The goal of continuous improvement is to increase efficiency and effectiveness, thereby improving the services delivered to our customers and simplifying the way we do business with them. Throughout the project, we continuously look to improve processes and operations. Our staff, with their professional expertise and day-to-day services, brings innovative ideas forward to resolve performance issues and enhance daily processes.

Xerox continually seeks out ways to deliver high-quality, innovative solutions to improve program performance and healthcare outcomes. With the mission of continuously improving service through established methods, tools, and best practices that meet or exceed industry standards, Xerox has established a structured quality program in our proven SPARK-ITS Quality Management System (QMS) that takes project execution and delivery to the next level. Our quality processes and methodology not only help us measure performance, but also help us identify specific opportunities for improvement and guide our decisions for targeted enhancements.

The SPARK-ITS PMM includes repeatable, consistent, and documented processes, which we continually refine based on factors such as industry trends, project feedback, client satisfaction surveys, and internal process improvement efforts. Our formal change, configuration, and release management approach ensures the project uses the most current documents, templates, tools, and standards to effectively execute project management and system development processes.

Xerox quality activities begin with defined and measurable performance standards and goals that apply to system development tasks, operational performance documents, and deliverables. We meet these performance measures through documented processes and procedures that meet the requirements of and are approved by the Agency. Central to our quality activities are the ongoing monitoring, evaluation, and reporting of all project activities to measure actual performance and identify improvement opportunities. Closely tied to these activities are the project's training activities, which are essential to supporting continuous quality improvement and instilling a culture of quality within our organization.

During Design, Development and Implementation (DDI), the [REDACTED] will facilitate weekly status meetings with the leadership teams and other stakeholders. These meetings review the progress made on specific deliverables in comparison to the project schedule. AHS participation in this process is a key to project success, as delays in decision-making can turn minor schedule impediments into major project delays. We look to AHS for guidance regarding the schedule and deliverables on an ongoing basis. This consistent collaboration provides the foundation for reduced risk and ongoing open communication during every phase of the project. All delayed and at-risk tasks are highlighted on a weekly report so that management can take precautionary steps to mitigate risks. We use our formal risk and issue management processes to address potential problems with concise and definitive actions. Our management team oversees these processes to support expeditious and impactful resolution.

The ongoing management of the PBM program through the start of operations will necessitate a collaborative partnership with AHS to ensure long-term success. We leverage our experience with managing the PBM system and our best practices from developing and implementing Medicaid systems to meet or exceed contractor responsibilities and performance standards. The methodology we use includes proven processes and strict procedures with open and transparent performance standard management to ensure success at all stages of the project. Xerox is committed to maintaining a strong understanding of AHS's vision and objectives outlined for the PBM program.

Regular communication is no less essential during the Operations Phase. We conduct regular meetings with AHS staff as mutually agreed. Our best practices are to schedule a weekly operations status meeting in which we review all performance statistics from the previous week and touch on system changes with an operational impact. This is also a time where we escalate issues of concern for either side. We also hold a project status meeting that is systems only; this meeting discusses the status of all prioritized projects. AHS can modify priorities as needed. We also use this time for escalating issues related to a specific project.

- **Status Reporting.** Xerox delivers weekly and monthly status reports on the status of project activities as specified in the communication management portion of the project work plan. Topics to be included in status reports will be progress on specific key tasks, milestones, and percentage of work complete. Additionally, the status reports will include information on challenges, issues, risks and the appropriate mitigation of each. The reports and status meetings will increase to daily touchpoints as the projects enters the final projects phases toward go-live. Separate meetings with appropriate Agency staff would be scheduled if financial considerations, project budget, audits, or if the need to replace key account and project staff were to be discussed. We work with AHS to identify any other information deemed appropriate to monitor Xerox activities (including metrics on interactions, through hard copy, electronic, and all other mediums used for communications by the Contractor with clients and providers). Monthly status reports summarize data from weekly reports; include clear identification of new or changed items, and present executive summaries for review by management and oversight

bodies. All reports adhere to the deliverable submission, review, and approval process as described and approved by AHS within the communication management portion of the project work plan.

- **Quality Assurance.** Xerox establishes, implements, and monitors internal quality assurance and quality control processes that cover deliverables, including documents, code, and calculations. Our quality processes facilitate submission of deliverables that are accurate, easy to understand, and of high quality. With oversight by our Quality Assurance Analyst, we record deficiencies as well as corrective and/or preventive action plans in the project's SharePoint site. All deliverables associated with quality assurance and quality control adhere to the deliverable submission, review, and approval process as described and approved by AHS within the quality management portion of the project management plan.

Approach to Training (FR2.72)

Each stakeholder group must know how to optimize the use of the Vermont PBMS as they perform their specific job responsibilities. We use the SPARK-ITS QMS training methodology, together with the Analysis, Design, Develop, Implement, and Evaluate (ADDIE) model, as the basis for our training approach. ADDIE ensures the need for training is assessed, materials and curriculum designed and developed, implementation logistics coordinated, and training evaluated for continuous improvement. We leverage project management best practices, following the Project Management Institute's (PMI) A Project Management Body of Knowledge (PMBOK®) Guide process groups of Initiate, Plan, Execute, Control, and Close. The training methodology is continually being refined based on factors such as industry trends, project feedback, client satisfaction surveys, and internal improvement efforts.

Xerox personnel, Agency personnel, and other authorized PBMS users are provided training covering the many functions of the PBMS. We teach them to maximize system functionality and to prepare inputs, use online screens, interpret reports, and fully understand the system processes. Billing procedures are included in our training. We increase pharmacy provider satisfaction through the use of features that generate faster payment, thereby encouraging Medicaid participation

Xerox ensures resources are equipped to perform assigned tasks as effectively as possible by conducting training when needed, including ongoing training for routine maintenance changes to the PBM system. Training processes and standards allow for the application of a variety of media, such as Instructor Led Training (ILT), Computer Based Training (CBT), mentoring, and more. Skills of project staff are tracked to ensure they either have, or can obtain in a timely manner, the skills and knowledge necessary to contribute to the project's success.

We invest the proper training in staff so that they are fully prepared to meet the demands of providing maintenance services and operations support. Taking shortcuts with training only serves to put the project at risk—and does not lead to the positive customer experience outcome that we seek. We supply continual training to ensure that we are able to deliver the best possible service.

Over the life of the project, our training activities and materials are dynamic, changing over time from the specialized activities needed at the beginning of a large implementation to a more standardized and stable curriculum for ongoing operations. We maintain training materials throughout the operational period and update them as necessary. The Training Plan is reviewed and revised annually and submitted to the Agency for review and approval before the beginning of the next contract year. We collaborate on end user

and provider training to ensure that the authorized end users, trainers, administrators, managers, and providers understand and can successfully use and execute PBM business processes to meet the training needs not only during implementation, but also throughout the life of the project.

We provide regular and ongoing training sessions, including modules for a variety of topics such as the drug reference data and functions, NCPDP reject codes, Pro-DUR, exception handling rules created or updated, and billing procedures. We work with the Agency to determine the frequency and numbers of training sessions required. We publish all training schedules on the PBM SharePoint Site.

As new initiatives occur, our training team acts swiftly to identify the training effort needed to help ensure the provider community is fully-prepared and armed with the information they need. This process includes identifying the target population for training, developing new and/or updating existing training materials and modules, and developing a Training Plan and schedule to best meet the needs of the target audience.

We provide regular refresher training sessions throughout the term of the contract, extending as mutually agreed upon between Xerox and the Agency. We provide refresher training sessions to reinforce understanding of existing functionality, and we disseminate information about new or updated functionality or project processes.

Audit Trails (FR2.75, FR2.76, FR2.78)

Xerox is committed to maintaining high quality security and integrity standards for all aspects of the PBMS, including the management of data. Since much provider and client data is classified as protected health information (PHI), we define and establish security rules and access roles for user groups and track updates and inquiries to system data.

Audit functionality in PBM OS+ includes:

- Audit trails of changes from all Web pages and batch processes
- Logs of data inquiries
- Exception code and status history maintained in claims
- Specified data stored in dated spans to provide a history of changes

Audit Highlights

- Full audit trail of all user and system activity with “before” and “after” data images
- Easy-to-use online audit inquiry in two formats
- Inquiries to PHI data tracked and reported
- Claim exception codes stored on the claim to track status
- History of changes to data recorded in dated spans

Audit Trails. PBM OS+ provides comprehensive history and audit trail functionality that tracks all data changes made in the system from all updatable Web pages and batch processes, including identification of who updated a system object or data element and when. The audit trail includes the date and time of the change, the user or system id, the previous value of each modified field, and the new value for the field. Easy-to-use Web pages allow authorized users to view the “before” and “after” images of data, the user id/system id of the user making the change, and the date and time of the change. Data cannot be modified in PBMS without the system capturing accountability and tracking information about the update.

Data Inquiries. Oracle Audit Vault maintains a log of data inquiries made, counts of specific data requested, information requested, and information conveyed. The system easily generates history and audit

trail reports from this log. This audit trail information is important in allowing authorized users to track access to PHI and ensure compliance with HIPAA privacy and security regulations.

Claim Exceptions. PBM OS+ includes an entire suite of edits and audits to ensure that claims meet PBMS policies and rules before payment. PBM OS+ supports NCPDP standard reject codes and associates internal exception codes to each NCPDP reject code to provide more information regarding the reason that the system posted the reject code. The system provides the ability for Xerox staff to create customized exception codes (edits) to meet specific PBMS needs. Exceptions codes are posted to the claim and can be viewed on a claim inquiry to provide a history of updates.

Dated Spans. Information used by the PBMS in claims adjudication that depends on the date of service of the claim is stored in database tables in dated spans to provide an audit trail of data values and to allow the appropriate information to be matched to the claim. For example, the system maintains unlimited eligibility segments with begin and end dates for each segment for each client. These segments allow the system to retain client enrollment and eligibility information that was current for the dates of service at the time of processing claim/encounter. Other data, such as benefit plan coverage, managed care enrollment, and lock-in providers, are also stored in dated spans.

Duals Demonstration (FR2.79, FR2.80, FR2.81)

These requirements are no longer applicable based on Vermont's notification to no longer pursue the Duals Demonstration project and per instructions to Vendors proposing responses to Vermont's PBMS RFP to not answer the requirements pertaining to Duals Demonstration project. If the State decides to proceed with this program at a later date, Xerox would provide a detailed response.

1.2.11 Medication Therapy Management

Medication Therapy Management (MTM) is a partnership of the pharmacist, the beneficiary and other health professionals that promotes the safe and effective use of medications and helps beneficiaries achieve the targeted outcomes from medication therapy.

Vermont believes that any MTM program implemented must include the analytical, consultative, educational and monitoring services provided by pharmacists to help beneficiaries get the best results from medications through enhancing understanding of medication therapy, increasing adherence to medications, controlling costs, and preventing drug complications, conflicts, and interactions.

The State is interested in developing an MTM program that will comply with all Part D requirements for such programs, will be offered to both Medicaid and Medicaid/Medicare eligible populations, and will be integrated into and coordinate with other State initiatives such as the Vermont Chronic Care Initiative. This is envisioned as a utilizing a combination of community pharmacists who currently see beneficiaries on a regular basis and supply their medication needs, and State and/or Vendor clinical pharmacists who will coordinate with the DVHA, community pharmacists, the VCCI program, and other stakeholders to assure continuity and coordination of MTM services. Pharmacists should be reviewing medication regimens for and potential problems such as drug interactions, duplications of therapy, appropriate dosing, dosage forms, and routes of administration, medication adherence and compliance, side effects, cost optimization such as promoting generic utilization, and assuring compliance with the State's PDL

The MTM program goals are:

- Strive to reach optimum therapeutic outcomes for targeted beneficiaries through improved medication usage
- Reduce the risk of adverse events
- Be developed in cooperation with licensed and practicing pharmacists and physicians
- Be furnished by pharmacists or other qualified providers
- Distinguish between services in ambulatory and institutional settings
- Be coordinated with any care management plan established for a targeted individual under Vermont's chronic care initiative program (VCCI)

There are no detailed functional requirements for this capability. The Vendor should provide an overview of their approach to MTM and how they can support the implementation a customized MTM program for the State.

Xerox's MTM tool, DirectCAREPro, uses pharmacy, medical, and clinical data to identify and position interventions based on evidence-based criteria for adherence, patient safety, and standards of care clinical issues.

DirectCAREPro is Xerox's Medication Therapy Management (MTM) Web-based portal that uses well-established, evidence-based treatment standards of care that improve health outcomes and reduce the incidence of morbidity associated with chronic conditions or inappropriate use of medications.

The DirectCAREPro clinical rules system uses the clinical logic expressed in treatment standards and the beneficiary's clinical profile querying at least 24 months of administrative data (e.g., demographics, medical claims, pharmacy claims, laboratory data, encounter claims, etc.) and identifies actionable deviations. The presence of a deviation then becomes the trigger to indicate the need for beneficiary-pharmacist interaction.

Our DirectCAREPro solution provides dispensing pharmacists the opportunity to provide the kind of continuous care they are in the unique position to deliver - capitalizing on the ability of a pharmacist to interact person-to-person on regular medical interventions in a beneficiary's care due to the number of contacts they have with the beneficiary throughout the year. DirectCAREPro engages Dispensing Pharmacists to Deliver Interventions at Point-of-Service. The MTM providers work with physicians to deliver the best medication therapy to beneficiaries and to coordinate their medication therapy across multiple practitioners.

DirectCAREPro Clinical Rules System

The backbone of DirectCAREPro is a flexible table driven software application with relational database file structures. The Xerox Clinical Rules System includes a collection of clinical and business rules (comprehensive criteria), in addition to a rules engine that queries data obtained from the MMIS, including beneficiary eligibility, provider eligibility, and claims history. As claims pass through the system, it generates a collection of flagged claims marked with specific labels detailing which criteria were met or failed.

A particular strength of the Clinical Rules System is its flexibility. Xerox’s rules system is a table-driven platform—it is not “hard-coded.” This means that a non-programmer (i.e., a clinician) can easily make changes to the existing criteria to meet the changing needs of the program.

The system identifies beneficiaries with the following risks:

- Standard of care issues
- Patient Safety
- Medication adherence/persistence
- Drug-drug interactions
- Drug-disease contraindications
- Duplicate drug therapy
- Iatrogenic morbidity

The Clinical Rules System effectively minimizes false positives by identifying meaningful recipient issues for intervention. The solution achieves measurable outcomes for quality improvement reports while minimizing the time required of our clients’ clinical staff.

The key features of the Xerox Clinical Rules System are:

- Clinical therapeutic criteria (“clinical rules”) that can be easily adapted to reflect changes in the program.
- Internet and desktop reporting modules those are intuitive, flexible, and interactive.
- Ability to distill large amounts of data into meaningful and actionable interventions.
- The ability to integrate available medical and drug claims into one database.

POS Messaging to Providers

DirectCAREPro may be integrated into the claims processing system, allowing pharmacists to receive targeted messages when they fill a prescription for a beneficiary whose health profile meets certain disease-based criteria through the rules and rules engine database which would identify potential intervention opportunities such as drug interactions, duplications of therapy, appropriate dosing, dosage forms, and routes of administration, medication adherence and compliance. The web application also identifies side effects, promotes cost optimization such as promoting generic utilization, and assures compliance with the preferred drug list (PDL). All interventions can be customized based on Vermont specific programs and are developed and written by Xerox Clinical pharmacists.

DirectCAREPro informs pharmacists of appropriate interventions through the DUR message field (D.0 NCPDP transaction) along with other appropriate messages for the beneficiary by:

- Informing pharmacists of care alerts and recommendations
- Targeting outcomes for medication therapy

A pharmacist logging into DirectCAREPro has the capability to select the setting of the intervention; examples of the place of service that can be selected are:

- Pharmacy
- Inpatient Hospital
- Office
- Outpatient Hospital
- Home
- Emergency Room-Hospital
- Assisted Living Facility
- Ambulatory Surgical Center
- Group Home
- Birthing Center
- Urgent Care Facility
- Skilled Nursing Facility
- Hospice
- Nursing Facility

The pharmacist can also use the application to reserve interventions and view the beneficiary's claims history. The pharmacist may review intervention materials and print a hard copy version of the intervention, if desired, to work with the beneficiary. The pharmacist documents the intervention online in DirectCAREPro and submits a bill electronically through an 837 (X 12 HIPAA compliant transactions) for reimbursement. There may be alternate billing methods available to Vermont pharmacists, such as paper claims or an AHS website.

DirectCAREPro is not limited to MTM transactions. The Pharmacist also has the capability to document the administration of Immunizations for a beneficiary and bill for the drug cost and the administration of the drug through an 837 (X 12 HIPAA compliant transactions) for reimbursement. A CDC vaccine information form is also printed through the application and provided to the beneficiary upon administration of the Immunization.

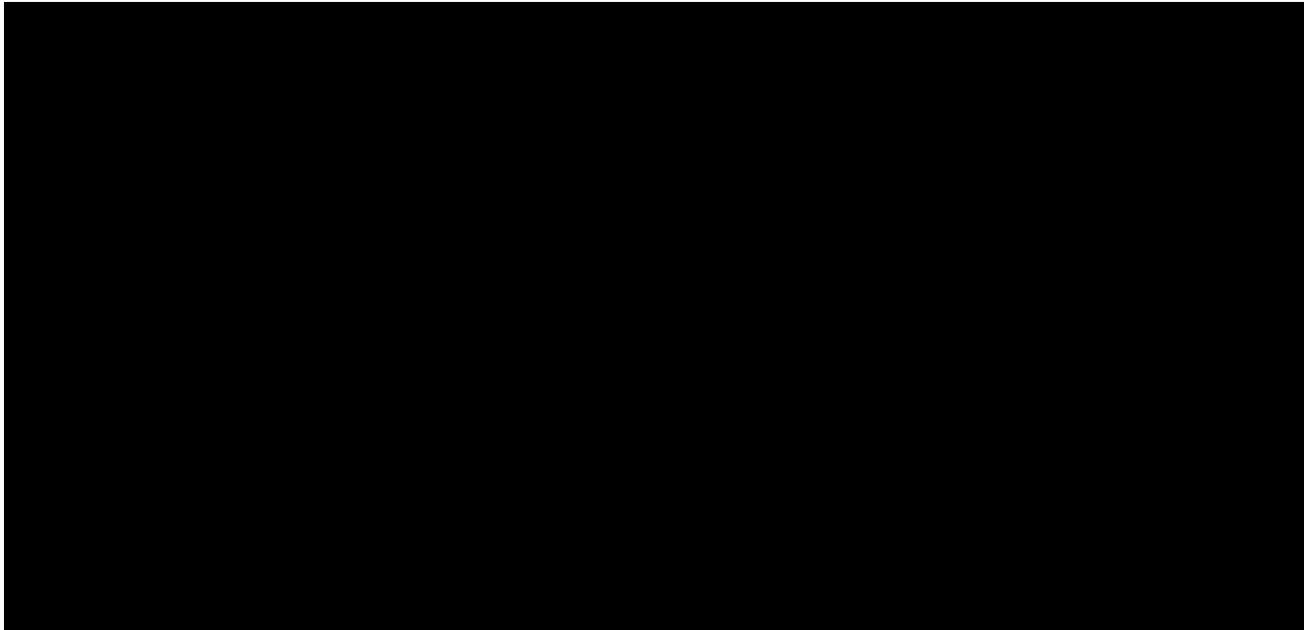
Intervention Encounters

DirectCAREPro serves as a portal to record important beneficiary information that may not be present in the claims and clinical database.

Responses to intervention questions, configured to client specifications, may be multiple-choice, yes/no or free form data entry. The questions ensure a consistent message is delivered to the beneficiary and provide the necessary information a Pharmacist needs to conduct the intervention.

The pharmacist uses the application to record every aspect of the encounter. The information recorded becomes a part of the beneficiary history and enables a coordinated approach to health care delivery for the beneficiary.

Exhibit G-69 is a screen capture showing part of an intervention in the DirectCAREPro application.



Before introducing a new DirectCAREPro encounter, Xerox clinical pharmacists will prepare a formal clinical proposal for consideration by the state. The proposal will include information to assist the state in determining whether to implement the encounter, including:

- Purpose of the encounter
- Reasoning for selection of the topic
- Goals and anticipated results of the encounter
- Clinical logic for selection of beneficiaries for whom the encounter is appropriate
- Specific questions and answers for each intervention within the encounter
- References to document and support the encounter details

Reporting

DirectCAREPro has standardized reports which include logging of MTM events and Immunization administration events, gathering information from the dedicated DirectCAREPro database. These reports maybe customized for the client as well.

Table G-19 includes examples of MTM report:

Table G-19. Direct Care Pro Standard Report for MTM	
Encounter opportunities	View intervention history
Reserved encounters	View intervention summary
Encounters performed	Number of interventions reserved in encounters
Encounters completed	Number of patients with encounters
Claims sent via 837	Number of interventions never reserved in encounters
Claims sent through alternate method	Number of interventions reserved but not performed
Print encounters viewed	Number of interventions performed but not billed
View/print patient care information	



Table G-20 includes examples of reports to monitor Detail Immunization Report:

Table G-20. Direct Care Pro Detail Immunization Report	
Vaccine	Number of immunizations billed with admin fee only
Age	Number of immunizations billed with admin fee and drug cost

Table G-21 includes examples of reports to monitor Summary Immunization Report:

Table G-21. Summary Immunization Report	
Date of activity	Number of immunizations performed but not billed
Number of vaccine intervention performed	Number of immunizations billed but not submitted
Number of claims billed via 837	Total number of immunizations completed
Number of claims billed alternate method	Number of viewed print intervention forms
Number of immunizations billed with admin fee only	Number of viewed CDC forms
Number of immunizations billed with admin fee and drug cost	Number viewed intervention history
Number of unique patients with immunizations	

The dedicated DirectCAREPro database includes all transactions and history of interventions and Immunizations that occur within the application and supports an audit trail of all pertinent events.

Encounter Pricing

The DirectCAREPro application has the capability to set prices for reimbursement to the pharmacy or pharmacist for procedure codes for MTM activity as shown in Table G-22.

Table G-22. Direct Care Pro MTM Pricing	
99605	Initial visit
99606	Follow up visit
99607	Additional units for a visit

The application also has the capability to price vaccine drug cost and the administration fee associated with the vaccine for reimbursement.

Table G-23 an example of Immunization pricing:

Table G-23. Immunization Pricing				
Name of Vaccine	CPT	Modifier	Ages	Diagnosis
Influenza Injection	90655	SL	Child – 0 to 35 months	V04.81
	90656	SL	Child – 3 to 18 years	
	90658	TT	Adult – vaccine ingredient	
	90471	TT	Greater than 18 administration code	
	90472	TT	Each additional vaccine (same day)	

Table G-23. Immunization Pricing				
Name of Vaccine	CPT	Modifier	Ages	Diagnosis
Influenza Nasal	90660	SL	Child – 0 to 18 years	V04.81
	90660	TT	Adult – vaccine ingredient	
	90473	TT	Greater than 18 administration code	
	90472	TT	Each additional vaccine (same day)	

Process Flow

Exhibit G-70 shows the process flow of the DirectCAREPro application, which includes the following sub-processes:

- The pharmacy POS system sends claims through a Switch Vender to the PBM. The SmartPA rules engine participates in the claim adjudication process and stores paid pharmacy claims in the beneficiary’s claims history. Typically, there are also batch updates from the MMIS to the claims history for medical claims. The combined claims history then becomes a basis for determining eligibility for MTM interventions.
- A set of rules is executed against the claims history to identify appropriate MTM interventions for each eligible beneficiary and store the results as encounters available for each beneficiary.
- The pharmacist may review encounter opportunities for their beneficiaries and reserve interventions for a limited time. If they wish, the pharmacist may print a hard copy of any intervention in preparation for an encounter.
- When the beneficiary visits the pharmacy, the pharmacist can select interventions for that individual, whether or not they have been reserved, and perform them with the beneficiary. The pharmacist may record answers online during the encounter, or keep paper records to record the interventions later.
- After interventions have been completed, the pharmacist will have the opportunity to submit electronic claims to the MMIS for reimbursement.

1.3 Financial Management

Financial support services are an important component of the PBM services being solicited. The State seeks Vendor services in the administration of all rebate programs, including the Federal OBRA '90 rebates, supplemental rebates and State-only rebates. It will also rely on the Vendor to support the State's participation in the Sovereign States Drug Consortium (SSDC) multi-state supplemental rebate pool.

Xerox's methodology for financial management meets and exceeds the RFP requirements by providing complete, consistent, and integrated processes and tools for managing the financial components of the AHS PBM project. Using a tested and proven suite of tools operated by our experienced Medicaid support staff, Xerox delivers the required services and expected outcomes described in the RFP.

Xerox has more than 14 years' experience in rebate administration, having developed a proprietary Drug Rebate Analysis and Management (DRAMS) system in 1999. Since then, DRAMS has allowed Xerox to manage the federal, supplemental, and state-only rebate programs for more than a dozen state Medicaid programs. The Xerox rebate team, using DRAMS, supports all aspects of these rebate programs including claims and reference data loading, invoice calculation and production, payment allocation, dispute resolution and reporting and analytics.

Xerox is fully prepared to support Vermont's participation in the SSDC rebate pool and all other aspects of financial management as described in the RFP. Our approach will deliver a low-risk, disruption-free PBM program to the Vermont Agency of Human Services (AHS), its stakeholders and beneficiaries.

As directed in the RFP, we describe how Xerox will meet or exceed the financial management requirements in the following sections:

- 1.3.1 Management of State and CMS Drug Rebate Programs
- 1.3.2 Support of Multistate Supplemental Rebate Consortium
- 1.3.3 340B Program Management
- 1.3.4 Financial Management

1.3.1 Management of State and CMS Drug Rebate Programs

The Medicaid Drug Rebate Program is a partnership between CMS, State Medicaid Agencies, and participating drug labelers that helps to offset the Federal and State costs of most outpatient prescription drugs dispensed to Medicaid patients. Approximately 600 drug labelers currently participate in this program, which requires a drug labeler to enter into a national rebate agreement with the Secretary of the Department of Health and Human Services (HHS) in exchange for State Medicaid coverage of that labeler's drugs. Labelers are required to pay a quarterly rebate on those drugs each time that they are dispensed to Medicaid patients. These rebates are shared between the States and the Federal government to offset the overall cost of prescription drugs under the Medicaid Program.

In addition, the State administers a state rebate program for state funded pharmacy programs. This program is similar to the federal program, and is based on a pro-rated share of the federal rebate calculation.

The State seeks full support of the Federal and State Rebate program. The Vendor should describe how it manages all aspects of rebate support including, but not limited to:

- Producing Drug Rebate Invoices for drug labelers
- Processing the CMS Rebate Utilization files
- Providing rebate reporting to the State and partners
- Reconciliation and resolving drug rebate disputes
- Supporting labeler inquiries such as claims level detail

The Vendor must describe their approach for supporting the Agency's Drug Rebate program and maximize the value achieved for the State.

By choosing Xerox as the PBMS contractor, AHS partners with a knowledgeable contractor with 13+ years of experience helping Medicaid programs around the country achieve up to 100% rebate collection rates.

Reference Data Loading (Requirements: FR3.1, FR3.2, FR3.3, FR3.4, FR3.6, FR3.13, FR3.35, FR3.36, FR3.37, FR3.38, FR3.39, FR3.40, FR3.44, FR3.48)

Drug rebates are required by the 1990 Omnibus Budget Reconciliation Act (OBRA 90). Under OBRA 90, drug labelers enter into contracts with the Center for Medicare & Medicaid Services (CMS), allowing AHS and CMS to receive drug labeler rebates on drugs reimbursed under the provisions of Title XIX to the Social Security Act (Medicaid). This allows Medicaid access to prices similar to those paid by other large purchasers. CMS calculates the unit rebate amount (URA) from pricing data submitted by labelers quarterly and then provides states with the URAs, which the states in turn bill to approved labelers on a quarterly invoice. Drug rebate administration must also comply with Section 1927 of the Social Security Act. The Xerox rebate administration process is compliant with all federal rebate regulations.

Xerox's Drug Rebate Program Solution

- Offering a mature, flexible rebate tool enhanced over 13 years of successful rebate administration for 12 Medicaid programs
- State-of-the-art system that is completely Web-based
- Seamlessly integrated with document management and workflow tool
- Expert knowledge of OBRA 90 and CMS rebate requirements

The AHS Rebate programs will benefit from our proposed state-of-the-art Drug Rebate Analysis and Management System (DRAMS) to assist in managing the state's drug rebate programs. DRAMS provides easy-to-use functionality to produce invoices, reconcile payments, resolve labeler disputes, and produce federal and state-only rebate reports. Key features of our solution include:

- **Completely Web-based** solution with all of its functions available via a link from the new AHS PBMS portal accessible to all authorized agency and Xerox users.
- **Comprehensive online architecture** and graphical user interface (GUI) that literally places all key program data at the fingertips of the users using point-and-click navigation and drill down features. Rebate data is always available, never archived.
- **RebateWeb** provides a single point of entry for labelers and AHS to exchange information such as invoices, Reconciliation of State Invoice (ROSI) and Prior Quarter Adjustment Statement (PQAS), and dispute information.
- **Experienced rebate team** that brings hands on experience managing multiple Medicaid programs to bear to ensure the AHS rebate administration is efficient and effective.

Today, DRAMS is used by 12 Medicaid programs to assist in administering drug rebates. Xerox performs rebate administration for 10 of these programs—Colorado, District of Columbia, Hawaii, Maryland, Massachusetts, Mississippi, New Mexico, Ohio, Texas, and Wyoming—and Minnesota and Montana perform their rebate administration in-house using DRAMS. DRAMS is also under development for California and North Dakota.

Through Xerox's administration of federal and supplemental drug rebate programs for our state clients, we have continually enhanced DRAMS to ensure continued compliance with federal and state requirements and to provide our customers with a single flexible tool to manage all aspects of the states' rebate programs. Xerox does not engage in any contracts or agreements with, nor receive any direct compensation from any pharmaceutical manufacturers related to prescription claims data collected as part

of the support of the AHS rebate or claim processing programs without the direction and approval of AHS.

DRAMS maintains full historical drug rebate information for each rebate program including but not limited to invoice and payment data, claims and reference data, prior period adjustments and dispute information back to 1991 when the federal drug rebate program started, or as far back as electronic data is available from the current rebate vendor for conversion. User-friendly menus and paging allow easy access to drug rebate data, which is stored indefinitely. Historical data can be viewed through the rebate display pages, which allow the user to view claim, provider, national drug, code (NDC), invoice, check, and calculated URA information.

Xerox currently supports numerous Medicaid pharmacy programs where our proposed claims processing component, PBM OS+ and our rebate component, DRAMS are deployed. The interfaces between the two applications are developed, tested, and operational. All required claims and reference data required from PBM OS+ is routinely transferred to DRAMS for rebate administration. There is no additional interface or extract development needed to implement the PBMS system proposed for AHS.

Our integrated solution maintains the following databases in PBM OS+ and passes appropriate data to DRAMS on a weekly basis.

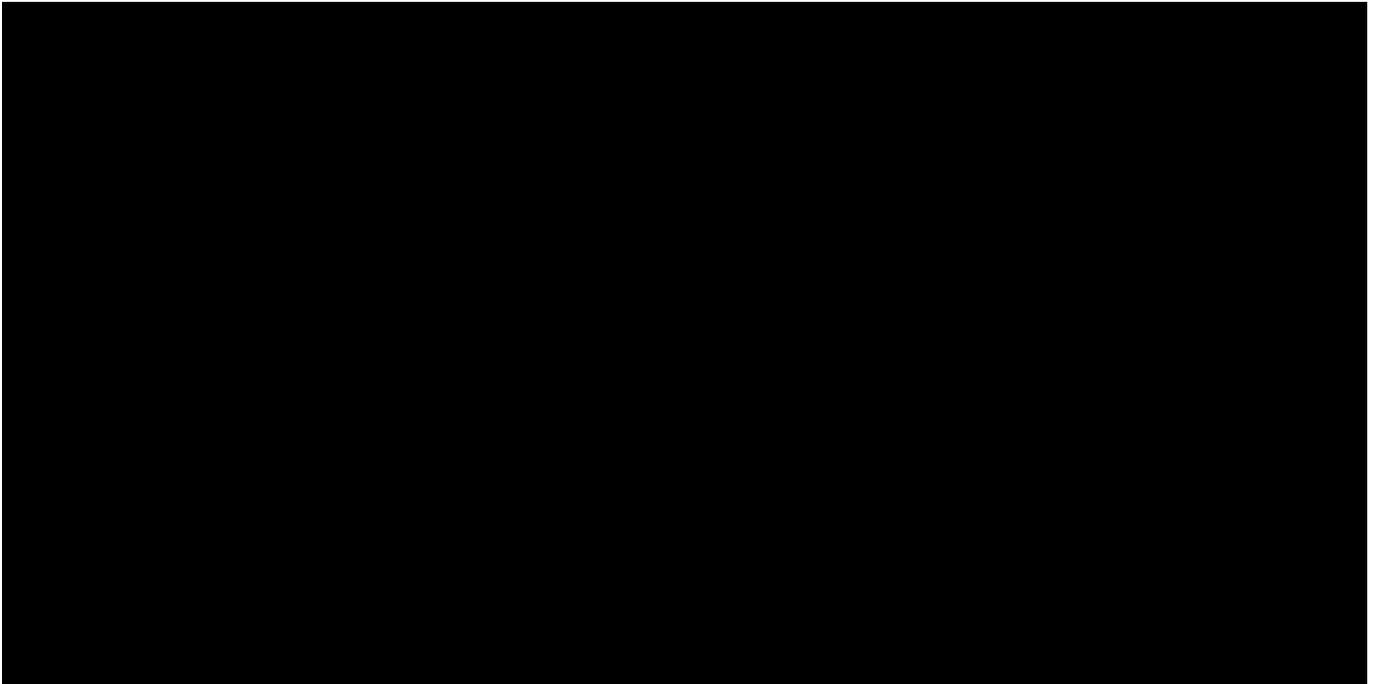
- **Paid Claim Data:** PBM OS+ adjudicates pharmacy claims from POS, paper claims and batch processing from pharmacies. Each week a paid claims extract is created in OS+ and transmitted to DRAMS thus providing the DRAMS database with the claim-centric information needed for rebate administration (provider, NDC, units paid, date, allowed amount, etc.). Xerox also loads outpatient hospital claims for physician-administered drugs into DRAMS so all rebate eligible paid claims are accounted for in rebate invoicing.
- **Formulary Data and Rates:** Xerox utilizes FDB MedKnowledge to populate the AHS pharmacy services programs' formularies and rates. FDB is an established market leader in publishing drug prices and uses a dedicated staff that offers years of experience. FDB MedKnowledge includes an entire list of products, including legend and OTC medications, durable medical equipment, supplies and injectable drugs. The list provides standard drug identifiers, pricing information (historical and current) and clinical information that is imperative to the claims adjudication process.
- **Provider Data:** Prescriber and pharmacy enrollment data is loaded to the PBM OS+ provider database from an interface with the MMIS. With this data, the system performs prescriber and pharmacy edits that ensure that the PBMS only pays claims for enrolled prescribers and pharmacies on the claim's date of service.

The following data is stored in DRAMS:

- CMS labeler data
- CMS URA and UROA data
- Supplemental and state-only URA data
- Pharmacy claims data
- Physician-administered claims data
- Invoiced amounts including interest

- Payment data at the program, quarter, labeler and NDC level
- Prior period adjustments
- Dispute information, current and historical
- Provider data
- T-bill rates
- NDC pricing data

DRAMS also tracks all changes to original data such as invoice amount, paid units, accounts receivable so that users can identify and track changes over time. Exhibit G-71 shows the data stored in DRAMS.

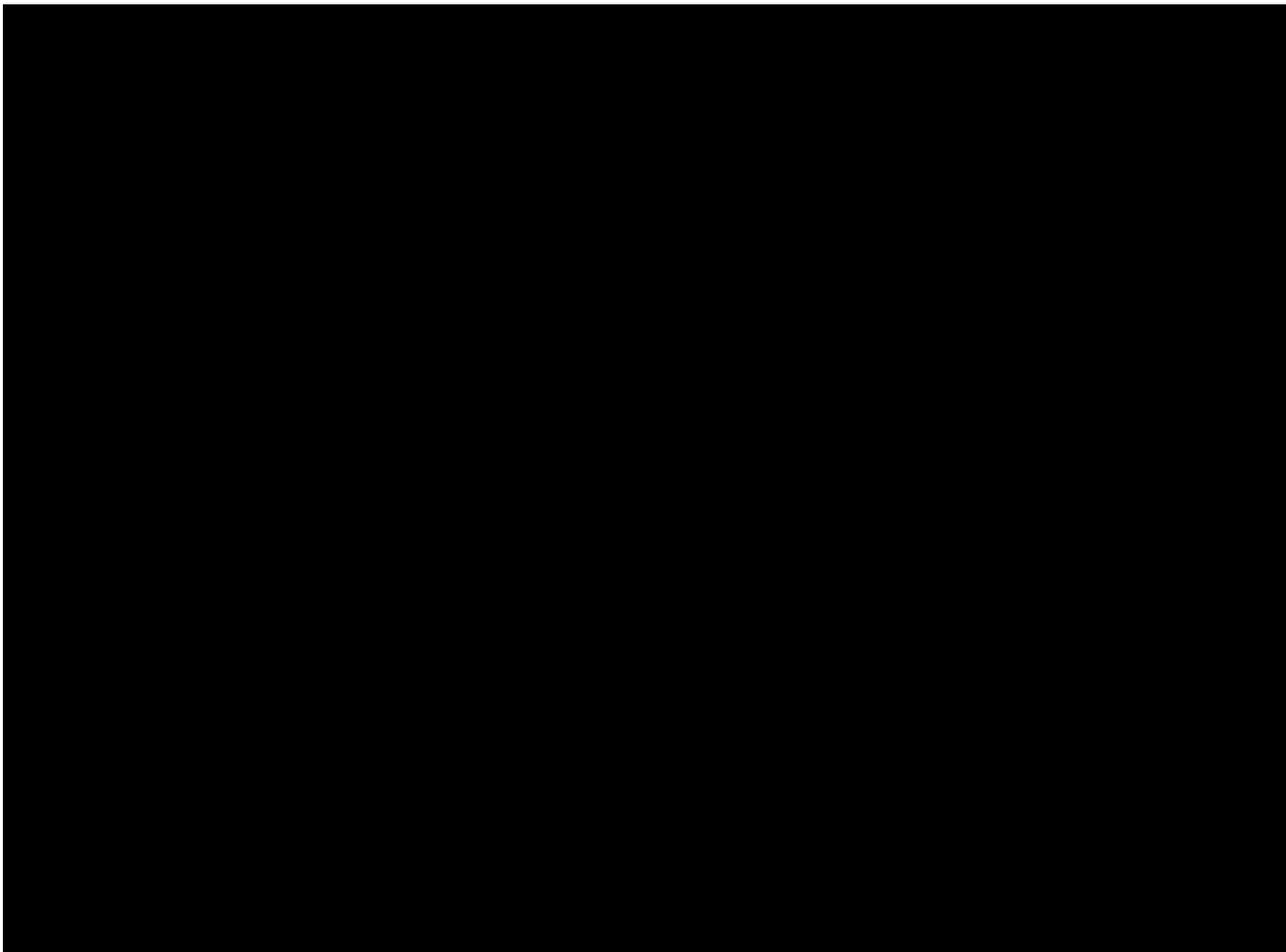


DRAMS is capable of handling the program volumes provided in the RFP. DRAMS is currently used in multiple state Medicaid programs including large programs such as Ohio and Texas. Its browser-based user interface and business logic is built on an industry-standard Java platform. DRAMS utilizes the Oracle relational database management system (RDBMS) as its database management tool to provide flexible, scalable rebate functionality. This technology allows DRAMS to accept, load, and process millions of claims per quarter and generate invoices for every labeler in the federal program and virtually unlimited supplemental and/or state program invoices.

As we demonstrate in this section, DRAMS provides flexible rebate functionality for federal, supplemental and state-only rebate programs. DRAMS eliminates manual rate calculations, conversions and ad hoc updates freeing Xerox staff to allocate payments, manage disputes, and generate reports needed to manage the rebate programs and comply with federal regulations. The Xerox staff maintains an electronic policy and procedure manual to guide rebate administration activities and ensure consistent processes are followed for all aspects of the rebate cycle.

As the rebate cycle repeats every quarter there are activities that occur once each quarter and other activities that are performed continually throughout the quarter. The Xerox rebate solutions supports the

full rebate cycle, as shown in Exhibit G-72 beginning with the quarterly receipt and loading of fresh reference files.



Reference Data Loading

Accurate rebate administration requires up-to-date data be available for all rebate calculations and processes. Each quarter, CMS sends three data files that states use to update key rebate information prior to generating quarterly invoices. These files include a Labeler file, a URA file, and a UROA file. DRAMS has an automated nightly process that checks for and loads the expected files when they become available.

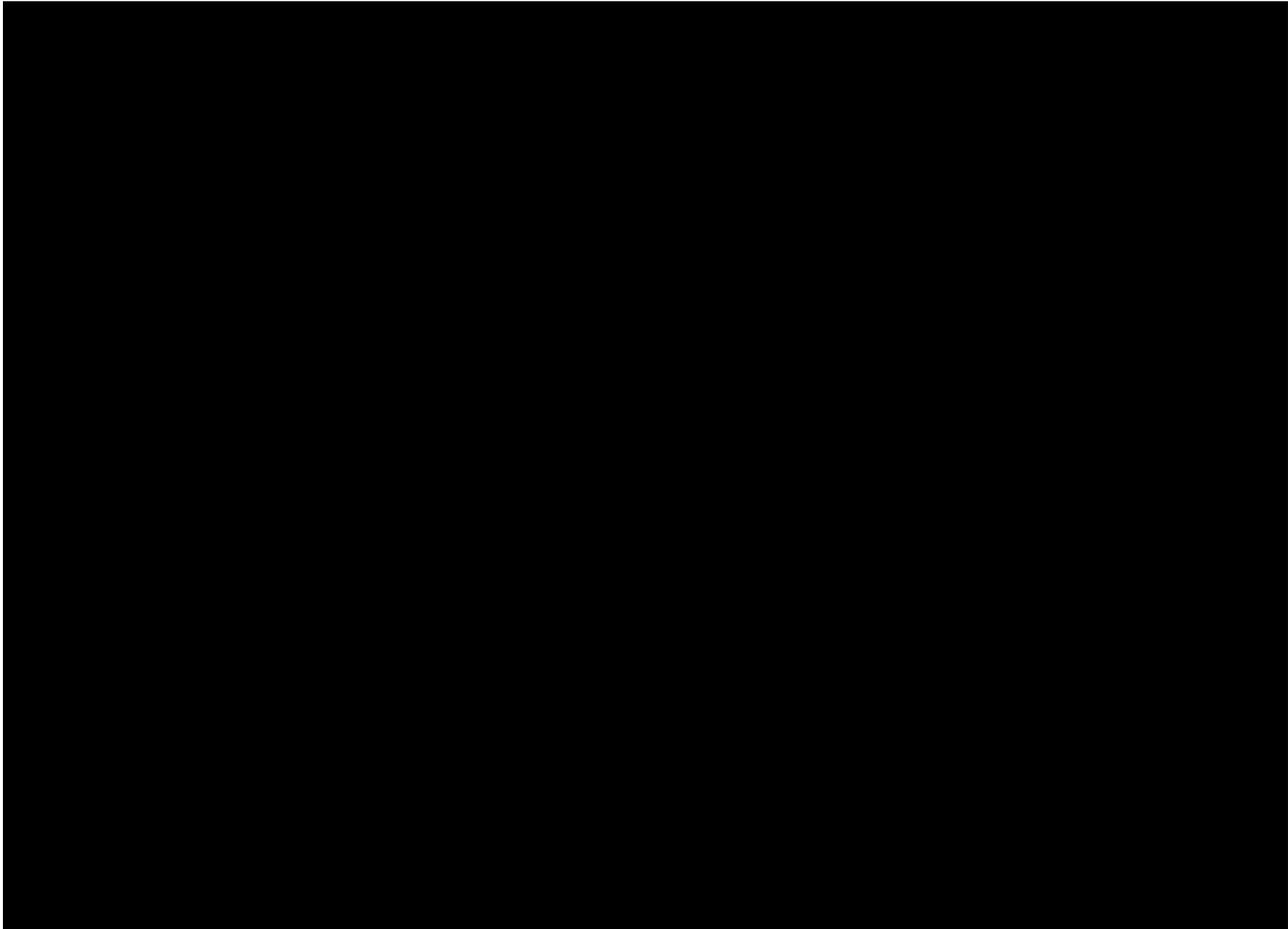
Labeler information obtained from the CMS data files includes but is not limited to:

- Labeler ID or code
- Labeler name
- Labeler mailing address
- Participation dates (which may just be a start date or many contain multiple start and end dates)
- Legal contact information including telephone, fax and email address
- Invoice and financial contact information including telephone, fax and email address
- Technical contact information including telephone, fax and email address



When the labeler information is loaded, the system checks to see if the data already exists in the system or if the labeler is new, the new labeler data is added into the system. When the system determines that the labeler already exists in the system, then the change is recorded. Changes may include; a change in address, new contacts associated with the labeler, the addition of a termination date, etc. Any programs designated as using CMS data has their contract data updated as well. Supplemental and supply contract data is entered into DRAMS manually using the Maintain Contract page of the system.

DRAMS provides access to view labeler information via the Maintain Labeler and Display Contract Web pages as shown in Exhibit G-73. Users cannot update CMS labeler data except for fax number and email address. However, the system allows users to create a new contact type and add the contact information and associate it with the labeler and contract providing a method of tracking new contacts not yet received from CMS.



For labelers not under contract with CMS, Xerox staff may manually enter and update data. These are usually labelers associated with supply programs not covered by Medicaid. In addition, labelers associated with supplemental contracts may be entered. Such labelers may consist of one or more labelers. Once labeler data is entered into the system, the following data may be added or changed: address and contact information, a termination date added or bankruptcy information added. Historical labeler data is viewable via the application for all quarters where data exists.



Along with the labeler file, CMS also sends a drug URA file and a unit rebate offset amount (UROA) file. All CMS drug data is added to the database along with a load date. This data includes all current quarter URAs and any modified prior quarter URA adjustments. During the loading of data, when the system determines that a URA for an invoiced NDC and prior quarter has been modified, the system writes out a drug history row to track and reflect the change. This process also updates the principal due to reflect the new URA and can be viewed on the Research Accounts Receivable page, as well as on various reports.

Rebate programs that use a calculated URA or a URA supplied by the state follow the same process as described for the federal program and CMS drug file. New and updated URAs are written to the database and a row is written to drug history to record prior quarter URA changes. The most current unit rebate price is used in the principal due calculation to reflect the current amount due.

Historical Rebate Data

Xerox has all CMS provided reference data since 1991 including labeler, drug, and URA reference information. All AHS specific historical rebate data is loaded during the implementation phase of the project. This would include complete pharmacy and medical claims history used in prior quarters' rebate administration by Xerox staff. These history files are assumed to contain key data elements such as:

- Dispensing provider ID
- NDC and/or procedure code
- Number of units
- Amount paid by AHS
- TPL amounts

All reference data used in rebate administration is stored in DRAMS and is not deleted or archived during the duration of the contract. Thus, all historical reference data is available to authorized users via standard DRAMS reports.

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. Xerox staff can key this information into DRAMS and DRAMS excludes 340B provider claims from invoices. As an alternative approach, if 340B claims are identified within PBM OS+ and this information is passed to DRAMS, such claims can be excluded.

The 340B program is a federal drug discount program that was established by the Veterans Health Care Act of 1992. The 340B program requires drug labelers to provide outpatient drugs to eligible health centers, clinics and hospitals at a discounted/negotiated rate. The discount is then passed on to patients of these sites through contractual arrangements made between the entity and a pharmacy.

Entities eligible to participate in this program include:

- Federally Qualified Health Centers (FQHCs)
- Federally Qualified Health Center look-alikes (FQHCLAs)

- Disproportionate Share Hospitals (DSHs)
- Family Planning Clinics
- HIV / Ryan White Clinics
- State-operated AIDS Drug Assistance Programs
- Black Lung Clinics
- Hemophilia Treatment Centers
- Urban Indian Organizations
- Sexually Transmitted Disease And Tuberculosis Clinics

As these providers obtain their 340B stock at a reduced rate from the drug labelers, CMS has provided a mechanism to exclude units dispensed by 340B providers from the federal rebate program.

Drug Pricing Data

Drug-level data used within PBM OS+ 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.

Pricing data can also be entered manually via the Drug Price Load page or uploaded from diskette or CD. The system records the period for which the pricing is in effect, the NDC/UPN using the price and the price type. All data load or entered and used in invoice processing is saved for tracking and historical purposes.

Claims Loading and Auditing

A weekly interface extracts paid pharmacy claims from PBM OS+ (the claims processing component of the PBMS). The 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 state staff.

Claim auditing is an automated process within DRAMS. Any claims, which fall outside the parameters, have an audit written to the database. Xerox staff review these audits. If discrepancies are identified, unit corrections are made prior to invoice creation. This proactively reduces the number of labeler disputes. This activity occurs throughout the quarter as claims are loaded into DRAMS. Audit parameters may be updated at any time throughout the quarter via the System Parameter Web page. Claim audits may include the following audit types depending on parameter settings:

- Claim reimbursed amount is less than the standard percentage of allowed amount
- Claim allowed amount exceeds submitted amount by established parameter percentage or greater
- Claim reimbursement amount is less than the standard percentage of the submitted amount
- Claim reimbursement amount is equal to the submitted amount
- Claim submitted amount is greater than the threshold amount
- Claim units are more than the standard percentage greater than the average units for this NDC
- Claim units submitted are greater than unit type threshold

All audit information can be exported to an Excel spreadsheet for review.

During claims loading, predefined unit conversions for claims involving specific NDCs take place. The original number of units sent on the claim is retained as well as what the current units are after any unit conversion is applied. Any unit changes made either manually by the Xerox staff or automatically via unit conversion are written to the database for historical and tracking purposes

Whenever claims are being loaded into DRAMS, a check is performed to see whether a unit conversion exists in the system for the NDC. If a conversion exists and the units meet the conversion criteria, the conversion is applied thereby aligning the units from the claim source to the CMS unit type. If there is no unit conversion currently in place within the system, a comparison is made between the drug unit type from CMS and that from the drug reference data. If there is a true difference between the two unit types, a skeleton conversion of zero to zero is automatically created. The Maintain Unit Conversions Web page allows the Xerox staff to view all zero-to-zero conversions and enter unit conversions as appropriate.

The Xerox staff can either enter the conversion factors of one-to-one if no unit conversion should exist or they can update the conversion factors to contain the appropriate unit conversion. This allows units to be automatically converted during the claim load. Xerox staff may also enter a unit conversion for any drug that they become aware of in another way where, although the units of measure match, nonetheless the units differ between the claims payment system and CMS.

Known unit conversions may be entered via the Maintain Unit Conversion Web page. Unit conversions maintained in the system is applied automatically where applicable during the claim load process. A unit conversion can be added at any time during the quarter. To apply a new or adjusted unit conversion to previously loaded current quarter claims, the Xerox staff can request to have claims audited via the Request Claim Audit page. This process applies any applicable unit conversions to the claims meeting the criteria selected and enter the unit conversions as appropriate.

Once the units are converted per the rules established in the Maintain Unit Conversion page, DRAMS uses the correct CMS unit type information in invoice calculations by multiplying the number of units for a specific NDC times the URA for that NDC. This information is provided to the labelers on the quarterly invoice.

Example

One or more claims are submitted with procedure code J0878 that represents an injection of daptomycin, 1 MG. That is, each unit of this procedure code represents 1 MG of the active ingredient. This procedure code is related by the single-source crosswalk with the following NDC: 67919-0011- 01 CUBICIN 500 MG VIAL

According to the First Databank information for this NDC, the unit type is EA (each), the dosage form is Vial and the strength description is 500MG. The CMS unit type is also EA. So, for this NDC, there are 500 MG of the active ingredient per vial, so each procedure code represents 1 MG, and it takes 500 units of this procedure to represent the administration of one vial. Accordingly, the DRAMS unit conversion factor is 1 billed unit to .002 CMS unit.

If a claim is received for 1,000 units of the procedure code, then this equals 1,000 MG of the active ingredient. Since each vial contains 500 MG, this equals 2 vials. Using the conversion factor, if we

multiply 1000 times .002, we also get a result of 2. After the unit conversion has been applied on the example claim, Original Number of Units is 1,000 but Number of Units (which is what is used for invoicing) is 2.

Interest Calculation (Requirements: FR3.9)

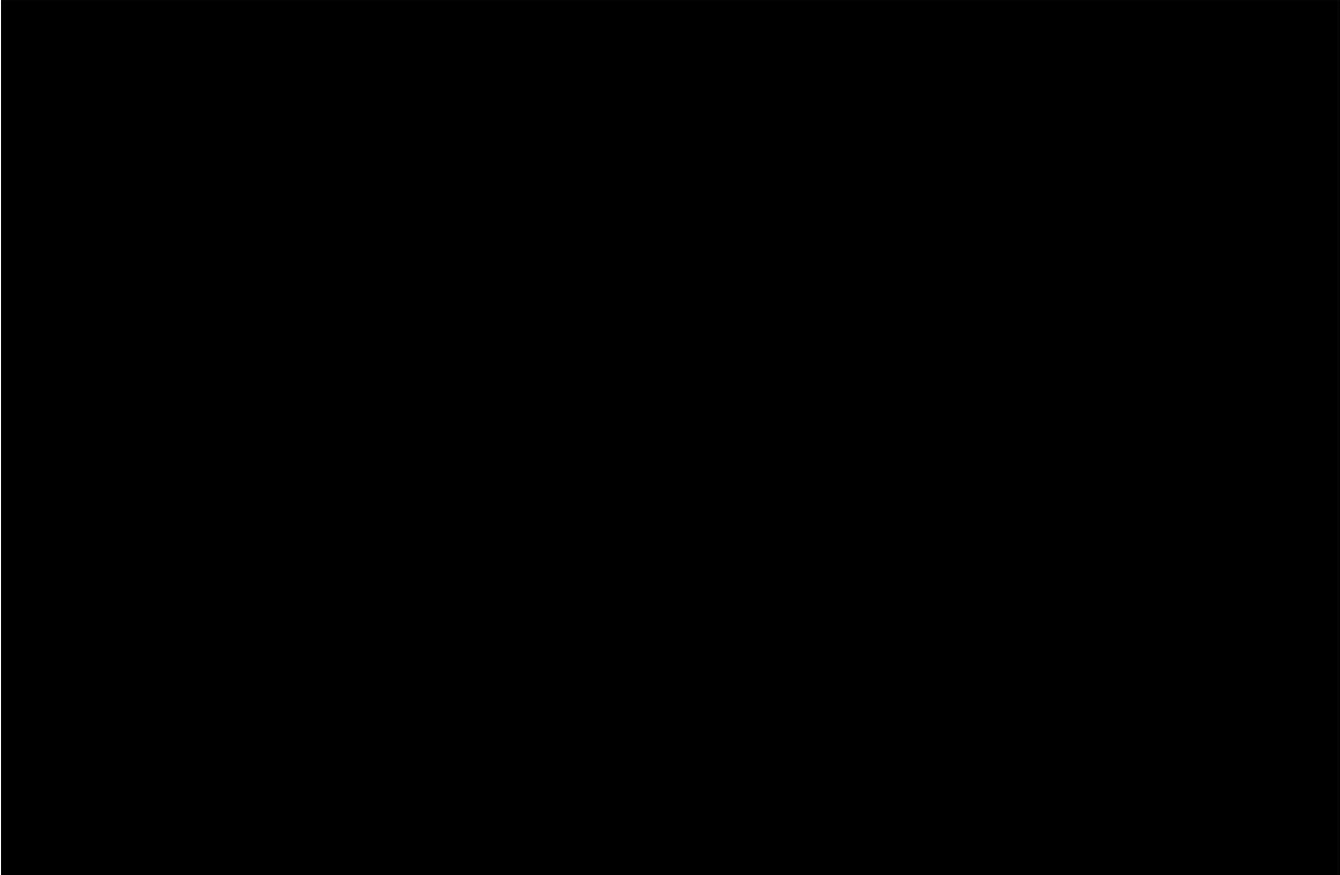
DRAMS allows users to input interest rates directly into the application via the GUI. The Maintain T-Bill Rates page allows the entry and modification of T-Bill rates. Weekly T-Bill rates are added into the system by the Xerox staff. T-Bill rates are required for calculating interest for federal programs and any program set up to use the same interest calculation as the federal programs.

Interest is calculated prior to invoice calculation so that the invoices will contain the correct interest information. DRAMS uses the postmark date of the invoices in conjunction with the check date for any payments received to determine interest due for each invoiced NDC. Users can see the interest due at the quarter, labeler, or NDC level using standard DRAMS reports.

The system currently supports two interest calculation methods:

- T-Bill rates based on the CMS interest rate calculation method
- Fixed rate

The interest calculation method recorded at the rebate program level determines which method is used when calculating interest. Interest calculation requires a manual request from the Xerox staff via the Request Interest Calculation page. Exhibit G-74 provides an example of the Interest Calculation page. Interest calculations can be requested at any time.



DRAMS calculates interest owed on outstanding ARs at the 11-digit NDC level in accordance with CMS guidelines or as specified in the labeler program rebate contracts. Outstanding interest balances are reported to labelers with their quarterly invoice. Interest payment can be made at the NDC level, but rebate standards and practices dictates that the interest paid by labelers is at the summary level and not the line level, i.e. a total interest paid amount for quarter is listed on ROSI/PQAS. Thus, almost all payments that include interest reflect the total interest due for the invoice quarter rather than individual interest payments by NDC.

Unpaid Interest

To calculate interest, the Xerox staff enters the criteria to be used in the interest calculation process and requests that interest be calculated either right now or during nightly processing. Once the calculation is complete, the interest can be viewed on the Display Calculated Interest page, via the Research Accounts Receivable page or on the ROSI/PQAS page.

Interest due amounts are identified by program, by labeler, by NDC, and by rebate quarter for late or unpaid rebates. When the labeler makes a payment, interest may be entered either per NDC (if the labeler sends it that way) or at the invoice/quarter level. The ability to calculate interest due at the 11-digit NDC level upon request allows the Xerox staff to validate the interest remitted by a labeler and mark interest as settled for all, if applicable or only some of the drugs if insufficient interest has been sent.

When payment is sent and allocated, DRAMS compares the amounts entered for both principal and interest paid and calculates whether the principal due has been fully paid or whether there is an outstanding

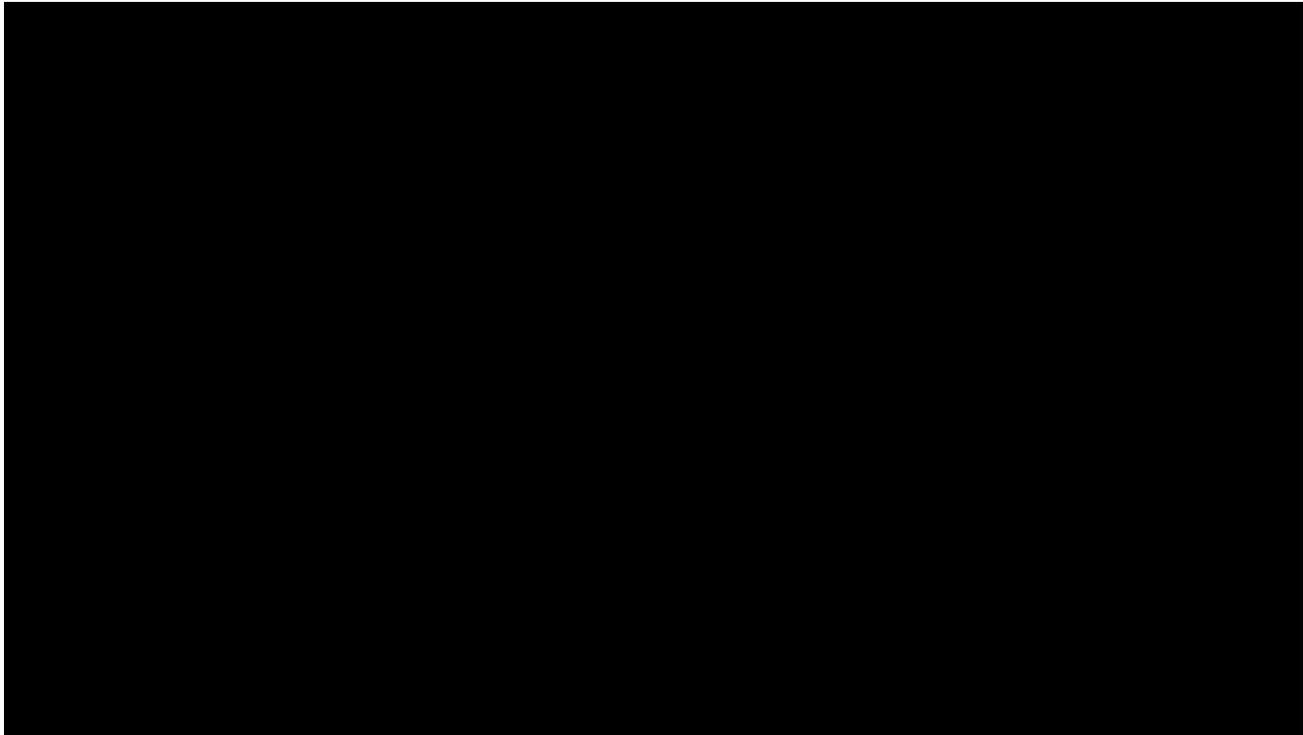
balance owed by the labeler or a credit available to the labeler. Any outstanding balance of either principal or interest due are reflected on the next quarter's invoice and are shown in the AR and other reports so Xerox staff can track the outstanding balances.

Invoice Calculation & Auditing (Requirements: FR3.7, FR3.8, FR3.9, FR3.10, FR3.11, FR3.24, FR3.37, FR3.44, FR3.45, FR3.46)

Drug rebate invoices are created in accordance with federal and state regulations and guidelines. Federal invoices are created after the loading of the CMS data files which occurs approximately 45 days after the quarter ends. Xerox rebate staff have approximately 15 days to create, review, generate and distribute labeler invoices to comply with the 60 days invoicing limit imposed by CMS regulations. Invoices for any AHS program, federal, supplemental, or state-only, can be printed, written to a CD or can be uploaded to the Web. DRAMS produces invoices compliant with the CMS guidelines for invoice format.

DRAMS uses a single database for all drug rebate data storage. Claims data and program specific preferences are identified so that each individual rebate program operates according to either federal or state rules and preferences. The invoicing process is the same for all rebate programs. The greatest difference in inputs is the source of the URA. Each quarter, after all claims and reference data have been loaded, Xerox rebate staff calculate and generate invoices using DRAMS.

DRAMS calculates the invoiced amount using NDC level paid claim data and the associated federal (CMS) or contracted URA to calculate the amount owed by each labeler. State and supplemental rebate programs may not use the URA supplied by CMS. DRAMS accommodates other URAs and/or pricing data for these programs including URA negotiated by the SSDC or contracted by AHS. See Exhibit G-75 for an example of an NDC page and Price Tab. For historical and tracking purposes all URA information is saved and available for viewing via the application. The system contains historical federal URAs retroactive to when the program started in 1991, including the date a given URA took effect for an NDC and quarter, and other URAs back to their first use by a rebate program.



There are several different invoice audits that users can choose to have turned on or off. The audits help users detect potentially erroneous invoice amounts by comparing the current quarter's calculated invoice amounts to those from prior quarters. The audits currently available in DRAMS are:

- Units greater than % prior quarter.
 - *Parameter:* Percent prior quarter.

If this audit is selected, then the number of units for this drug and rebate program, which were invoiced in the previous quarter, is determined. Then the units being invoiced this time is compared to the prior quarter units times the percent in the parameter, providing that the units were not zero. If the current units are greater, then this audit is triggered.

- Rebate charged greater than % reimbursed amount.
 - *Parameter:* Percent reimbursed amount.

This audit is used to spot items where the rebate calculated is large in relation to the amount reimbursed to the provider by the insurer (such as the state.) These will typically be prime candidates for disputes. If the rebate exceeds 100% of the amount reimbursed, there may well be a problem with number of units, and there will extremely likely be a problem with the manufacturer.

- Rebate for this National Drug Code. A unique identifier associated with a drug. Within DRAMS, this term always refers to the 11-digit identifier. This consists of three parts: the first five digits represent the Labeler Code, the next four represent the Product Code and the last two give the Package Size.NDC exceeds % rebate for previous quarter.
 - *Parameter:* Percent prior quarter.

This audit points out NDCs where the rebate amount this quarter is greater than a certain percent of the rebate from the prior quarter. It is very similar to the first audit in this group. The difference is that this audit takes the URA into account. This can be used as either the only audit to spot a significant change from the prior quarter, in which case you would use a parameter similar to the one for the first audit. Alternatively, you might use this in addition to the units audit, with this one designed to catch instances where the URA has risen in an un-typical manner. In this case, you might want to use a more extreme parameter value, as shown here.

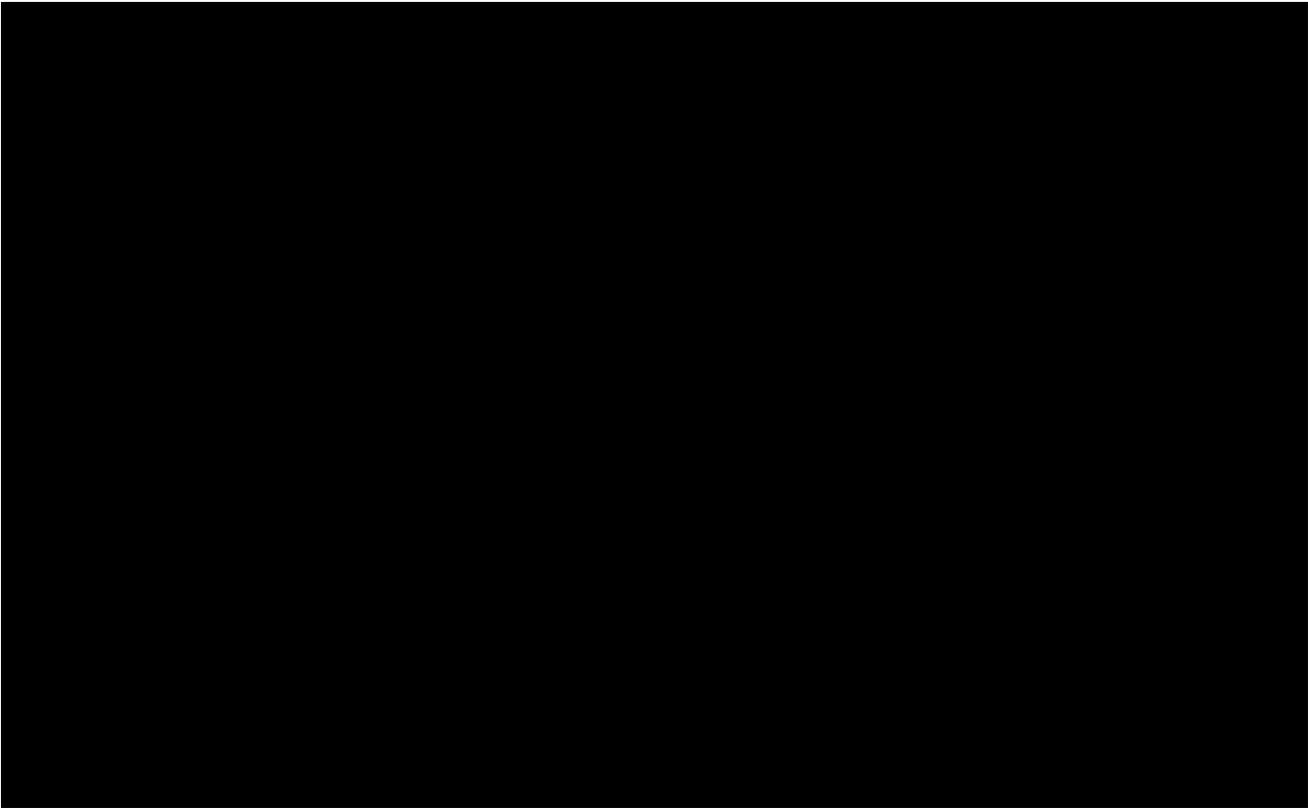
- Rebate for this labeler exceeds % rebate for previous quarter.
 - *Parameter:* This is the invoice level audit mentioned before.

This compares the entire rebate for the current quarter of this invoice to the equivalent for the prior quarter.

If, during the audit process, users determine that some of the underlying data used to calculate invoiced amounts is erroneous, the users can adjust the units, URA or apply unit conversions to ensure the claims units are consistent with CMS invoicing units. Rebate staff may need to correct units on any claims that DRAMS identifies as having discrepancies. DRAMS maintains an audit trail that preserves original values, status of collections, non-payments, non-responders, and all unit and URA changes.

Invoices for Supplemental Rebate Programs

Supplemental rebate programs, which use a calculated URA or a URA supplied by AHS or the SSDC, follow the same process as described for the federal program and CMS drug file. DRAMS allows Xerox staff to enter contract pricing directly into the application, which is then used for invoice and other calculations. Exhibit G-76 shows the Request Drug Price Load page. This page is used to enter the contracted URA, which drives the supplemental invoicing calculations. New and updated URAs get written to the database and a row is written to drug history to record prior quarter URA changes. The most current unit rebate price is used in the principal due calculation to reflect the current amount due. Each NDC has a start and end date and only rebate eligible claims paid during the effective contract agreement time period for each NDC are included in invoices.



Xerox understands that the SSDC supports the state's supplemental rebate program and agrees to participate in all required activities with the SSDC and its designees to maximize the supplemental rebate amounts returned to the state. This support includes, but is not limited to:

- Providing utilization and rebate modeling analytic capabilities
- Providing the necessary utilization, URA and other data files on a timely basis as required by the SSDC
- Making recommendations and submitting all potential rebate arrangements to the Agency for approval prior to acceptance
- Performing modeling that incorporates rebate data and determine net cost to the Agency associated with individual PDL decisions for a drug
- Participating along with State staff and/or represent the Agency in all SSDC meetings, conference calls, and other venues during which rebate business is conducted.
- Calculating, preparing and distributing labeler invoices
- Working with labelers to obtain fully executed supplemental rebate agreements (SRA)
- Working with the Agency on any needed revisions to the SRA annually
- Tracking, reconciling and resolving all collections, disputes and adjustments

- Providing all required reporting and analysis
- Performing other administrative duties as defined by the State

Categorization of Drugs

Another difference between the federal programs and supplemental programs is the categorization of drugs. In order for drugs and supplies to get included in an invoice, they must belong to a drug family. When a supplemental contract is entered, the NDCs to be included in the program are grouped together in drug families, combining NDCs that have URAs calculated in the same way into the same family. Details of how the URAs are to be calculated are also entered in association with the contract. During invoicing for a supplemental program, contracts are examined and NDCs contained within a drug family, which is currently under contract, are invoiced if utilization exists; no other NDCs are included in the invoicing process.

Supplemental contracts are recorded as between a drug labeler, which may consist of one or multiple labelers, and the supplemental rebate program. The labeler must be created first, and labelers included in the labeler are identified. If a labeler is sold to another labeler, an end date is entered on the relationship between that labeler and the labeler. Claims paid after the end date are not invoiced to the former labeler. A single supplemental invoice for all the NDCs for all labelers currently belonging to the labeler facilitates dispute resolution and payment recording.

After invoices are created for any rebate program, Xerox staff enters the mail date in DRAMS. Xerox staff can set the mail date for both programs to be the same date.

Invoices for State-Only Drug Rebates

The invoicing process for state-only programs operates the same as the process used for federal and supplemental programs; however, as each rebate program is set up, the Xerox staff defines the source of the URA for that specific program. Federal programs use the CMS supplied URA. Supplemental programs use the URA negotiated in the supplemental contracts and the state-only programs use the rates negotiated between AHS and the participating labelers.

One of the features that makes DRAMS an efficient tool for rebate administration is the consistency of processing regardless of program type. The system uses the same business logic and processes for all rebate programs. This helps ensure consistent and accurate program administration. This also facilitates invoice generation within the timeframes specified by AHS and CMS.

Exempting Claims from Invoices

Xerox provides two methods to use to identify claims from 340B providers in the system. The first method requires the Xerox staff to identify any 340B provider as an ineligible provider via the Maintain Ineligible Provider page. Ineligible providers are identified by provider ID and ID type code according to the listing provided by the Health Resources Services Administration (HRSA) web site. The Xerox staff must enter a period of ineligibility, where an open ended period is acceptable. Based on rebate program

rules, claims for ineligible providers are not invoiced for rebate unless the rebate program specifically indicates that 340B claims should be invoiced.

The second method for identifying claims which are ineligible for rebate according to the Veterans Health Care Act of 1992 occurs when provider 340B status information is sent at the claim level from the claims processing system. There is a field on the claim extract, which indicates whether or not the claim is a 340B claim. This is used when a provider may fill some claims with drugs purchased under the 340B program and others from a separate non-340B source. This method only excludes those claims marked as 340B whereas the other method excludes all claims from the specific provider id and type code. Either approach may be used depending on the preference of AHS.

Xerox can also exempt specific claims or NDC from invoicing. Based on AHS and program rules, parameter driven claim and NDC exclusions are set up at the rebate program level. These parameters control whether a claim or NDC meeting the specified criteria or condition gets invoiced. The parameters, which can be specified, include but are not limited to the following:

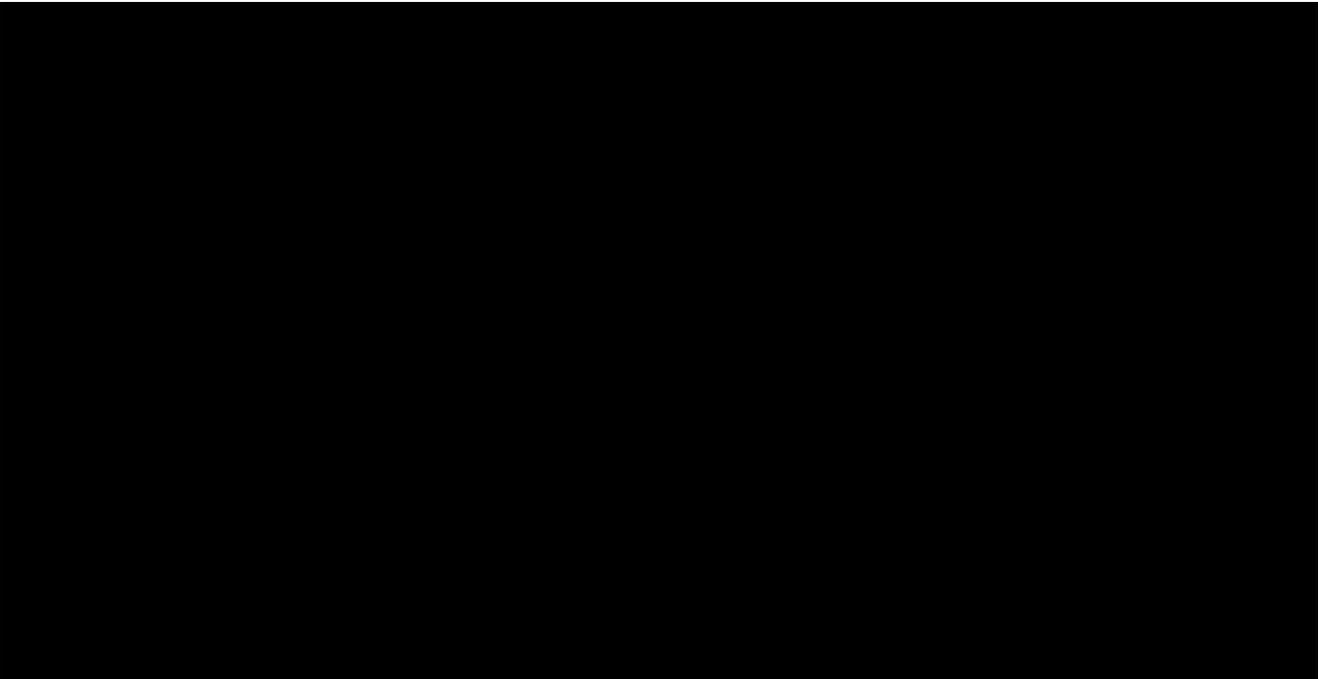
- Exclusion of claims with a zero reimbursement amount
- Exclusion of claims with a zero submitted amount
- Exclusion of claims with a zero number of units
- Exclusion of claims with a service date before a labeler's contract begins or after the labeler's contract ends
- Exclusion for claims from 340B providers
- Exclusion of an NDC having a DESI code of 5 or 6
- Exclusion of an NDC that is a vaccine
- Exclusion of an NDC not included on the CMS tape

Some parameters are automatically established for the federal programs, for example the 'Invoice 340B claims' check box is grayed out so that the Xerox staff may not even check to include these claims in rebate as is 'Include claims with zero reimbursement.'

Another feature which excludes NDCs from rebate is the Excluded NDC functionality. Xerox staff may enter a manual exclusion for an NDC and rebate program. The Maintain Excluded NDC page allows the entry of the NDC along with the exclusion period. When an NDC has been specifically excluded, no units for that NDC and program are invoiced for the exclusion period. During the invoice process, claims for this NDC are marked with a non-invoice reason code depicting that the NDC has been excluded from invoicing.

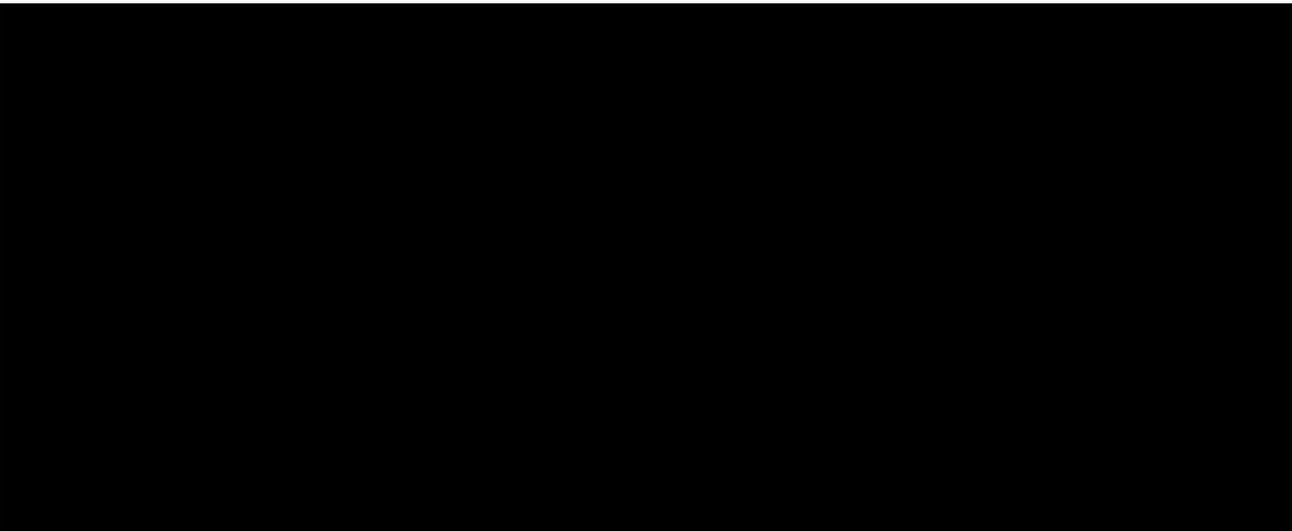
Drug Audits

During invoice calculation, user-specified drug audits are performed and written to the database. Outlier reports are produced to alert AHS of any unusual rebate invoice amounts that may result in a dispute, see Exhibit G-77 for an example of a Drug Audit page. One or more audits may be returned based on parameter settings. Xerox staff research and update corrections to invoice data as necessary.



DRAMS maintains CMS participating drug rebate data including the labeler and contact information. Multiple labeler participation periods and address changes provided by CMS are recorded and viewable via the Maintain Contract pages. Additional contacts may be added in the rebate database that are updatable by the Xerox staff and are not overwritten by the quarterly CMS update information. The system also maintains historical drug rebate rates for prior quarters from 1991 forward.

The system tracks when the claims are loaded, whether they have been invoiced or not, and when they were invoiced. Exhibit G-78 shows an example of the Claim Audit page.



Physician Administered Drugs

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 Xerox J-code single source crosswalk module to ensure accurate NDCs are used for invoicing. Once claims are processed through the crosswalk, they are loaded into DRAMS.

Xerox has developed a single-source crosswalk table that allows Healthcare Common Procedure Coding System (HCPCS) or J-codes to be mapped to a specific NDC so that rebates can be invoiced. Currently, the crosswalk table is built using only single-source drugs (brand-name drugs without generic equivalents) and certain generics (where only one generic brand is available). This table consists of the following fields:

- HCPCS Code
- NDC
- Unit Conversion Factor
- Effective Date
- Termination Date

Each quarter, all HCPCS codes used to bill for drugs including those from physician administered or outpatient hospital claims are captured. All J-codes that match an existing J-code on the crosswalk are mapped to the relevant NDC. The crosswalk program also creates an exception file containing any new J-codes received in the latest claim load. This exception file is reviewed by a Xerox pharmacist to determine if the new J-codes can be accurately mapped to a single NDC. The following codes are incorporated in the crosswalk table.

- **C Codes** are temporary codes that are used exclusively for services paid under the Outpatient PPS (Prospective Payment System).
- **J Codes** are used for drugs administered in an outpatient setting, other than oral-method drugs and biologicals, if:
 - They are of the type that cannot be self-administered.
 - They are not excluded i.e., immunizations.
 - They are reasonable and necessary for the diagnosis or treatment of the illness or injury for which they are administered and they have not been determined by the FDA to be less than effective.
 - They meet all general requirements for coverage of items as incident to a physician’s services.
- **Q Codes** are assigned by CMS to procedures, services, and supplies on a temporary basis. If a permanent code is subsequently assigned (J Code), the Q Code is deleted and cross-referenced.
- **S Codes** are developed by Blue Cross/Blue Shield and other commercial payers to report drugs, services, and supplies.

Invoice Production & Distribution

The type of program and established rebate program parameters control the invoice format and invoiced data. The standard CMS invoice format is required for the hard copy federal invoice. The available electronic invoice formats include:

- CMS electronic format
- NCPDP Summary
- NCPDP Own Claims Detail
- NCPDP Market Basket Claims Detail
- Print image (PDF) format

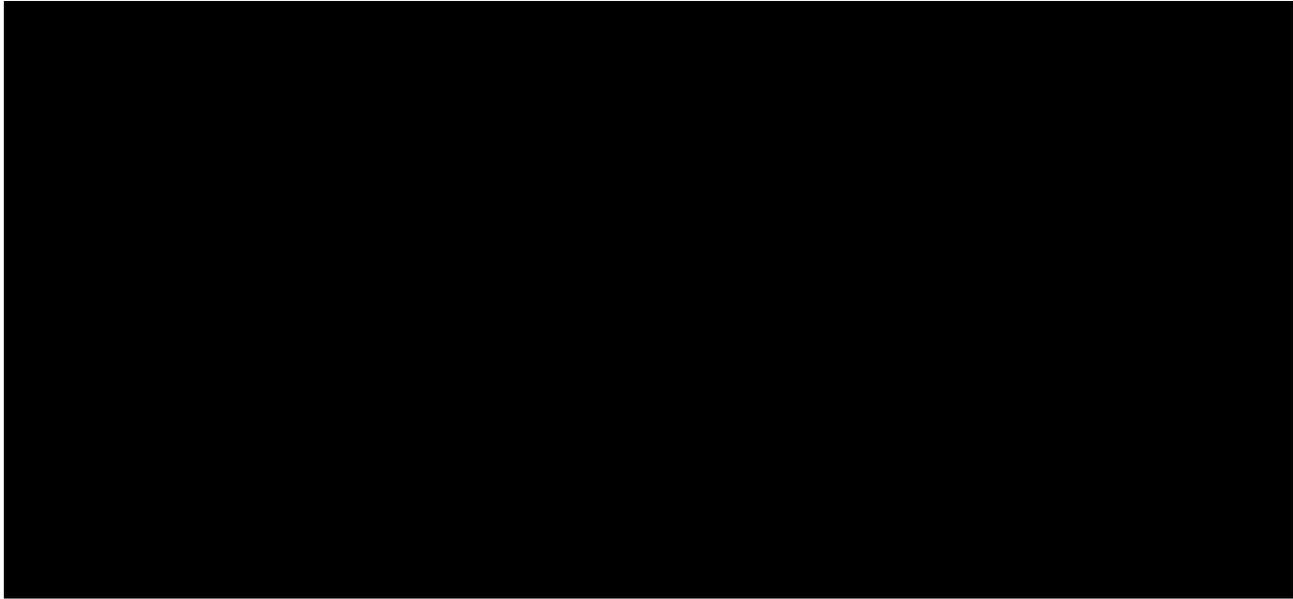
DRAMS supports the electronic exchange of drug rebate invoices with labelers via a Web portal. RebateWeb (Exhibit G-79) is a proprietary data exchange portal, developed as an extension to DRAMS, which serves as the labeler portal. RebateWeb is an e-commerce website, designed to facilitate the invoice distribution process. Registered users access their particular rebate data and upload information as appropriate through a secure connection. This exchange of data is done using CMS standards for invoicing. Drug rebate invoices from the Xerox staff are loaded into the database, organized such that authorized users can only review their invoices.



When the Xerox staff have 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 Xerox staff securely connects to RebateWeb and uploads the invoice files for the labelers choosing web-based invoices. RebateWeb stores the invoice data in its secure database and at the same time, the labeler's representative (as recorded within RebateWeb) is informed by e-mail that invoices have been uploaded.

The portal allows labelers to retrieve invoice information for viewing and downloading. Once invoice distribution is complete, a mailed date is recorded in the system, which is used later during interest calculation.

After invoices are uploaded, a system generated email is sent to the labeler informing them that they have one or more invoices ready for viewing or downloading. See Exhibit G-80 for an example of an invoice notification. Registered labelers can access invoice information, upload electronic payment reconciliation data and establish/resolve disputes at the NDC/UPN or invoice level.



If no download occurs within a week, an automatic reminder email is sent to the labeler and the designated drug rebate program’s administrator. See Exhibit G-81 for an example email invoice reminder notification. A reminder continues to be sent until the invoice is downloaded.

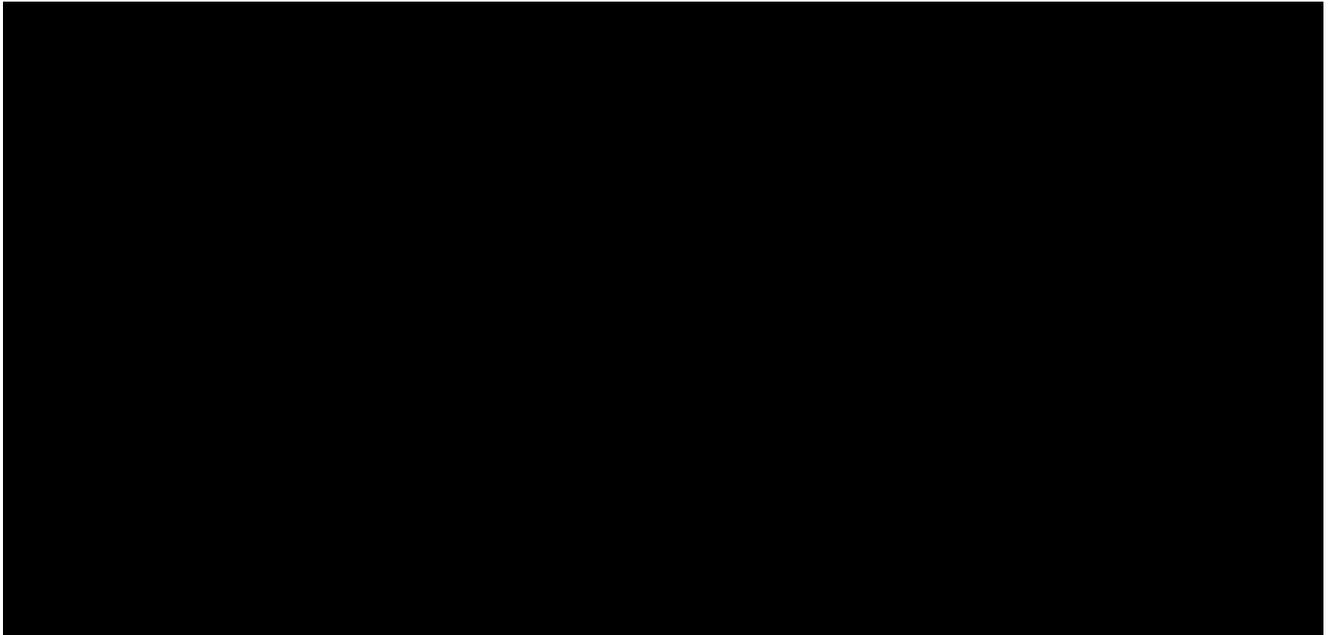


Participating labelers may securely connect to RebateWeb and access the invoices loaded for them. Invoices can then be downloaded or printed from the Web. If the labeler’s in-house software that it uses to manage rebates can accept the CMS invoice format files, the labeler can download them from RebateWeb and upload the files electronically without having to manually key the invoice information into its rebate application. If the labeler’s software is not compatible, then the labeler downloads the data and keys it manually.



Paper Invoices

DRAMS produces invoices in the standard CMS invoice format. Exhibit G-82 provides an example of a paper drug rebate invoice.



The rebate parameters control the invoice format and data included. Parameters used to control the invoice format and invoiced data include but are not limited to the following standard elements:

- Inclusion and placement of a cover letter
- Identifying NDCs which have had a unit conversion applied
- Including claims where the submitted amount equals zero
- Including claims which have a zero reimbursement amount
- Inclusions of vaccines on the invoice for non-federal programs
- Inclusion of 340B claims for non-federal programs

All invoice data, regardless of the format is listed in quarter and NDC order starting with the most current quarter and lowest-numbered NDC. Invoices may be calculated and printed en masse or on an individual basis at the request of the Xerox staff. Invoices printed en masse are printed out by rebate program and in labeler ID order. Invoice duplicates may be printed and a new mailed date may be recorded per AHS standards.

Mailing Labels

DRAMS allows Xerox staff to request mailing labels to use in sending a mailing to labelers. The process is straight forward and done through selections made from the user interface.

- First, the user selects a Rebate Program (or leaves the default in place.)
- Next, the user selects an Address Type, which specifies which labeler contact address the user would like to use.
- Next, the number of copies desired is selected.
- Next, the user selects a method of choosing the labelers who should get labels. There are several different ways to select the labelers receive a mailing, including:
 - **All Labelers.** This means all the labelers who have a contract covering the date on which this request was made for this rebate program.
 - **Selected Labelers.** This gives the user a list of the labelers and lets the user select as many labelers as desired via Shift-click and Ctrl-click processing.
 - **Labelers receiving an invoice in most recent complete quarter.** This only creates labels for those labelers for which an invoice was created (not necessarily sent) in the most recent quarter for which any invoices have a mailed date for the selected rebate program.
 - **Labelers with a certain invoice mailed date.** This lets the Xerox staff specify a mailing date for invoices and selects all labelers who had an invoice for this rebate program mailed on that date.

When all criteria have been entered, the Xerox staff selects Process. DRAMS displays how many labels are going to be created.

Invoice Data Retention

All data loaded into DRAMS or calculated by DRAMS is retained indefinitely to allow Xerox staff access to sufficient historical data to manage collections and dispute resolution. This includes all factors and criteria used in the calculation of all invoices and all changes that affect the invoiced amount at the NDC level. No summary data is used. The DRU has access to all historical data loaded into the system during implementation and for ongoing operations.

All invoice information is retrievable and viewable on screen or can be printed or exported to a file. This allows easy distribution and review as needed by any authorized user or stakeholder. DRAMS produces claim level detail (CLD) reports using parameter-controlled, pre-configured queries accessed through menu choices from within DRAMS. The output is in the NCPDP format, which contains the following data elements:

- NDC
- Paid Quarter
- Service Date
- Provider ID
- Provider Address
- Original Number of Units
- Number of Units
- Reimbursement Amount
- Claim Reversed
- Provider Type Code Description
- Provider Name
- Claim Category
- Claim ID
- Claim Line Number
- Prescription Number
- Plan ID

- TPL Amount
- Copay Amount
- Invoice Status Indicator

This data allows Xerox staff or others to view the detailed claim data that was used to generate the invoiced amount for all NDC.

Federal Drug Rebate Billing File for CMS

After the distribution of invoices is complete, the Xerox staff requests the creation of the utilization file via the Create Utilization page in DRAMS. As CMS no longer produces or accepts data tapes, DRAMS creates a utilization file containing units invoiced for the current quarter and prior quarter adjustments according to CMS format requirements. The utilization data is written to the server in the required CMS record format. The file is then sent to CMS using the CMS file transfer system.

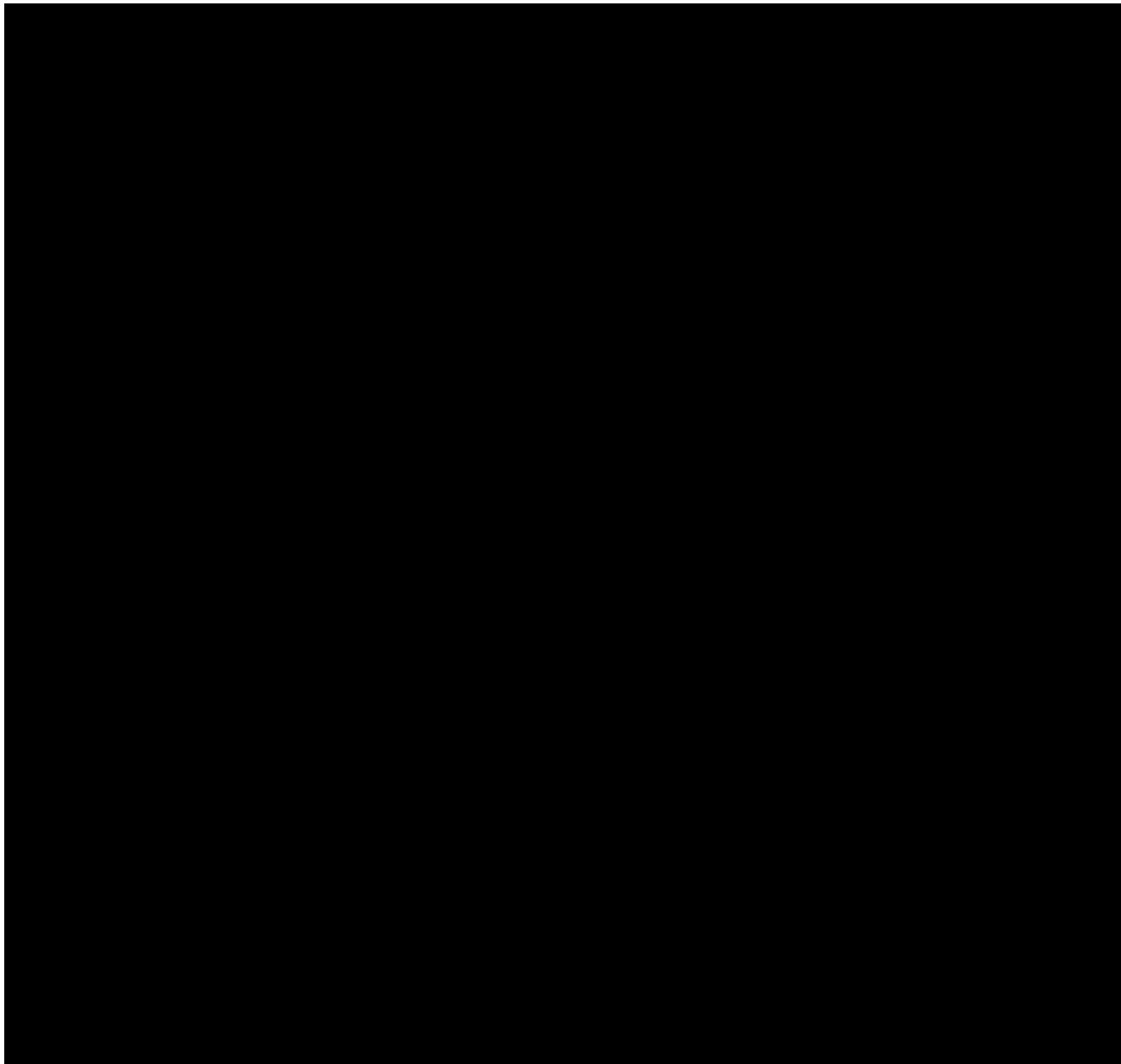
Payment Allocation (Requirements: FR3.23, FR3.35, FR3.36)

DRAMS supports payment allocation by quarter at the 11-digit NDC level for all types of rebate programs. DRAMS supports a Client-Group-Plan hierarchy, which allow flexibility in setting up rebate programs by type or category or other organization criteria. DRAMS records and stores all manually or systematically entered data, including all payments, and tracks all adjustments or changes to original claims units or URA. Standard reports allow Xerox staff to easily view payments, detect payment discrepancies, manage accounts receivable (AR) and perform other accounting and managerial functions required to successfully manage AHS' rebate programs.

Receiving ROSI and PQAS

The system accepts hard copy data manually entered or electronic Reconciliation of State Invoice (ROSI) and Prior Quarter Adjustment Statement (PQAS) uploaded by manufacturers to RebateWeb, making the data available to the Xerox staff with limited manual activity. Alternatively, electronic files may be sent via mail on a CD or diskette or may be emailed if the labeler prefers.

The payment format accepted by DRAMS is the CMS format; ROSI for current quarter payments and PQAS for previous quarter payments. All payments are allocated for a specific rebate program, quarter and NDC based on the information received on the ROSI/PQAS forms. The DRAMS ROSI/PQAS screens are designed to mimic the paper ROSI/PQAS forms to simplify manual payment allocation. An example of the ROSI/PQAS input page is shown in Exhibit G-83. All ROSI/PQAS data is reconciled against the associated invoice and verified for consistency.

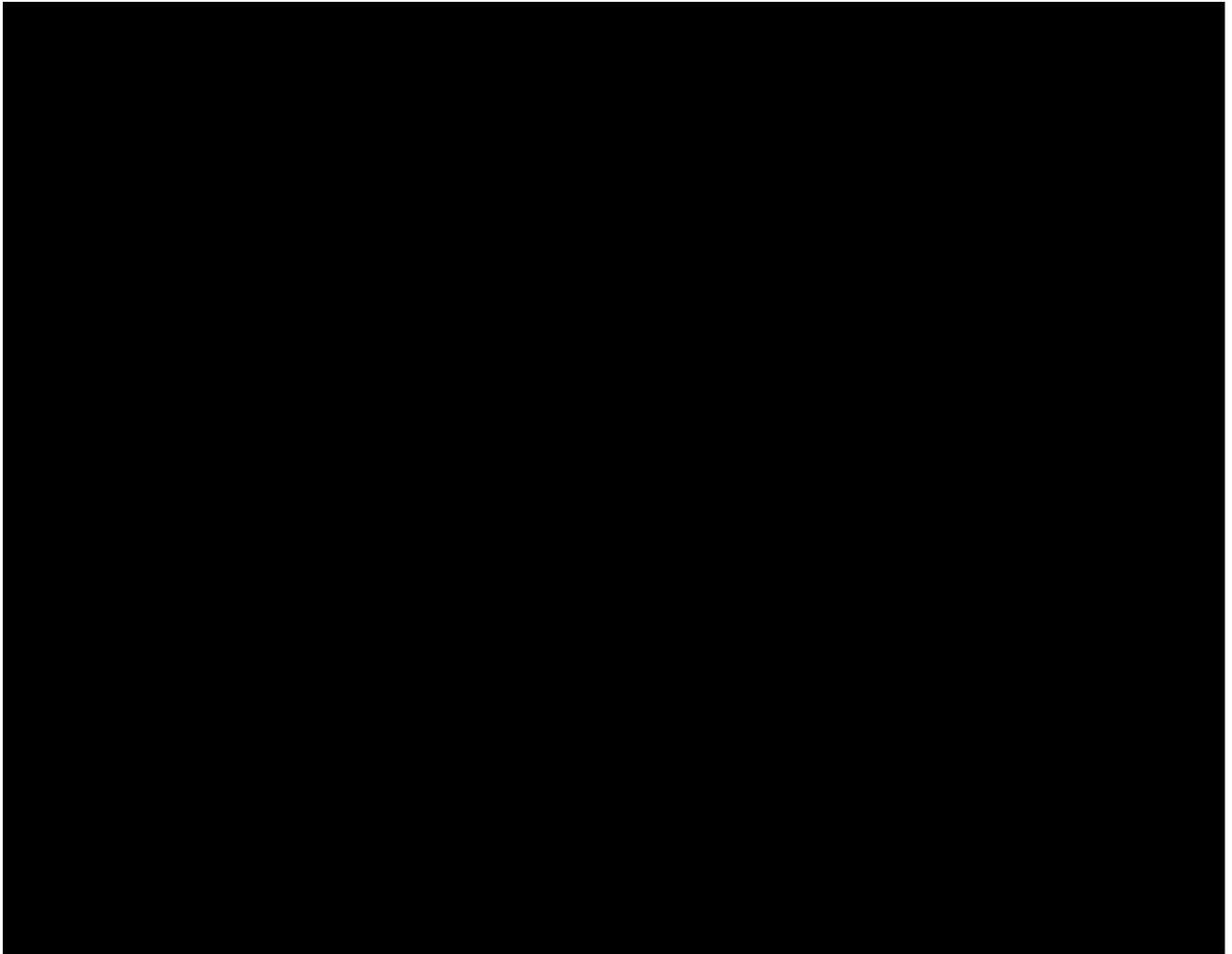


At the end of the allocation process if the total allocated amount is not equal to the check amount, the check is suspended. There are several situations under which this may occur including but not limited to the following:

- A check represents an overpayment
- A check represents an underpayment, and allowance for this has not yet been made
- No check was received and allocation resulted in a credit balance
- A check was declared as allocated, but there is still additional work to be done on it before it balances

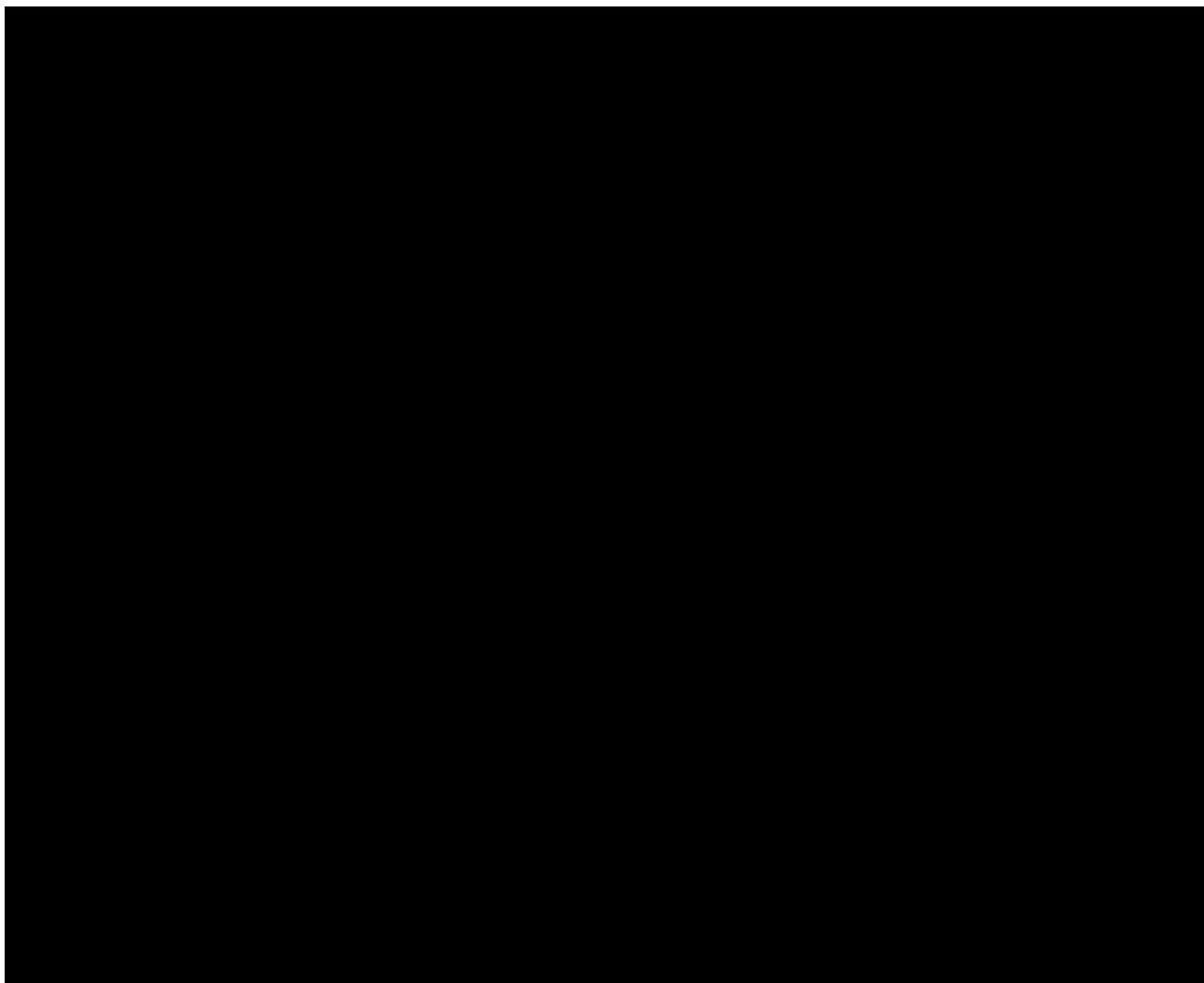
Exhibit G-84 shows the Display Manufacturer Outstanding Balance report, which shows users all checks that were allocated but where the check amount does not equal the invoiced/allocated amount. Users refer to this page to select specific labelers to research and resolve allocation issues.





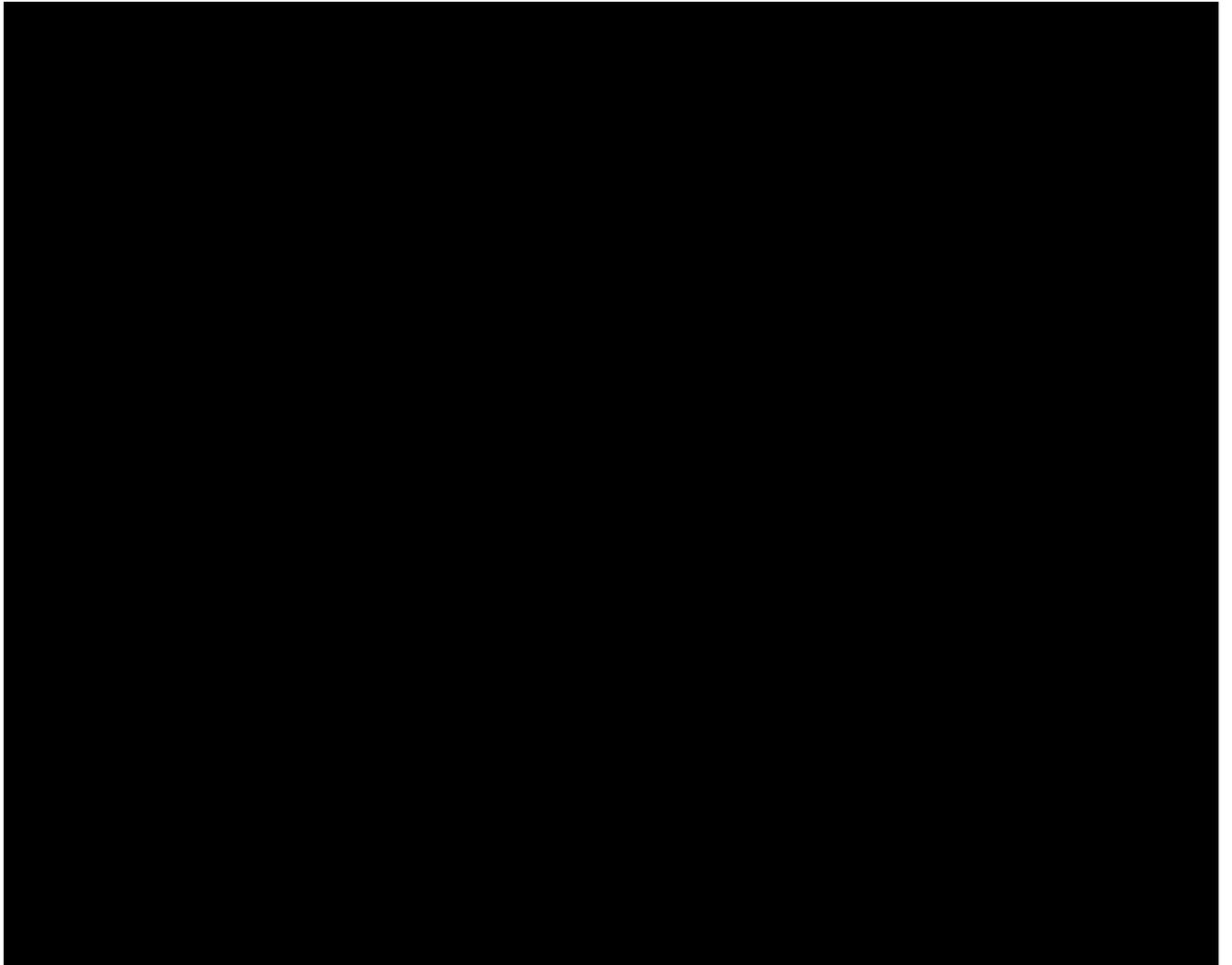
Users can also select Display Suspended Checks from the menu, which will list all the currently suspended checks. From here, the user can take the desired action required for the specific payment situation. For an underpayment, the Xerox staff can contact the labeler and determine whether the labeler intended to dispute some of the invoiced units or whether the underpayment was an oversight. Once the underlying issue causing the underpayment is determined, the Xerox staff can resolve the issue with the labeler. Exhibit G-85 provides an example of the Display Suspended Checks page.





If there is an overpayment, the user either has an overpayment or large credit balance. For an overpayment, this simply represents the amount of the check, which could not be allocated to any individual drug. For a large credit balance, this is the amount of the credit, which could not be balanced by allocations to other drugs. This amount is still available to be allocated against in later quarters. To resolve this, the user selects the check to process and the labeler that should have the overpayment or credit balance. Next simply right-click and choose Declare Overpayment or Declare Credit Balance, as appropriate. A confirmation Web page is displayed. Confirm the desired action and the check is removed from the list of suspended checks. If the Xerox staff needs to see it again, the user goes to the Unallocated Balance Report that is shown in Exhibit G-86.





Xerox staff can allocate any payment regardless of whether the payment amount exactly matches the invoice amount. When the payment exactly matches the invoice amount, the Xerox staff has the option to declare the invoice fully allocated online through the Web pages. This eliminates the need to actually key the payment for each individual NDC.

After allocation is complete, Xerox staff can see the results of the payment immediately on the ROSI/PQAS allocation screens. The Xerox staff can also run various reports including the Labeler Outstanding Balance report or the AR report, which shows the invoiced amount and the paid amount allowing the Xerox staff to monitor any mismatches.

The DRAMS Labeler Outstanding Balance report, shown in Exhibit G-87, allows Xerox staff to review payment status at the program, labeler or NDC level. This makes it easy to determine cases where the paid amount does not match the invoiced amount. The Xerox staff can use this information to perform the dispute resolution process with the appropriate labeler.



Dispute Resolution (Requirements: FR3.15, FR3.16, FR3.17, FR3.18, FR3.19, FR3.20)

DRAMS fully supports all dispute resolution processes in accordance with OBRA 1990 drug rebate program guidelines and CMS Best Practices. Information required for dispute resolution can be provided to labelers at the NDC level, as all labeler payments are reconciled at this level. Through the system's Dispute Resolution Tracking feature, documentation associated with each dispute is tracked through to its resolution producing an audit trail at the NDC level for each dispute. The system also compiles and summarizes the actions that have been taken for drugs in dispute and provides access in the Dispute Activity Report.

While DRAMS provides features to identify areas for potential disputes before invoices are ever generated, there is always the potential that a dispute will occur. In designing DRAMS, Xerox created a powerful dispute resolution function based on input from dispute resolution specialists and pharmacists. The system provides drill-down capabilities to allow the Xerox staff to get to the root of the dispute. Through this facility, claims for an NDC may be grouped by provider and various ratios of amounts submitted, allowed and paid. These can be sorted to help find providers that may be recording the wrong number of units for the particular NDC.

The dispute resolution process can be initiated in several ways. The preferred way is for the labeler to submit a valid dispute code on the CMS payment documents (ROSI/PQAS) for each specific NDC in dispute. In these cases, if the labeler submits paper payment documents, the Xerox staff allocating the payment, enters the dispute code for that NDC while allocating the payment. If the labeler submits the payment document electronically through RebateWeb, the dispute code is entered systematically along with all other data elements on the payment file.

If the labeler does not supply a valid dispute code with payment but does not submit payment for one or more NDCs, the Xerox staff can enter a dispute code of '4' indicating that no code was provided by the labeler. This allows DRAMS and the Xerox staff to track those NDCs, which labelers have not paid and yet have not formally disputed. Xerox staff can make contact with those labelers to obtain the reason for the non-payment.

Also, if the labeler contacts the Xerox staff and indicates that certain NDCs are considered in dispute, the Xerox staff can manually enter the appropriate dispute code into DRAMS to ensure all disputed NDCs are categorized for tracking and reporting. Once any valid dispute code has been entered, DRAMS allows users to manage, monitor and report on valid disputes.

DRAMS provides several reports, which allow Xerox staff to monitor and manage dispute status and disposition. The system also automatically tracks all actions that impact the invoiced and disputed NDCs as they are disputed, paid, adjusted or otherwise updated through the normal administrative actions of the Xerox staff.

Labelers may request claim information to be used in the dispute resolution process. Claim information such as date of service, NDC, product name, units, URA, provider number, prescription number, TPL, co-pay amount and reimbursement amounts may be printed or exported from the system and sent electronically to the labeler. A feature of the system allows the exchange of claim data between DRAMS and the labeler. The labeler is able to request and view claim level detail, then mark the claims they are disputing. Once saved, this information is available to Xerox staff to assist them in the dispute resolution process.

Should an agreement be made to a number of units different than what the system contains, the Xerox staff may go to the claims data, Display Claims page, and update the units to reflect the agreed upon units, which may resolve a dispute as the transaction is saved, and the amount due is recalculated. Units may be adjusted in this manner for all rebate programs except the supplemental. Because supplemental units are based on federal claims, only changes made to the federal units adjust supplemental invoice units.

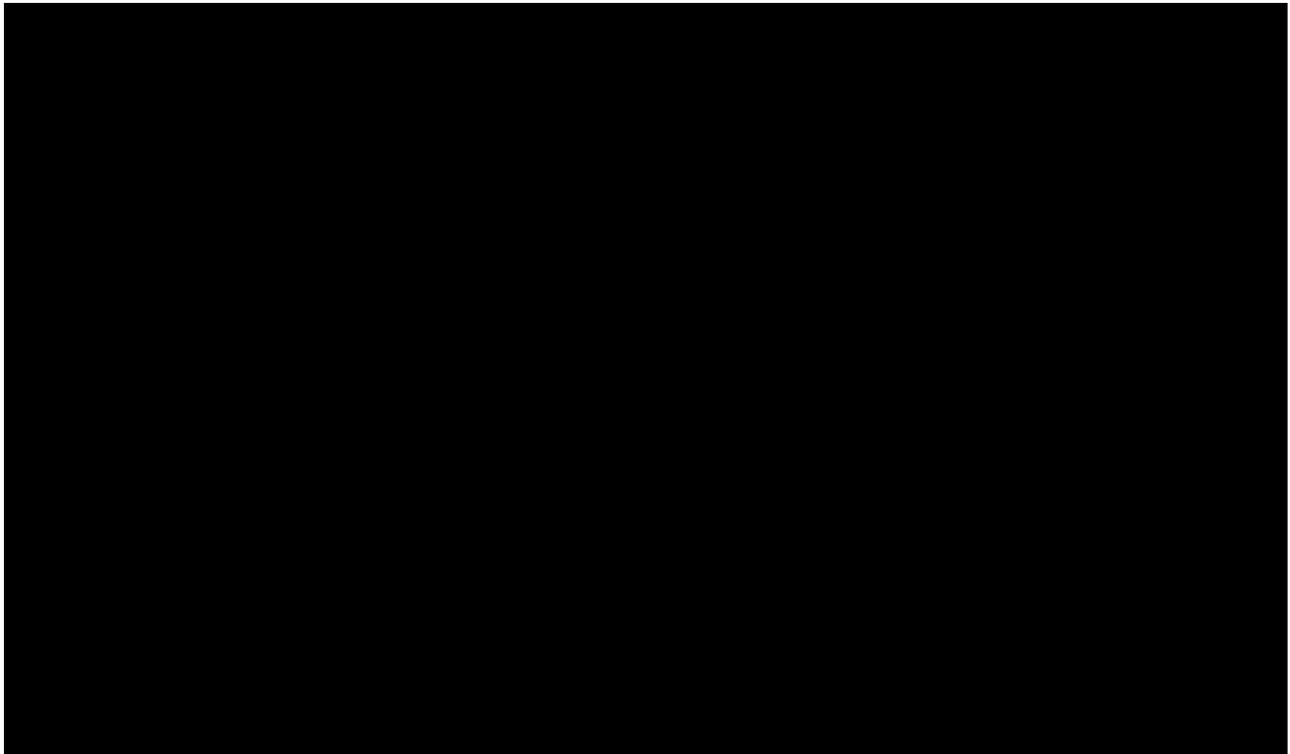
Quarterly, a dispute report may be produced detailing all outstanding disputes. Initiation of an attempt to resolve a dispute can be documented in the database with the date and time. All dispute resolution correspondence may be documented into a database with date, time, contact name and subject line information (for emails).

Exhibit G-88 shows the DRAMS Web page, Research Labeler Disputes, which allows Xerox staff to search for disputes by program, labeler, quarter and other search criteria.



For a more detailed view of the data, the Xerox staff selects the quarter to view and drills down to the NDC dispute data. The detailed dispute data includes: NDC, drug name, units invoiced, units disputed, dispute amount, associated dispute codes and dispute status. See Exhibit G-89 for an example of the Dispute Drug Level Detail Web page.





To view the claims associated with this dispute the Xerox staff can use the ‘go to’ functionality that displays the claims for the selected NDC, quarter and rebate program. The default of the Display Claims page is to show only those claims which have been invoiced, but the Xerox staff may check the non-invoiced checkbox to view all the claims received for the NDC, quarter, and rebate program. The page allows the Xerox staff to sort the claim data in various ways that may help them identify which claim(s) are in dispute.

All dispute data and correspondence is tracked and maintained electronically in DRAMS. Thus Xerox staff has access to all data and documents needed to resolve disputed units. Comments can be recorded throughout the system by selecting the comments link.

The system tracks every stage of the dispute resolution process. A dispute can be resolved in three ways.

- Claims may be adjusted through the claims payment systems, resulting in a situation where units have been decreased and the remaining units have all been paid
- Secondly, a correction to erroneous units within the system may reduce disputed units to zero
- Thirdly, a payment can be received which covers all formerly disputed units

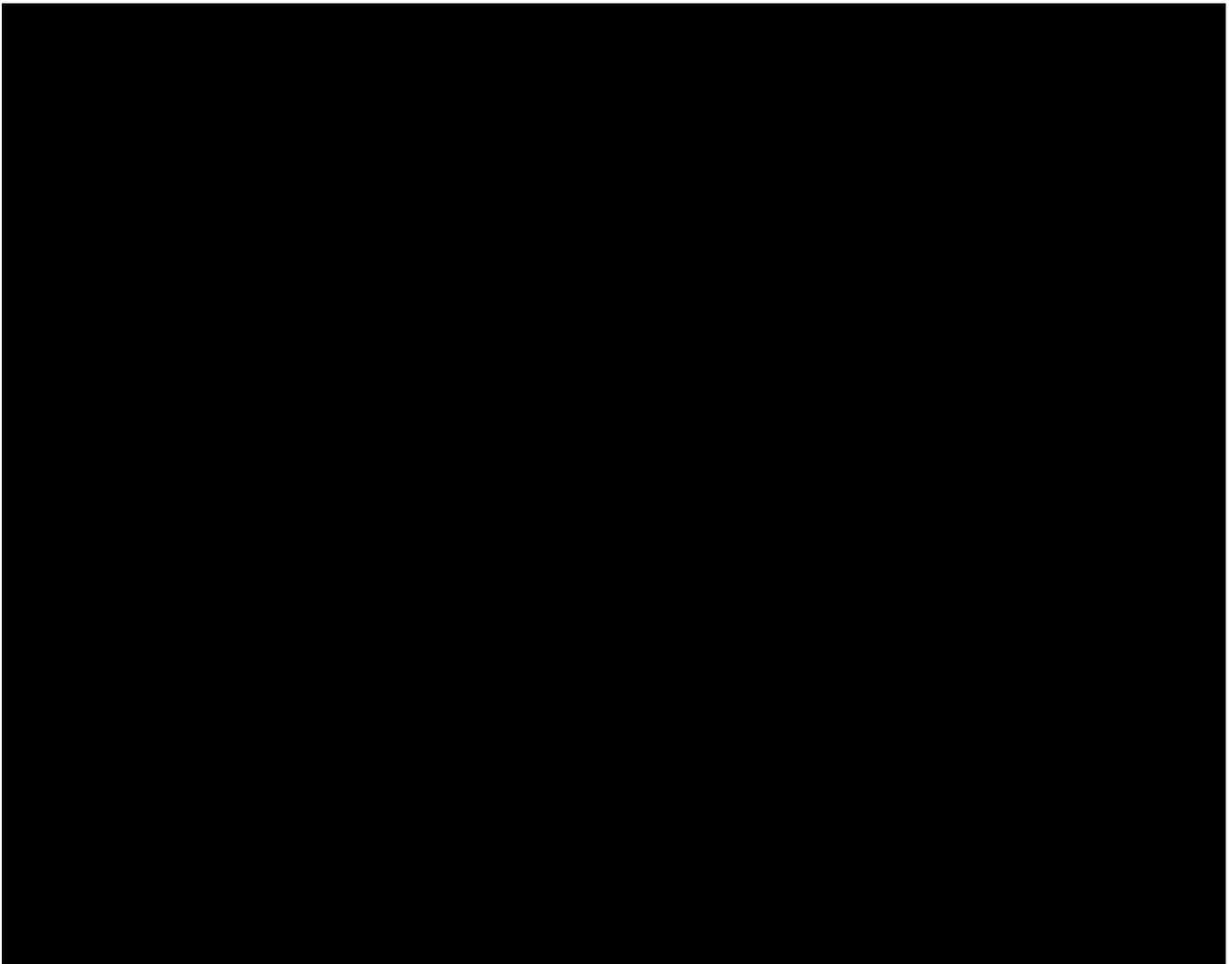
Once the dispute is resolved, the case is closed in DRAMS and it is then removed from the dispute resolution queue.



Dispute Correspondence and Communications

Xerox staff may initiate dispute resolution with correspondence sent to the labeler using a letter generated from the system. These notices include a file that contains labeler/labeler specific detail. All dispute correspondence is tracked and maintained electronically in DRAMS, as is all data relating to a dispute providing a historical record of events. Comments can be recorded throughout the system by selecting the comments link. The addition of a comment records the information and keeps it associated with the dispute. Requests for more information can be sent via email or letter.

DRAMS internally tracks all correspondence that it creates including past due notices and notes created during the dispute resolution process. Within the system, it is possible to associate correspondence or internal comments with various levels of data within the system. For instance, a single comment or piece of correspondence entered at the claim level may be associated with a claim, a provider, a labeler, an NDC and/or an NDC/quarter, depending on the contents of the comment/correspondence. Exhibit G-90 shows a DRAMS Web page where Xerox staff can track dispute documentation and comments. All system created letters are viewable and re-printable via the application.



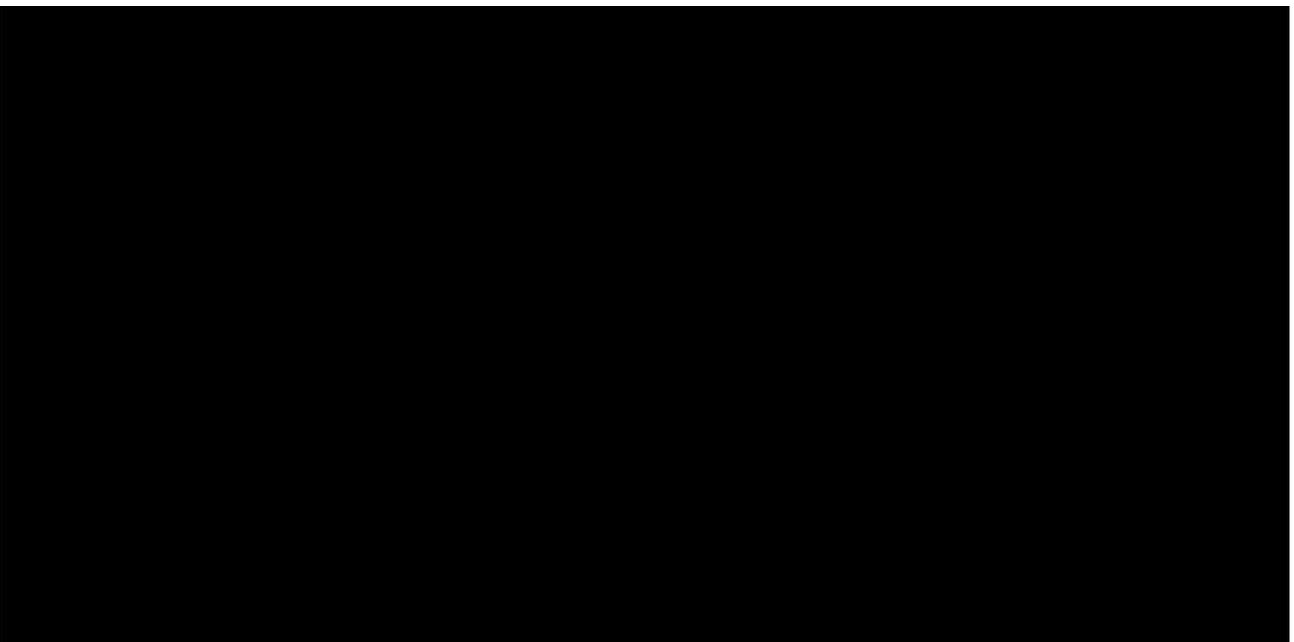
Once Xerox has exhausted its efforts to resolve disputed units with the labeler, Xerox will notify AHS of the outstanding dispute issues and will provide documentation of the outstanding issues so the agency can



determine next steps. If the agency determines that the amount is not likely to be collected or is not worth additional collection effort, DRAMS allows approved amounts to be written off and removed from further dispute resolution efforts.

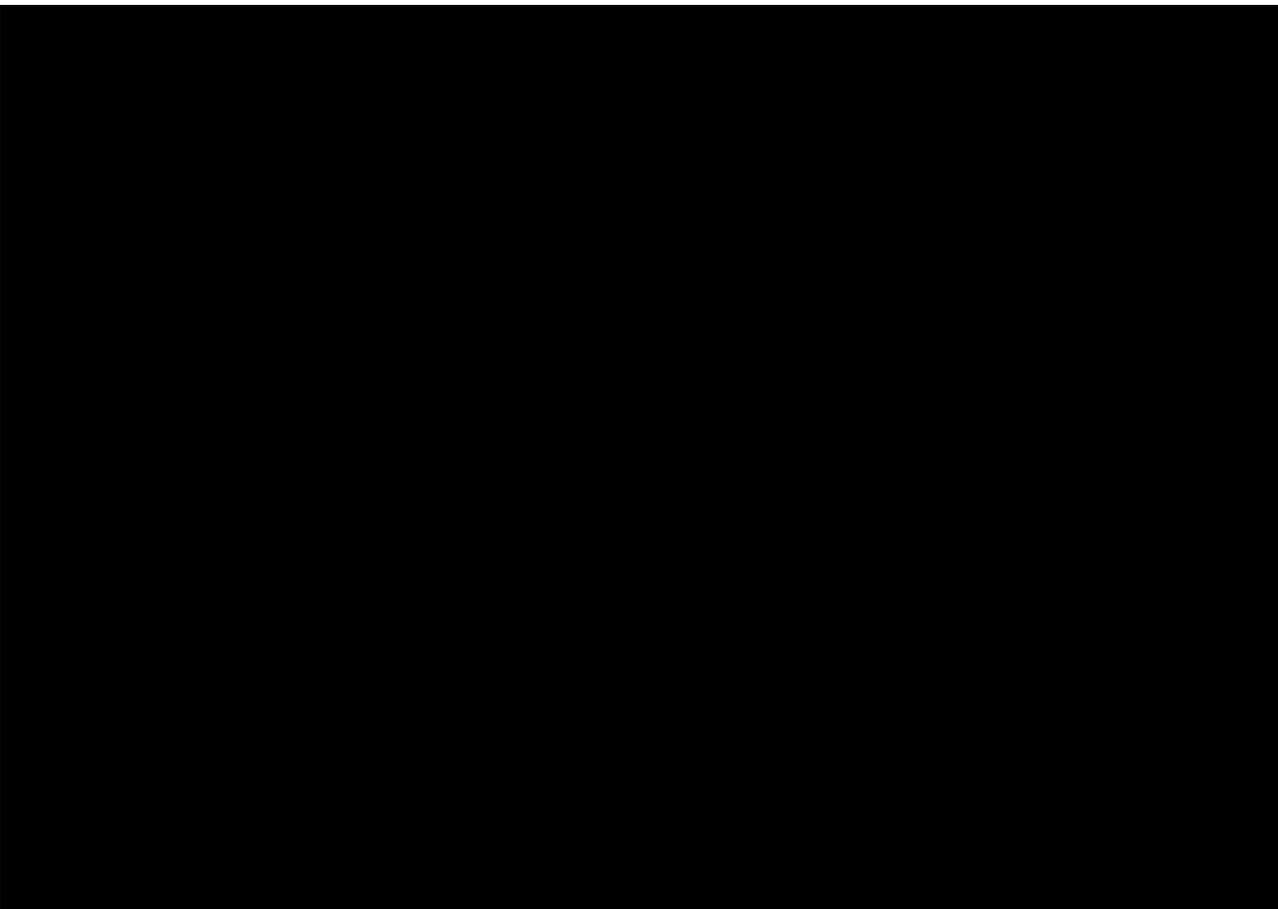
Write Offs of Accounts Receivables

Within DRAMS there are two features which provide the Xerox staff with the ability to ‘write-off’ an amount due by the labeler. The first feature is called ‘declared balanced’ and is available on the account receivable pages as shown in Exhibit G-91. Declared balanced allows the Xerox staff to set the amount due for an NDC or Invoice to zero. This would be done mainly when either a drug's data is not clean but other information indicates that the drug is fully paid or a drug or invoice is so close to being settled that it would cost more in labor than could be recovered if further action was taken. This action writes out a row in drug history for each NDC ‘declared balanced’ and can be reversed at a later date if necessary.



The second feature is ‘writing off’ a contract as shown in Exhibit G-92. This requires that the contract first be end dated. For federal contracts this information comes from CMS. For non-federal contracts, the Xerox staff may end date the contract. Entering a write-off date on the detail tab of the Maintain Contract page ‘writes off’ the contract. This action zeros out all the invoices and NDCs with amounts due associated with the written-off contract and writes out a row in drug history for each NDC showing the amount written-off. This data provides a historical account of the action and provides the capability to reverse the ‘write-off’ at a later date if necessary. Written-off amounts on drugs are included in the CMS 64 report as adjustments.





If a dispute should make it to the formal dispute resolution hearing phase, DRAMS can provide all necessary documents and support needed by AHS and labelers. Once a dispute is resolved, a collection letter may be sent to the labeler confirming the terms of the resolution and the amount owed, including interest. All dispute resolution data within the system relates to a single rebate program, drug, and quarter.

Past Due Notification Letters

DRAMS contains functionality that allows for the creation of letter templates to be used to create letters including dunning notices. Creating a template is similar in concept to that of creating a document in Word and merging in fields from a database. The text is typed into the Maintain Letter Template page and predefined fields appropriate to the letter type may be inserted. The insertion of merged fields creates a customized letter.

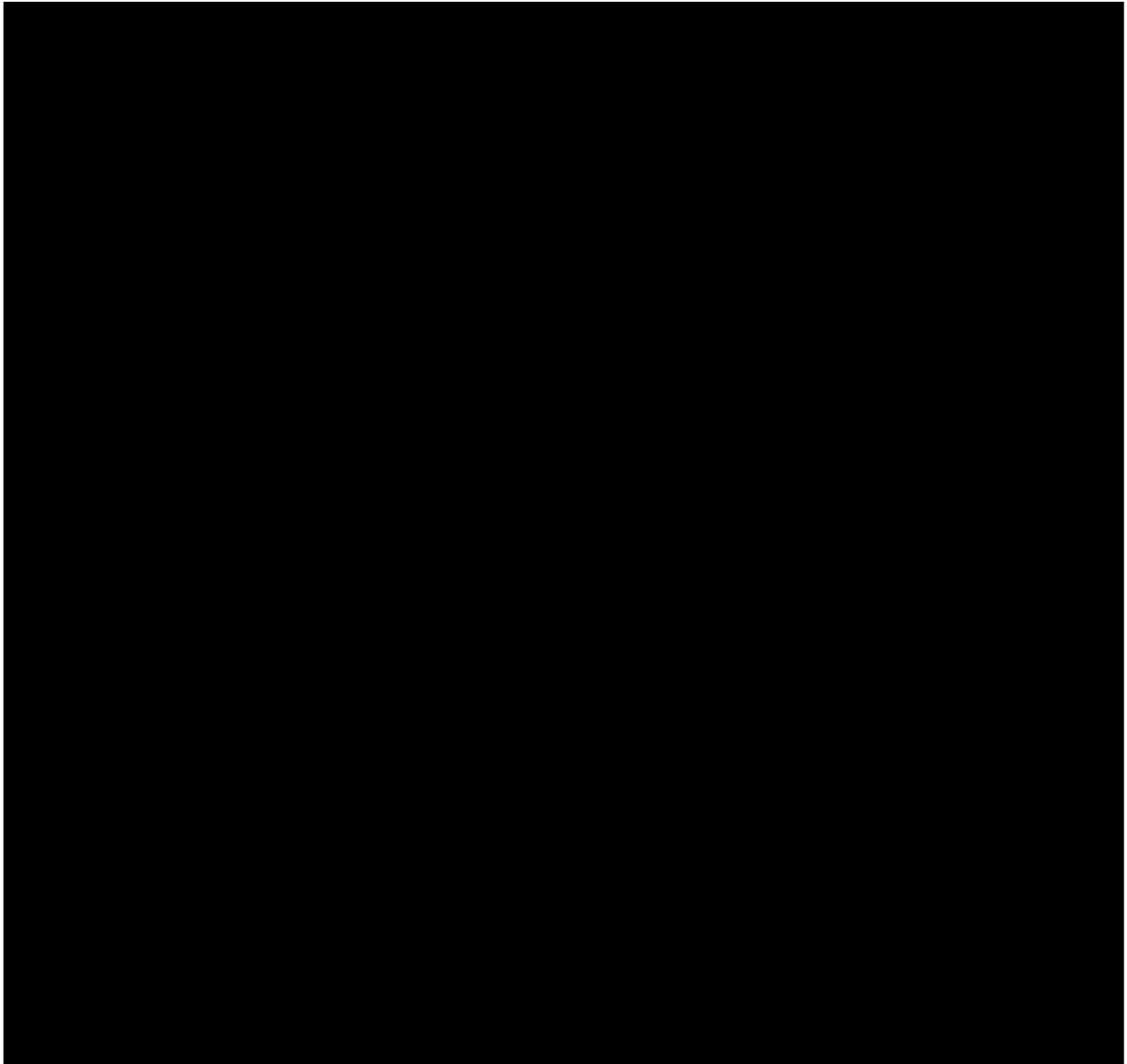
When the letter is created, the merged fields contain specific dispute or outstanding balance information from the database as defined in the template. When creating letters, the system inserts data from the database into each merge field. Each letter template includes a designation that specifies whether the letter should be sent by mail or email.

On the 38th day after invoice distribution or a date specified by AHS, Xerox staff request the creation of collection letters. A Web page displays a listing of labelers that have overdue amounts for a selected quarter and rebate program, along with amounts due, percent paid, amount paid, original invoice amount



and current rebate amount. From the list, Xerox staff can select one or more labelers for which to generate collection letters. The letters are printed and mailed or sent via email. If required, letters are viewable online and may be reprinted. The system tracks the distribution of the collection letters. Data for the current quarter and / or for any range of prior quarters may be included in the letter.

Using the DRAMS Create Letter function shown in Exhibit G-93, the Xerox staff generates a list of labelers who meet the entered collection criteria. The Xerox staff selects the labelers that should receive letters and generates letters for those selected labelers. Letters may be previewed before printing and mailing, reviewed after printing and/or reprinted after distribution.



DRAMS allows users to create as many past due notification templates as desired. These templates are stored for future use as needed. Users can select an existing template or create a new template as needed to provide the past due notifications necessary to manage AHS' rebate programs efficiently.



Tracking of Correspondence with Labelers

Collection (dunning) notices are typically produced 38 days after the invoice postmark date but can be created and sent at any time desired by AHS. Dunning letters show both the outstanding principal due and the interest owed to AHS at the 11-digit NDC level in accordance with CMS guidelines or as specified in the labeler program rebate contracts. Outstanding interest balances are also reported to labelers with their quarterly invoice.

If the labeler has neither paid nor disputed the invoice, Xerox staff can send one or more additional collection letters. All correspondence regarding delinquent accounts is tracked and maintained electronically in DRAMS. DRAMS also provides an AR report that is used to track past due amounts.

Reporting (Requirements: FR3.5, FR3.22, FR3.38, FR3.39, FR3.40, FR3.43)

DRAMS contains over 50 predefined reports that allow users to monitor and manage every aspect of the agency's programs. This includes:

- rebate recoveries (payments),
- current and past quarter disputes,
- unit or URA adjustments,
- current and past accounts receivable by manufacturer,
- interest billed and collected,
- amount rebated (invoiced) compared to amount paid; by quarter, manufacturer and NDC

Users simply select a defined report from the drop down menus and enter select criteria for the report such as rebate program and quarter, labeler, and program or category code along with other selections to obtain the precise information needed. DRAMS provides three levels of Reports:

- Summary reports are designed to provide a high level summary of a selected set of data, i.e. Payments, dispute activity, invoices not paid, top balances.
- Detail reports are designed to provide detailed information about a selected set of data, i.e. NDC history and activity, Unallocated balances, Interest overdue, Adjusted Claims.
- State reports are designed to meet any reporting and compliance requirements for the State using the DRAMS installation.

All DRAMS reports (where applicable) allow users to select the rebate program, year/quarter, labeler and other pertinent detail so that the report produced yields the desired degree of specificity to meet the user's need. These reports are available as printed hard copy reports or the data can be exported to Excel for additional analysis and/or manipulation.

A key report for monitoring the programs' progress and for reporting to CMS is the CMS64.9r. DRAMS contains all rebate related information including all the data required for generation of the CMS64.9r report that provides key data included in AHS' quarterly CMS64 report. The amounts reported on Form CMS-64 and its attachments must be actual expenditures for which all supporting documentation has been compiled and is available immediately at the time the claim is filed. Form CMS-64 is a statement of

expenditures for which states are entitled to federal reimbursement under Title XIX and which reconciles the monetary advance made on the basis of Form CMS-37 filed previously for the same quarter.

Consequently, the amount claimed on the Form CMS-64 is a summary of expenditures derived from source documents such as invoices, cost reports and eligibility records. DRAMS is the source of the invoice and collection data that is combined with other data from other state systems to generate the complete CMS-64 report. Xerox provides the agency with the quarterly drug rebate information in a form compatible for submission to CMS on or before 15 days following the quarter close.

Ad hoc reports can also be produced using SQL queries directly against the DRAMS database tables. These reports are prepared by Xerox reporting business analysts and can be saved for later use. Together, the predefined reports and the ad hoc queries ensure AHS that any rebate data needed to monitor or manage the rebate programs will be readily available.

Xerox will work with AHS to determine which reports are required as part of the quarterly contracting and performance review and will generate those reports from DRAMS to support the quarterly review.

1.3.2 Support of Multistate Supplemental Rebate Consortium

It is the intent of the State to receive supplemental rebates, in addition to the CMS Rebates received under the Medicaid Drug Rebate Agreement, pursuant to Section 1927 of the Social Security Act (42 U.S.C. § 1396r-8), for the manufacturer's supplemental covered product(s) quarterly utilization in the State's Medicaid programs in which there is Medicaid federal financial participation.

The State participates in the Sovereign States Drug Consortium (SSDC) a multi-state purchasing pool. The SSDC uses a multi-state administered collaboration to create a pharmaceutical purchasing pool. The pool focuses on negotiating and acquiring rebates supplemental to federal Medicaid rebates from drug manufacturers. At the same time, the SSDC preserves each State's ability to manage its pharmacy benefit by customizing its own Preferred Drug List and Prior Approval programs. The SSDC has procured a vendor who provides the following drug rebate procurement related services:

- Compile drug utilization data as part of the annual bid procurement.
- Rebate bid solicitation from drug manufacturers for annual review
- Bid compilation and presentation to the SSDC members.
- Rebate bid negotiation annually and as needed: Negotiation that may occur at the request of a Member State or States after bid review.
- Bid selection notification to manufacturers
- General administrative functions in support of the rebate solicitation

In general, States belonging to the SSDC leverage their collective lives and utilize Preferred Drug Lists for select high use, high cost drug classes. State members promote clinically appropriate alternatives that are the most cost-effective in the individual classes, and prefer products that have a low net cost to the State (e.g. generics and low net cost brands)

As part of the contract, the Vendor must support the State in managing the Supplemental Rebate program. The scope of Vendor responsibilities includes, but is not limited to:

- Working with the SSDC vendor in conjunction with the State as necessary to administer the program
- Bid review and selection, determining the value proposition and advising the State on rebate acceptance
- Contract finalization with manufacturers
- Rebate invoicing, collections, dispute resolution, and reporting
- Clinical management
 - development of clinical criteria in support of its PDL
 - managing changes to the PDL as a result of negotiations
- Representing the State at all meetings where rebate business is conducted

The Vendor must describe their approach to managing the State Supplemental Rebate program and maximizing the benefit to the State from participation in the SSDC.

Xerox brings over 13 years rebate administration experience to bear for the Vermont Supplemental rebate program including extensive PDL development experience to provide a coordinated, complete supplemental rebate solution.

Clinical Management

We understand that the Xerox team will need to work closely and effectively with the SSDC vendor to provide AHS with a tightly integrated, cost effective, complete supplemental rebate solution. Strong clinical support is central to the supplemental rebate and PDL programs that Xerox administers on behalf of our clients. Our clinical rebate team supports multiple clients' rebate programs using a consistent approach and tools. Even though Xerox will not be fully responsible for PDL development and supplemental contracting, we believe that our experience managing those processes for other clients provides an important foundation of knowledge and practice that will allow Xerox to fully and successfully support the SSDC and the agency. We briefly describe our standard processes for PDL management below.

As a leading PBM contractor, Xerox maintains relationships with drug manufacturers for the purposes of providing information to our industry contacts regarding state PDL and supplemental rebate programs, and in finalizing rebate bids. Since 2000, Xerox has set aside one day per month devoted to "Industry Day." This designated time is an opportunity for medical science liaisons and invited speakers affiliated with pharmaceutical manufacturers to present educational in-services to Xerox clinical pharmacists and auxiliary staff. Industry Day provides drug manufacturers with a platform to present detailed information about their medications while providing our staff an open forum in which they can acquire an understanding of new drug information. Industry presentations include information on agents in the pipeline, recently approved medications, and updates on existing medications.

Hosted on-site at Xerox, manufacturer representatives are given equal opportunity to be placed on the agenda, which are typically scheduled for one- or two-hour timeslots. On average, three to four manufacturers are hosted each month with presentations covering a wide variety of therapeutic areas (e.g. cardiovascular, oncology, infectious diseases, and pain management). These ongoing meetings provide the

context for Xerox clinical pharmacists and others to develop a solid working relationship with manufacturers which allows for more effective discussions during the bidding and negotiation process.

Drug literature is dynamic and increasingly complex in nature. While Industry Day is an important facet of keeping our pharmacists abreast of the latest innovations and therapeutic rationale changes, it does not serve as the primary source of drug education. Clinical pharmacists at Xerox have access to multiple drug information resources, and our clinical pharmacists use these resources to conduct unbiased, comprehensive reviews of individual medications and drug classes. These biomedical literature reviews are well-balanced and independent of industry influence. By utilizing all available information resources, including industry-sponsored educational in-services, Xerox is able to provide accurate drug information and sound clinical recommendations to our clients.

Manufacturer Relations and Negotiations

Xerox provides quality pharmacist personnel to serve as points of contact to manufacturers. In fact, as part of our Clinical Services Department, we staff a Manager of Industry Relations. The Manager of Industry Relations is responsible for maintaining relationships within the industry, overseeing that manufacturers submit supplemental rebate bids, as well as negotiating with them on behalf of our clients. In addition, the Manager of Industry Relations oversees the continuing education of our pharmacists and coordinates the monthly Industry Day presentations.

During solicitation and negotiation of manufacturer bids, Xerox pharmacists work on behalf of AHS and to negotiate the best prices for the program. In addition, if and when negotiations for amendments to rebate agreements are initiated, we evaluate the impact of any suggested amendments to the PDL. The impact statement/analysis is included in our recommendation to the State as to whether the amendment is in the best interest of the State and meets all state and federal requirements. This information allows the State to make an informed decision regarding the acceptance of the rebate amendment.

Xerox performs policy and fiscal analyses in order to assist the Therapeutics Committee and the State determine which supplemental rebate offerings are in the best interests of the state. Fiscal analyses include net cost and impact evaluations, as described below.

Net Cost Evaluation

We recognize the important role that SSDC plays in the development of the PDL used by AHS to drive cost effective use of the pharmacy benefit and to drive supplemental rebate contract terms but it we believe it is valuable that Xerox routinely performs similar activities for its own clients. This experience gives the Xerox team the experience needed to fully understand the process and to fully participate in a partnership arrangement.

For clients that do not participate in a rebate consortium, Xerox performs all the steps needed to obtain competitive supplemental rebate pricing and to develop a PDL that meets the needs of the beneficiaries and providers as well as the agency. Below we provide a brief description of the Xerox process so that AHS can see the operational, financial and clinical experience our team brings to bear.

Twice a year supplemental rebate bids are solicited and received and Xerox presents financial analyses to the Therapeutics Committee. In order to provide an accurate calculation of net cost for the Therapeutics

Committee's review, Xerox obtains information for all dosage forms being reviewed and all strengths of those dosage forms. Net cost per unit is derived using AHS' pharmacy provider reimbursement, less the CMS federal rebate and any supplemental rebate offered.

In instances where more than one NDC exists for drug strength and dosage form (due to package size differences), our Clinical Services department uses a blended approach, weighted by utilization. Using average daily consumptions (DACONs) and the calculated cost per unit, Xerox provides the advisory committee with a cost per day. This approach offers the most accurate measure to compare the cost of agents within most therapeutic classes.

For some therapeutic classes, a cost per day analysis does not provide the most accurate measure. An example of such a class would be narcotics, where daily doses vary per prescription. In an instance like this, Xerox employs a cost per unit or cost per prescription approach. Xerox delivers manufacturer supplemental rebate bids to the P&T-Committee when it meets to review the classes and make recommendations. This ensures that committee members have access to complete clinical and economic data related to each class. The supplemental rebate bids are shared during closed-door executive session in order to ensure confidentiality.

Impact Analysis

Under the guidance of the Manager of Industry Relations, pharmacists in the Clinical Services department analyze utilization data to gauge the potential impact of PDL recommendations on enrollees, prescribers, and pharmacists. This prospective impact analysis provides the P&T Committee important, relevant information to consider as part of the PDL decision-making process. Xerox' health outcomes scientists also determine if the PDL/Supplemental Rebate program is achieving its goal of cost-effective use of medications. As a full-service PBM supporting both PDL development and prior authorization services in multiple states, we understand the relationships among the PDL, PA volume, compliance issues, provider and enrollee satisfaction, and cost savings.

For example, our analysis takes into account the number of enrollees who would be affected by requiring PA for a specific drug as well as the potential cost savings available by driving market share to a lower-priced product. Requiring a PA becomes a "hassle factor" that could undercut support of the entire program in instances where the available cost savings is minimal and a substantial percentage of enrollees would be affected by a change. Additionally, the cost of processing the PA requests may more than offset any savings. Under any scenario, drugs placed on the PDL must first meet our clinical pharmacists' criteria for efficacy and safety.

Xerox' clinical team meets 4 times annually with the P&T-Committee to review the PDL, maintain it, and develop any necessary update advisements for the P&T-Committee. Based on our extensive PDL experience, Xerox provides our Clients recommended approaches to the PDL, including clinical management strategies. We do a quarterly assessment of PDL drugs to determine if they're achieving optimal use by Medicaid beneficiaries. Our assessment includes producing a quarterly market shift report and reviewing and updating therapeutic class reviews.

We also provide analysis of the AHS' drug utilization data to determine which drug classes hold the highest savings potential. As medications come to market, Xerox reviews each one to determine what—if any—impact these medications will have on the PDL. Pharmacists in our Clinical Services department

keep abreast of new developments via subscriptions to FDA newsletters, medical and pharmacy journals, and regular review of clinical databases. If feasible and subject to any supplemental rebate contract restrictions, we present information on new medications at the next scheduled P&T-Committee meeting. Xerox prepares and distributes a listing of the drug classes and products scheduled for review at each meeting.

Xerox typically recommends a waiting period of at least six months after a new drug is brought to market before it can be considered for preferred status. This ensures that clinical claims are justified and that the drug is in fact a safe medication. Exceptions to this limitation are considered based on substantiated clinical documentation. Additionally, new products should be subject to PA until the next therapeutic class review if the class has a One-of-One (exclusive) or One-of-Two exclusivity level. New products within therapeutic classes that have a One-of-Many exclusivity level may be deemed preferred if clinical and economic factors favor such a designation.

Xerox maintains close communications with AHS staff and provides all necessary information related to the supplemental rebate program to them, including support for bid review and selection and determining the value proposition and advising the State on rebate acceptance. Our clinical team also supports contract finalization with manufacturers as directed by AHS. Xerox also coordinates with the DUR Board and Therapeutics Committee as directed by AHS on all matters related to the PDL, PA and supplemental rebate programs. Xerox also represents AHS at all meetings where rebate business is conducted.

Rebate invoicing, collections, dispute resolution, and reporting

The Xerox rebate application, DRAMS (Drug Rebate Analysis and Management System), provides a consistent platform and enforces standardized processes for all rebate program types. While there are key differences between the federal, supplemental and state-only programs, the core processes are basically the same and managed similarly. Therefore, one of the key advantages of the Xerox solution is the consistent processing across all rebate programs using DRAMS. Please refer to Proposal Section G 1.3.1 Management of State and CMS Drug Rebate Programs for a detailed description of the rebate application and the administrative processes used by Xerox to manage all AHS rebate programs including the supplemental program.

1.3.3 340B Program Management

Vermont has participated in the federal 340B program since 2005, and has made substantial progress in expansion of the program. In 2010, the State encouraged enrollment of 340B covered entities made newly eligible by the Affordable Care Act and as a result of the Challenges for Change legislation passed in Vermont that year. Twelve of Vermont's fourteen hospitals are eligible for participation in the 340B program in addition to other covered entities in the state such as federally-qualified health plans. The State expanded its 340B program to encourage enrollment of both existing and newly eligible entities within Vermont and to encourage covered entities to "carve-in" Medicaid (e.g. to include Medicaid eligible in their 340B programs). There is no state requirement for covered entities to carve-in Medicaid, but if they do, the 340b acquisition cost of the drugs must be passed on to Medicaid. The 340B acquisition cost is defined as the price at which the covered entity has paid the wholesaler or manufacturer for the drug, including any and all discounts that may have resulted in the sub-ceiling prices.

The State established a shared savings program with participating covered entities that provides for the pass through of acquisition cost to the State. Entities who carve-in Medicaid receive a

340B dispensing fee, and based on a retrospective true-up process, share in the overall savings attributable to the program. The Vendor must comply with all federal 340B rules and regulations, and must implement a process by which 340B claims are excluded from rebate invoices processed for manufacturers. In addition, the State seeks support of the 340B program including tracking, invoicing, and financial reconciliation of the shared savings model, in addition to covered entity provider relations and support.

The Vendor must describe their approach to supporting the State in operating the program including, but not limited to administrative support, financial analysis, interacting with covered entities, invoicing, cost analysis, and other tasks as directed by the State.

PBM OS+ can easily accommodate processing for 340B eligible drugs through the setting of system parameters via user-friendly Web pages.

The 340B program is a federal drug discount program that was established by the Veterans Health Care Act of 1992. The 340B program requires drug manufacturers to provide outpatient drugs to eligible health centers, clinics and hospitals at a discounted/negotiated rate. The discount is then passed on to patients of these sites through contractual arrangements made between the entity and a pharmacy.

Entities eligible to participate in this program include:

- Federally Qualified Health Centers (FQHCs)
- Federally Qualified Health Center look-alikes (FQHCLAs) Disproportionate Share Hospitals (DSHs)
- Family Planning Clinics
- HIV / Ryan White Clinics
- State-operated AIDS Drug Assistance Programs
- Black Lung Clinic
- Hemophilia Treatment Centers
- Urban Indian Organizations
- Sexually Transmitted Disease And Tuberculosis Clinics

PBM OS+ can easily accommodate a wide variety of claims adjudication requirements, including processing for 340B eligible drugs through the setting of system parameters via user-friendly Web pages. Policy changes can be made quickly and efficiently and in many cases without programmer intervention.

The system is designed to manage the 340B Drug Pricing program, doing so in accordance with AHS and federal rules. 340B providers can be identified on the PBMS database by an indicator which is captured from provider interfaces. 340B providers are also linked to a specific network within the system.

NCPDP D.0 allows for an indicator to be submitted on an incoming claim that identifies the claim as a 340B claim. PBM OS+ utilizes that incoming indicator along with the provider network relationship to establish the proper rules and pricing to be used for the claim.

Pricing in OS+ is highly flexible and allows authorized users to assign specific pricing methodologies to 340B drug claims. The pricing assignment can be set at the drug level or at the provider level and once the provider is identified as a 340B provider during adjudication, the appropriate price span is used to price the claim according to business rules.

Exempting Claims from Invoices

A key difference between Medicaid claims transmitted from 340B providers and those from traditional retail pharmacy providers is that 340B drug claims are not eligible for drug rebates from manufacturers. AHS has the choice of two methods to use to identify claims from 340B providers in the system. The first method requires the AHS staff to identify any 340B provider as an ineligible provider via the Maintain Ineligible Provider page in DRAMS. Ineligible providers are identified by provider ID and ID type code. The AHS staff must enter a period of ineligibility, where an open ended period is acceptable. Based on rebate program rules, claims for ineligible providers are not invoiced for rebate unless the rebate program specifically indicates that 340B claims should be invoiced.

The second method for identifying claims which are ineligible for rebate occurs when provider 340B status information is sent at the claim level from the claims processing system. There is a field on the claim extract which indicates whether or not the claim is a 340B claim. This is used when a provider may fill some claims with drugs purchased under the 340B program and others from a separate non-340B source. This method only excludes those claims marked as 340B whereas the other method excludes all claims from the specific provider id and type code. AHS staff may choose to use either the ineligible provider method or mark individual claims or use a combination of the two methods.

Dispensing Fees and 340B Reconciliation

Xerox recognizes the process for AHS to reconcile the amount paid to pharmacies submitting 340B claims after the claims have been processed. This process applies to claims submitted at POS or using the modifier UD for Physician Administered Drug claims. The Xerox Operations team will ensure the reconciliation process is adhered to and completed every month as directed by AHS.

The Operations team will create a spreadsheet of claims based on claims stored and processed within PBM OS+ for the specific date span requested. The spreadsheet is then sent to pharmacies to enter their 340B Acquisition Cost. This must be sent back to AHS for reconciliation. Upon reconciliation, an invoice will be sent to the pharmacy with amounts they must pay back to AHS based on the Medicaid Amount paid and their reported 340 Acquisition Cost.

Xerox recognizes the 30-day limit on pharmacies submitting their payment back to AHS. Xerox will continue the incentive payments for those pharmacies that submit their payments within that 30-day time frame set by AHS. There is a separate fee for non-compound and compound claims, during DDI Xerox will work with AHS to confirm or define the incentive amount and ensure the correct amounts are paid to the pharmacies.

PBM OS+ has flexible pricing set up that will accommodate the dispensing fee for non-compound and compound claims submitted at POS for 340B providers. Once set up in the pricing section we can attach the pricing method to those providers or claims submitted that are considered 340B.

Operational Support

Xerox understands the need for Operational support for the 340B program to invoice, track invoices and reconciliation, perform financial and cost analysis and for provider relations covered entity support. Our

Provider Relations Outreach team is experienced in working with many types of providers for different types of programs.

During DDI Xerox will work with AHS to define the financial and cost analysis to be done and our experienced Financial/Analytics Team will perform the analysis from data loaded into our Business Objects application. In analyzing pharmacy claims and providing trending, outcomes reports and predictive modeling to State Medicaid Clients. Once data is loaded into our Business Objects application, any type of analysis can be performed and documented.

The Operations team will also create, deliver and track 340B invoices as required by AHS. During DDI Xerox will work with AHS to define the invoice, frequency and other requirements to determine the specific solution to be used by the Xerox Operations team.

1.3.4 Financial Management

As requested by the State, the Vendor must process financial gross adjustments to pharmacy payments, such as corrective actions identified from post-payment audit findings and other adjustments. The Vendor must describe their approach to managing financial adjustments and reversals.

Batch Adjustments

Our adjustment solution provides functionality to accurately identify and adjust previously adjudicated claims due to Prompt Payment Interest Schedules. The mass adjustment process allows many claims to be identified, pulled, and reprocessed together as a batch. Adjustments are processed through the full adjudication cycle, including data validation, pricing, and auditing. Benefits and service limitations, such as prior authorizations, are also re-applied during the adjustment adjudication. Furthermore, the system allows the flexibility to override edits which may affect reprocessing of claims (e.g. bypass timely filing edits for adjustment claims).

The process begins by AHS and Xerox working together to identify the selection criteria for the claims that need to be adjusted. Next, we create ad hoc queries using Business Objects and the PBMS data warehouse to identify the claims that meet the selection criteria. AHS and Xerox review the list of claims and financial impact reports should the claims be adjusted. We work with AHS to finalize the list of claims and then run the mass adjustment to the claims according to a schedule approved by AHS.

Void /Re-Bill Transactions

PBM OS+ supports the efficient correction of claim data due to submission errors, rate changes, claims paid or denied in error, legislative budget mandates, and other reasons. The PBM OS+ claims history database stores adjudicated, paid, and denied claims which are available to be voided or adjusted at any time by AHS or providers.

The system accepts voids (reversals) and re-bills (adjustments) of previously adjudicated claims in POS and electronic batch formats. It supports the most current standard NCPDP transactions for voids and re-bills—B2 and B3. Additionally, AHS staff and providers can enter voids and re-bills online through the system's Web pages. Re-bills are processed through the full adjudication cycle, including data validation, pricing, and auditing.

The system supports individual voids and re-bills of previously adjudicated claims and mass adjustments when a large number of claims must be corrected:

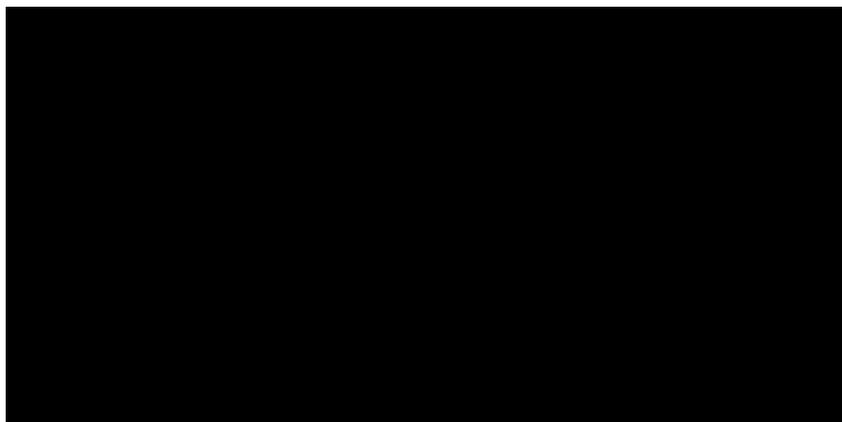
- **Individual Claim** - AHS or a provider initiates individual voids and re-bills either manually or through electronic claims submission. For provider voids and re-bills, the transaction includes the pharmacy ID, prescription number, and date of service which are used to locate the claim to be voided or adjusted. For manually entered voids and adjustments entered by AHS online, the user enters the re-bill reason code and the TCN of the original claim that is being voided or adjusted.

Financial Management (FR3.49)

Mass Adjustment - The system has the capability to perform ad hoc mass adjustments at Agency request when a large number of claims need to be voided or adjusted for reasons such as a retroactive policy change, TPL adjustments, or price adjustments.

Claim Voids (Reversals)

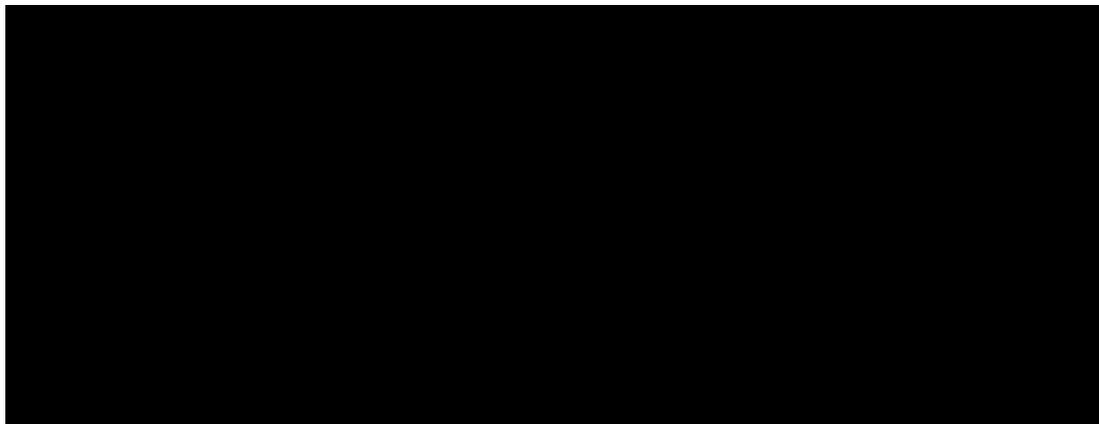
A claim void results in the system creating a negative image of a previously adjudicated claim and the negative image is retained in the PBM OS+ claims history database. Once created in PBM OS+, it is passed to the Vermont MMIS where the void is reported on the provider's RA and reflected in the provider's check or accounts receivable balance, if applicable. When PBM OS+ performs a void of a previously adjudicated claim, a new reversal record is created for the voided claim, as shown in Exhibit G-94. The reversal record is a duplicate of the adjudicated claim except all the fields are negative, including dollar amounts and unit fields.



Claim Re-Bills (Adjustments)

When PBM OS+ performs an adjustment to a previously adjudicated claim due to a re-bill, it creates two new records for each previously adjudicated claim adjusted—a reversal record and an adjustment record—as shown in Exhibit G-95. The claim reversal is a negative image of the previously adjudicated claim and negates the dollar and unit amounts. The adjustment claim is a new version of the claim with the updates applied.





Both records are retained in the PBM OS+ claims history database. Once adjudicated in PBM OS+, the records are passed to the Vermont MMIS where the re-bill is reported on the provider's RA and reflected in the provider's check or accounts receivable balance, as appropriate. Re-bills accomplish a net change in the reimbursement of a claim to a provider rather than a complete reversal. The adjustment claim will always price based on the dates of service, which means that covered service, service limits, and other adjudication criteria, as well as the applicable fee or rate, will apply to the adjustment claim based on the service date.

History Only Transactions

In addition to supporting voids and re-bills that affect the provider's payment, the system also provides functionality to enter voids and adjustments that do not affect the provider's payment but simply adjust history. For example, if a check or EFT is voided or stale-dated (meaning the provider never received payment) in the Vermont MMIS, it requires history-only voids of the claims that were included in the check or EFT. AHS staff can enter history only voids and adjustments online to reflect this occurrence.

Claim Void and Adjustment Audit Trail

Whenever a history claim is voided or re-billed, whether initiated from a mass adjustment request or individual claim request, it is linked to the void or re-bill using TCN pointers. PBM OS+ has no limit to the number of times a claim can be re-billed and keeps a complete and accurate audit trail of each re-bill. The history claim points forward to the void or re-bill and the re-bill or void points backward to the history claim. Through this process, chains are created that consist of the various versions of a claim all linked together by TCN pointers. Exhibit G-96 shows history information related to a claim, including voids or re-bills associated with the claim.



Financial Management (FR3.50)

Mass Adjustments

Instead of adjusting one claim at a time, a mass adjustment allows many claims to be pulled and reprocessed together as a batch. PBM OS+ re-prices the selected claims in the same adjudication cycle. Reasons for mass adjustments include returned payments, retroactive pricing changes, member or provider eligibility changes, and other changes requiring reprocessing of multiple claim records.

The system is also capable of performing trial run adjustments which produces several reports that show how the claims would look after full adjustment. This additional feature is included so AHS can verify the adjustment data before committing to actual changes. Upon approval by AHS, the system will process the full adjustment.

The following is a high-level description of the mass adjustment process:

- **Step 1:** AHS enters a mass adjustment request online in our change control tool, Silk Central, which allows Xerox and AHS to track the mass adjustment request from inception through implementation.
- **Step 2:** AHS develops the claim selection criteria for the mass adjustment. Xerox assists AHS as needed.

- **Step 3:** AHS performs a data warehouse query based on the selection criteria to identify the list of TCNs to be adjusted. Use of the data warehouse allows large data sets to be collected, manipulated, and downloaded without affecting POS transaction processing.
- **Step 4:** AHS reviews the query results to ensure that the query pulled the right claims. The results include detailed transaction level financial reporting to determine the financial impact of the mass adjustment to help in AHS' review of the criteria.
- **Step 5:** AHS notifies Xerox of the approval of the criteria and when the mass adjustment should be run in production. With AHS acceptance, Xerox performs the mass adjustment based on the TCN universe.
- **Step 6:** Xerox runs a query and generates a report after the successful completion of the mass adjustment to demonstrate that the mass adjustment results were achieved.

The mass adjustment process provides AHS with an efficient way to identify and adjust large numbers of claims without affecting the POS transaction processing.

Audit Support (FR3.51)

Xerox understands the critical role that financial audits play in AHS' management of the pharmacy program and the vendor oversight process. Xerox will fully cooperate with AHS in any financial audits required or conducted by Agency staff, other State departments the United States Department of Health and Human Services, State or Federal designees or others authorized to perform audits relating to the work and deliverables rendered by Xerox or any sub vendors.

The PBMS system provides a Java based GUI to enable system users to view data related to beneficiary, provider, preferred drug list, drug pricing, adjudicated claims, among other data, as soon as the data files are loaded into the PBMS database. Xerox retains recent historical versions of these business critical input files in the local system, while older files will be saved in archive tapes for purposes for future audit and/or research. The archived files are typically preserved for seven years. Xerox will also provide authorized users access to the computer resources such as the PBMS applications' data via the user interfaces for PBM OS+, DRAMS, and Business Objects. Xerox will be able to provide copies of archived data files, training manuals and detail system design documentation upon request by AHS. Alternatively, AHS has the ability, via Xerox's PBM OS+ GUI, to view and/or print using the browser's print feature.

AHS or its designees have access to all software and operating manuals, training manuals and detail design documentation. Our goal is to provide full support consistent with the RFP requirements and to operate transparently so that AHS and other constituents understand the work that Xerox performs, the methods used and the results accomplished.

All coding and parameter changes made to the production system are managed through a change control process that includes Agency approval of required changes. As part of the change control process, Xerox will keep the state abreast of any system before any changes impacting the Vermont Pharmacy Program are implemented. For any changes made to system to address emergency incidents, Xerox will notify AHS audit staff within 24 hours of making the changes.

Xerox provides AHS users access to their data in the PBMS data warehouse (Business Objects) which is accessible via browsers. State users will be able to perform automated and manual sampling of claims and reference data on historical data. Xerox staff will assist AHS staff in accessing and sampling data as requested.

1.3.5 Duel Eligible Demonstration

In May of 2012, Vermont submitted a proposal to the Centers for Medicare and Medicaid Services (CMS) to participate in a State demonstration to integrate care for approximately 22,000 beneficiaries who are dually eligible for both Medicare and Medicaid. The goal of Vermont's *Dual Eligible (DE) Demonstration* is to fully integrate the delivery and financing of Medicare and Medicaid services for Vermont's dually eligible population. According to CMS, the 9 million dual eligible beneficiaries nationally account for a disproportionate amount of spending between the two programs, approximately \$300 billion a year. For example, dual eligible beneficiaries account for 16 percent of Medicare enrollees but 27 percent of Medicare spending; in the Medicaid program, individuals who are dually enrolled make up 15 percent of the program but account for 39 percent of costs.

Vermont was one of 15 states selected by CMS to develop approaches to improve the coordination of care for dual eligible individuals. Each state was awarded up to \$1 million to develop a model for structuring and implementing its planned approach. Vermont's DE Demonstration model focuses on providing person-directed interventions to improve care coordination and service delivery, with performance measures and outcomes linked to payment reforms. Vermont's model will:

- Offer high quality, seamless and cost-effective care;
- Coordinate primary, acute, mental health, substance abuse treatment, pharmacy services, and long-term supports and services; and
- Meet the unique needs of all individuals who are dually eligible for Medicare and Medicaid.

Development of an Integrated Medicare-Medicaid Service Delivery Model

Through the DE Demonstration, Vermont and CMS will develop a fully integrated model for financing and delivering the full array of health care services for this population. As part of this initiative, Vermont intends to integrate benefits covered under Medicaid and Medicare (Parts A, B and D), providing beneficiaries with a truly comprehensive and seamless set of services. This approach offers Vermont the opportunity to work with CMS to eliminate some of the regulatory conflicts and cost-shifting incentives that currently exist between Medicare and Medicaid, including those related to prescription drug coverage.

Under the current delivery model, dual eligible beneficiaries receive different covered benefits under Medicare and Medicaid, with each program managed differently and using different funding sources. In contrast, the DE Demonstration allows Vermont to develop initiatives to offer high-quality, seamless and cost-effective care through a coordinated, person-centered delivery model designed to address the unique needs of the dually eligible population. Since participation is voluntary, beneficiaries may elect to participate in the Demonstration or continue to receive benefits through current programs.

Vermont has proposed to build upon its unique public Medicaid managed care model to provide integrated care for the dual eligible population. Participating beneficiaries will access all of their Medicaid and Medicare covered services (including prescription drug coverage) under the authority of a single entity, the State. As with the existing Medicaid managed care model, integrated funding provides Vermont with greater flexibility in designing programs and services that meet the particular needs of the dual eligible population.

The Pharmacy Benefit Manager (PBM) chosen by the State of Vermont must support the DE Demonstration and therefore, in addition to adjudicating Medicaid claims, it must be able to

design, deliver, implement, and administer a Medicare Part D benefit. In doing so, the PBM must meet all CMS requirements related to the administration of the Part D benefit. Further, the PBM generally must support Vermont's goal to move to a single payer health care system.

The vendor must respond with their experience providing Medicare Part D-related PBM services, as well as their approach to meeting the needs of the State's Duals Demonstration Project.

Based on the commination below, Xerox is intentionally leaving this section blank.

From: AHS - DVHA DHR <AHS.DVHADHR@state.vt.us>

Date: January 19, 2014 at 9:08:41 AM EST

Subject: Vermont announcement on Duals Demonstration Project and the Pharmacy Benefit Management (PBM) RFP

Good morning.

Vermont has decided not to pursue the Duals Demonstration project. Vendors proposing responses to Vermont's PBM RFP do not need to answer to the requirements pertaining to Duals.

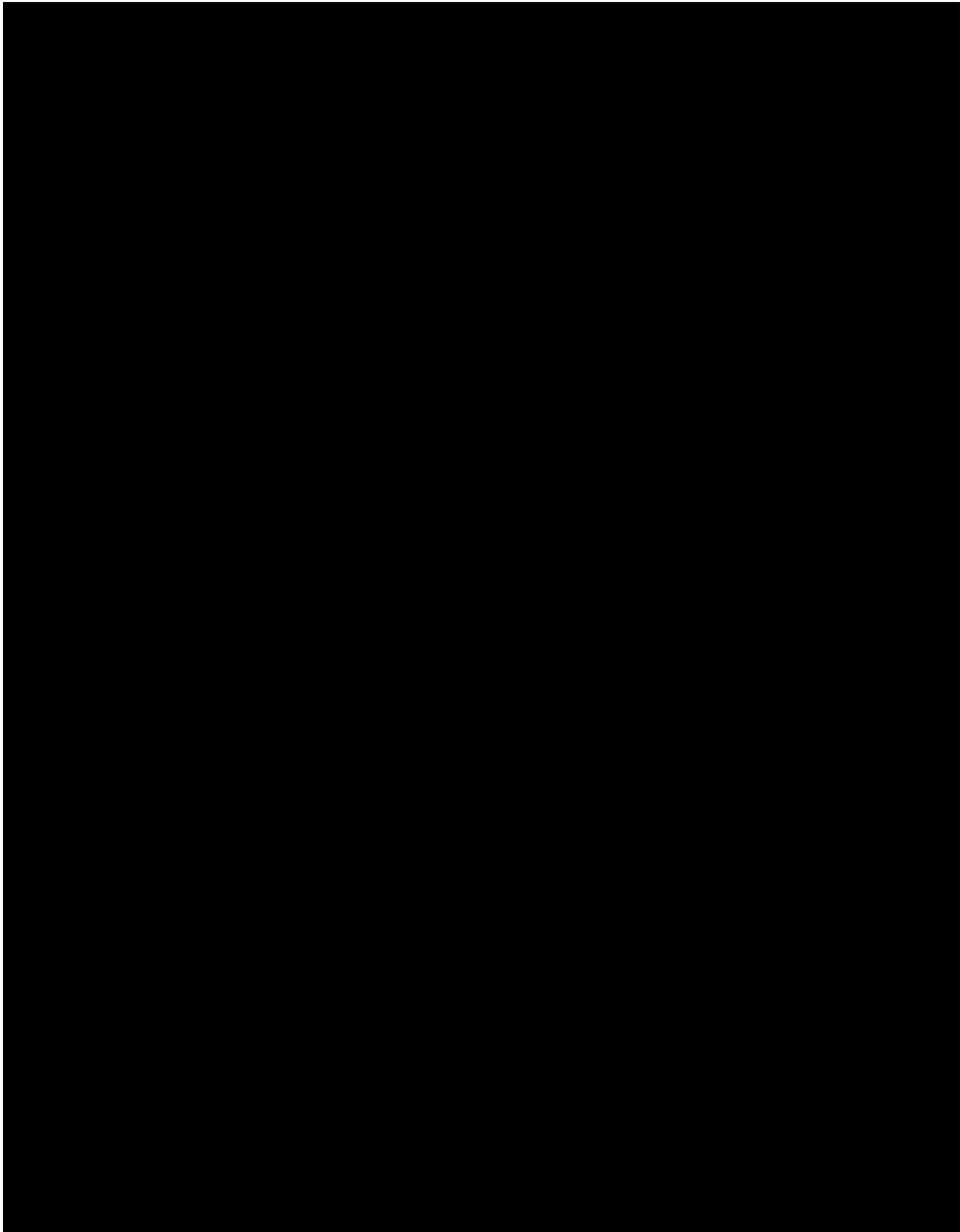
Sincerely,

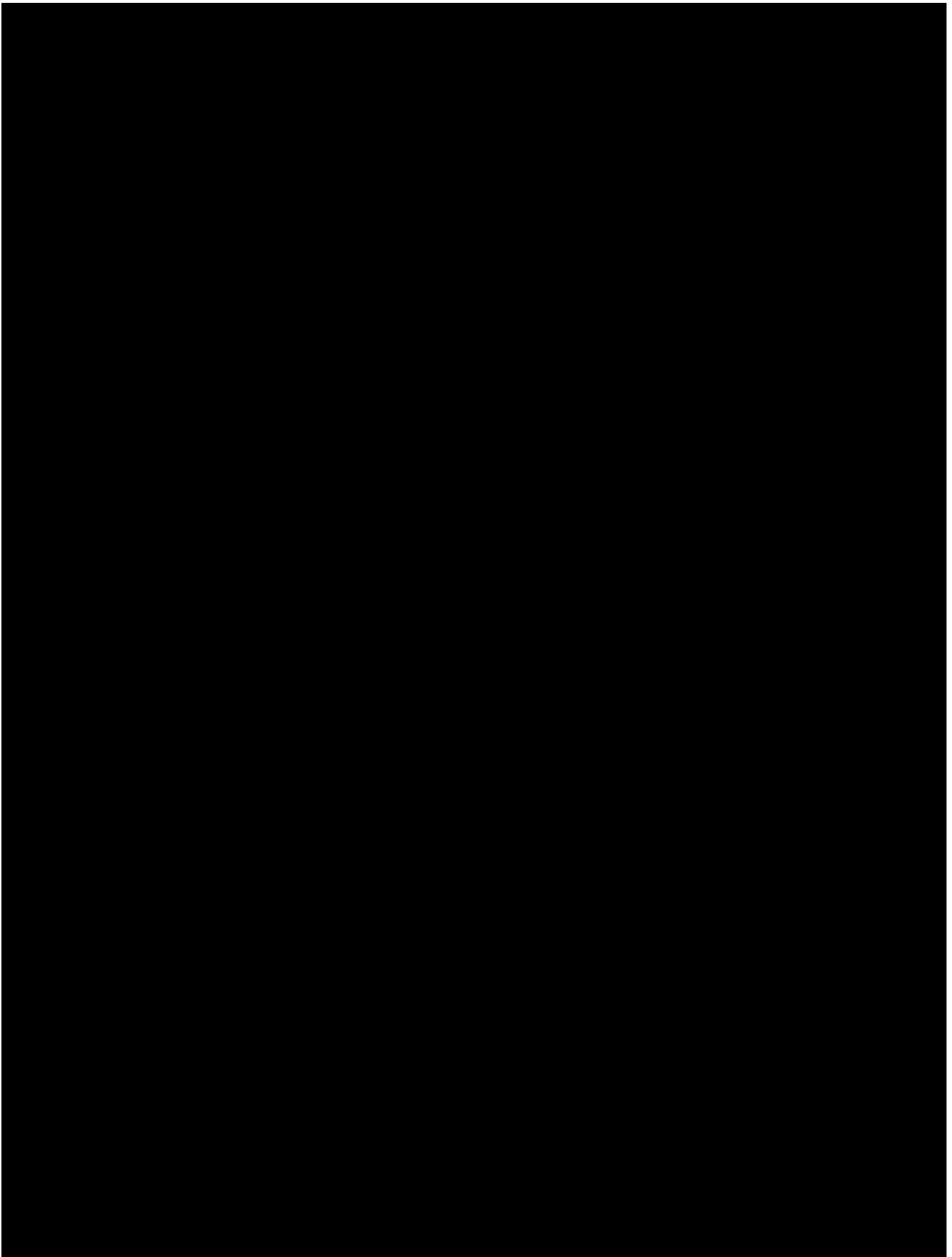
DVHA – DHR Admin Services
c/o DVHA – Div of Health Reform
10 East Allen Street, Winooski, VT 05404

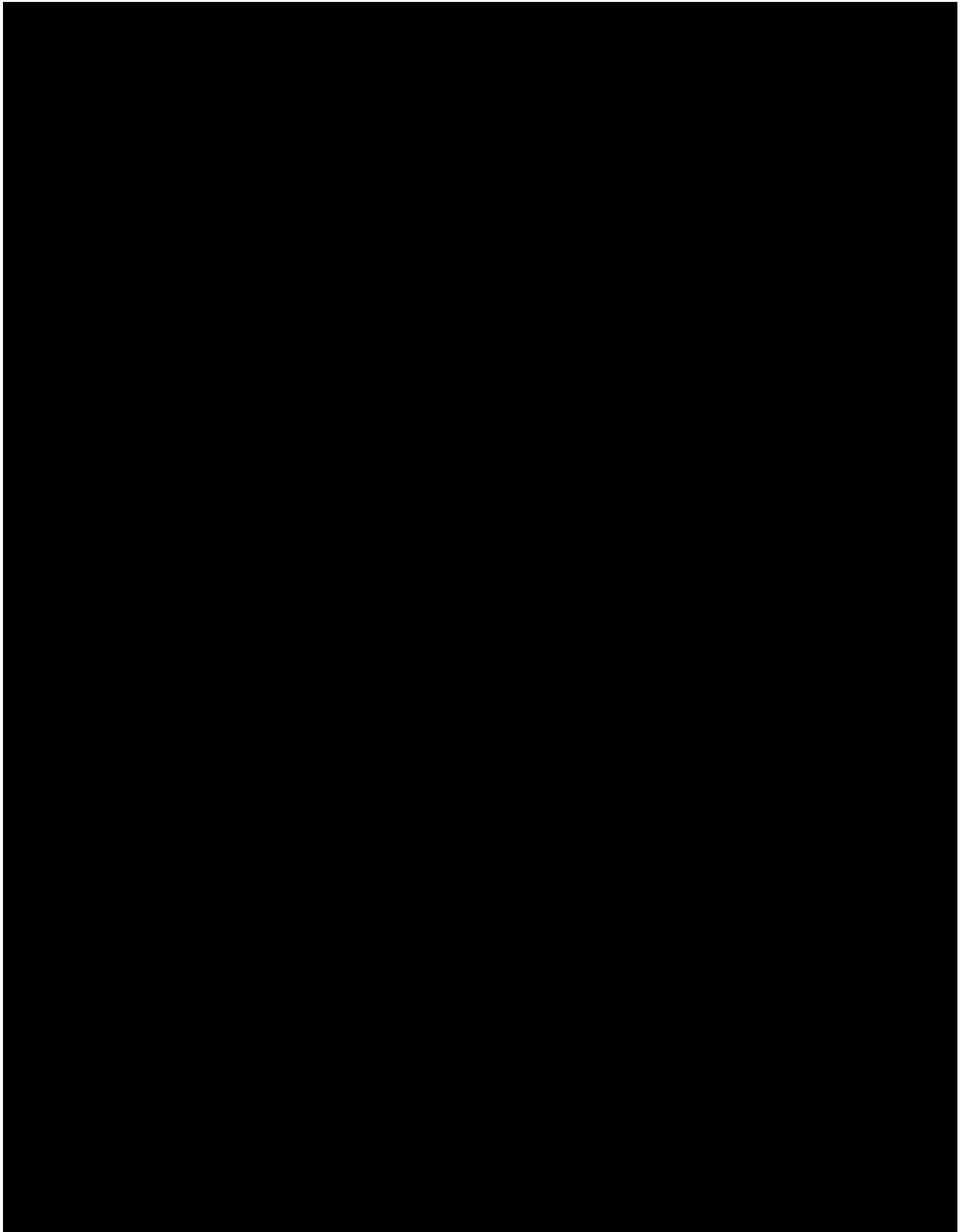
1.4 Additional Services

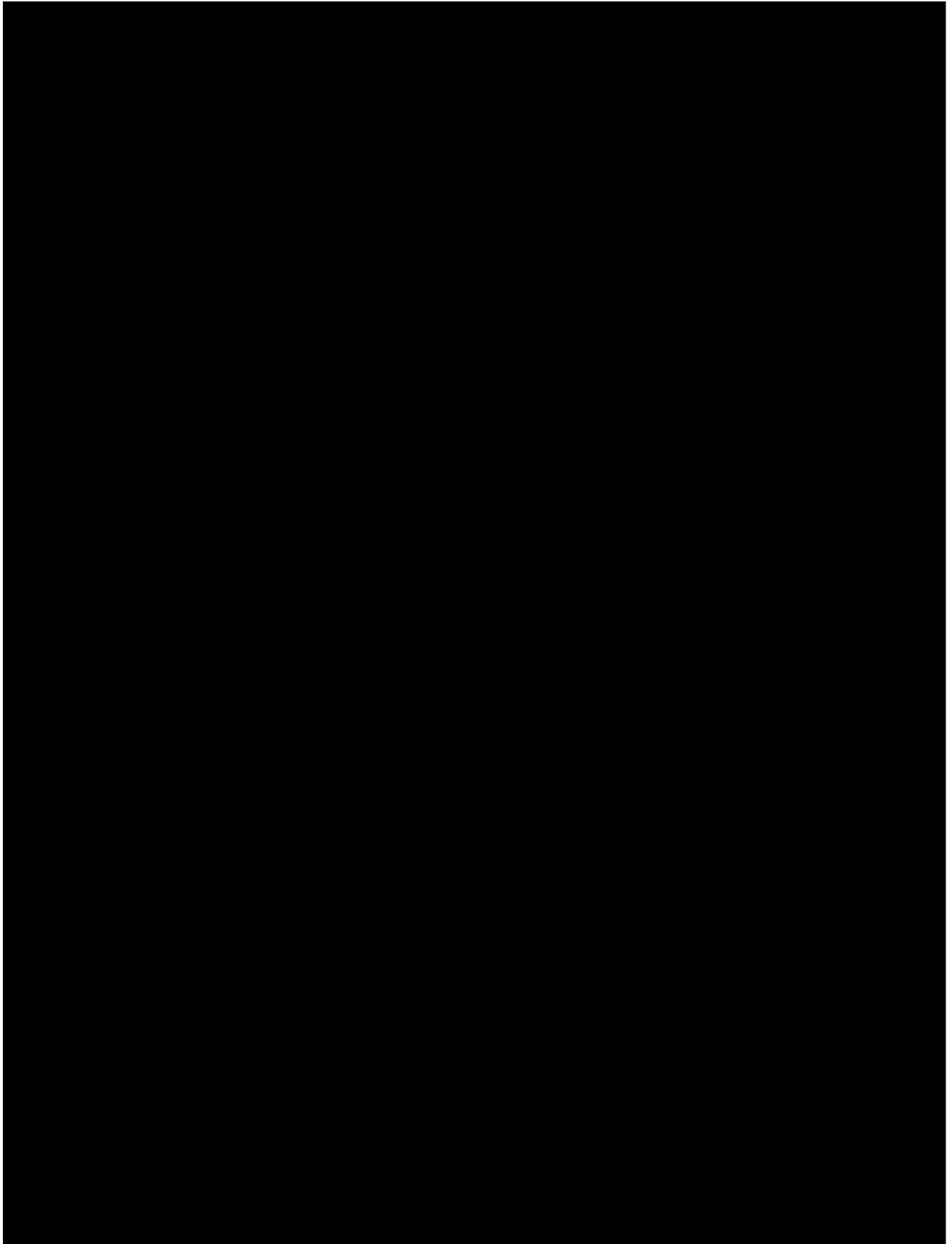
Additional Services are optional and should not be included in Template L: Cost Worksheets. Attachment G contains no detailed functional requirements detailing these services.











1.4.1 Single Payer

The Vermont legislature passed Act 48 in May, 2011. The law recognizes the fiscal and economic imperative for Vermont to undertake fundamental reform of its health care system. Act 48 puts Vermont on a path to a single payer system. The State still needs to take additional steps to reach that goal. These include development of a financing plan that assures a single payer will cost less than the current system. There are a number of other initiatives that could become part of the State's single payer system, including a single state-wide formulary.

The Vendor will be required to support Vermont's health reform plans to transition to a Statewide single payer health care system by 2017.

The Vendor must describe how they are positioned to support Vermont's health reform plans to transition to a Statewide single payer health care system by 2017. Vermont's ACT 48 can be found at: www.leg.state.vt.us/docs/2012/Acts/ACT048.pdf

Xerox's OS+ is fully customizable, flexible, and adaptable making it the ideal PBMS for Vermont as the State moves toward a single payer healthcare system and a single formulary.

In passing Act 48, Vermont established itself as an innovative and progressive state that is committed to healthcare reform. Providing universal health coverage and moving from a volume based reimbursement system to a value based system will benefit Vermont citizens in ways never before seen in this country. Xerox is well positioned to help Vermont realize those benefits with a system that can be configured to meet the requirements of any healthcare plan design, payment methodology, and formulary.

Benefit plans within OS+ are updated based on the final Green Mountain Care plan design(s). In the event Vermont opts to allow residents to purchase supplemental coverage, or an individual has other coverage through private health insurance, retiree health benefits, or federal health benefit plans offered by the Veterans' Administration, by the military, or to federal employees, such coverage will be noted in the system and Green Mountain Care will be set as the secondary payer for services covered under the supplemental plan. The program will also be set as a secondary payer to for services covered under Medicare, Medicaid and CHIP in the event waivers are not granted by CMS to include those programs in Green Mountain Care.

A proven path toward better health outcomes and reduced healthcare costs is the move from a volume based system of reimbursement to one focused on value based reimbursement. Xerox's PBMS supports

multiple payment methodologies including population-based payments to integrated healthcare delivery systems, global physician/hospital budgets, and bundled payments, or a mixture thereof.

In addition to supporting multiple benefit designs and payment methodologies, Xerox’s PBMS can adapt to support a single prescription drug formulary as is proposed in Act 48 while still managing rebates and the 340B program as necessary.

2.0 Functional Requirements Approach Assumptions

Document the assumptions the Vendor has made while responding to the Functional Requirements Approach in Section 1 of this document in Table 1 below. These assumptions should include any assumptions that guided the responses, and will be considered in regards to specific approach responses, and the overall proposal the Vendor provides.

The Vendor may add any additional rows to the table as necessary.

Table 1. Functional Requirement Assumptions

Item #	Reference (Section, Page, Paragraph)	Description	Rationale
1.		Use of COTS products	Our proposed solution includes the use of COTS products that are available and appropriate at the time of submission. If Xerox determines that it is in the best interest of the Agency to replace any of the proposed COTS products in the solution with an equivalent or better product as identified and determined by Xerox, then during the course of the contract negotiation and during the life of the contract, Xerox will inform the Agency of the recommended changes and seek the Agency’s approval to make the change, which shall not be unreasonably withheld.
2.	FR3.5	The Vendor must conduct a review of rebate contracting and program performance at least quarterly with representatives from the Department.	Quarter 2014 rebates invoicing/CMS 64 report will be handled by existing vendor

**State of Vermont - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response**

RFP Vendor Instructions

This workbook contains Non-Functional Requirements for the solution desired by the State of Vermont. The response codes below should be used by the Vendor to indicate the fit of their solution to the State of Vermont Requirements specified in this Template.

This Template must be completed and submitted as an MS Excel file as part of the response to this RFP.

Responses	Definition
<i>Response Code: Will this Technical Requirement be met by your solution?</i>	Indicate if the requirement will be met by entering either "Y" or "N". Each requirement must be responded to, and must be responded to in this cell by one of these two responses
	Y = Comply – The State of Vermont Requirement will be met by the Vendor solution.
	N = Not Comply – The State of Vermont Requirement will not be met by Vendor's solution. Please indicate in the Vendor Response Comments column the reason that requirement cannot be satisfied.
<i>Vendor Response Comments</i>	Provide comments as necessary in regards to specific requirements using this response template. For more details regarding the approach for meeting a requirement, or combination of requirements, or overall Technical area, use Template J - Technical Requirements Approach and provide a reference to the appropriate RFP Req. #(s) in this Template.

Sections

ID	Section Title
A	Architecture / Policy Requirements
A1	General System
A2	Interoperability - Integration
A3	Regulatory and Security
A4	User Interface
A5	Business Intelligence and Reporting
I	Implementation Requirements
I1	Project Management
I2	Knowledge Transfer & Training
I3	Testing and Validation
I4	Data Conversion and Migration
I5	Quality Management
O	Operation Requirements
O1	Operations
P	Performance Requirements
P1	Service Level and Performance

Defined Terms

Defined Term	Acronym (if used)	Description
American Recovery and Reinvestment Act	ARRA	American Recovery and Reinvestment Act of 2009, including any subsequent laws, rules, mandates, etc. derived from it, as interpreted by the State of Vermont.
Applicability Statement 1	AS1	A specification about how to transport data securely and reliably over the Internet
Applicability Statement 2	AS2	A specification about how to transport data securely and reliably over the Internet
Application Programming Interface	API	Application Programming Interface
Application to Application	A2A	Application to Application
Audit Trails and Node Authentication	ATNA	Audit Trails and Node Authentication
Business Intelligence	BI	Business Intelligence
Business Process Change Management Plan		A plan that is included in overall Project Management Plan
Business Process Execution Language	BPEL	Business Process Execution Language
Business Process Modeling Notation	BPMN	Business Process Modeling Notation
Business to Business	B2B	Business to Business
Capacity Plan		A plan that is included in overall Project Management Plan
Communications Management Plan		A plan that is included in overall Project Management Plan
Continuity of Care Document	CCD	An HL7 XML-based markup standard intended to specify the encoding, structure and semantics of a patient summary clinical document for exchange.
Cross-Community Access	XCA	Supports the means to query and retrieve patient relevant medical data held by other communities.
Cross-Enterprise Document Sharing	XDS	Cross-Enterprise Document Sharing (XDS) facilitates the registration, distribution and access across health enterprises of patient electronic health records.
Data Dictionary		A centralized repository of information about data such as meaning, relationships to other data, origin, usage, and format.
Data Model		A form to explain the structure and relationships of data that is independent of its storage method.
Database Administration	DBA	
Database Management System	DBMS	
Demilitarized Zone	DMZ	
Design and Development Plan		A plan that is included in overall Project Management Plan
Developer's Manual		A document that contains information at the developer level independently supporting future development efforts
Eligibility Automation Foundation	EAF	Includes Screening, Application, and Determination
Electronic Data Interchange	EDI	Electronic Data Interchange

Defined Terms

Defined Term	Acronym (if used)	Description
Electronic Data Interchange For Administration, Commerce and Transportation	EDIFACT	Electronic Data Interchange For Administration, Commerce and Transportation
Engineering Management Plan		A plan that is included in overall Project Management Plan
Enterprise Service Bus	ESB	Enterprise Service Bus
eXtensible HyperText Markup Language	XHTML	eXtensible HyperText Markup Language
eXtensible Markup Language	XML	eXtensible Markup Language
Extensible Style sheet Language Transformations	XSLT	Extensible Style sheet Language Transformations
Extract-Transform-Load	ETL	Extract-Transform-Load
Family Educational Rights and Privacy Act	FERPA	Family Educational Rights and Privacy Act
Graphical User Interface	GUI	
Health Benefits Exchange	HBE	"The Exchange" Vermont's implementation of a Health Insurance Exchange
Health Information Technology for Economic and Clinical Health	HITECH	Health Information Technology for Economic and Clinical Health
Health Insurance Portability and Accountability Act	HIPAA	Health Information Technology for Economic and Clinical Health Act of 2009, including any subsequent laws, rules, mandates, etc. derived from it, as interpreted by the State of Vermont.
Health Services Enterprise	HSE	The overarching program that includes Systems such as the Health Insurance Exchange, the Integrated Eligibility System and shared capabilities as part of the HSE Platform
Health Services Enterprise Platform	HSEP	Service Oriented Architecture Enterprise Platform for the State's Health and Human Services Programs and Services providing common services including Gateway, Master Data Management, Enterprise Service Bus, Screening/Application/Determination Functionality and Shared Analytics among other shared capabilities
Health Level Seven	HL7	A not-for-profit, ANSI-accredited standards developing organization dedicated to providing a comprehensive framework and related standards for the exchange, integration, sharing, and retrieval of electronic health information that supports clinical practice and the management, delivery and evaluation of health services. In this document, this may also refer to the standards developed and/or managed by the organization.
Help Desk Support Plan		A plan that is included in overall Project Management Plan
High Availability & Disaster Recovery Plan		A plan that is included in overall Project Management Plan
Hypertext Markup Language	HTML	

Defined Terms

Defined Term	Acronym (if used)	Description
Hypertext Transfer Protocol	HTTP	
Implementation Plan		A plan that is included in overall Project Management Plan
Information Technology Infrastructure Library version 3	ITIL v3	
Information Technology	IT	
Integrating the Healthcare Enterprise	IHE	IHE is an initiative by healthcare professionals and industry to improve the way computer systems in healthcare share information. IHE promotes the coordinated use of established standards such as DICOM and HL7 to address specific clinical need in support of optimal patient care. Systems developed in accordance with IHE communicate with one another better, are easier to implement, and enable care providers to use information more effectively. In this document, this may also refer to the standards developed and/or managed by the organization.
Interface Management Plan		A plan that is included in overall Project Management Plan
Internet Inter-ORB Protocol	IIOB	Internet Inter-ORB Protocol
Internet Protocol Security	IPSec	Internet Protocol Security
Java 2 Platform, Enterprise Edition	J2EE	Java 2 Platform, Enterprise Edition
Java Database Connectivity	JDBC	Java Database Connectivity
Knowledge Transfer and Training Plan		A plan that is included in overall Project Management Plan
Local Area Network	LAN	
Maintenance and Operations Plan		A plan that is included in overall Project Management Plan
Maintenance and Operations	M&O	Maintenance and Operations
Master Client Index	MCI	Master Client Index
Master Provider Index	MPI	Master Provider Index
Medicaid Information Technology Architecture	MITA	Medicaid Information Technology Architecture
Message-Oriented Middleware	MOM	Message-Oriented Middleware
Network Time Protocol	NTP	Network Time Protocol
On-Site Implementation Support Plan		A plan that is included in overall Project Management Plan
Online Analytical Processing	OLAP	Online Analytical Processing
Online Transactional Processing	OLTP	Online Transactional Processing
Open Database Connectivity	ODBC	Open Database Connectivity
Operational Recovery Plan		A plan that is included in overall Project Management Plan
Pharmacy Benefits Management	PBM	
Personally Identifiable Information	PII	Personally Identifiable Information

Defined Terms

Defined Term	Acronym (if used)	Description
Pilot Plan		A plan that is included in overall Project Management Plan
Plain Old XML	POX	Plain Old XML
Problem resolution Management Plan		A plan that is included in overall Project Management Plan
Production Release Plan		A plan that is included in overall Project Management Plan
Production Support and Transition Plan		A plan that is included in overall Project Management Plan
Project Charter		An initial part of the Project Management Plan
Project Governance Plan		A plan that is included in overall Project Management Plan
Project Management Institute	PMI	Project Management Institute
Project Management Plan	PMP	The overall plan that describes the overall structure and scope of the project
Project Schedule		Project Schedule
Project Management Body of Knowledge	PMBOK	Project Management Body of Knowledge
Protected Health Information	PHI	Protected Health Information
Public Key Infrastructure	PKI	Public Key Infrastructure
Quality Management Plan		A plan that is included in overall Project Management Plan
Relational Database Management Systems	RDBMS	Relational Database Management Systems
Representational State Transfer	REST	Representational State Transfer
Requirements Management Plan		A plan that is included in overall Project Management Plan
Role-Based Access Controls	RBAC	Role-Based Access Controls
Screening, Application and Determination	SAD	Shared Functionality for Screening, Application and Determination
Secure Sockets Layer	SSL	Secure Sockets Layer
Secure/Multipurpose Internet Mail Extensions	S/MIME	Secure/Multipurpose Internet Mail Extensions
Service Level Agreement	SLA	Service Level Agreement
Shared Analytics Infrastructure	SAI	Shared Analytics Infrastructure
Service Oriented Architecture	SOA	Service Oriented Architecture
Simple Network Time Protocol	SNTP	Simple Network Time Protocol
Simple Object Access Protocol	SOAP	Simple Object Access Protocol
Software Configuration Management Plan		A plan that is included in overall Project Management Plan

Defined Terms

Defined Term	Acronym (if used)	Description
Software Development Life Phase	SDLC	Software Development Life Phase
System Acceptance Document		A document that includes a final requirements traceability matrix identifying all HSE Platform requirements allocated to current, in-production System components. A version of this document, accepted and signed by the State, will constitute acceptance of the System.
System Operation Manual		A document that describes the overall operations and management of the System at a systems administrator and user level. It will include all information about use, management, maintenance and operations that is not included in the Developer Manual or other System documentation.
Structured Query Language	SQL	Structured Query Language
Test Plan		Includes: <ul style="list-style-type: none"> - Unit Testing - Functional Testing - Integration Testing - Security Testing - Regression Testing - Stress/Load Testing - Performance Testing
Transition-Out Plan		A plan that is included in overall Project Management Plan
Transmission Control Protocol (TCP) / Internet Protocol (IP)	TCP/IP	Transmission Control Protocol (TCP) / Internet Protocol (IP)
Transport Layer Security	TLS	Transport Layer Security
Triple-DES	3DES	Triple-DES
Universal Description, Discovery and Integration	UDDI	Universal Description, Discovery and Integration
User Acceptance Testing	UAT	User Acceptance Testing
Vendor		The Vendor, or one of the Vendors, selected and contracted to participate in planning, implementing, maintaining, enhancing, upgrading, operating, providing support, etc. of the System
Virtual Private Network	VPN	Virtual Private Network
Web Services	WS	Web Services
Web Services Flow Language	WSFL	Web Services Flow Language
Web Services Interoperability	WS-I	Web Services Interoperability
Wide Area Network	WAN	
Work Breakdown Structure		A document that is included in overall Project Management Plan
XML Process Definition Language	XPDL	XML Process Definition Language

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 General System Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A1.1	The System will be in compliance with the Health Insurance Portability and Accountability Act (HIPAA) privacy and beneficiary consent for release requirements, where applicable	Y	
A1.2	The System will accommodate diverse populations of users including those with visual and hearing impairments, persons with low and moderate educational levels, and the elderly (Section 508 compliant) http://www.section508.gov/ and all similar State of Vermont policies	Y	
A1.3	The System will accommodate diverse populations of users including those with disabilities and limited English proficiency as defined in section 504 of the Rehabilitation Act of 1973	Y	
A1.4	The System will be designed and developed to support a 24/7 production environment and reporting system	Y	
A1.5	The System will uniquely identify each beneficiary using both SS# and Unique ID number assigned by SoV Enrollment System	Y	
A1.6	The System will uniquely identify each provider using both NPI and a system generated Unique ID	Y	
A1.7	The System will have the capability to interact with other systems as needed to collect and report services and benefits provided to a beneficiary	Y	
A1.8	The System will provide a mechanism to limit access to view/update information, based on user role, access rights and program rules	Y	
A1.9	The System will have the capability to save and print all forms, reports, documents, screens, based on user role and program rule	Y	
A1.10	The System will automatically save information as users enter it.	Y	
A1.11	The System will validate that all mandatory data fields have been completed when a user attempts to submit information	Y	
A1.12	The System will inform the user of errors based on the validations performed	Y	
A1.13	The System will allow the user to review and update information if there are correctable errors	Y	
A1.14	The System will contain a "help" function on each screen as needed to provide users with instructions on how to perform functions, descriptions of data elements and/or other information	Y	
A1.15	The System may provide access to "rules/regulations documentation" via the System for look up and reference in the relevant context of the screen/process.	Y	
A1.16	The System will send alerts/notifications to users who (1) have subscribed to these types of notifications, (2) have consent to view the beneficiary 's data (3) have the correct access rights and (4) have a valid reason for viewing this data	N	The current system functionality does not meet this requirement however the functionality can be developed for additional cost.

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 General System Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A1.17	The System will send notifications based on the preferences a beneficiary or user has indicated in their profile unless a specific delivery method is specified by policy (e.g., certain notifications must be sent via US postal mail, ADA compliant communication). Where possible, electronic delivery methods (email, SMS) will be selected.	N	The current system functionality does not meet this requirement however the functionality can be developed for additional cost.
A1.18	The System will have role based access control at the data field level	Y	
A1.19	The System will have rules based access control and display information	Y	
A1.20	The System will have a user interface written in English (including warnings, notifications and user prompts) free of grammatical errors and typos	Y	
A1.21	The System will contain written language targeted to the average adult reading level (e.g., 6th grade level) Note: This applies to all languages	Y	
A1.22	The System may provide the capability to check an individual's language indicator to include language specific text on notices, correspondence and other materials.	Y	
A1.23	The System will maintain a record (e.g. audit trail) of all changes made to data in the System - system initiated changes or user initiated changes. This should be readily searchable by user ID, system ID or beneficiary ID. This must include but is not limited to: i. The user ID of the person who made the change or system ID if the change was system generated ii. The date and time of the change iii. The information that was changed iv. The data before and after it was changed v. The data source if the change was system generated	Y	
A1.24	The System will record the date, time, and name of users viewing beneficiary information	N	The current system functionality records the date, time and name of users who make changes or updates to beneficiary information
A1.25	The System will use industry standard taxonomy (ies) if relevant	Y	
A1.26	The System will provide web pages with general information about Pharmacy Benefit programs to the general public without requiring a login	Y	
A1.27	The System will authenticate users before allowing access to functionality requiring a login	Y	
A1.28	Provide Optical Character Recognition to convert appropriate paper documentation received through PBM System Operations into indexed, content searchable electronic format (e.g., claims and attachments, correspondence, provider information).	Y	
A1.29	The State will have the final authority to hire/fire any contract staff working in state facilities	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Interoperability-Integration Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A2.1	The System's interfaces will secure and protect the data and the associated infrastructure from a confidentiality, integrity and availability perspective.	Y	
A2.2	The System will be able to support Application to Application (A2A) synchronous and asynchronous messaging using web services. The messaging capabilities will be able to support a wide variety of A2A patterns including, but not limited to, the following: <ul style="list-style-type: none"> - Data look-up and retrieval - Data look-up with services provided by other applications - Simple bulk data transfer to/from other Systems. 	Y	
A2.3	The System's interface infrastructure will continue to operate despite failure or unavailability of individual technology components such as a server platform or network connection.	Y	
A2.4	The System's interfaces must be scalable to accommodate changes in scale including changes in user population, transaction volume, throughput and geographical distribution. The System will be capable of making any changes to the interface data elements/layouts easily, and to test those changes.	Y	
A2.5	The System will implement, at a minimum, interfaces (both real-time or batch) with the systems requiring integration and data sources listed in Table 5 of Section 2.3.3: (ACCESS / Integrated Eligibility, HSE Platform and the Existing and replacement MMIS) of the RFP. These interfaces will be implemented using point-to-point methods and secure file transfer for the legacy systems and Vermont's Health Services Enterprise integration middleware, Oracle SOA Suite and Service Bus for the replacement systems.	Y	
A2.6	The System will implement, at a minimum, interfaces (both real-time or batch) with the applications and data sources listed in section 2.1.2 of the RFP - Systems requiring integration. These interfaces will be implemented using Vermont's Health Services Enterprise integration middleware, Oracle SOA Suite and Service Bus.	Y	
A2.7	The System will provide the capability to perform source to destination file integrity checks for exchange of data and alert appropriate parties with issues	Y	
A2.8	Systems components will be committed to an advanced approach to interoperability using web services and Service Oriented Architecture (SOA) aligned with State standards and vision for interoperability.	Y	
A2.9	Systems will integrate with VT HSE using a Service Oriented Architecture by using an Enterprise Service Bus, responsible to monitor and control routing of message exchange between services, resolve contention between communicating service components, control deployment and versioning of services and marshal use of redundant services.	Y	
A2.10	Systems will support creation and extension of service interfaces through the use of Web Services Description Language (WSDL)	Y	
A2.11	Systems will develop/integrate services using standardized Web Services formats.	Y	
A2.12	Systems will provide the ability to publish services and related data to be used by different types and classes of service consumers.	Y	
A2.13	Systems will provide the capabilities for a Real-Time (or near real-time) Integrated Enterprise where common data elements about the customers served and services rendered are easily shared across organizational units with appropriate adherence to security and privacy restrictions.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A2.14	Systems will have the capability to implement synchronous and asynchronous program-to-program communication, moving messages between SOA service consumer modules and service provider modules at runtime. The ESB component may also move files, database rows and other data.	Y	
A2.15	Message and data formats should be based on logical representations of business objects rather than native application data structures	Y	
A2.16	Data transformations will be to and from normalized formats. Normalized data formats facilitate composition and reduce the number of transformations that must be created and maintained. A canonical data representation that spans the enterprise can be used but is not required. A federated approach to data normalization is also possible	Y	
A2.17	Point-to-point integrations are to be avoided. Application integration, both internal and external, will go through the central ESB.	Y	
A2.18	All System services will be classified with one of the following values: Presentation, Process, Business, Data, Access, or Utility	Y	
A2.19	All services will be reviewed, classified, and cataloged prior to use. The Documentation Artifacts will be modeled per ISO/IEC/IEEE 42010 Architecture Description Template as part of the Vermont Enterprise Architecture Program Requirements. Duplicate services will be rationed and retired appropriately.	Y	
A2.20	All services will have key stakeholder/owners identified following the ADM Architecture Model. Role Matrix should include s/w developers, integrationists, technologists, Enterprise Architects, Business Leads, Testing teams, UAT Teams.	Y	
A2.21	All WSDLs developed for Vermont will conform to the WSDL Development Standards	Y	
A2.22	All SOA-related messages will be formally defined with XSD (preferable) or DTDs. A SOA Architecture Repository will be required.	Y	
A2.23	SOA-related services hosted should be implemented in Java.	Y	The system can expose business critical functionality as services
A2.24	Implemented services will rely on WS-Policy configurations for message reliability (WS-Reliable Messaging)	Y	
A2.25	The following metadata attributes will be tracked for all services in the services catalog: {name, lifecycle status, class, description, owner, version, revision history, release frequency, versioning policy, deprecation policy, message exchange patterns, compensating transaction support, availability requirements, volume, max message size, security attributes, sla, logging requirements}	Y	
A2.26	SOA services will be attributed with one of the following SOA Lifecycle Status values: Candidate, Justified, Defined, Designed, Implemented, Operational, or Retired. A SOA Architecture Repository will be required and opened to Vermont EA Program.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A2.27	The System will be designed, built and deployed with enterprise architecture best practices including substantial reliance on highly configurable SOA components. The System will undergo, at a minimum, 2 iterations integrated with HSEP development environment. Each iteration will be have a maximum period of 10 days. The Systems will have an alpha deployment on HSEP staging Environment and also will have, at a minimum, three weeks of UAT Testing by Business SMEs on the HSEP Staging Environment	Y	
A2.28	Systems will provide reliable, once-only delivery of messages (guarantee of reliable and non-repetitive delivery).	Y	
A2.29	Systems will have the capability to integrate with the VT ESB technology to perform syntactic and semantic hub-based transformation of messages, including: ' Support of taxonomy ' Support of ontology ' Reusable transformation maps ' Built-in transformation functions ' Extending the transformation function with custom-coded logic ' Support B2B project translation including Electronic Data Interchange (EDI), RosettaNet, HL7, etc.	Y	
A2.30	Systems will provide the functionality that provides reliability for applications, services or message flows: ' Load balancing ' High availability ' Fault tolerance ' Failover ' In-order delivery ' Transaction support ' Execution prioritization ' Message prioritization. Tests for High Availability and Failover must be completed prior to the release to UAT.	Y	
A2.31	Systems will provide the technology that manages the metadata and provides the features needed to support the reliable operation of services. Examples include: ' Online catalog of services and associated artifacts such as WSDL files, XSDs, BPEL files ' A single point of controlled access for cataloging, promoting, publishing and searching for information about managed assets ' Metadata that enables an Enterprise Service Bus (ESB) to find, bind to and invoke the execution of a service implementation ' Support for extending existing asset types and defining and populating custom asset types	Y	
A2.32	Systems will provide support for integrating with applications with SOA and event-driven architectures in a manner that supports the following implementation strategies: ' Web Services: Web Services Interoperability (WS-I) Organization-compliant implementation of basic Web services standards, including SOAP, WSDL and Universal Description, Discovery and Integration (UDDI), as well as higher-level Web services standards, such as WS-Security. ' Representational State Transfer (REST): Support for XML-based messages, processing and HTTP, and XHTML.	Y	
A2.33	Systems will have the ability to track a message from its origin to its destination (inside a firewall), inquire on the status of that message and address exceptions (for example, resend the message if a target times out). Usually implemented via a warehouse for archiving messages together with the associated tracking and logging data.	Y	
A2.34	The Systems will have the ability to use standards-based communication protocols, such as TCP/IP, HTTP, HTTP/S and SMTP. ' Protocol bridging: The ability to convert between the protocol native to the messaging platform and other protocols, such as Remote Method Invocation (RMI), IIOP and .NET remoting.	Y	
A2.35	The System will seamlessly work with the technology and programs that act as glue, transforming among protocols, connecting to databases and linking pre-SOA Application Programming Interfaces (APIs) to the SOA backplane.	Y	
A2.36	The System will have the capability to work with a Service Registry that serves as an integration point for runtime tooling	Y	
A2.37	The System will have the capability to work with security policy manager for Web services that allows for centrally defined security policies that govern Web services operations (such as access policy, logging policy, and load balancing)	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Regulatory and Security Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A3.1	The System will, at a minimum, provide a mechanism to comply with security requirements and safeguard requirements of the following Federal agencies / entities: - Health & Human Services (HHS) Center for Medicare & Medicaid Services (CMS) - Administration for Children & Families (ACF) - NIST 800-53 and DOD 8500.2 - Federal Information Security Management Act (FISMA) of 2002 - Health Insurance Portability and Accountability Act (HIPAA) of 1996 - Health Information Technology for Economic and Clinical Health Act (HITECH) of 2009 - Privacy Act of 1974 - e-Government Act of 2002 - Patient Protection and Affordable Care Act of 2010, Section 1561 Recommendations - Vermont Statute 9 V.S.A. § 2440. Social security number protection (http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=09&Chapter=062&Section=02440) - Vermont Statute 9 V.S.A. § 2435. Notice of security breaches (http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=09&Chapter=062&Section=02435)	Y	
A3.2	The System will conform with the sub-parts of Section 508 of the Americans with Disabilities Act (ADA), and any other appropriate State or Federal disability legislation.	Y	
A3.3	The System will comply with all applicable State security policies and adhere to all legal, statutory, and regulatory requirements, as determined by Vermont leadership.	Y	
A3.4	The System will implement security controls in accordance with all Federal and State security policy and regulations.	Y	
A3.5	The System will comply with accessibility requirements described in 45 CFR 85 and with State of Vermont accessibility requirements located at http://cio.vermont.gov/policy_procedures .	Y	
A3.6	The System will comply with Vermont branding standards as defined by the state.	Y	
A3.7	The Vendor will adhere to the principle of "Fail Safe" to ensure that a system in a failed state does not reveal any sensitive information or leave any access controls open for attacks	Y	
A3.8	The System will allow for controlled access to beneficiary records. Users will be able to view beneficiary data within the System at the State-defined levels of access based on user security privileges.	Y	
A3.9	The System will maintain a level of security that is commensurate with the risk and magnitude of the harm that could result from the loss, misuse, disclosure, or modification of information.	Y	
A3.10	The System will provide the ability for concurrent users to simultaneously view the same record, documentation and/or template.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A3.11	The System will provide protection to maintain the integrity of data during concurrent access.	Y	
A3.12	The System will be configurable to prevent corruption or loss of data already accepted into the System in the event of a System failure (e.g. integrating with a UPS, etc.).	Y	
A3.13	The System will support protection of confidentiality of all Protected Health Information (PHI) delivered over the Internet or other known open networks via encryption using triple-DES (3DES) or the Advanced Encryption Standard (AES) and an open protocol such as Transport Layer Security (TLS), Secure Sockets Layer (SSL), Internet Protocol Security (IPsec), XML encryptions, or Secure/Multipurpose Internet Mail Extensions(S/MIME) or their successors. This System will be subject to external Audit checks.	Y	
A3.14	The System, when storing PHI on any device intended to be portable/removable (e.g. smart phones, portable computers, portable storage devices), will support use of a standards based encrypted format using 3DES, AES or their successors.	Y	
A3.15	The System, prior to access to any PHI, will display a configurable warning or login banner (e.g. "The System should only be accessed by authorized users"). In the event that a System does not support pre-login capabilities, the System will display the banner immediately following authorization.	Y	
A3.16	The Vendor must have written policies and procedures addressing the use of any protected health data and information that falls under the Health Insurance Portability and Accountability Act (HIPAA) requirements. The policies and procedures must meet all applicable federal and State requirements including HIPAA requirements. These policies and procedures must include restricted access to the protected health data and information by the Vendor's employees.	Y	
A3.17	The System will have obtained Medicaid Management Information System (MMIS) certification by CMS, including compliance with all MITA 3.0 standards where applicable	Y	
A3.18	The Vendor must immediately notify the State of Vermont upon learning of any suspected or actual unauthorized use or disclosure of protected health data and information that falls under the HIPAA requirements. Vendor must work with the State of Vermont to mitigate any breach and provide assurances to the State of Vermont on corrective actions to prevent future unauthorized uses or disclosures.	Y	
A3.19	In accordance with HIPAA requirements, the Vendor is liable for any claim, loss or damage relating to unauthorized use or disclosure of protected health data received from the State of Vermont or any other source.	Y	
A3.20	The Vendor must immediately notify the State of Vermont upon learning of any breach of system or data security. Subject to the approval of the State of Vermont, the Vendor must undertake such additional safeguards or changes as recommended by a subsequent independent security audit at the Vendor's expense.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A3.21	In the delivery and provision of information technology hardware, software, systems, and services through the Contract, the Vendor must prevent unauthorized access to the "Identity Information" of any individual. "Identity Information" includes, but is not limited to, an individual's first name or initial and last name, in combination with any of the following: a. Social Security Number; b. Driver's license number; c. System access identification number and associated passwords; d. Account information such as account number(s), credit/debit/Medicaid card number(s), and/or passwords or security codes.	Y	
A3.22	For even a single known violation of the identity theft prevention and reporting requirements, the State may terminate for default its Contract(s) and may withhold payment(s) owed to the Vendor in an amount sufficient to pay the cost of notifying individuals of unauthorized access or security breaches.	Y	
Identity and Access Management			
A3.23	The System will support a form of user authentication.	Y	
A3.24	The System upon detection of inactivity of an interactive session will prevent further viewing and access to the System by that session by terminating the session, or by initiating a session lock that remains in effect until the user reestablishes access using appropriate identification and authentication procedures. The inactivity timeout will be configurable.	Y	
A3.25	The System will enforce a limit of (configurable) consecutive invalid access attempts by a user. The System will protect against further, possibly malicious, user authentication attempts using an appropriate mechanism (e.g. locks the account/node until released by an administrator, locks the account/node for a configurable time period, or delays the next login prompt according to a configurable delay algorithm).	Y	
A3.26	The System will provide the capability to prevent database administrators from seeing the data in databases they maintain.	Y	
A3.27	The System will support grouping users by functional departments or other organization to simplify security maintenance.	Y	
A3.28	The System will provide the ability to maintain a directory of all personnel who currently use or access the system/IVR/SQL database.	Y	
A3.29	The System will provide the ability to create and maintain a directory of external providers to facilitate communication and information exchange.	Y	
A3.30	The System will provide the ability to identify certain information as confidential (e.g. PII, PHI, etc.) and only make that accessible by appropriately authorized users.	Y	
A3.31	The System will restrict access to summarized information according to organizational policy, scope of practice, and jurisdictional law.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A3.32	The System must be able to associate permissions with a user using one or more of the following access controls: 1) user-based (access rights assigned to each user) 2) Role-Based Access Controls (RBAC; users are grouped by role and access rights assigned to these groups) 3) context-based (role-based with additional access rights assigned or restricted based on the context of the transaction such as time-of-day, workstation-location, emergency-mode, etc.)	Y	
A3.33	The System will provide the ability to prevent specified user(s) or groups from accessing confidential information such as a beneficiary's SSN, medication information and other confidential data	Y	
A3.34	The System will provide the ability to limit access to certain confidential information such as a beneficiary's SSN and other confidential data to providers directly involved in service of the patient, or providers involved in review of the service.	Y	
A3.35	When access to a user's account is restricted, the System will provide a means for appropriately authorized users to "break the glass" and obtain access for emergency situations, as defined by Vermont policy.	Y	
A3.36	When access to Beneficiary's confidential data is restricted but still the "break the glass" has occurred, the System will provide the ability to notify specified users and provide an audit trail for this access.	Y	
A3.37	The System will enforce the most restrictive set of rights/privileges or accesses needed by users/groups or processes acting on behalf of users, for the performance of specified tasks.	Y	
A3.38	The System will provide the ability for authorized administrators to assign restrictions or privileges to users/groups.	Y	
A3.39	The System will support removal of a user's privileges without deleting the user from the System to ensure history of user's identity and actions.	Y	
A3.40	The System will be able to support RBAC in compliance with the HL7 Permissions Catalog.	Y	
A3.41	The System will be capable of operating within an RBAC infrastructure conforming to ANSI INCITS 359-2004, American National Standard for Information Technology – Role Based Access Control.	Y	
A3.42	The System will provide more-advanced session management abilities such as prevention of duplicate logins, remote logout and location-specific session timeouts.	Y	
A3.43	The System will provide the ability to perform System administration functions such as reference table maintenance and adding / removing users from the system.	Y	
A3.44	The System will allow users access based on their roles irrespective of their geographical location.	Y	
A3.45	The System will provide the capability to integrate with existing authentication and authorization mechanisms	Y	
A3.46	The System will provide the capability to create temporary and emergency accounts and terminate those accounts automatically after a user defined period of time.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A3.47	The System will provide the capability to override a role and restrict access to information by users or groups of users.	Y	
A3.48	The System will provide the capability to monitor events on the information system, detect attacks, and provide identification of unauthorized use of the system.	Y	
A3.49	The System will provide the capability to identify and report on inappropriate access to information in the system, based on user defined criteria.	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 User Interface Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A4.1	The System will provide an unlimited free-form text note within the PBM System for various functions such as provider enrollment process, prior authorizations, and case management, accessible by authorized PBM System users that includes, for example: <ul style="list-style-type: none"> • Provides the ability to display the narrative sorted by user and business unit. • Provides the ability to display free form narrative in chronological or reverse chronological sequence. • Provides basic word processing functionality such as sentence case, spell check, auto text, bold, underline, italics, color font, bulleted lists, tabs, indents, wrap-text, tables, printable. 	Y	
A4.2	System will provide a graphical user interface for authorized PBM System users to define plans, benefits, and pricing.	Y	
A4.3	System will provide the ability for authorized users and its designees to view, search, and query by Department defined fields as well as pull reports and documentation associated with these fields.	Y	
A4.4	System will provide the ability to view the results of filtered searches based on multiple or single criteria, the capability to search on multiple criteria at the same time, and the ability to perform secondary and tertiary searches within the primary search results.	Y	
A4.5	System will provide the ability to save and name multiple user-defined search and sort parameters so that users can repeat the same search/ sort queries at a later time.	Y	
A4.6	System will provide the ability to view the results of wild card searches (including both single character and string wildcard search) for all searchable fields, including searches with partial ID numbers.	Y	
A4.7	Accept digital signatures from providers where applicable as defined in the functional requirements	Y	
A4.8	Propose, develop, produce, publish and deliver all applicable PBM System User Guide/ Help updates.	Y	
A4.9	Propose, develop, produce, and maintain frequently asked questions (FAQs) on PBM System screens and functionality.	Y	
A4.10	The PBM System may provide the following: <ol style="list-style-type: none"> 1) Provide a forum for authorized PBM System users to post inquiries, and to respond to other posters and create topical "threads" on problems. 2) Allow Department staff and other designated users to access the forum and to participate and moderate the posts and threads, based upon user roles. 3) Provide a search capability to find posts and threads by date or relevance. 	Y	
A4.11	Ensure that all codes and abbreviations used in the PBM System have corresponding and easy-to-view narrative descriptions.	Y	
A4.12	The System will limit the amount of information displayed, while also enabling the user to immediately expand the scope of the information visible.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A4.13	The System will speak the users' language, with words, phrases and concepts familiar to the user, rather than system-oriented terms.	Y	
A4.14	The users will be able to easily navigate to a variety of functions available to them without having to move sequentially through excessive menus and screens.	Y	
A4.15	The System will follow standardized conventions. Users should not have to wonder whether different words, situations, or actions mean the same thing.	Y	
A4.16	The System will eliminate error-prone conditions or check for them and present users with a confirmation option before they commit to the action.	Y	
A4.17	The System's User Interface will be simple, consistent, and use familiar terminology.	Y	
A4.18	The System's navigation will be familiar and consistent, and all user actions will be predictable and reversible.	Y	

**State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Business Intelligence and Reporting Requirements**

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A5.1	The Vendor will make available a state approved reporting tool, all state specified pharmacy data elements, including but not limited to elements in the drug file, the claim file, recipient information, provider information, and the prior authorization file. SoV DII EA will work with State business lead and vendor will ensure reporting components confirm to Enterprise Platform	Y	
A5.2	The Vendor will maintain a training program for State staff and Vendors to ensure maximum use and understanding of the functionality of state approved reporting tool	Y	
A5.3	The Vendor will create reports based on the following, including but not limited to, a combination of pharmacy claim data elements; beneficiary characteristics; provider characteristics; prior authorization characteristics; and drug reference file elements including drug pricing, drug rebate status elements, lock-in characteristics, pharmacy claim errors, and net cost. This is a small sampling to show the types of reports expected of the System. A comprehensive list of all reports will be determined in collaboration with the State both during the contract negotiation phase as well as the System Implementation phase	Y	
A5.4	The Vendor will establish and maintain a methodology for the development and maintenance of the data analytic capabilities the PBM System provides and ensure that it is well documented.	Y	
A5.5	The Vendor will establish, maintain, implement and manage analytic capabilities to include but not be limited to data summarization, data comparison, data correlation, forecasting, trending, and statistical analysis	Y	
A5.6	The Vendor will establish and maintain a methodology for the development and maintenance of production and system reports. Vendor will work with SoV agencies to determine what reports are needed such as system performance reports and user access reports by the various departments	Y	
A5.7	The Vendor will establish and maintain a methodology for the development and maintenance of ad hoc reports	Y	
A5.8	The Vendor will establish, maintain, implement and manage a schedule for reporting that includes prioritization	Y	
A5.9	The Vendor will track and report the status of each data and reporting request	Y	
A5.10	The Vendor will produce, distribute and manage production reports in accordance with Business area, State, and Federal specifications	Y	
A5.11	Produce, distribute and manage ad hoc reports in accordance with Business area, State, and Federal specifications	Y	
A5.12	The Vendor will notify the report requester when report timeliness cannot be met. In addition, the PBM Vendor will provide a summary level report to the State, at a predetermined frequency, on quality and timeliness of all reports generated within that period.	Y	
A5.13	The Vendor will ensure that all existing Federal, State, and Business area measures and reports continue to meet Business area, State, and Federal standards	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
A5.14	Maintain report distribution lists to ensure accurate report distribution at all times	Y	
A5.15	The Vendor will maintain detailed procedures documenting how reports are prepared and detailing the procedures used to validate the accuracy of the report information	Y	
A5.16	The Vendor will store historic reports in accordance with Business area, State, and Federal retention schedules	Y	
A5.17	The Vendor will provide data and information for federal and state reporting in accordance with business area, state, and federal specifications	Y	
A5.18	The Vendor will provide data to the State in support of the PBM's function of analyzing and reporting pharmacy program status to the State	Y	
A5.19	The Vendor will provide ad hoc reporting and data analysis as agreed to through negotiation with the State. Such reporting and analysis will be in an agreed upon format and in accordance with a schedule agreed to by the Vendor and the State.	Y	
A5.20	The Vendor will provide the ability to regularly and accurately produce operational reports using PBM System data.	Y	
A5.21	The Vendor will ensure that the data in reports are current, accurate, and accessible and that the report is produced in a timely fashion to meet the report's delivery deadline.	Y	
A5.22	The Vendor will ensure that any reporting functionality supports the ability to pull and use the narrative descriptions of codes and abbreviations in addition to the codes and abbreviations themselves.	Y	
A5.23	The Vendor will develop the HIPAA attachment transaction for claims and Prior Authorization Requests in the PBM System (e.g., HL7/ 275).	Y	
A5.24	The Vendor will provide capacity to capture, store, update, report on system operational metrics from a decision support system that offers digital dashboards, online reporting and print capacity with ability to download to common media.	Y	
A5.25	The Vendor will provide routine, adhoc, and complex (consolidation, drill-down, slicing and dicing) analytical reporting	Y	
A5.26	The Vendor will provide drilldown capabilities and tabbed daily, weekly, monthly, quarterly, yearly, prior year, etc.	Y	
A5.27	The Vendor will provide an user friendly interface and ability to customize dashboards by user and because of changing needs.	Y	
A5.28	The Vendor will provide archivable reports (unalterable) with ability to retain original report template for future use.	Y	
A5.29	The Vendor will provide graphical presentation with gauges and other representations to highlight important events and alerts.	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Project Management Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I1.1	The Vendor will employ, maintain, and execute a project management methodology that complies with the Project Management Institute (PMI) standards or equivalent.	Y	
I1.2	The Vendor will describe the project management approach and methodology to be used for all System project life cycles.	Y	
I1.3	The Vendor will develop a Project Management Plan (PMP) conforming to the Project Management Body of Knowledge (PMBOK). The PMP will incorporate the following 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 - Project Procurement Management	Y	
I1.4	The Vendor will develop a Project Charter.	Y	
I1.5	The Vendor will develop a Project Governance Plan. The project governance plan will take into account and leverage the existing AHS governance structure.	Y	
I1.6	In collaboration with the State, the Vendor will develop a Business Process Change Management Plan. The State envisions significant process change during the development and implementation of the System. The Vendor will provide plans for a change readiness assessment, gap analysis, and recommendations for organizational and process changes. The Change Control Board will be managed by the State.	Y	
I1.7	The Vendor will document the business process management activities and outcomes described in the Business Process Change Management Plan. Additionally, the Vendor will document Operational and System Changes in the Technical Change Management Plan.	Y	
I1.8	Where available and agreed between the Vendor and the State, the Vendor will use State templates for project management deliverables. State templates listed in EPMO templates from the link: http://dii.vermont.gov/pm/pmtemplates	Y	
I1.9	The Vendor will develop a PMI compliant Communications Management Plan. The Communications Management Plan must describe participant's roles and responsibilities, internal communications, external communications, other communications and information management including communications protocols.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I1.10	<p>The Vendor will leverage DII EPMO Project Log template as applicable to establish an issues and action items process and tracking document that must ensure that unanticipated issues, action items and tasks are assigned to a specific person for action and are tracked to resolution.</p> <p>DII EPMO Project Log Template can be found in http://dii.vermont.gov/sites/dii/files/pdfs/EPMO-Project-Log-Template.pdf</p> <p>The issue and action item tracking document must include the following:</p> <ul style="list-style-type: none"> - Issue description. - Issue priority - Issue status - Plan for resolution. - Individual responsible for resolution. - Targeted resolution date. - Actual resolution dates. - resolution action. 	Y	
I1.11	<p>The Vendor must electronically provide project management documents (e.g., Project Management Plan, Project Schedule, Work Breakdown Structure, etc.) using Microsoft software products and/or pdf. The software version must be no less than a version still available on the common market and that is still supported by the manufacturer. The State will work with the Vendor in approving specific versions to assure that the application is synchronized with the State's plans.</p>	Y	
I1.12	<p>The Vendor will advise the State and Vendor management of progress in meeting goals and schedules contained in the work plans as well as any risks and issues during weekly progress meetings attended by the Vendor and the State. These may include walkthroughs of selected deliverables as requested by State staff.</p>	Y	
I1.13	<p>The Vendor will develop weekly progress reports. Weekly written progress reports will be provided by the Vendor to the State one working day before each weekly meeting, and containing items to be discussed at the meeting, including:</p> <ul style="list-style-type: none"> - Progress of each task/activity. - Action items and decisions from the previous meeting. - Problems encountered, proposed resolutions, and projected completion dates for problem resolution. - Planned activities for the next two reporting periods. - Status of contractually defined deliverables, milestones, and walkthroughs scheduled in the project schedule. - Updating of information on a weekly basis in the State project and portfolio management tool. - Other information as needed (per Vendor or the State). <p>Frequency of periodic reports" can be adjusted during the course of project as agreed by the State and Vendor.</p>	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I1.14	<p>The Vendor will develop monthly progress reports. The progress report will include deliverables, milestones, walkthroughs, the State approvals, and lessons learned and will be used by the Vendor and the State in measuring the Vendor 's progress and performance. The report will also contain:</p> <ul style="list-style-type: none"> - Issues, problems, and corrective actions, steps, and assignments. - Risks and mitigations. - Total budget and cost variance reporting - Lessons learned - Percentage complete - Resources and time required to completion <p>During the application development phase of the project, Business Lead, PM, and EA to sit in on weekly SCRUMs as needed. As the project nears completion, Business Lead, PM, and EA will host mtgs for daily status updates.</p>	Y	
I1.15	<p>If the Vendor must substitute key staff during the project, the Vendor will submit to the State, in writing, the reason for the change and provide a completed staff experience reference form and resume for the substitute personnel. The State will either approve or reject the substitution.</p>	Y	
I1.16	<p>The Vendor will provide contract close-out plans and manage project close-out activities in accordance with the plan.</p>	Y	
I1.17	<p>As part of the proposal, the Vendor will describe the staffing approach and methodology used for the project, which will include:</p> <ul style="list-style-type: none"> - Estimated number of Vendor 's resources needed per each phase of the project. - The number of staff resources within the following categories: Management, Business, and Technical. - The number of staff resource onsite vs. remote per the phase of the project - A description of the methodology used for releasing and adding staff to the project and managing staff PTOs - Outsourcing staff if applicable - Types and number of resources that State needs to provide per the phase of the project and expected hours from those resources - Providing a project organization chart. 	Y	
I1.18	<p>The Vendor will describe issue escalation process to settle matters of dispute as it relates to roles, responsibilities, or unmatchable level of service (i.e. what is their escalation chain) and this will be aligned with the State's escalation plan.</p>	Y	
I1.19	<p>The Vendor will describe their approach to remediate and realign the project and project plan in the event that the Vendor or the State decides that any aspect necessitates immediate attention and/ or State/Vendor management intervention.</p>	Y	
I1.20	<p>The Vendor will provide a minimum of one full time assigned PMI Certified project manager</p>	Y	
I1.21	<p>The Vendor will describe their approach regarding the project documentation repository. The Vendor is recommended to align with the State's document repository. In case the Vendor cannot, they must provide justification as to why their proposed repository works well in the best interests of the State</p>	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Knowledge Transfer and Training Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I2.1	The Vendor will develop (in cooperation with the State) and execute a Knowledge Transfer and Training Plan that describes roles and responsibilities of the State and Vendor and the approach for bringing managers, end users, and technical personnel to an appropriate level of understanding with the System.	Y	
I2.2	<p>The Knowledge Transfer and Training Plan will address and describe, at a minimum:</p> <ul style="list-style-type: none"> - Training goals/standards and the specific plan for training technical personnel and end users. - Size of population and types of roles that need training - Strategy for providing training early in the project to allow the training goals to be implemented throughout the project life Phase. - Tasks, deliverables and resources necessary to complete the training effort and identify tools and documentation that will be necessary to support proposed effort. - Types of training, the specific courses and course materials, the training approach for both technical personnel and end users, and how training effectiveness will be measured and addressed. - Deliverables to support initial and ongoing training including user manuals, System manuals, and on-line help and training materials for technical/non-technical personnel. - Knowledge Transfer to enable the State personnel to operate, maintain, configure and modify the System including operation of the testing tools, supporting infrastructure, and security as agreed between the State and Vendor. - Metrics for tracking progress in achieving training and knowledge transfer objectives. - Reporting progress of training and knowledge transfer activities. - Additional training for technical staff on development, reporting and maintenance including processes and tools as needed - The training must include all aspects of the use of the New System - both Technical and Operational <p>All Training Materials are due at the time of Staging and before the 3rd iteration of any application development</p>	Y	
I2.3	The Vendor will provide end user training documentation (including user manuals, online content, reference cards, etc.). Vendor is to supply full provisioning to all primary, secondary, and third level support personnel identified by the Business Lead. Provisioning for these users to be completed on the staging platform prior to SoV UAT	Y	
I2.4	The Vendor will provide the State a training course outline for review and acceptance at least thirty (30) calendar days prior to the beginning of scheduled training.	Y	
I2.5	The Vendor will submit all training packages to the State for review and acceptance at least twenty-one (21) calendar days prior to the beginning of scheduled training.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I2.6	The Vendor will provide (customized as required) training manuals for all classroom as well as any online training they provide. Softcopies of all training manuals will be provided by the Vendor for both modes of training (classroom or online). Additionally, Hard copies of training manuals will be provided for class room training.	Y	
I2.7	The Vendor will provide all training materials developed for the system to the State. Those materials will become the property of the State and may be modified and duplicated by the State.	Y	
I2.8	The Vendor will provide electronic copies of all training materials (end-user, technical, trainee and instructor) in a format that can be easily accessed, updated and printed by State staff using software for which the State owns licenses. This includes but not limited to CDs/DVDs, and online. All training materials must conform to the applications and components interfacing with the Enterprise Staging Platform prior to release into production	Y	
I2.9	The Vendor will provide updated training documentation as necessary to incorporate new processes or functionality due to system releases, upgrades, or changes throughout the contract term.	Y	
I2.10	The Vendor will schedule all training during regular work hours as approved by the State, unless the Vendor receives advance approval from the State for specific training at other times.	Y	
I2.11	The Vendor will provide all training within the State of Vermont at locations convenient to the attendees of the training, unless the Vendor receives advance approval from the State for specific training at other locations.	Y	
I2.12	The Vendor will schedule staff training in a manner that is least disruptive to the normal business operations.	Y	
I2.13	The Vendor will provide instructions to the State on Vendor tools and procedures used to support the training.	Y	
I2.14	The Vendor will ensure that Vendor staff members are not assigned to train State staff and work on critical path development tasks concurrently.	Y	
I2.15	The Vendor will assist the State in developing end-user training on the System business functionality.	Y	
I2.16	The Vendor will provide end-user classroom training sessions and on-line training as agreed with the State for all end-users.	Y	
I2.17	The Vendor will identify the number of staff necessary for maintenance and operations of the System as well as the skill sets necessary, with the State's agreement.	Y	
I2.18	The Vendor will develop and provide training for the technical support staff including State staff and contractors.	Y	
I2.19	For the duration of the contract, the Vendor will continue to provide training to the technical staff if system upgrades have been installed and there is a change in System components functionality.	Y	
I2.20	The Vendor will create a training approach and needs analysis early in each project Phase which will determine the training requirements	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Testing and Validation Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I3.1	The Vendor will describe the overall testing approach and methodology used for the System deployment. The Vendor will work with the State's Business Units in fine tuning the testing approach and get the State's approval before starting the testing phase	Y	
I3.2	<p>The Vendor will incorporate the testing approach into a comprehensive Test Plan. The Test Plan will include the procedures for documenting the completion of each test phase, test scripts, test conditions, test cases, and test reports. Detailed test plans will be created for the following testing areas:</p> <ul style="list-style-type: none"> - Integration Testing - Security Testing - Performance Testing - User Acceptance Testing - Operations Acceptance Testing <p>All Integrated System Testing will be performed on the Enterprise Testing platform while the UAT will be performed on the Staging platform. No testing may be conducted on the production platform and all testing must be completed prior to deployment.</p>	Y	
I3.3	<p>The Test Plan must, at a minimum, include the following areas:</p> <ul style="list-style-type: none"> - Test philosophy (including objectives, required levels or types of testing, and basic strategy (developing, testing and release of major subsystems/components). - Procedures and approach to ensure the testing will satisfy specific objectives and demonstrate that the requirements are met. - Procedures and approach to ensure that each phase of the testing is complete, and how formal reports/debriefings will be conducted for each phase of testing. - Approach to define tested workload types (performance testing) and test data - Overview of testing facilities, environment and specific testing tools to be used. - Overview of processes and procedures that will be used by the Vendor for releasing testing results and review of test results. - Process and procedures for tracking and reporting for results/variances/defects will be tracked and reported. - State resources required for testing during the development life cycle for each testing area. - Method for review of test cases and procedures - Configuration management of the test environment - Describe User Acceptance Testing and User Sign-Off - Plan and deliverables for each testing area described above - Vendor is responsible for providing detailed instructions in modifying any desktop configuration settings prior to the commencement of System testing. 	Y	
I3.4	The Test Plan will provide a detailed description of each test required to ensure that all of the System components, interfaces, and components comply with the requirements and specifications.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I3.5	Testing and Development will have their own environments, separate from Production. Testing or development will not be performed in the production environment.	Y	
I3.6	The Vendor will repeat the test life cycle when a failure occurs at any stage of testing.	Y	
I3.7	The Vendor will be responsible for building test plans, executing test plans, and creating reports. The State will evaluate the Vendor test plans, and Vendor test results, and may validate the testing done by augmenting it with State testing.	Y	
I3.8	The Vendor will document the testing tools, test configurations and related documentation. The Vendor will provide all necessary performance testing scripts with input from the State's Business Units. The State will have the final say on what is an acceptable performance. Performance testing to be completed by the Vendor with input from the EA Office and the Business Lead. The Staging Platform to be used for all performance testing. Benchmark reports to be issued to Business Lead and EA Office.	Y	
I3.9	The Vendor will provide the State with the test scripts, test results and quality reports.	Y	
I3.10	The Vendor will provide staff to the State to answer questions and address any problems that may arise during testing conducted by the State.	Y	
I3.11	The Vendor will refine the test documents, procedures, and scripts throughout development and through full System acceptance to reflect the as-built design and current requirements.	Y	
I3.12	The Vendor will allow the State to run validation and testing software against externally facing Internet applications to help identify potential security issues, and must agree to repair any deficiencies found during this testing.	Y	
I3.13	As System events contain date and time-sensitive elements, the testing infrastructure must provide a method of altering and synchronizing the System date throughout each test phase. This requires the ability to change the System date and time in some scenarios.	Y	
I3.14	The Vendor must develop a comprehensive Defect resolution Management Plan that describes the approach to be taken in managing all problems discovered during any testing phase and in production.	Y	
I3.15	The Vendor will install and test a single Defect resolution Tracking System that the Vendor and the State will use collaboratively for the tracking of System defects, security, and System issues.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I3.16	<p>The Defect resolution Tracking System must, at a minimum, include:</p> <ul style="list-style-type: none"> - All defects in the System identified during any testing phase must be recorded, prioritized, tracked, and resolved in a timely manner. Each must be assigned a "Defect Level" based on the following definitions: <ol style="list-style-type: none"> 1. Critical - Results in a complete System outage and/or is detrimental to the majority of the development and/or testing efforts. There is no workaround. 2. Serious - System functionality is degraded with severe adverse impact to the user and there is not an effective workaround. 3. Moderate - System functionality is degraded with a moderate adverse impact to the user but there is an effective workaround. 4. Minor - No immediate adverse impact to the user. - The Vendor will allow the State full access to the Defect resolution Tracking System. - The Defect resolution Tracking System will be designed in a manner to allow for the transfer of ownership to the State following contract completion. - The processes and management of the Defect resolution Tracking System will be addressed as part of the Quality Management Plan. - The Vendor will address defect as such: Critical and serious defects will require remediation and retesting before the System enters production. Moderate and Minor defects will be fixed and tested to the State' satisfaction prior to System acceptance. 	Y	
I3.17	All components of the System will accommodate leap year processing and daylight savings time start/end dates.	Y	
I3.18	The Vendor will compare and contrast the design of System components to CMS architectural standard. The Vendor will apply a documented and structured Architecture Development Methodology (ADM) for the design of System components. The Vendor will provide all necessary performance testing scripts with input from the State's Business Units. The State will have the final say on what is an acceptable performance.	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Data Conversion and Migration Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I4.1	The Vendor will describe the migration approach and methodology used for the PBM project as per the Migration phase approach outlined in the ADM	Y	
I4.2	The Vendor will incorporate a detailed Migration approach into a comprehensive Migration Plan which will be added to other PM plans as part of the PMO. The State anticipates considerable collaboration with the Vendor in the plan's construction, with particular attention to high complexity components of the existing the State systems as well as the proposed System.	Y	
I4.3	<p>Disaster recovery requirements relative to the physical System components and planning for recovery from operational failures are the responsibility of the Vendor. The Vendor will develop an Operational Recovery Plan that addresses the following:</p> <ul style="list-style-type: none"> - Areas of the most susceptible to failure or disaster that would result in downtime. - Recommendations for System recovery processes, or steps to take in the event of a downtime event. - Recommendations for the State on how to comprehensively and effectively mitigate the risk of a downtime event. - Recommendations for securing the System components during a period of emergency operation. - Testing Failover and DR while on Staging Platform after testing has concluded and prior to deployment on Production Platform. - DR requirements must include networking DR for Datacenter access. 	Y	
I4.4	The Vendor will describe the interface management approach and methodology used for the PBM Project.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I4.5	<p>The Vendor will incorporate the interface management approach into a comprehensive Interface Management Plan for all interface mechanisms used for System (e.g. batch, ESB/web services). The Interface Management Plan will be used by the State to document the plan for integrating the PBM System with all systems internal and external to the State. The Interface Management Plan will, at a minimum, document the following areas:</p> <ul style="list-style-type: none"> - The approach to developing and managing internal and external System interfaces. - Technical tools that will be used for data transformation, transport and error recovery. - A description of how the Vendor's development standards will be reconciled, to reflect use of ESB and web services as wrappers to legacy systems. The Vendor should produce example scenarios for integration reflecting their infrastructure components and toolset. - Tasks, deliverables and resources necessary to complete interface development and Migration. - Description of how the System development and test systems will work with the external interfaces. - References to applicable sections in the relevant design documents that describe how the System System will be synchronized with the specific internal and external interfaces. - References to applicable sections in the detailed design that describe the mappings between internal and external System data and the System data. - Descriptions of the process for managing changes to the interfaces, both in the production and non-production environments - Interface(s) needed for maintaining data synchronization between an interim production System and the final production Migration. - System interfaces, data format, frequency of updates and expected data volume. - Process for interfacing and collaborating with interface partners, including roles, responsibilities, deliverables and timelines. - How the State development and test systems will work with the external non-production interfaces. - Interface tools 	Y	
I4.6	The Vendor will validate that each interface is working correctly. The Vendor will repair all interface-related problems caused by Vendor-developed interfaces.	Y	
I4.7	The Vendor will assist the State in identifying root causes for all System interface related problems.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I4.8	<p>When functionality is ready to be delivered to the State for User Acceptance Testing (UAT), it will be delivered in the form of a pre-production release (defined as ready for production in every respect but just not yet in production). Since the State will approve all releases into production, a pre-production release is equivalent to a production release and requires the rigor associated with a production release. Upon successful completion of UAT, the State will schedule a release to be moved to the production environment.</p> <p>Each pre-production release will include the following:</p> <ul style="list-style-type: none"> - Release-specific hardware and software System components. - Release description including architecture or design updates, new functionality introduced, defects fixed, modifications to interfaces with other systems, other changes to existing code, and any software and hardware configuration changes. - Release contents including a description of the release structure and contents and instructions for assembling and/or configuring the components of the release. - Test Plan and test execution results. - Detailed hardware and software configuration information including any software and hardware dependencies and instructions at a level of detail that will enable administration staff to rebuild and configure the hardware environment without outside assistance. - Database documentation conforming to industry standards. - Detailed configuration information for any 3rd party hardware and software. <p>The Vendor will provide updated documentation when System upgrades to software or equipment occurs through the life of the contract.</p>	Y	
I4.9	Deployment will be iterative from both a business process and applied technology perspective and will be accepted by the State through application of the acceptance criteria in testing plans.	Y	
I4.10	The Vendor will deliver to the State a requirements traceability matrix for all delivered functionality, showing all testing activities tracing to delivered functionality, and all delivered functionality tracing to requirements in the requirements repository.	Y	
I4.11	The Vendor will assist the State with testing and release preparation in the pre-production environment.	Y	
I4.12	The Vendor must produce and execute an Migration Support Plan.	Y	
I4.13	The Vendor must provide support staffing information such as the proposed number, ratios, duration, and roles/responsibilities for on-going support (as identified in previously submitted Migration approach and plan).	Y	
I4.14	The Vendor must assess the pre-Migration readiness of each part of the organization and will document the status in a pre-Migration readiness assessment. The Vendor will conduct an Migration readiness review ten days prior to cutover at each part of the organization.	Y	
I4.15	Upon successful completion of the pre-production testing, the Vendor will, in coordination with the State, create a Release Plan that will consist of an updated Pre-Production Release notification to assist the State in successfully releasing and maintaining the System for production business use.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I4.16	The Vendor will describe the approach to pilot the System, including a high-level draft Pilot Plan.	Y	
I4.17	<p>The Pilot plan will be executed on the Staging platform and, at a minimum, will address the following:</p> <ul style="list-style-type: none"> - Pilot locations, users, durations, sequencing and timing - Pilot support model including roles and responsibilities of the Vendor and the State; number of staff on-site and off-site; and staffing hours - How the pilot will be representative of staff from each broad category of work reflected in the State and represent the diversity in size of the various offices - Strategy for testing of all production functionality of the System components including interfaces to external systems - Reporting in the dual environment - Training of users and technical staff - Help desk procedures, functionality and incident reporting - Problem management procedures - Help related documentation - Functionality and operations of interfaces - Approach for validating worker productivity and efficiency - Approach for testing and validating mobility - Readiness planning - Plan and approach for resolving data corruption issues as a result of conversion - Change management processes - Approach for communication and coordination of pilot activities and issues - Approach and procedures for evaluating user experience and feedback - Approach and process for evaluation of the pilot against defined pilot success criteria - Detail process to validate the Migration process and tools and certify the State application, technical environment, and users as ready to move to full production Migration - Roll-back plan 	Y	
I4.18	<p>The pilot(s) will test all System components including at a minimum:</p> <ul style="list-style-type: none"> - Training - Help desk - Production Support - Documentation - Interfaces - All Functionality - Reporting - Security - Problem escalation - Change process 	Y	
I4.19	The Vendor will produce a lessons learned document after conducting the System component pilots and provide recommendations for changes to the Migration process.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
I4.20	The Vendor will ensure smooth flow of data between the various systems interfacing with the PBM System including the MMIS system and others.	Y	
I4.21	The Vendor will provide data coversion from legacy system to new system	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Quality Management Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
15.1	The Vendor will describe the quality management approach and methodology used for the System with input from the Business Units	Y	
15.2	<p>The Vendor will develop a Quality Management Plan to describe the approach they will use to ensure the quality of the Service and the work it performs. The Plan will include at least the following items:</p> <ul style="list-style-type: none"> • The State’s management of the requirements. This includes the identification of inconsistencies between the requirements, and the project’s plans and work products. • The State’s requirements traceability matrix that will be used for requirements management, and will map where in the software a given requirement is implemented. • The practices and procedures that will be followed for reporting, tracking, and resolving problems or issues identified in System Testing, System Migration, and System Operations. • The business process changes resulting from the System. • The quality of work products developed and delivered by Vendor’s sub-Vendors/partners, if applicable. • A metrics process that describes how measurements will be identified, collected, and analyzed to ensure that quality goals, including management and the System goals, are being met. It should also describe the types of project metrics used. • The Vendor’s organizational structure, and the roles and responsibilities of Vendor staff as they relate to quality management. • Description of the processes and management of the Defect and Issue Tracking System for System of items and, if applicable, how corrective action plans will be developed to address more significant issues. 	Y	
15.3	The Vendor must, subject to review by the Department as needed, implement and document quality assurance processes and procedures to ensure integrity of services and of the processing and storage of the Vendor’s data including, but not limited to, the following:	Y	
15.4	a. Maintain separate testing environments, emulating the production environment, where users can test systems changes, edits, and pricing without affecting the production systems	Y	
15.5	b. Allow online update and inquiry of all data repositories in the test environment(s) to simulate the production environment	Y	
15.6	c. Generate test results to evaluate the fiscal impact of changed edits or other test conditions	Y	
15.7	d. Validate and document internal systems by balancing input and output data execute batch jobs appropriately, and generate outputs appropriate for the executed cycle	Y	
15.8	e. Comply with the requirements of the Payment Error Rate Measurement (PERM) program and other quality assurance programs as specified by CMS, the State, and the Department	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
15.9	f. Maintain internal quality control procedures for functionality and data integrity	Y	

**State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Operations Requirements**

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
O1.1	The PBM Vendor will have recovery plans in place for the non-production environments of the PBM System enterprise (Development, Testing, Staging, Model Office and Business to Business environments.)	Y	
O1.2	The PBM Vendor will have a Disaster Recovery Plan in place for the production PBM System environment in the event of a catastrophic disaster at either the primary or secondary sites.	Y	
O1.3	The PBM Vendor will be required to supply hot failover and fail back capability for the production PBM System. This capability will be invoked during system maintenance of the PBM System at the primary production site and during any production outage at the primary site and/or Secondary Network back up to primary Data Center should primary circuit fail but Data Center is Ok. At a minimum, this failover functionality will be tested each quarter of the year for the duration of the contract. If no system maintenance or outages have occurred during a quarter to exercise this capability, then the PBM Vendor will schedule a test failover and fail back to occur within the month following the end of such quarter.	Y	
O1.4	The PBM Vendor will be required to supply a PBM System Help Desk that is available during regular business hours (Monday – Friday, 8:00 a.m. – 7:00 p.m. Eastern Time and Saturdays from 8:00 am – 5:00 pm Eastern Time) to assist with usability questions, problem analysis and for reporting technical issues	Y	
O1.5	The PBM Vendor must have a defined escalation plan for technical problems that cannot be addressed by the PBM System Help Desk. The escalation plan must include a definition of severity levels and specific escalation procedures based upon the severity of the technical problem.	Y	
O1.6	The System will have the ability to generate administrative alerts and warnings when statistics indicate an impact or potential limits on system performance and availability. These alerts will need to be communicated through various mechanisms including SMS, Phone and Email	Y	
O1.7	The System will provide SLA monitoring and reporting capabilities.	Y	
O1.8	The System will provide event management and monitoring functionality according to ITIL best practices.	Y	
O1.9	The System will provide Data archiving capabilities based on State defined criteria.	Y	
O1.10	The System will provide version control capabilities to ensure the integrity of all software releases.	Y	
O1.11	The System will provide logging, reporting for accessing errors and exceptions.	Y	
O1.12	The System will monitor and provide reports on any unauthorized access.	Y	
O1.13	The System will track unusual or out of normal system operations usage or user access.	Y	
O1.14	All system communications will be protected by at least 128-bit encryption.	Y	
O1.15	The System will maintain the privacy and participant consent requirements of the participants.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
O1.16	The System will protect the integrity of the data across all interfaces. Data will be accurate and timely.	Y	
O1.17	The System will provide role-based user and identity management.	Y	
O1.18	The System will maintain a level of security that is commensurate with the risk and magnitude of the harm that could result from the loss, misuse, disclosure, or modification of information.	Y	
O1.19	The System will implement security controls in accordance with Federal and State security policy and regulations.	Y	

State of Vermont - Medicaid Operations - Pharmacy Benefits Management
 Template H - RFP Non-Functional Requirements Response
 Service Level and Performance Requirements

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
System Availability and Response Times			
P1.1	The PBM System will be operational every calendar day of the year and 24 hours every day. The Vendor will meet a 99.90% PBM System availability requirement. This includes end-to-end System availability of all software, hardware and communications interfaces between the PBM System and all ancillary systems. The Contractor must measure and report its performance on this SLA monthly.	Y	
P1.2	The Vendor's PBM System response time be no greater than 8 seconds and must average 3 seconds or less for all interactive system transactions other than the reporting-related system interactions covered by the next 4 SLRs. The response time is measured as the time from when the users presses enter until the screen refresh in response is complete.	Y	
P1.3	The maximum response time for search and lookup performance is 3 seconds for 95 percent of the time. Maximum response time shall not exceed 15 seconds except for specified and agreed to exclusions.	Y	
P1.4	The maximum response time for a Dashboard report is 5 seconds, 95% of the time.	Y	
P1.5	The maximum response time for a Static Standard report is 5 seconds, 95% of the time.	Y	
P1.6	The maximum response time for a parameter-based report is 20 seconds.	Y	The maximum response time for a parameter-based report of 20 seconds is dependent on the volume of data being reported
P1.7	The PBM Vendor must take immediate action to ensure that the System downtime does not exceed 15 minutes per occurrence and take necessary action to meet End-to-End System Availability and Response times as agreed to in the contracted service level agreements.	Y	
P1.8	Unscheduled System down time per occurrence- The amount of time that the PBM Service has an unscheduled downtime will not exceed 2 hours per occurrence, and no more than 2 incidents per year	Y	
System Disaster Recovery Performance Measures			
P1.9	Recovery Time Objective (RTO) will be within 4 hours. In case of a disaster that effects the PBM operations, the entire service shall be restored within 4 hours	Y	
P1.10	Recovery Point Objective (RPO) will be no more than 1 hour of data loss. In case of a disaster that effects the PBM operations, 1 hour of data inputs to the system (but no more) may be lost and need to be re-entered.	Y	
Call Center Performance Measures			
P1.11	First Call resolution Rate will be 95% or greater. First contact completion applies when the first person the customer reaches either answers the question, resolves the problem, or dispatches service where appropriate.	Y	
P1.12	Call Answering Time - 95% of all calls entering the hold queue will be answered within 30 seconds by an agent with 90% of those answered within 20 seconds and the remaining answered within 40 sec.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
System Availability and Response Times			
P1.13	Call abandonment Rate will be 3% or less. This is the % of calls that are disconnected/abandoned after entering the hold queue.	Y	
POS System SLRs			
P1.14	The POS system provided to the Pharmacies will operate with 24x7x365 availability no less than 99.9% of the time – except for Vendor scheduled downtime approved by the State of Vermont	Y	
P1.15	Average POS response time of three seconds or less on all transactions. (Response time means the time from when the claim is received by the Vendor's processor to the time the results are transmitted from the Vendor's processor and includes all procedures required to complete claim adjudication.)	Y	
P1.16	The Vendor must notify staff designated by the State of Vermont of performance issues impacting POS adjudication within 15 minutes of the Vendor's knowledge of the system problems. The State of Vermont will provide procedures for after-hours contact during the Design, Development, and Implementation phase of the Contract.	Y	
P1.17	99% of enrollment eligibility data and provider enrollment data is updated within _____ of receipt of the eligibility and provider information, including electronic file transfers and manual updates.	Y	
P1.18	99.9% of all prescription claims will be processed accurately.	Y	
P1.19	99.9% of all prescription claims will be processed accurately.	Y	
Other SLRs			
P1.17	The PBM Vendor will notify the State according to HIPAA requirement of any security or data breach including PHI or PII data breach and will follow and be responsible for the incident response procedures and activation.	Y	
P1.18	The PBM Vendor will be required to correct any Federal or State audit findings specific to the PBM System environment in the time frame specified in the audit report.	Y	
P1.19	The PBM Vendor will provide a detailed approach to Operational Management in line with the State's strategy. Additionally, the Vendor will provide detailed Operational information on automated and manual tools as well as details on processes that will be performed by the PBM Vendor to ensure effective system control, reliability, documentation, and recovery.	Y	
P1.20	Provide the capability to track, monitor, and report on all activities as defined within SLAs.	Y	
P1.21	Provide an automated real-time capability to track and monitor performance of all system components (End-to-End).	Y	
P1.22	The PBM Vendor will meet all HIPAA standards for the protection of PHI and PII data and will be held responsible to remediate any system breach that results in identify theft. The Vendor will be responsible for all fines and damages related to any breach of PHI or PII data security.	Y	
P1.23	The PBM Vendor will meet all federal mandates and deadlines for compliancy as defined the Regulatory and Security tab. All Security efforts, to bring the PBM System under compliance, will not be considered as separately payable under the PBM System Application Support arrangement but should be factored into the overall cost for providing the system to State.	Y	

RFP Req #	Requirement Description	Response Code (Y or N)	Vendor Response Comment(s)
System Availability and Response Times			
P1.24	Facilitate the continued improvement of performance and process efficiency by providing reporting that includes both current values and historical data with sampling frequencies and timeframes.	Y	
P1.25	Provide an automated performance monitoring system to measure operational performance against defined Service Level Agreements and report results using a Scorecard.	Y	
P1.26	The System will have the ability to generate administrative alerts and warnings when statistics indicate an impact or potential limits on system performance and availability. This includes alerts from every System component including the Database.	Y	
P1.27	The Vendor must notify staff designated by the Department of performance issues impacting PA processing within 30 minutes of the Vendor's knowledge of system problems.	Y	
P1.28	100% of the monthly and quarterly standard management reports shall be available and delivered to the Department within 30 days after the end of each quarter.	Y	
Account Management			
P1.29	85% of all calls are resolved within two business days of receipt	Y	
P1.30	All written inquiries will be responded to within two business days	Y	
P1.31	Ongoing change requests including programming changes requested the Department, are completed within 20 business days or 30 calendar days of receipt of the request, unless other time parameters are agreed to by the Department.	Y	
P1.32	The Vendor guarantees a satisfaction rating of at least 100 for satisfied or very satisfied. The Vendor will survey Department staff and report results back to DVHA.	Y	
Legal/ Contracting			
P1.33	The Vendor guarantees the timing of response to the Department comments of the contract draft within 10 business days of the receipt of the contract requested changes.	Y	

1.0 Introduction and Instructions

Please use these response sections to provide specific details of the proposed approach to meeting Vermont PBM requirements in each area. Responses should, when necessary, reference requirements using the appropriate RFP Requirement Numbers from Template H - RFP Non-Functional Requirements.

Also, include one or more diagrams where necessary that detail the proposed design, approach and the relationships between key components.

Responses in this document must be highly-focused on the specific requirements and must not simply provide generic or marketing descriptions of the Vendor's capabilities.

The following sections provide narrative, screenshots, and process documentation to describe features and functionality of our proposed PBMS. Further, the subsections provide correlation to the detailed requirements in Section H – Non-Functional Requirements.

- 2.0 Interoperability and Integration
- 3.0 Regulatory and Security
- 4.0 User Interface
- 5.0 BI and Reporting
- 6.0 Project Management
 - 6.1 Program and Project Management
 - 6.2 Project Work Plan
 - 6.3 Change Management Plan
 - 6.4 Relationship Management
 - 6.5 Issue Management
 - 6.6 Risk Management
 - 6.7 Relationships with Third Parties
- 7.0 Knowledge Transfer and Training
 - 7.1 Change Management
 - 7.2 Knowledge Transfer
 - 7.3 Training Strategy and Approach
- 8.0 Testing and Validation
- 9.0 Data Conversion and Migration
 - 9.1 Data Conversion Strategy, Approach and Timeline
 - 9.2 Data Transition Strategy, Approach and Timeline
 - 9.3 Implementation/Rollout Planning
- 10.0 Quality Management
- 11.0 System Administration and Disaster Recovery
- 12.0 Performance
- 13.0 Service Level Requirements – Business Process Performance Measures
- 14.0 Service Level Requirements – System Performance Measures
- 15.0 Non-Functional Requirements Assumptions

2.0 Interoperability and Integration

Instructions: Describe the system integration approach between the PBM System, State of Vermont Interfaced Systems and any other proposed third party systems or products. Describe the interoperability features and capabilities of the proposed PBM System including integration with the VT HSEP (Vermont Health Service Enterprise Platform) and VISION (State's accounting system) using a Service Oriented Architecture via an Enterprise Service Bus. The approach must, at a minimum, provide details on how the proposed Solution intends to meet or exceed the Interoperability-Integration Requirements set forth in the document 'Non-Functional Requirements, Tab A1 Interoperability-Integration Requirements'.

Technology Best Practices (A2.9, A2.27, A2.35)

In recent years, the Centers for Medicare and Medicaid Services (CMS) has recognized the need to dramatically reshape the systems that support government healthcare programs. To this end, CMS and the 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. Our claims processing system, Pharmacy Benefits Management Open System Plus (PBM OS+), is designed based on service-oriented architecture (SOA) principles and methodologies that use interoperable services capable of communicating and exchanging data with other products and systems. The architecture is an integrating framework that allows services to remain both platform and technology independent and yet remain interoperable.

The PBM OS+ 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 Vermont's healthcare programs and agencies.

Xerox agrees to the iteration and environment requirements as noted in the RFP Template H, Non-Functional Requirements, Tab A1 Interoperability-Integration Requirements.

Enterprise Service Bus (A2.2, A2.8, A2.10-A2.17, A2.21-A2.23, A2.28, A2.29, A2.33, A2.37)

In support of enterprise-wide interoperability and providing a comprehensive SOA platform that aligns with State standards, Xerox leverages an Enterprise Service Bus (ESB). Supporting Application to Application (A2A) integration, the PBMS platform is able to support both synchronous and asynchronous messaging using web services and is capable of supporting a variety of A2A patterns with our ESB. Point-to-point integrations are to be avoided.

The PBMS ESB provides the primary interface to the Agency's Enterprise Platform, and in particular, the State's central ESB. Our ESB supports the creation, extension, consumption and exposure of service interfaces through the use Web Services Description Language (WSDL), XML Schema Definition (XSD) schema support, Simple Object Access Protocol (SOAP), Representational State Transfer (REST), Java Message Service (JMS), WS-Security extensions, and Universal Description, Discovery and Integration (UDDI). WS-Policy configurations for message reliability, providing reliable, once-only delivery of messages, are supported. The solution also supports the capability to work with a security policy manager in applying web service security policies.

In leveraging the PBMS ESB, Xerox ensures exposed services offer logical representations of business objects and that data transformations will be to and from normalized formats. Common data elements and services can be shared across the enterprise as required, within the context of our defense-in-depth security practices.

The ability to track a message from its origin to its destination, query its status, and respond to exceptions is supported.

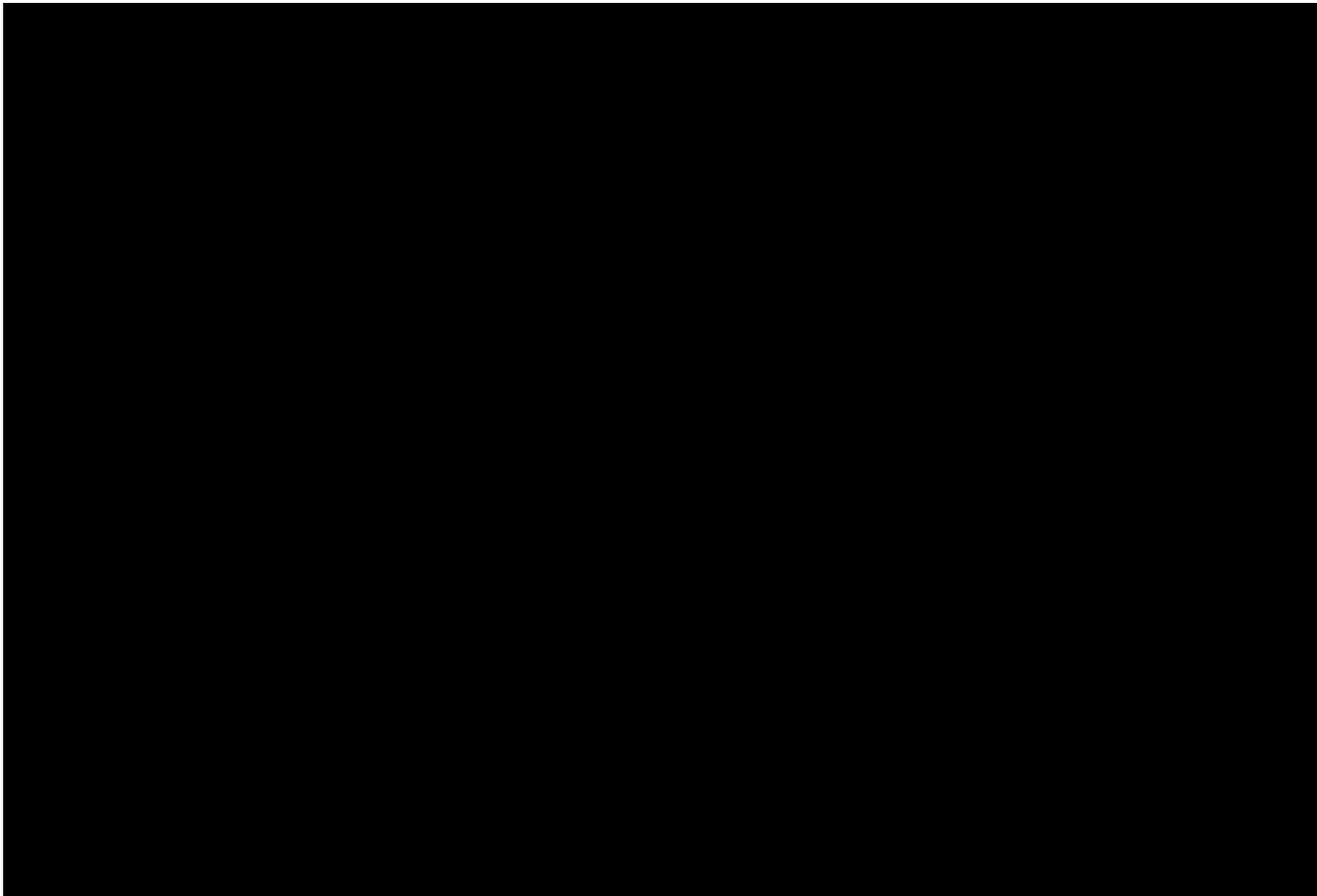
Service Metadata (A2.18-A2.20, A2.25, A2.26, A2.31, A2.36)

Xerox agrees to provide metadata that enables an ESB to find, bind and invoke the execution of a service implementation. Population of a SOA Architecture Repository and attributed lifecycle status and service classification as requested in the RFP is included. Additionally, metadata attributes as requested in the RFP will be tracked for all services in the services catalog. The capability to work with a Service Registry is supported.

Xerox agrees to review, classify, and catalog all services prior to use and to model this documentation per ISO/IEC/IEEE 42010 Architecture Description Template. All services will have key stakeholder/owners identified following the ADM Architecture Model with Role Matrix as specified in the RFP.

Defense-in-Depth Approach to Security (A2.1)

As illustrated in Exhibit I-1, we apply a “defense-in-depth” security approach that incorporates multiple layers of administrative, physical, and technical controls to protect the project’s data, staff, and processing facilities during each phase of contract operations. This security approach follows the premise that multiple layers of security provide greater security than a single layer alone. Thus, if one security layer is compromised, other layers of security continue to provide protection against unauthorized intrusion. This best-practice approach is considered an industry standard. Our approach has proven effective for protecting sensitive data for 24 states and the District of Columbia.



The safeguards we establish protect data and records from theft, viruses, mischief, tampering, loss, and unauthorized destruction. The system’s security and privacy capabilities are defined and woven into the system architecture to protect against unauthorized access to services, processes, servers, networks, applications, and databases. Role-based authentication limits user access to only that data and those functions for which the user is approved, and 128-bit SSL encryption prevents unauthorized workers, systems, or hackers from “sniffing” the data in transit. Firewalls protect from unauthorized and potentially harmful access to various network zones including Web servers and partner portals. Fully tiered architecture imposes more firewall constraints on access to the application servers and database servers. We provide further protection through a Network Intrusion Detection System (NIDS) that monitors the perimeter and alerts of violations attempting to cross into our network.

Our security program includes comprehensive physical safeguards for protecting our facilities and the staff and data they house through sophisticated monitoring systems, audited and monitored proximity access controls, strict visitor control procedures, and environmental monitoring systems. We also maintain a proven and fully tested disaster recovery and business continuity plan that provides continuation of operational service delivery and system reconstruction in the event of a disaster.

Interface Reliability/Availability (A2.3, A2.30)

At the heart of the PBMS technical architecture is an interface infrastructure that provides the flexibility, scalability, reusability, and adaptability necessary to support the current and evolving needs of pharmacy programs.



The project production environment is designed with full redundancy of hardware and network infrastructure and is capable of handling 100 percent of the production operational capacity with no degradation in performance. Clustered servers are used on every tier providing immediate failover. Data is stored on a fully redundant disk array. Load balancing, reverse proxy servers, and other components also support redundant failover. The network includes redundant routers and circuits at all critical access points to eliminate single points of failure related to local circuits and router equipment. The PBMS benefits from built-in resiliency at multiple levels: The front end servers are load balanced, and if a front-end server becomes unavailable (failure or planned maintenance), any client that is currently interacting with that server is automatically redirected to one of the remaining servers. The application servers are configured in logical redundant pairs, and if one becomes unavailable, the workload is taken over by the remaining server. The combination of Oracle RAC and a redundant SAN guarantees that the database can always be accessed.

Interface Adaptability (A2.4)

Our PBMS solution includes a complete suite of interfaces to efficiently and securely exchange the required data with federal and external state systems, with other state contractors, and among Department systems. Many of the required interfaces are standard components of our PBMS. To support Vermont's unique data exchange needs, we modify the standard interface components and develop new interfaces as necessary.

Interfaces are the key enabler of the capabilities required in the CMS Seven Standards and Conditions. The Modularity Standard, Leverage Condition, Industry Standards Condition, and Interoperability Condition all directly depend upon successful interfaces. Robust, secure, standards-based connectivity is a significant component in both meeting the Seven Standards and Conditions and advancing in MITA maturity. The PBMS solution provides the comprehensive technical framework to achieve this goal.

System Integration (A2.5, A2.6, A2.32, A2.34)

In the "Seven Conditions and Standards," CMS states, "Systems must ensure seamless coordination and integration with the Exchange (whether run by the state or federal government), and allow interoperability with health information exchanges, public health agencies, human services programs, and community organizations providing outreach and enrollment assistance services. Systems must also be built with the appropriate architecture and using standardized messaging and communication protocols in order to preserve the ability to efficiently, effectively, and appropriately exchange data with other participants in the health and human services enterprise." Our PBMS solution, using ESB-enabled architecture, supports any type of service calls and service-based interfaces. The underlying MITA-aligned architecture eliminates barriers between different application communication protocols and diverse data types. This provides enhanced system-to-system data sharing, industry-standard interoperability and collaboration across disparate healthcare programs, agencies, and/or health information and insurance exchange protocols. The system has the capability to support files, data, and protocols exchange through Extensible Markup Language (XML), Extensible Stylesheet Language Transformations (XSLT), Hypertext Transfer Protocol (HTTP), Secure HTTP (HTTPS), TCP/IP, Simple Mail Transfer Protocol (SMTP), Web Services Interoperability (WS-I), Web Services Description Language (WSDL), SOAP, 1.1 or 2.0, File Transfer Protocol (FTP), Secure File Transfer Protocol (SFTP), CONNECT: Direct, or other means of secure transmission.

Interfaces between Existing and Future MMIS (A2.5)

Xerox agrees to support real-time or batch interfaces with the systems requiring integration and data sources referenced in the RFP (ACCESS/Integrated Eligibility, Health Connect, HSE Platform and the existing and replacement MMIS), leveraging point-to-point and secure file transfer with legacy systems and Vermont's HSE Platform, Oracle SOA Suite and Service Bus for replacement systems. Xerox's confirms that our PBM solution functions independently from the MMIS, has the ability to interface with Vermont's current MMIS system, and the new Core MMIS system once chosen at a later date

Secure File Transfer (A2.7)

Ongoing data and file interfaces between the PBMS and the MMIS and other contractors are primarily exchanged using MOVEit DMZ, our corporate standard file transfer software. Automated emails alert staff, account management, and the Department of any file integrity or transmission issues.

3.0 Regulatory and Security

Instructions: Describe how the Vendor maintains physical and logical security relative to the services it provides. This should include an overview of the policies and practices to prevent, detect, and resolve security breaches. In addition, the Provider shall demonstrate experience and ability to meet all federal and local regulatory requirements (e.g., HIPAA, SOX, data privacy). The approach must, at a minimum, provide details on how the proposed Solution intends to meet or exceed the Regulatory and Security Requirements set forth in the document 'Non-Functional Requirements, Tab A2 Regulatory and Security'.

Recognizing security as a critical component of the PBMS project, Xerox brings a multi-layered security approach that is designed to meet the highest security standards.

With the growing threat of Internet-based attacks and misuse of data, Xerox sees the protection of State facilities and systems that collect, process, and store Personal Health Information (PHI) and Personally Identifiable Information (PII) as critical to the success of the Pharmacy Benefits Management Solutions (PBMS) project. Data security requirements encompass a wide range of inputs, views, threats, environments, and constraints. The project faces external threats, insider threats, and federal and State regulatory requirements. To guard against these threats and facilitate regulatory compliance, Xerox maintains the security and privacy of the PBMS project information under its control, at all times and in all formats. We accomplish this by establishing, documenting, and following security and privacy policies, procedures, and measures that guard against the intentional or accidental release of information and ensure the security of operations, facilities, systems, and other aspects of the PBMS project.

Our security approach:

- Protects the confidentiality, integrity, and availability of information that is created, processed, stored and transmitted by Xerox
- Ensures the security and privacy of all data, regardless of transmission method or medium, and all facilities, equipment and staff associated with this contract

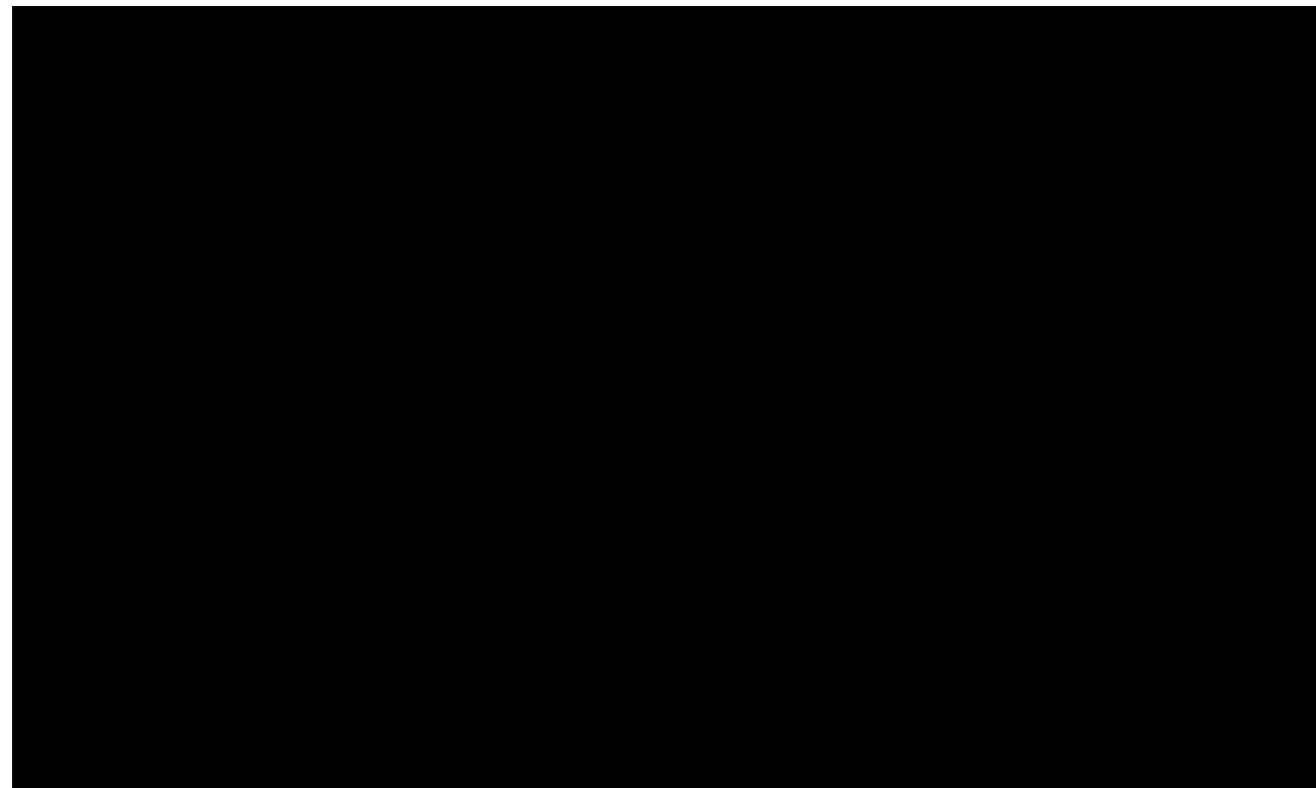
- Promotes adherence to State and federal statutes and regulations – including the Health Insurance Portability and Accountability Act (HIPAA) regulations regarding security and privacy of Protected Health Information (PHI); Exhibit D(F), Provision 13; HITECH; Omnibus Rule; OMB Circular A-130, National Institute of Standards and Technology (NIST) SP; International Organization for Standardization (ISO), using NIST special publications; and Exhibit H, HIPAA Business Associate Addendum
- Documents the policies and procedures for the storage, processing, and transmission of all information (including PHI) by Xerox and subcontractors, as well as the security of all facilities, equipment and staff associated with this contract to ensure compliance with regulations.

In the remainder of this section, we describe our approach to security in the following sequence:

- 3.1 A Defense-in-Depth Approach to Security
- 3.2 Our Approach is State and Federally Compliant
- 3.3 Security Guided by NIST
- 3.4 Identity and Access Management

A ‘Defense-In-Depth’ Approach to Security

Xerox’s objective in applying security, privacy, and confidentiality controls is to prevent improper loss, misuse, disclosure, modification, deletion, or destruction of program data while ensuring that where there is a legitimate “need to know” only the minimum information necessary to discharge program responsibilities is available to properly authorized individuals. As a healthcare administrator for state Medicaid programs throughout the country, we offer a mature, developed, and comprehensive approach to security. As illustrated in Exhibit I-2, Defense-in-Depth Security Approach, we apply a “defense-in-depth” security approach that incorporates multiple layers of administrative, physical, and technical controls to protect the project’s data, staff, and processing facilities during each phase of contract operations. This security approach follows the premise that multiple layers of security provide greater security than a single layer alone. Thus, if one security layer is compromised, other layers of security continue to provide protection against unauthorized disclosure and/or intrusion. This best-practice approach is considered an industry standard.



The safeguards we establish protect data and records from theft, viruses, mischief, tampering, loss, and unauthorized destruction. The system’s security and privacy capabilities are defined and woven into the system architecture to protect against unauthorized access to services, processes, servers, networks, applications, and databases. Role-based authentication limits user access to only that data and those functions for which the user is approved, and 128-bit SSL encryption prevents unauthorized workers, systems, or hackers from “sniffing” the data in transit. Firewalls protect from unauthorized and potentially harmful access to various network zones including Web servers and partner portals. Fully tiered architecture imposes more firewall constraints on access to the application servers and database servers. We provide further protection through a Network Intrusion Detection System (NIDS) that monitors the perimeter and alerts of malicious or unauthorized attempts to cross into our network.

Our security program includes comprehensive physical safeguards for protecting our facilities and the staff and data they house through sophisticated monitoring systems, audited and monitored proximity access controls, strict visitor control procedures, and environmental monitoring systems. We also maintain a proven and fully tested disaster recovery and business continuity plan that provides continuation of operational service delivery and system reconstruction in the event of a disaster.

Security Plan (A3.16)

We document our security strategy in a security plan (SP). The plan outlines our policies and procedures for addressing the use of any protected health data and information that falls under the HIPAA requirements. The SP helps ensure our operations sites, business activities, and system functions adhere to applicable State of Vermont, AHS, and federal laws, regulations, and guidelines, including those related to security, privacy, and confidentiality, and work with the AHS to address mandated changes as they may arise. We treat all information obtained in performance of the contract as confidential. We only use or divulge it when necessary for proper discharge of our obligations. We develop detailed and clearly defined IT policies,



based upon our proven IT experience, on ISO (International Organization of Standards) 9001, and on the National Institute of Standards and Technology (NIST) for the development of IT policies.

Our Security Approach is State and Federally Compliant (A3.1, A3.2, A3.3, A3.4, A3.5, A3.6, A3.7)

As the current PBM administrator for 21 pharmacy programs nationwide and healthcare administrator for state Medicaid programs throughout the country, Xerox is experienced in adhering to both federal security criteria as well as specific criteria for individual states. Subsequently, our approach to security, privacy, and confidentiality is designed to support and implement applicable federal, state, and local laws and regulations. The PBMS will comply with all applicable State security policies and adhere to all applicable legal, statutory, and regulatory requirements, as changes may be mandated by legislation and/or Vermont leadership and have security controls in accordance with all Federal and State security policy and regulations. This includes aligning the PBMS with Vermont branding standards as defined by the state.

Xerox's security policies and procedures align with federal and industry standards and guidelines. We refine these policies and procedures, as appropriate, to conform to State policies. Additionally, we proactively monitor federal regulations and participate in organizations that impact healthcare security and IT policy, enabling us to stay ahead of the curve in policy and technological advancements that may impact the PBMS project.

Our security, privacy, and confidentiality policies and procedures identify the mandatory minimum requirements to ensure our staff and projects maintain appropriate and consistent security practices to protect confidential information from unauthorized access, use, or disclosure. Compliance with these policies are monitored and enforced at the corporate level.

Xerox closely follows the MECT Program Management Business Area Security and Privacy Checklist to align the PBMS with Health & Human Services (HHS) Center for Medicare & Medicaid Services (CMS) security and privacy objectives and incorporates each CMS prescribed step of the certification and accreditation process into our project schedule. We are aware of and support AHS' effort to comply with the following federal standards and guidelines and will support them as detailed in the RFP and subsequent clarification:

- DOD 8500.2
- e-Government Act of 2002
- Patient Protection and Affordable Care Act of 2010, Section 1561 Recommendations

Xerox has successfully employed the mature, developed, and complete approach to all aspects of HIPAA, data, network, application, physical, and role-based security. Our approach for operations is based, at minimum, on state and federal statutes and regulations, including:

- NIST SP 800-53, Recommended Controls for Federal Information Systems
- Section 508 of the Americans with Disabilities Act (ADA)
- 45 CFR 85 accessibility requirements
- Health Insurance Portability and Accountability Act (HIPAA)
- Health Information Technology for Economic and Clinical Health (HITECH) Act

- Omnibus Rule
- Federal Information Processing Standards (FIPS) Publications
- Office of Management and Budget (OMB) Circular A-130
- 42 C.F.R. Part 431, Subpart F
- 45 C.F.R. Subtitle A, Subchapter C, Parts 160, 162, and 164
- NIST SP 800-66, Guide for Implementing the HIPAA Security Rule
- NIST SP 800-55, Security Metrics Guide for Information Technology Systems
- NIST SP 800-34, Contingency Planning for Information Technology Systems
- NIST SP 800-30, Risk Management Guide for Information Technology Systems
- NIST SP 800-26, Security Self-assessment Guide for Information Technology Systems
- State of Vermont policies and standards, including Vermont Statute 9 V.S.A. § 2440. Social security number protection, Vermont Statute 9 V.S.A. § 2435, Notice of security breaches, and Vermont Department of Information and Innovation accessibility requirements.

We maintain strict access controls to ensure the safeguarding of all the areas of the data centers. Facility security standards describe the measures we take to help ensure that access to all facilities—including our project facility and off-site facilities supporting the Vermont PBMS project—is limited only to appropriate and authorized personnel.

Our fail safe data centers are built for redundancy, availability, and security controls, including perimeter security, entry credentialing, and cage entry. They maintain current SSAE 16 certification and adhere to a comprehensive set of security policies consistent with federal security mandates and standards, in particular HIPAA security and privacy rules and applicable HITECH standards, FISMA, NIST guidelines, and industry practices for security, confidentiality, and auditing. Our processes help ensure that all private data stays confidential, data and systems are not altered in any unauthorized way, any and all actions performed are documented and accounted for, and data and systems are available when needed.

Proactive Regulation Monitoring

At a corporate level, we monitor federal regulations and have an established protocol for working with our clients as changes may be mandated by legislation. We actively participate in each of the following organizations in addition to others:

- **ASC X12N Standards Setting Organization (x12.org)**. This organization is designated by the Secretary of HHS as a Designated Standards Maintenance Organization (DSMO) under the Health Insurance Portability and Accountability Act (HIPAA) – Administrative Simplification provision. We regularly attend the X12 meetings and participate in the work groups for the HIPAA-mandated transactions as well as transactions that are recommended for use but are not under the current mandates. [REDACTED]

[REDACTED]
substantial time supporting the new proposed 274 workgroup that is looking to automate EDI enrollment. Other members of our NSC group are active participants within the 270/271, 837, and special workgroup related to health insurance exchange (HIX). Additionally we provide leadership in a variety of capacities.

1. “Identifying, documenting and maintaining business requirements used in the development, management, and maintenance of information pertaining to entities (individuals and organizations) in the Standards and Technical Reports throughout all ASC X12N transactions.
2. Achieving data consistency and use of entity information throughout all ASC X12N transactions allowing for interoperability.
3. Coordinating with appropriate business work groups”¹

Xerox is supportive of ASC X12N’s drive to standardize those entities within the healthcare industry. Xerox also knows that participation in the standards from the ground up is important for the industry and is proud to support these activities by extending resources to do this very important work.

[REDACTED]

The group is responsible for:

1. Developing and managing business requirements for electronic data interchange standards related to the business of healthcare claim payment and payment verification.
 2. Work products, which include business requirements for ASC X12 approved transaction standards, as well as Industry Implementation Guides and Technical Reports, as directed by ASC X12N/TGB.
 3. Actively coordinating with work groups within ASC X12 including ASC X12N/TGB/WG2 and ASC X12N/TGB/WG4 on information impacting the payments in transactions maintained by those groups.
 4. Supplying information to and partnering with the Solution Development Work Group (ASC X12N/TGC/WG3) to ensure business requirements are implemented correctly.
 5. Providing a liaison to the joint Claim Adjustment / Claim Status Maintenance Committee.
 6. Collaborates with external groups, e.g. NCPDP, to review, provide input, and approve (as applicable) their documentation and processes.
- **National Uniform Claim Committee (NUCC.org)**. This organization is designated by the Secretary of HHS as a DSMO under the Health Insurance Portability and Accountability Act – Administrative Simplification provision. Our corporate representative, [REDACTED]
 - **National Uniform Billing Committee (NUBC.org)**. This organization is designated by the Secretary of HHS as a DSMO under the HIPAA – Administrative Simplification provision. [REDACTED]
 - **Workgroup for Electronic Data Interchange (WEDI.org)**. The Workgroup for Electronic Data Interchange (WEDI) is the leading authority on the use of Health IT to improve healthcare information

¹ Task Group C work group 1,
http://www.x12.org/x12org/subcommittees/sc_home.cfm?CFID=6603495&CFTOKEN=92187024

exchange in order to enhance the quality of care, improve efficiency and to reduce costs of the American healthcare system. Formed in 1991 by the Secretary of Health and Human Services (HHS), WEDI was named in the 1996 HIPAA legislation as an advisor to HHS and continues to fulfill that role today.

Serving as a private and public industry solution to critical healthcare problems, WEDI is a coalition comprised of a cross-section of the healthcare industry: pharmacies, doctors, hospitals, health plans, laboratories, clearinghouses, dentists, vendors, government regulators and other industry stakeholders.

Xerox extends resources out to this organization in leadership capacities in an effort to improve healthcare information exchange. Our resources can be found leading and participating in these WEDI workgroups:

- [REDACTED] 835 sub workgroup works together to help resolve issues related to the inconsistent use of the 835 transaction. The group is comprised of Payers, Providers, Vendors, and Clearinghouses who share their opinions and experiences in order to help find the most effective solutions to the 835 issues.
- [REDACTED] EFT sub workgroup is responsible for the following areas: EFT legislation and Operating Rules related to Healthcare – Creation of a description, in plain language, of what the regulations indicate, who is impacted and what we can expect as an industry. EFT legislation related to healthcare that is not yet written. Track regulations related to EFT and write education materials to support the industry. EFT implementation – assist the industry through education papers, outreach, and white papers to successfully implement EFT. EFT post-implementation – assess impact of the EFT implementation exploring success and assessing failures to help fast track error resolution.
- [REDACTED] workgroup which identifies activities, risks, solutions and education associated with the assessment, planning and implementation of the ICD-10-CM and ICD-10-PCS medical code sets (ICD-10) for business operations, infrastructure and applications which would include both clinical and administrative areas as applicable. The workgroup's goal is to become a key source for ideas, education, and implementation information for stakeholders and develop work products and programs to assist stakeholders in assessment, planning and implementation of the ICD-10-CM and ICD-10-PCS medical code sets to ensure compliance.
- [REDACTED] [REDACTED] which focuses its attention to design and propose a national standard best practice for administrative data information exchange across the continuum of the administrative transactions supporting the processing of the various bundle payment methodologies, including ACOs, Medical Homes, bundled payments, and other types of episodic billing encounters.

WEDI recently recognized Xerox as the recipient of the 2013 WEDI Health IT Leadership Award for contribution to the advancement of HIT and eCommerce technology in healthcare. This award recognized Xerox industry-wide leadership in Healthcare workgroups focused on healthcare transformation as well as successfully implementing several specific IT solutions to assist clients meet ACA requirements on time. These IT projects include the successful implementation of the brand new Health Enterprise platform in New Hampshire; enabling the first two MMIS' in the nation to conform to the CAQH CORE operating rules, the successful implementation of the Nevada state-run HIX.

- **ICD Code Maintenance Committee (CMS.gov).** We attend these meetings to keep abreast of ICD-10 developments (as well as changes to ICD-9).
- **American Health Information Management Association (AHIMA.org)** [REDACTED] are members of AHIMA and attend many of its seminars and training sessions.
- **National Medicaid EDI Healthcare (NMEH).** We have served in a number of capacities on this workgroup including the founding Chair of the NMEH, Chair of the National Provider Identifier sub-workgroup, and currently Chad Warmack, a Senior Consultant with the National Standards Consulting team is a co-chair of the HIPAA Operating Rules sub-workgroup. Members have been asked to give presentations at both internal NMEH meetings as well as at NMEH seminars.
- **Health Level Seven International (HL7).** Xerox currently has seven voting members actively participating in the definition and balloting of Health Information Exchange (HIE), Personal Health Records (PHR) and Consolidated Clinical Data Architecture (CCDA) committees. Members also strongly supported the Medicaid Information Technology Architecture (MITA) sub-workgroup of HL7 when it was active.
- **Council for Affordable Quality Healthcare (CAQH).** We are voting members of the CAQH Operating Rules and have systems that are CAQH CORE Certified for both Phase I and Phase II operating rules.
- **Private Sector Technology Group – Technical Architecture Committee (PSTG-TAC).** Several of Xerox’s most seasoned members including [REDACTED] have served in a number of capacities on this workgroup. We contribute to the program integrity, security, and SOA workgroups. This contribution includes supporting the annual demonstration of MITA technical architecture proofs-of-concept and presentations at MESC conferences.

Because of the experience we have in managing security and privacy concerns, we can apply the same standards to privacy and confidentiality regulations specific to the State of Vermont and the AHS, as we do for all other accounts, in addition to complying with all applicable State laws and regulations for handling, processing, and using healthcare data.

Security Guided by NIST (A3.9, A3.11, A3.12, A3.13, A3.17)

Xerox closely aligns our policies and procedures with the requirements outlined by NIST SP 800-53, Revision 2, ensuring compliance with federal mandates. For example, we employ the ‘least privilege’ concept outlined by NIST, restricting user access to the minimum amount of data necessary to complete assigned duties. We also employ safeguards at administrative and management levels, operational and technical levels, and within the application architecture. Our controls are standardized, documented, communicated to our workers, persistently enforced, and continuously evaluated to identify opportunities for improvement. Table I-1 describes our approach to addressing each control.

Table I-1. Xerox Security Controls		
Class	Family	Description
Management	Risk Assessment	<p>Xerox employs an array of tools for on-going risk management and risk assessment. Our assessment methods include internal annual self-assessments external audits conducted by independent third parties, and ongoing vulnerability assessment of Xerox systems and networks. During the Initiation and Planning Phase of the project, we develop a Risk Management Plan outlining our procedures and protocols for identifying, assessing, remediating, and monitoring risks.</p> <p>Third Party Audits. Xerox contracts with independent third-party auditors, annually, to independently audit our security and privacy plans, controls, and activities in the project operation and PBMS.</p> <p>We have successfully undergone external audits and have a track record of obtaining project certifications, including SSAE 16 audits in which an independent third party has examined the controls that govern our processing of sensitive healthcare information. An SSAE 16 audit is an evaluation to determine if the information systems are safeguarding assets, maintaining data integrity, and operating effectively to achieve the stated goals or objectives. An audit evaluates both the existence and the effectiveness of operational control measures used. The reports cover numerous operational control areas (e.g., data security and administration) and control objectives (e.g., restricting file update privileges to authorized individuals) and provide the auditing firm’s evaluation of the control policies and procedures based on test and evaluation results.</p> <p>We document our responses to the audit finding, action plans, and remediation plans for submission to the AHS for review and approval.</p> <p>Vulnerability Assessments. During the operations phase, Xerox provides a monthly vulnerability assessment for the AHS’s external network. We also conduct ongoing automated internal network vulnerability scans as a monthly process to identify vulnerabilities, and distribute the results to appropriate site personnel for timely and continued remediation. We believe that these periodic scans are necessary to ensure that network-attached devices continue to remain hardened against known and emerging vulnerabilities.</p> <p>We provide reports to authorized, appropriate parties responsible for review and remediation of identified vulnerabilities. These parties are expected to resolve documented vulnerabilities in a reasonable and mutually agreed-upon time frame.</p>
	Planning	<p>Xerox develops a customized PBMS implementation plan during the Design and Definition Phase of the project. The plan is submitted for AHS review, comment, and approval for all RFP-required project management methodology (PMM) deliverables.</p>
	Systems and Services Acquisition	<p>Xerox develops a systems and services acquisitions plan, which includes a hardware/software inventory list (HWSWIL). The HWSWIL is used to track the equipment and devices necessary to support the installation of PBMS, including the communications, security, and operations hardware and devices to support facility and system operations, maintaining awareness of daily operating performance levels of all functional areas.</p>
	Certification, Accreditation and Security	<p>Xerox closely follows the MECT Program Management Business Area Security and Privacy Checklist to ensure we meet the following CMS security and privacy objectives:</p> <ul style="list-style-type: none"> • Control access to the system and data • Protect the confidentiality and integrity of electronic PHI • Monitor the system activity and act on security incidents

Table I-1. Xerox Security Controls		
Class	Family	Description
		<ul style="list-style-type: none"> Support individuals rights specifies in the HIPAA Privacy regulations Additional security and privacy objectives identified during assessment of the AHS's requirements <p>We incorporate each CMS prescribed step of the certification and accreditation process into our project schedule; adding tasks, milestones, and deliverables expected by CMS. Certification planning begins during assessment of Vermont's requirements and continues throughout testing to ensure PBMS is ready for certification at go-live.</p>
	Program Management	<p>Xerox's risk management approach encourages early and frequent identification of project risks. We develop mitigation plans to prevent the risk from occurring, and we develop contingency plans for handling the impact in case the risk is unavoidable. Managing risk essentially consists of addressing two basic questions: What can go wrong on the project? And, what can be done about it?</p> <p>We use a proactive process for identifying risks and assessing the probability and potential consequences of each. We implement a thorough risk response planning process that identifies mitigation strategies and establishes the criteria for early detection of risk to ensure the impact is minimized. Risk monitoring and control involves tracking previously identified risks, triggers, response plans, and risk mitigation actions, and continually identifying new and changing risks.</p>
Operational	Personnel Security	<p>Ensuring individuals occupying positions of responsibility within the organization (including third-party service providers) are trustworthy and meet established security criteria for those positions. We protect AHS and client data and information systems during personnel actions such as terminations and transfers and employ formal sanctions for associates failing to comply with organizational security policies and procedures. Our personnel security components include personnel screening and personnel termination:</p> <ul style="list-style-type: none"> Personnel Screening—Xerox screens individuals requiring access to AHS and member data and information systems before hiring. Personnel Termination—When an associate terminates employment, our security staff, in coordination with the Vermont PBMS management office and Xerox Human Resources follow established procedures for immediately revoking terminated or transferred employees' access to AHS and Xerox facilities and information systems.
	Physical and Environmental Protection	<p>Xerox establishes physical security and environmental policies and procedures that include the following components:</p> <ul style="list-style-type: none"> Physical Access Authorizations—We have established managerial authority to approve need-to-know access to the facility and systems containing confidential information. Xerox-issued photo identification proximity access cards, restricting access to the PBMS management office to authorized personnel. Physical Access Controls—We maintain a single point of entry for all visitors and all unmanned doors remain locked at all times. Xerox has strict visitor control procedures and a program to train/educate associates in applying and complying with those procedures. Visitor Control—The Vermont PBMS management office controls physical access to the facility using a single point of entry and reception for visitors. The reception area is manned at all times during normal business hours, and is secured separately from any work area within the facility.

Table I-1. Xerox Security Controls		
Class	Family	Description
	Contingency Planning	Establishing, maintaining, and effectively implementing contingency plans for emergency response, backup operations, and post-disaster recovery for Xerox facilities and information systems to ensure availability of critical information resources and continuity of operations in emergency situations. We describe our approach to disaster recovery and business continuity in Proposal Section 11 System Administration and Disaster Recovery.
	Configuration Management	Xerox develops a customized Configuration Management Plan (CMP), which is based on our SPARK-ITS PMM. The CMP is tailored to align with project-specific needs and AHS requirements. We perform internal peer and quality reviews on the document prior to delivery to the AHS, and walk through the process with the AHS prior to seeking formal approval of the work product.
	Maintenance	Xerox develops an annual maintenance plan for AHS approval. We work with the AHS to create a PBMS Maintenance Plan that best meets the operational needs of the Vermont Medicaid program. This Maintenance Plan includes roles and responsibilities, planned schedule, internal communication processes and hierarchy, issues and problems reporting procedures, and version history. The Maintenance Plan is reviewed annually with the AHS.
	System and Information Integrity	<p>Xerox establishes policies and procedures to promote the integrity of PBMS and the data that is stored and processed by the system. We closely align our policies and procedures with the requirements outlined by NIST SP 800-53, Revision 3, ensuring compliance with federal mandates.</p> <p>For example, we employ the “least privilege” concept outlined by NIST, restricting user access to the minimum amount of data necessary to complete assigned duties. We also employ audit procedures to meet control, reporting, and retention period requirements for operational and management reports.</p>
	Media Protection	Establishing media protection policy, procedures, and technology to facilitate implementation of the media protection policy and associated media protection controls. Proprietary and confidential information is marked and appropriately protected. Our Procedural security controls protect sensitive information, prevent financial loss, reduce legal liability and eliminate embarrassment or loss of the AHS’s or Xerox’s reputation. Information may be in many formats including email, electronic documents, facsimiles, paper documents, multimedia, and phone conversations. Associates are trained to fully understand the nature and sensitivity of the information they come in contact with.
	Incident Response	<p>Xerox has established incident response and crisis management (IRCM) policies and procedures that are used throughout the Xerox enterprise. These policies and procedures are customized for use within the PBM management office, documented, and retained where accessible by those members of the workforce that are a part of the process.</p> <p>The IRCM team maintains an operational response capability for business units to respond to all incidents involving Xerox or PBM management office systems. The response capability includes preparation, analysis, containment, and recovery; and tracking, documenting, and reporting security incidents or crises to higher level Xerox Executive Management, appropriate AHS personnel, and/or appropriate authorities; and addressing accidental or unauthorized disclosure, modification, or destruction of PHI or other confidential information by any Xerox or non-Xerox (e.g., janitorial staff) individuals, criminal acts, natural disasters, and/or labor strikes.</p>
	Security Awareness and Training	Xerox uses three security awareness training and education courses based on the HIPAA Security and Privacy Rule, Xerox Security Policies, and industry security best practices. All Xerox associates receive a formal HIPAA Awareness and Security Awareness Training during new-hire orientation. Each associate must sign a certification of having received and understood the training. Associates are

Table I-1. Xerox Security Controls		
Class	Family	Description
		<p>prohibited from accessing PHI before completing HIPAA Awareness and Security Awareness Training.</p> <p>The security awareness training briefing explains employee security responsibilities and details all Xerox and AHS administrative, physical, and technical security policies and procedures. Additionally, managers receive "Security Training for Managers," a briefing designed specifically to address management responsibility for implementing security procedures and monitoring employee compliance. Security refresher training consists of an annual formal refresher training briefing using at least one of the three sources noted above, as well as periodic privacy and security email reminders, security posters in the facility, and Security Bulletins and Security Newsletters published by the CISO.</p>
Technical	Identification and Authentication, and Access Controls	The design of OS+ includes user authentication, functional access controls, and external data security.
	Audit and Accountability	Xerox's application audit trails dynamically audit retrieval access to designated critical data, and standard tables are used or requested for validating data fields. We also have a verification processes for additions, deletions, or updates of critical data, as well as the ability to identify all audit information by user identification, network terminal identification, date, time, and data accessed or changed.
	System and Communications Protection	<p>The Vermont PBMS is designed to be inherently secure and employs strong technical controls to safeguard the system's data from anticipated threats and hazards, as well as to restrict the availability of data to authorized users. Additionally, Xerox has a corporate requirement to have all laptops and smart phones encrypted and network access is not allowed without full encryption.</p> <p>Consistent with Health Insurance Portability and Accountability Act (HIPAA) regulations and industry standard security guidelines, the system's security and privacy capabilities are defined and woven into the system architecture to protect against unauthorized access to services, processes, servers, networks, applications, and databases. Access rights are specified by role and data element, and all application functionality is linked to common security mechanisms. Data encryption effectively uses an algorithm to convert the information into secret code, thus guarding against the interception and viewing of that data by unauthorized individuals. Given its role in protecting PHI, this technology is integral to our solution.</p> <p>Transmission of data files. PBM OS+ provides Hypertext Transfer Protocol Secure (HTTPS) and secure file transfer protocol (SFTP) data encryption to safeguard sensitive data against unauthorized access during transit at the operating system level or through theft of hardware or backup media. Our encryption policies address privacy requirements as per HIPAA and CMS guidelines.</p> <p>Data over the Internet. Through the use of data encryption, the Web portal ensures sensitive data being transmitted over the public Internet cannot be intercepted and viewed by unauthorized parties. Xerox uses 128-bit Secure Socket Layer (SSL) data encryption to safeguard any private information (including PHI, login IDs, and passwords) as it is transmitted from the browser client to the Web portal over the public Internet.</p> <p>External user data. Data transmitted between external users and the servers in our system is also protected by authentication and encryption. 128-bit SSL encryption prevents hackers from "sniffing" the data in transit. Multiple firewalls protect data stored on our network. In addition, we use a suite of virus protection products on all network-connected hardware to prevent infection and propagation of viruses.</p>

Identity and Access Management

Our objective in applying security and privacy controls is to prevent improper disclosure, access, modification, deletion, or destruction of ePHI data while ensuring that where there is a legitimate “need to know” the minimum information necessary to discharge program responsibilities is available to properly authorized individuals. The PBMS uses a role-based security model that allows users access based on their roles irrespective to geographical location, and conforms to ANSI INCITS 359-2004.

Secure Sign-on, Authentication and Password Management (A3.23, A3.24, A3.25, A3.26, A3.28, A3.29, A3.42, A3.43, A3.44, A3.45, A3.46, A3.47)

The design of OS+ makes it flexible enough to utilize our own authentication and authorization mechanisms or be configured to leverage and integrate with the State’s existing authentication and authorization mechanisms. Per the RFP, Xerox will integrate with the State’s existing mechanisms. Should the State choose at a later time to have the PBMS utilize the Xerox mechanisms, below is a brief description of the measures the system uses to control user access to the system:

- **User Authentication.** A unique user ID and forced strong password are required to logon to the PBMS, and the system requires that users change their passwords at regular intervals. When a session is inactive for a predetermined amount of time, the system automatically logs the user out. The system also locks users out after a set number of unsuccessful login attempts. We have established procedures by which a locked out user can request a password reset.
- **Functional Access Controls.** Only those systems, databases, directories, and files that a user needs to perform assigned job duties are accessible to that user. This feature prevents unauthorized or accidental access to PII and other sensitive data. The system administrator can grant change privileges to a user or restrict a user to read-only access. Modifications to data performed through system pages are logged and the system creates an audit trail for viewing by authorized personnel.
- **External Data Security.** Data transmitted between external users and the servers in the system is protected by authentication, authorization, and encryption. Multiple firewalls protect data stored on our network. We also use a suite of virus protection products on all network-connected hardware to prevent infection by, and propagation of, viruses. The software packages we use for managing system backups also contain virus protection. We encrypt all disk and tape backups.

A unique user ID and forced strong password are required to logon to the various applications of the PBMS, and the system requires that users change their passwords at regular intervals. When a session is inactive for a predetermined amount of time, the system automatically logs the user out. The system also locks users out after a set number of unsuccessful login attempts. We have established procedures by which a locked out user can request a password reset.

Security administrators can add, change, and delete user logon IDs and role-based security profiles, overriding lock-outs, and reset passwords as needed. Users assigned administrator privileges manage accounts for other users in their organization through the User Administration features. End users can change a password at any time through the Change Password function.

Passwords are required to be “strong passwords,” using a combination of numbers, letters and special characters at least eight characters in length. A password can be activated within parameter driven staggered

expiration dates, causing automatic lockout from the system when the password has expired. Expiration dates can be set for a single user's account or for mass accounts.

A user ID and password are unique to each user and are not shared among individuals. The user ID and password are passed to the security database for authentication as encrypted data to further ensure security. The login feature authenticates all users each time they attempt to use the secure features of the site.

Role-based Security (A3.8, A3.10, A3.27, A3.32, A3.37, A3.38, A3.39, A3.40, A3.41)

PBMS employs a role-based security model that assigns users access role based on business need. Role-based access limits a user to only the data and functions for which they are approved. Each role can be customized to allow inquiry and/or update authority to specific functional areas of the system. When a user signs on, the user ID and password are verified and the system determines what information and functions that user is allowed to perform. If the user has only inquiry access to a functional group, the system protects all data fields. Such users can view all of the Web pages within the functional group and view the data on those screens, but cannot add, delete, or change data.

If the user has update access, the system allows the user to add, delete, or change data in existing records. Comprehensive audit trails for all updates include: the data before and after the change; the system ID of the person initiating the change, and the date and time of the change. Audit fields can only be created by the application, cannot be modified or deleted, can be accessed online by authorized users, and cannot be accessed by the individual whose activity is logged.

Only those systems, databases, directories, and files that a user needs to perform assigned job duties are accessible to that user. This feature prevents unauthorized or accidental access to PHI and other sensitive data. The system administrator can grant change privileges to a user or restrict a user to read-only access. Modifications to data performed through system pages are logged and the system creates an audit trail for viewing by authorized personnel.

Data Encryption (A3.11, A3.14, A3.21)

The safeguards we have established protect data and records from theft, viruses, mischief, tampering, loss, and destruction. Xerox has a corporate requirement to have all smart phones, laptops, and portable storage devices encrypted and network access is not allowed without full encryption. Data transmitted between external users and the servers in the system is encrypted. External data transmitted outside our secure data center is encrypted "in flight." We encrypt all disk and tape backups. For ad hoc interactive transfers, files up to 2GB in size will be sent by Xerox's existing Secure Large File Transfer service supporting AES 256. PGP Command Line can be used to implement encryption into existing or planned file transfer applications. Where circumstances warrant, communications are encrypted via VPN tunneling.

Through the use of data encryption, the Web portal ensures sensitive data being transmitted over the public Internet cannot be intercepted and viewed by unauthorized parties. Xerox uses 128-bit Secure Socket Layer (SSL) data encryption to safeguard any private information (including PHI, login IDs, and passwords) as it is transmitted from the browser client to the Web portal over the public Internet.

Data stored in the Oracle database is protected by encryption using the Oracle Advanced Security Option of Oracle 11G. With this tool, we can encrypt all of or part of the database. PBM OS+ field level security provides capabilities for masking of data, hiding of the data, or showing partial values of the data. These

attributes, when assigned to the users' role and access privileges, determine if data should be shown or hidden from the user based on his or her security permissions.

Protection of Data Content (A3.15, A3.30, A3.31, A3.33, A3.34, A3.35, A3.36)

All information obtained in performance of the contract is treated as confidential and only used or divulged when necessary for proper discharge of our obligations. The PBMS displays security warning banners at the login page for both internal and external users. It includes information about authentication, security, and registration. We can display messages of any type at headers or footers of any or all Web pages. We can customize the content of these messages to suit the needs of AHS. Xerox's Minimum Necessary Standard policy sets forth provisions for ensuring appropriate access, use, disclosure, and requests of PHI in accordance with the HIPAA Privacy Rule. We identify users who require access to PHI and the categories of PHI to which access is needed to carry out the users' job. Within the security administration function, we assign unique user logon IDs tied to role-based security profiles that allow and restrict access consistent with job duties. Periodic review and update ensures that security profiles remain current and accurate. Initial and ongoing security and privacy training educates users on policies implemented to limit use and disclosure of and requests for PHI to the minimum necessary to accomplish the intended purpose of the use, disclosure, or request.

Multiple firewalls and an Intrusion Detection System protect data stored on our network. In addition, we use a suite of virus protection products on all network-connected hardware to prevent infection and propagation of viruses. The software packages we use for managing system backups also contain virus protection to prevent propagation of viruses from the primary production environment to the disaster recovery environment.

Support of Data Masking/Obfuscation

We use Camouflage to replace data within a database. Usually it is used to mask the original data when we copy production data and load it into a database used for testing. The masked data becomes the source for screen displays and reports from the test system. The end result is realistic data that enables application developers, testers, and trainers to meet their objectives without ever exposing the personally identifiable information contained in the original production database. Once obfuscated, the original data cannot be reconstructed.

Break the Glass

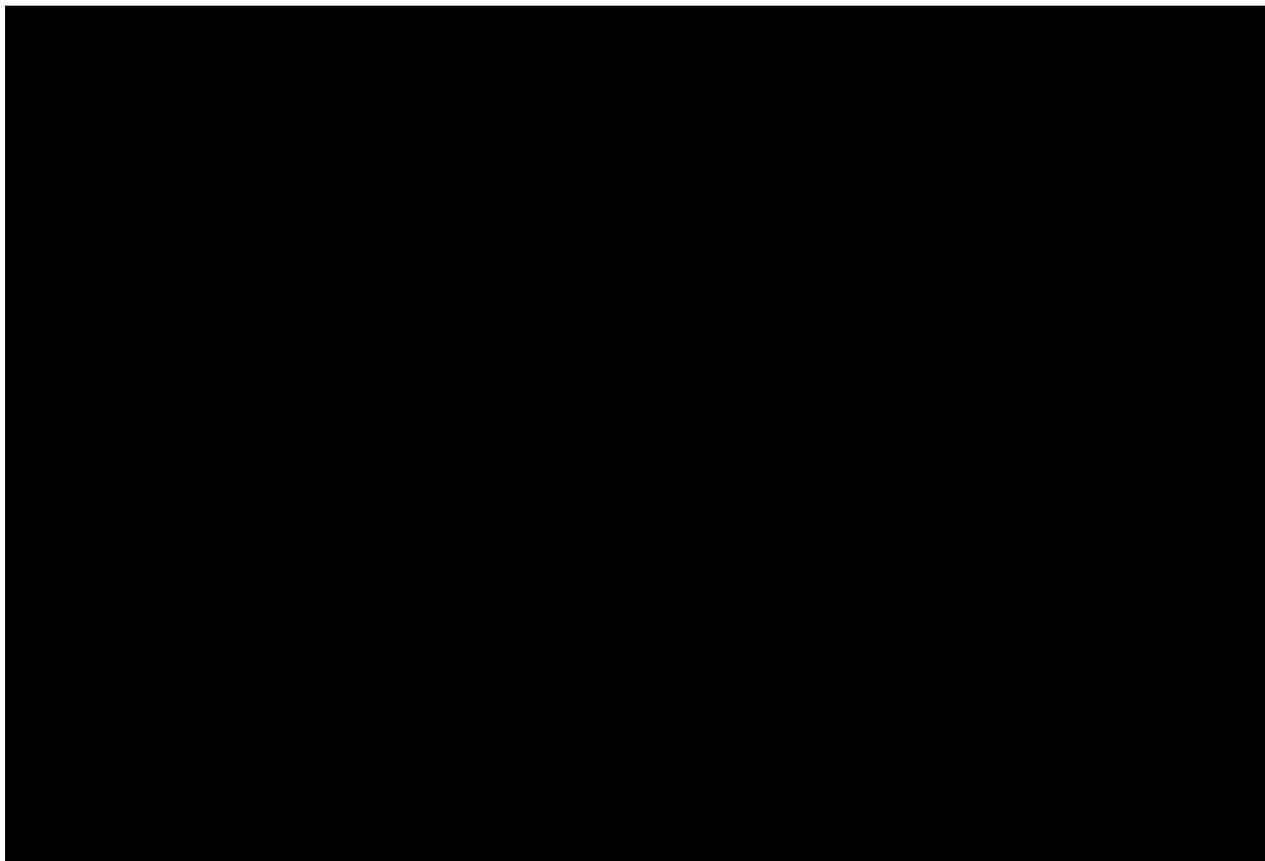
Xerox has procedures in place to enable appropriately authorized users to "break the glass" and obtain access to the PBMS in emergency situations. Our procedures also address re-establishing separation of duties following the occurrence and include a review by management.

Audit Trails and Event Monitoring (A3.48, A3.49)

Data audit trails are critical to identifying any security breaches and providing information on system access. The PBMS includes audit trails that provide documented information about system activity. The PBMS records changes to data made by users or batch processes, as well as inquiries made against data containing ePHI. All changes are logged by individual data elements and not by database rows, allowing for greater flexibility and analysis capabilities. The information the system logs includes:

- The column value before the change (old value)
- The column value after the change (new value)
- The User ID (to identify the specific user or process responsible for the change)
- The date and time of the change
- The key values necessary to identify and store the information within the log

The system has two hyperlinks that allow a user to see the source of an update. Last Update shows the user ID, date, and time of the last update, as shown in Exhibit I-3. The Update History link shows all updates to the field: the data before and after, along with the ID and timestamp. These two hyperlinks allow authorized users to see who or what updated specific data within the database.



Data within the logging tables is retained for an unlimited number of occurrences. These changes are published in report format and stored in the document management system for retrieval. They are also available for online querying by table and column (individual data element) and for viewing.

Incident Response (A3.18, A3.19, A3.20, A3.22)

Xerox has established incident response and crisis management (IRCM) policies and procedures that are used throughout the Xerox enterprise. These policies and procedures are customized for use within the PBM management office, documented, and retained where accessible by those members of the workforce that are a part of the process.

The IRCM team maintains an operational response capability for business units to respond to all incidents involving Xerox or PBM management office systems. The response capability includes preparation, analysis, containment, and recovery; and tracking, documenting, and reporting security incidents or crises to higher level Xerox Executive Management, appropriate AHS personnel, and/or appropriate authorities; and addressing accidental or unauthorized disclosure, modification, or destruction of PHI or other confidential information by any Xerox or non-Xerox (e.g., janitorial staff) individuals, criminal acts, natural disasters, and/or labor strikes.

Xerox agrees to notify the State of Vermont upon learning of any suspected or actual unauthorized use or disclosure of protected health data and information that falls under the HIPAA requirements and work with the State of Vermont to mitigate any breach and provide assurances to the State of Vermont on corrective actions to prevent future unauthorized uses or disclosures.

We accept liability for any claim, loss or damage relating to unauthorized use or disclosure of protected health data received from the State of Vermont or any other source.

Xerox agree to notify the State of Vermont upon learning of any breach of system or data security and undertake such additional safeguards or changes as recommended by a subsequent independent security audit at our expense, as approved by the State.

We acknowledge that for even a single known violation of the identity theft prevention and reporting requirements, the State may terminate for default its Contract(s) and may withhold payment(s) owed to the Xerox in an amount sufficient to pay the cost of notifying individuals of unauthorized access or security breaches.

4.0 User Interface

Instructions: Describe the design approach and the characteristics of the user interface for the proposed PBM System. The System must be designed to utilize a browser based or a Rich Internet Application that can provide feature rich applications that can be updated over the Wide Area Network and the Internet, and should deliver a consistent user experience to State employees, providers, contractors, and partners. The approach must, at a minimum, provide details on how the proposed Solution intends to meet or exceed the User Interface Requirements set forth in the document 'Non-Functional Requirements, Tab A3 User Interface'.

PBMS Web-based user interfaces have user-friendly features that provide benefits for authorized Agency and Xerox staff.

Xerox develops Web pages that offer considerable functionality and ease of use with many efficient navigation features. Our Web pages have been designed after soliciting feedback from several experienced user focus groups concerning the organization and display of data. Authorized users benefit from features including online help, drop-down menus, hot links, hover, and simple point-and-click technology to facilitate finding the information they need.

User Interface and Navigation

- Easy-to-use Web pages with efficient navigation features
- Online, real-time inquiries using multiple search criteria
- Ad hoc queries that can be saved and reused

Using the system's Web pages, authorized Agency and Xerox staff can perform online real-time inquiries of data, depending on the user's security level. Access is provided to all business functions such as client,

benefit plan, provider, PA, TPL, drug data, and claims history. The data is accessed and viewed through a graphical user interface (GUI) that provides easy-to-use navigation features. Users navigate through the data using point-and-click functionality to open new Web pages via tabs, buttons, and hot links.

Web Browser Compatibility

PBMS is accessed using standard Web browsers, such as Internet Explorer, Safari, and Mozilla Firefox. We test the UI with a variety of Web browsers during development. We ensure maximum compatibility by not using browser-limited plug-ins such as Microsoft's Active-X or Adobe's Flash Player within our development.

Plans, Benefits, and Pricing (A4.2)

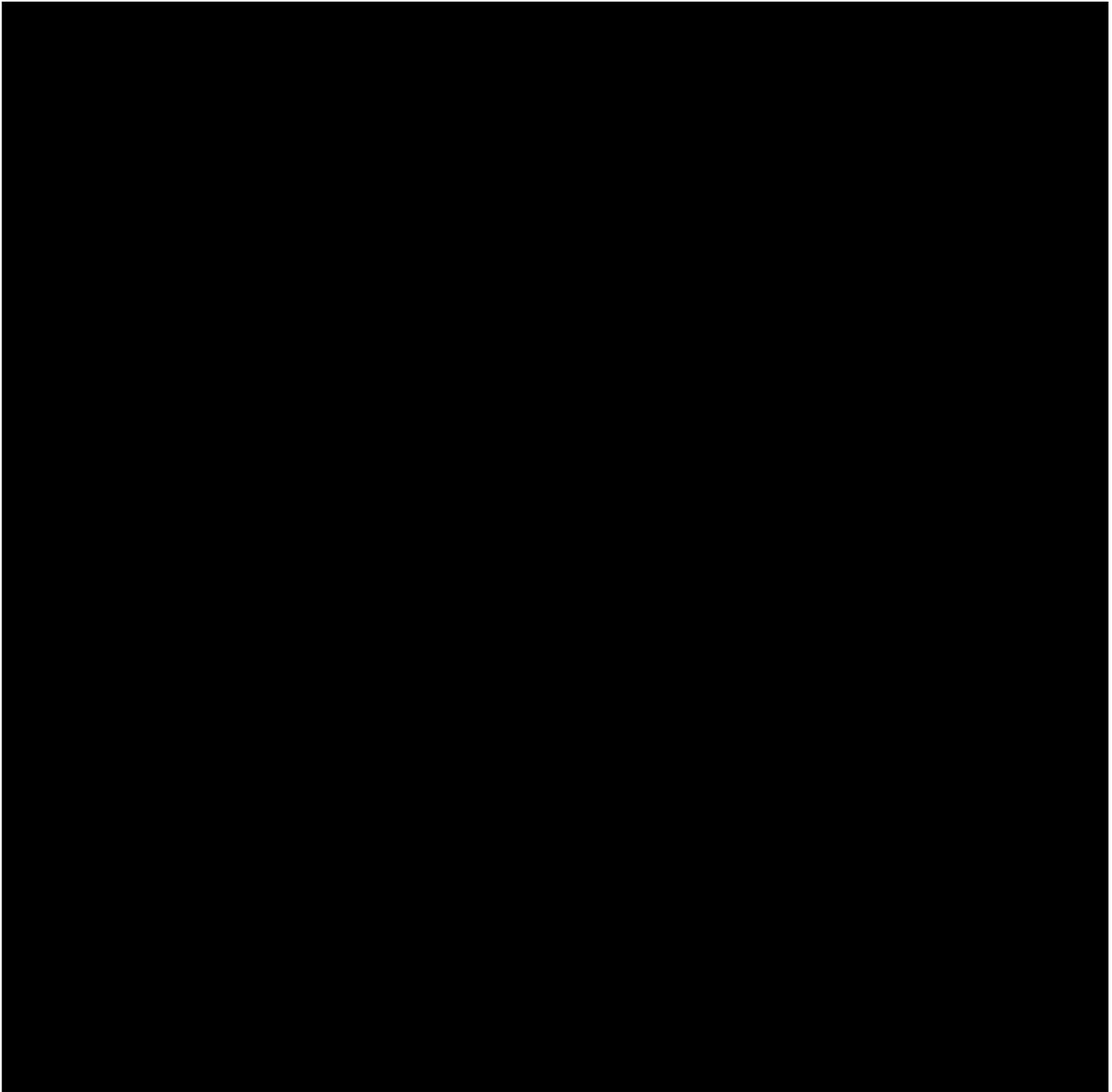
Authorized Agency and Xerox staff have access to a graphical user interface (GUI) to define, view, and update benefit plans and pricing information.

Benefit Plans

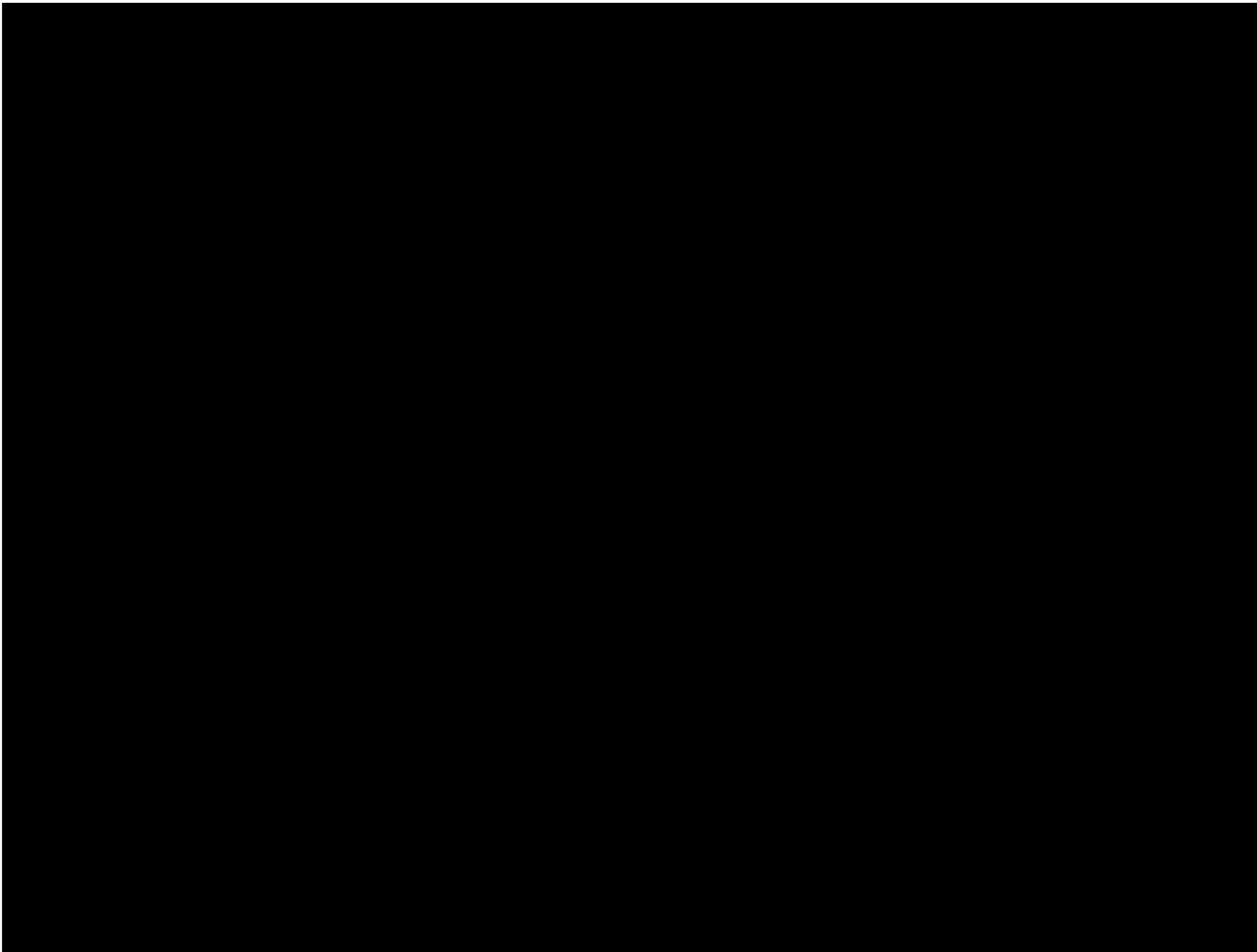
The system maintains unique Medicaid and non-Medicaid benefit plans that define coverage. Each client is assigned to a plan or multiple plans. When a client is active in more than one plan, applicable coverage is determined through a hierarchy established during development.

The system uses a benefit plan structure to define covered and non-covered services, co-payments, exclusions, and limitations for a benefit plan. Drug program functionality (which is linked to benefit plans) provides more specific coverage and exclusion criteria. When processing pharmacy claims, the system uses the combination of allowable eligibility span, prior authorization information, and the benefit plan(s) assigned to the client to determine drug coverage and other related information.

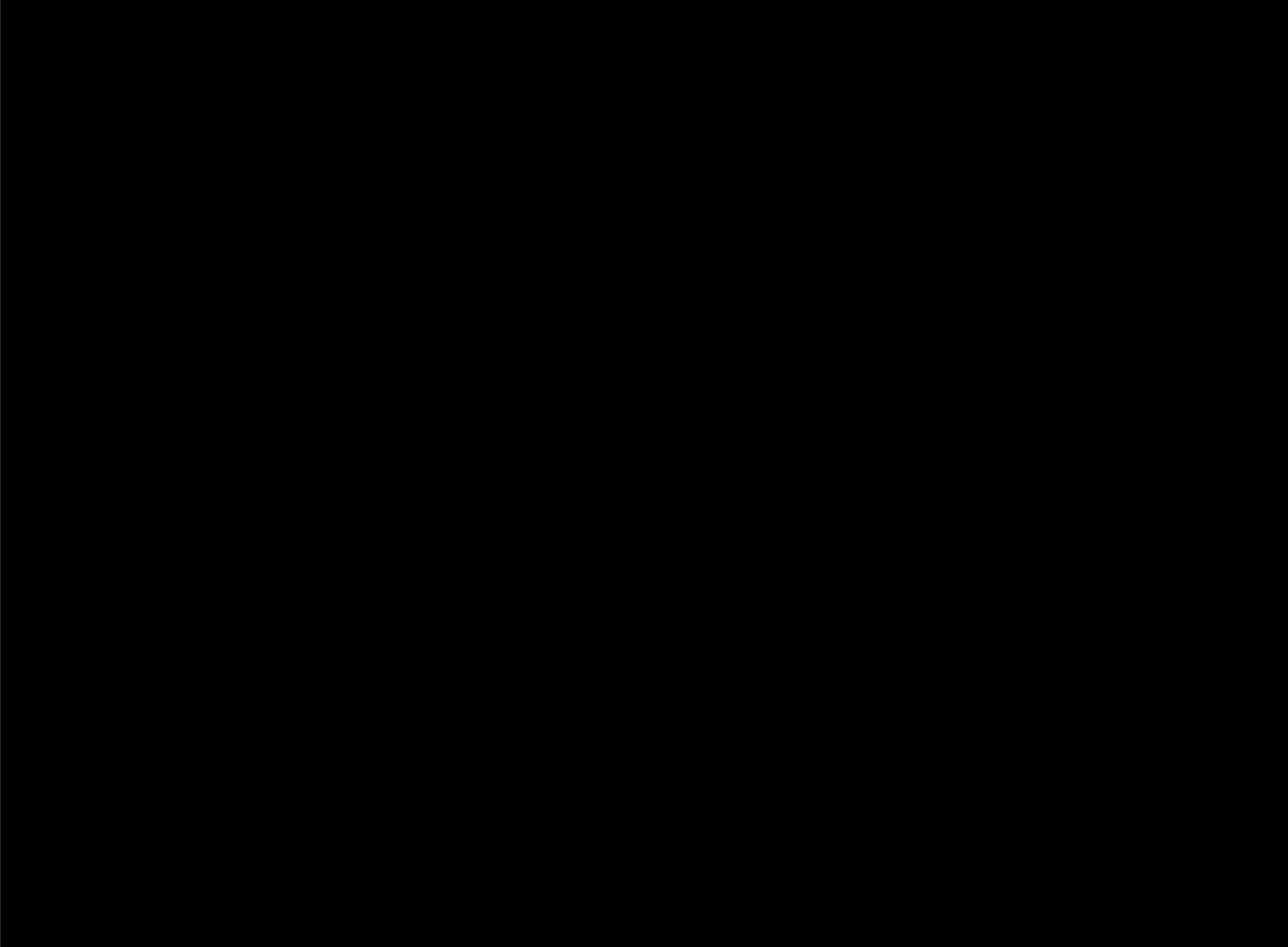
The plan information table enables authorized users to add, change, and delete benefits via the plan Web page, without the need for a programmer. Changes made through the plan Web pages immediately update the tables used by the claims processing function. Exhibit I-4 through Exhibit I-7 shows PBM OS+'s plan Web pages.



The Plan Information Web page contains high-level plan coverage information applicable under the PBM commercial or State Medicaid service agreement(s). Included on this Web page are deductibles, maximums, general drug coverage (Drug Efficacy Study Implementation [DESI] or Generic Mandatory), and allowed dispense as written (DAW) codes.



The Plan Detail Web page has additional coverage limitations and design details. Included are script limitations, grace period allowances, and maximum number of days' supply.



The Benefit Limits Web page shows coverage indicators on drug classes or individual drug entities (from broad classification levels such as Specific Therapeutic Class to individual NDC codes). Drugs with a Custom ID on this page, such as 121, 88, and 222 in this example, have additional information accessed by clicking on the Custom ID link.



The Custom Record Detail Web page allows setting of quantity, age, dollar, and dosing limitations by script and by duration.

Pricing

Many pricing parameters are rules-driven, enabling authorized staff to make changes quickly and easily online in a real-time environment. The parameters are flexible and allow the user to define pricing at a variety of levels. The user can then define the comparison to be done during claims adjudication, if applicable, or set a price category to pay and a certain amount with no comparison. The system maintains a complete audit trail for inquiry by authorized staff.



The system can assign pricing rules to specific categories such as compound drugs, diabetic supplies, or generic drugs and use the system list functionality to further specify details such as provider or claim type. The pricing section can also define benefit maximums such as a copay max, spend down amount, or maximum benefits for clients or specifically for Medicare Part D claims. Exhibit I-8. shows the pricing Web page.



The system allows unlimited pricing iterations for each NDC that are date-specific. Additional pricing features include separate pricing categories for the following services, when applicable to the program:

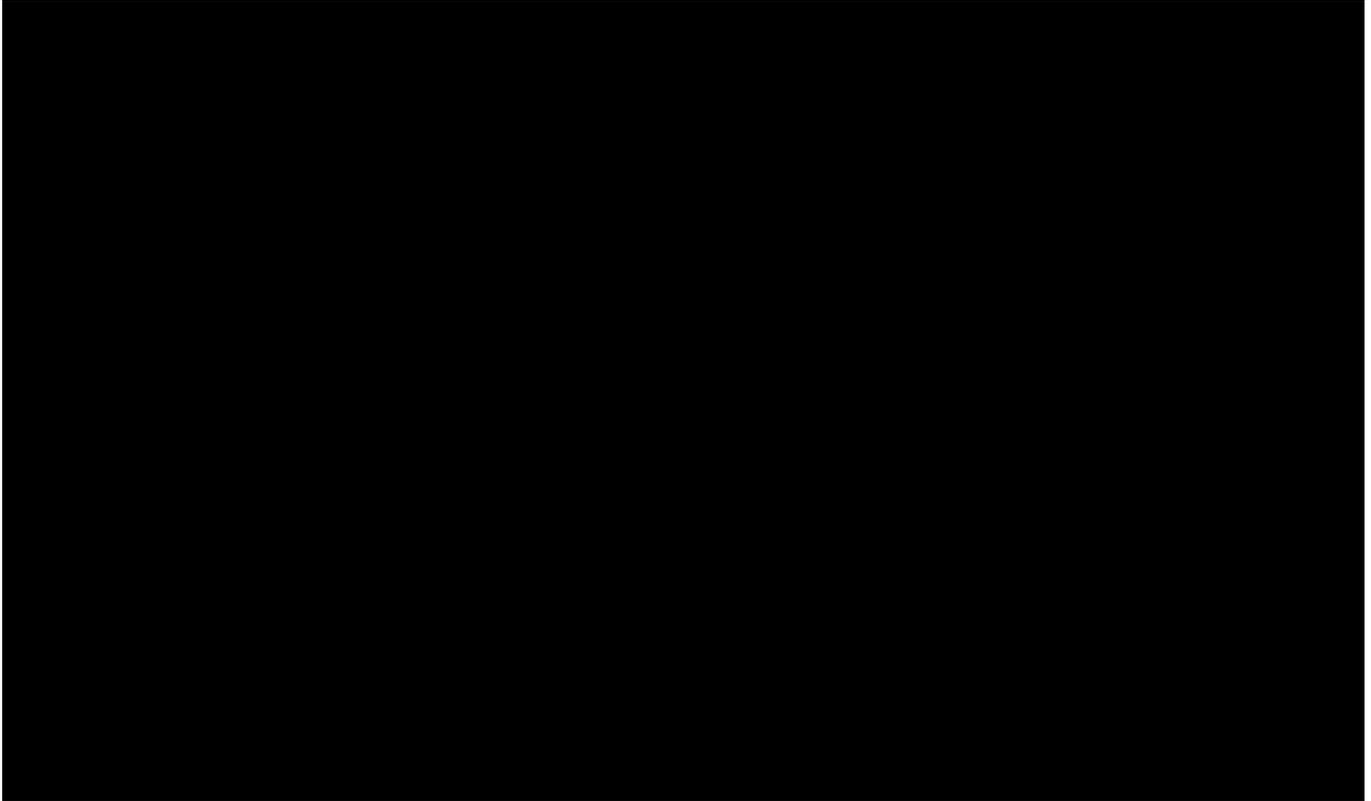
- Compound drugs
- Schedule II drugs
- Diabetic supplies (including insulin, needles, supplies, and tests)
- Non-drug items
- Over-the-counter (OTC) drugs
- Generic drugs
- Brand drugs
- Dispense as written (DAW) override pricing
- Department-specific

The online coverage and pricing methodologies component includes an ingredient cost basis field that allows authorized users to define the pricing methodology and the associated percentage adjustment to be

used in calculating claim reimbursement. Each category, such as brand name drugs, OTC drugs, non-drug items, etc., may have different pricing rules associated with it.

Free-form Text Notes (A4.1)

The PBM OS+ system supports note text for Provider and Pharmacy records up to 1200 characters in length. These notes include user ID and date and time entered. Prior Authorizations support note text up to 4000 characters in length. An unlimited number of notes may be attached to single Provider, Pharmacy or Prior Authorization record.

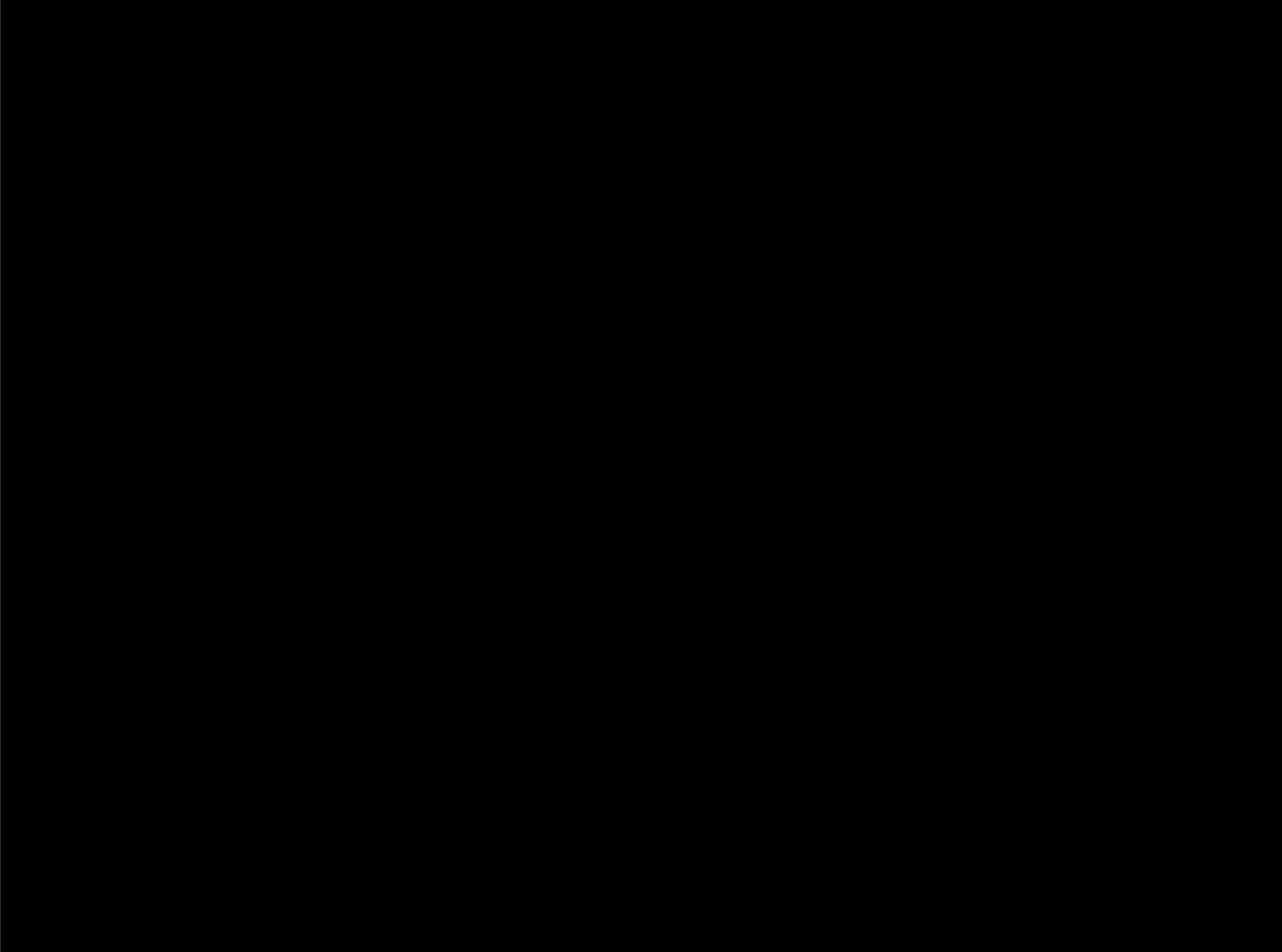


Search, View, Query (A4.3)

Xerox's proposed PBMS provides several methods for finding, retrieving, and viewing data. PBM OS+ supports Web pages for searches of specific data, while OnBase searches retrieve documents associated to the specified data. For non-standard or more complex searches, we use Business Objects to query and report on pharmacy data.

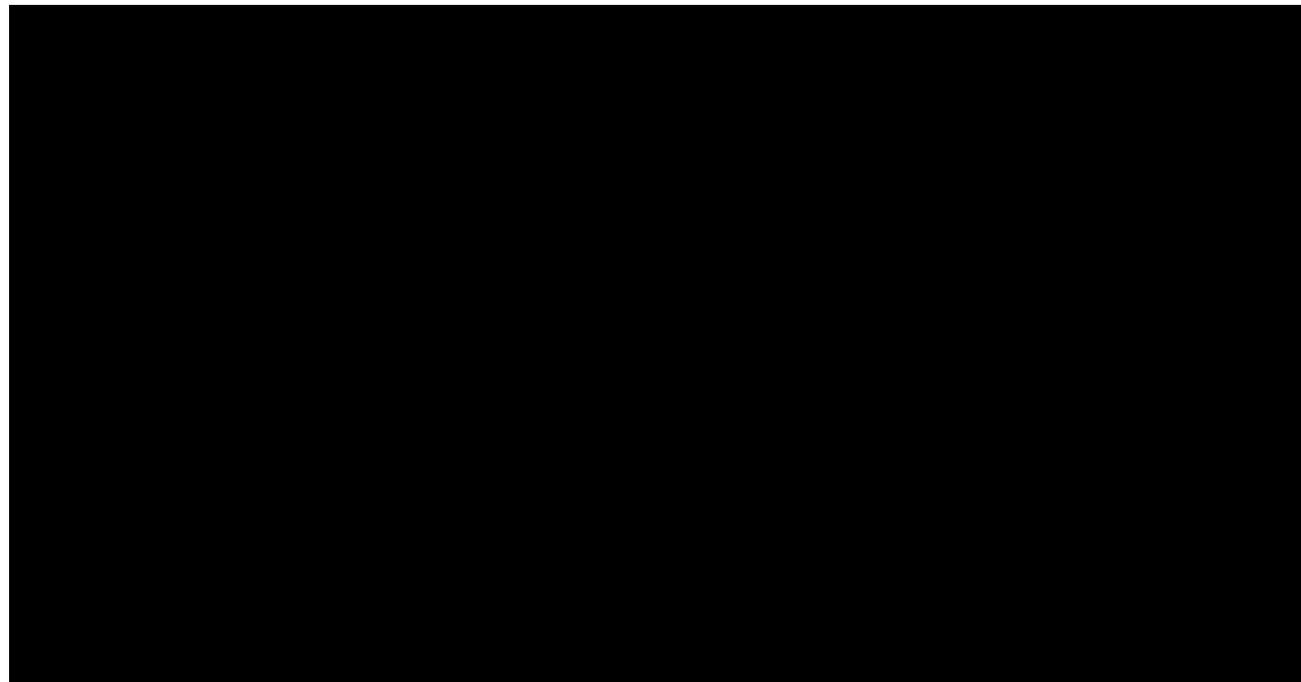
PBM OS+ (A4.4, A4.6)

PBM OS+ is viewed through a user-friendly Web-based graphical user interface (GUI) for Agency and Xerox staff access. Web pages provide extensive functionality for inquiry and viewing of all data that supports claims processing. We use a standard search function to inquire on records for providers, clients, claims, drugs, and reference data. Each component uses a standard search portlet with a single criterion or multiple criteria tailored to the needs of that particular component as shown in Exhibit I-10.



In this example, the system allows the user to narrow the results of a search by criteria such as date, claim status, claim type, transaction control number (TCN), prescription number, and prescribing provider. The search returns an online summary of claims matching the entered search criteria. The user can sort the claims in the online summary by column in ascending or descending order, or filter the information as needed and select a claim from the profile summary to view detail information about the claim.

The PBM OS+ search function includes the ability to use a wildcard search when only a partial name or description is entered, which allows authorized users to view lists of data where they may have broader search parameters than a single code. Exhibit I-11. illustrates an example of this type of search.



OnBase

For document storage and access, Xerox uses OnBase. The Web-based user interface of OnBase presents user-friendly content navigation and advanced document search capabilities. Using OnBase Search, users can search for content by subject matter without having to know where the content is actually stored. The search feature allows users to simultaneously search content categories, other metadata definitions, including key word capabilities, and unstructured text through a single query to obtain the best results.

Documents are retrieved by searching index values for each individual document. In addition to the capability to search by the document's unique control number, the document search function offers several filters that allow a user to customize a search, such as the document type, document title, assigned work group, the load date range, and the document date range. Based on the document type selected, the system displays the additional eligible index fields for the document type. The user may enter information into one or many index fields to return a list of documents that meet the criteria.

For more-complex searches, OnBase provides the capabilities for advanced find options. These options include listing documents by date ranges and detailed searches using detail fields. This approach requires the user to define query criteria in addition to the index fields. This method provides greater refinement in query results, when necessary.

Business Objects

Xerox provides standard and ad hoc operational reporting supported by data maintained in the DW/DSS. The PBMS comes packaged with a proven, high quality reporting solution that leverages an industry-leading suite of reporting and business intelligence tools from Business Objects. This best-of-breed business intelligence (BI) tool provides a stable and mature platform for producing reports, analytics, and dashboards necessary to the functioning of the Agency of Human Services (AHS) Pharmacy programs.

Save and Name Searches (A4.5)

Business Objects provides users the functionality to create ad hoc queries to run specialized data extraction and reports. Because these types of queries are often complex and require significant time to formulate, authorized users can save their defined search and sort parameters so that they are not required to regenerate complex queries multiple times.

User experience and efficiency (A4.11 - A4.18)

Xerox improves the efficiency of our user interface through focused usability studies. PBM OS+ Web pages have been designed with feedback from several different user groups. Functions include:

- Organization and display of data
- Context sensitive access to related functions dynamically from a particular page using a single click
- Use of expansion fields such as the “+” box for entry of data that is entered infrequently, keeping the UI presentation clean while allowing for necessary data entry when required
- “Copy, cut, and paste,” and “point and click” functionality
- Highlighting via the use of colors or bold text
- Drop-down boxes with full code descriptions for all fields with valid values
- Navigation to the next field when the user clicks on the tab key
- Modify or update previously entered values
- Cursor automatically moves to the next field based on the type of field (such as SSN)
- When a fixed length field is filled out, the cursor focus moves to the next field in the sequence as soon as the last character is entered. Otherwise the tab key moves the cursor to the next field.
- PBM OS+ automatically populates slashes and dashes for dates, phone numbers, and zip codes on the prior authorization and claims entry Web pages. Further, regarding context sensitive auto completion of fields, based on the field definition (date, phone number, zip code), the system formats the field accordingly. For example, mm/dd/yyyy for date and xxx-xxx-xxxx for phone number.

Xerox continually looks to improve our Web pages to provide efficient keying of information into the system.

Digital Signatures (A4.7)

Xerox understands that currently there are no electronic signatures associated with pharmacy claims; however the Agency desires that this functionality be present in the bidder's PBMS solution. PBM OS+ is capable of supporting electronic signatures and we are happy to work with the Agency to implement the use of electronic signatures when requirements are available via the change request process.

Help (A4.8, A4.9)

Web pages developed by Xerox offer extensive functionality and ease of use. Our Web pages have been designed after soliciting feedback from several experienced user focus groups concerning organization and display of data. Users benefit from our use of online help, drop-down menus, hot links, hover, and simple point-and-click technology to facilitate finding the information they need. PBMS incorporates Flare by MadCap to provide online tutorial functionality. Authorized users can access information quickly within and across help modules within the online tutorial.

General Help is located in the header of each page of the system. It is displayed with a Table of Contents that allows users to search across the **Help** topics specific to their user type.

Context-sensitive Help, or Portlet Help, is available on all portlets where a user performs an action. Xerox's online help is accessible and customizable from all windows, tabs, and frames.

During design, development and implementation (DDI), our document specialist creates and maintains User Guides and Web-based help content that is role-based and job-specific. Xerox keeps all user manuals and operational policy and procedure documentation updated to reflect current operational processes and PBMS policies.

Both documentation and training materials are subject to the same stringent change control as other PBMS project components.

User Guides/Manuals

Xerox provides Microsoft Word-based documentation that details operating procedures and addresses end-to-end business processes including non-system functions. This documentation is made available to users on the project's SharePoint site. We provide these documents to users before user acceptance testing (UAT) to not only validate the system but also the supporting documentation and related training. Xerox uses 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.

Xerox follows standard procedures to establish how manuals, including end-user and provider documentation, are developed, tested, reviewed, approved, stored, accessed, and updated. Our documentation approach leverages SharePoint for optimal information management and collaboration, including version control and archiving per PBMS project policy/specifications. We manage the documentation repository throughout the life of the project.

Instructions are formatted as independent sections of the manual and include illustrations of Web pages used at each step of the process. These illustrations make it clear which data is being updated. One of the user documents created by Xerox is a desk reference that includes appropriate instructions and information needed for role-based access to the screens and functions that are necessary for their jobs. Desk references are tailored to different job roles.

As the PBMS project enters development, the required functionality is defined and serves as input to the creation of accurate and thorough pharmacy user documentation. We ensure that all published pharmacy user information is current, complete.

Pharmacy user documentation is a visual representation of the PBMS and, as such, it influences how users perceive the program and how it operates. Our goal is to make sure that users have the information they need to understand program policies. Manuals serve as important resources for users— not only for information about the program, but also for complete step-by-step instructions for accessing needed data and performing all system functions.

Online Help

When accessing Web pages, users benefit from online prompting to assist in data entry with preprogrammed keying formats such as help, drop-down menus, hot links, hover, and simple point-and-click technology to facilitate finding the information they need and to ensure that data formats are recorded correctly. Developed by documentation specialists using MadCap Flare, online help provides context-sensitive help with step-by-step instructions for sequential functions, tasks, creating reports, fixing errors, and troubleshooting.

Online help is developed using MadCap Flare WebHelp. WebHelp provides a cross-platform, cross-browser compatible help file for the Web. Features of WebHelp include indexing, search functions, and print support. Accessing the help link on a page provides the user with help documentation specific to that page including how to use the application function in question and any policy information that may be relevant to that application function.

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 the content of the complete online help materials or separately generate a standalone help file that is specific to operations staff. We also generate integrated online help 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.

PBMS incorporates MadCap Flare to provide online tutorial functionality. The online tutorial includes a master table of contents listing all topics covering each functional area in the PBMS, so that users can access information quickly within and across help modules. In Flare, each help module includes:

- **Overview topic** – high-level summarization of the topic
- **Procedure topics** - details on how to use the software; how to search, add, or edit
- **Field description topics** – explanation of the fields that are displayed or entered on a page
- **Navigation links** – to information within a topic and across topics

Help modules are compiled in Flare to produce either online help or printed manuals. The single sourcing features of Flare (style sheets, condition tags, and output targets) allow us to use the same content for online help and printed manuals. The WebHelp output type in Flare generates the .html files that make up online help. This output type allows for multiple browser support and works well for Web-based systems. Printed manuals can be generated directly from Flare as PDF files.

Online help is attached to the PBMS through an alias file provided by the technical writer. The alias file connects the help page IDs from the .jsp files for each Web page in the system with the .html page names from online help. The alias file references allow for context sensitive help. On each PBMS Web page, the

user can access the specific Help topic about that page. The user can also access global online help from a top level Help link. Users can also search help and add topics to a favorites list.

Help modules are updated through the change management process. The technical writer evaluates change requests to determine if help content is affected by the change, and then updates help data when necessary. Online help releases are done in coordination with the software release processes.

Frequently Asked Questions (FAQs)

Complementing the online Help functionality are quick links to FAQs which are maintained as static content by the content management system. Xerox has developed FAQs for many of its websites and will work with the Agency to identify questions to include in the FAQ section.

The content management system allows us to update content on a daily or as needed basis as we receive new questions that should be posted. This ensures that updates are completed within five business days of notification by the Agency of a change.

Forum Search/Post (A4.10)

We will use the SharePoint discussion board feature to post inquiries and respond to other posters. Users can search posts by date or subject in order to follow threads on topical problems.

SharePoint is the standard documentation, information management, and collaboration tool adopted by the SPARK-ITS QMS. The project's SharePoint site is far more than a document repository. The site includes SPARK-ITS QMS standard process documents and templates (ready for tailoring during our planning activities), "list" functionality to track action items, issues, risks, and change requests, and discussion board features to post queries and respond to other posters.

Discussion Boards (A4.10)

The standard SharePoint templates include the ability to create discussion boards and many sites have a built-in discussion board called Team Discussion. Several options are available for customizing the views and behaviors that are specific to discussion boards. You can also specify a default view for discussions and a separate default view for replies.

On a regular basis, Xerox maintains the relevance and usefulness of a discussion board by taking actions such as:

- Change the name of a discussion to make it more meaningful
- Edit a post to delete inappropriate language, make corrections to technical content, or provide updated information
- Attach a file to supplement a discussion
- Delete a post if it is inappropriate for the discussion (Optionally, you may want to copy the post and paste it into a new discussion if it is otherwise useful for your discussion board)
- Delete a discussion (a post and all its replies) if it is not relevant or if it is out-of-date

By default, a discussion board shows the most recent discussion first, as well as the number of replies for each discussion. That way, you can quickly see which discussions have the most recent activity and which ones are the most popular. However, a moderator can modify and add views to customize the discussion board.

5.0 BI and Reporting

Instructions: Describe the Vendors approach to providing BI and Reporting capabilities and features as part of the proposed PBM System. This includes the provision of a comprehensive set of standard reports through a dashboard interface, ad hoc reporting, and the capability to perform analytics. The approach must, at a minimum, provide details on how the proposed System intends to meet or exceed the BI and Reporting Requirements set forth in the document ‘Non-Functional Requirements, Tab A4 BI and Reporting’.

Business Objects will assist AHS and Xerox in effectively managing the Vermont Pharmacy Program through the use of static and ad-hoc reports. Business Objects provides numerous standard and ad hoc reports within timeframes, with content, and via media requested by the State.

Business Objects (A5.1, A5.2, A5.3, A5.6, A5.7, A5.19, A5.29)

Our proposed reporting tool, Business Objects includes flexible and comprehensive reporting of data from the Data Warehouse/Decision Support System (DW/DSS) for comprehensive set of standard reports. Thanks to Business Objects’ metadata (“data about data”) layer, users are presented with everyday business terms, not obscure database terms, and no knowledge of standard query language is required. Business Objects Web-based user interface provides State end-users and other stakeholders with a library of standard reports and advanced ad-hoc reporting capability. Adjudicated claims are added to the data warehouse in near real- time (instead of daily or weekly) so that AHS has access to current claims data for reporting.

Our Reporting Solution

- Fully integrated, world-class DW/DSS
- Flexible, user-friendly reporting tool bringing enhanced capabilities to users of all skill levels
- Powerful, flexible analysis and reporting capabilities
- Proactive approach to pharmacy benefits management
- Replication of claims to the DW/DSS within minutes of adjudication provides AHS with near-real time data for reporting

The reporting tool will provide all State specified pharmacies including but not limited to drug and claim file, recipient and provider information, and the prior authorization file. Business Objects will be used to create reports based on the following, including but not limited to, a combination of pharmacy claim data elements; beneficiary characteristics; provider characteristics; prior authorization characteristics; and drug reference file elements including drug pricing, drug rebate status elements, lock-in characteristics, pharmacy claim errors, and net cost. Xerox will collaborate with AHS during implementation phase to create a comprehensive list of all reports. Xerox will provide a thorough training program to maximize the capability to schedule reports to be created for routine reports without the creation of the same report each time.

Creating ad-hoc reports with Business Objects is as easy as dragging a few business indicators onto a blank sheet. The report generator allows users to combine data easily and intuitively and permits drilling, slicing and dicing, advanced ranks and sorts, calculation creation, and complex graphing. Users can quickly create

powerful, highly customizable, reports that contain tables, charts, hyperlinks, and pictures. The powerful reporting capability of Business Objects allows the user to save an ad hoc report as a standard report template based on security profile and authorization level. Xerox will collaborate with AHS to establish and maintain a methodology for the development and maintenance of production and system reports. The capability to easily change and manage reports drives the total cost of ownership down by reducing training and licensing costs. Sharing common reports that can be sorted and filtered into a seemingly custom report for each user, rather than developing and maintaining private report libraries of many similar reports, lessens the likelihood of duplicating work and reduces the resources required to generate them. The easy use of graphs (available in many formats) makes the focus and contents of many reports intuitively obvious.

Analytical Capabilities (A5.4, A5.5, A5.15, A5.22)

Business Objects allows users to track, understand, and manage the information stored within various databases. Business Objects' metadata ("data about data") layer allows users to see data elements presented in everyday business terms rather than obscure database terms, allows wild card searches, and no standard query language knowledge is required. The report generator allows users to combine data easily and intuitively and permits drilling, slicing and dicing, advanced ranks and sorts, calculation creation, and complex graphing. Xerox will establish and maintain a methodology for the development of data analytical capabilities of the PBM System including how reports are created and the process for validating the information.

Xerox will collaborate with the State during negotiations to determine specifications of analytical capabilities. Xerox will establish, maintain, implement and manage analytical capabilities to include but not limited to data summarization, data comparison, data correlation, forecasting, trending, and statistical analysis.

Scheduling of Reports (A5.8, A5.9, A5.12, A5.14)

Business Objects functionality is highly configurable, allowing AHS or Xerox users to schedule the production of a specific report to run on a routine basis at a specified time and frequency. This feature ensures that all standard reports are produced timely. The requestor is notified if the timeliness of the report cannot be met. It also allows the user to schedule a report to run during off-peak hours, particularly if the report is very large. Business Objects tracks and reports the status of a report request. Xerox maintains distribution lists to ensure accurate distribution of the reports.

Business Area, State, and Federal Specifications (A5.10, A5.11, A5.13, A5.16, A5.17)

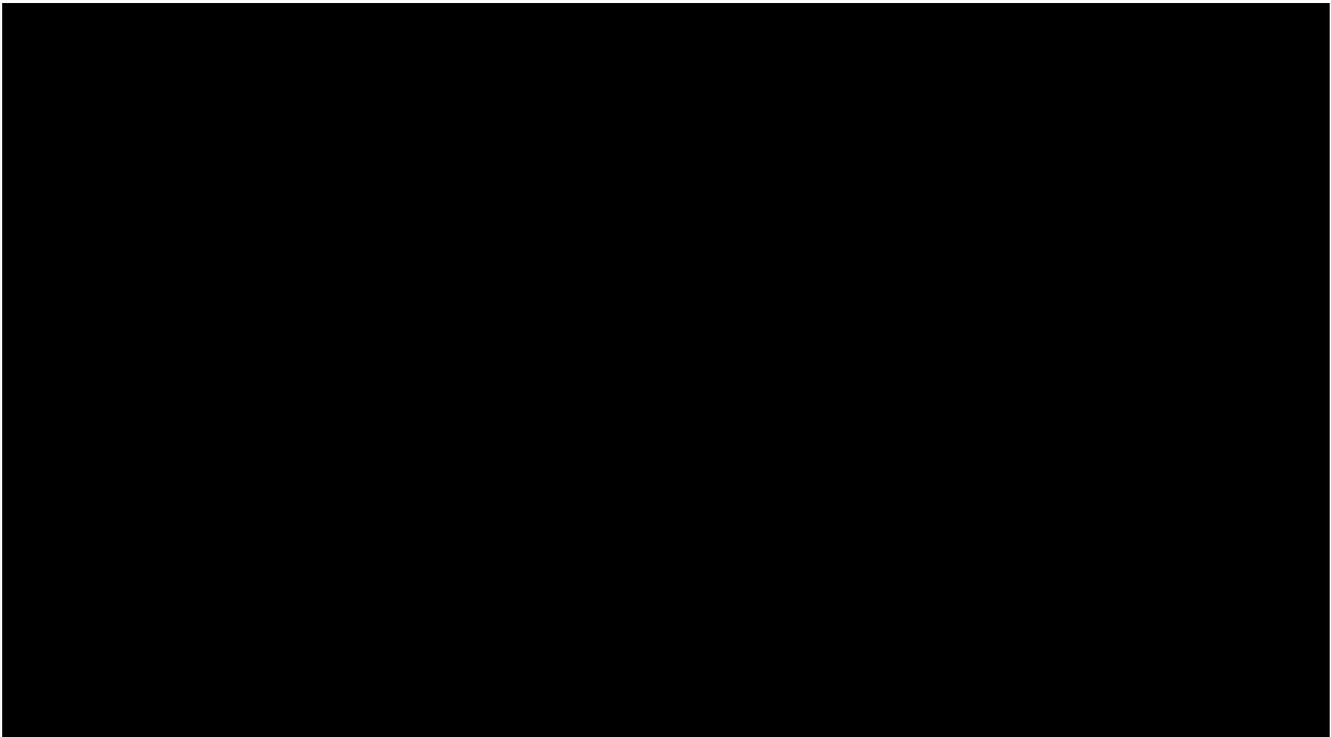
Xerox has the expertise and knowledge to produce, distribute, and manage accurate and precise reports in accordance with the Business area, State, and Federal specifications. Using the Xerox pharmacy DW/DSS with Business Objects as the reporting tool, Xerox clinical staff produces Federal and State ad-hoc, standard and scheduled reports on the requested timeframe and in the proper format as determined by the State. The DW/DSS has been implemented in nine (9) Medicaid accounts producing both ad-hoc and standard reports for similar pharmacy programs. All reports are stored in accordance to the retention schedules agreed upon by the State and Xerox during negotiations.

Ad Hoc Query Generation (A5.25, 5.28)

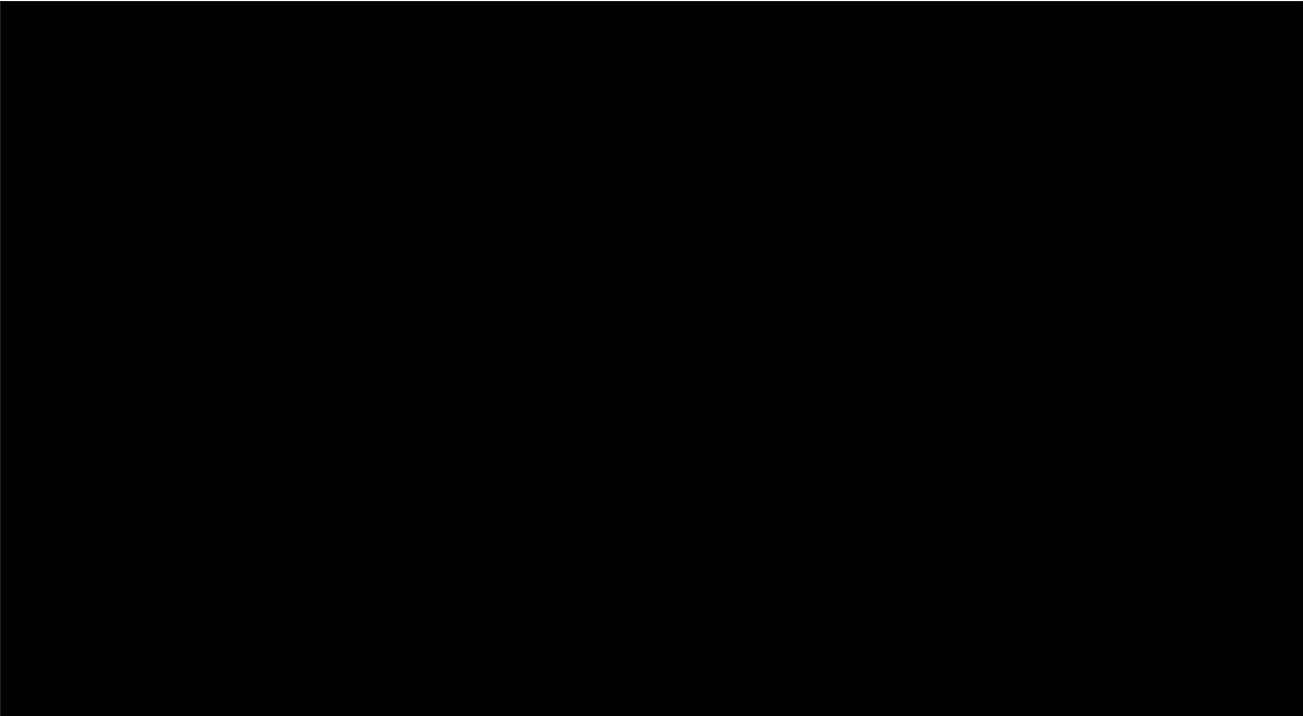
Standard Reports - Business Objects includes an extensive library of standard pharmacy reports that provide PBM statistics for the Vermont Pharmacy Program. Reports are produced by Business Objects and include comprehensive reports regarding submitted, paid, denied, and rejected claims, including frequencies, percentages, and cost-containment, where appropriate. Users have the capability to control all aspects of report printing, including font size, report style, portrait or landscape format, and output medium, such as hard copy for purposes of faxing.

Ad-hoc Reports - Xerox uses a Business Objects ad hoc report generator to produce reports or other data requirements needed to meet unique reporting requirements. With this tool, users can quickly customize existing or create new reports. The report generator allows users to combine data easily and intuitively and permits drilling, slicing and dicing, advanced ranks and sorts, calculation creation, and complex graphing. Users can quickly create powerful, highly customized, ad hoc reports that contain tables, charts, hyperlinks, and pictures.

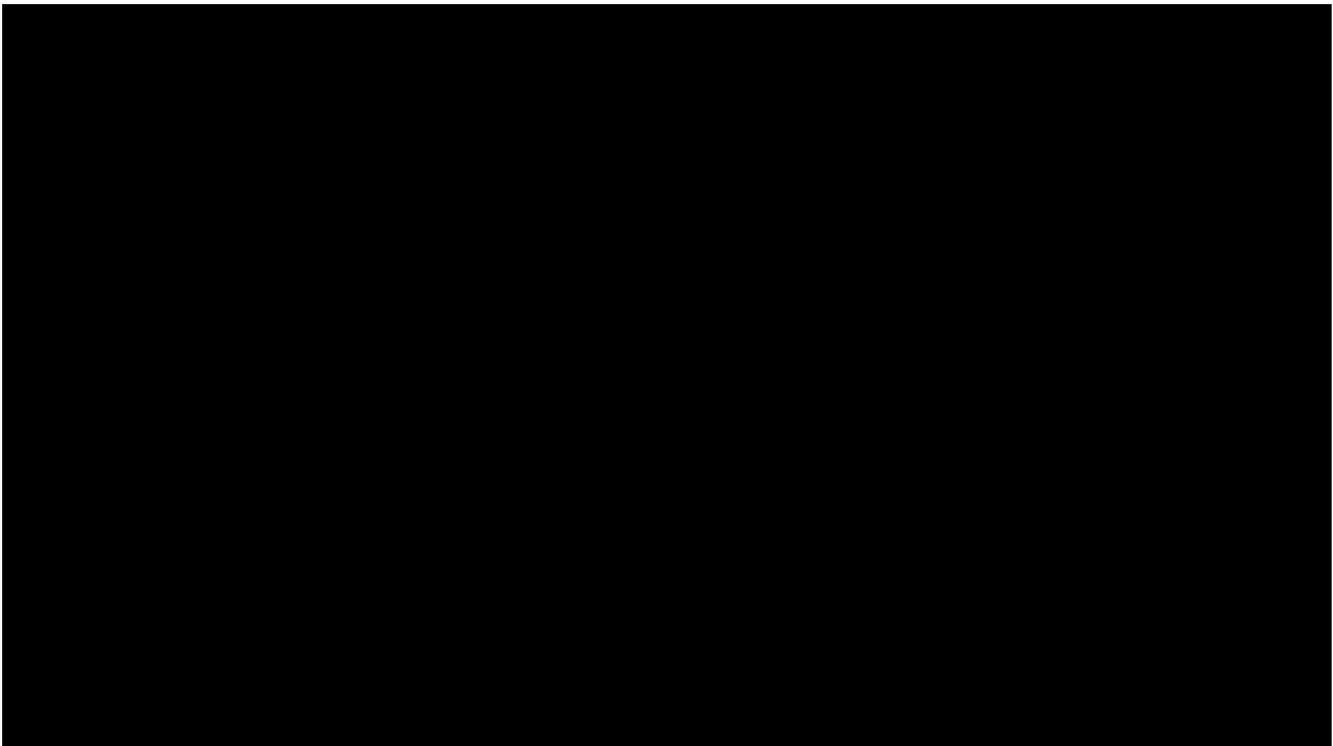
Users of the ad-hoc component are able to start with a new query, use an existing query, or modify an existing query to meet the user's needs. In the Exhibit I-12, the user is beginning a new query.



Objects within the ad-hoc component are organized into intuitive categories, no matter where they reside within the database. Given that most users do not have a complete understanding of the structure of the data beneath the tool, this feature provides a more useful and efficient way to categorize the data. Once expanded, the user can view all available data elements, as shown in Exhibit I-13.

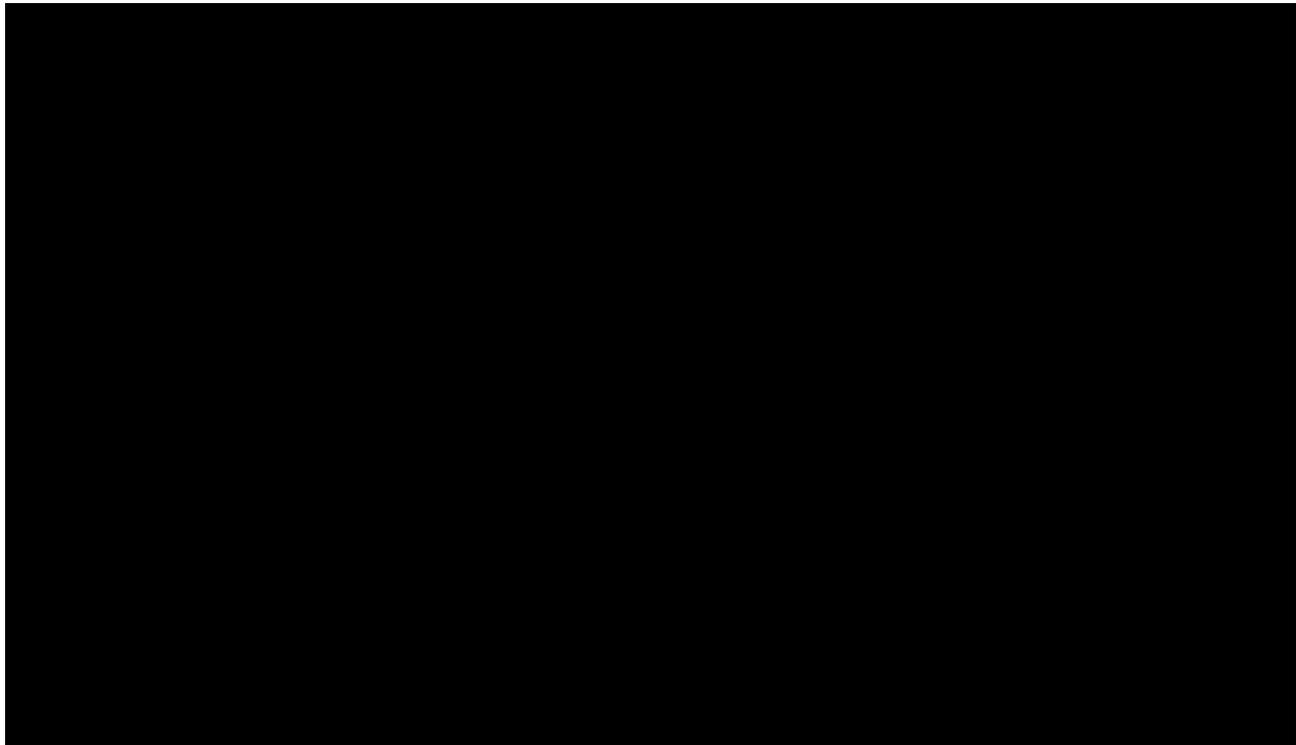


The query palette is separated into two work areas, which allows the user to define the data elements needed in the result set and data elements needed in the query criteria. Data elements can be used both as display and as restrictions, as shown in Exhibit I-14.



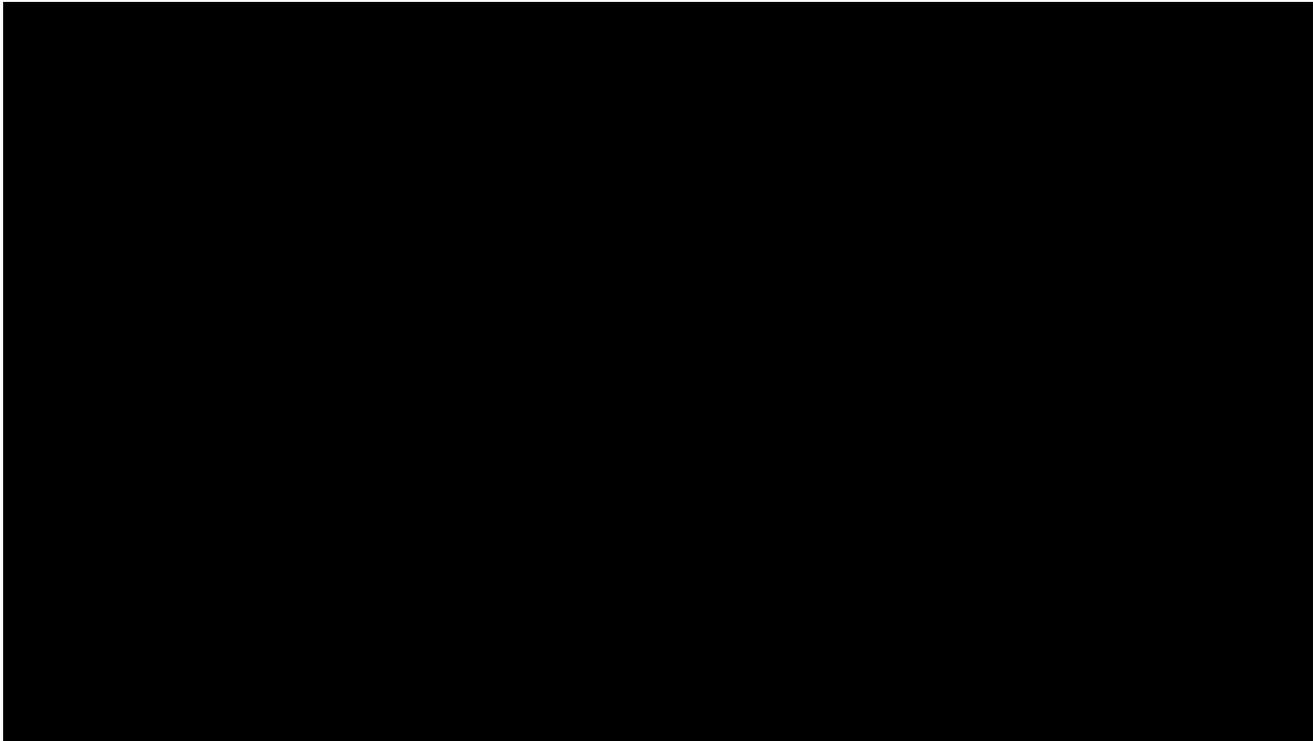
Once the query is executed, a report is returned. Users may readily manipulate a report's stylistic parameters (e.g., color, font, borders and shading, line and page breaks) and may include filters, sorting, ranking, calculations, functions, and variables. An example of a non-formatted report is shown in Exhibit I-15.





Report Manipulation (A5.28, A5.29)

The ad-hoc component allows the user to easily manipulate reports. The report shown in Exhibit I-16 was created by using the various formatting functions explained following the exhibit.



Delete columns - The user has the ability to not display pertinent information in a report, while still having the data available to use in calculations or in other reports. In this example, Payee Code and Injury Date were deleted from the report.

Change Columns - Xerox has named its metadata to make the data more intuitive for the user. However, there are instances where a naming convention may differ for a particular customer. In these cases, the headings of the columns (or rows, depending upon how the report is configured) may be changed to different text. In the example, the header name “Thera Class” has replaced the original “Spec Thera Class Description.”

Change Font - The ad-hoc component of the reporting solution allows users to change the font or font size of the text in the report. In the example, the “Thera Class” font was changed from 10-point to 8-point text to better fit in the report.

Add a Title - As seen in this example, users can change the report title, add additional features like Run Date that automatically change to reflect the date the report was run, and other unique displays such as logo and the report date range.

Colors - The colors in the report may be modified to present a more aesthetic looking report.

Sort - Data elements can be sorted alphabetically, numerically, or in a customized manner.

Variables - Business rules can be created in order to perform calculations on group data. For example, an Average Cost per Rx can be defined in a variable by dividing the Total Amount Paid by the Total Rx.

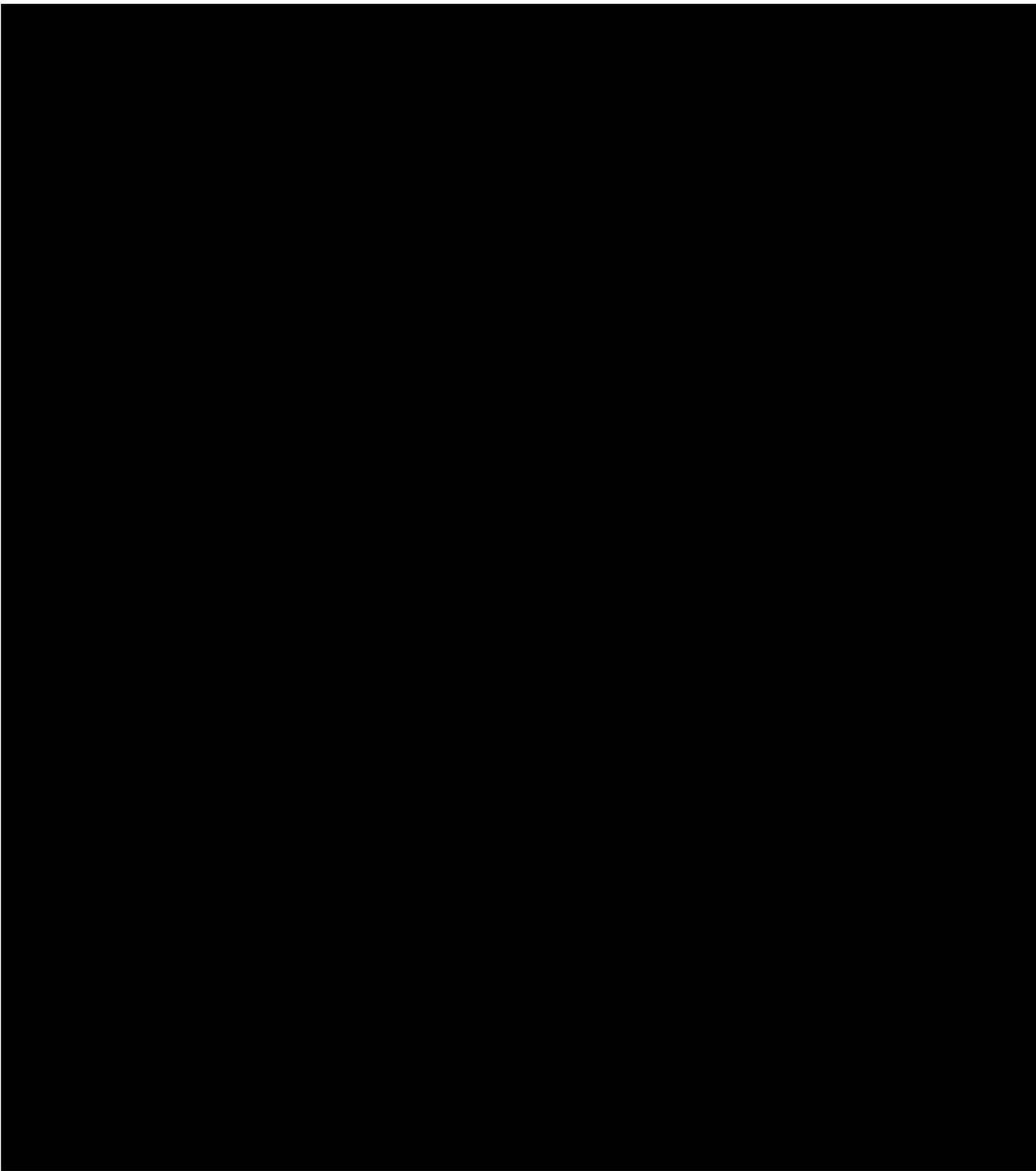
Special Reporting Features

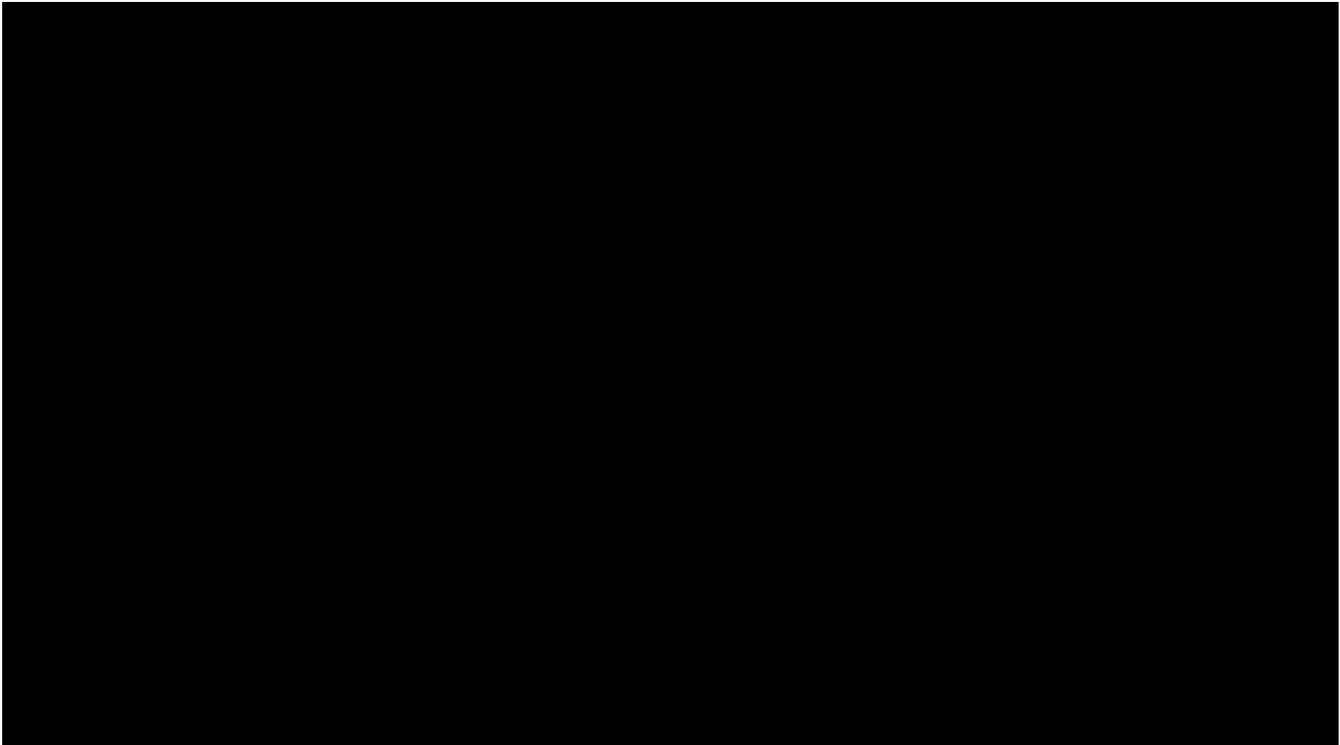
Rank - Ranking enables a user to view both the largest and smallest numbers in a report. Once the ranking threshold has been determined, the ad-hoc tool hides the data that does not need to be displayed. The hidden data is not deleted from the report and can be viewed simply by removing the ranking.

Ranking also sorts the data in descending order. Thus, the largest value of the ranking is always at the top of the ranked column and the smallest value at the bottom. Data thus ranked can be contained in tables, cross-tabs, or master cells in master/detail reports. Additionally, users can rank Top 10/Bottom 10 and perform other powerful ranking functions.

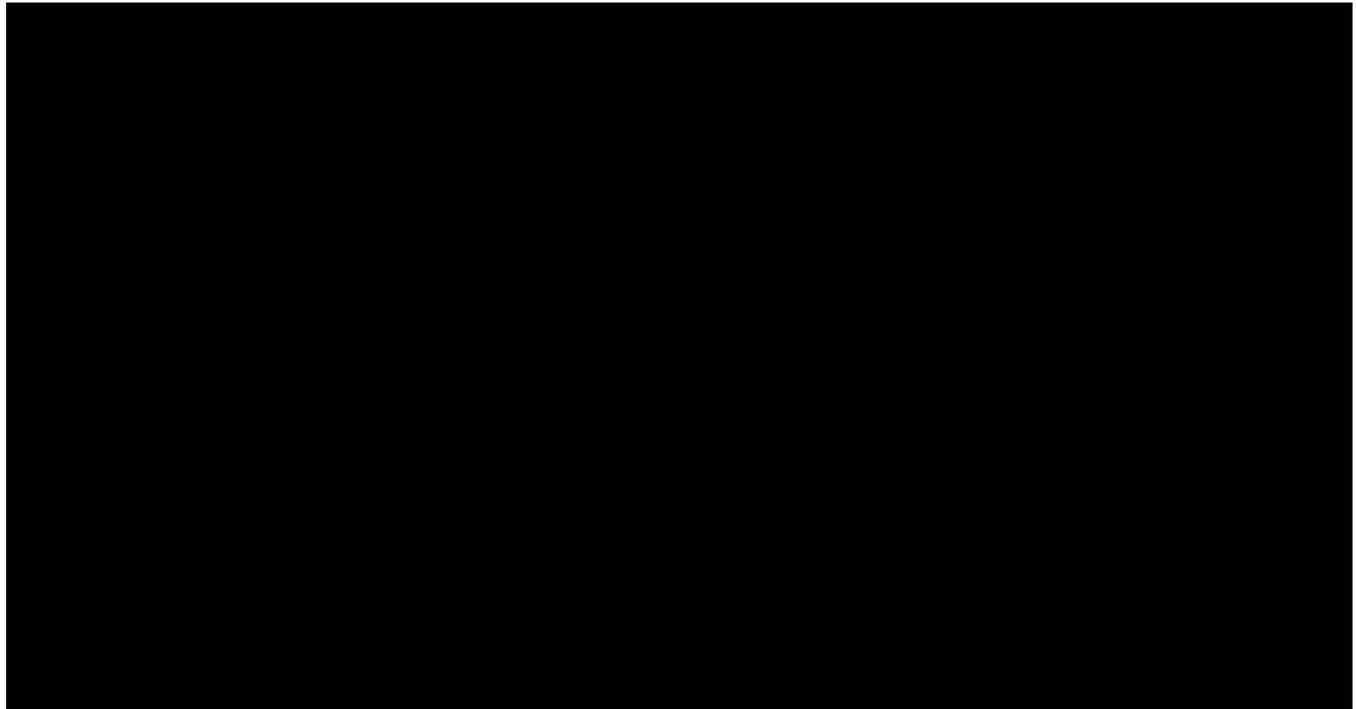
Users can also hyper-segment data and track cases over time by using the set-based and time-series analysis technology. An example might be segmenting patients over certain ages who take high-risk drugs under certain conditions, then tracking this behavior over time.

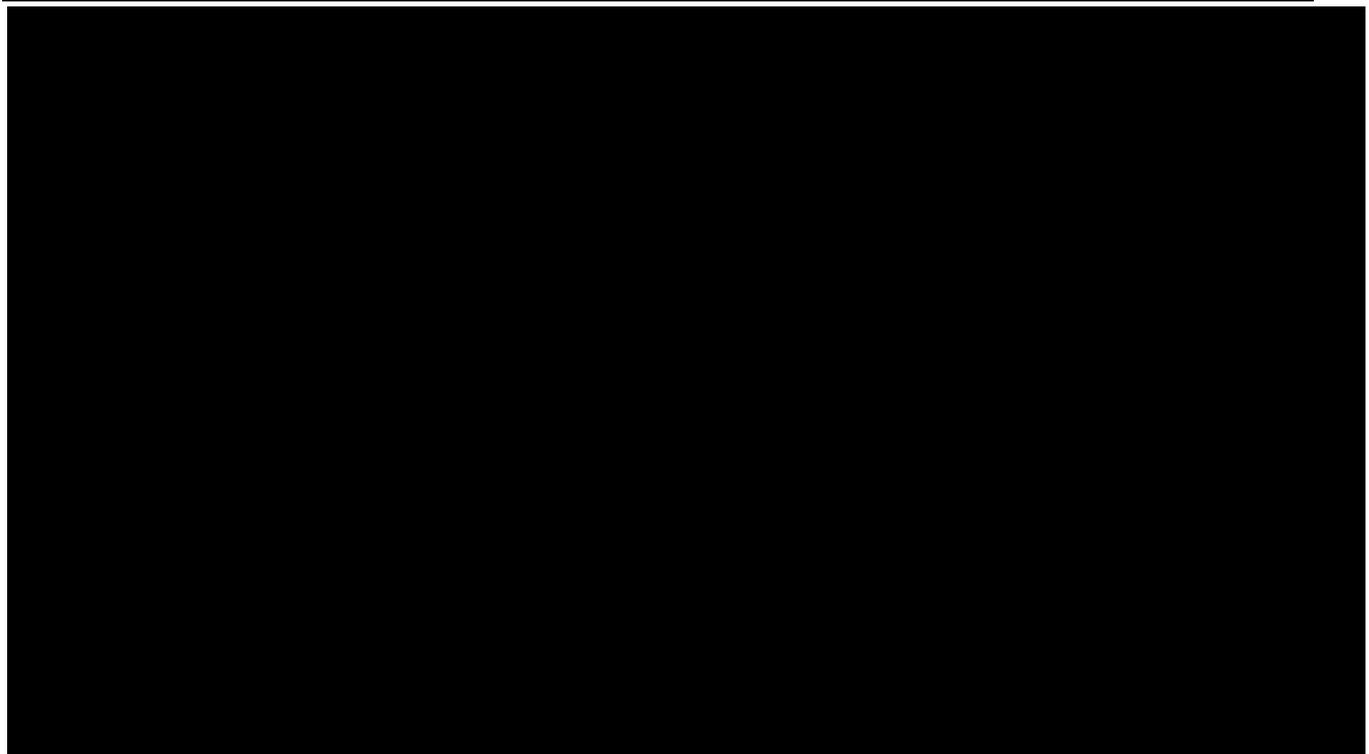
Exhibits I-17 through I-19 illustrates the steps taken to create a ranking report.





Filter - Filtering as shown in Exhibits I-20 through I-22, enables a user to select specific valid values to be displayed in the report, although much more data has returned in the query. This allows the user to display only pertinent information without having to limit the query conditions. Although the data is hidden from the report, it is still available and can be accessed simply by deleting the filter.





Report Print and Downloads (A5.24, A5.25, A5.26)

Users have the capability to control all aspects of report printing. Users can select the font size and style for their report output, as well as choosing from portrait or landscape format as appropriate for the report. Users can select output formats such as Excel, PDF, and Text. The capability to easily change and manage reports drives the total cost of ownership down by reducing training and licensing costs. Sharing common reports that can be sorted and filtered into a seemingly custom report for each user, rather than developing and maintaining private report libraries of many similar reports, lessens the likelihood of duplicating work and reduces the resources required to generate them.

Our Business Objects allows AHS to drill down on standard and ad-hoc reports to analyze provider performance by such variables tabbed daily, weekly, monthly, quarterly, yearly, prior year, etc.

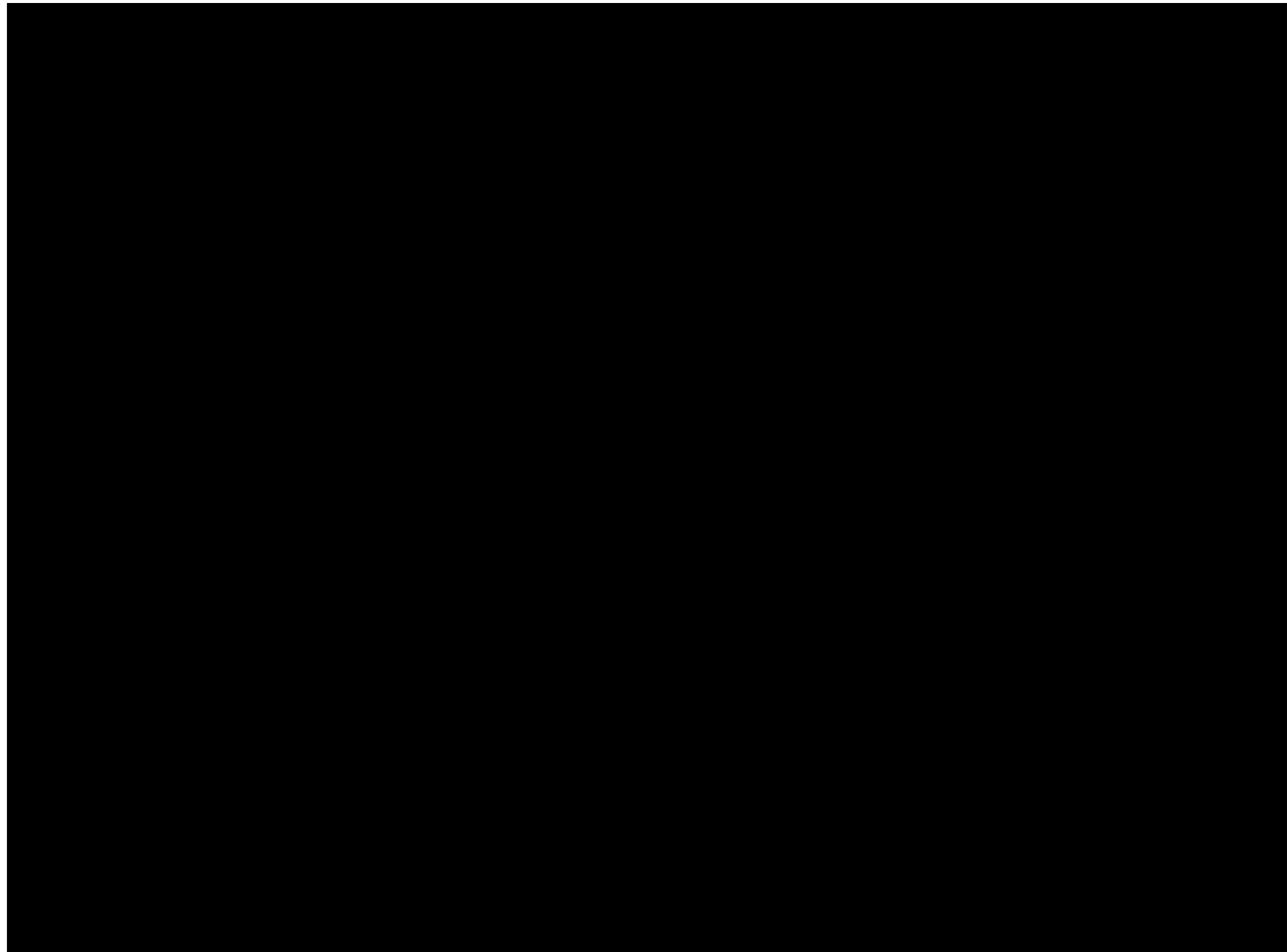
Users can generate a standard report with either default or user specific parameters and save the standard report as a template with these parameters. Authorized users with appropriate security profiles can save the new template as a new standard report.

Business Objects allows export of detail or aggregate data into a variety of other tools in standard formats. Supported formats include Microsoft Office applications (Word, Excel, and Access), .pdf, .csv, .rtf, and .rpt (Crystal Reports)

Reporting Interfaces (A5.18, A5.19, A5.20, A5.21, A5.27)

Xerox proposes several methods to regularly and accurately produce operational reports using the PBM System data. PBM OS+ supports Web pages for searches of specific data, while OnBase searches retrieve documents associated to the specified data. For non-standard or more complex searches, we use Business Objects to query and report on pharmacy data. These retrieval methods will provide data analysis and ad-hoc reporting as agreed to through negotiations with the State. Xerox will collaborate with the State to design the format and a schedule for the generation of each report.

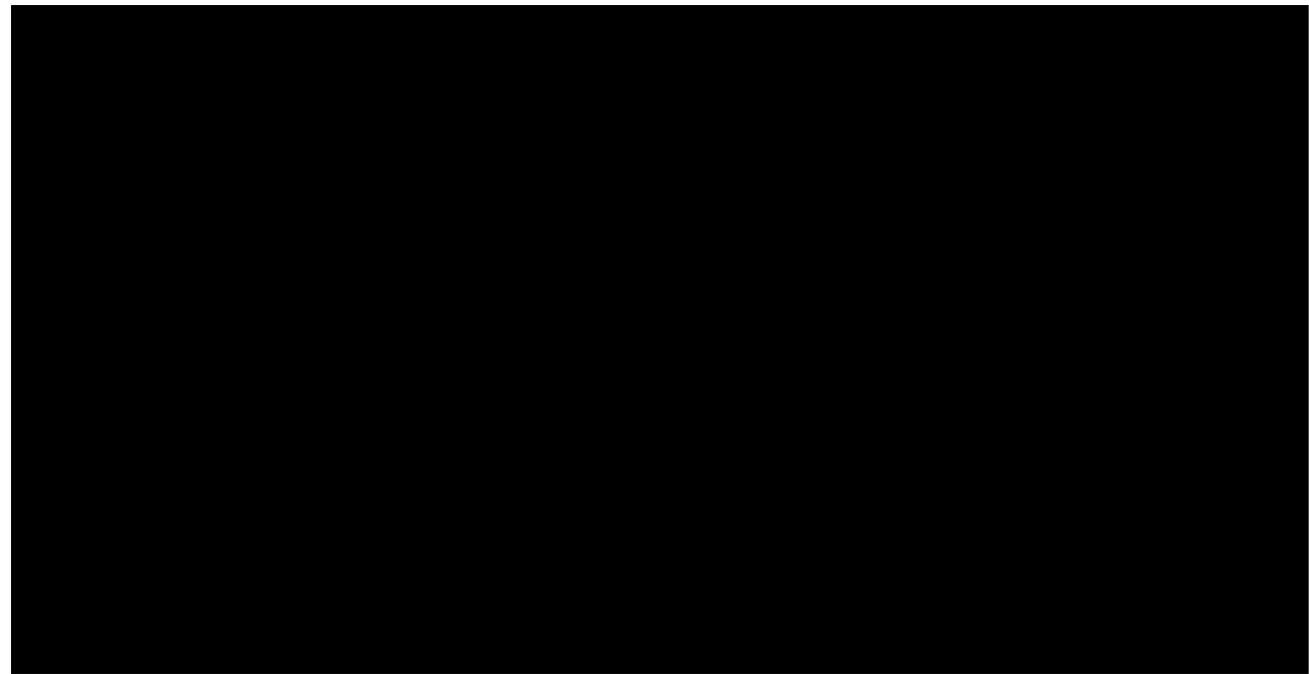
PBM OS+ is viewed through a user-friendly Web-based graphical user interface (GUI) for AHS and Xerox staff access. Web pages provide extensive functionality for inquiry and viewing of all data that supports claims processing. We use a standard search function to inquire on records for providers, clients, claims, drugs, and reference data. Each component uses a standard search portlet with a single criterion or multiple criteria tailored to the needs of that particular component as shown in Exhibit I-23.



In this example, the system allows the user to narrow the results of a search by criteria such as date, claim status, claim type, transaction control number (TCN), prescription number, and prescribing provider. The search returns an online summary of claims matching the entered search criteria. The user can sort the claims in the online summary by column in ascending or descending order, or filter the information as needed and select a claim from the profile summary to view detail information about the claim.

The PBM OS+ search function includes the ability to use a wildcard search when only a partial name or description is entered, which allows authorized users to view lists of data where they may have broader search parameters than a single code. Exhibit I-24 illustrates an example of this type of search.





OnBase - For document storage and access, Xerox uses OnBase. The Web-based user interface of OnBase presents user-friendly content navigation and advanced document search capabilities. Using OnBase Search, users can search for content by subject matter without having to know where the content is actually stored. The search feature allows users to simultaneously search content categories, other metadata definitions, including key word capabilities, and unstructured text through a single query to obtain the best results.

Documents are retrieved by searching index values for each individual document. In addition to the capability to search by the document's unique control number, the document search function offers several filters that allow a user to customize a search, such as the document type, document title, assigned work group, the load date range, and the document date range. Based on the document type selected, the system displays the additional eligible index fields for the document type. The user may enter information into one or many index fields to return a list of documents that meet the criteria.

For more-complex searches, OnBase provides the capabilities for advanced find options. These options include listing documents by date ranges and detailed searches using detail fields. This approach requires the user to define query criteria in addition to the index fields. This method provides greater refinement in query results, when necessary.

Business Objects - In addition to providing comprehensive data to AHS, Xerox also provides standard and ad-hoc operational reporting supported by data maintained in the DW/DSS. The PBMS comes packaged with a proven, high quality reporting solution that leverages an industry-leading suite of reporting and business intelligence tools from Business Objects. This best-of-breed business intelligence (BI) tool provides a stable and mature platform for producing reports, analytics, and dashboards necessary to the functioning of the Vermont Pharmacy Program.

Testing - Our report generation process is tested in the test environment during implementation phase to ensure that reports can be created in a timely manner and that the report processing will not adversely affect system resources.



Query and report parameters can be set to limit the amount of data returned by a query for testing. The user can then schedule the report to run during off peak hours.

6.0 Project Management

The Vendor must provide a narrative overview of how the proposed solution will meet the Vermont PBM Project Management requirements. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the Project Management Requirements set forth in the document “Non-Functional Requirements,” Tab I1 Project Management.

Xerox's methodology for project management meets and exceeds the RFP requirements by providing complete, consistent, and integrated processes for managing and controlling the Vermont PBMS project. Using a set of plans, step-wise procedures, and supporting tools, our quality management system establishes the framework and foundation that drives project success.

Xerox develops, deploys and supports an arsenal of innovative solutions for the government healthcare marketplace. We have the earned confidence to take our forward-thinking market offerings and putting them on sturdy project management methodology. Our project management approach will deliver a low-risk, disruption-free PBM program to the Vermont Agency of Human Services (AHS), its stakeholders and beneficiaries.

As directed in the RFP, we are pleased to share a highly focused narrative describing how Xerox will meet or exceed the project management requirements in the following sections:

- 6.1 Program and Project Management
- 6.2 Project Work Plan
- 6.3 Change Management Plan
- 6.4 Relationship Management
- 6.5 Issue Management
- 6.6 Risk Management
- 6.7 Relationships with Third Parties

6.1 Program and Project Management

Instructions: Describe the Vendor's methodology, tools, and techniques used to support projects from inception through finished deliverables including deployment of the new System, project management, checkpoints and periodic status reporting. Describe policies and procedures employed to ensure the timely completion of tasks in a quality fashion.

A cornerstone of the PBMS project is to apply our methodical approach, our years of Medicaid and pharmacy expertise, and our proven technologies so AHS is able to serve its Medicaid stakeholders in the most innovative, efficient and cost-effective manner possible.

Summary of Xerox Program and Project Management (I1.1, I1.2, I1.3, I1.4, I1.5, I1.6, I1.7, I1.8)

Over the past four decades working with Medicaid healthcare systems, including 20 years developing and operating government PBM programs, Xerox has refined a disciplined approach to project management

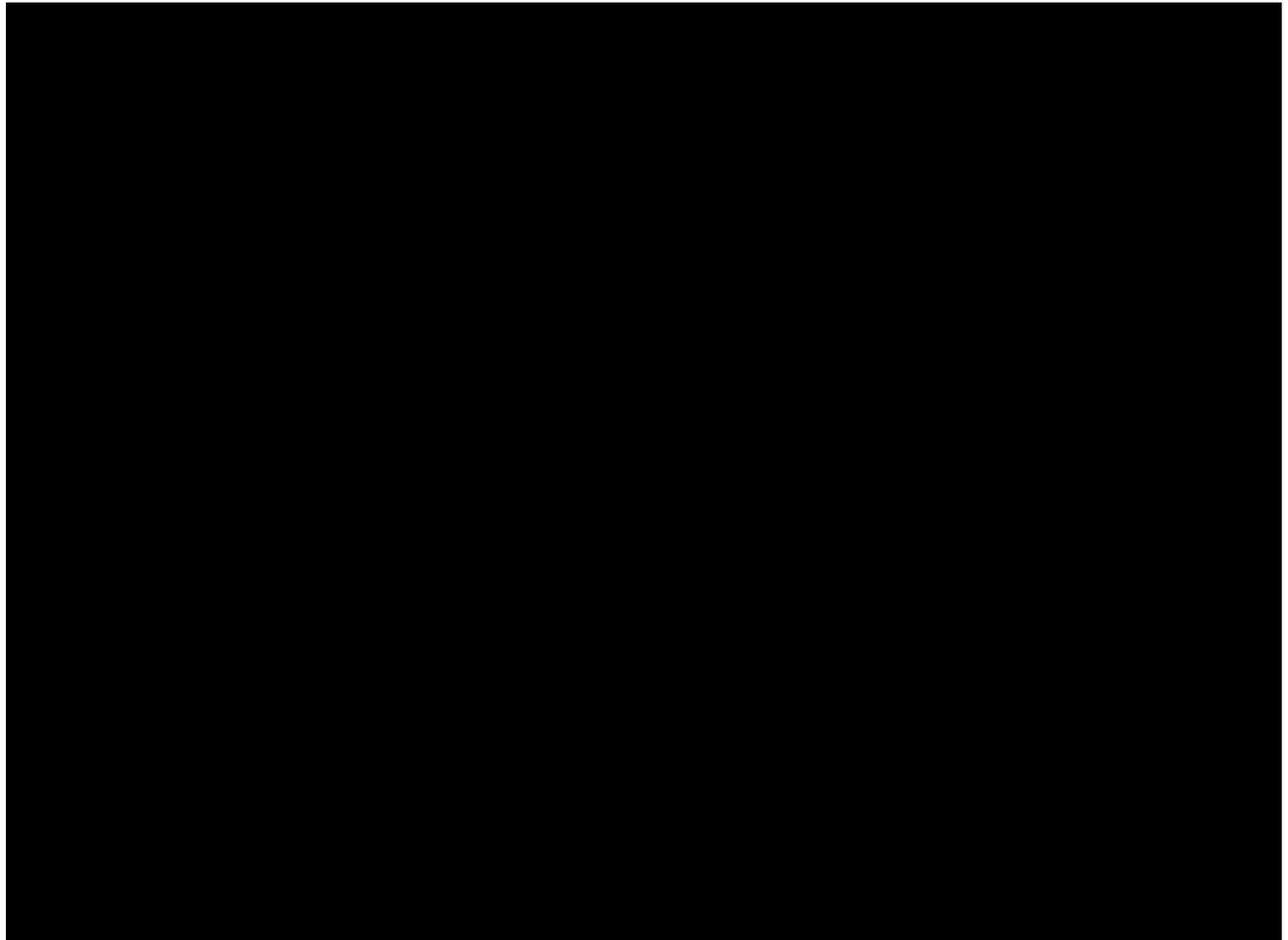
and program start-ups. Our trademarked methodology is called Xerox Standardized Process and Resource Kit-Implementing Technology Solutions (SPARK-ITS®) Quality Management System (QMS).

SPARK-ITS QMS has evolved to address the challenges of the increasing complexity of our clients' information technology systems, Medicaid operations, and pharmacy programs. It allows us to deploy our innovative solutions to Vermont in a consistent framework which leads to predictable results.

Incorporating many of the industry standards such as the Project Management Institute's (PMI's) *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*, the Software Engineering Institute's (SEI) Capability Maturity Model Integration (CMMI®), and the Institute for Electrical and Electronics Engineers (IEEE), the SPARK-ITS QMS enables us to successfully manage and consistently execute our project tasks and milestones.

The SPARK-ITS QMS is continually improved based on input from project management teams and process analysts from around Xerox, best practices and lessons learned gathering sessions with project staff, and industry standards and recommendations. For example, while our methodologies have been aligned with the PMBOK since 2004, as the *PMBOK® Guide* is updated by PMI, we update the SPARK-ITS QMS to stay in alignment with the current version. The Xerox Executive Project Management Office (EPMO) is current incorporating PMBOK v5 into SPARK-ITS QMS.

The three interrelated, comprehensive methodologies of the SPARK-ITS QMS are illustrated in Exhibit I-25.



First, the Project Management Methodology (PMM) is executed in every project phase to provide oversight of all project activities. Among other things, the PMM ensures the project is staffed with appropriate resources, proactively manages scope and functional requirements, and anticipates and mitigates risks. Xerox staffs a Design, Development, and Implementation (DDI) project management team to adopt, tailor, execute, and monitor the PMM to ensure the project's success. The SPARK-ITS PMM includes plans, procedures, and supporting tools for well over a dozen process areas, including change management, communication management, and risk management. The PMM component of the SPARK-ITS QMS is discussed further in this section.

Second, the System Development Methodology (SDM) provides best practices, templates, procedures, and supporting tools to develop and implement Xerox's technical solutions. The SDM, which guides the project's SDLC, is aligned with the *PMBOK® Guide* where applicable. The SDM also is aligned with several IEEE standards, including 829 and 1012. A recent improvement to our SDLC increases its iterative and collaborative qualities by incorporating Agile philosophies and Scrum development practices. The PMM process groups and SDLC tasks within the SDM are executed simultaneously to ensure business and technical oversight and excellence. The SDM component of the SPARK-ITS QMS is also discussed further in this section.

Third, the SPARK-ITS QMS includes a comprehensive, user-centric, and closely monitored learning approach within its training methodology. Our training methodology leverages project management best practices and provides a customizable, 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 training, ADDIE, to ensure training is carefully Analyzed, Designed, Developed, Implemented, and most importantly, Evaluated and continuously improved. The training strategy and approach of SPARK-ITS QMS is discussed in Proposal Section 7.3, Training Strategy and Approach

Project Management Methodology

Our PMM maps to nine PMBOK knowledge areas and addresses the five process groups within each management plan. Furthermore, we have refined the project management processes within each PMBOK knowledge area to better align with the needs of Medicaid and PBM projects. For example, in addition to a foundational Integration Management Plan, we provide plans to address specific process steps and validation activities for change management, configuration and release management, issue management, and other topics. The SPARK-ITS QMS, including the PMM promotes tools that are easy to use and accessible, yet powerful and robust to share information with our client and other stakeholders on a regular basis.

To begin a discussion of our PMM, we believe that the following project management practices are essential for project success:

- **Continual Communication and Partnership.** We maintain open lines of communication with the Agency, provide regular and consistent status reporting, and interact with the AHS through the engagement to ensure an aligned approach.
- **Oversight and Process Adherence.** Documenting a standards-aligned plan is only the first step to success. The challenge is to execute the plan with consistency and regularity and to look for

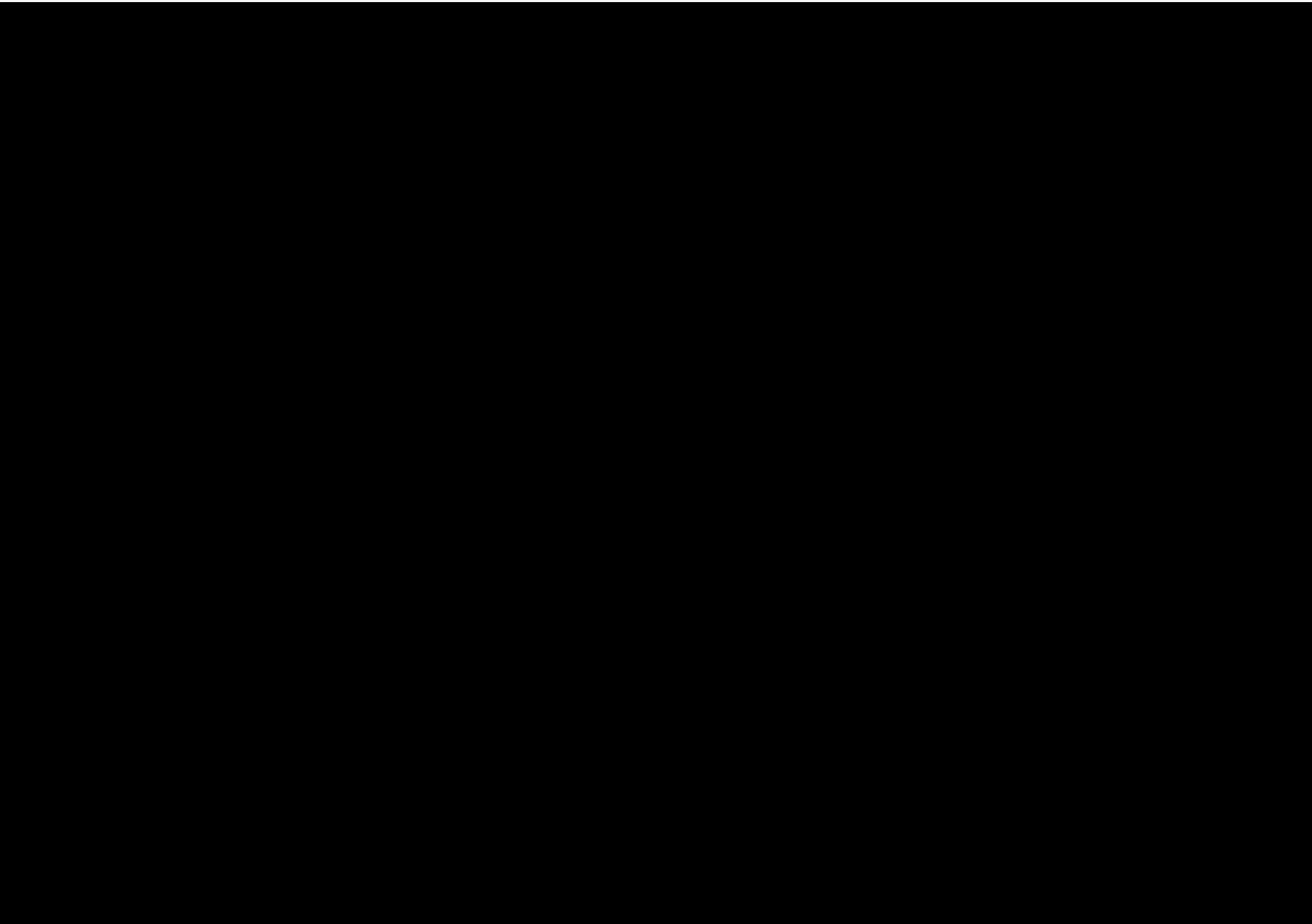
improvement opportunities. We have oversight protocols in place to review our process adherence, and we include a process to identify, evaluate, plan, and implement improvement opportunities.

- **Management Support.** [REDACTED] support and promote the execution of our processes throughout the project and at all levels.
- **Setting Deliverables Expectations.** We meet with AHS at the start of the project to come to mutual understanding of the content of each deliverable, how it meets requirements, who will play a role in its review and approval, and what reviews and acceptance criteria it will be subject to upon delivery. This minimizes surprises later in the project and ensures coverage of deliverable requirements.
- **Clear Communication Protocols.** We create a clear organization structure, including defined lines of authority, decision-making structure, and roles and responsibilities so project team members know where to go to prevent or resolve issues before they have an impact on the project.
- **Proactive Risk Management.** We ask all team members to identify and document risks so we can determine an appropriate response strategy before they become issues.
- **Acknowledge Necessity of Change.** Change is not only inevitable, but it should be embraced as it can result in an improved solution, more accurate information, or enhanced processes and data. Xerox's change management process requires that changes are identified, recorded, and monitored with sufficient oversight to minimize unintended consequences and maximize benefits to the project and the Agency of Health Services.

The SPARK-ITS PMM includes repeatable, consistent, and documented processes, which we continually refine based on factors such as industry trends, project feedback, client satisfaction surveys, and internal process improvement efforts. Our formal change, configuration, and release management approach ensures the project uses the most current documents, templates, tools, and standards to effectively execute project management and system development processes.

Project Management Methodology in Practice

The key to implementing effective project management is an effective combination of ***experienced people, streamlined processes, and effective tools***, as shown in Exhibit I-26. The primary focal point is people – AHS and Xerox staff – working in concert with one another. The combination of staff experienced in the management of Vermont healthcare programs and the implementation of PBM solutions by Xerox experts provides the framework for successful delivery of this effort. With dedication to open communication, meeting project timelines, and working together as a coordinated team, AHS and Xerox will succeed in implementing the new and innovative PBM program.



This consolidated staff focus is supported by an industry-aligned project management methodology that consists of coordinated, integrated, and repeatable project management principles and techniques. The methodology is supported by tools that allow stakeholders to access project artifacts online, to collaborate in the review of project deliverables, and to track progress throughout all project phases. Through this combination of dedicated stakeholder involvement, industry standards and best practices, responsive customer communication, and reporting, we are optimally poised for a successful implementation of the Vermont PBM project.

Establish the Project Management Team (I1.17, I1.20)

While tools, templates, and standards help to infuse quality into the project, ultimately the project's success is driven by consistent execution by skilled individuals. Recognizing that effective management includes how people execute processes, we focus on assigning accountability to individuals and teams at each step in the project. Therefore, we establish the PBM project management team to govern, monitor, control, report on, and support the project. The complete staffing approach and methodology is covered in RFP section D, Organization and Staffing.

The team works with AHS staff to support consistency, collaboration, communication, and shared knowledge. Further, it adopts, tailors, monitors, and controls all project management methodology processes such as requirements and scope management, change and configuration management, schedule management, and risk management. It also ensures that progress is made according to the schedule, within budget, and with work products that contain the highest level of quality. 

[REDACTED]

[REDACTED] Some of their responsibilities include:

- **Account Director.** Xerox's Account Director [REDACTED]:
 - Primary point of contact with the State's Contract Administrator, Pharmacy Director and other State Executive Sponsors for activities related to contract administration, overall project management and scheduling, correspondence between the State and the Vendor, dispute resolution, and status reporting to the State for the duration of the contract.
 - Authorized to commit the resources of the Vendor in matters pertaining to the implementation performance of the contract.
 - Responsible for addressing any issues that cannot be resolved with the Vendor's Account Manager.
- **Account Manager.** Xerox's Account Manager [REDACTED]
 - Authorized to make day-to-day project decisions.
 - Responsible for facilitating the project by using the project management processes, organizing the project, and managing the team work activities consistent with the approved work plan
 - Directs the planning, design, development, implementation, maintenance, and evaluation of programs, services, policies and procedures that assure accurate and timely claims processing

They will be responsible for leading the project implementation team and ensuring performance and progress transparency through the reporting and communications function. Our team leverages Microsoft® Office SharePoint® for document management and team communication. More information on the use of project management tools appears later in this section.

We understand that the success of the project is more than just tools, methodologies, and management procedures. Recognizing that effective management includes the people who apply the processes to the work they are doing, our PMM focuses on involving individuals in the process and assigning accountability to individuals and teams at each step in the project.

Project Management Plan (I1.3, I1.16)

Our standard project management plan (PMP) addresses how we go about executing, monitoring, and controlling the project. The PMP for Vermont may include sections of the following management and administration topics:

- Communication Management
- Quality Management
- Action Item Management
- Change Management
- Configuration and Release Management
- Human Resource Management (with a reference to the project's Training Plan)
- Integration Management
- Issue Management

[REDACTED]

- Performance Management
- Requirements Management
- Risk Management (includes threats and opportunities)
- Schedule Management
- Scope Management

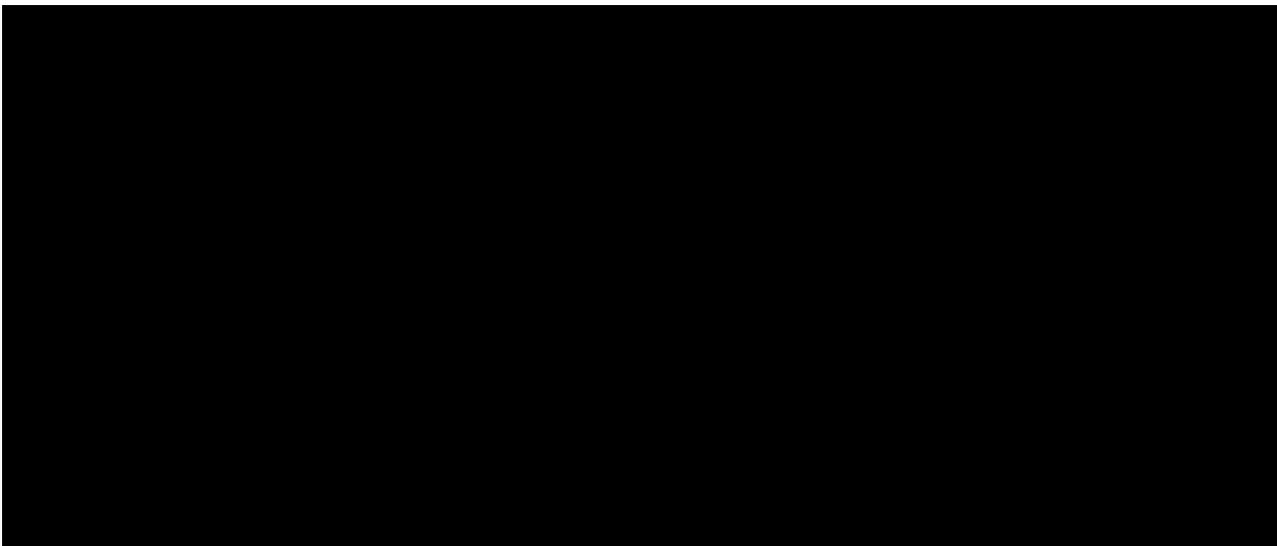
Each section includes approach, inputs, process steps, and outputs for that topic or knowledge area. We develop the PMP by tailoring the base version of each document from our SPARKS-ITS PMM library depending on the specific needs of the project, although as requested in the RFP, Xerox will also utilize agreed upon project management templates as provided by the Vermont EPMO. Our resulting tailored PMP describes the strategy, approach, processes, resources, tools, and training used to meet project management objectives throughout the Vermont project. A common purpose of all the knowledge areas is to communicate effectively and document the numerous aspects of a project. Toward that end we share additional information on the Xerox approach to communication management.

Additionally, Xerox will provide a contract close-out plan and manage close-out activities.

Communication Management (I1.9, I1.12, I1.13)

Xerox's approach to communication management strives for information that flows freely and consistently between the AHS and Xerox staff. To achieve this, we place the highest priority on establishing and maintaining effective communications processes, protocols, and techniques. We prepare regular and consistent reports, conduct open and informative meetings, and submit deliverables in a timely manner with exceptional quality to facilitate prompt and straightforward approval. The communication management portion of our PMP establishes what processes must be enacted and how to enact them. It includes a full description of our deliverable review and approval process. Supplementary artifacts such as the Stakeholder Analysis and Communication Event Schedule capture the "who," "when," and "where." The result is a complete plan for formal and informal communications for all phases of the project, including work product delivery activities, review and approval standards and meetings, status report formats and meetings, escalation processes, and telephone and email protocols.

The Stakeholder Analysis captures information on internal and external project stakeholders. Xerox works with the AHS Project Manager or designee throughout the project to capture the points of contact for requirements and design input, document approval, implementation updates or awareness, or subject matter expertise. The Stakeholder Analysis is a list on the project's SharePoint site that captures roles, names, contact information, and level(s) of communication required. A sample Stakeholder Analysis list is presented in Exhibit I-27.



By having stakeholder information ready and current, Xerox keeps all parties fully informed of project activity in a timely manner.

The Communication Event Schedule supplements the communication management portion of the PMP and is a comprehensive listing of all regular and/or critical communications events. It serves as a foundation for formal communications to be established at the start of the project. Xerox works with the Agency to determine when and where communications, such as weekly issues and risks meetings, monthly project health meetings, weekly status reports, and quarterly milestone reports should take place. Key attendees and stakeholders are identified for each event. We work with the Agency to tailor the Communication Event Schedule for their specific needs, adding touch points such as daily contact with the Agency's project managers during critical implementation, development, and transition phases, as desired.

Another critical component of our communications approach is the Deliverables Expectations Document (DED). The DED summarizes all contract deliverables, their stakeholders and approvers, key content, standards, and objectives. It provides a link to the corresponding templates on the project's SharePoint site that will be used to create the deliverables. We review the DED with the Agency during the Initiation and Planning Phase (and later as needed) to confirm mutual understanding of the expected content, process, and format for each deliverable.

Xerox compiles comprehensive status reports using data from two primary sources: the project's SharePoint site (issues, risks, deliverables tracking and comments lists, etc.) and the project schedule in Microsoft Project (milestones and deliverables, slipping tasks, etc.). Status reports include the following information, at a minimum:

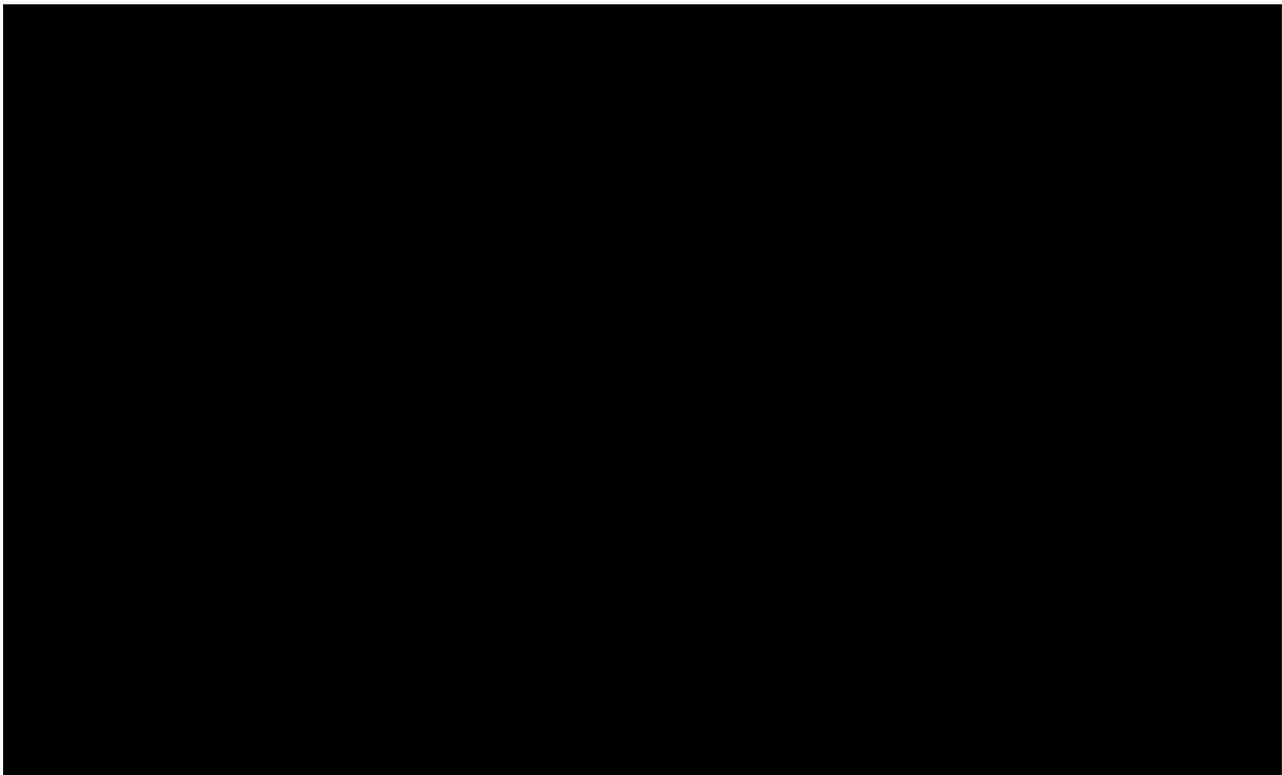
- A general status report
- Activities and deliverables completed in the preceding reporting period
- Activities and deliverables planned for the next reporting period
- Problems encountered and proposed/actual resolutions
- Status of risks with special emphasis on change in risks
- Status of each task in the project schedule that is in progress, overdue, or planned to begin in the next reporting period
- Status of active issues and/or action items

- Quality assurance status
- Identification of schedule slippage and strategy for resolution
- As part of our communication planning for the project, we work with AHS to ensure that their status - reporting needs are met.

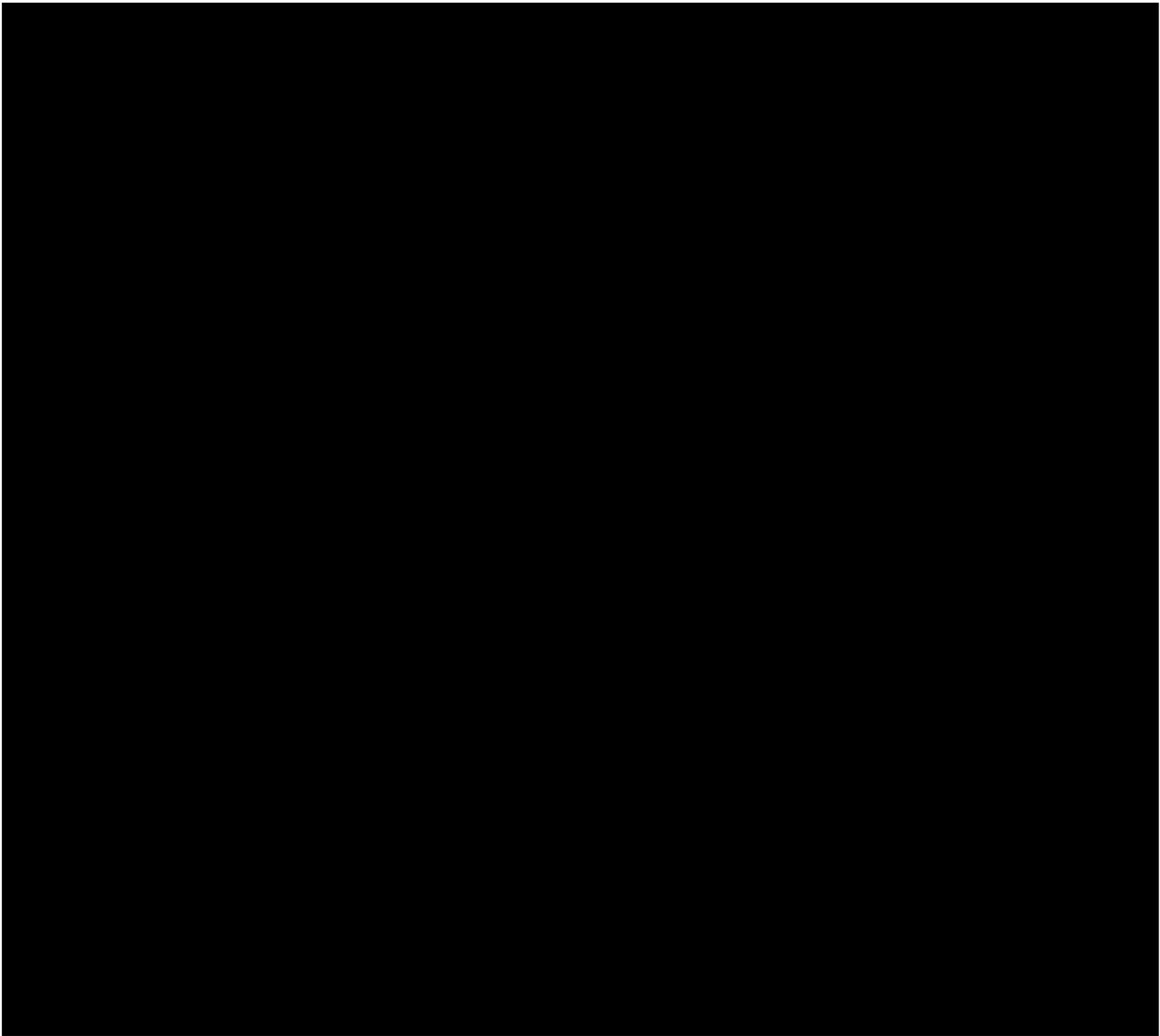
System Development Methodology

PBM projects use a version of the SPARK-ITS QMS tailored for PBM program deployments and the system development lifecycle (SDLC). Our PBM implementations typically integrate 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 a client's PBM processing needs. All PBM implementations share common goals and objectives, as well as similar risks and issues. Because our PBM projects begin with our baseline PBM system, the SDLC is tailored for streamlined design and development.

Iterative development following the Scrum framework fosters higher and more frequent levels of collaboration; finds defects earlier in the process, reducing cost of rework; and shows progress sooner by incrementally integrating Vermont-specific functionality into the baseline PBM system. We balance the Scrum approach with waterfall concepts such as baselining requirements and maintaining complete project documentation. These traditional principles help to protect the project's scope, schedule, quality, and cost. As depicted in Exhibit I-28, the SPARK-ITS SDLC reaps the benefits of both waterfall and iterative development life cycle approaches.



The SPARK-ITS SDM includes eight workflows to execute the DDI effort and transition to operations. Three construction workflows shown in Exhibit I-29—Detail Design, Configuration and Development, and System Testing are carried out in cycles of Scrum iterations and sprints.



Project Phases and SPARK-ITS Workflows

Planning Workflow

The planning workflow sets the stage for the project's success by analyzing Xerox's baseline processes, procedures, templates, and tools and tailoring them to the specific needs of the project. This includes submitting for Agency review, comment, and approval of all RFP-required PMM deliverables, including the following:

- Creation of a Project Charter.
- Project Management Plan (PMP), which provides an integrated view of the project's PMM practices. The PMP will establish how the project is governed and will take into account the existing AHS governance structure.

- Communication Management portion of the PMP and related artifacts, which address how we identify and maintain stakeholder information, establish a communication event schedule, and facilitate communication and collaboration among the project team members.
- Training Plan, this is the initial draft which will guide the development of curricula and syllabi for all identified learners throughout the project.
- Configuration and Release Management and Change Request Management portions of the Project Management Plan, which are critical in establishing rigorous control and management of project deliverables and artifacts.
- Human Resource Management portion of the PMP and related artifacts, which cover how we acquire sufficient numbers of appropriate personnel for the project, how our organization is structured, and how we monitor and report on project staffing.
- Data Conversion and Migration Plan, which maps out how data is prepared and moved or generated for the new system.

Xerox project management holds kick-off meetings with AHS to set mutually expectations for the upcoming project phases, including roles and responsibilities. As part of the joint kick-off meeting, we also confirm the agencies strategic and project objectives to ensure we are and remain aligned.

We conclude this workflow, as we do throughout DDI, by capturing lessons learned from both Xerox and AHS project members to drive continuous process improvement.

Requirements Analysis Workflow

During requirements analysis, we demonstrate and discuss our PBM system and associated COTS products to confirm requirements, validate policy and rules, and discuss configurations. The primary output of the workflow is the Requirements Specification Document (RSD), which serves to clarify each RFP functional and nonfunctional requirement. Based on discussions in requirements sessions, we confirm or adjust the initial gap analysis that we performed at the time we prepared our proposal. Within IBM® Rational® DOORS®, our requirements management tool, we categorize requirements as matched (met), configuration (just needs configuration of rules or user interface), modification (partially met; needs minor code changes), or enhancement (new functionality). Because the requirements that are identified as "matched" in the base system have been built and tested already they represent a low implementation risk. Our risk-focused approach recognizes the remaining requirements as the highest risk and greatest amount of effort on the project, warranting our increased attention and detailed discussions with the AHS during requirements and subsequent design sessions in order to drive requirements-aligned solutions and high quality results.

Scrum Iterations and Sprints

At the center of our SPARK-ITS SDLC, the Detail Design/Configuration and Development/System Testing Workflows are executed using a Scrum development approach. One of the critical factors that allows for the Scrum methodology to fit well with our overall approach is the foundation of the complete PBM system to which we apply customer-focused customizations. The Scrum approach facilitates rapid, cost-effective realization of results on incrementally customized versions of the PBM system. Our technical architecture choices and tool selections also reflect the *CMS Seven Standards and Conditions*

goals of leveraging system modularity and adherence to industry standards. These, in turn, enable us to readily update, upgrade, or replace components as needed to adapt to changing policies and technologies.

Design, development, and system testing activities build upon the requirements established during the requirements workflow. Because the Xerox solution is based on the existing PBM OS+ System, the Agency sees full system functionality from the outset, thereby jumpstarting the process of providing a PBM system that precisely meets their needs. Our Scrum approach to customization of the system brings the following advantages:

- Fosters frequent, close collaboration between subject matter experts, developers, and testers
- Focuses project teams so they rapidly prioritize their work, expedite solutions, and progress through sprints and iterations
- Features frequent testing during the construction cycle, which infuses the system with high quality from start to finish and reduces cost and time to fix defects
- Expedites development of tailored system elements
- Enables AHS to gain hands-on experience with the tailored system earlier than with traditional development approaches, giving Xerox early and actionable feedback about whether the solution is on target with business objectives
- Makes it possible to start UAT earlier in the lifecycle than a traditional approach, thereby spreading out the UAT workload

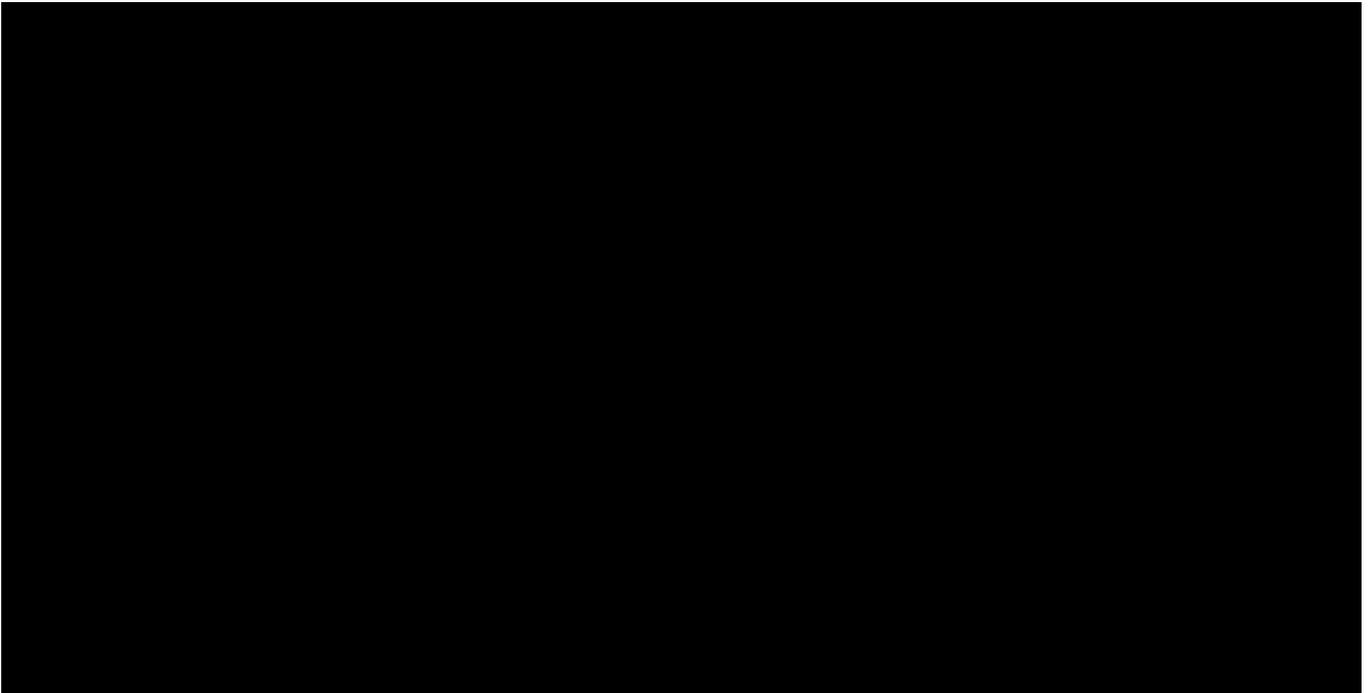
The Scrum development approach features a hierarchy of construction activities ranging from a large grouping of functions at the iteration level down to business processes and/or individual use cases at the sprint level.

An **iteration** is a predetermined set of integrated PBM functions. Each iteration begins with a short planning period and concludes with a review and retrospective. We group our work into iterations using logical business areas, depending on their size and complexity. The iterations are identified in the proposed project work plan. As shown earlier in Exhibit I-30, the iterations overlap. As each iteration completes, UAT can begin for that functionality, providing the Agency with early and frequent visibility to progress.

In order to ensure accuracy in the design and development for a particular business area, the requirements for that business area must be approved before its first iteration begins. In the proposed project work plan, we have allocated a specific amount of time to each iteration based on our initial gap analysis.

A **sprint** is one cycle of work usually about four weeks long during an iteration. The analysts and developers collaborate to identify requirements and use cases to allocate to each sprint, with the objective of exiting each sprint with updated design, as well as configured and tested code. While the number of sprints varies, there are typically one to four sequential sprints within an iteration. Within the project work plan, Xerox decomposes the iterations into sprints after we complete requirements validation for each business area. The goal is to maintain the proposed iteration durations as closely as possible in order to meet our proposed timelines.

The fully-customized system for a given implementation is reached by executing a series of iterations, as depicted in Exhibit I-30.



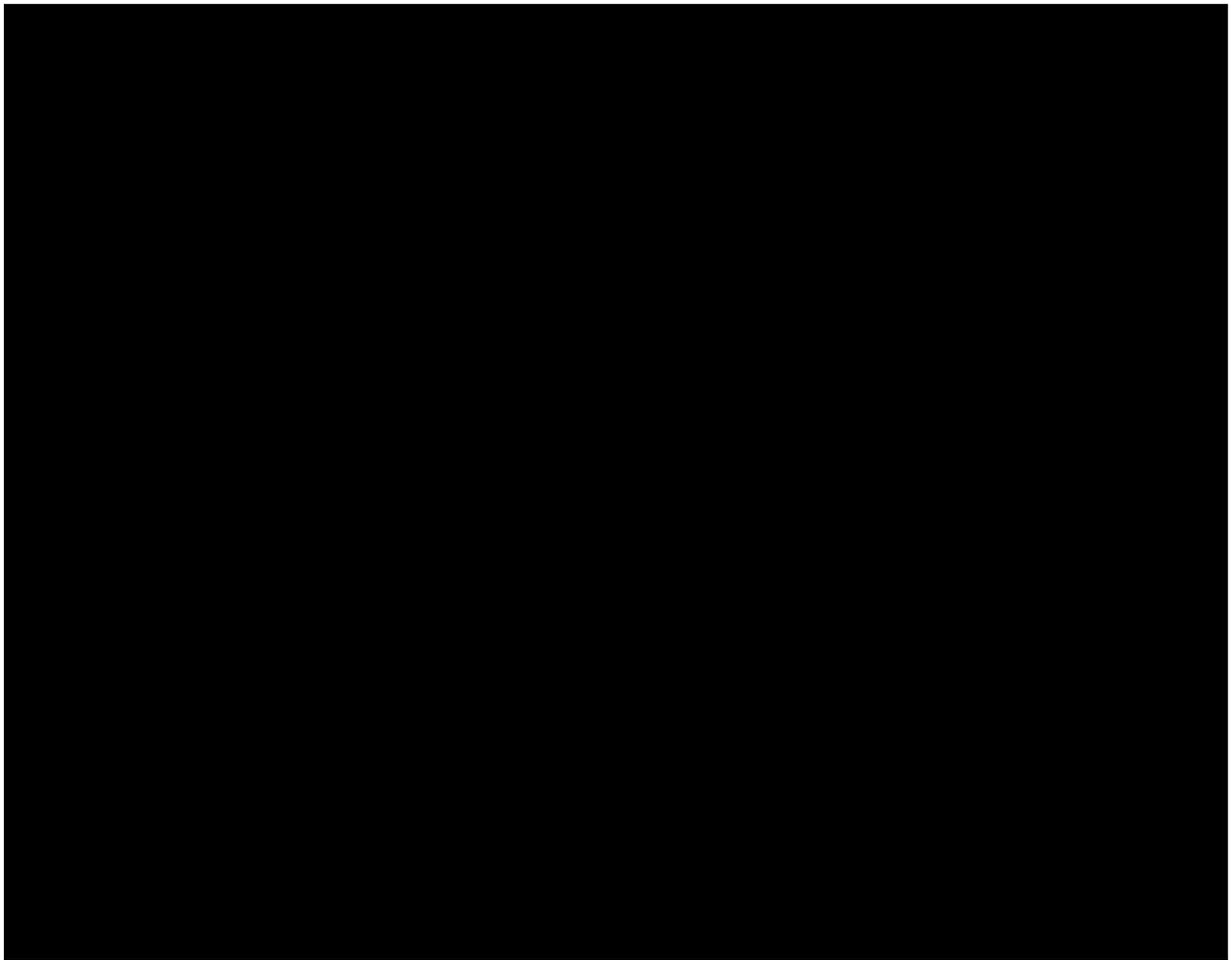
Anatomy of a Sprint

Guided by the system manager (serving the role of a Scrum Product Owner), each sprint team consists of a business area lead (acting as the Scrum Master), subject matter experts (primarily business analysts), developers, and testers. The make-up of this team ensures all areas of the sprint are represented from design through testing, with oversight from the business area lead to guide the daily work.

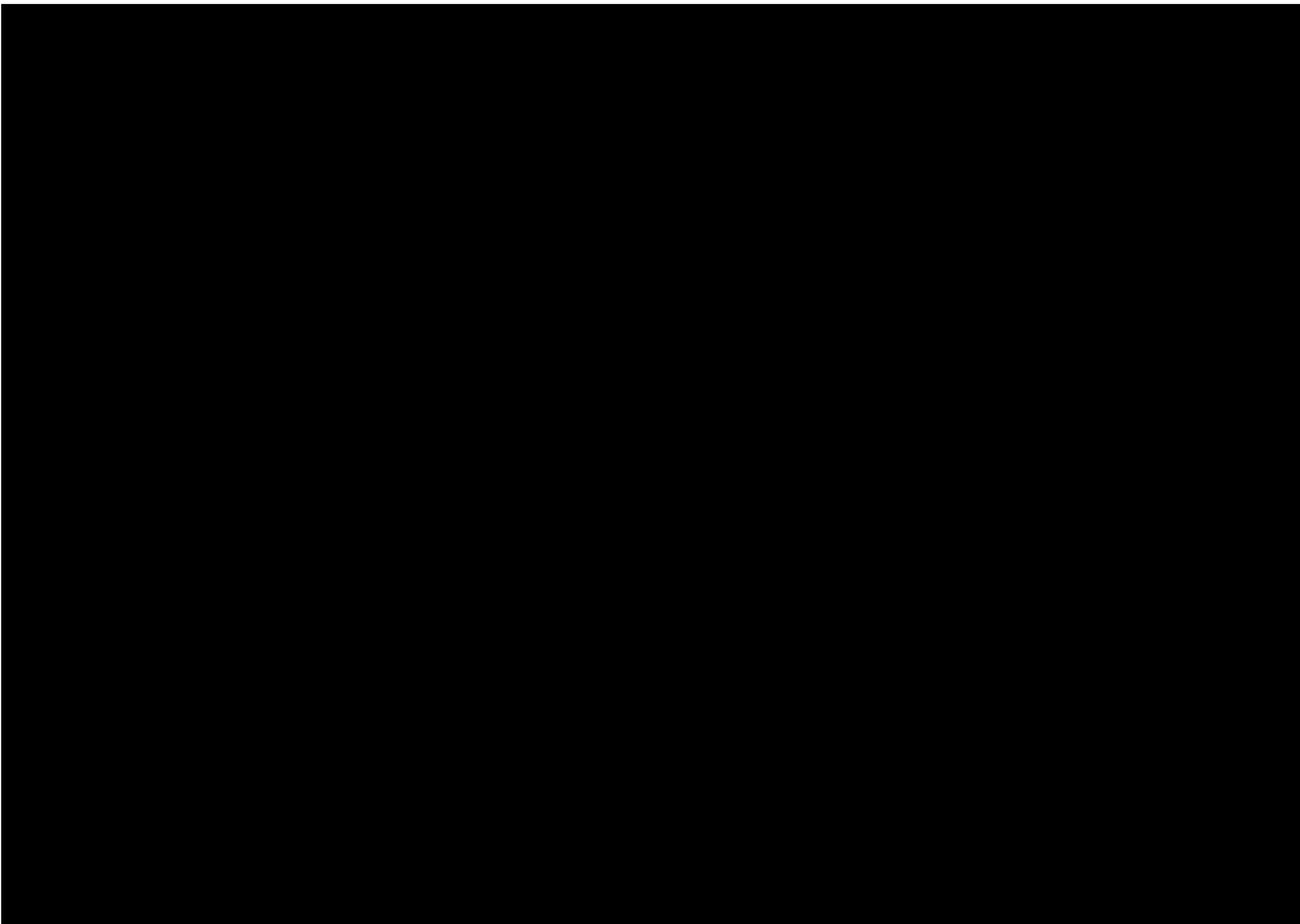
The first step of a sprint is one day of planning. The business area lead (Scrum Master) and other appropriate team members estimate and prioritize work within a sprint. The Scrum Master works with the sprint team to review which requirements are included in the sprint and to confirm the participants, tasks, and dates within the upcoming sprint. He or she also monitors sprint progress and provides the information needed to conduct effective retrospectives at the end of the sprint.

As shown in Exhibit I-31, each day starts with a brief “standup” meeting where all sprint team members summarize the work targeted for the day, coordinate the various elements and participants, and address any anticipated or occurring needs or obstacles.





Each sprint begins with a fully-functional system—initially the baseline PBM system, then, as work progresses, an increasingly state-customized version of PBM system. Exhibit I-32a shows the inputs, flow, and outputs of one sprint.



Throughout design, development, and testing, our approach and tool selections are geared toward rapid customization, yielding incremental progress toward the final PBM system. The carefully sequenced series of iterations takes into account the agencies priorities and the dependencies between system components. The project management team provide careful oversight of resulting staggered or overlapping processes to make sure the project stays on schedule and that we follow our established SDLC plans and procedures, that activities are sufficiently staffed, and that we proactively identify and manage risks during these activities.

Included in Each Sprint: Detail Design Workflow

Design workflow is a set of activities that takes place within each sprint. At the start of each sprint, we review design documentation with the AHS using interactive and collaborative detailed system design sessions.

The design workflow includes the validation or development of design specifications or product documentation for system screens, reports, data, interfaces, and business rules that conform to requirements that were validated during the requirements analysis workflow. Business analysts use PBM OS+ to define the flow of how the base and customized system rules are applied, and to generate a portion of the rules documentation. The live use of our PBM system during design sessions facilitates discussion of design options.



As designs are drafted, team members participate in design reviews, which are a part of our continuous, integrated quality assurance process. Peers provide feedback, enhancing understanding throughout the team. The team identifies the test cases that will be used to validate the system. Test cases are subjected to peer review. Requirements and design are traced to the designated test cases.

As the team generates the detailed design, they continue tracing requirements in DOORS by linking clarified requirements to an index of design artifacts. The team delivers the business area's interim Detailed System Design (DSD) as part of the design step. The comprehensive DSD is delivered as the last iteration (business area) exits the design workflow.

Included in Each Sprint: Configuration and Development Workflow

Configuration and Development is a set of activities that takes place within each sprint. The configuration and development workflow emphasizes the reuse of documentation and code in the place of traditional development from scratch. With each PBMS DDI project, our base system is enhanced and provides customers such as Vermont the opportunity to leverage the best functionality Xerox has to offer. This approach saves time and resources and allows AHS to focus on validating that the base solution meets requirements and that any gaps are sufficiently, consistently, and accurately designed, configured or coded, and tested. The risk of defects arising during development are considerably less than in the DDI efforts of the past because the majority of our activities in the configuration and development workflow are related to the configuration of rules rather than the development of new code.

While configuration management begins on day one of the project, configuration of code takes front stage during this phase. All code changes are performed and migrated across the multiple development and test environments according to rigorous configuration management practices. We conduct migration and release readiness reviews to maintain the integrity of the system. Software versions are released from one environment to the next in an orderly and documented fashion.

Included in Sprints: System Testing Workflow

SPARK-ITS SDM treats testing as two separate workflows. The System Testing Workflow includes testing executed during the sprints and iterations. The Readiness Workflow includes readiness activities, parallel testing, and other test levels that take place after the iterations complete. During the sprints, Xerox tests the Vermont PBM system software and hardware for compliance with defined requirements. We ensure that all testing activities are executed and that each system component meets or exceed all of the functional, technical, security, and performance requirements prior to implementing the Vermont PBM system.

The levels of testing that occur within our sprints and iterations are unit testing, system and integration testing (up through the final iteration, which, by definition, includes end-to-end integration testing), and (as needed) regression testing. System and integration testing confirms that the coded and configured solution meets its technical specifications. The project team executes planned test cases using converted, de-identified production data when available, identifies and resolves defects, and updates documentation as needed.

Other levels of testing, such as parallel and UAT, occur after the iterations as part of the Readiness Workflow of the SPARK-ITS SDM. Parallel testing activities in this workflow address both system functionality and operations.

Regardless of the type of testing or its place in the SDLC, we approach all testing under an integrated and comprehensive testing plan that provides for consistency, continuity, and correction of defects in an orderly and quantifiable manner. The Xerox testing strategy uses standardized test planning, test levels (discrete types of testing, each with its own test plan), testing deliverables, tools, and processes. Test activities verify that the system meets business needs, that it aligns to specifications, and that it supports operational processes. Test planning occurs in the early phases of the project so that appropriate resources are available for each testing activity.

Our testing approach follows a standard and practical method for each test level: planning, detailed test planning, design, execution, and reporting; and applies consistent procedures such as the defect resolution processes and reporting metrics across all test levels. We document our overall test approach in the foundational Master Test Plan, which is followed by specific test plans for each test level.

Xerox management coordinates all technical and testing resources to complete and submit testing deliverables for AHS review. All testing is deemed complete only when written Agency acceptance is obtained.

Our test environments include all the necessary platforms, software, applications, and network and communications tools for these levels of testing. The self-contained system and integration test environment is focused on testing of the application code and its relationship to other core components. It contains the complete PBM application and COTS products used in the production system. Multiple test environments can be established and maintained if needed.

Testing and Validation is also covered in Section 8.0.

Finishing the Sprints and Iterations

At the end of each sprint, the Scrum Master assesses whether there are any requirements that carry over to the next sprint and if there are changes needed in order to complete all iteration requirements without changing the completion date of the iteration. Options include adding staff, adding another project, and reconsidering the scope of the iteration.

At the end of each iteration, the project team again demonstrates the PBM system, now including that iteration's customized functionality, to AHS. These end-of-iteration demonstrations provide opportunities for the Agency to see and perform additional hands-on tests, to ensure the application meets the approved requirements. If AHS identifies any minor changes that are needed, we integrate those changes right away. If any more significant modifications are discovered, they are added to the work for the next sprint or potentially under more formal change control procedures. (If it is the last sprint in the iteration, we add a sprint to address any remaining work before closing out the iteration. All requirements for a given iteration must be completed before the iteration is closed.)

As each business area completes its final iteration, finishing its sprints and iterations cycle, it moves on to UAT.

Organizational Readiness Workflow

In order to bring about a smooth transition to the improved PBM operation, we first need to assess current business practices and operations relative to the new system and identify what changes lie ahead. With

that understanding, we plan the communications and training to facilitate those changes. Insights gained from the requirements analysis workflow provide guidance for detailed communication and training planning. Communications take place throughout the entire project life cycle, targeting various stakeholders in an appropriately timely manner.

Also in this workflow, Xerox trains Agency staff and any affected stakeholders in PBM system functionality and business processes required for successful implementation. Authorized users must be proficient in using the PBM system in order to ensure effective and efficient business operations.

Operational Readiness Review and Implementation Workflow

Before implementation, we conduct an operational readiness review (ORR) to demonstrate that the operations staff and procedures are adequate to meet all AHS processing requirements. We confirm that all operations are ready to begin full production. The operational readiness review is designed to check that we are ready to process and pay all claims properly, meet all reporting requirements, use a properly functioning data communications network, and have a demonstrated back up capacity. This testing demonstrates that the system can perform all the required functions for the anticipated volume of transactions within the schedules established by AHS. At the conclusion of the ORR, we submit to AHS the results from executing all the ORR checklists and certify that the PBM system, its components, functions, processes, operational procedures, staffing, telecommunications, and all other associated support are in place and ready for operation. ORR is deemed complete only when written AHS acceptance is obtained.

After ORR is done, we move forward to implementation. With proactive risk mitigation and contingency planning at the forefront, Xerox's planning for implementation begins early in the SDLC. We create a broad Implementation Plan, which we review with the Agency. During implementation planning, we develop a detailed list of all technical and operational steps in preparation for go-live. We schedule and identify resources for each step in appropriate order. As each implementation checklist item is completed and verified, we track and communicate them to the implementation team so everyone is fully aware of progress and ready for their own role in implementation.

Once the Vermont PBM system and all integrated components are installed, we perform a final test to validate that everything is in place and ready for live processing. We review all of the implementation checklists with AHS to make sure that there are no issues preventing successful implementation, and that all known risks have been mitigated. AHS makes the final decision that Xerox is ready to deploy the system and begin operations, and Xerox begins collecting operational data as defined in the requirements.

The Implementation and Rollout Phase is considered complete when AHS accepts the Vermont PBM system as operational based on predefined acceptance criteria.

Post-Implementation Support Workflow

Post-implementation support continues until support for data is migrated to the production support team. Despite every effort to ensure that data is clean and comprehensive, the identification of data issues after implementation is a risk for every project. As such, the data conversion team remains available after go live to assist in the resolution of any issues identified in the production data. Data issues identified post implementation are tracked as data defects, and managed through the defect resolution process.

Operations and Maintenance

The focus of the Operations and Maintenance Phase is providing quality operations and maintenance of the Vermont PBM system. Xerox methods and tools support all PBM operations according to service levels defined in the RFP. We prepare enterprise-wide operational reports, gather performance statistics, and submit this information via a Vermont Executive Dashboard. Meanwhile, the Xerox PBM Operations team conducts ongoing analyses and reporting to verify that service delivery meets or exceeds AHS standards. Staff members maintain a quality focus and partnership approach to support Agency goals and deliver effective ongoing training for providers and operational system users.

Project Management Tools (I1.21)

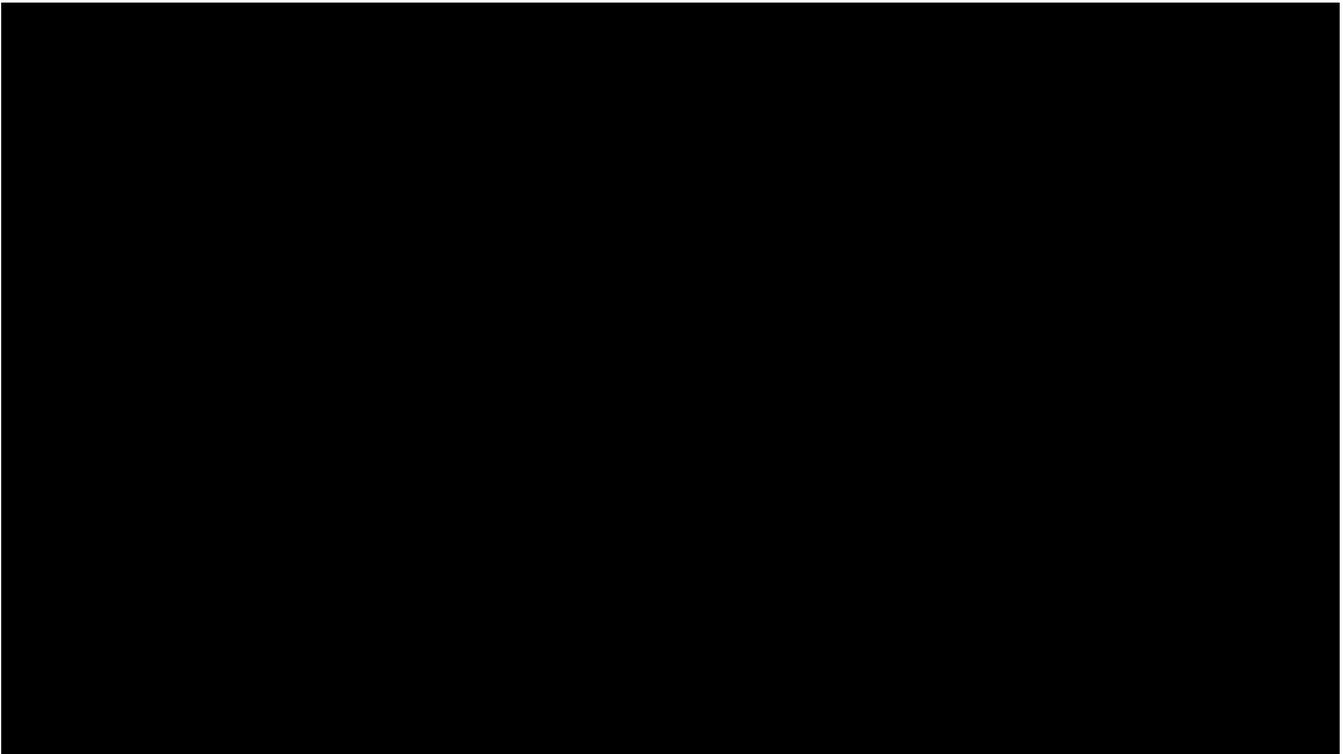
Requirements Management Tool - DOORS

Xerox employs the IBM® Rational® DOORS® application for requirements management and traceability. Table I-2 illustrates the benefits and features that DOORS brings to the PBMS Project.

Table I-2. Benefits of IBM Rational DOORS for Requirements Management	
Feature	Benefit
Powerful requirements engine	DOORS is capable of handling hundreds of thousands of requirements and trace links viewable in an intuitive interface.
Traceability	DOORS allows the user to establish several types of traceability, allowing requirements to "satisfy," "reference," or "conform to" each other. DOORS provides extensive traceability reporting, enabling the project management team's requirements traceability analyst to effectively enforce, validate, and report on traceability paths across the development life cycle.
Change analysis and notification	The system notifies users when requirements are changed by any member of the project team. This allows the team to stay on top of the latest modifications and keep the requirements – and overall project – on track.
Baselining	Allows the user to baseline requirements and track modifications made after or between deliverables, releases, or other project milestones.
Web-based Access	DOORS Web access allows users to view and modify requirements without a client-side installation of software.
Detailed reporting	DOORS includes extensive reporting and metrics on requirements attributes, traceability, assignment, etc. We save several pre-defined reports for ease of access, but users can build simple or advanced ad hoc reports as needed.
External links	DOORS allows users to link to modules and objects within the DOORS application or stored in other tools and Internet locations. This enables us to link requirements and design to artifacts in the Vermont project SharePoint site.

Custom attributes, or characteristics about each requirement, are stored in the DOORS database to provide additional information about each requirement beyond the basic content presented in requirements documentation. Attributes may include complexity, priority, owner, and status. DOORS provides end-to-end traceability views and comprehensive reports that help identify the impact that changes may have on upstream or downstream requirements, designs, and tests. Users can review requirements, their attributes, and their links in a view in DOORS. Views can be pre-defined or custom-defined by users, and our tools administrator can maintain a set of views predefined for different users

and business purposes. Exhibit I-32b shows a view in DOORS depicting a sample RFP requirements' traceability to proposal responses and DSD artifacts.



Document and Communication Collaboration Tool - SharePoint

Xerox proposes the project-wide use of Microsoft® Office SharePoint® as our team collaboration and communication hub. During project start-up, Xerox establishes the project's SharePoint site using a standard site template, complete with document libraries, baseline work plans, document templates, and procedures. Our SharePoint solution includes the following features:

- **Functionality.** Uses lists to track risks, issues, action items, critical decisions, and change requests. The site also has an event calendar, wikis, discussion boards, a contact list, and announcements functionality to facilitate team collaboration and communication.
- **Access.** Provides secure access to timely, accurate, and comprehensive project documentation for authorized HFS and Xerox users from the convenience of their desktop or laptop. Alerts notify users via email of changes, additions, or removals of list items and documents.
- **Document Management.** Integration with Microsoft Office with document check in/check out, storage, and roll-back of document version history. Tracks information such as author, status, and modification history, and allows authors to categorize, sort, and filter documents by various attributes.
- **Workflows.** Automation, tracking, and notification of work product review and approval processes, such as peer review, document quality review, and HFS approval.

6.2 Project Work Plan

Instructions: Provide a narrative describing the Vendor’s proposed processes and methodologies for providing all components as described in RFP Section 2.0 Overview and Scope of Work. Include any assumptions and the Vendor’s approach to meeting the proposed project Schedule using Microsoft Project®. Provide a proposed Work Plan, Work Breakdown Structure (WBS) as part of the Vendor’s proposal. This Work Plan and WBS should show all task details with responsibilities, timelines, durations, milestone dates, deliverables, and Vendor personnel hours by deliverables for each phase, State personnel hours by phase deliverable, and all critical dependencies for the project’s milestones and deliverables. The Work Plan must be an attachment to the Vendor’s Technical Proposal and tabbed as such in the submission as well as an electronic version of the Microsoft Project® version in the Vendor’s electronic submission of the Technical Proposal.

The Project Work Breakdown Structure (WBS) and Schedule (project work plan) facilitate effective monitoring and reporting of project status, including tasks, activities, and deliverables during the project lifecycle.

Project Work Plan Overview (I1.11)

Xerox’s project work plan provides the roadmap to track progress, complete deliverables, and deliver the Pharmacy Benefit Management Solution (PBMS) Project. It provides a comprehensive log of the activities necessary to successfully plan, execute, control, and complete the project.

The project work plan encompasses the hierarchal WBS and schedule covering the entire project. It facilitates planning, scheduling, and meeting project timelines and is used for three primary purposes:

- To define and organize the scope of the total project, using a hierarchical tree structure. Each level of this structure breaks down the project deliverables or objectives into more specific and measurable elements
- To assign responsibilities and to monitor and control the project. The WBS makes the deliverables more precise and concrete so that the stakeholders know exactly what has to be accomplished to complete each deliverable
- To define interfaces and dependencies with other PBM project tasks.

Project Work Plan Facilitates Project Success

- Project work plan enables Xerox to monitor performance and remain current on status of tasks, activities, and deliverables
- Fundamental project management processes including effective project planning and consistent tracking and oversight facilitate steady progress

During the Planning Workflow, AHS and the Xerox project team will work jointly to finalize the project work plan tasks, timelines, and dependencies. We start with the draft project work plan that shows our proposed schedule for project activities that are to occur within each phase of the project. The project work plan lists the required deliverables. Each task and subtask includes durations, planned start and end dates, estimated levels of effort, project milestones, and dependencies (internal and external). All tasks are scheduled with predecessors, successors, types of dependency (e.g., finish-to-start or finish-to-finish), and lag time between tasks, if appropriate.

See the Xerox’s proposed project work plan in Attachment B, Work Plan.

Project Work Plan Preparation and Content

Our draft work plan is based on the requirements, dates, deliverables, and milestones specified in the RFP, as well as certain work products called for by our SDM and PMM. We conduct an extensive analysis of AHS requirements during our proposal preparation effort and include the use of innovative and agile (iterative) methods to provide an approach that maximizes our use of time and resources. The project work plan is structured according to the project timelines outlined in the RFP and includes detailed task names for every task in the plan. Tasks are grouped into summary tasks and then into the project phases.

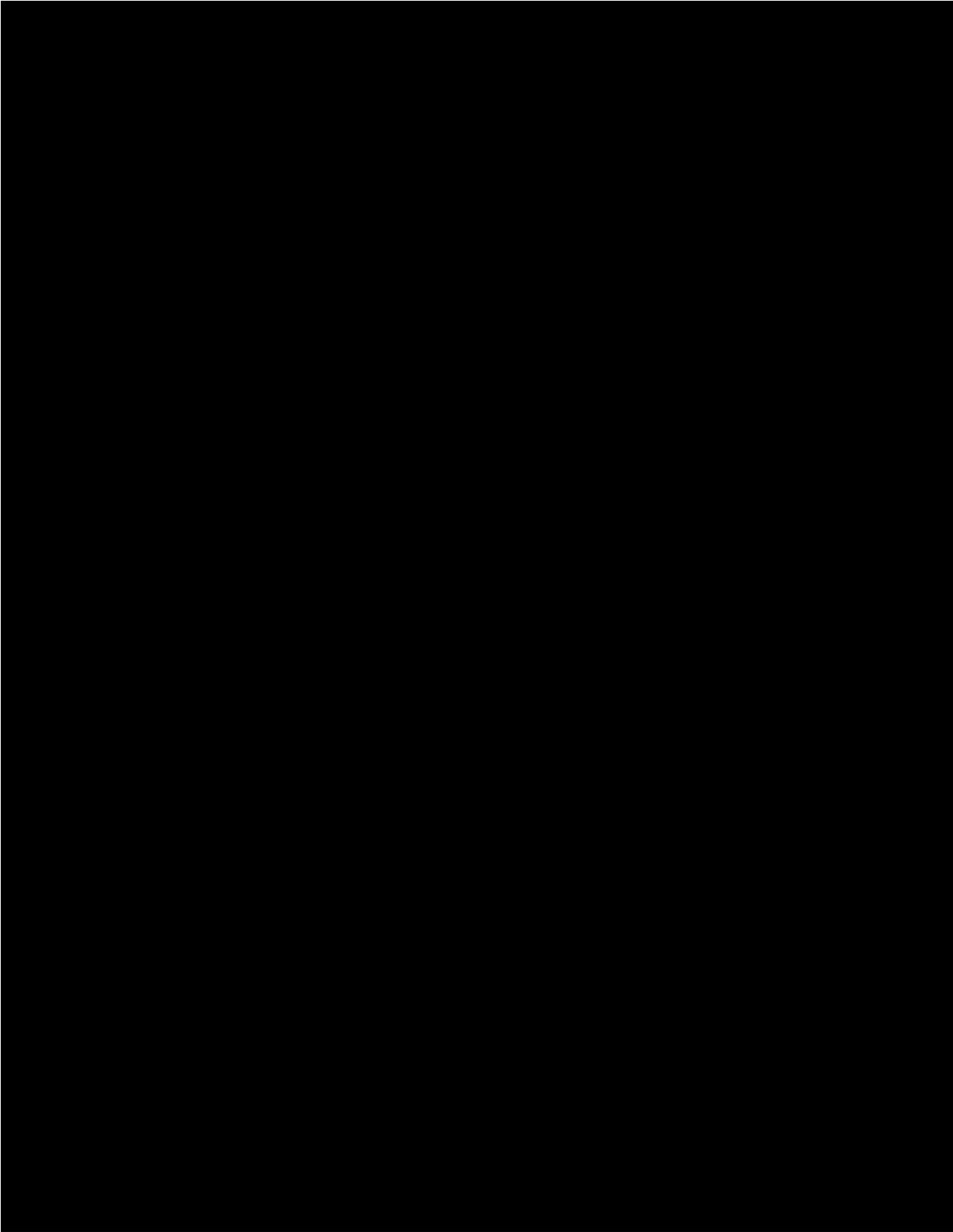
The work plan detailed tasks are updated accordingly on a rolling wave basis. Overall dates as presented in the proposed project work plan are not expected to change, but the contents of each iteration, and dependencies within each iteration will be specified at a more granular level once requirements analysis is complete.

The proposed project schedule includes "State" as a resource type for each task for which AHS staff is required during a review cycle or walkthrough. After project start-up, we work with AHS to determine the percent of time required for each review. For any deliverables that require AHS staff for specified review we denote participation in these activities within the schedule to ensure that the agency is provided adequate notice on tasks requiring input.

[Redacted text block]

[Large redacted text block]

[Redacted footer line]



Project Work Plan Conventions (I1.19)

The project work plan includes the following columns: WBS, Requirement #, Start, Finish, Duration, Predecessors, and Resource Names. Through application of our SPARK-ITS QMS standards, the milestones and deliverables are easily identifiable. We use the following abbreviations to indicate the noted work plan conventions:

- "C:" indicates a client (AHS) task, referring either to tasks that are the sole responsibility of the agency or that require agency participation.
- "D-I:" indicates an interim deliverable. An agency review period follows each interim delivery.
- "D:" indicates final submission of a contractual deliverable. The submission is followed by a final AHS review period.
- "M:" indicates a Milestone (e.g., AHS approval of a deliverable or the completion of tasks within a summary task or phase).
- "WP:" indicates a work product. These are artifacts that are not required for formal delivery, but which Xerox shares with AHS as part of our PMM or SDM.

Ongoing tasks that recur throughout the life of the project (such as status reports) are listed only once in the project work plan. Other activities, such as those that are conducted cyclically in our expedited agile design/development/testing approach, are assigned larger work allocations with specific start and end dates.

Project transparency is key; therefore on a frequent basis, we publish updated plans on the project's SharePoint site that are available for review. When changes to the project work plan are significant enough to require re-baselining the deliverable and milestone dates, the project manager submits a change request for consideration by the joint (AHS and Xerox) change control board. Upon approval, the project manager revises the plan and submits it to the agency for review and approval prior to publication. Historical versions of the project work plan are retained for future reference.

Project Work Plan General Assumptions, Constraints, and Dependencies

While significant effort has gone into the development of this project work plan, its ultimate success is determined by the performance of our management and staff. We are confident that our experience has prepared us to accomplish the scope of work requirements in a manner that meets or exceeds the needs of AHS and its providers, clients, and other stakeholders.

Xerox has made every effort to propose a WBS that represents the actual activities to be completed during the project. However, changes to the plan may be required as details and scope are further defined. Tasks, durations, milestones, deliverables, and dependencies may change due to progressive elaboration of the project solution.

- The project work plan was developed assuming a standard eight-hour workday, with no work planned for weekends or holidays.
- If a given task or activity falls behind schedule, we have the option of either assigning more resources or requiring existing project personnel to work overtime or on weekends.

- Where practical, we have overlapped non-dependent tasks to expedite the schedule.
- The project work plan is based on the RFP and may be subject to revision after the project begins, at which time the project work plan is finalized for the AHS review and approval. The revised version of the project work plan is used as a baseline for monitoring the progress of the project from that point forward.
- In order to meet the timelines described by the project work plan, the Xerox team assumes key decision makers from AHS and stakeholder groups are available to make timely decisions on all outstanding issues.
- As Xerox and AHS work together through each phase, they may mutually agree to adjust deliverable and milestone dates through a controlled change request process.

6.3 Change Management Plan

Instructions: Describe the Vendor's methodology, tools, and techniques for communicating and accomplishing organizational change management. Discuss how the Vendor can assist the State in implementing the organizational change and communicating the change to the impacted business units and associates. Describe specific techniques the Vendor uses to educate executives, build executive alignment, and cascade the change throughout the organization.

Please address the following areas (at a minimum):

- Your Change Management Methodology
- Determination of the impact of this change
- Methods of responding to the change, process harmonization and potential resistance
- Communication and planning
- Method for ensuring a successful change management program
- Lessons Learned regarding change management challenges as they will impact this project

The Xerox approach to organizational change management (OCM) is designed to skillfully introduce the AHS staff, our own project staff, and other stakeholders to new processes and technology, while motivating them to embrace a change that helps them better serve the people of Vermont.

Organizational change is any action or set of actions resulting in a shift in direction or process that affects the way an organization works. Change can be deliberate and planned by leaders within the organization or change can originate outside the organization and be beyond its control. When organizational change is well planned and implemented, it helps assure the organization's continued survival. It can produce many tangible benefits, including greater productivity, improved performance, and higher levels of customer and employee satisfaction. These benefits may take some time to achieve, however, and the transition period that accompanies major organizational change usually is a time of upheaval and uncertainty. Change is made to make the organization as a whole stronger and better equipped for the future.

Xerox OCM Approach

- Partner with AHS staff to develop and implement a solid OCM plan and approach
- Motivate stakeholders to embrace Xerox PBM Solution and the associated new business processes
- Xerox's OCM methodology places heavy emphasis on organizational assessment and management readiness

The OCM effort enables AHS and Xerox staff to work effectively and efficiently in the new environment, prepares staff for upcoming changes, fosters adoption of new technology, and promotes a smooth transition from the current environment to the Xerox PBM solution. Strong communication promotes full acceptance of the ensuing changes.

The main steps in the OCM process are to identify and coordinate the change, communicate details of the change, coach leaders to gain buy-in, train those affected, remove obstacles and execute resistance management activities, and validate the effectiveness of changes made.

The purpose of the OCM Plan is to provide information and knowledge about the concepts and application of organizational change processes in general, and specifically within the individuals, groups, or organizations.

Identify and Coordinate Changes/Gaps

Identifying and coordinating identified changes/gaps is the first step, (i.e., changes that will affect the current and/or future environment). These changes/gaps may have a significant business or operational impact to the implementation of the new system. The determination of such occurrences triggers the OCM activities which result from the collaborative decision of AHS and Xerox key stakeholders.

OCM entails thoughtful planning that includes consultation with, and involvement of, the people affected by the changes. Change must be realistic, achievable, and measurable. These aspects are especially relevant to managing personal change. Before starting organizational change, we ask the following questions:

1. What do we want to achieve with this change?
2. Why and how do we determine that the change has been achieved and is effective?
3. Who does this change affect and how will they react to it?

Xerox employs a six-step process that includes active listening, information sharing, discussion, and education, providing opportunities for participant involvement and meeting participants' information needs during the transition process.

- **Plan the OCM Effort.** Planning the OCM effort, assessing the current business structure and culture, and engaging “change champions.”
- **Define Communication and Education Strategies.** Defining a communications process that meets participants' communication and education needs while providing opportunities for involvement and leadership.
- **Conduct Analysis.** Listening to participants' needs, identifying their perceptions, concerns, and fears, and determining their information needs.
- **Determine Communication and Education Methods.** Determining the appropriate types of education and communication methods and media for sharing information, encouraging user involvement, and providing visible change leadership.

- **Develop and Manage Action Plan.** Creating a communication and education action plan to implement effective communications to support the transition, leveraging effective existing methods whenever possible.
- **Develop Messages and Produce Materials.** Reaching system users and other stakeholders using the methods and media to the approved action plan.

Maximize Positive Responses to Organizational Change

The OCM program addresses critical people-related and cultural dynamics. OCM anticipates, addresses, and mitigates common risks, such as resistance to change, by:

- Clarifying confusion or misunderstanding about goals, roles, and responsibilities
- Providing a clear path for solving problems and resolving conflicts
- Helping executive leadership maintain credibility during times of organizational upheaval
- Fostering consistent and timely communication
- Preparing AHS and Xerox staff to apply new technology and processes in a new operating environment

Our approach integrates four widely accepted OCM principles that are consistent with approaches taken on other successful implementation efforts:

- Individuals experience a predictable sequence of emotions, attitudes, and levels of readiness when facing organizational change
- Change can be proactively planned and managed
- Stakeholder involvement in implementation-related activities increases the likelihood they understand and accept the change
- Visible support and leadership by influential individuals in the organization demonstrates the importance of the change and encourages staff acceptance

Throughout the project, we work with AHS to define and communicate new business functions to all stakeholders, specifically laying out the benefits of the new environment to them personally and to the people they serve. We focus on fostering executive leadership in communicating organizational priorities and strategy to help build support and acceptance for the upcoming changes.

Managing Resistance

By following the five steps below, the change sponsor can mitigate resistance:

- **Do It Right The First Time.** OCM is not just a tool for managing resistance when it occurs, it is most effective as a tool for activating and engaging employees in a change. Capturing and leveraging the passion and positive emotion surrounding a change can many times prevent resistance from occurring - this is the power of utilizing structured OCM from the initiation of a project.
- **Expect Resistance.** Even if the solution a project presents is a wonderful improvement to a problem that has been plaguing employees, there will still be resistance to change. Comfort with the status quo

is extraordinarily powerful. And fear of moving into an unknown future state creates anxiety and stress, even if the current state is painful. Project teams and change management teams should expect resistance and work to address it and mitigate it - but they should never be surprised by it.

A second aspect of expecting resistance is to look at likely sources of resistance when a project is being initiated. All too often, a project team will reflect back on resistance that was experienced and say "we knew that group was going to resist the change," but nothing was done to address this upfront in the project. When the project is getting started, be proactive and specific about where resistance is likely to come from and the likely objections that drive this resistance. Then, act on this knowledge ahead of time before the resistance impacts the project. These are some likely sources of resistance for most any project:

- Employees that are highly invested in the current way of doing work
 - People who helped create the current way of doing work that will be replaced
 - Employees who expect more work as a result of the change
 - Those who advocated a particular alternative, say Option B, when Option A was ultimately selected
 - People who have been very successful and rewarded in the current way of doing work
 - Each of these groups is a likely source of resistance and should be addressed proactively in the project lifecycle with targeted tactics for mitigating these objections.
- **Address Resistance Formally.** Managing resistance should not be solely a reactive tactic for change management practitioners. There are many proactive steps that can be used to address and mitigate resistance that should be part of the change management approach on a project.

Formally addressing resistance ensures that it is understood and dealt with throughout the lifecycle of the project. It moves managing resistance from simply a reactive mechanism to a proactive and ultimately more effective tool for mobilizing support and addressing objections.

- **Identify the root causes.** Managing resistance is ineffective when it simply focuses on the symptoms. The symptoms of resistance are observable and often overt - such as complaining, not attending key meetings, not providing requested information or resources, or simply not adopting a change to process or behavior. While they are more evident, focusing on these symptoms will not yield results. To be effective at managing resistance, you must look deeper into what is ultimately causing the resistance. Effective resistance management requires identification of the root causes of resistance - understanding why someone is resistant, not simply how that resistance is manifesting itself. Two common root causes include:
 - Employees: the number one reason employees resist change is a lack of awareness of why the change was being made. A compelling case was not made for why the change is being proposed, so employees are left wondering "why?" - which drives resistance.
 - Managers: the number one reason for manager's resistance is a lack of awareness about and involvement in the change. Managers are not told why the change is happening and their input is not solicited, ultimately resulting in resistance to the change.

A final note on resistance to change - resistance is ultimately an individual phenomenon. It is important to address resistance by individuals at the individual level. The best way to identify the root cause of

resistance is through a personal conversation between a resistant employee and their supervisor, which leads us to the final tip for managing resistance.

6.4 Relationship Management

Instructions: Describe how the Vendor organization will represent itself to the State from an overall viewpoint. Discuss treatment of account management, status reporting ((hard copy and electronic), performance review meetings), contract management, audits, quality assurance, planning, setting priorities and handling service requests.

Xerox brings decades of successful program management in government healthcare and has earned stellar professional relationships in the course of our superior delivery of pharmacy solutions.

Xerox brings a long and diverse record of accomplishment serving Medicaid programs for four decades. We have long been a leader in program support, achieving many industry firsts and remaining at the forefront of business process and technology innovations. We understand the challenges AHS faces, and we welcome the opportunity to find solutions to meet the needs of the most vulnerable people in Vermont. It is a difficult balance, finding a way to provide needed services while not increasing the strain to the state budget.

Xerox offers the stability of contractor success that warrants responsive customer service for AHS Medicaid clients and providers. We are committed to continually improving operational service and customer service by implementing new tools and aligning our business processes to maximize performance.

Xerox's approach to communication with AHS encourages the free flow of information between AHS and Xerox staff. We prepare regular and consistent reports, conduct open and informative meetings, and submit deliverables in a timely manner. The exceptional quality of the deliverables is intended to make approvals prompt and straightforward.

During Design, Development and Implementation (DDI), the [REDACTED] will facilitate weekly status meetings with the leadership teams and other stakeholders. These meetings review the progress made on specific deliverables in comparison to the project schedule. AHS participation in this process is a key to project success, as delays in decision-making can turn minor schedule impediments into major project delays. We look to AHS for guidance regarding the schedule and deliverables on an ongoing basis. This consistent collaboration provides the foundation for reduced risk and ongoing open communication during every phase of the project. All delayed and at-risk tasks are highlighted on a weekly report so that management can take precautionary steps to mitigate risks. We use our formal risk and issue management processes to address potential problems with concise and definitive actions. Our management team oversees these processes to support expeditious and impactful resolution.

The ongoing management of the PBM program through the start of operations will necessitate a collaborative partnership with AHS to ensure long-term success. We leverage our experience with managing the PBM system and our best practices from developing and implementing Medicaid systems to meet or exceed contractor responsibilities and performance standards. The methodology we use includes proven processes and strict procedures with open and transparent performance standard management to ensure success at all stages of the project. Xerox is committed to maintaining a strong understanding of AHS's vision and objectives outlined for the PBM program.

Regular communication is no less essential during the Operations Phase. We conduct regular meetings with AHS staff as mutually agreed. Our best practices are to schedule a weekly operations status meeting in which we review all performance statistics from the previous week and touch on system changes with an operational impact. This is also a time where we escalate issues of concern for either side. We also hold a project status meeting that is systems only; this meeting discusses the status of all prioritized projects. AHS can modify priorities as needed. We also use this time for escalating issues related to a specific project.

- **Status Reporting.** Xerox delivers weekly and monthly status reports on the status of project activities as specified in the communication management portion of the project work plan. Topics to be included in status reports will be progress on specific key tasks, milestones, and percentage of work complete. Additionally, the status reports will include information on challenges, issues, risks and the appropriate mitigation of each. The reports and status meetings will increase to daily touchpoints as the projects enters the final projects phases toward go-live. Separate meetings with appropriate Agency staff would be scheduled if financial considerations, project budget, audits, or if the need to replace key account and project staff were to be discussed. We work with AHS to identify any other information deemed appropriate to monitor Xerox activities (including metrics on interactions, through hard copy, electronic, and all other mediums used for communications by the Contractor with clients and providers). Monthly status reports summarize data from weekly reports; include clear identification of new or changed items, and present executive summaries for review by management and oversight bodies. All reports adhere to the deliverable submission, review, and approval process as described and approved by AHS within the communication management portion of the project work plan.
- **Quality Assurance.** Xerox establishes, implements, and monitors internal quality assurance and quality control processes that cover deliverables, including documents, code, and calculations. Our quality processes facilitate submission of deliverables that are accurate, easy to understand, and of high quality. With oversight by our Quality Assurance Analyst, we record deficiencies as well as corrective and/or preventive action plans in the project's SharePoint site. All deliverables associated with quality assurance and quality control adhere to the deliverable submission, review, and approval process as described and approved by AHS within the quality management portion of the project management plan.

6.4 Issue Management

Instructions: Describe the Vendor's process for problem management including: problem logging, problem resolution, tracking of unresolved problems, problem escalation procedures, and problem closeout and reporting practices. The Vendor should describe the integration of problem management across any sub-contractors, if applicable, such as the use of an automated system.

We use our formal risk and issue management processes to address potential problems with concise and definitive actions. Our management team oversees these processes to support expeditious and effective resolution.

Issue Management Overview (I1.10, I1.18)

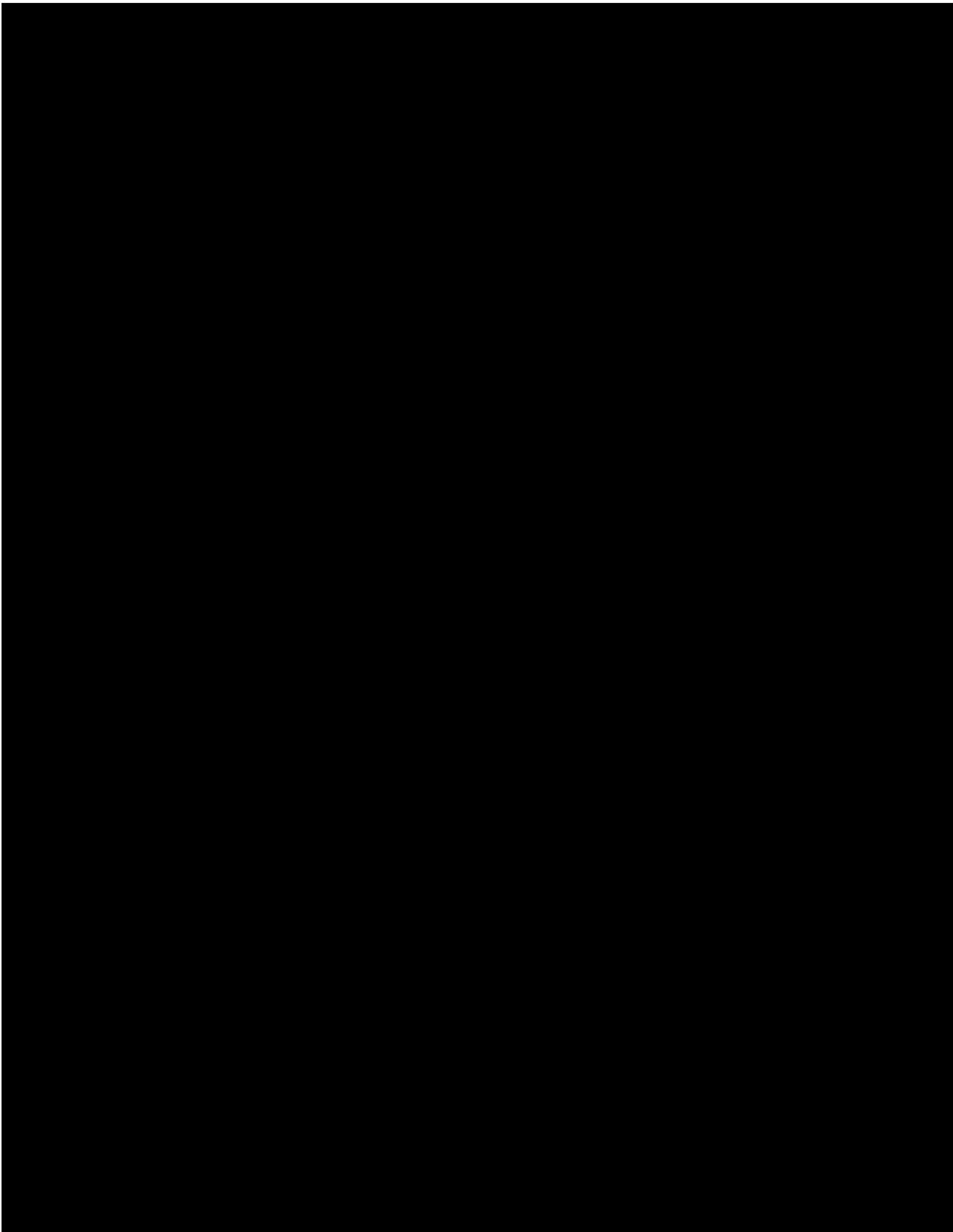
Issue Management

Within our SPARK-ITS methodology, problems can be either issues or defects. We define an issue as a problem that cannot be resolved among present parties and needs some type of escalation to management and/or reporting visibility to support timely resolution. Issue management is the process of identifying, communicating, tracking, and resolving such issues. It includes categorizing and prioritizing issues, as well as determining an escalation path for issues unresolved within a predetermined length of time. We use SharePoint to maintain the project's issue list and track issue resolution in accordance with the issue management section of the Project Management Plan (PMP). Defects are handled according to the testing process documented in the Test Plan.

Issue management is conducted throughout the lifecycle of the project and includes all areas of the project. All project team members have the responsibility of identifying project issues. Project management and account management take lead in working with AHS to communicate and resolve identified issues. Each identified issue is managed according to defined processes.

The PMP includes processes, tools, and techniques used in issue identification and analysis; it describes how we use SharePoint to track, monitor, report on, and resolve issues; it identifies roles and responsibilities throughout the issue lifecycle; and it describes how we perform issue response planning and escalation if needed. The issue management and action item management processes are supported by "list" functionality in SharePoint to track issues and action items in a simple, accessible, and transparent format.

It is the responsibility of each project team member to identify, communicate, and log issues into the Issue List on the project's SharePoint site. The Issue List permits staff to enter issues by priority, category, and other indicators. As they are categorized, our PBM project management or account management team analyzes, prioritizes, and assigns issues so that staff and management attention is devoted to the areas in which the need or return is the greatest. Exhibit I-33 presents the form in our SharePoint site used to enter a new issue.



The Issue Management section of the PMP defines our approach to managing project issues. It includes the processes, tools, and techniques used in issue identification and analysis, describes how we use SharePoint to track, monitor, report on, and resolve issues; identifies roles and responsibilities throughout the issue life cycle; and describes how we perform issue response planning and escalation if needed.

6.5 Issue Management

Instructions: Describe the Vendor's process for problem management including: problem logging, problem resolution, tracking of unresolved problems, problem escalation procedures, and problem closeout and reporting practices. The Vendor should describe the integration of problem management across any sub-contractors, if applicable, such as the use of an automated system.

We use our formal risk and issue management processes to address potential problems with concise and definitive actions. Our management team oversees these processes to support expeditious and effective resolution.

Issue Management Overview (I1.10, I1.18)

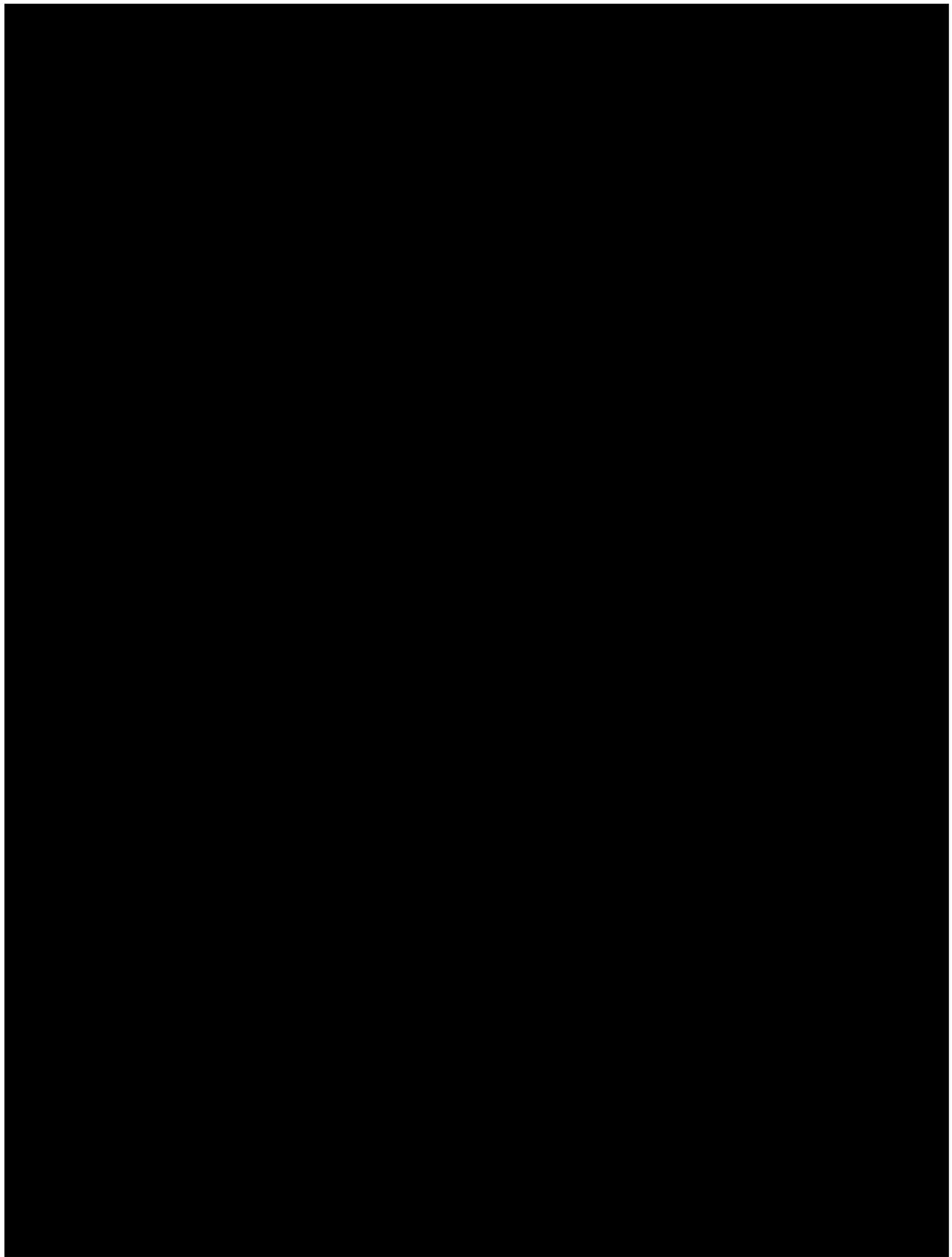
Issue Management

Within our SPARK-ITS methodology, problems can be either issues or defects. We define an issue as a problem that cannot be resolved among present parties and needs some type of escalation to management and/or reporting visibility to support timely resolution. Issue management is the process of identifying, communicating, tracking, and resolving such issues. It includes categorizing and prioritizing issues, as well as determining an escalation path for issues unresolved within a predetermined length of time. We use SharePoint to maintain the project's issue list and track issue resolution in accordance with the issue management section of the Project Management Plan (PMP). Defects are handled according to the testing process documented in the Test Plan.

Issue management is conducted throughout the lifecycle of the project and includes all areas of the project. All project team members have the responsibility of identifying project issues. Project management and account management take lead in working with AHS to communicate and resolve identified issues. Each identified issue is managed according to defined processes.

The PMP includes processes, tools, and techniques used in issue identification and analysis; it describes how we use SharePoint to track, monitor, report on, and resolve issues; it identifies roles and responsibilities throughout the issue lifecycle; and it describes how we perform issue response planning and escalation if needed. The issue management and action item management processes are supported by "list" functionality in SharePoint to track issues and action items in a simple, accessible, and transparent format.

It is the responsibility of each project team member to identify, communicate, and log issues into the Issue List on the project's SharePoint site. The Issue List permits staff to enter issues by priority, category, and other indicators. As they are categorized, our PBM project management or account management team analyzes, prioritizes, and assigns issues so that staff and management attention is devoted to the areas in which the need or return is the greatest. Exhibit I-34 presents the form in our SharePoint site used to enter a new issue.



The Issue Management section of the PMP defines our approach to managing project issues. It includes the processes, tools, and techniques used in issue identification and analysis, describes how we use SharePoint to track, monitor, report on, and resolve issues; identifies roles and responsibilities throughout the issue life cycle; and describes how we perform issue response planning and escalation if needed.

6.6 Risk Management

Instructions: Describe the Vendor's risk management practices. Describe the expected risk areas and mitigation plans. The response shall describe the Vendor's internal risk management plan. This should include reference to the use of any specific methodologies, as well as any specific tools being used.

To minimize risk to the Vermont PBMS project, Xerox's approach to risk management provides the rigorous processes and tools that enable our team to proactively identify, analyze, prioritize, track, and mitigate risks to prevent issues that could adversely affect project quality and schedule.

Approach and Methodology

Risks are inherent in the development and implementation of any product or service. Stringent risk management throughout the Vermont PBMS project life cycle is critical to maximize the probability of the project's success. The early identification of potential risks provides the basis for effective and prudent mitigation. An effective, rigorous Risk Management Plan is essential to deliver the project on schedule and within budget, with minimal disruption in delivery of services to AHS beneficiaries and providers throughout the life of the contract.

Xerox's approach to risk management minimizes the probability and consequences of adverse events that could impact PBMS project objectives. Our approach promotes the project-wide identification and mitigation of risks and continual risk monitoring. Since risks potentially affect quality, cost, and schedule, we use an integrated approach to manage risks effectively.

Our approach to risk management follows the Project Management Methodology (PMM) component of our proprietary Standardized Process and Resource Kit for Information Technology Solutions (SPARK-ITS®) Quality Management System (QMS), and is based on the Project Management Institute (PMI) Project Management Body of Knowledge (PMBOK Guide®). Furthermore, because we bring a proven methodology and experience with similar PBM projects in other states, we anticipate many of the risks to expect in a PBM implementation and operations. In fact, we already have mitigation and contingency strategies in place that can be applied and modified for the project throughout the life of the contract.

Adhering to our methodology and the mutually agreed-upon Risk Management Plan, our team effectively identifies and manages risk to prevent issues that could detrimentally affect the schedule and progress of the project and the quality of the services provided to AHS beneficiaries, providers, and other stakeholders.

Our documented Risk Management Plan includes our approach and detailed processes for proactive risk management. Our approach includes planning the overall risk management specific to the AHS PBM project, continually identifying and assessing risks, defining risk response strategies, monitoring the implementation of the selected strategies, escalating as necessary, and closing risks at an appropriate time. In our approach, we also define clear risk management roles, responsibilities, and accountabilities; describe the criteria and guidelines for how risks should be quantified and qualified; define escalation

procedures, contingency plans, and tools required to effectively manage risk throughout the project; and clarify our processes for risk response planning.

Our broad experience and lessons learned in similar PBM projects help us to predict some of the typical risks associated with an MMIS project of this size and scope, and we analyze previously defined mitigation and contingency plans that were successful with other similar projects for potential inclusion in our response planning.

Risk Management Process

During project initiation, in collaboration with AHS, we methodically identify potential risks. The probability of occurrence, potential impact, and a risk response strategy are recorded for each identified risk. The Risk Management Plan defines the strategy and processes that both AHS and Xerox project teams follow to support risk identification, assessment and analysis, prioritization, and resolution throughout the entire project life cycle. This plan establishes the strategy and systematic processes and procedures for identifying, analyzing, mitigating, monitoring and controlling, and reporting risk.

Based on our assessment of each risk, we provide comprehensive mitigation/contingency strategies and plans to meet the needs of AHS and our commitment to project success. The mitigation/contingency plans are monitored continuously, managed as part of the overall project plans, discussed during project status meetings, and reported to appropriate AHS and Xerox stakeholders.

Following a proven risk management strategy maximizes the likelihood of successful project completion and minimizes or eliminates the potential negative impact of risks that cannot be avoided. In short, managing risk consists of addressing two basic questions: What can go wrong on the project? And, what can be done about it?

The Xerox project team provides a deliberate and proactive process for identifying potential risks and assessing the probability and potential impacts of risk occurrence. The team follows a thorough risk response planning process that identifies mitigation strategies and lays out the criteria for early detection of risk, allowing us to rapidly implement risk mitigation actions and minimize negative project impacts. Risk monitoring and control involves the tracking of previously identified risks, triggers, response plans, and risk mitigation actions. The Account Manager is responsible for the risk management process, and delivers a formal Risk Management Plan that addresses the following high-level activities:

- Planning Risk Management
- Identifying Risks
- Assessing Risks
- Response Planning
- Response Implementation
- Monitoring and Controlling Risks

Exhibit I-35 depicts our high-level risk management process flow.



Exhibit I-35. Xerox Risk Management Approach

Once risks are identified, they are monitored by the PMO within the project's SharePoint site.

Risk Planning. Our standard risk management approach is based upon the PMBOK Guide approach, which begins with risk management planning. We tailor our baseline Risk Management Plan to align with any specific project needs and submit the plan to AHS for review and concurrence.

Risk Identification. The identification of risks is a continual process throughout the life of the contract. Functional and technical team representatives from the Xerox Team and AHS work with the PMO to identify risk areas, assign actions, and report on risk reduction efforts. We track technical, cost, schedule, management, quality, operational, staffing, and external risks. We address new risks on an ongoing basis as soon as they are identified.

Risk Assessment. Risk assessment, also referred to as risk analysis/impact analysis, is the process of quantifying identified risks for purposes of evaluation. The Xerox Team collects and categorizes a list of anticipated project risks to better understand the nature and source of the risk. Each risk entered into the

log is assigned to the manager whose part of the project the risk affects and whose group is best equipped to implement the risk response. Risks are categorized according to the probability of their occurrence and the severity of the consequences should they occur. They are categorized as High, Medium, or Low risk, as shown in Exhibit I-36. This approach allows the Xerox Team and AHS to quantify the risk level to provide objectivity and focus to mitigation activities.

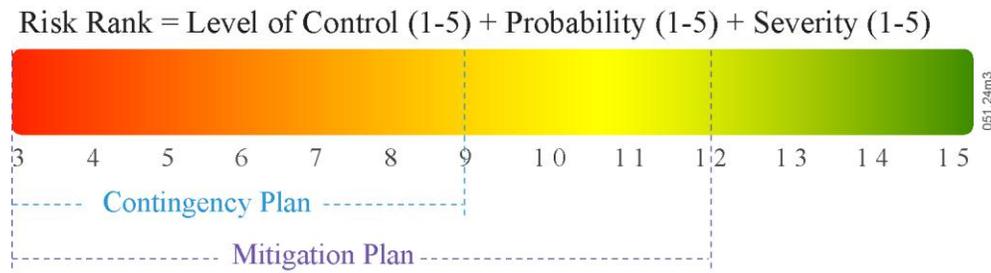


Exhibit I-36. Risk Ranking

The Xerox Team assesses risks according to the probability of their occurrence, the severity of their impact, and the level of control perceived by the management team.

All risks are entered into the risk management log in the project’s SharePoint site for assessment and tracking. High-exposure risks are addressed with both mitigation and contingency plans. Medium-exposure risks are addressed with risk mitigation plans, depending upon the individual risk. Low-exposure risks are generally not formally tracked and are normally not addressed in the risk mitigation plan. All active risks are regularly reviewed, regardless of the assigned exposure rating, to determine and make any appropriate adjustments. This methodology, in combination with the monitoring and control activities discussed below, represents the best balance between the cost and benefit of risk management.

Response Planning. Because the effectiveness of the response directly affects whether the risk increases or decreases, the Xerox Team ensures that the risk response is appropriate to the category, probability, and impact of each risk. Risk responses can be categorized as avoidance, mitigation, transference, or acceptance. The project management team is responsible for prioritizing risks to meet project objectives and documenting the risk mitigation plans in the project repository. For all high-priority risks, a risk mitigation plan is defined to eliminate or reduce the impact of the risk to an acceptable level and to prevent the risk from occurring. It also includes contingency plan activities that will be implemented if the identified risk does occur.

When determining an approach to mitigation, subject matter experts are consulted to suggest alternate strategies, assess the effectiveness of each alternative (including cost and schedule impact), determine the risks involved with each alternative, and to arrive at a recommended approach. Specific project events, actions, activities, or conditions, internal or external to the project, that imply possible risk are documented to alert the project team to pending risk development situations. These are entered into project work plans as contingency triggers and act to alert project management of an impending risk response. In this manner, the Xerox Team anticipates risks and attempts to nullify them before they become issues and before the risk can negatively affect project success.

Risk Response Implementation. While mitigation plans are implemented as soon as feasible in order to reduce risk, contingency plans are implemented only when a trigger is reached. All appropriate project stakeholders are alerted when a contingency trigger has been activated. The mitigation and contingency plans are captured in the risk log located in the project’s SharePoint site. The PMO oversees execution of

the risk management activities over the life of the project and initiates communications with the Agency and relevant stakeholders as circumstances dictate and according to the plan. If risks occur, they are escalated into our Issue Management Process and their contingency plans are executed; both overseen by the PMO. The owner of the risk is responsible for monitoring the risk response. We assign the actions for resolution of each risk to the manager whose area of responsibility is most affected by the risk and whose group is best equipped to implement the response. The owner monitors the response, making adjustments where necessary. This monitoring by line management supplements the overall risk monitoring by the PMO and results in a collective, coordinated effort for risk control.

Risk Monitoring and Control. Xerox and AHS management have continuous visibility into all project risks, their rating, their mitigation and contingency plans, and escalations through the projects SharePoint site. The weekly and monthly project status reporting includes initial indications of risks and problems (issues), the status of risks, and the status of all risk mitigation plans and issue resolution plans.

The PMO does not close a risk until key stakeholders confirm our mitigation or contingency strategy has been effectively executed. Continuous risk identification and monitoring keeps the list of risks and their associated status dynamic. Each week, as part of regularly scheduled status meetings, risk owners and the PMO examine the items in the risk log and update the risk characteristics, response plans, and response actions. They also review the risk triggers to determine if they have occurred and, if so, review that response actions are appropriate. The results of these updates are immediately available through the project repository, and the associated metrics are reported in the project status reports. Status reports also contain a specific discussion of the most significant project risks and the actions taken in response to them as well as an overall risk analysis for the project.

Risk monitoring and control processes are continual and not limited solely to dealing with risks that have already been identified. If new risks are identified, they are analyzed and a response plan is developed. The PMO continually performs risk response planning and risk monitoring. The Xerox Team applies constant vigilance to identify and respond to risks at the earliest stages possible. Monitoring and control activities include:

- Identify and assess risks continuously and develop mitigation strategies as needed
- Communicate risks and their status to AHS team members and stakeholders
- Review weekly reports and risk logs to determine whether each risk is still valid, the probability or severity has changed, the trigger for the risk has occurred, mitigation plans remain relevant and accurate, and contingency plan remains valid as the risk matures
- Track and update the status of the risk on a weekly basis
- Re-plan risk response strategy based on new information
- Analyze the results of the risk response plan for effectiveness and lessons learned

We promptly disclose any new risks discovered to the Agency. The findings are issued to AHS, and we include a mitigation strategy for all potential risks and vulnerabilities.

Risk Management Plan

The Xerox Team develops a comprehensive Risk Management Plan for the Vermont PBMS project that is based both on industry standards and on our wealth of experience delivering similar projects in other states. Our Risk Management Plan establishes our repeatable risk management process, procedures,

criteria, and tools to effectively and proactively identify and manage the impact of risks. The Risk Management Plan includes processes to achieve the following objectives:

- Establish and maintain the strategy, risk sources, and categories to be used for risk management
- Establish and maintain the plan for risk management process
- Identify and document risks throughout the contract
- Define the parameters used to analyze, categorize, and prioritize risks
- Perform qualitative and quantitative risk analysis
- Plan risk responses
- Develop a risk mitigation plan for the most important risks to the project, as defined by the risk management strategy
- Monitor the status of each risk periodically and implement the risk mitigation plan as appropriate
- Monitor and control risks and the risk management process
- Train the people performing or supporting the risk management process as needed

Our Risk Management Plan includes process steps, procedures, workflow steps, tools, and examples of all associated forms. Samples of all screens/forms to be used for each step are also included in the plan for ease of use. In addition, all procedures are accessible 24/7 via the project SharePoint site for authorized users, so that the project team can validate correct procedures for Risk Management from anywhere, anytime.

To ensure continuous risk identification and management, the project team performs the following activities shown in Table I-4.

Table I-4. Summary of Risk Management Process	
Step	Project Team Activity
1	Review previous weekly reports for existing risks and review sources of risks. Sources may include, but are not limited to, changes in requirements, changes in legislation, and staffing issues.
2	Identify, assess, and rank new risks; determine response. Implement response action when trigger is reached.
3	Track and update the status of the risk and risk response weekly. Update status when the risk has been resolved but not approved by project management and AHS, and update the date completed and enter the resolution. Change status to "Closed," when the risk has been resolved, and the status change has been approved by project management and the client, update the date closed.
4	Review and update the risk status during each weekly status meeting. Determine if the ranking has changed due to a change in priority or severity or if the due date or ownership needs to be changed.
5	Update the risk's status to program and project management teams.
6	Monitor performance to ensure timely notification of delays in responding to risks.
7	Communicate status of risks to team members and stakeholders.
8	Monitor and evaluate metrics to help ensure adequate notice of changes is provided.
9	Combine or separate risks into other risks to avoid redundancy.
10	Re-plan risk management strategy based on new information.
11	Analyze the results of the risk response and resolution for effectiveness and lessons learned.

The plan includes content with additional activities required by our methodology that have helped our teams minimize and manage risk on similar projects. Our standard Risk Management Plan template contains a cover page with a title, issuance date and version number. A sample cover page and a table of contents (TOC) with links that permit the reader to move directly to the desired content are shown in Exhibit I-37.

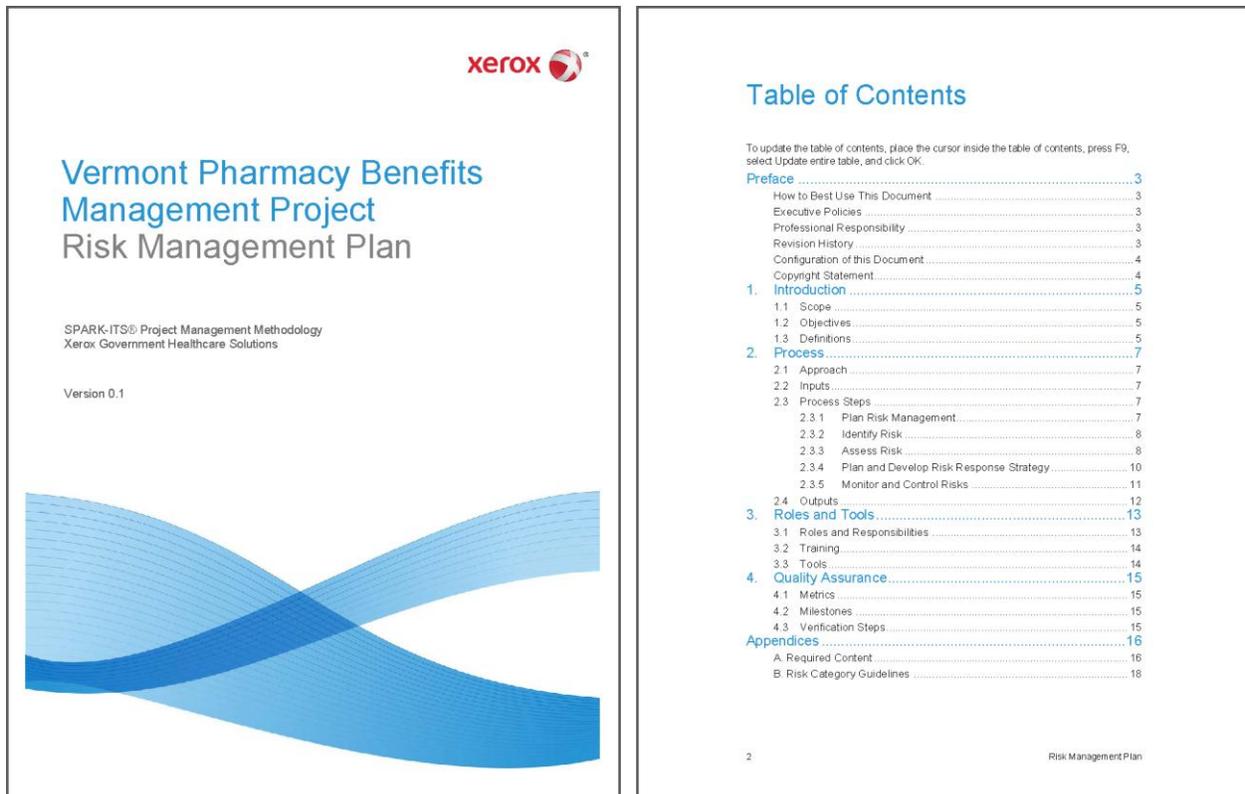


Exhibit I-37. Example Xerox Risk Management Plan Cover Page and Table of Contents

This screenshot illustrates the cover page and table of contents for our Risk Management Plan for the Vermont PBM Project.

We work closely with AHS in developing the Risk Management Plan deliverable document to ensure that it includes required content and meets Agency needs.

Risk Management Tools

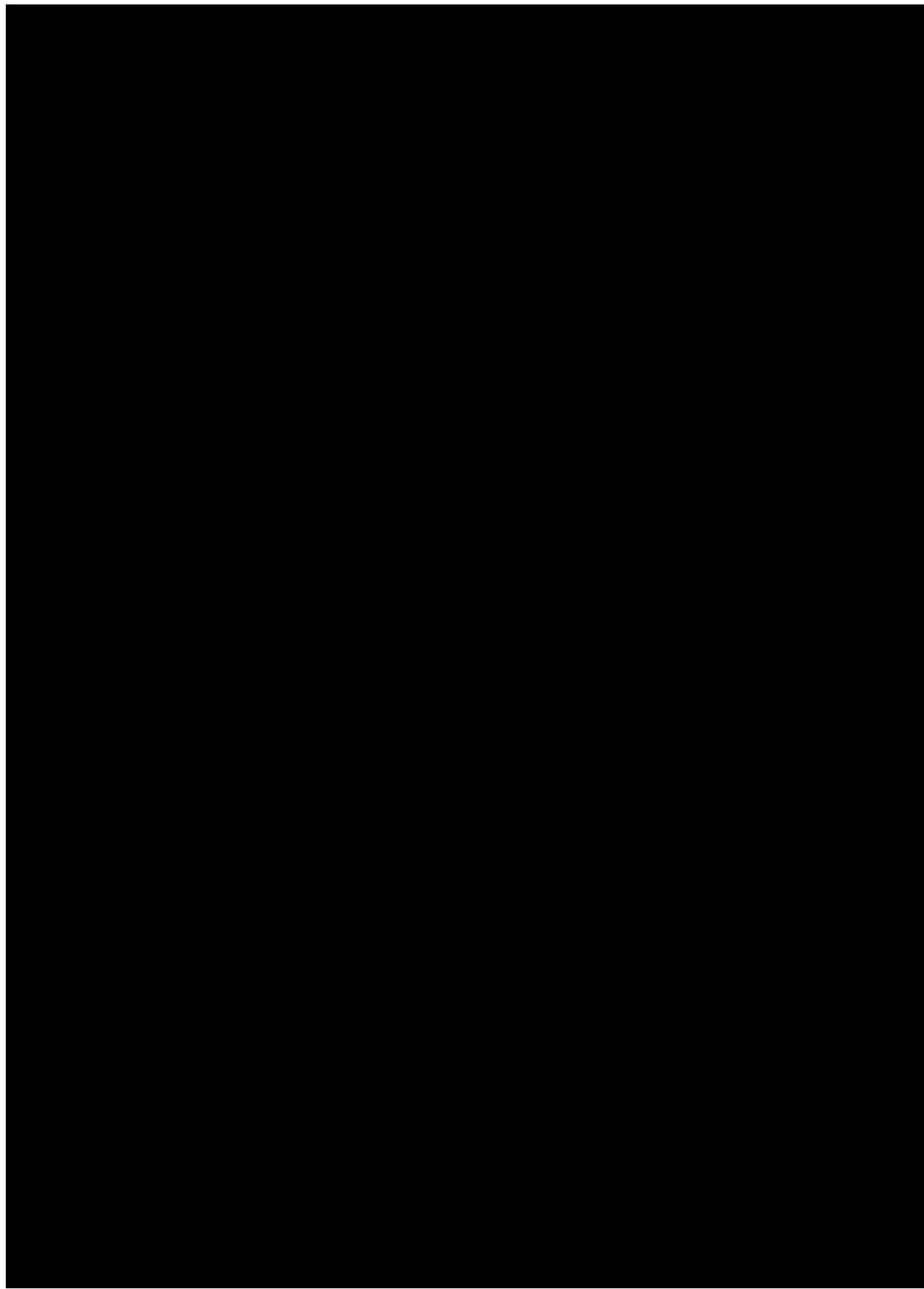
The Risk Management Plan lists the tools that we use throughout the PBM project for identifying, logging, documenting, analyzing, ranking, managing, and mitigating risks throughout the project.

Microsoft® Office SharePoint®. SharePoint is the Web-based collaboration tool that we use to identify, log, store, monitor, and collaborate on project information. We use the project's SharePoint site as the repository for project artifacts such as the Risks List.

The Risks List in the project's SharePoint site allows team members to control the following tasks associated with risk management:

- Enables the identification and logging of risks
- Assists in the assessment and ranking of risks
- Ensures risk assessments address all pertinent aspects of the project
- Provides specific means of mitigating the risk
- Tracks and monitors risks and their status

SharePoint provides 24/7 access for authorized AHS and Xerox personnel to view the ranking of all risks and the specific mitigation/contingency plans for those risks where mitigation or mitigation and contingency plans are required. Exhibit I-38 presents the screen for entering a new risk into the project's SharePoint site.



6.7 Relationships with Third Parties

Instructions: Describe any financial relationship between Vendor and any third party hardware, software, or other Vendors that may be used to provide services or products in connection with any phase of the PBM project, whether such third party will be used by the Vendor as a Subcontractor or contracted directly by Vermont. The Vendor shall also disclose any known or perceived conflicts of interest the Vendor or its leadership may have that would impact any phase of the project.

[REDACTED]

[REDACTED]

[REDACTED]

7.0 Knowledge Transfer and Training

The Vendor must provide a narrative overview of how the proposed solution will meet the Vermont PBM Knowledge Transfer and Training requirements. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the Knowledge Transfer and Training Requirements set forth in Template H – Non-Functional Requirements, Tab I2 Knowledge Transfer and Training’.

Please include in the response what the Vendor believes will be an effective process for each component and flow between each of the following areas:

Recognizing the importance of knowledge transfer and providing quality information to all stakeholders of the AHS PBM Project, Xerox is committed to partnering with AHS to define the curriculum, course content, and training styles needed to develop a dynamic and comprehensive program.

Effective and comprehensive knowledge transfer and training is essential to any state healthcare program, but it is especially important with the implementation of a new system and vendor partner. Xerox has installed improved technical solutions and assumed PBM operations from numerous states and vendors and has built the expertise and collaborative culture to lead a smooth transition to a Xerox managed PBM program.

We are pleased to share our narrative describing how Xerox will meet or exceed the knowledge transfer and training requirements in the following sections:

- 7.1 Change Management
- 7.2 Knowledge Transfer
- 7.3 Training Strategy and Approach

7.1 Change Management

Instructions: Describe what the Vendor believes to be an effective Change Management strategy and approach including providing details for a change readiness assessment, gap analysis, and recommendations for organizational and process changes.

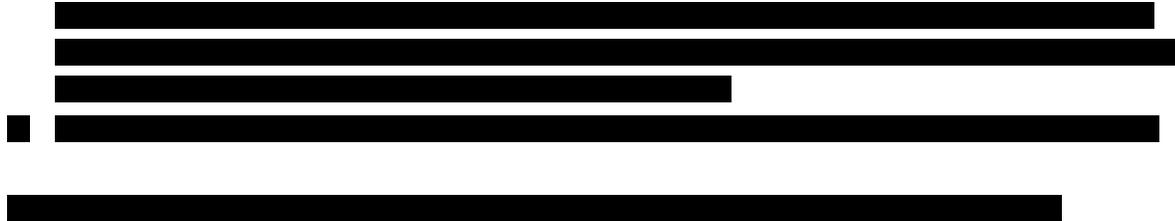
System Change Management Policy, Procedures, and Tools (I1.6, I1.7)

Whether during the design, development, and implementation (DDI) phase or operations, any changes to code or other configured items are subject to the same strict configuration, change management, and release controls. In order to minimize risk, any proposed change must go through appropriate assessment and approval. The Change Management Plan guides the project in how to assess and integrate new requirements identified during DDI and operations. We apply our established SPARK-ITS® Quality Management System's (QMS) policies and procedures in collaboration with AHS to provide change management policies and procedures that support the AHS PBM project. The SPARK-ITS change management processes ensure that the impact of any change is measured, monitored, and clearly communicated to facilitate decision making by management as to a contractual cost or timeline modification.

Change Control Board (CCB)

The Change Control Board (CCB) is managed by the State and is responsible for final review and disposition of system change requests. The CCB consists of key stakeholders, including representatives from both AHS and Xerox, and meets regularly on a schedule mutually agreed to by AHS and Xerox. In reviewing each change request, the CCB ensures that the needs of specific project groups are met, dependencies between and among project groups are accommodated and coordinated, and that the good of the project as a whole is always kept front and center. Evaluating any risks associated with a change request and prioritizing change requests are also critical functions of the CCB.

Criteria considered in determining the priority of change requests include potential and actual impact on the release schedule, dependencies on other tasks (sequencing), the type of change request, or even the source of the change request. For example, a change request originating from a federal or state mandate might take precedence over other change requests. During change management planning, Xerox works with AHS to tailor and refine the criteria for prioritizing change requests. After reviewing a change request, the CCB approves, defers, or rejects the change request.



7.2 Knowledge Transfer

Instructions: Describe what the Vendor believes to be an effective Knowledge Transfer strategy and approach including describing the approach for bringing managers, end users, and technical personnel to an appropriate level of understanding of the State’s solution.

Knowledge Transfer Approach (I2.1, I2.2)

Early engagement of key operations and customer staff in each of the implementation workflows offers the best opportunity for knowledge transfer.

An important objective of each PBM implementation, particularly when moving systems and operational oversight from one vendor to another is to ensure that when the replacement system goes live and is transitioned over to operations and support, the day-to-day management team is well prepared. One critical success factor is to ensure that the team has received the appropriate knowledge transfer.

Throughout the project, Xerox focuses on knowledge transfer activities. One way we accomplish this is to start training and knowledge transfer from the beginning of the project. During DDI, our operations and DDI teams work together to have select operations and maintenance staff involved in appropriate implementation activities consistent with their role and skill level, including Design, System and Integration Testing, User Acceptance Testing, Parallel Testing, Operational Readiness Review and Training. All operations and maintenance staff are included in the training that is customized to their role in Post-Implementation.

In addition, interim reviews start the process of knowledge transfer. Interim reviews offer those with the responsibility for final review and approval, an opportunity to see completed components of the deliverable and provide feedback early in the process so course corrections can be made. This early review also familiarizes the reviewer with the deliverable and its content, adding confidence to final approval process.

7.3 Training Strategy and Approach

Instructions: Describe what the Vendor believes to be an effective Training strategy and approach and what user and technical training the Vendor would recommend to the State. Include the training of State personnel who will work on the project, as well as users, executives and support staff. Describe how State and partner users will be trained. Describe how State IT staff will be provided technical training to ensure required technical capabilities to support the maintenance and operations needs of interfaces with the new System. Include the method of training for each of these classifications of individuals, an approximation of the number to be trained, estimated duration of each component of the training program, and the method to be used to ensure that the training was successful.

Xerox continues its methodical, step-wise approach to train stakeholders on the use and operation of our innovative solutions.

Training Strategy and Overview (I2.1 – I2.20)

Xerox is confident we have the right approach and proven track record to successfully train stakeholders on the Vermont PBMS solution. We look forward to collaborating with the Agency to develop a comprehensive Knowledge Transfer and Training Plan and are in full agreement with the requirements detailed in Template H, RFP requirements I2.1- I2.20.

Effective and comprehensive training is among the critical points of the implementation of a new system. Xerox uses the proven, industry-standard Analyze, Design, Develop, Implement, Evaluate (ADDIE) methodology of instructional system design to develop training. ADDIE is used to develop courses geared toward mastery of entirely new subject matter or to update existing educational materials to accommodate changes to an established technology, process, or policy. Exhibit I-40, ADDIE Design Model, provides an overview of the ADDIE design methodology.

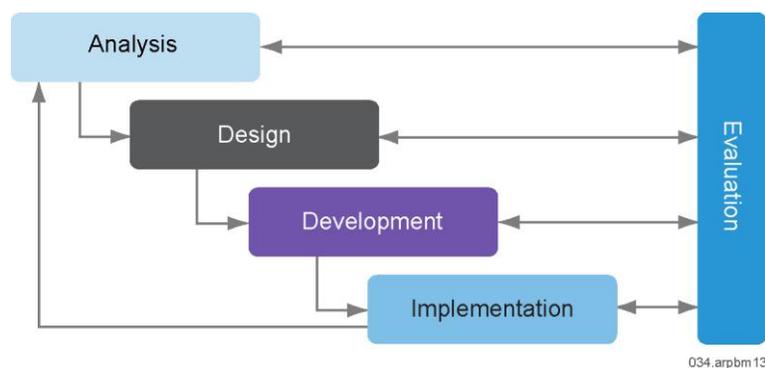


Exhibit I-40. ADDIE Design Model

Our SPARK-ITS training methodology applies learning industry best practices.

The Xerox approach uses the following structured process, tools, and techniques for implementing a comprehensive training program:

- **Analyze the needs of the user groups and their associated skills and abilities.** We conduct a detailed analysis and establish training goals to meet the needs of State staff and stakeholders. This includes analyzing the learners to take into account factors such as background and experience, cultural differences, and geographical disparity that could affect the way a student learns. Analysis also includes examining individual job functions, noting which tasks require training, and identifying instructional setting(s) best suited to each training event. We also make sure we understand the number of participants to be trained to location and training materials can be properly planned.
- **Design a plan for the development of the curricula and component learning events.** We build our educational curricula from more granular elements, including courses, learning modules, and “learning events.” Learning events can be thought of as reusable objects, much like the reusable objects found in software code, and are similarly contained in a library. We define a list of learning events in one or more learning matrices. Organization and sequencing of learning events takes into account the complexity level and focus of the training. From the same learning event library, we can

design courses to reach a particular level of user or meet a specific training and security need, from basic- and intermediate-level course content to more complex, advanced topics.

- **Develop the learning events into courseware.** We construct the reusable learning objects and then incorporate the objects into the appropriate learning modules and courses. We develop additional training materials such as visual aids, handouts, hands-on activities, job aids, and automated tutorials or presentations for self-directed learning. Electronic copies of appropriate courseware and materials are provided to the Agency.
- **Implement the courseware.** We provide initial and ongoing education including instructor-led and train-the-trainer events to State staff and stakeholders according to the documented rollout schedule. We schedule our training events with consideration to the practical availability, and to every extent, the convenience of the participants. This includes during normal work hours and at central or convenient locations. Our trainers' assignments are organized so the training does not negatively impact project progress or affect its critical path.
- **Evaluate the courseware and training effectiveness.** Evaluation is ongoing throughout all phases of the instructional life cycle to ensure that training objectives are appropriate and that they are being satisfied by the courseware that is developed and implemented. At every level of the instructional life cycle, Xerox works with AHS to reaffirm the goals of the training plan are being met by reviewing pre-established metrics whenever possible. We track attendance and evaluation results within the learning management system (LMS). We review survey feedback to identify areas of improvement for training curricula and techniques.

Documentation relative to training will begin with an initial plan as part of our Project Management Plan, a deliverable in Task 1 - Project Initiation and Planning; and in Task 6 – Training.

Our comprehensive Training Plan defines train-the-trainer programs, online tutorials, and use of a Learning Management System (LMS), training reports, training materials, and unique training opportunities for the State and its stakeholders to guide them in the use of the systems and services.

Our training guides learners to successfully use and execute our systems and services. We approach training by employing a blended learning philosophy: the use of traditional and interactive learning methods combined with technology delivery methods for maximum positive impact on user performance. Through this blended learning approach, we are able to provide training modules for beginner, intermediate, and advanced levels for specific roles, responsibilities, and job functions as well as specific security levels.

During the analysis phase, we analyze the proposed system and services to identify all known operational and support procedures for Xerox support resources, as well as State staff and other stakeholders involved in the management, administration, or security of the systems and services. We include these resources in our learning matrices with their targeted responsibilities, job tasks, and resulting learning events that must be designed and developed.

The Xerox training manager oversees the development of a comprehensive training rollout schedule. This schedule includes:

- Matrices of available training modules by role/responsibility
- Training locations

- Enrollment procedures
- Pre-training course instructions, prerequisites
- Links to training materials
- LMS log-on, passwords, connectivity information and instructions
- Instructions on who to contact with questions, issues, or defects

The training manager reviews the rollout schedule with AHS to confirm our plan is complete and comprehensive. Following our incorporation of Agency feedback, we use the rollout schedule as a basis for State and stakeholder communications, instructions, monitoring, and issue resolution.

We train specific user groups—including administrators, users, and analysts—typically no later than thirty (30) days before the planned start of User Acceptance Testing (UAT). Our comprehensive PBM training is a standard task at which Xerox has excelled. Our trainers are committed to the task at hand and deliver the level of responsiveness and performance that AHS expects. We develop and produce the training curriculum, procedure manuals, materials and schedule and submit them to AHS for approval within timelines, with content, and in a media and format approved by AHS. Further, we develop multi-tiered training modules with sufficient granularity to allow individual user groups—including administrators, users, and analysts—to learn those functions of the system applicable to them. We customize training in order to present functions in a manner consistent with the AHS staff workflow. Table I-5 provides sample PBMS training session topics.

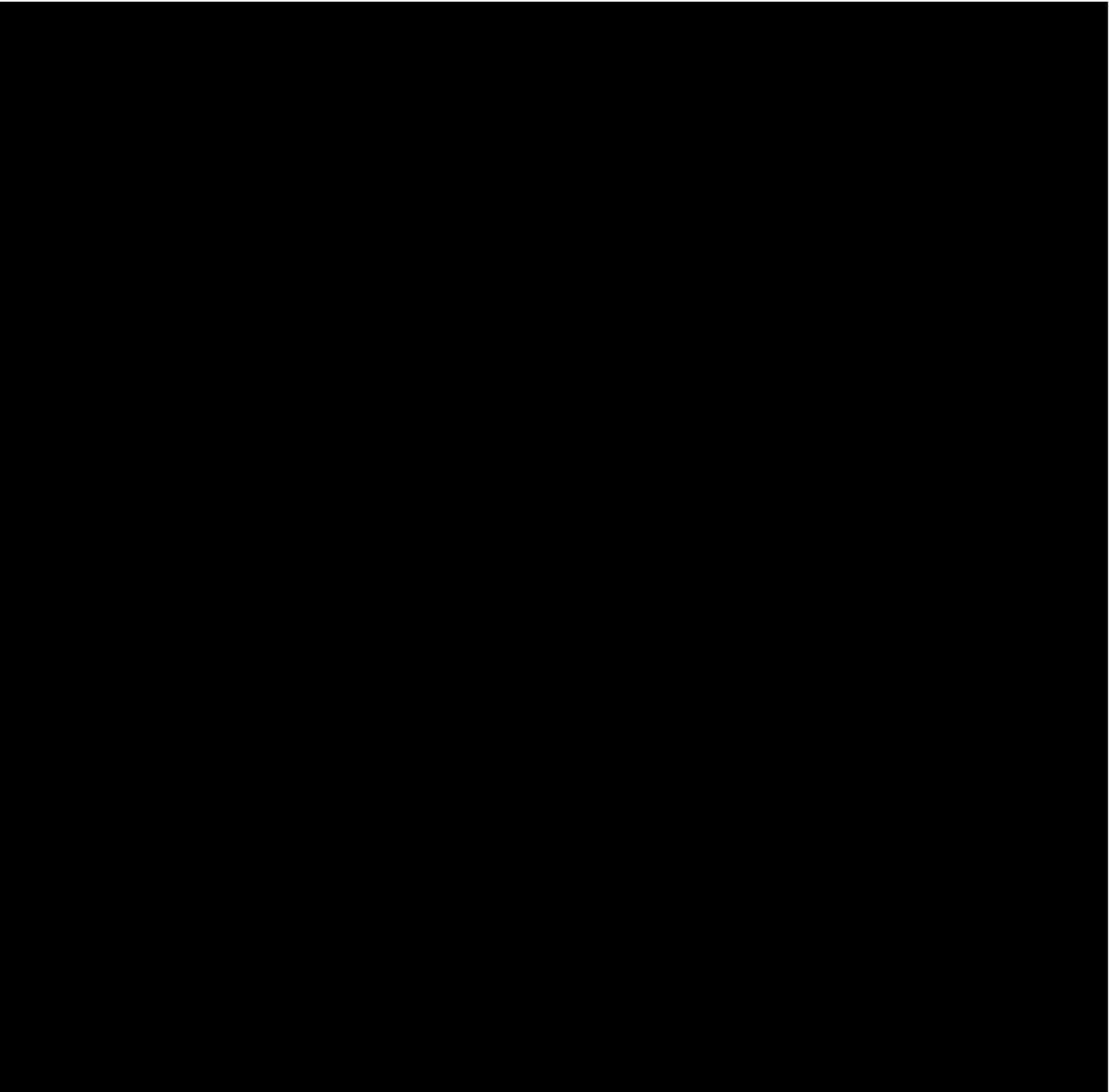
Table I-5. Sample PBMS Session Topics	
Topic	Trainee
PBM OS+ Inquiry	AHS Staff
Call Center PBM OS+ Training	AHS Staff, Xerox Staff
Call Center State Maximum Allowable Cost (SMAC) Training	AHS Staff, Xerox Staff, Providers
Web Portal	AHS Staff, Xerox Staff, Providers
Submission of Pharmacy Claims, Reversals, and Adjustments	Providers
Prior Authorizations Requests	Providers
DRAMS and RebateWeb	AHS Staff, Manufacturers
Workflow	AHS Staff
Rules Engine	AHS Staff

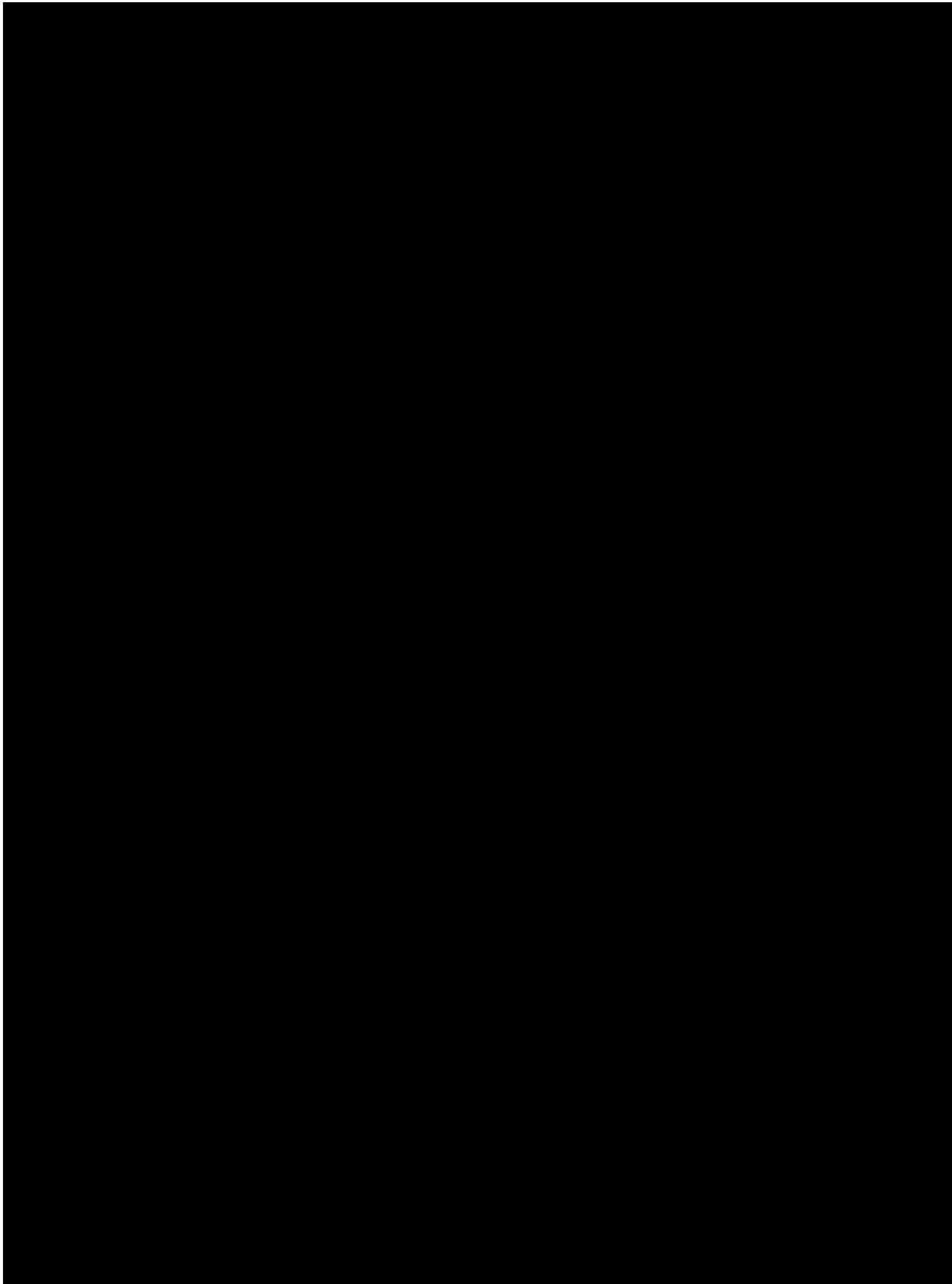
As the critical starting point in the development of a Knowledge Transfer and Training Plan, Xerox identifies the goals to be addressed in each training module. Table I-6 presents a sample of some of the training topics, goals for each topic, and the target audience for each type of training we provide. Updates to training material will be completed as appropriate to support future system releases and/or changes to operational workflow.

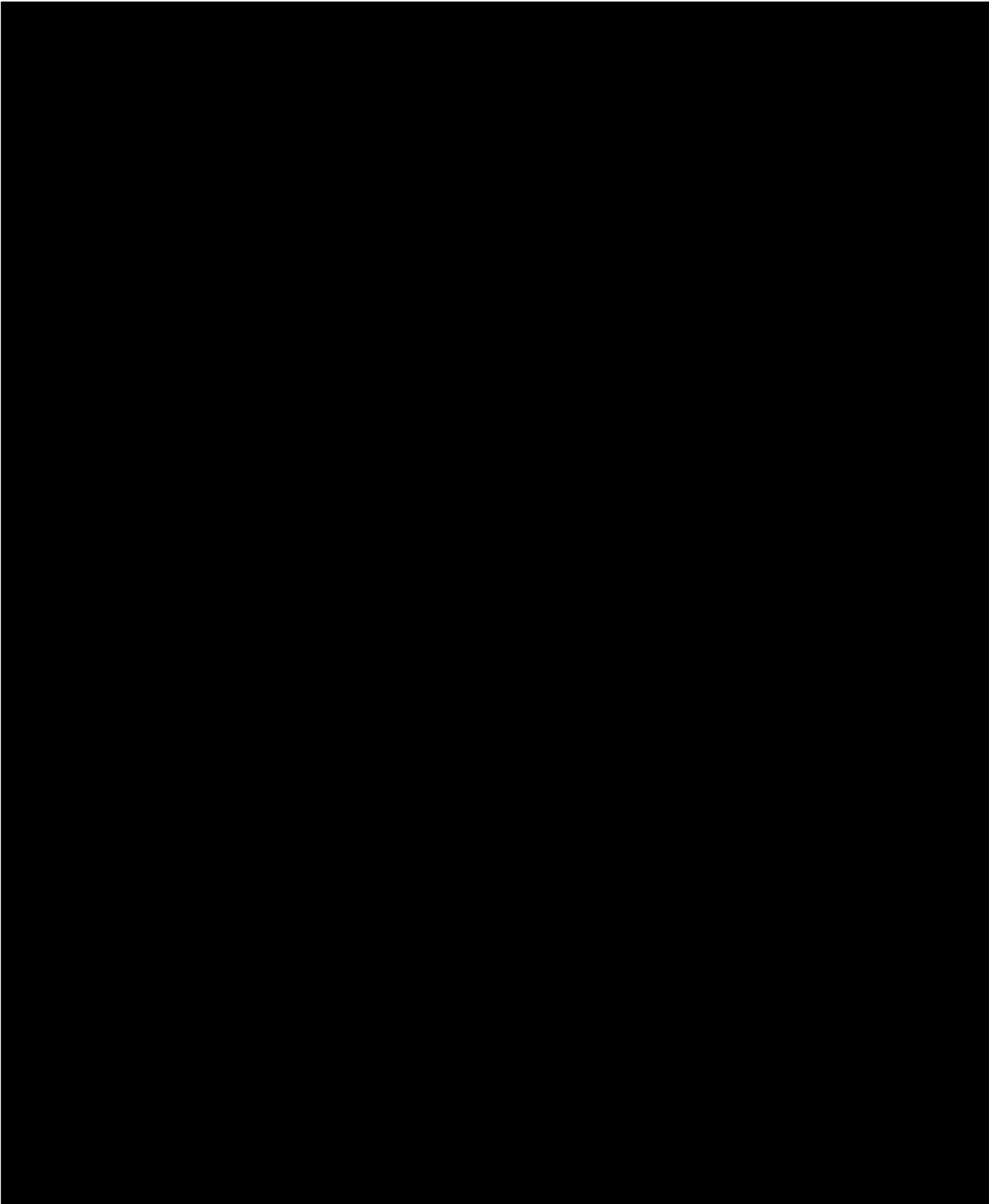
Table I-6. Sample Training Topics, Goals, and Target Audience		
Topic	Goal	Audience
Introduction to PBM system including: Introduction, Helpful Tips, and Learn the Lingo	To familiarize users with PBM system focusing on nomenclature and navigation.	Call Center, AHS Users and Super Users
PBMS Portal Access, including: Log On, Log Off, and Change Password	To demonstrate Web portal access procedures.	Call Center, AHS Users and Super Users
Customer/Group/Plan Functionality	To gain understanding of the primary program parameters that govern the pharmacy drug claim adjudication system (Super Users would have update capability).	Call Center, AHS Users and Super Users
PBM OS+ Provider including Physicians and Pharmacies	To familiarize users with the provider subsystem (Super Users would have update capability).	Call Center, AHS Users and Super Users
PBM OS+ Member Functionality	To inform users how to locate member eligibility and demographic data (Super Users would have update capability).	Call Center, AHS Users and Super Users
Claims Processing including: Batch Control, Batch Release, Exam Entry, Adjustment, Credit, Inquiry, Suspense Correction, Suspense Release, and History Adjustment	To instruct users on how to access and interpret claim level detail for prescriptions.	Call Center, AHS Users and Super Users
Reference Data including: Diagnosis, Drug, Exception Codes, Drug/PA Program, DUR, Text, RA EOB, PA Reason, Location, Systems Lists and Parameters, Customer Hierarchy, Customer Group, TPL Carrier, Parameter Reports, and Error Reports	To navigate the repository of clinical data and miscellaneous reference data.	Call Center, AHS Users and Super Users
Switch Vendor including: Summary and Detail	To provide users the ability to view real-time claim transaction processing.	Call Center, AHS Users and Super Users
Manual Prior Authorizations	To view approved medication exceptions for members (Call Center and Super Users would have add/edit capability).	Call Center, AHS Users and Super Users
Automated Prior Authorization (SmartPA)	To train users on the enhanced functionality of the SmartPA application.	Call Center, AHS Users and Super Users
Drug Rebate Services	To introduce users to the Drug Rebate Services.	AHS Users and Super Users
Reporting: Business Objects	To instruct users on how to access and create Business Objects reports.	AHS Users and Super Users

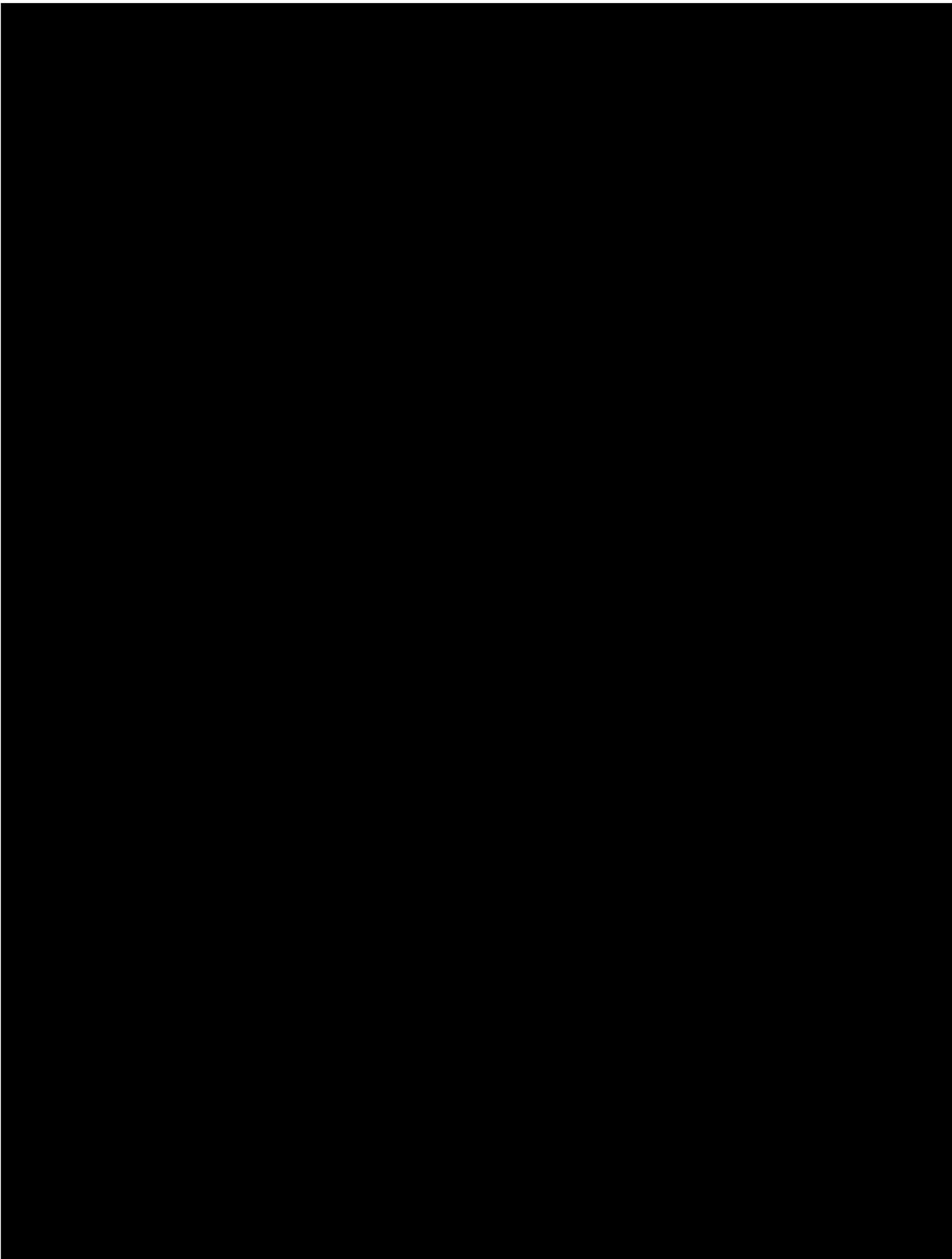
8.0 Testing and Validation

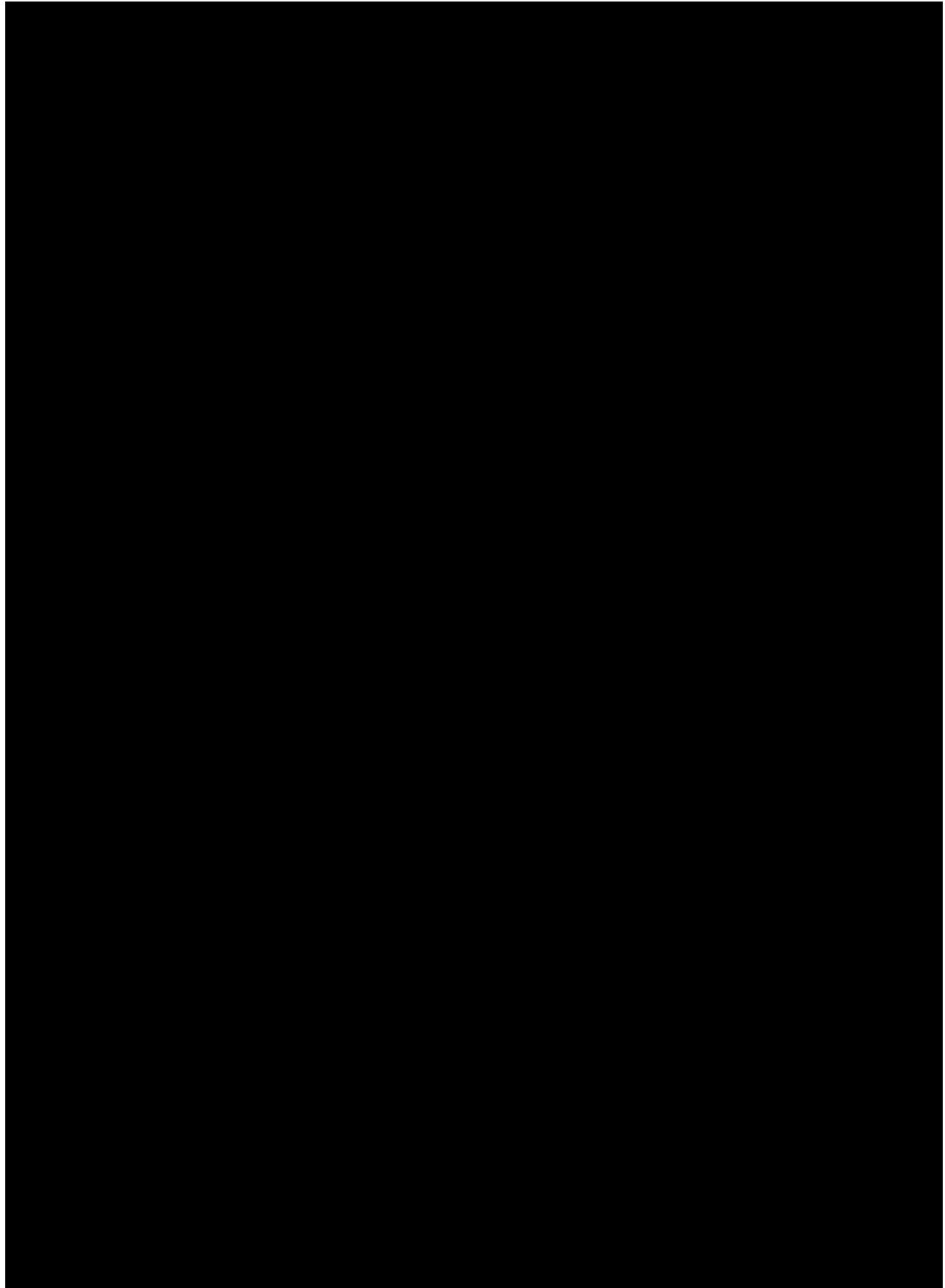
Instructions: Describe what the Vendor believes to be an effective Testing strategy and approach to ensure that the system is functioning and processing the data correctly. This plan should at a minimum address the end-to-end application testing, stress tests, performance tests, UAT and FAT tests to assure that the solution will meet performance requirements under expected user loads, backup and recovery testing and installation testing. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the Testing and Validation Requirements set forth in Template H – Non-Functional Requirements, Tab I3 'Testing and Validation'.

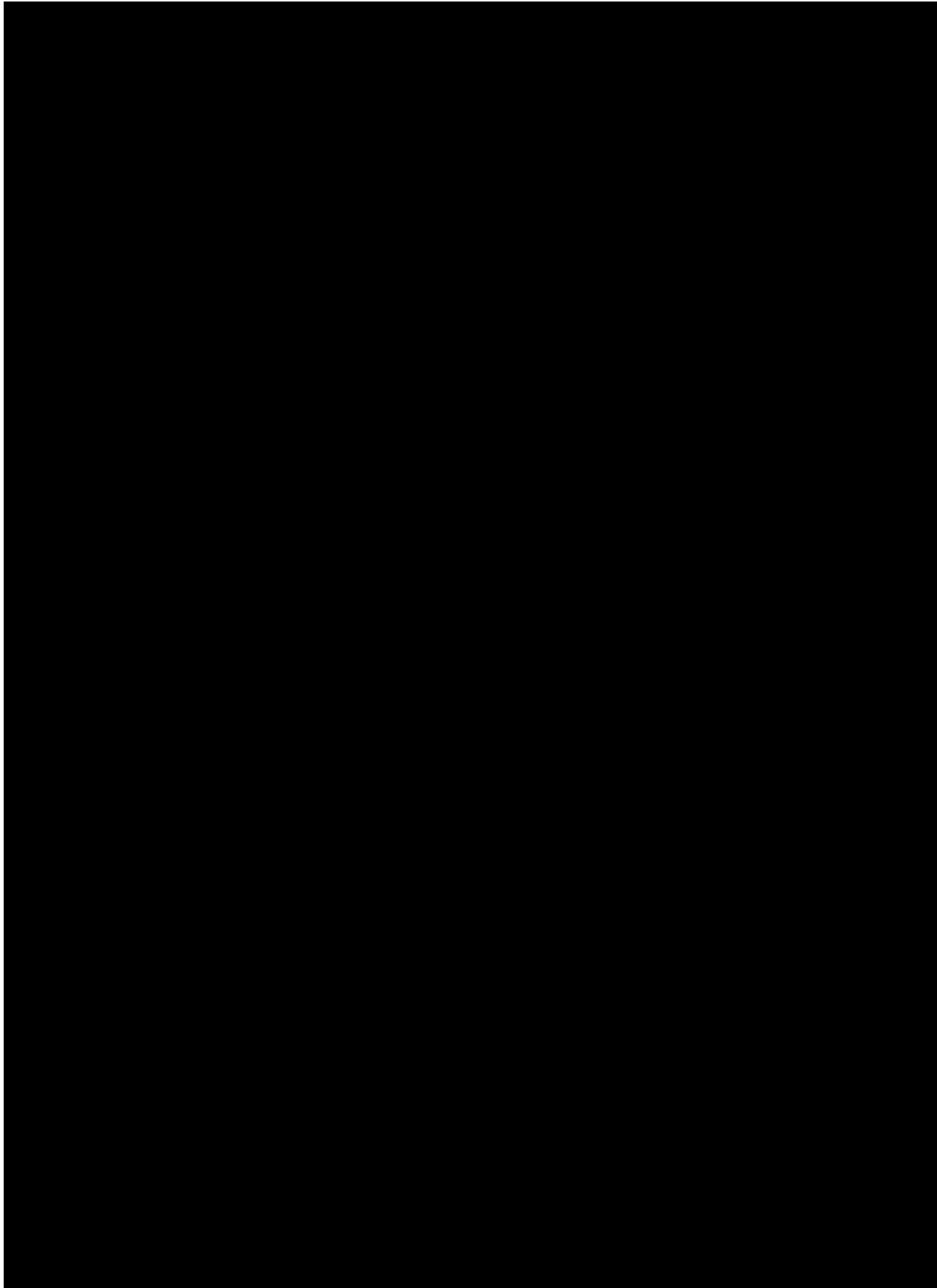


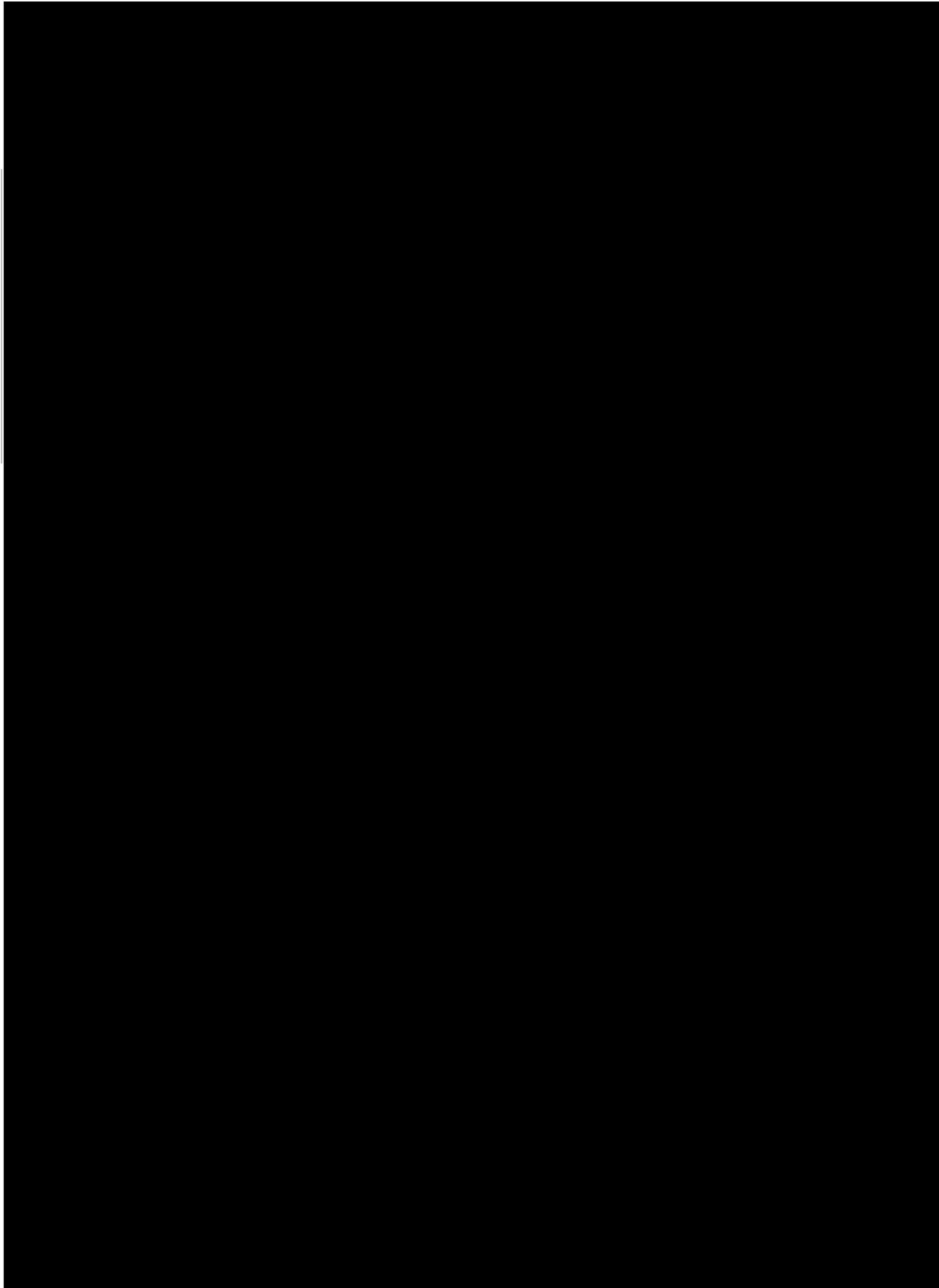


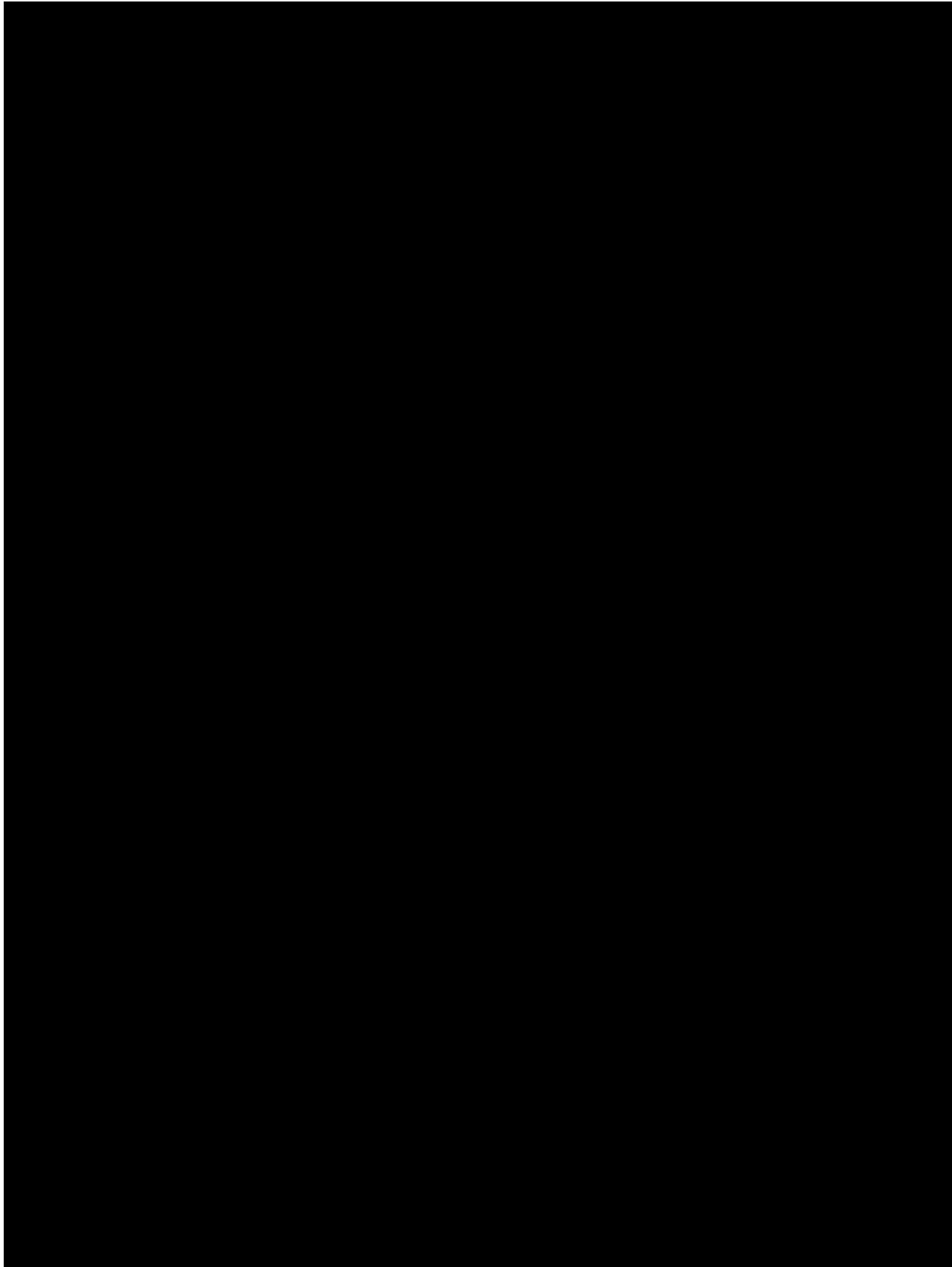


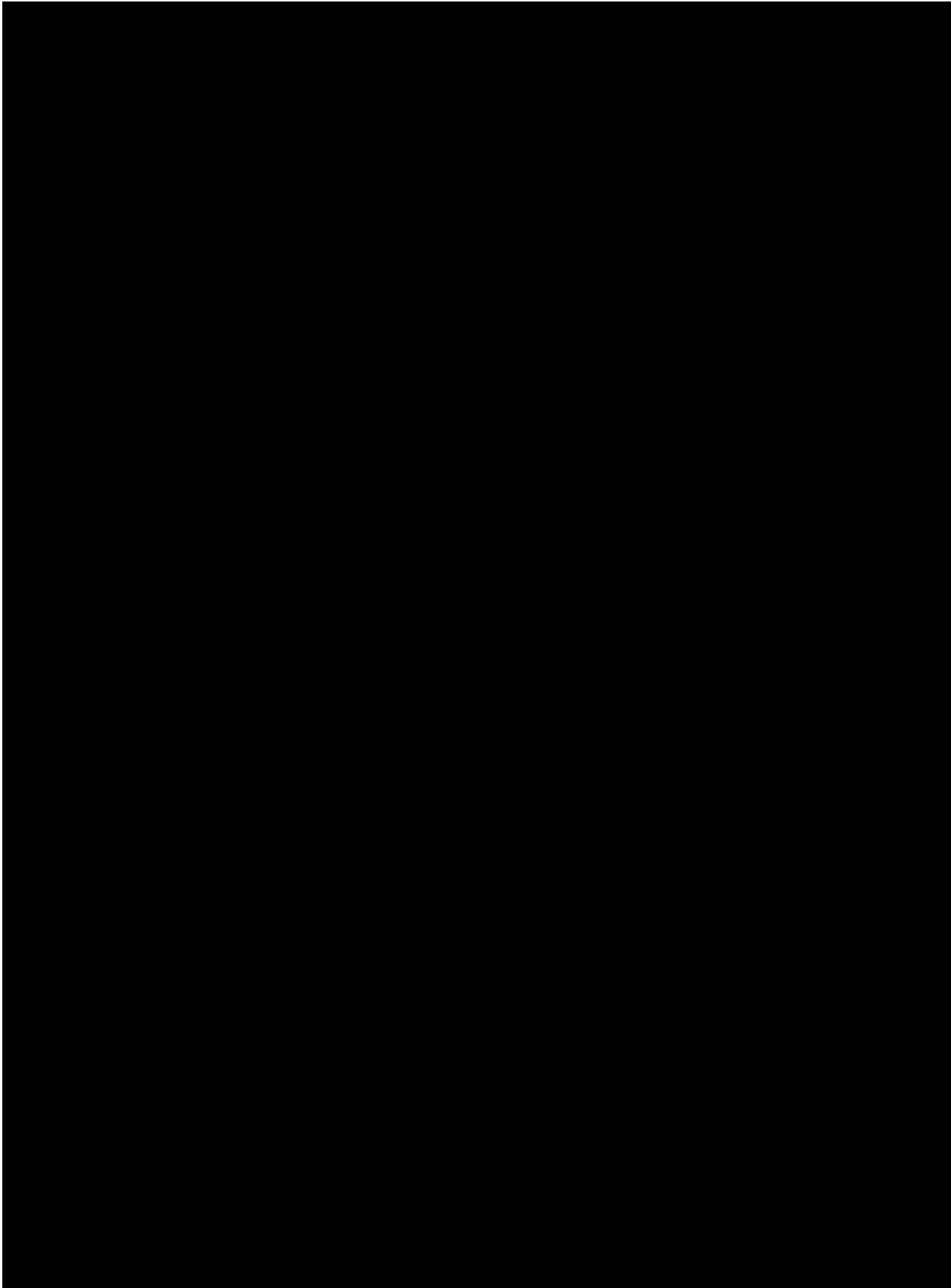


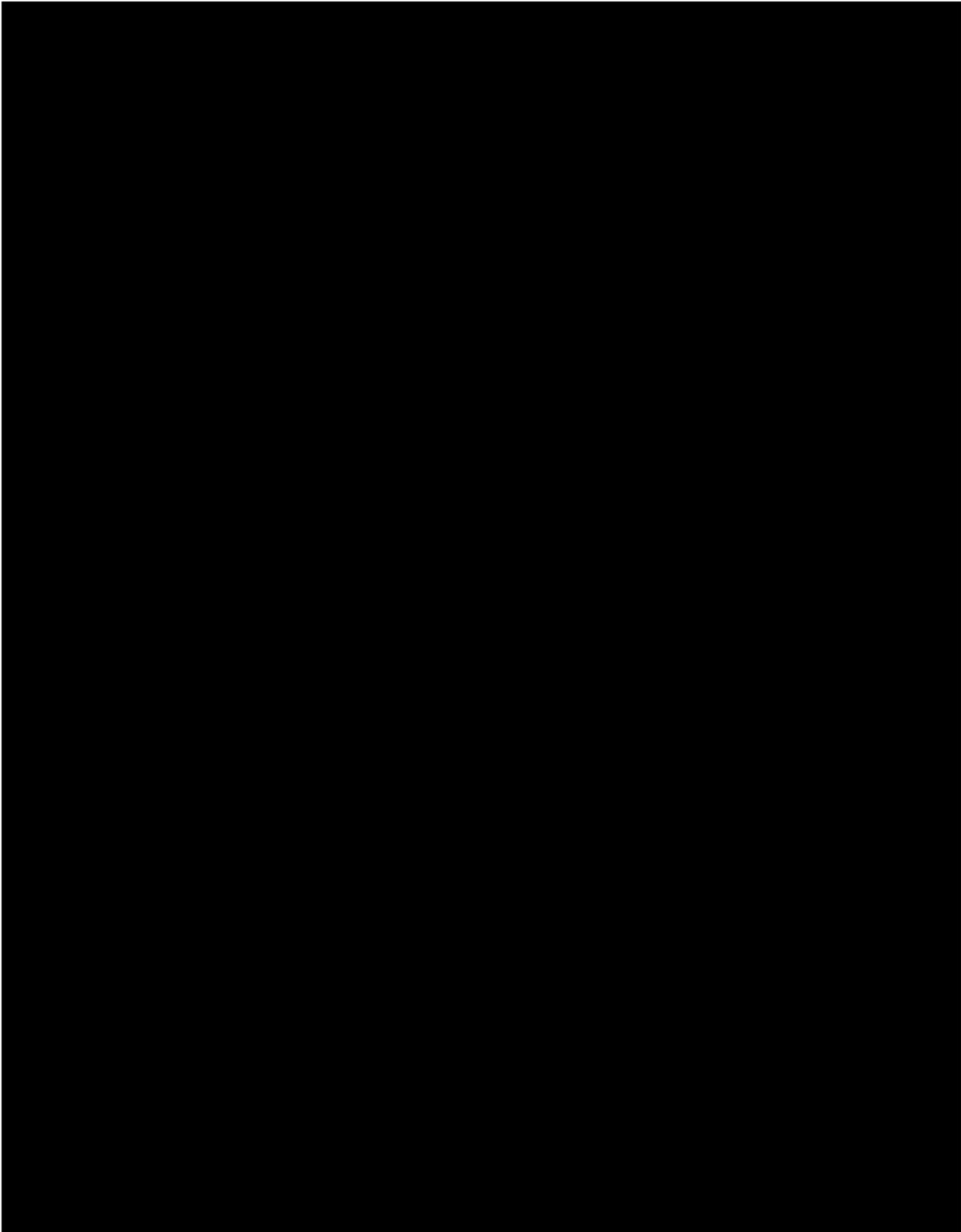


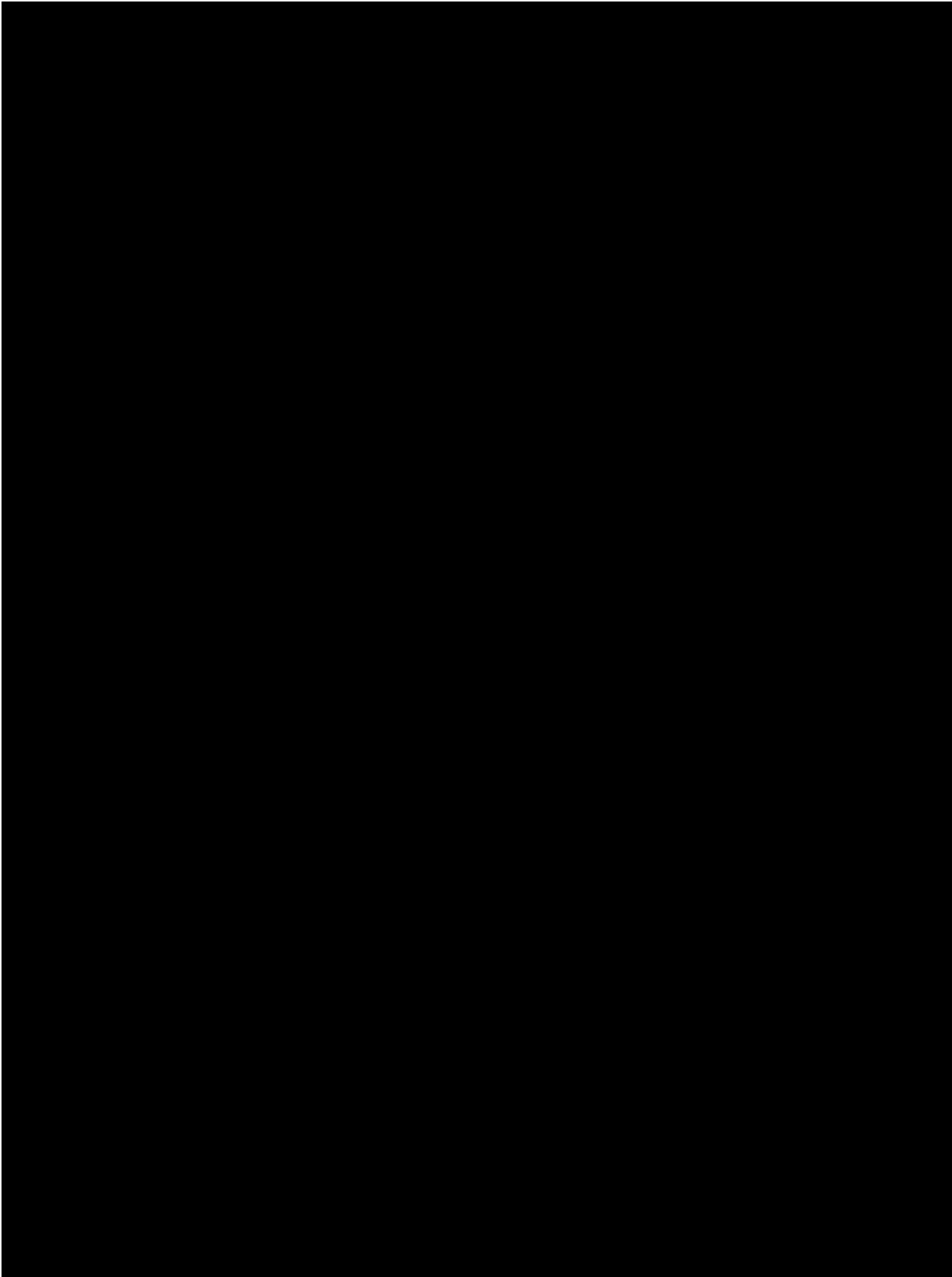


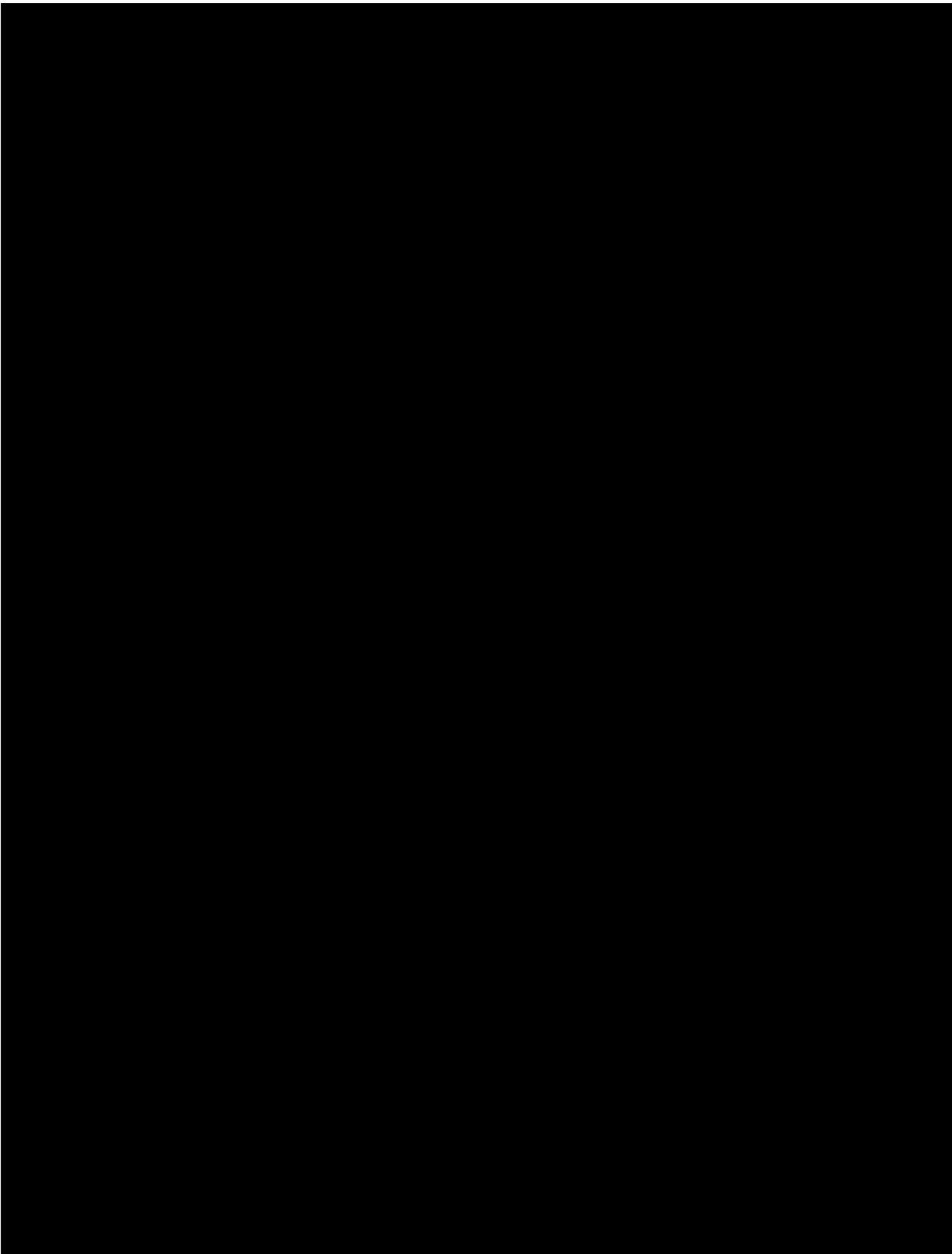


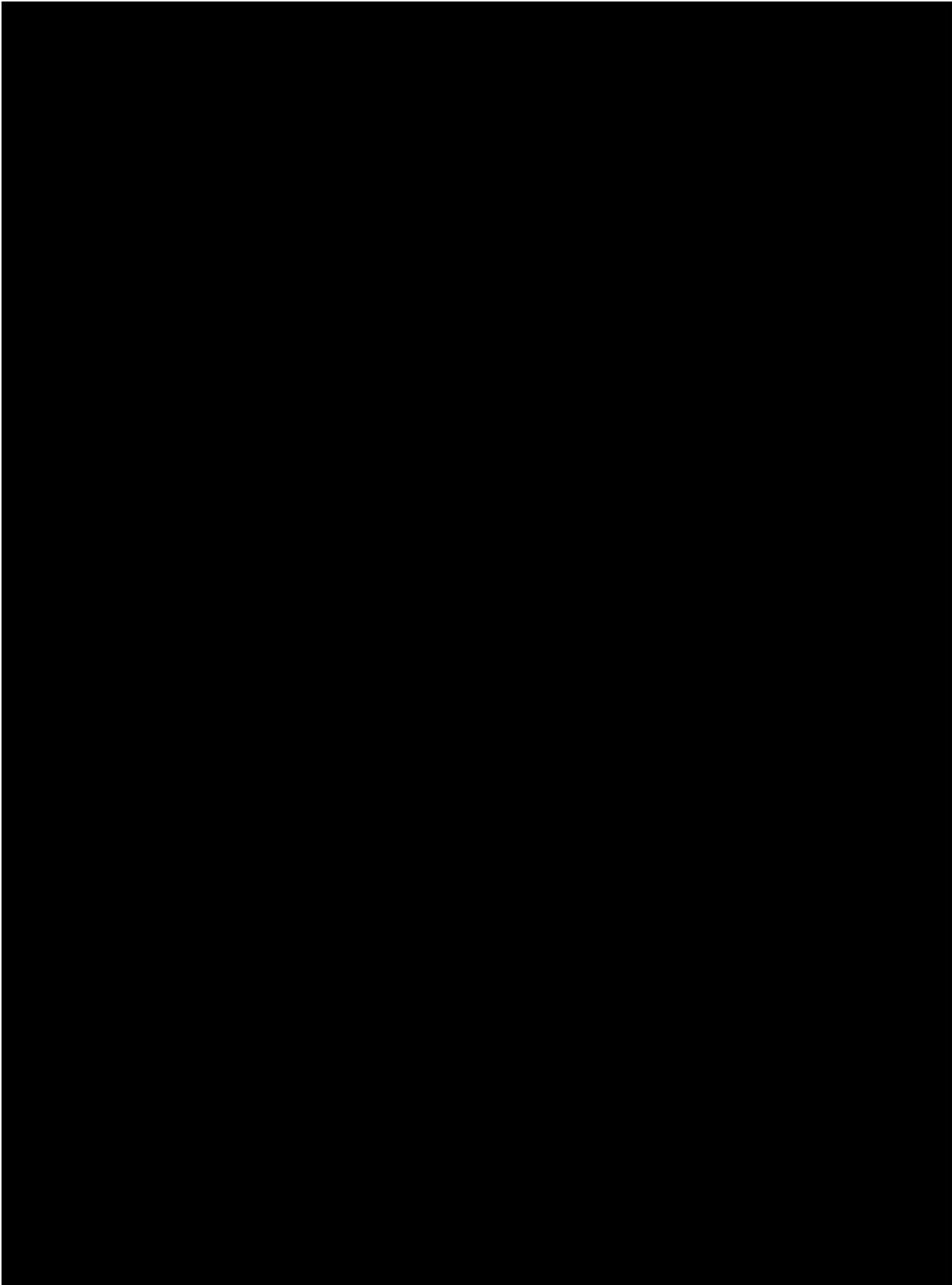


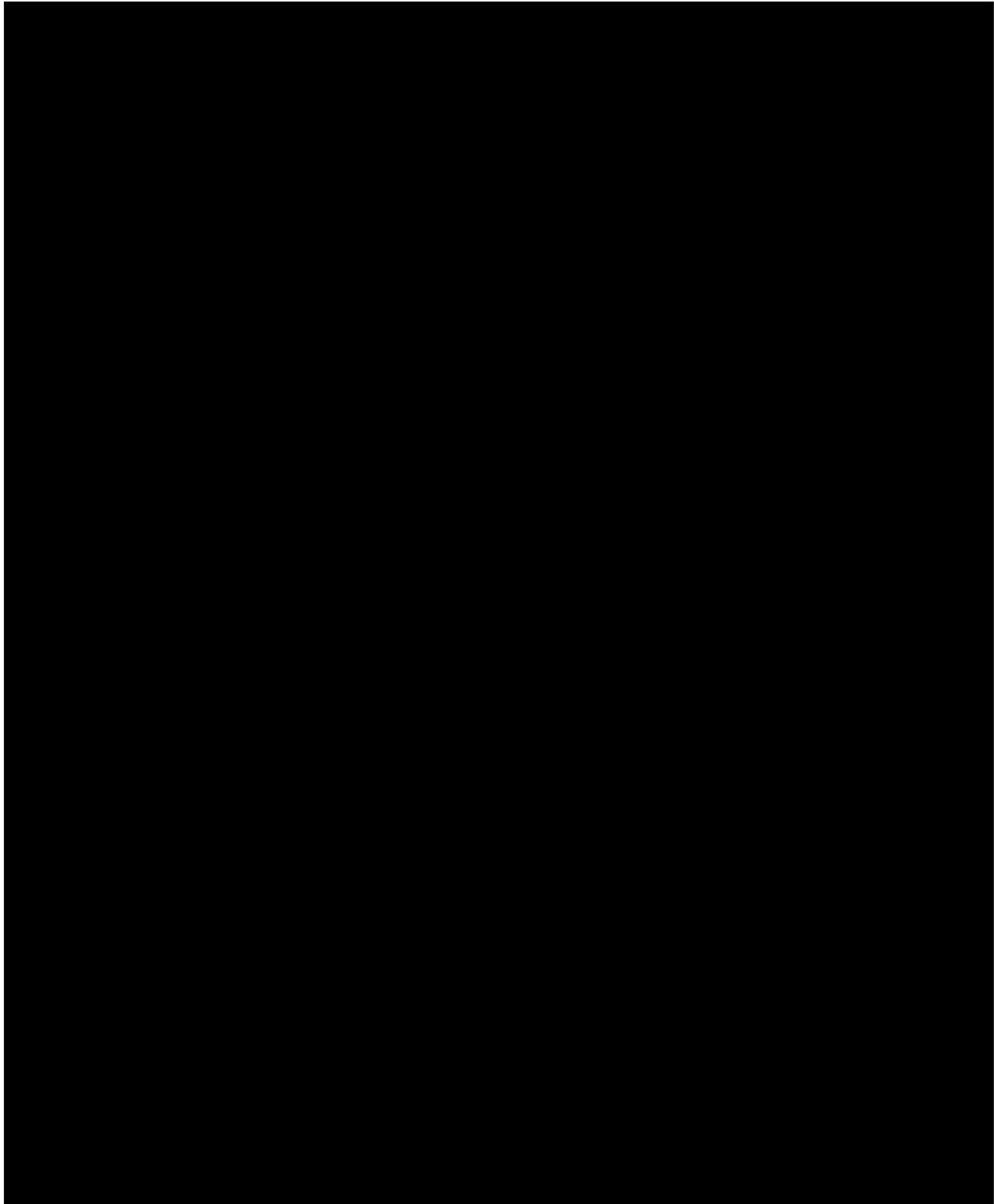


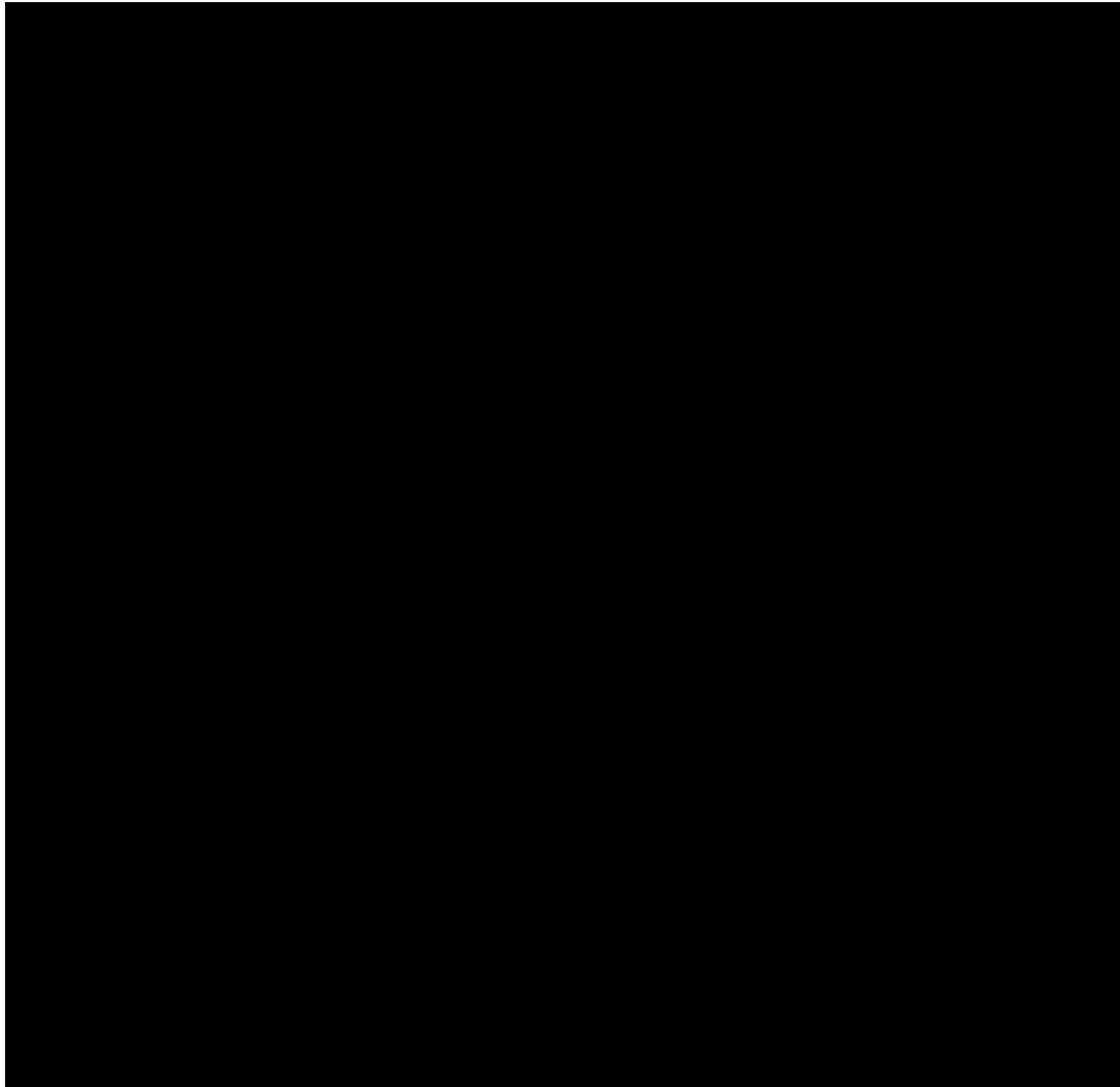


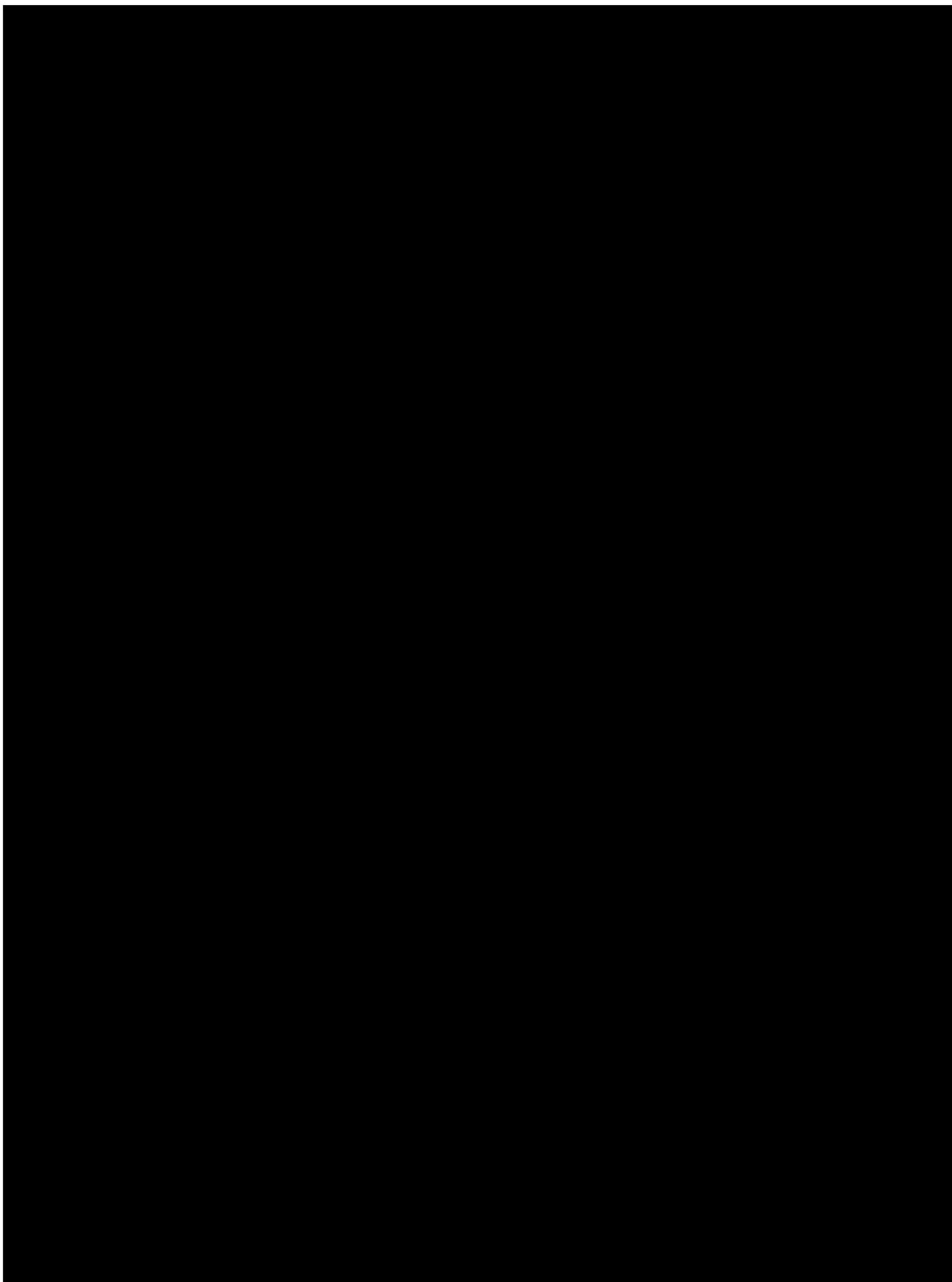


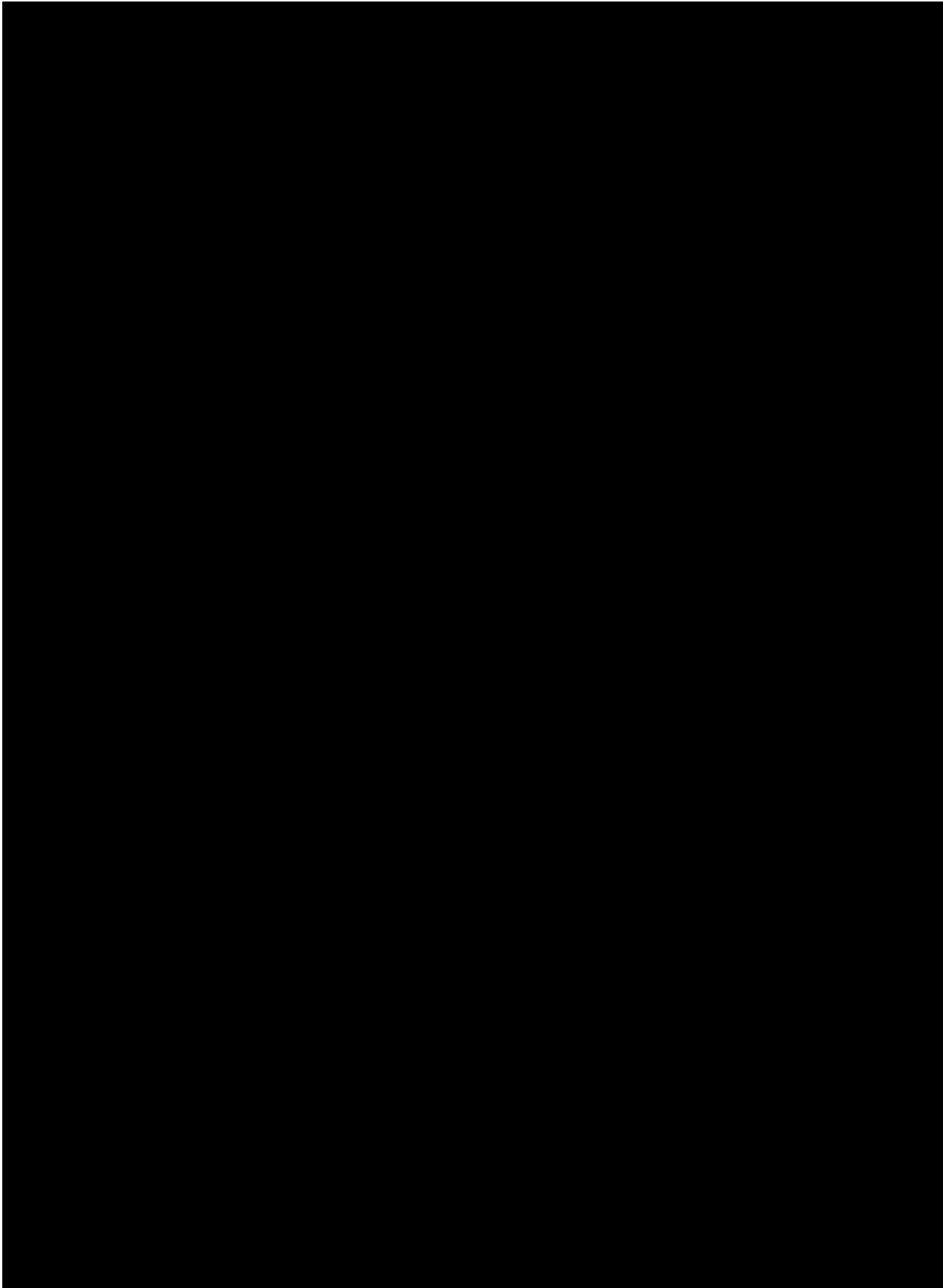


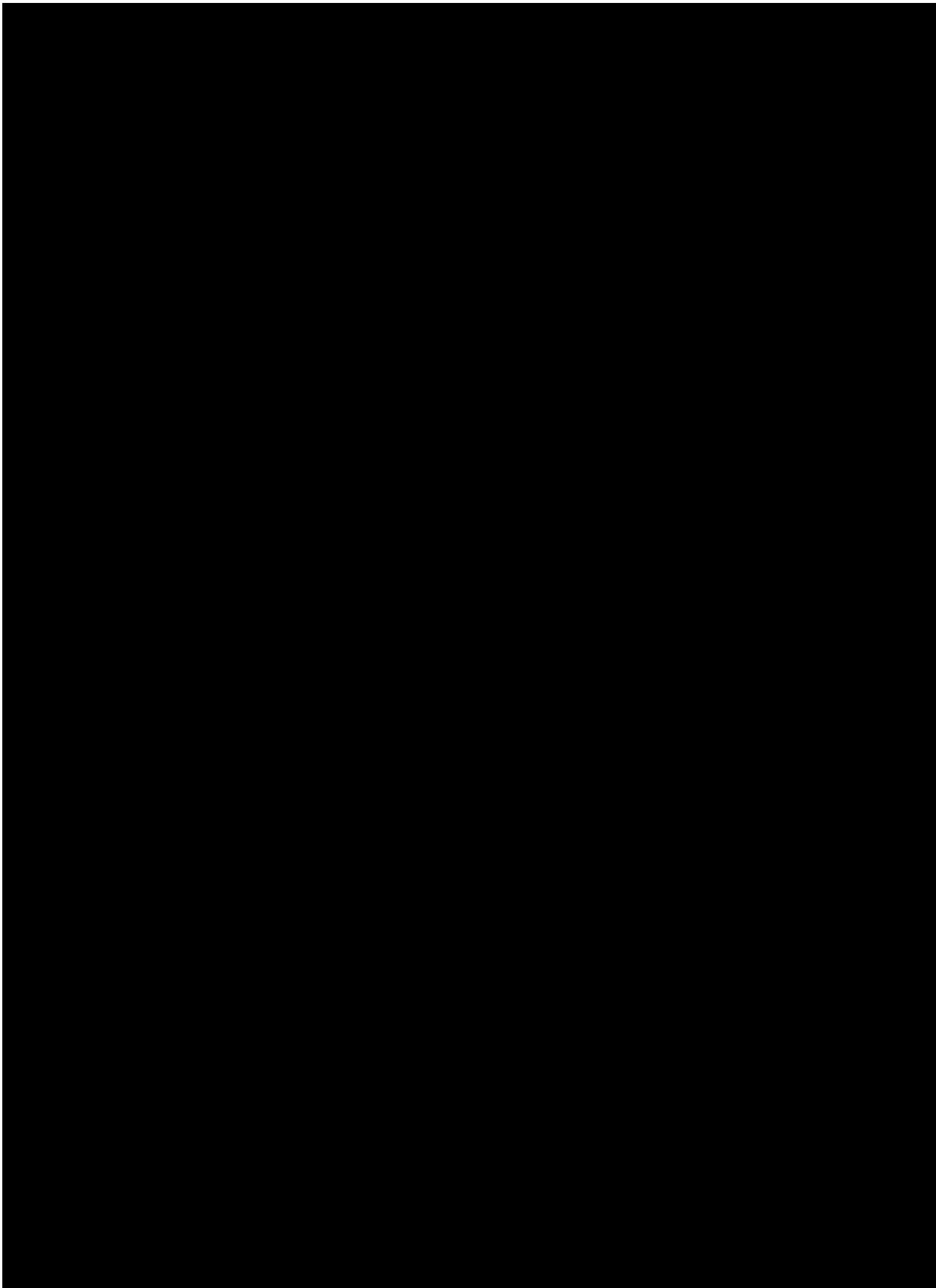


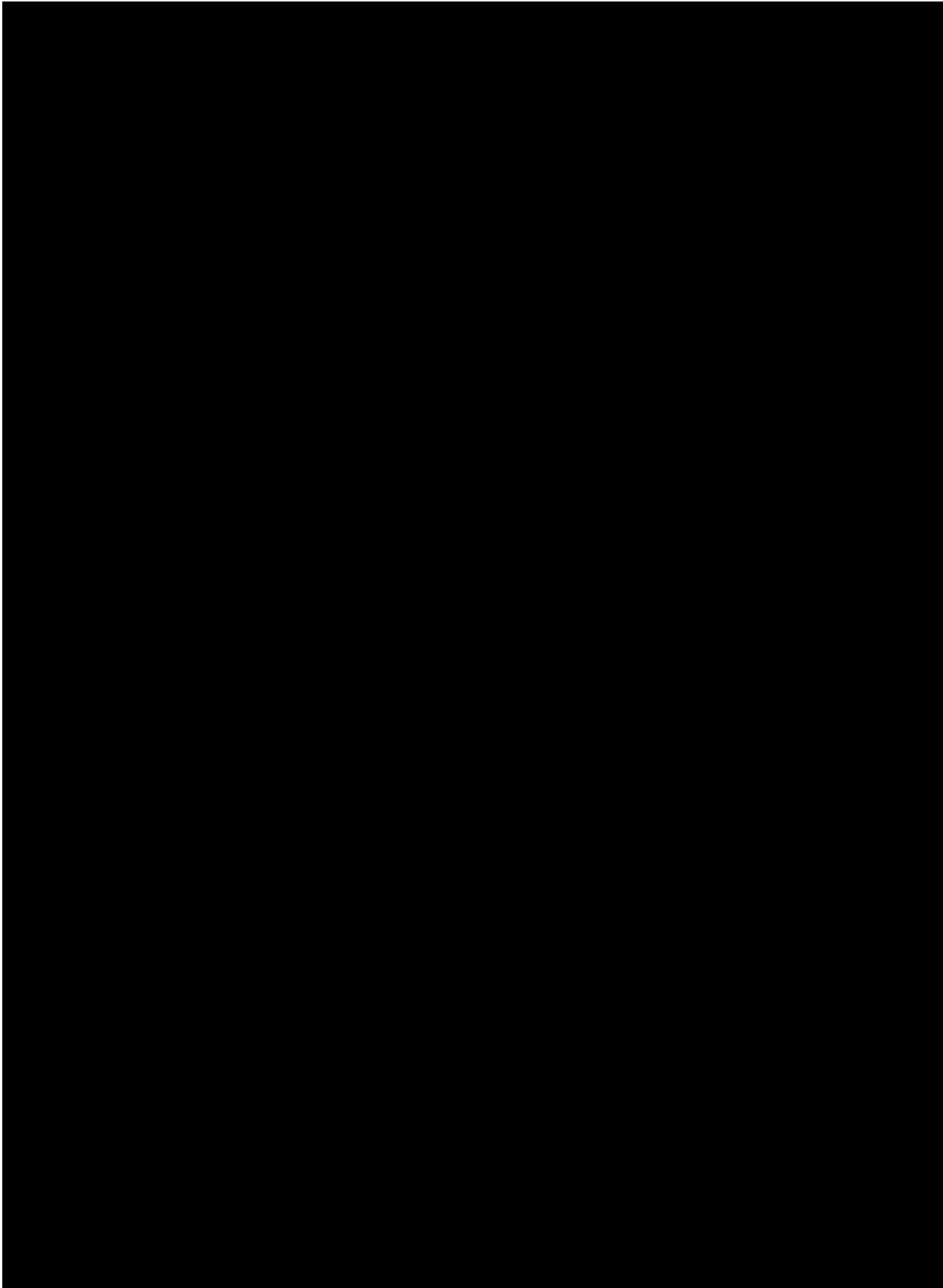


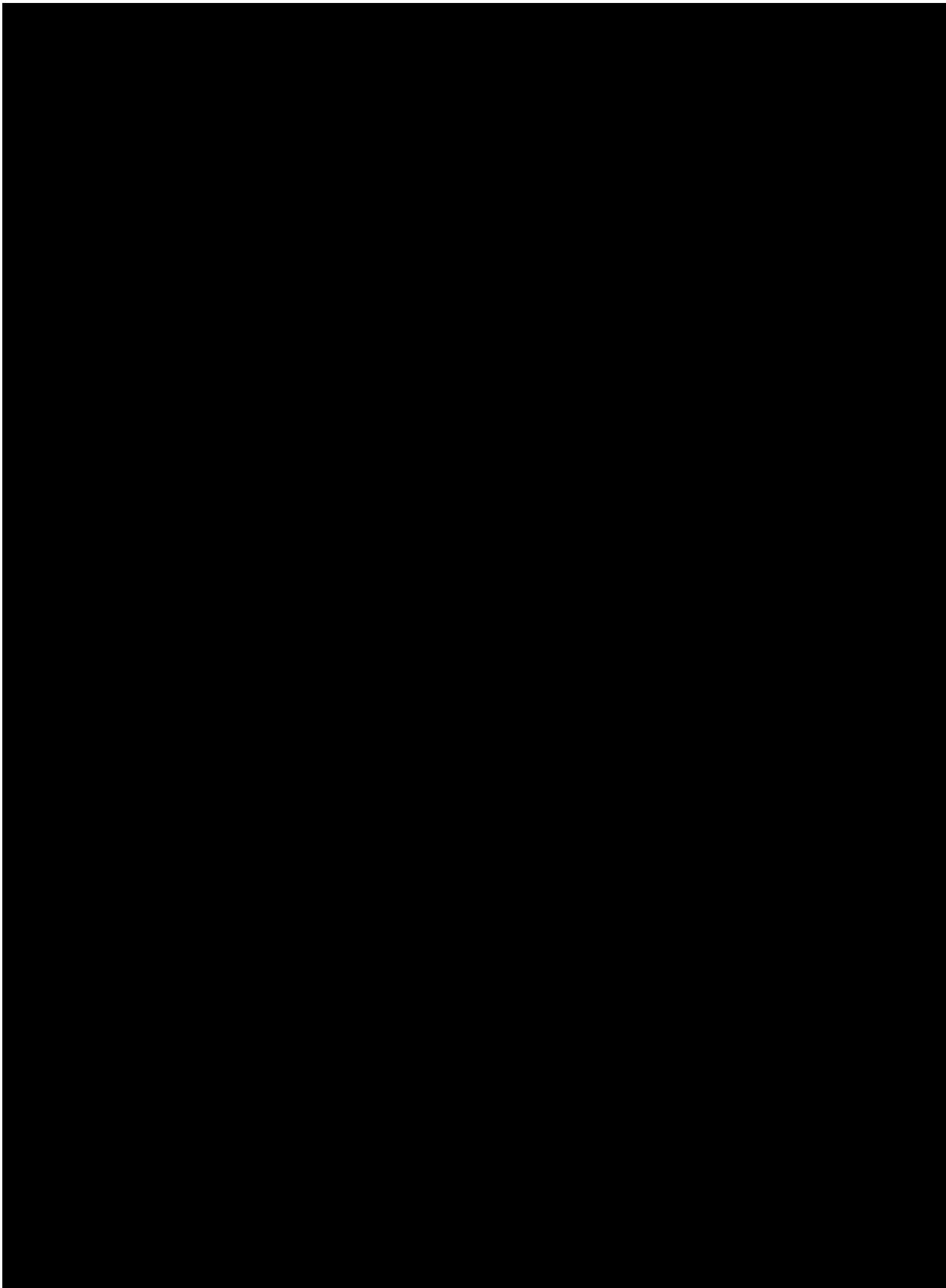


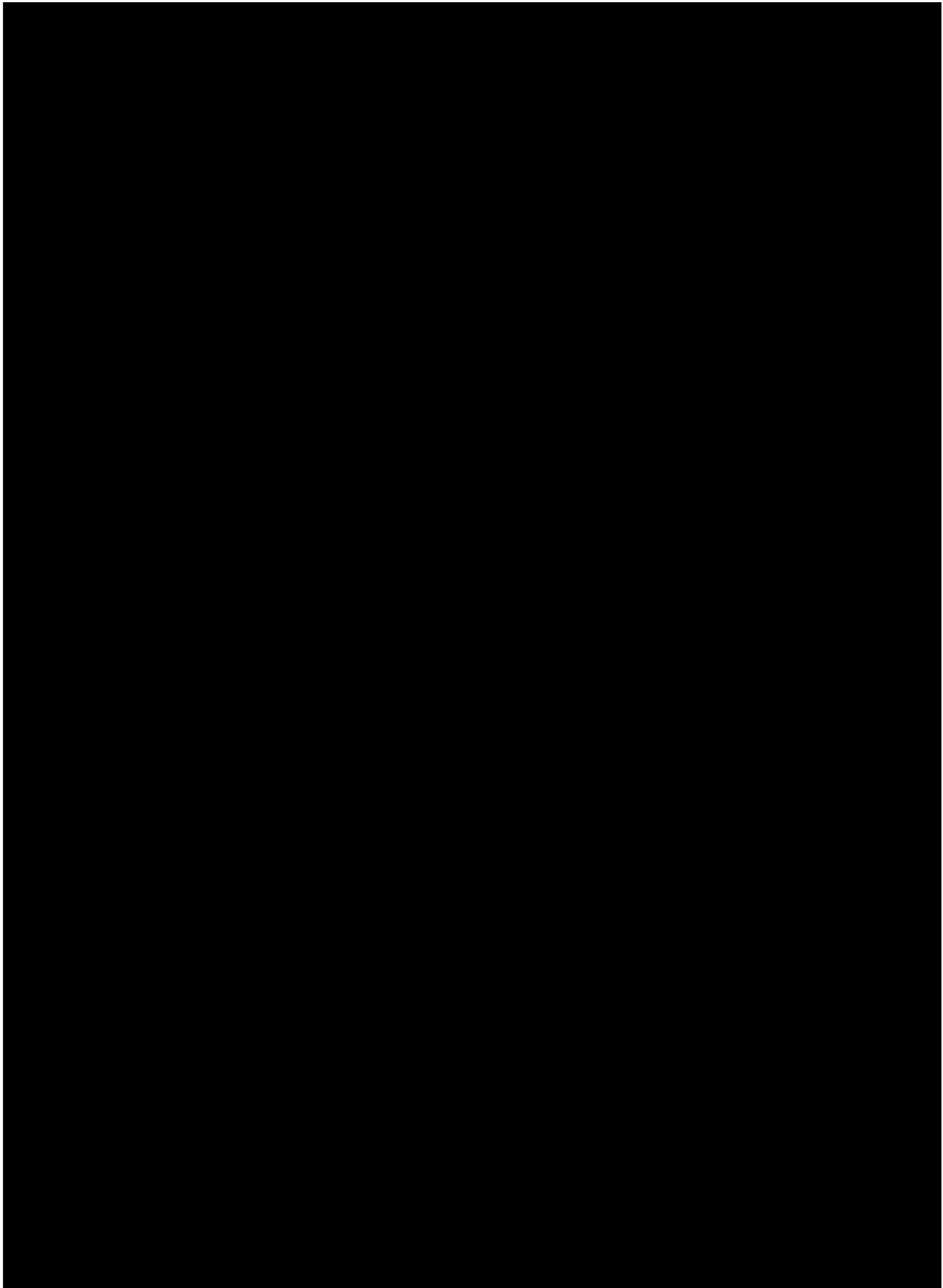


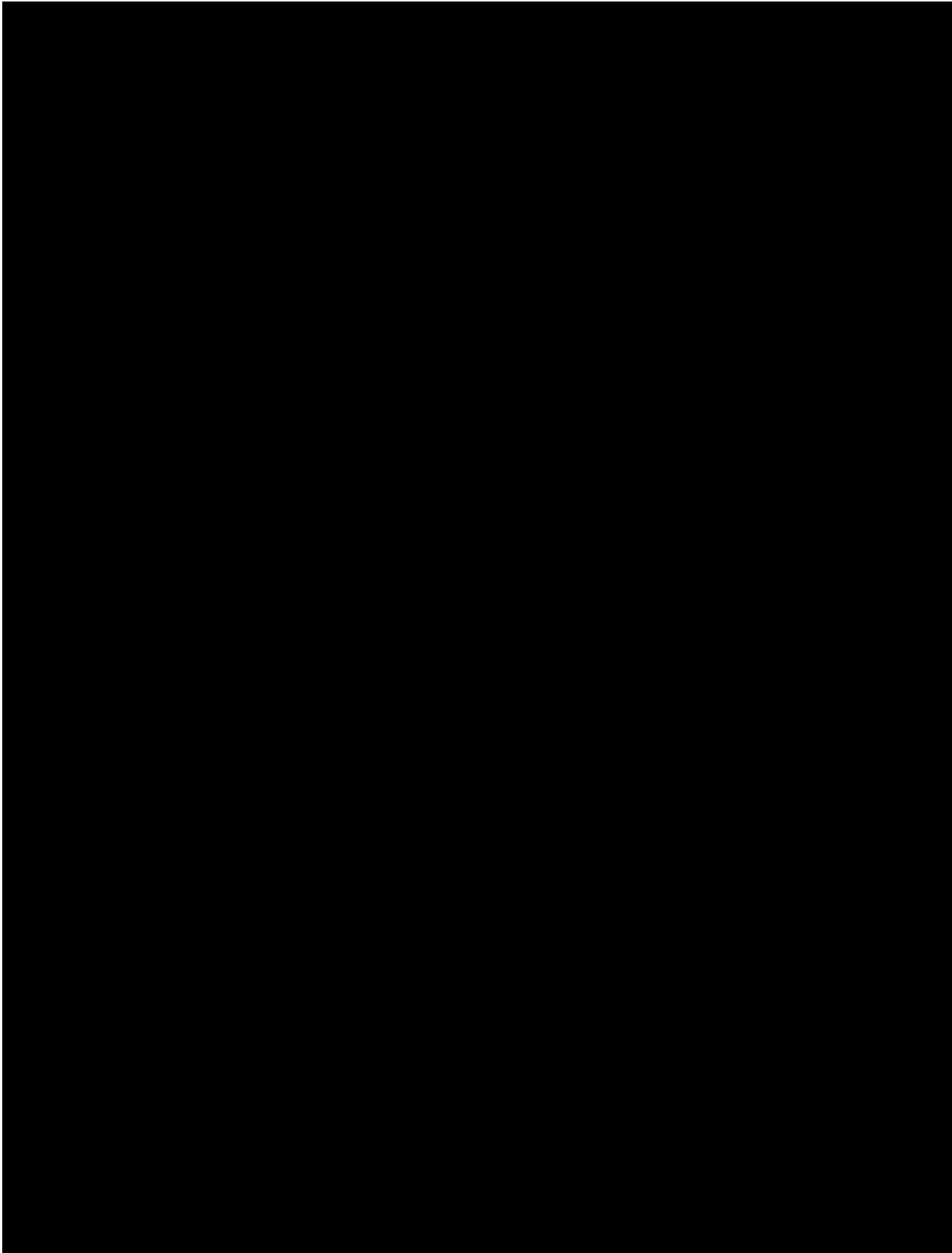


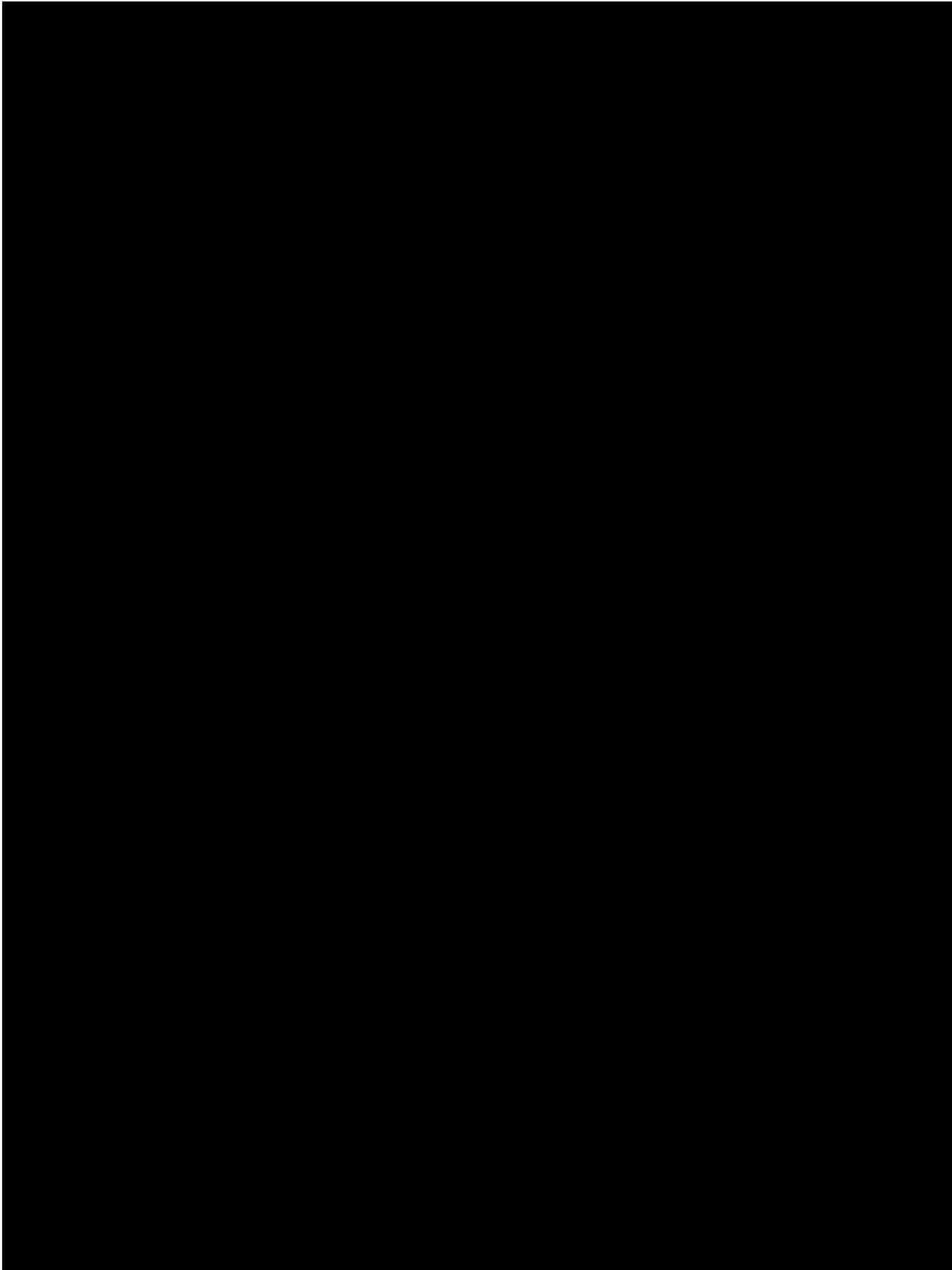


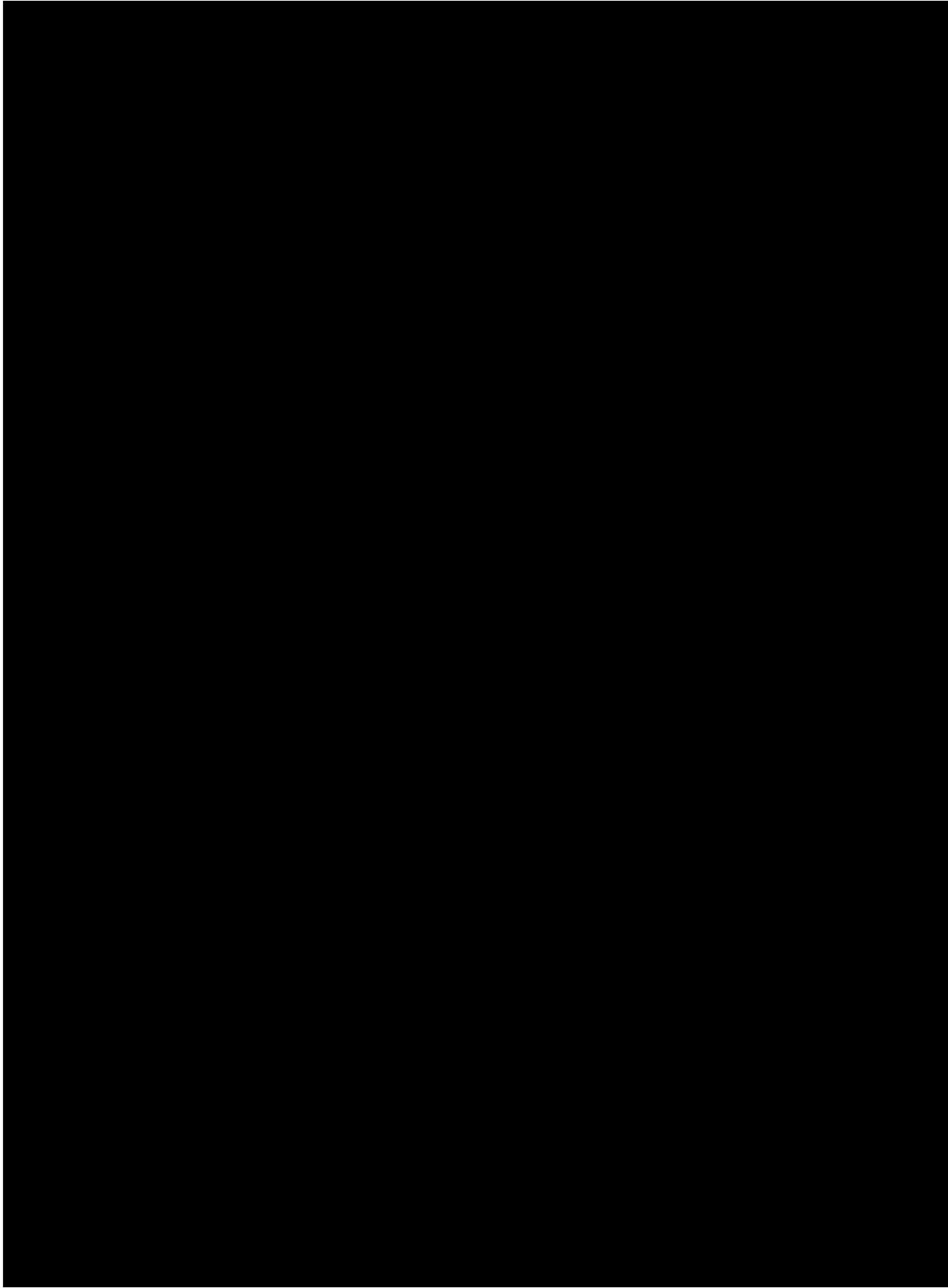


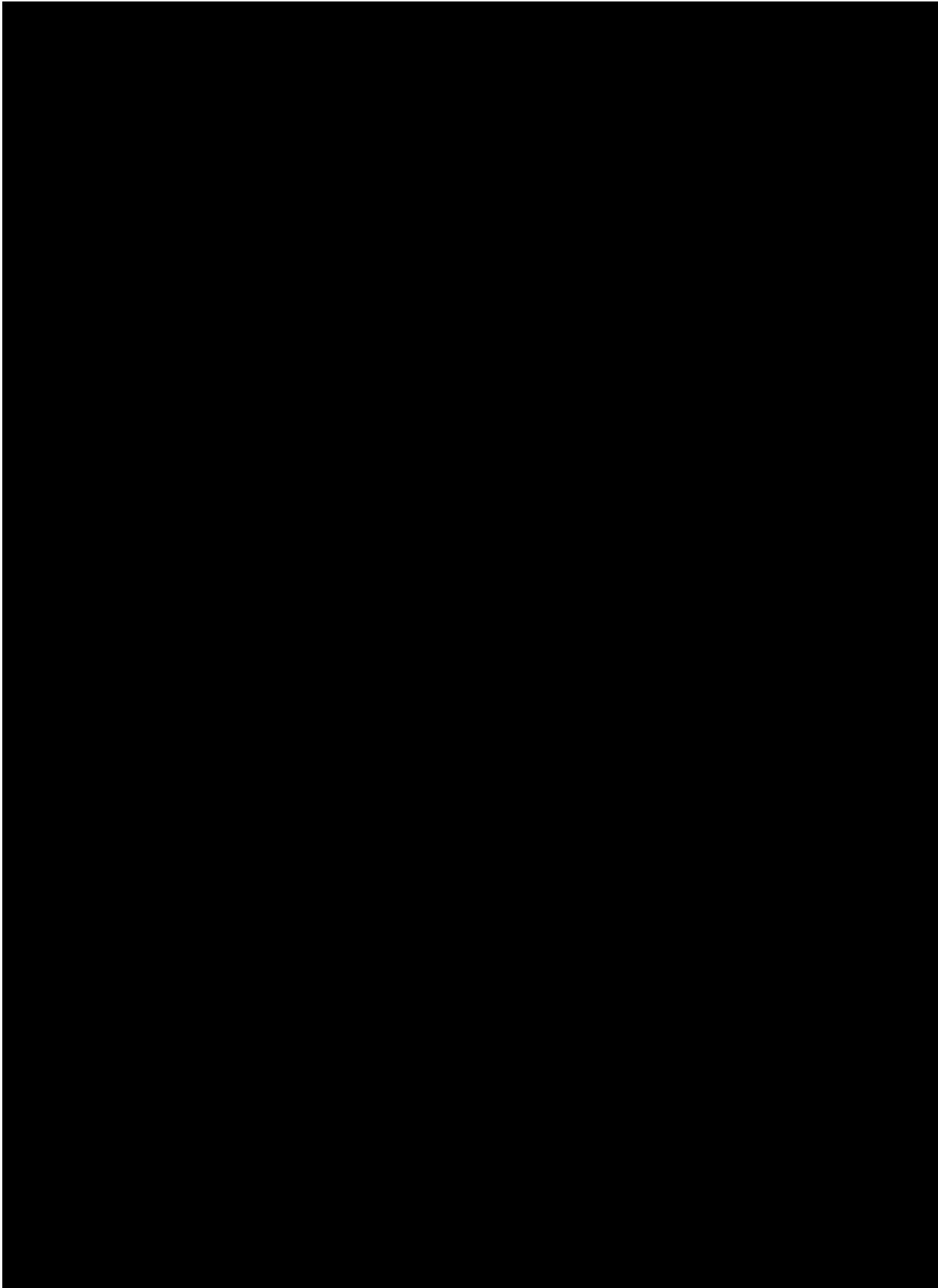


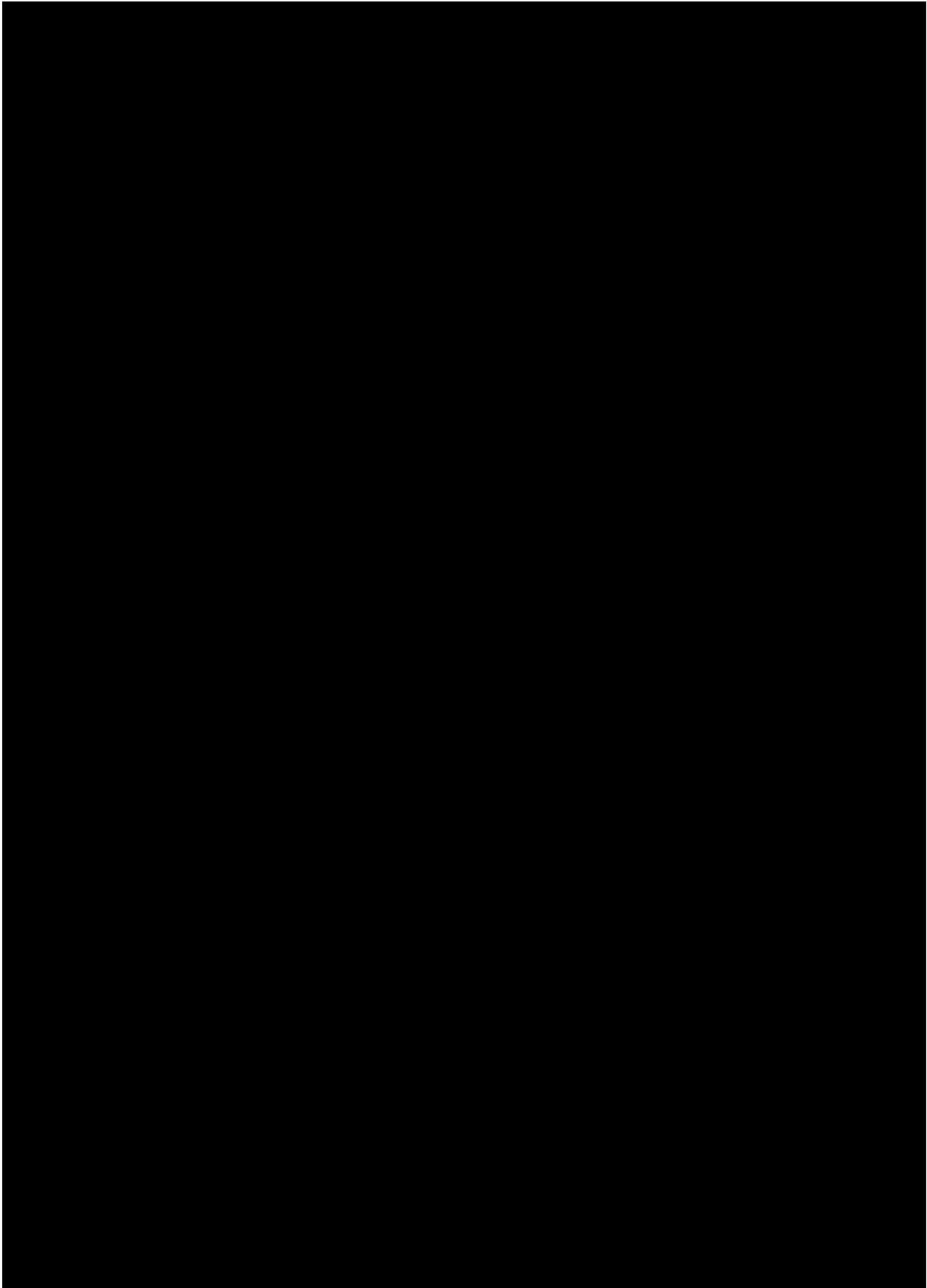


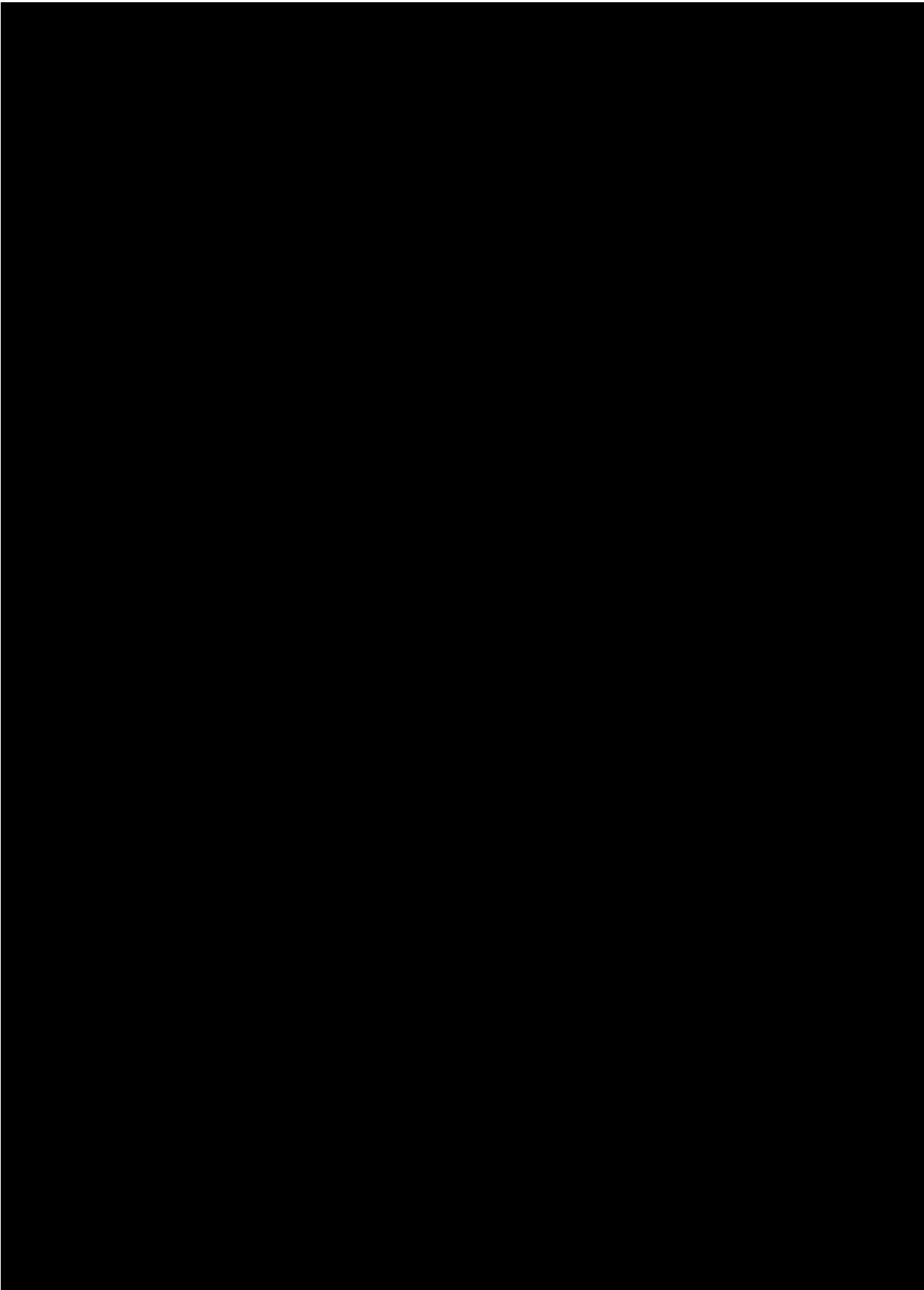


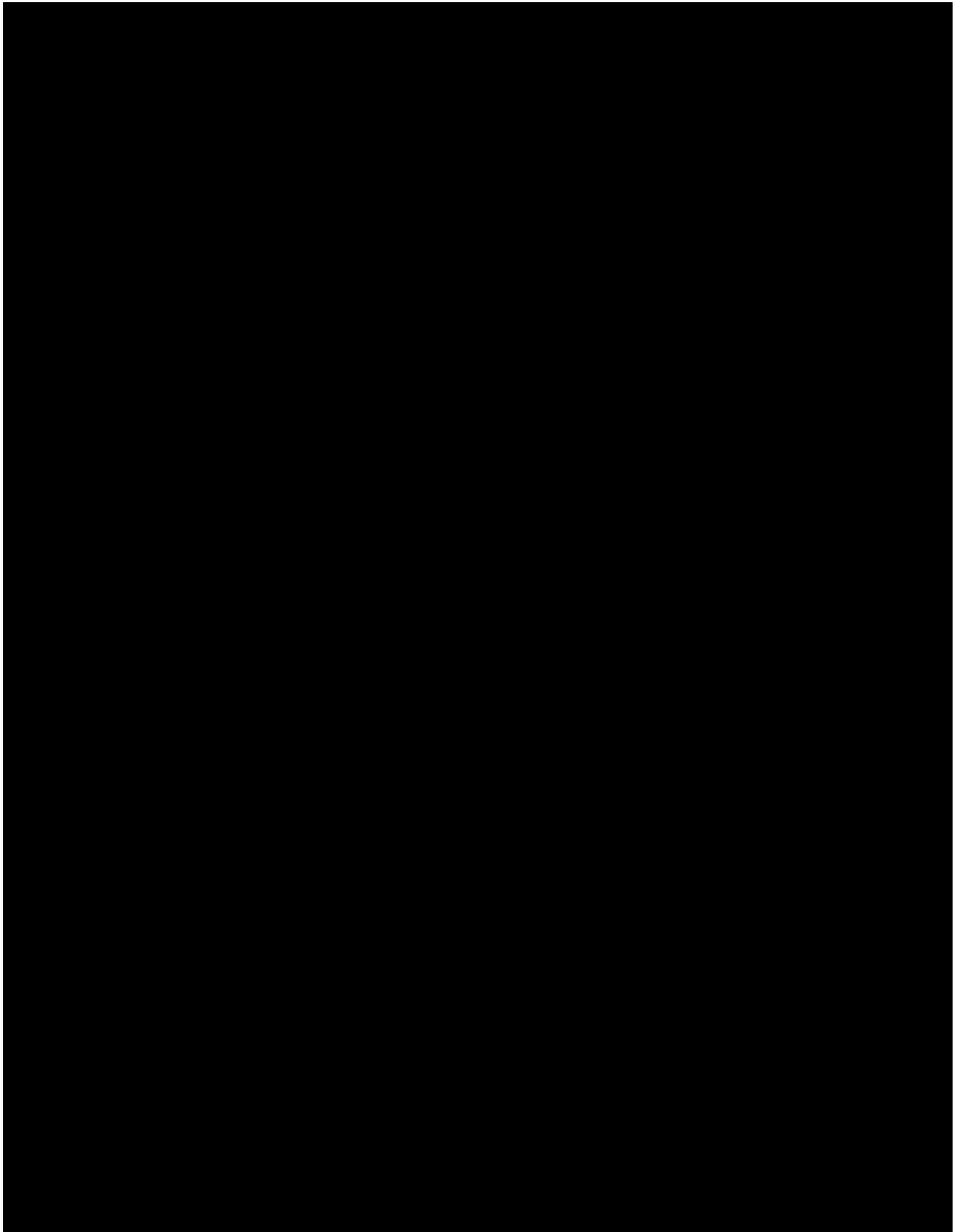


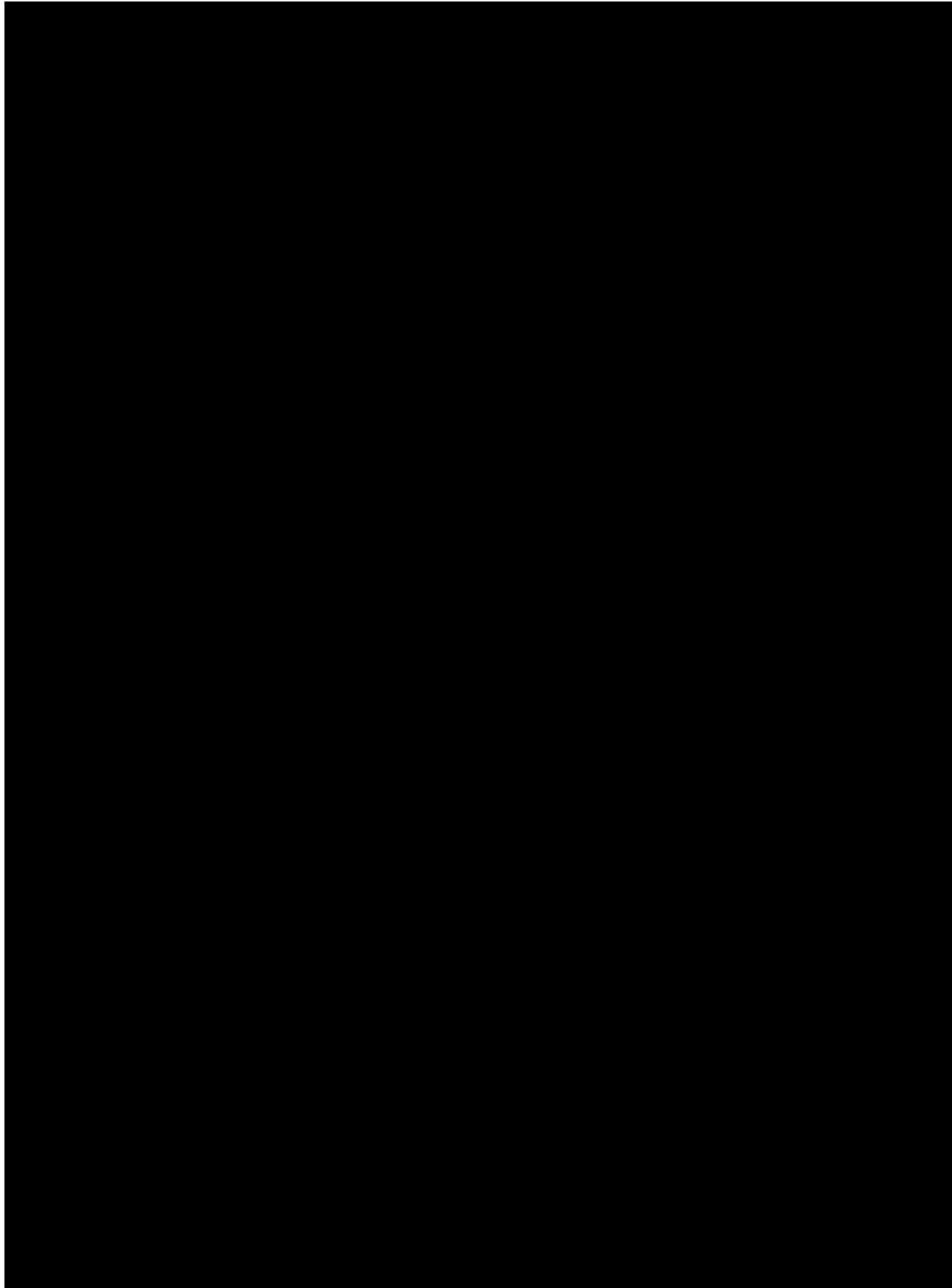


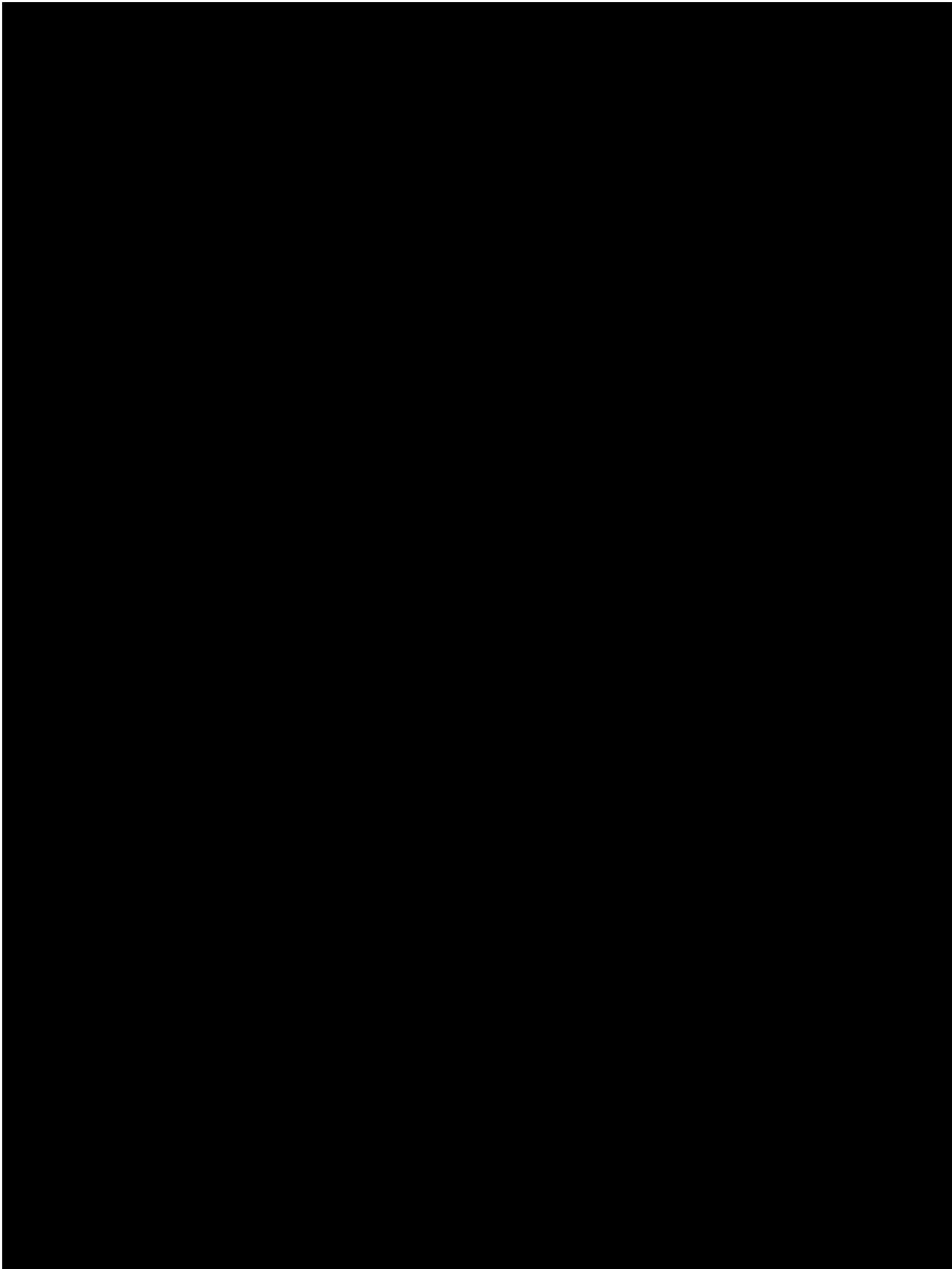


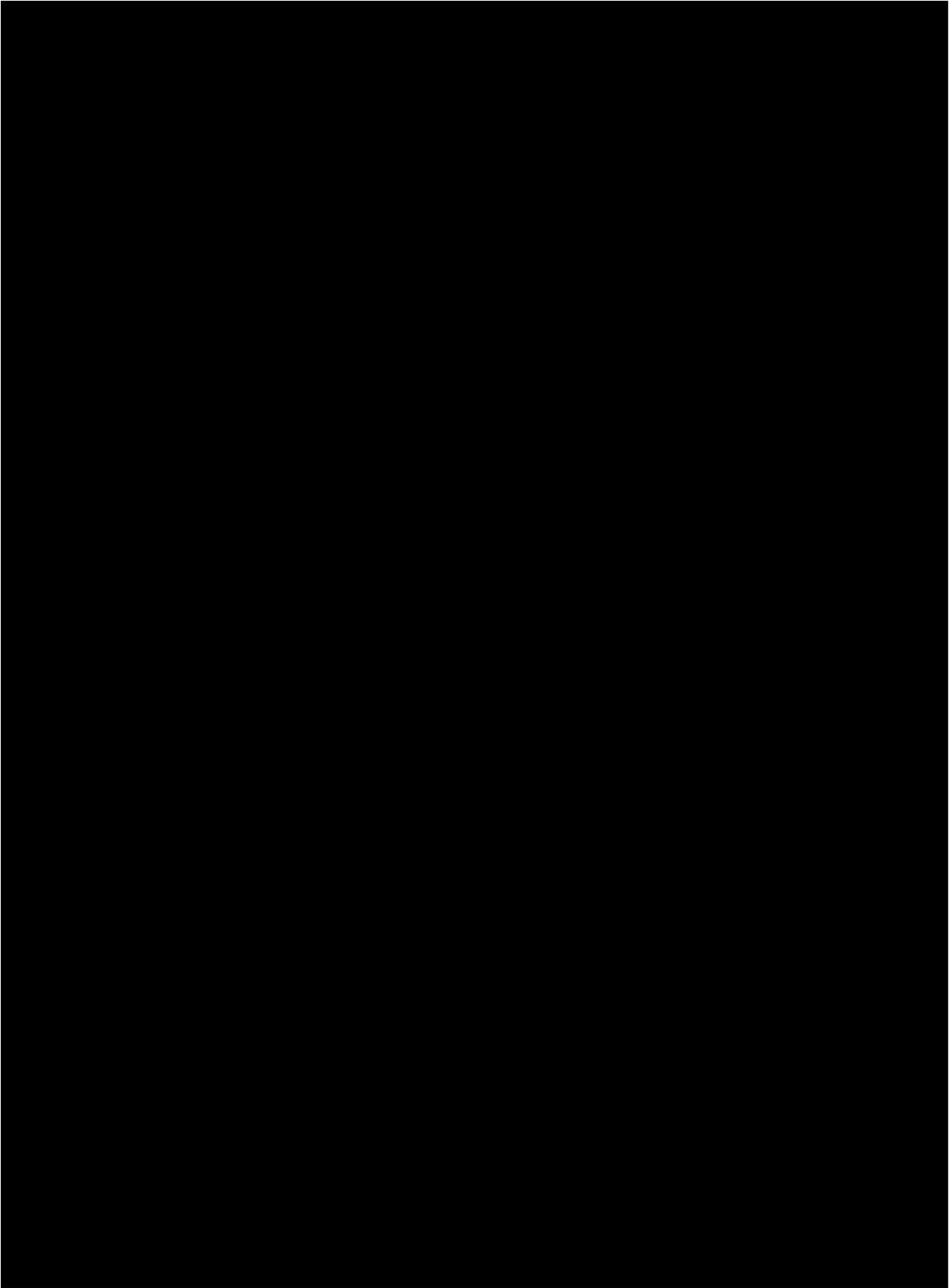


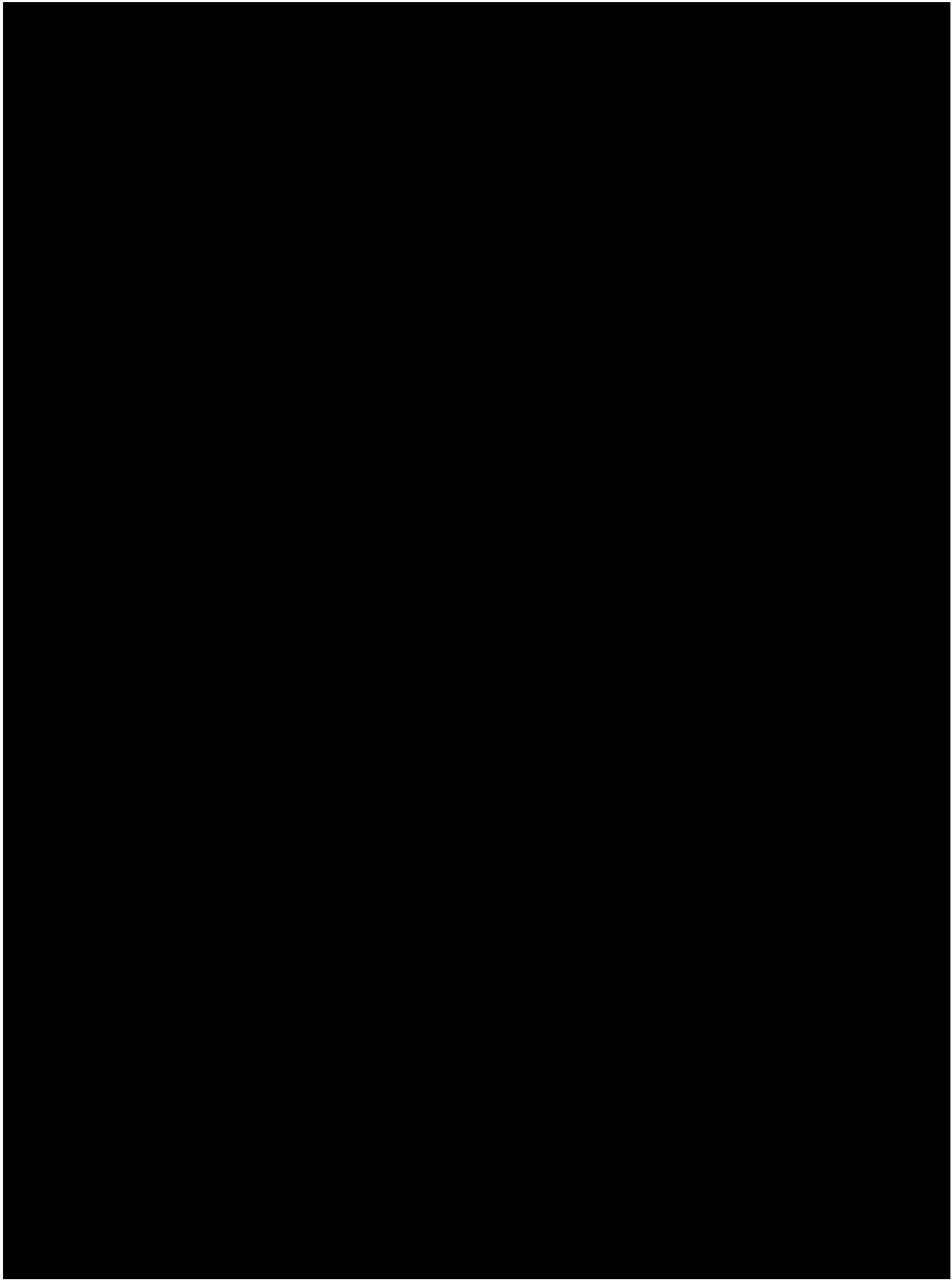


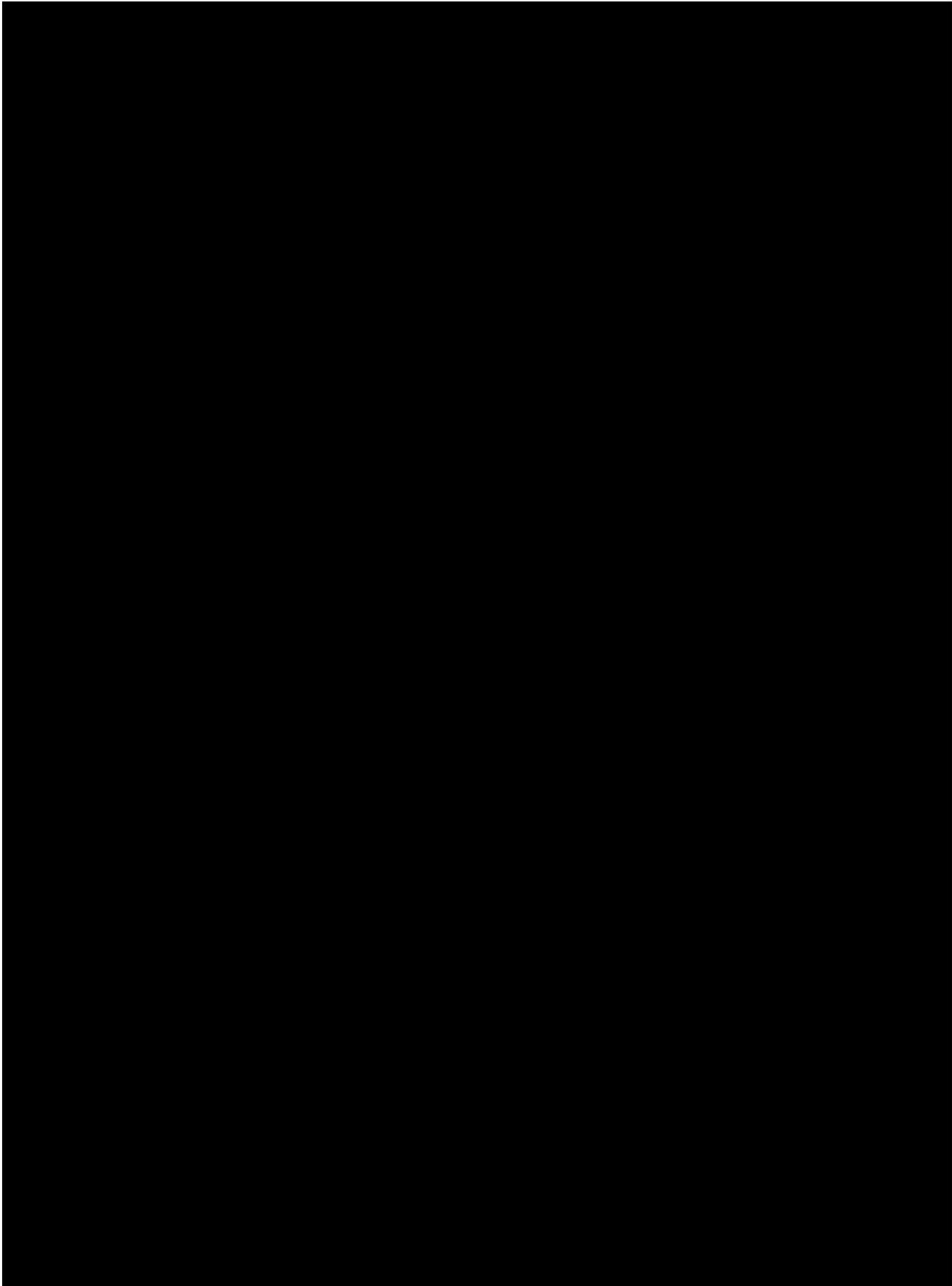


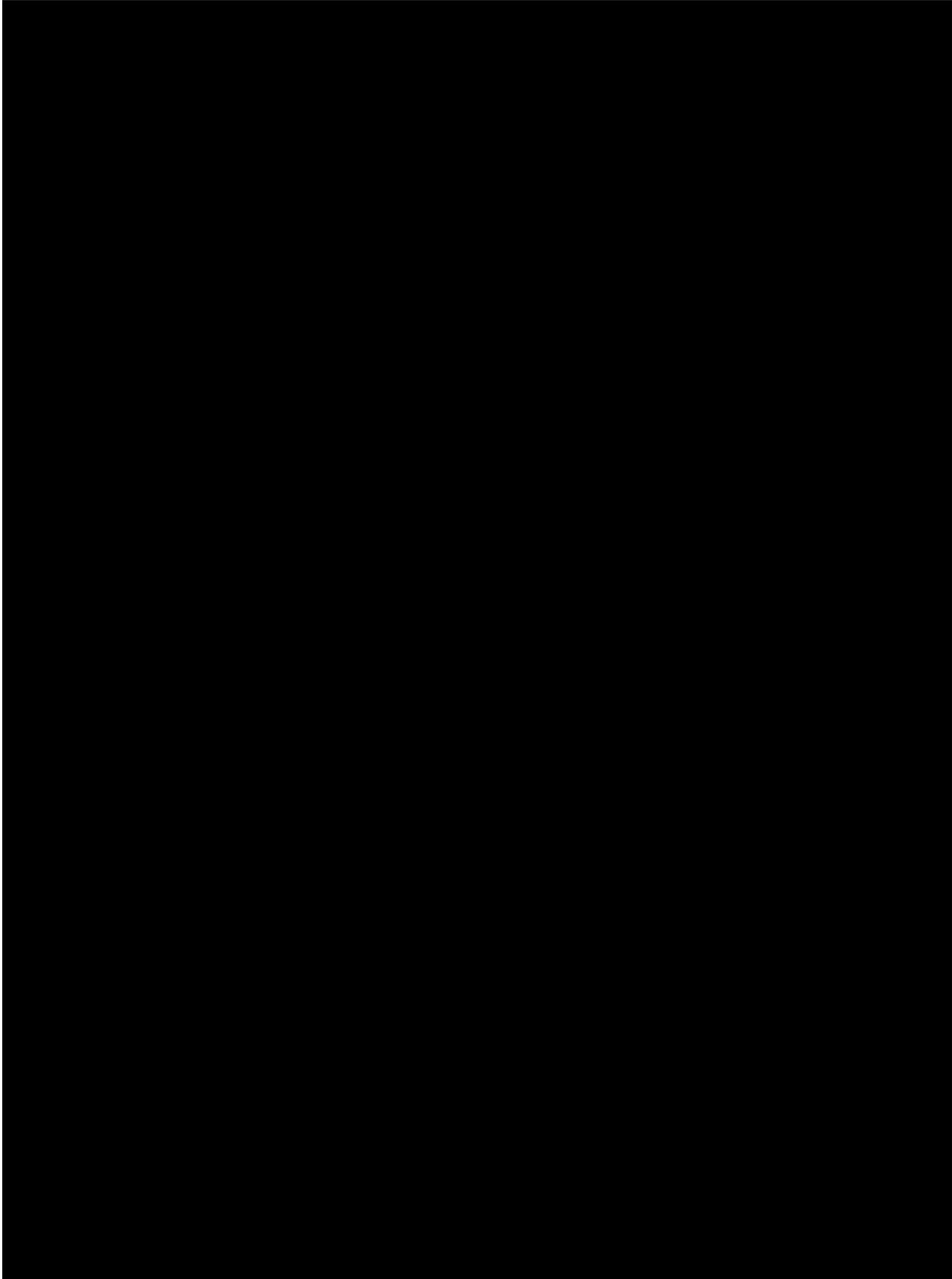


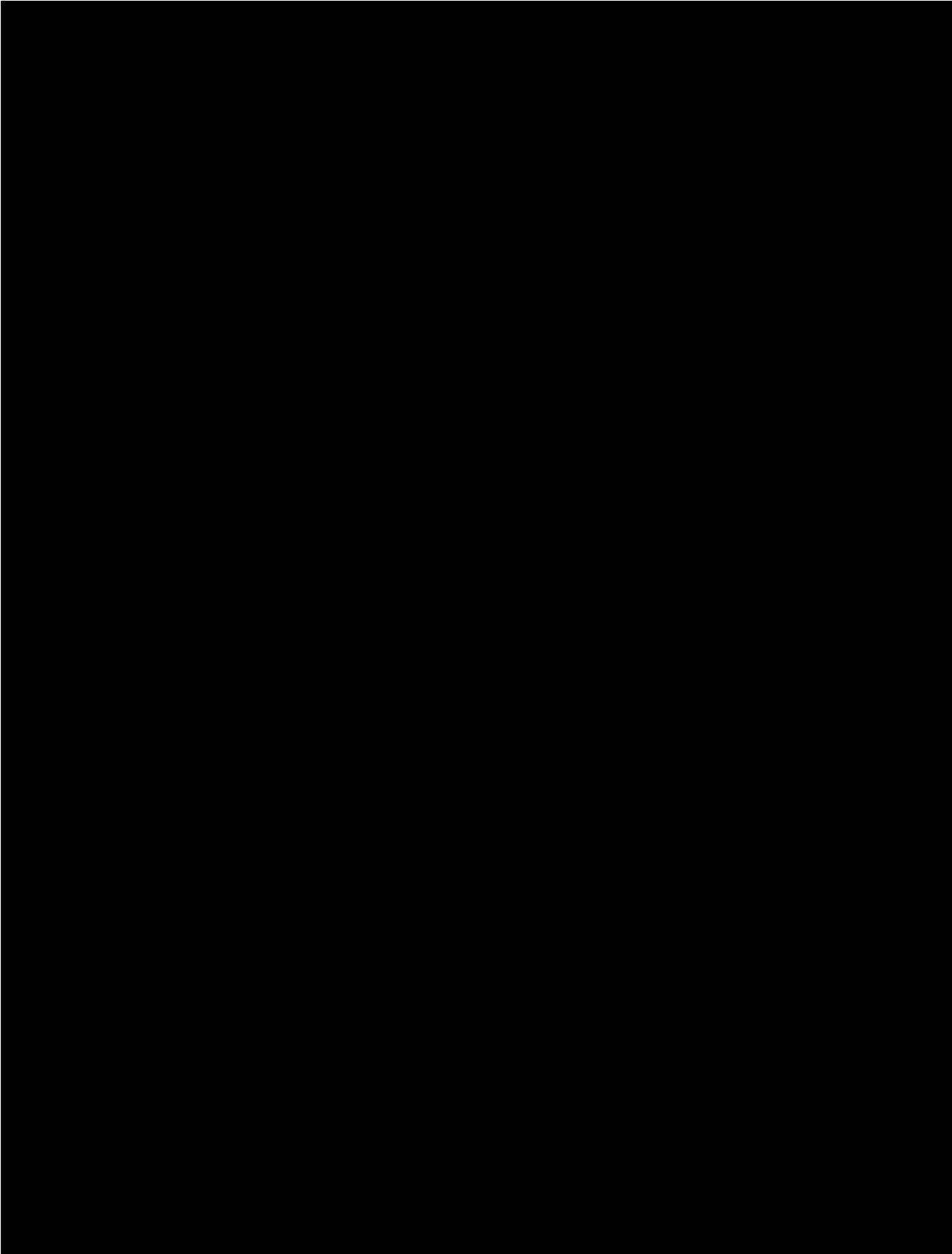


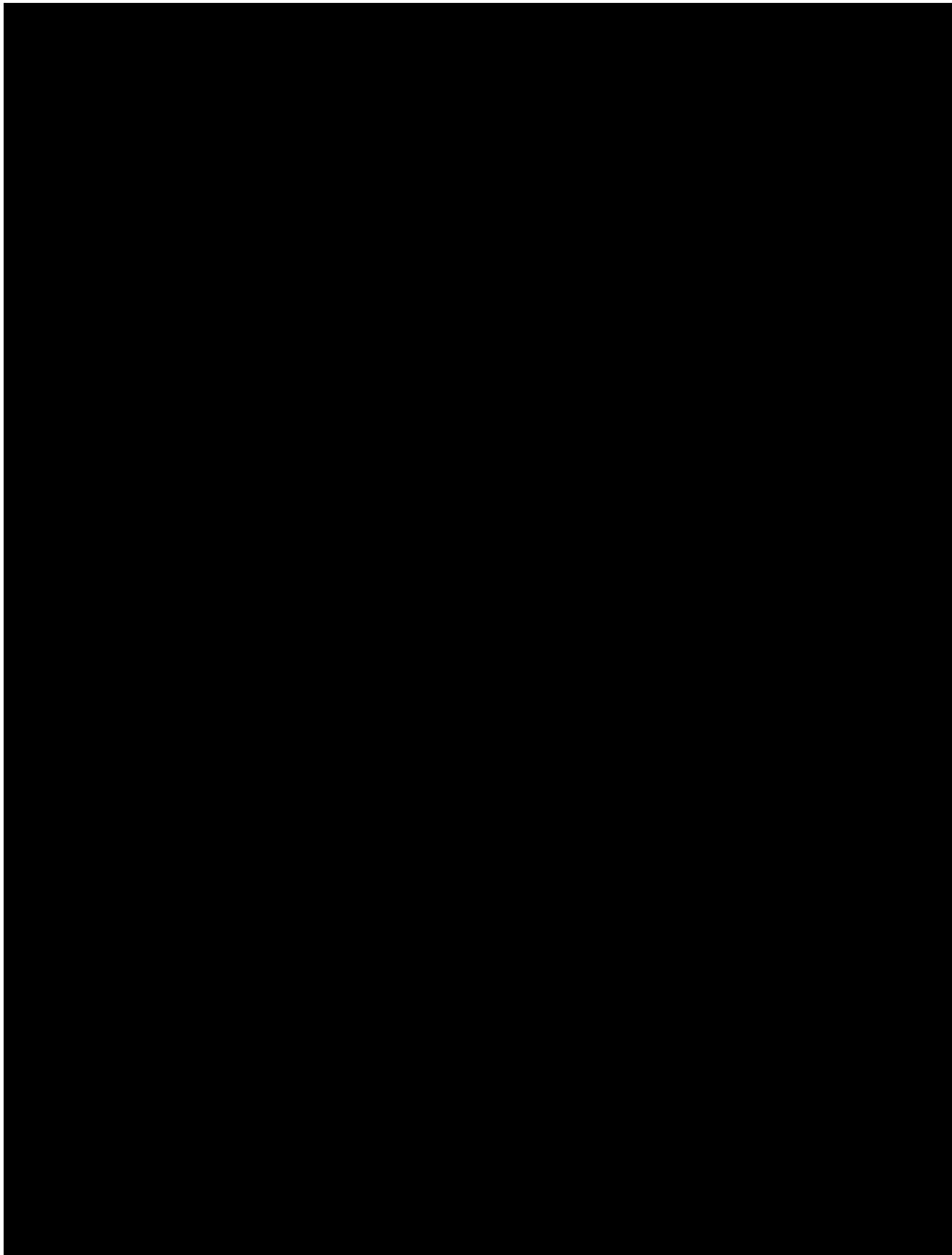


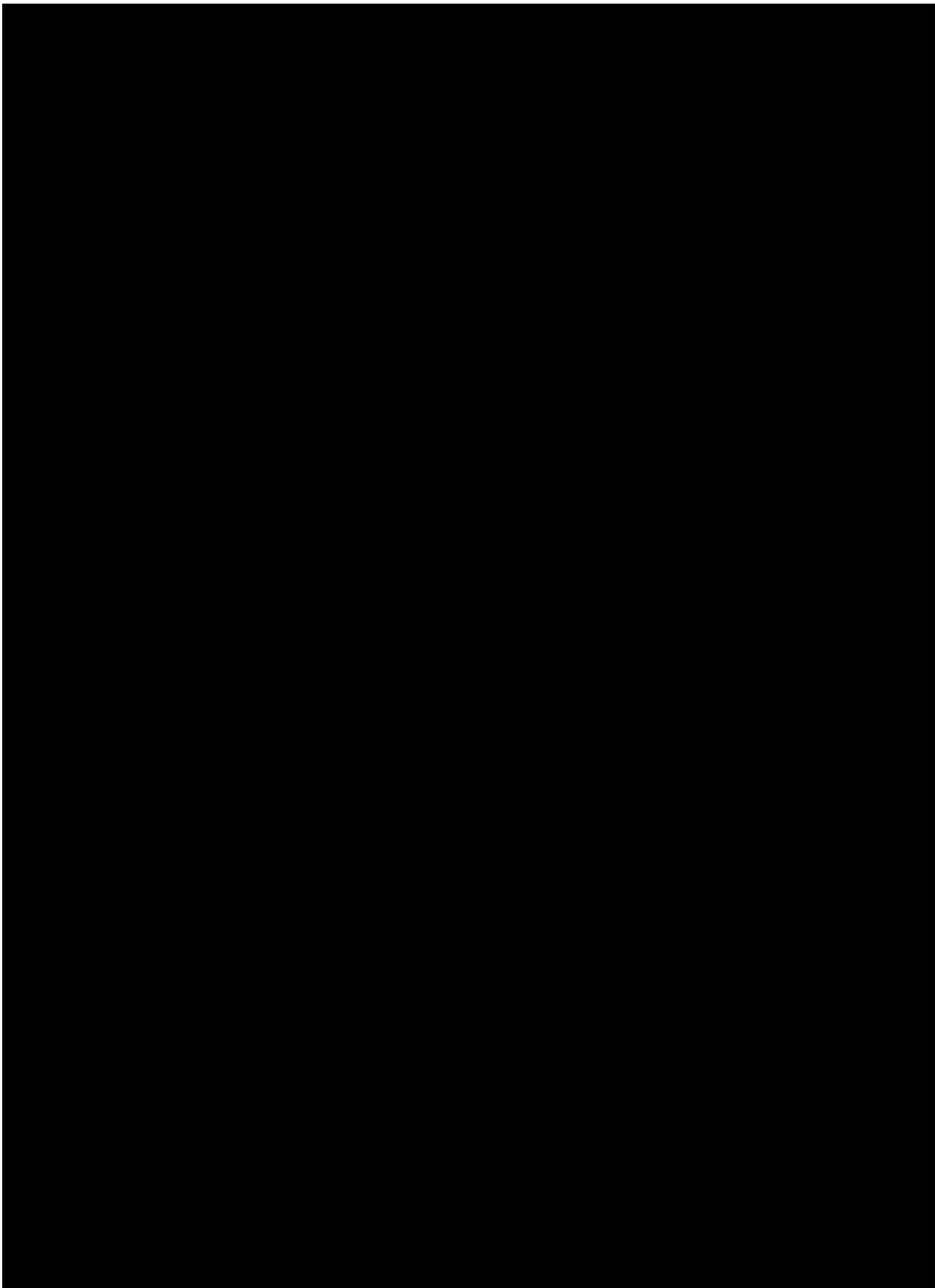


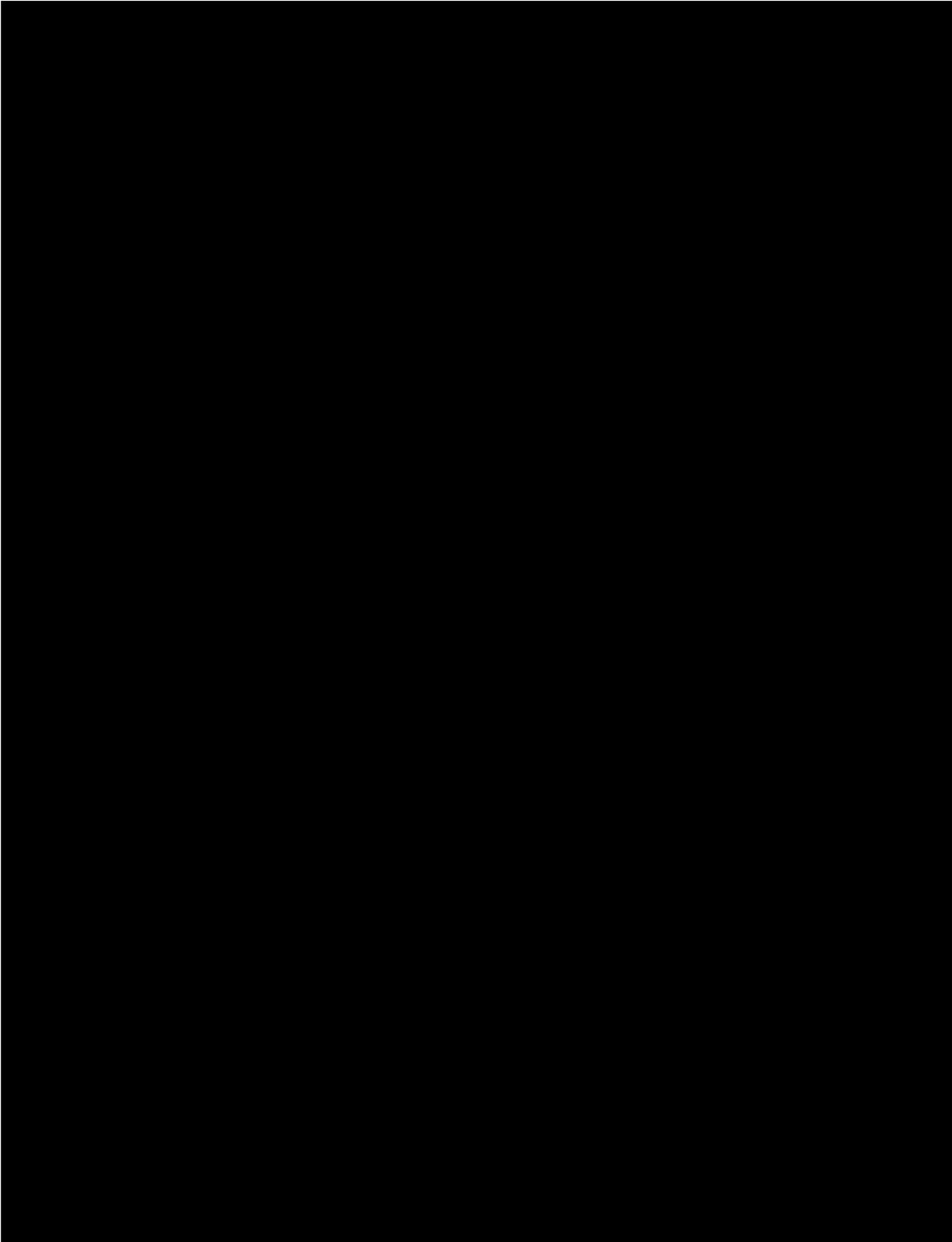


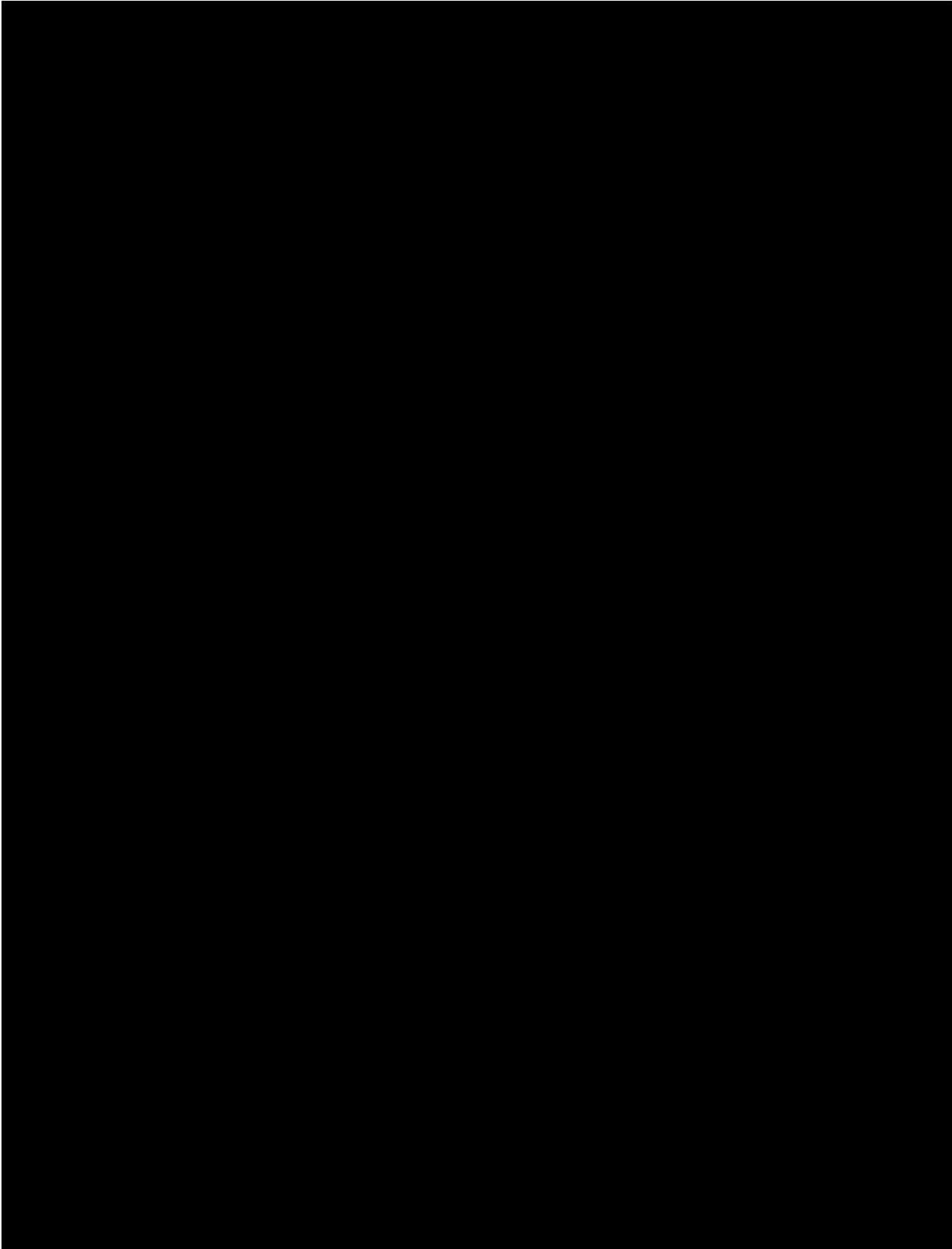


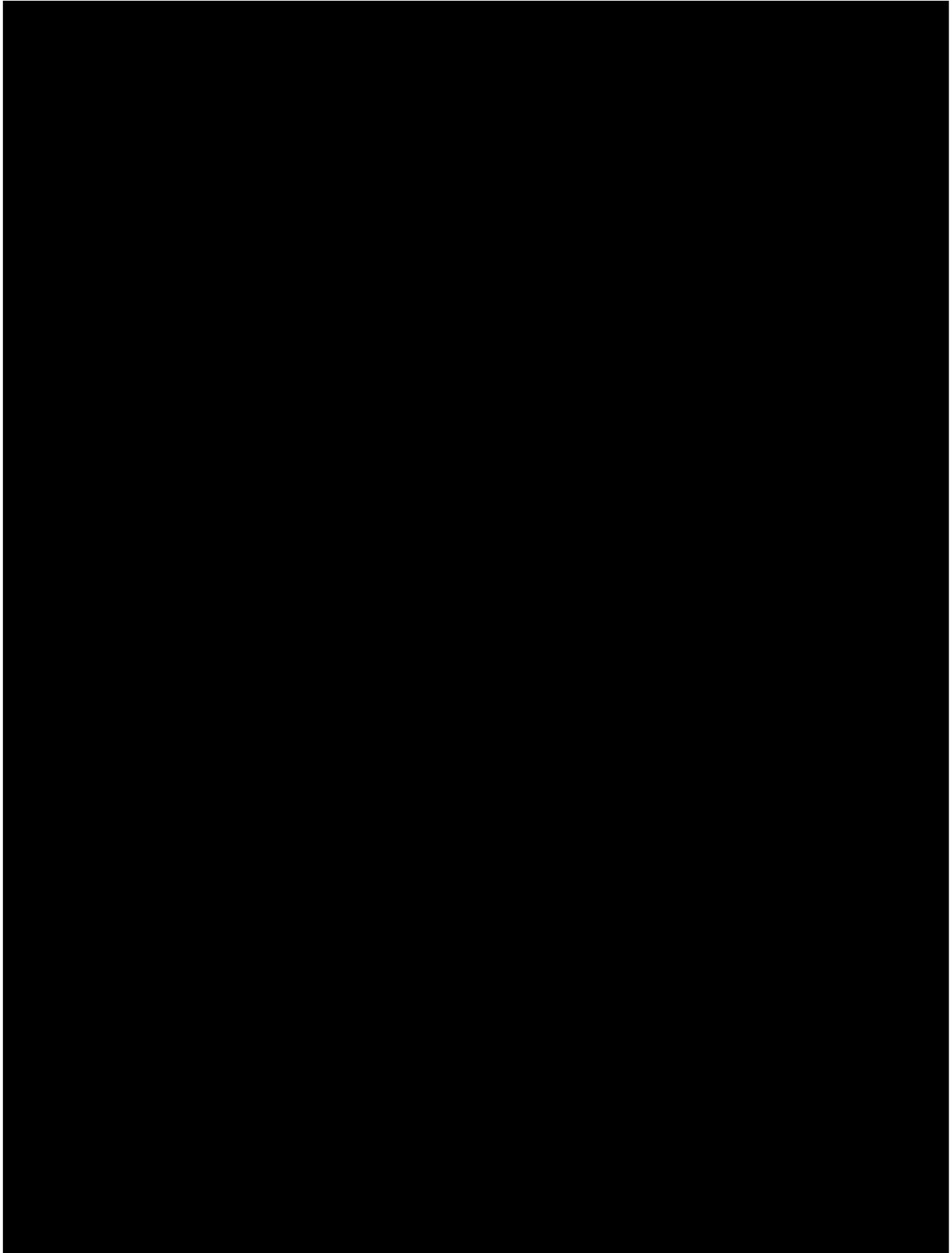


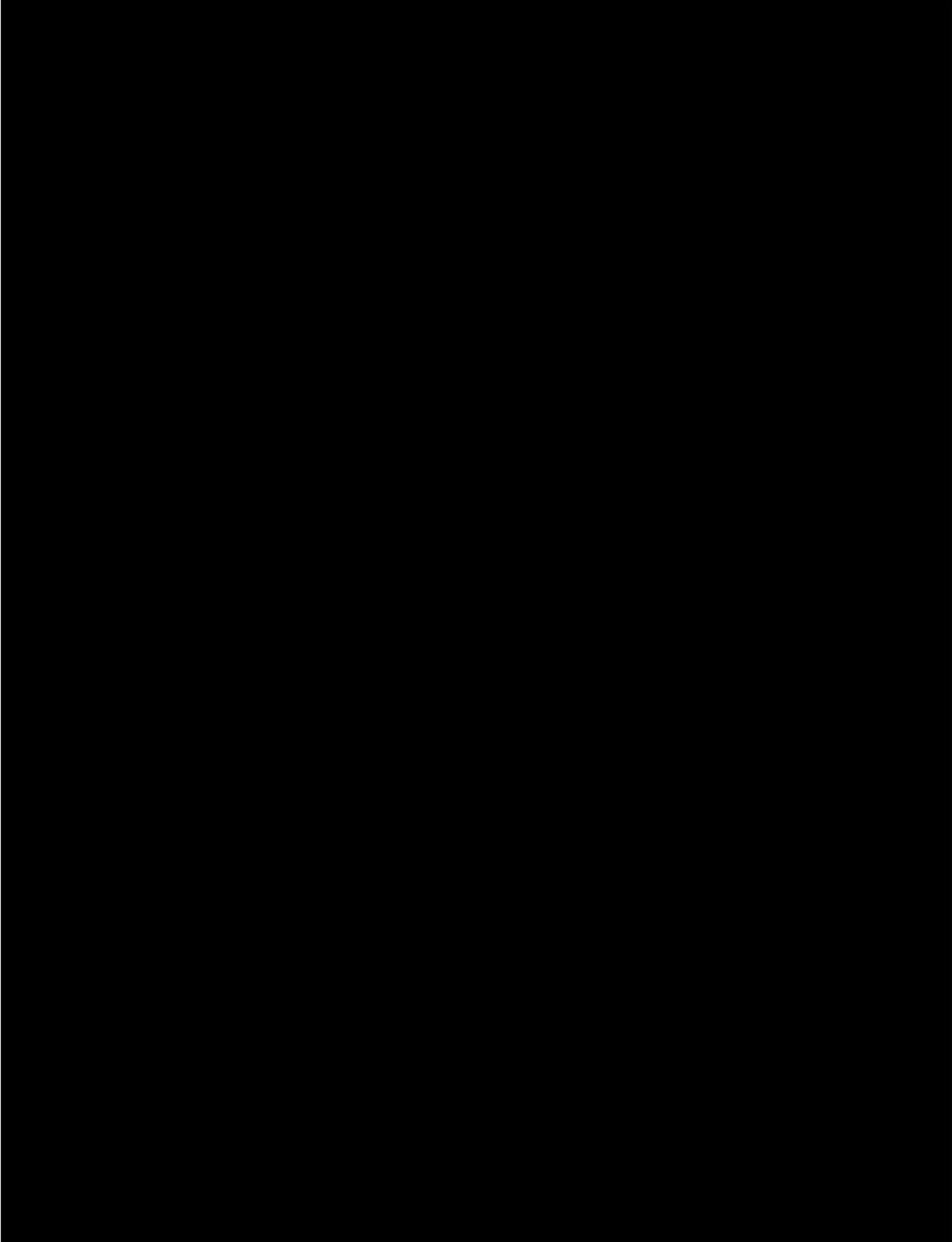


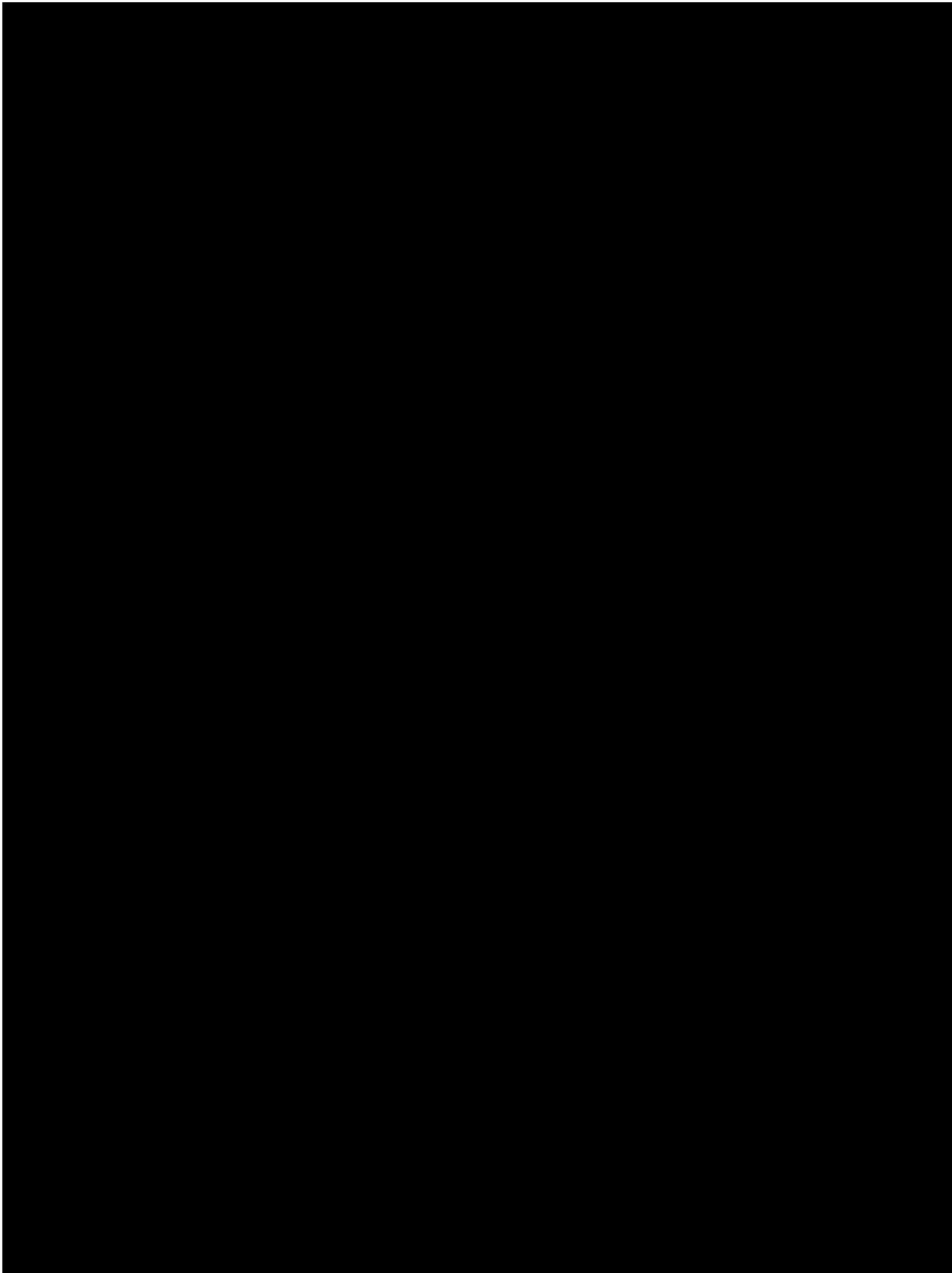


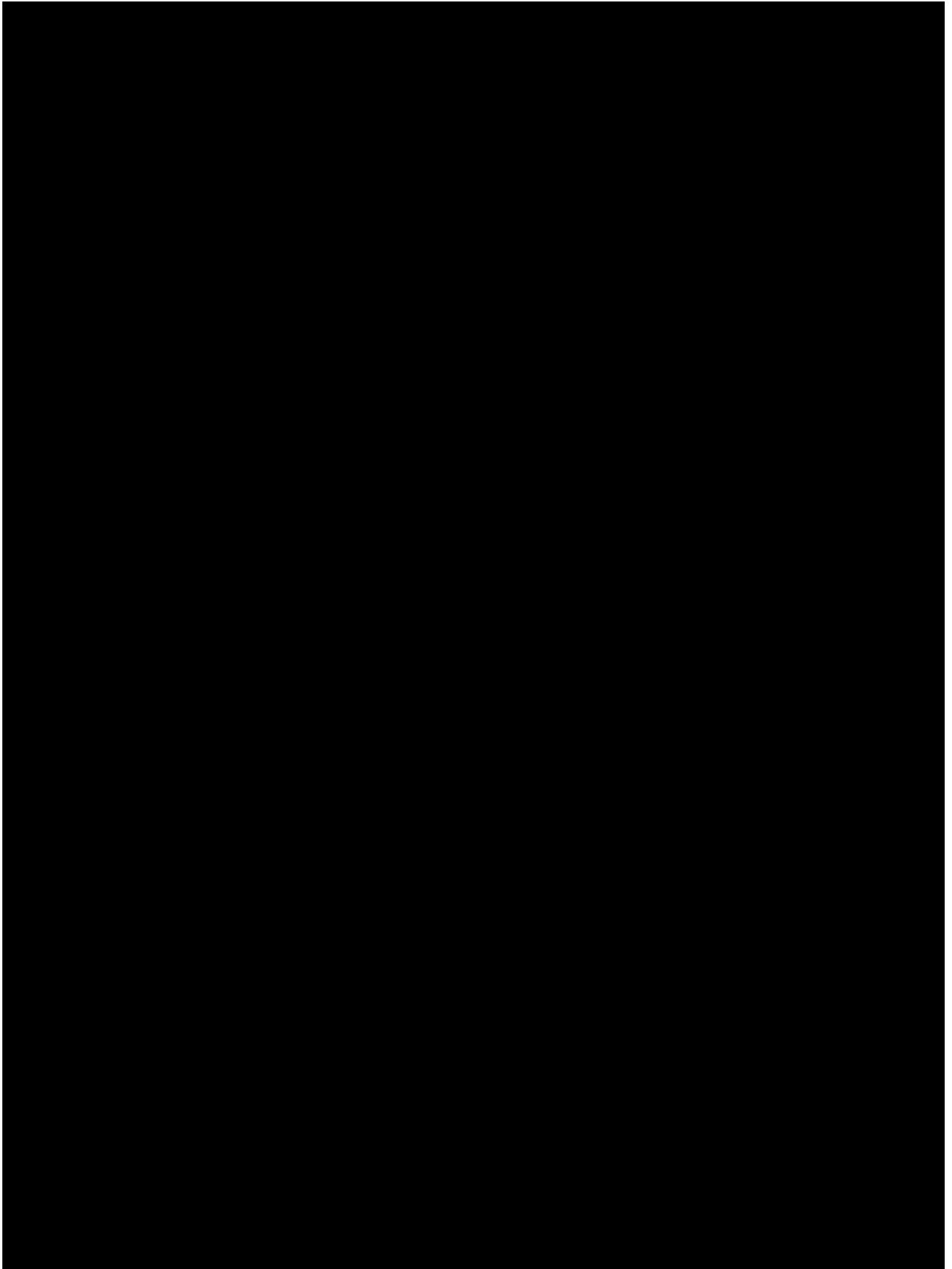


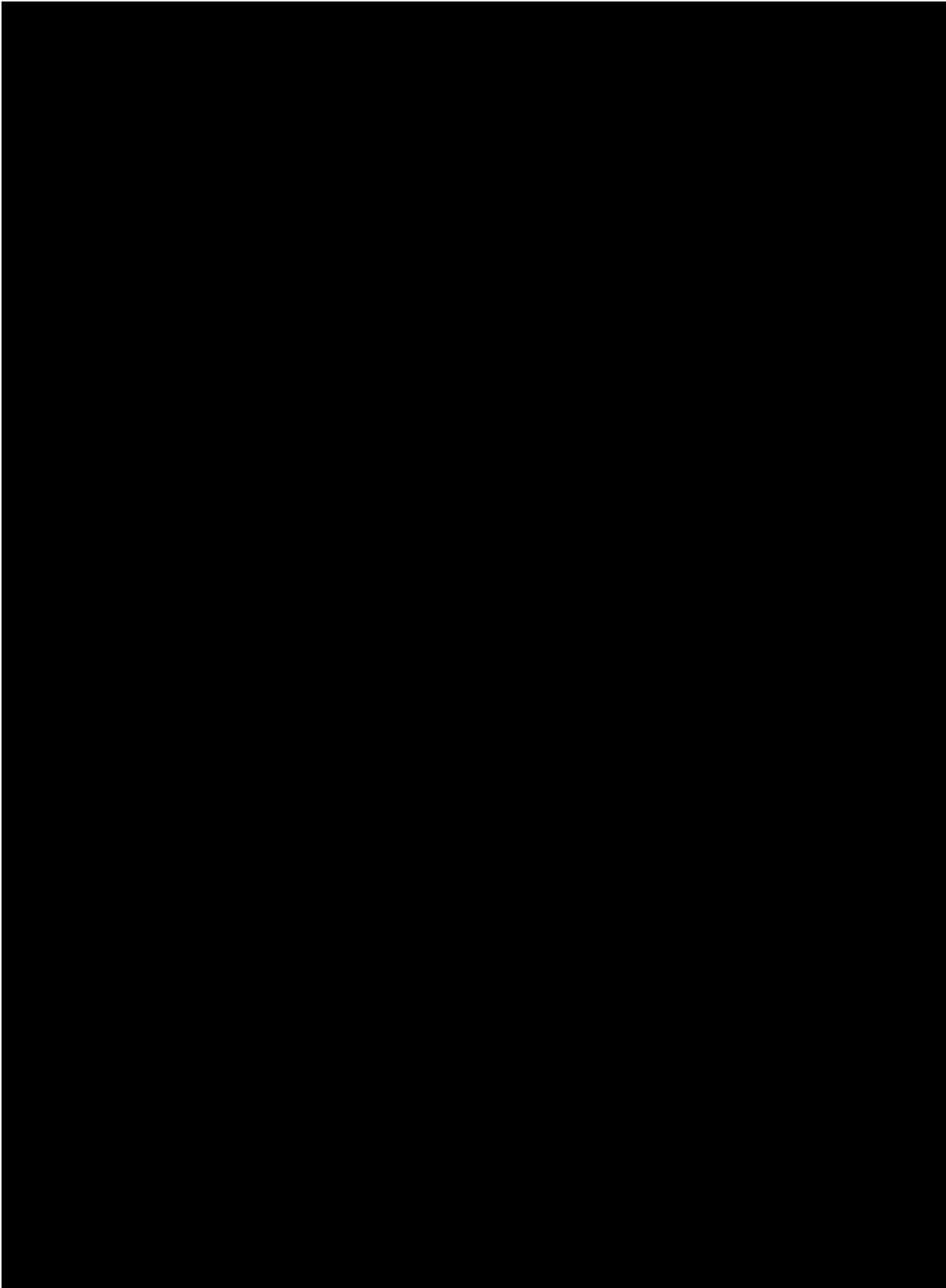


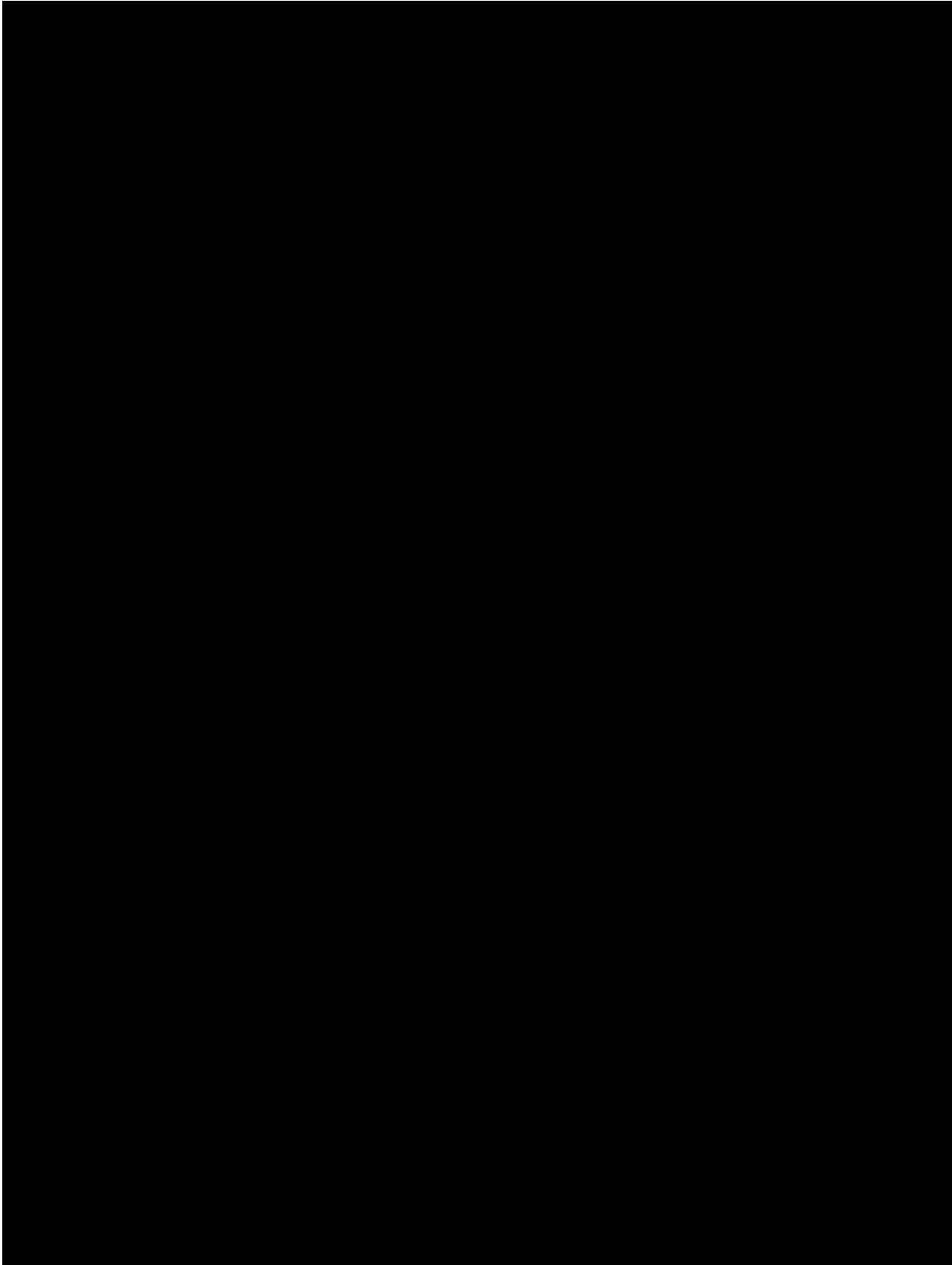


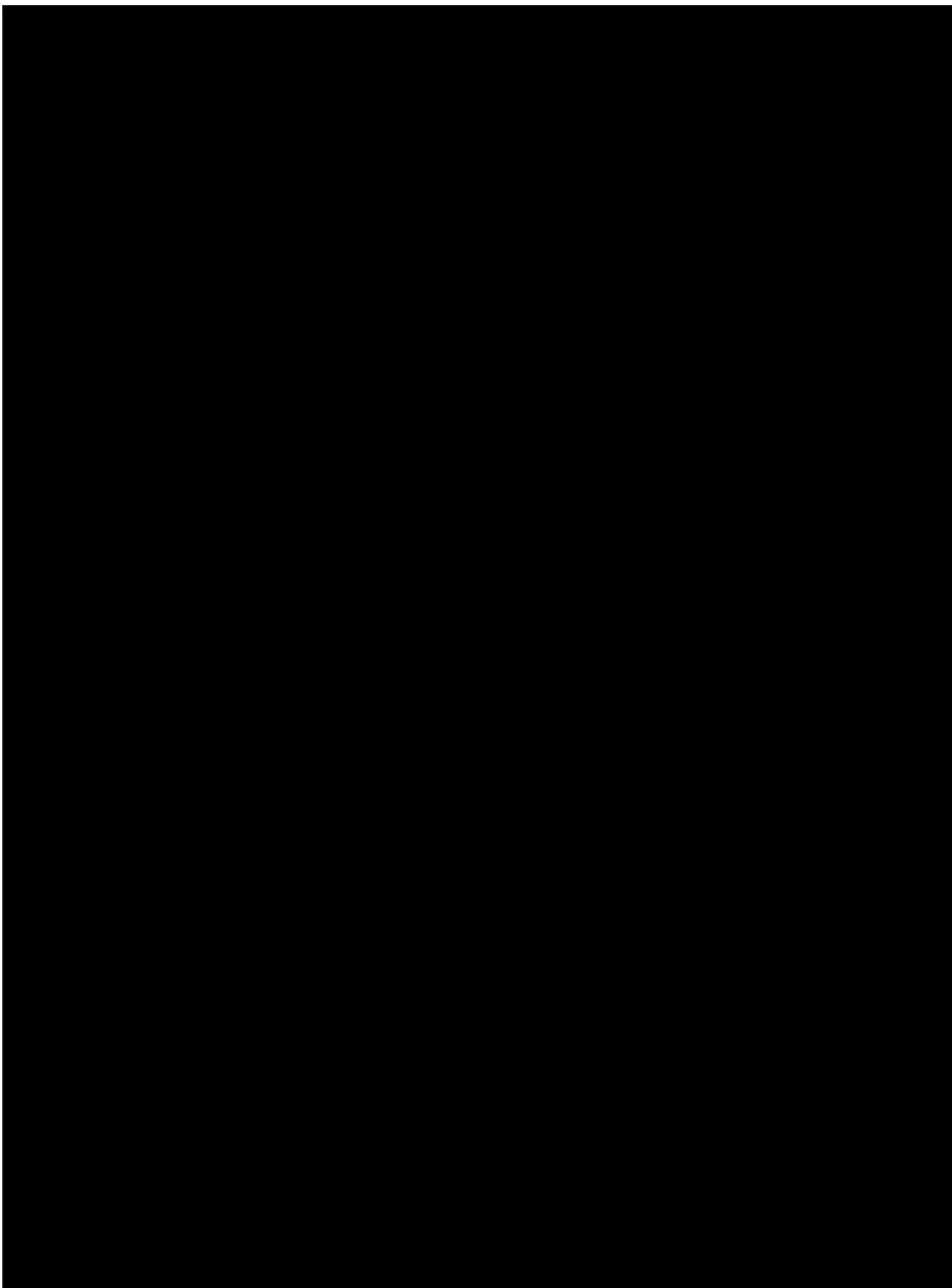


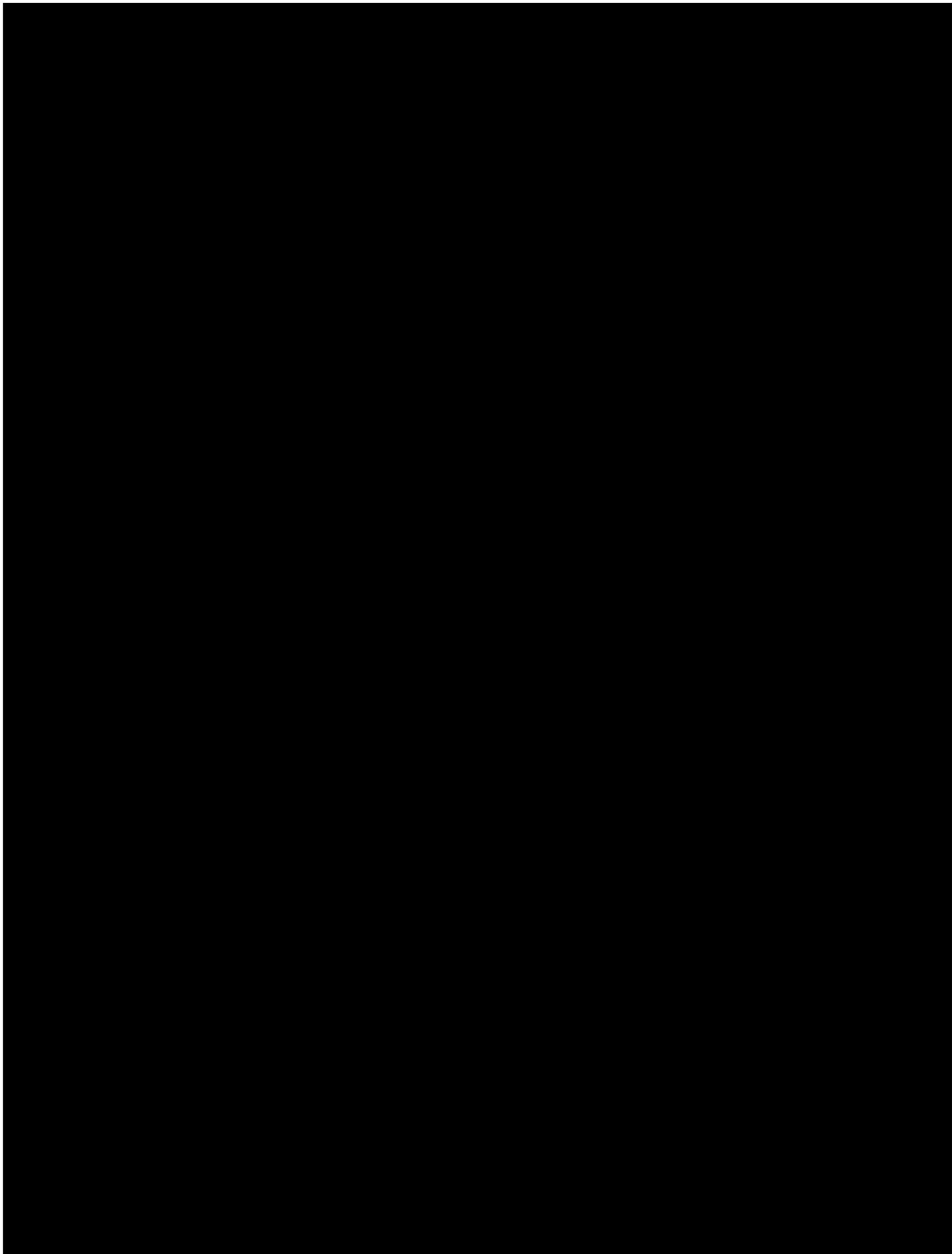


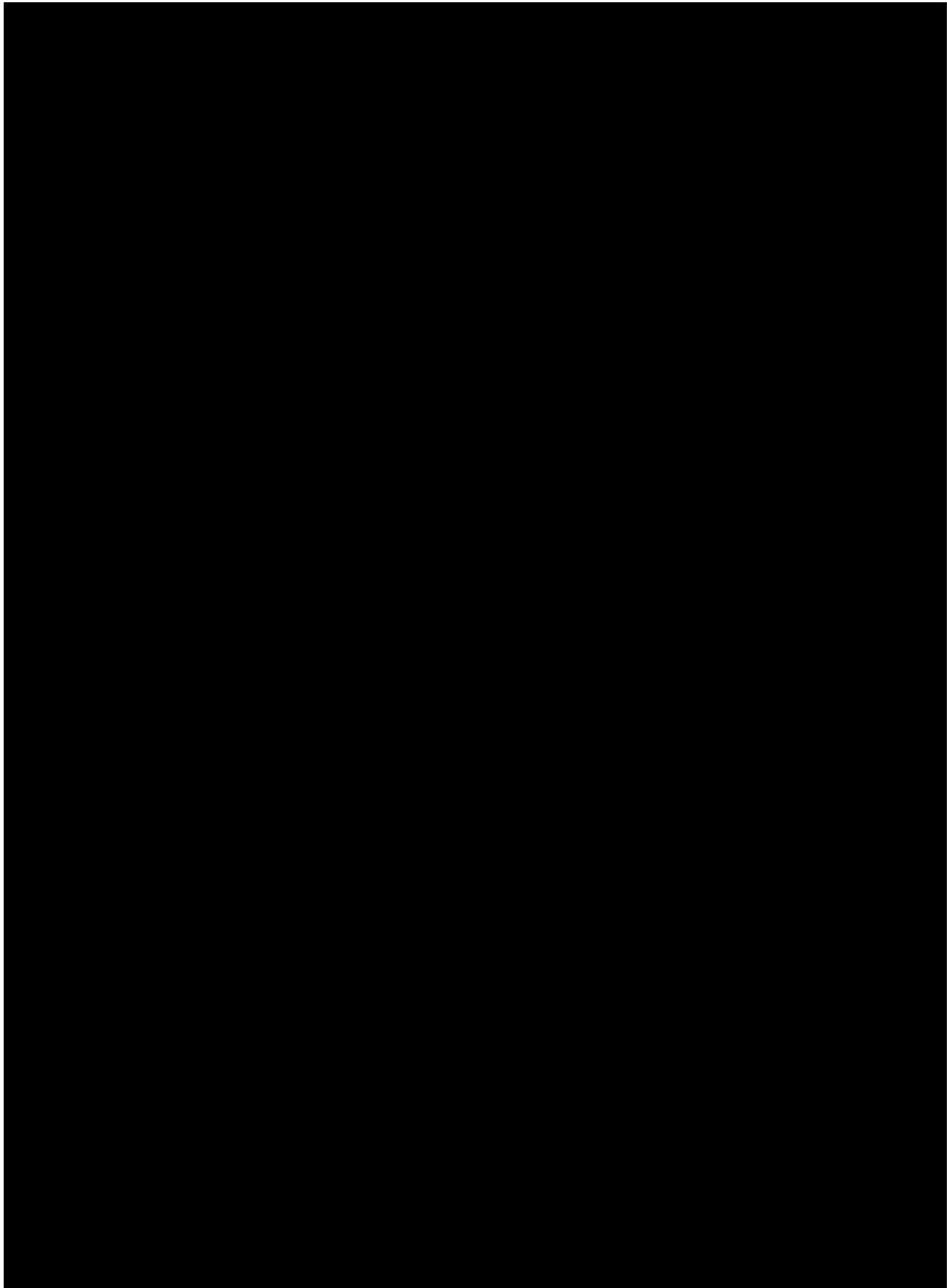


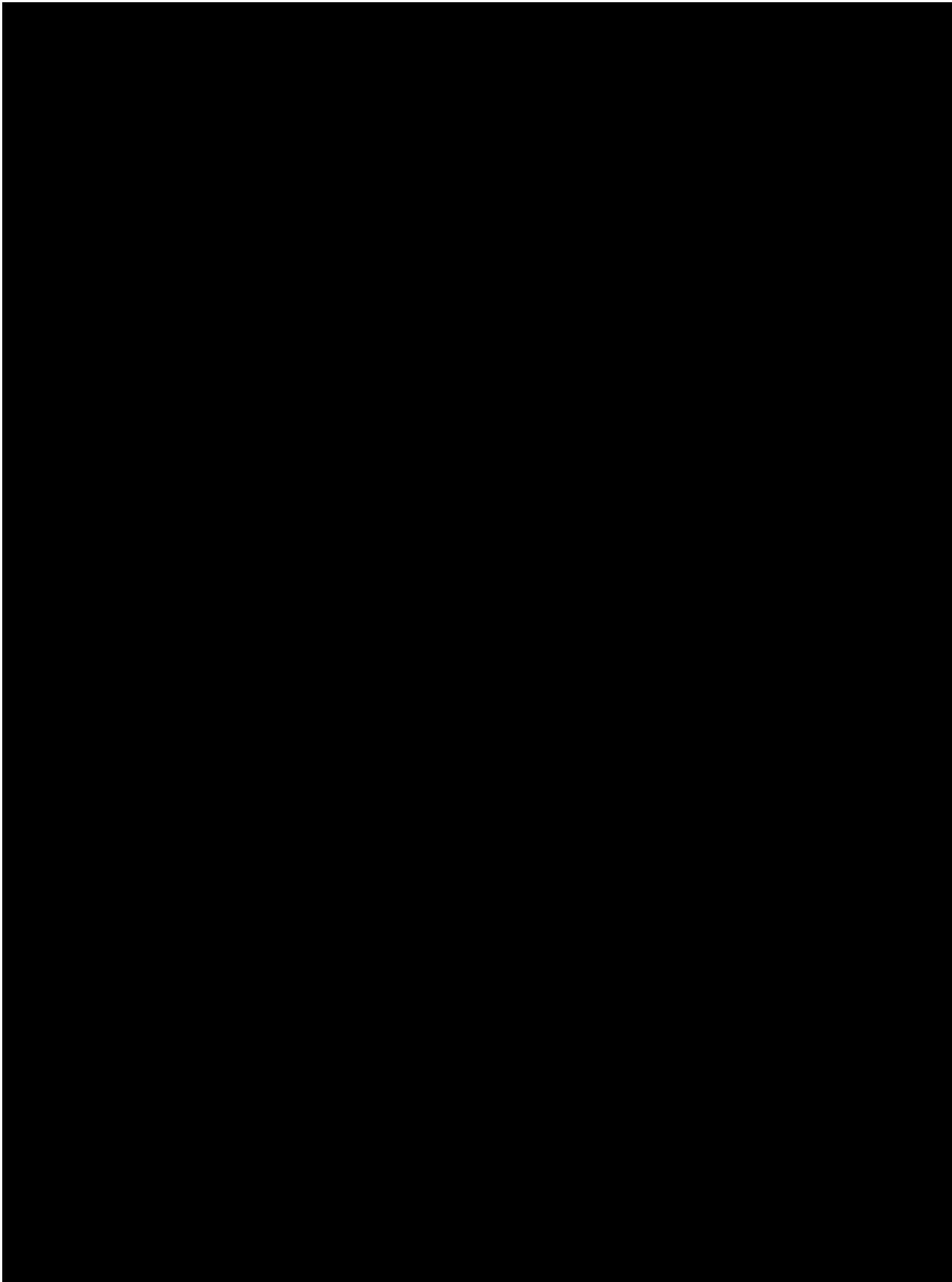


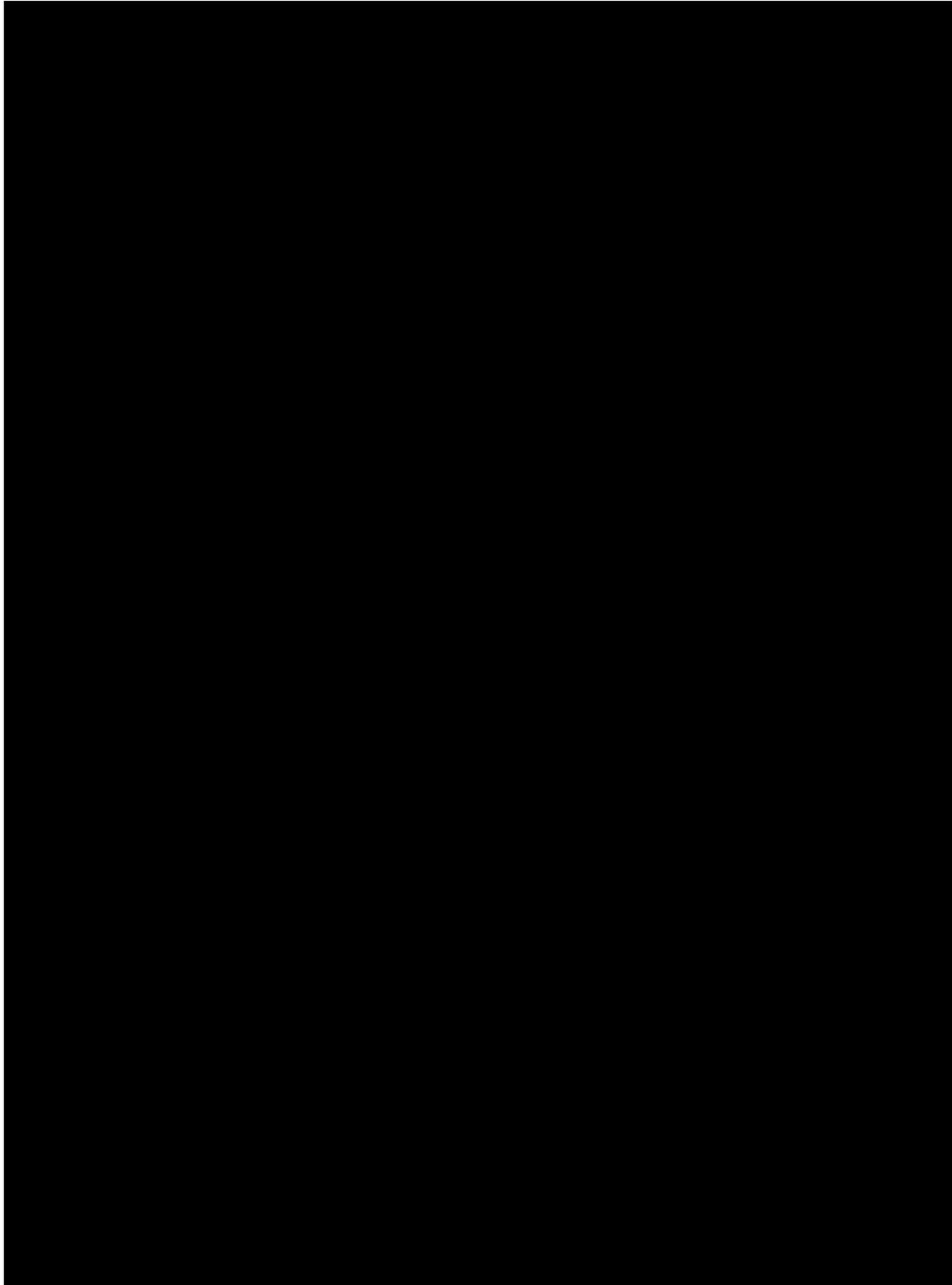


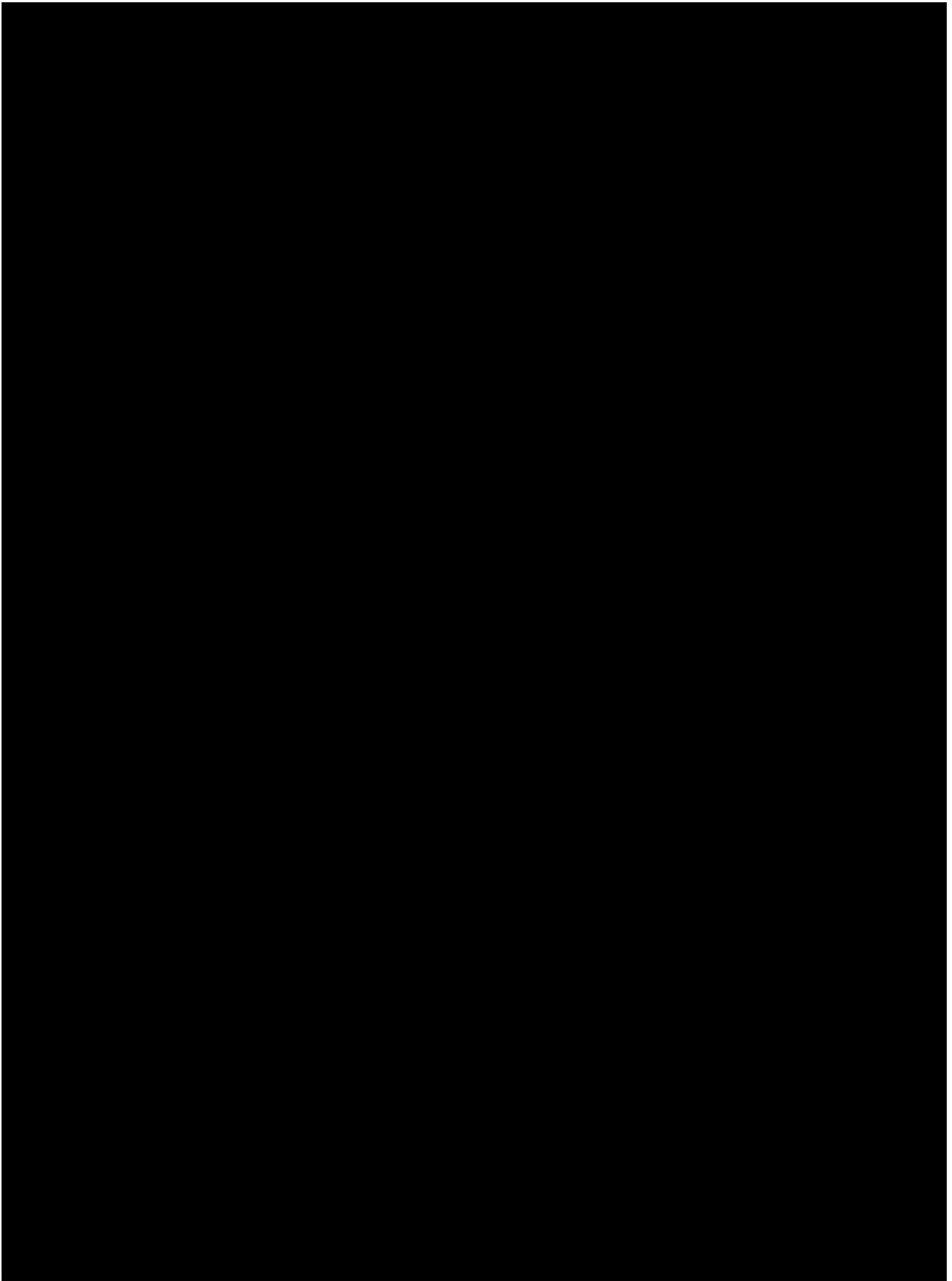


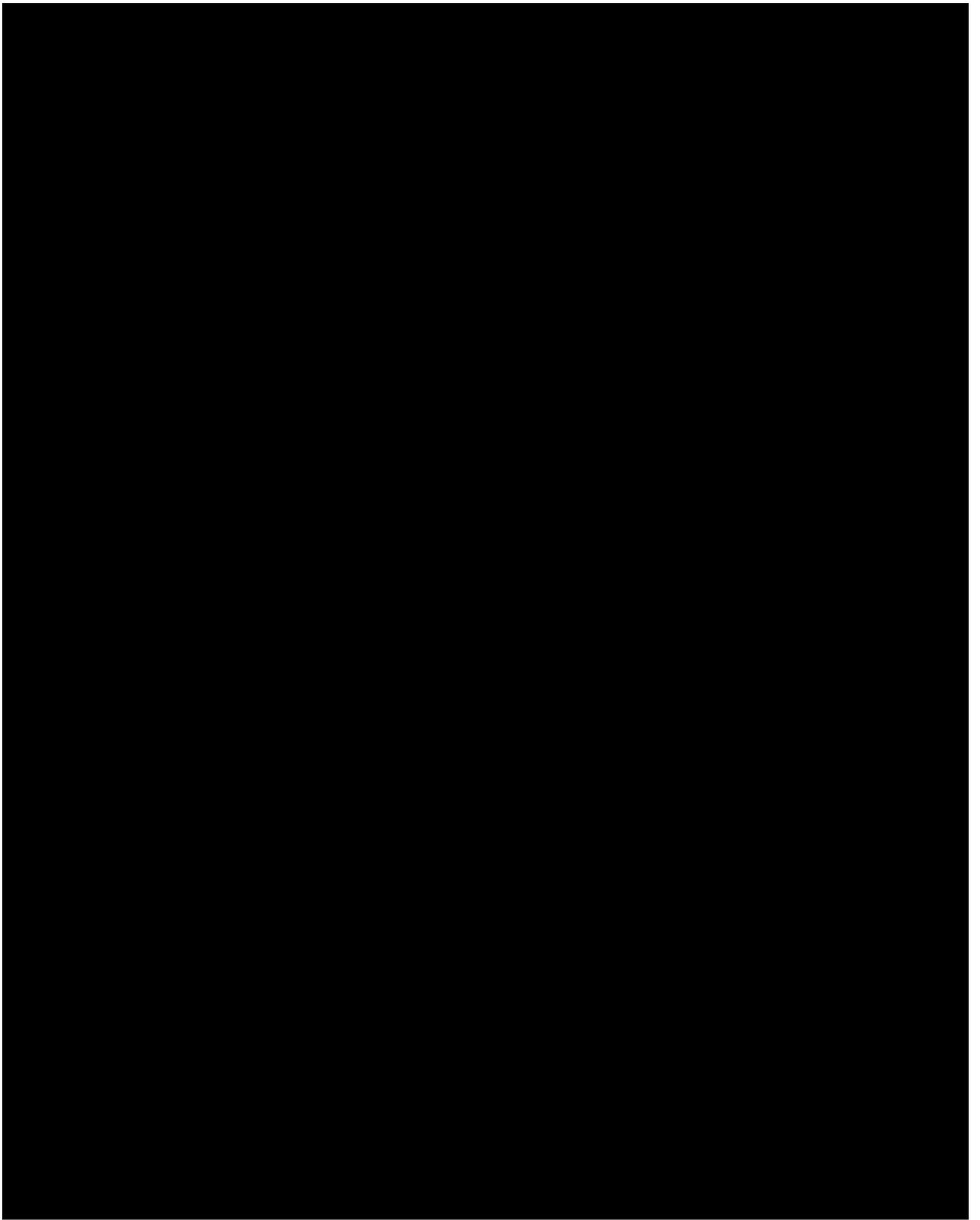












9.0 Data Conversion and Migration

The Vendor must provide a narrative overview of how the proposed solution will meet the Vermont PBM Data Conversion and Migration requirements. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the Data Conversion and Migration Requirements set forth in Template H – Non-Functional Requirements, Tab I4 Data Conversion and Migration’ and describe the approach in the following sections:

One of the primary and critical activities during transition is data conversion. Our data conversion plan outlines the steps for ensuring that the conversion process results in the accurate migration of legacy system data to the PBMS so that claims process correctly, rebate invoices are accurate, and reporting data is correct.

Introduction (I4.1, I4.21)

Our approach to data conversion is based on sound management principles and proven methodologies, supported by powerful industry-leading commercial off-the-shelf (COTS) tools that automate the process. Our extensive conversion and implementation experience offers AHS a thoughtful, comprehensive, and low-risk plan for data conversion. The success of the conversion effort can “make or break” the Vermont PBMS project. Xerox understands and respects the importance of data conversion and takes steps during the data conversion process to ensure a thorough, accurate, and successful conversion. Our data conversion approach is predicated on:

Xerox’s Conversion Strategy

- Proven data conversion methodology
- Experienced conversion staff
- Open, collaborative approach to working with AHS
- Industry-leading tools

- A cooperative and mutually supportive partnership with AHS to achieve all conversion milestones
- The application of industry-leading tools to manage project artifacts, automate conversion and testing, and support the project management and reporting functions
- Assignment of a dedicated team of professionals who have extensive experience in executing successful data conversions
- The application of proven structured development and project management methodologies throughout the conversion
- Collaboration between teams responsible for the PBMS and legacy system

Finally, our approach to data conversion reflects our extensive experience converting data for projects similar in scope to Vermont. In 2011, we successfully completed data conversion for one of the largest Medicaid pharmacy programs in the country—Texas. The conversion manager led this massive effort to convert five years of pharmacy claims—an estimated 165 million transactions, in addition to data associated with the claims. The State of Texas was pleased with the success of the data conversion, and we look forward to providing the same level of satisfaction in Vermont.

Xerox follows our SPARK-ITS SDM Data Management and Conversion Coordinated Task, which has durations over multiple SDM workflows, with touch points or dependencies to the primary SDLC. For example, conversion activities begin during the Requirements Analysis Workflow to gain an

understanding of Vermont data requirements; they also provide converted data for use during system testing and user acceptance test (UAT). Then they culminate with final data conversion prior to go-live.

Data Conversion is concerned with fulfilling data needs from two perspectives: identifying data in the legacy system to be converted into the target system, and identifying the data needs of the target system to determine how data will be populated at go-live as well as on-going operations. Our approach to data conversion includes a comprehensive plan for the migration of all appropriate legacy data to the PBMS. Both the legacy system and the PBMS store data in database tables that are very similar but are on different platforms. Because the databases are so similar, a full data conversion is not necessary, and we refer to our activities as a data migration.

We have already performed a similar migration for our Hawaii, Ohio, Maryland, and New Mexico clients when they migrated from the legacy prescription drug card system (PDCSX2) to the PBM OS+ system. There is a minimal learning curve for the Xerox team as we perform this important step in the DDI process for Vermont. Our procedures are proven and well-documented to ensure that the Vermont pharmacy program's data is migrated correctly to the new PBMS.

Below we provide our responses to data conversion for the proposed PBMS:

- 9.1 Data Conversion Strategy, Approach and Timeline
- 9.2 data Transition Strategy, Approach and Timeline
- 9.3 Implementation_Rollout Planning

9.1 Data Conversion Strategy, Approach and Timeline

Instructions: Describe what the Vendor believes to be an effective Data conversion strategy and approach for supporting migration of data from the current System(s) to the proposed solution. Describe how the Vendor will ensure data integrity and consistency through all phases of the project.

Xerox's repeatable data conversion strategy leverages our extensive experience handling large data migration projects and is flexible to accommodate the special needs of AHS.

Introduction (I4.2)

Xerox applies repeatable, quality-focused project management processes throughout the life of the contract. We focus on detailed planning, communication, partnership, and collaboration in working with AHS to implement our PBMS solution. We initiate the conversion process early in the project. An in-depth conversion planning process is performed in parallel with the requirements analysis for the PBMS development effort. Conversion planning uses information gathered during requirements validation to develop the overall conversion approach.

Conversion scope planning compiles all information that is relevant to the successful conversion of data from the State's legacy applications to the Xerox system and is core to the success of the implementation. Xerox has extensive experience with migrating data across systems and has a well-defined process that incorporates lessons learned from previous projects. The process allows Xerox to ensure that all data from

the legacy system is fully accounted for and migrated to the new system accurately, enabling accurate claims and rebate processing.

Xerox leverages in-house data conversion tools and custom scripts based on the complexity of the data conversion.

Xerox Data Conversion Success Story

Our approach to data conversion reflects our extensive experience converting data for projects similar in scope to Vermont. In 2011, we successfully completed data conversion for one of the largest Medicaid pharmacy systems in the country – Texas, involving its pharmacy claims and rebate data. More recently, in 2013 we implemented a new system for the state of Massachusetts, which involved migrating data from a DB2 database to an Oracle database, as well as converting from an EBCDIC data format to ASCII data format.

Planning for Data Conversion (I4.12)

The objective of the conversion planning is to identify and document the scope of the conversion as well as the activities and resource requirements of the conversion effort. Conversion scope planning is comprised of the following steps:

- Inventory the systems
- Inventory the data files and database tables and the number of years of data to be converted
- Review the data and capture attributes such as:
 - Data quantity
 - Data quality
 - Complexity of data structure
 - Type of data – ASCII, EBCDIC Packed data, Hex data
 - Source to target mapping complexity levels
- List of files to be manually loaded

Upon completion of initial conversion scope, we develop a thorough Data Conversion Plan, which includes:

- Description of the data conversion strategy and conversion schedule
- Detailed mapping of relevant legacy data elements to the existing Pharmacy System, Drug Rebate System, and corresponding target location within the solution
- Data transformation/conversion/mapping rules
- Detailed description of how all data will be physically migrated and/or initially loaded to the development, testing, and production environments of the solution system
- A detailed description of all the files to be converted and whether it will be manual or an automated conversion or a combination of both
- Methods of user validation of converted data and final conversion of files

Xerox has made the assumption that AHS will provide all data (Claims, Provider, PA, Member, TPL, DRAMS, etc) in Xerox provided layouts & data will be in ASCII format and that the current vendor will supply the conversion and archival data (for DRAMS and PBM) in a consistent ASCII format.

Understanding the Legacy System (I4.4)

During conversion planning, we define the universe of data and files to be converted to the new system. Typically, this list includes the following data and files. During conversion planning we will meet with AHS to finalize the list.

- Member eligibility data, including TPL and Medicare information
- Provider and Prescriber data
- Claims online history
- Claims archive history
- Prior authorization history
- Reference data
- Rebate invoice history
- Rebate payment data

As part of conversion planning, we perform a detailed analysis of existing interfaces and legacy files that need to be converted. We meet with AHS to understand each file and create a file layout document that provides details of every field in the file and its format and characteristics. Table I-21 shows a sample file layout document.

Table I-21. File Layout Document									
Field Name	Description	Length	Type	Format	Decimals	Begin Place	End Place	Valid Values	Other Info
RECIP-NBR	Client ID	20	Char		None	1	20		
PHMCY-NBR	Pharmacy ID	6	Char		None	21	26		
RX-NBR	Prescription number	7	Char		None	27	33		

Data Mapping

Another key component of conversion planning is the conversion mapping document created from an analysis of the legacy system files and PBMS tables. Because the data in the legacy system may not have a one-to-one correspondence to data in the PBMS, a conversion method and crosswalk are needed for mapping existing data from one system to the other. Developing the conversion crosswalk consists of performing an integrated analysis of both the existing system files and the PBMS database tables. We perform a field-by-field analysis of the files to be converted to determine the conversion requirements for each field. For each crosswalk, we also include the necessary automated and manual conversion requirements to make the data conform to PBMS requirements. Table I-22 is a sample of a data mapping document.

Table I-22. Data Mapping Sample							
Target Table	Target Column	Type	Source File	Source Field	Type	Mapping Instructions	Comments
MEMBER	MEMBER-ID	X(15)	Member Master File	N12000-MEMBER-ID	COMP-3	Convert numeric field to alphanumeric.	

The data mapping document includes a table to identify how to convert the legacy system data and includes the following items:

- **Target Table:** The table in the PBMS being populated with converted data
- **Target Column:** The column or field in the PBMS table being populated
- **Type:** The characteristics of the target column or field (for example, numeric, character, or date)
- **Source File:** The source file in the legacy system the field is being converted from
- **Source Field:** The field in the source file that is being converted
- **Type:** The characteristics of the source field
- **Mapping Instructions:** Any special instructions for the mapping of this data. For example, if the claim transaction control number were to change between the two systems, the logic to make this conversion would be included here. Any default values are also documented here
- **Comments:** Any other comments to be documented for the field being converted

Developing and Testing Conversion Programs (I4.6)

Once the conversion mapping is complete, we proceed to capture, convert, test, and port the data. Our approach is based on a proven system development life cycle that incorporates the use of converted data during all phases of testing to ensure minimal issues at implementation. We use industry leading conversion tools from Informatica, Microfocus, and in house utilities during the conversion process.

We develop and unit test the programs and utilities used to convert data. Conversion development tasks follow the same structured methodology as defined for system development verification and validation.

During conversion testing, conversion programs are run against files from the legacy system and conversion data is verified.

During the conversion testing phase, conversion programs are run against test files. The resulting converted data is validated using the following strategies:

- **Validation against the conversion mapping document.** Validating against the conversion mapping document demonstrates that the programs comply with their designed intent.
- **Comparisons with similar data in the source files.** Comparing converted data to similar data in the source file evaluates conversion both at the “macro” and “micro” level. At the macro level, we run counts of records and categories of records to verify that we have the same counts, which validates that records are not lost or added during conversion. At the micro level, we compare statistically representative sample records from both the source file and the target table to verify that all data is properly converted.

- **Testing of new system functionality using converted data.** We test system functionality against converted data, which is the important validation of the converted data. By testing system functionality, such as claim adjustments or updating provider records, for example, we verify that the system is correctly processing against the converted data.
- **Balancing.** Xerox compares the file and record counts from the data source (legacy system) with the file and record counts of processed records within each conversion process. Each conversion process produces an input/output record count summary, which is used to balance each step within the conversion process.
- **Image file validation.** Xerox confirms that imaged documents have been converted for use by the new system. We illustrate the retrieval of appropriate previously-mailed paper invoices and other documents through the PBMS.

Using these strategies ensures a thorough evaluation of the accuracy of the converted data and the program specifications.

We use a suite of testing and monitoring tools to support the conversion validation effort. Using these tools, we maintain a single testing repository for test cases and test results and for all incidents discovered during testing. Loading the test environments with converted data often identifies conditions and situations where conversion rules and specifications need to be modified and retested.

Data Cleansing (I4.6)

Throughout the process, exception reports are run to identify all records that do not comply with the assumptions made in the conversion mapping document. In systems that have been running for a number of years, it is typical for records with unusable data or invalid data relationships to exist. By running exception reports, we identify these records and handle them on an individual basis.

If the report review indicates design or conversion process errors, the developer corrects the conversion programs and re-executes the conversion run. If the review of the reports indicates problematic data, the data analyst forwards the reports to Xerox and AHS subject matter experts (SMEs) for review. The SMEs make the decision to do one of the following:

- Correct the data in the source files (on the source system)
- Allow the data to be converted as is and let the PBMS edits handle the erroneous data
- Alter the mapping specifications to accommodate the erroneous data

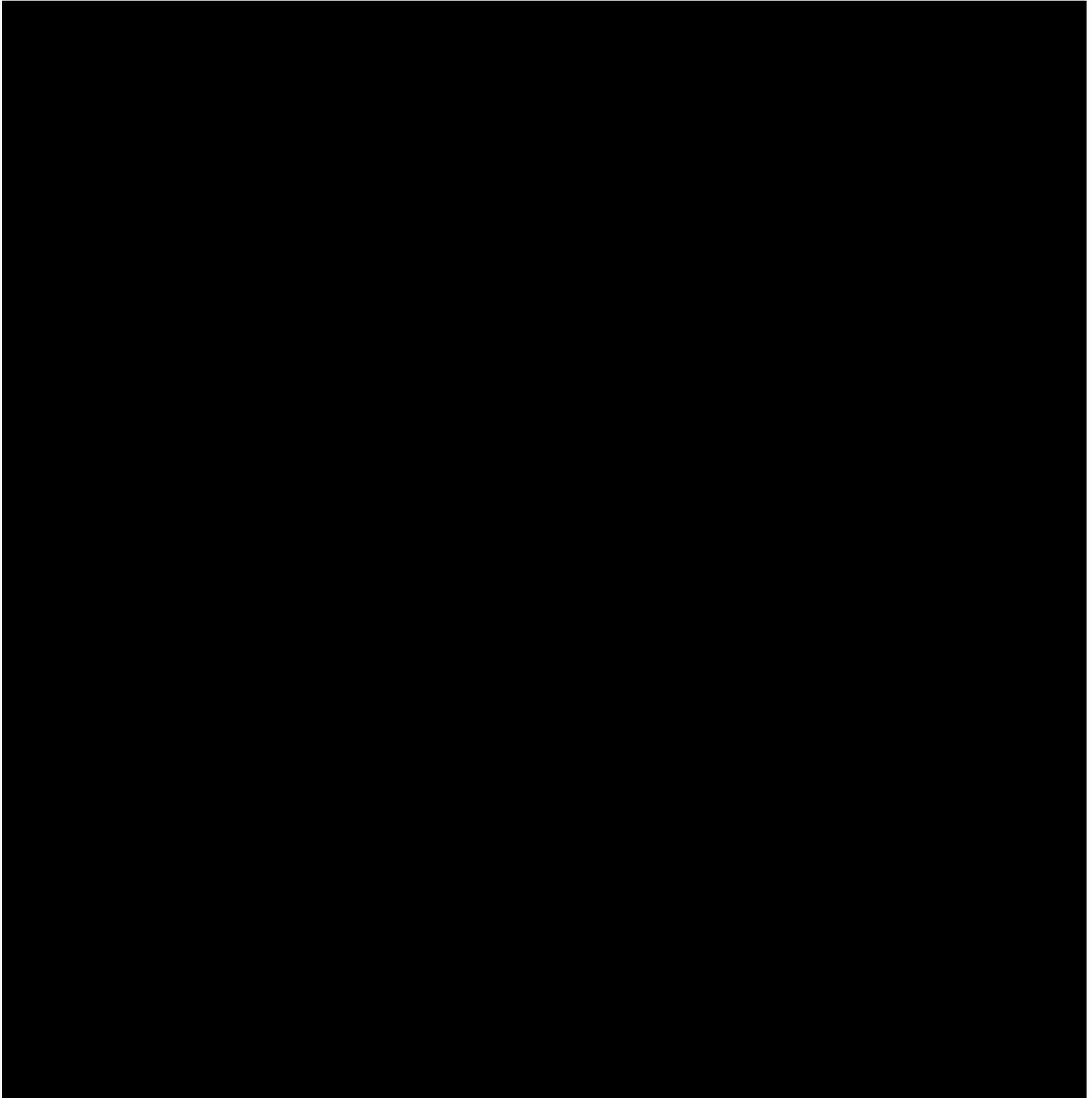
Our automated tools allow us to identify problems early and to track them through initial identification through successful resolution or retesting and closure. Additionally, conversion staff members work in parallel with development staff to ensure that all data needs and assumptions are communicated to affected groups. This early identification of problems and effective collaboration among team members helps to eliminate common problems that occur when changes related to conversion data emerge late in the project.

Xerox promptly notifies AHS of any conversion problems that could have a negative impact on the project work plan and schedule. We also discuss and report conversion progress as well as any issues as part of status meetings and reports. As in all areas of project activity, we use the issues management process agreed-upon during project initiation to escalate any problems during data conversion.

9.2 Data Transition Strategy, Approach and Timeline

Instructions: Describe what the Vendor believes to be an effective Data transition strategy and approach during the roll-over of data from the current System(s) to the proposed solution.

Data Transition (I4.19, I4.20)



As part of the data transition, Audit and Balancing is performed to test and validate the integrity of the data being loaded using reports generated by pre-conversion and conversion processes.

- Any deviations in the balancing and audit reports are reported.
- Errors during the transformations are reported in the error files which are later analyzed to fix the data and get it loaded in future iterations.
- Data validation is performed in target system using customized SQL scripts. Any issues reported are reported and fixed as required.

Prior to loading converted data into the User Acceptance Testing (UAT) environment, the converted data is validated in a Xerox internal testing environment where the Xerox QA team performs additional verification and validations independent of the development team.

As part of data **Quantity** validation, the Xerox QA team validates the counts of all the data files to validate that records are not lost or added during conversion. Counts for claims with different types (Original/Void/Adjusted/Denied Claims) are captured while reading the claims (before conversion/load) and compared with the sum of counts for rejected claims (missing data, mapping error or conversion error) as well as the claims which are successfully converted and loaded in the target system.

As part of data **Quality** validation, the Xerox QA team validates the data, using statistically representative sample records, and report any quality problems. Following are some of the sample validations performed:

- Ensuring data is in correct format (e.g. date field delimiters)
- Ensuring data is initialized with correct values (e.g. Are numeric fields initialized with Zero)
- Ensuring data is within the defined boundary.
- Ensuring dollar amounts have correct signs (Positive/Negative) and decimals are intact.
- Ensuring cross walk of the valid values e.g. Male corresponds to 1 and Female corresponds to 2.
- Ensuring database fields that display spaces truly are not non-display characters (e.g. CRLF) that are masquerading as “SPACES”.

The Xerox QA team performs Summary Reconciliation and Analysis testing using custom SQL scripts to perform further analysis on converted data at the aggregate level, as simple analysis of disaggregated data may not uncover hidden issues with data conversion. A sample scenario addressed in the summary testing is to ensure that the sum of all paid claims for a provider for a specific data range reconciles with the actual payment made by the legacy system.

All of the testing described above is aimed at ensuring a smooth flow of data for the inbound and outbound interfaces of the Xerox system.

Final Conversion

When the complete set of data identified for conversion is available, we execute the final conversion procedure, which converts and loads the data into the PBMS’ production databases. Final conversion planning includes planning for:

- Specific order of file conversion
- Job and task dependencies, including the legacy MMIS’ last POS adjudication date and payment cycle and PBMS start-up cycles
- Manual intervention requirements
- Final verification procedures

We work closely with AHS to define the tasks and timeline for final conversion activities. As we near the final conversion effort, Xerox updates the work plan to reflect any refinements or changes based on joint final conversion planning with AHS. During final conversion, we use many of the same processes that we use during conversion program testing, including running reports to verify record counts, sampling the data to verify accurate conversion, and running exception reports to verify that all exceptions are either eliminated or explainable. Throughout the final conversion effort, we work with AHS during every step of the process to ensure a smooth and successful final file conversion.

We retain a complete copy of the input data, all conversion reports, and all conversion programs, processes, and methods (e.g., mappings, source code) to ensure the integrity of the final conversion. Reports are used to verify record counts and sample the data to verify accurate conversion as well as exception reports to verify all exceptions are either eliminated or explained.

9.3 Implementation/Rollout Planning

Instructions: Describe the Vendor’s methodology, tools, and techniques for implementation/rollout planning. What specific staging, readiness and deployment techniques will the Vendor use to determine the proper phasing and sequencing of deployment processes and functions required for successful implementation?

Our long-term history of successful PBMS implementations offers a transparent, organized, and carefully orchestrated implementation process to the Agency. Comprehensive planning, experienced leadership, and supportive training provide people with the skills and knowledge to plan and execute a successful implementation and roll out of the System.

Before implementation, we conduct an operational readiness review (ORR) to demonstrate that the operations staff and procedures are adequate to meet all Agency processing requirements. We confirm that all operations are ready to begin full production. The operational readiness review is designed to check that we are ready to process and pay all claims accurately, meet all reporting requirements, use a properly functioning data communications network, and have a demonstrated back up capacity. This testing demonstrates that the system can perform all the required functions for the anticipated volume of transactions within the schedules established. At the conclusion of the ORR, we submit to the Agency the results from executing all of the ORR checklists and certify that PBMS, its components, functions, processes, operational procedures, staffing, telecommunications, and all other associated support are in place and ready for operation. ORR is deemed complete only when written Agency acceptance is obtained.

Achieving Implementation Phase Success

- Detailed operational readiness checklists create confidence that all is in order for a smooth cutover
- Xerox partners with the Agency in implementation planning, decisions, and activities
- Leadership and project team with a track record of successful system implementations, training, and operations

After ORR is done, we move forward to implementation. With proactive risk mitigation and contingency planning at the forefront, Xerox’s planning for implementation begins early in the SDLC. We create a broad Implementation Plan, which we review with the Agency. During implementation planning, we develop a detailed list of all technical and operational steps in preparation for go-live. We schedule and identify resources for each step in appropriate order. As each implementation checklist item is completed

and verified, we track and communicate them to the implementation team so everyone is fully aware of progress and ready for their own role in implementation.

Once the Vermont PBMS and all integrated components are installed, we perform a final test to validate that everything is in place and ready for live processing. We review all of the implementation checklists with the Agency to make sure that there are no issues preventing successful implementation, and that all known risks have been mitigated. The Agency makes the final decision that Xerox is ready to deploy the system and begin operations, and Xerox begins collecting operational data as defined in the requirements.

The implementation and rollout phase is considered complete when the Agency accepts the PBMS as operational based on predefined acceptance criteria.

Xerox's collaborative efforts in the requirements, design, development, and testing with the Agency, the Medicaid Management Information System (MMIS) contractor, and other stakeholders comes to fruition with the implementation and roll out of the PBMS. This combined implementation strategy promotes transparency, accountability, comprehensive contingency planning, and control.

The primary objective of the implementation/roll out phase is to plan and execute a timely, efficient, and accurate transition from the legacy system to the Vermont PBMS without adversely affecting day-to-day operations and without disrupting Agency, beneficiary, or provider services. Our shared goal with the Agency is uninterrupted service to stakeholders, particularly to the beneficiaries who depend upon the Vermont PBMS and to the providers who deliver those services.

Xerox's Approach to Implementation and Rollout Planning

Our proven implementation process, built over our 20+-year PBMS history, is used to plan and manage the Vermont PBMS project go-live. Rigorous implementation planning activities begin early in the project and extend up to implementation itself. Operational readiness walkthroughs provide evidence that the organization, infrastructure, and system are prepared to begin operation of the PBMS. We execute detailed go-live plans and systematically cut over to the new system, which is monitored and adjusted for optimal performance. During the post-implementation period, Xerox transition staff members are on hand to provide guidance and address any issues that may arise.

As the deployment of the system marks the conclusion of the PBMS Implementation of the contract, the implementation/rollout phase also includes processes to effectively perform phase closure tasks and transition the project and staff into operations and maintenance activities.

██████████ oversees the transition effort throughout the implementation/rollout phase working closely with the Xerox project manager and the Agency's project manager. Meanwhile, the legacy PBMS team provides the continuity and facilitates the transition to Vermont PBMS operations.

Implementation Strategy

As part of our implementation plan, Xerox develops an implementation strategy that describes:

- A proposed implementation schedule
- Entrance/exit criteria, acceptance procedures, and key milestones for UAT/Pilot and Production

- Staffing, roles, and responsibilities; including the identification of an implementation team that will monitor and control the effort 24/7 the week of go live, as well as on-site and off-site support during the initial implementation
- Any phased deployment planned for various user groups, which may include identifying key users or providers to use the system during implementation week to enter initial provider information, claims, or other data
- Processes to escalate, report, and resolve issues quickly to keep the deployment on track
- Reporting and communication processes to keep project and Agency executives and stakeholders informed
- Operational readiness criteria, approach, and walkthrough processes to confirm system, PBMS staff, and Agency readiness

After implementation, the testing team performs a regression test to ensure that all components are present in production. On successful confirmation, we notify the Agency that the production system is ready for operational use.

Data Migration - Cutover Strategy

Prior to loading data into the production environment, Xerox will work with AHS to obtain user acceptance of converted data which will be loaded in the User Acceptance Test environment. The production environment will be loaded with converted data from the UAT environment upon receiving UAT approval.

The typical strategy adopted by Xerox for converting and loading data into the production environment is to have a staggered approach, in which all data needed to have a fully operational system is loaded on a priority basis for the system go-live. All remaining historical data that will not affect AHS operations (e.g. Pharmacy claims that cannot be adjusted beyond AHS statutory dates – typically older than three years from go-live date) will be loaded in a subsequent release. Adopting a prioritized schedule for converting data from the legacy system provides Xerox the opportunity to sufficiently test and validate the historical data with equal intensity as operational data, and therefore ensuring a quality implementation. For AHS, Xerox is considering a two-release schedule, in which all historical data that is not needed for the go-live will be converted by the 90th day from go-live date.

As part of the data load for production rollout / implementation – data which are expected to remain static will be loaded at the earliest opportunity to provide ample time for validating such data. Example of static data include: Formulary data, Claims data that cannot be modified (typically claims data older than two to three years old).

Data which are expected to be non-Static (e.g. Beneficiary data, recent claims that have potential to be reversed or adjusted) will be loaded much closer to the go-live date based on the type of data.

Upon receiving the “GO” decision from the state, the go-live preparation begins. The go-live date is typically scheduled on a weekend to minimize impacts to the beneficiary community.

Data Migration - Restore Process

Xerox creates a backup of all data prior to it being loaded into production environment. This backup represents the baseline data prior to any human and/or software interaction with the production system or system data outside of the normal operating processes. If needed, this backup will be used to restore the system.

System backups are taken incrementally while stepping through the process of preparing, moving, and manipulating data. This is done to allow the project team to revert back to any point throughout the process that they identify as correct if for some reason they run into issues during later steps.

Operational Readiness Walkthrough

The purpose of the Operational Readiness Review (ORR) is to formally evaluate and determine if the operational solution is prepared for production using the PBMS and related procedures. Xerox follows a structured, detailed approach to operational readiness that proves readiness for a smooth cutover. Our operational readiness approach includes verifying operational areas against detailed checklists. We incorporate comprehensive reporting so that we can monitor and communicate progress.

Planning

Our operational readiness planning provides early insight into risks that may affect production operations. Early identification of risk is a critical strategy for confronting and addressing issues. Operational readiness planning starts during the Testing Phase. Xerox works closely with the Agency to plan the ORR schedule, identify or modify ORR scenarios, and confirm reporting needs. Our preliminary schedule is included in the project work plan and updated as the project progresses.

Working with the Agency, we define the schedule, reporting topics, readiness metrics, and scenarios for the ORR. The Operational Readiness Review Plan describes the strategy and procedures, roles and responsibilities, and scenarios that are employed during the ORR process. The Operational Readiness Review Plan includes walkthrough readiness criteria and entry/exit criteria.

As we define the ORR scenarios, we consider the following six areas to provide a comprehensive view of overall readiness:

- **Implementation Management Readiness** assesses the potential impact of issues, risks, open action items, and pending change requests on system stability and overall readiness.
- **System Functionality Readiness** assesses the successful integration and readiness of system software components to be placed into production.
- **User and Organizational Readiness** assesses whether users are ready and if procedures and organizational changes are in place to implement business process changes.
- **Data Readiness** assesses the status of data cleanup activities, data conversion completion percentages, data confidentiality, and availability of data and files required for business continuity.
- **Production Operations Readiness** assesses if the infrastructure (e.g., hardware, network, telecommunications, call center and help desk), operating procedures, and integrated support functions are ready to support the application and users.
- **External Interface and Customer Readiness** assesses if external interface partners, providers, and clients are prepared for the system change and are ready to be integrated into the services and functions delivered in the system.

For each scenario identified in the ORR plan, we create checklists to validate that topic or component. We choose team members who are knowledgeable in the various areas to develop and execute the ORR checklists. The checklists are characterized by explicit and measureable criteria, defined by Xerox in close collaboration with the Agency.

Entry Criteria

Once the ORR Plan and checklists are finalized and approved, we evaluate entry criteria to begin ORR. Example entry criteria are shown in Table I-24.

Table I-24. Example Entry Criteria	
Process	Activities
Production Support	<ul style="list-style-type: none"> • Related production support deliverables have been accepted by the Agency • Disaster Recovery Plan • Business Continuity Plan • System, user, provider, and operations documentation, including procedure documentation
Integrated Support Functions	Related integrated support function deliverables and work products have been updated, reviewed, and accepted by the Agency
System Functionality	<ul style="list-style-type: none"> • System functionality meets relevant specifications as demonstrated by pre-production tests, including the User Acceptance Test • The System Test has been unconditionally accepted by the Agency or, if conditionally accepted, deficiencies pose acceptable risk to business operations • Defects discovered during testing have been corrected or have approved plans in place to resolve them

Table I-24. Example Entry Criteria	
Process	Activities
Facilities and Technical Infrastructure	Required facilities and technical infrastructure are in place and have been accepted by the Agency
ORR Checklists	The ORR checklists have been finalized, approved, and are ready for execution.

Execution

To execute the ORR checklists, we conduct meetings between an evaluator and operations users or other assessors. During a review, we execute one or more checklists to confirm user and technical components as listed on the checklist are production-ready. Checklists cover a range of functions and processes. For example, checklists might confirm that equipment for paper claims scanning into OnBase is set up and turned on, or that a Vermont PBMS user can follow his or her operating procedures to update a client’s plan information. The evaluator logs and assesses any problems encountered by the assessor.

Through review of these checklists, we evaluate areas including production operations team readiness (including procedures for any matters that may need escalation during implementation), systems readiness (quality and effectiveness of software, documentation, and help facilities, as well as smooth interaction with the data warehouse), user and organizational readiness (quality and effectiveness of training), and external interface readiness.

As the ORR execution progresses, each team reports its completion of assigned readiness checklists. Evaluators note any problems encountered during execution. While most problems are logged as defects, they may alternatively be logged as issues, action items, or change requests, depending on the nature of the problem. 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 clarify a function in the system. We review defects and corrective actions taken at regular and frequent operational readiness status meetings with the Agency. These meetings increase in frequency as we approach the go-live date and give the Agency the opportunity to determine if any incomplete corrective action plans pose an unacceptable risk to production operations. Outstanding defects or incomplete corrective actions at the time of the final operational readiness status meeting are documented in the ORR Report that is submitted to the Agency for approval.

Reporting

Xerox provides weekly status reports indicating the progress of operational readiness. The reports summarize the progress in each of the six ORR areas. The operational readiness status reports break out each ORR area into its respective reporting topics and provide information on the readiness of each, along with any corrective actions that may be needed.

For each ORR reporting area, Xerox managers and their Agency counterparts identify readiness metrics that measure milestone completion and that provide an indication of the quality of the solution. Readiness metrics include:

- Number of milestones completed vs. total number of milestones that should have been completed to date
- Percentage of data converted
- Outstanding defects remaining from testing by severity
- Outstanding ORR deficits by severity

Readiness metrics have a direct correlation to the checklists verified during ORR and may cover a single checklist or a summary of several ORR checklists.

Once the Agency and Xerox agree that all exit criteria have been met, we produce a final ORR report. The report contains updated meeting materials and corrective actions, completed checklists, and a formal statement from Xerox that the system is ready for operations. These materials are stored in our project's SharePoint site and are available for Agency access and review.

Final Walkthrough

At the conclusion of the ORR, we conduct a final walkthrough with the Agency to review the final ORR report and findings. The goal of the final walkthrough is to obtain agreement that the exit criteria have been met, ORR is complete, and we can proceed with implementation. Example criteria are shown in Table I-25.

Table I-25. Example Exit Criteria	
Process	Criteria
ORR Checklists	ORR checklists have been executed and the results have been approved
Corrective Actions	ORR corrective actions, defects, and other issues have been approved and are either complete or have specific, agreed-upon remediation plans
Integrated Organizational Support Materials	<ul style="list-style-type: none"> • Any pre-implementation documentation updates have been completed and submitted to the Agency for the following: <ul style="list-style-type: none"> - Report Distribution Schedule - System Production Schedule - Centers for Medicare and Medicaid Services (CMS) Certification Checklist Documentation and Certification Plan
Operational Readiness Report	Xerox has provided a final Operational Readiness Report to the Agency summarizing findings of the ORR.

The Operational Readiness Review is overseen by the account manager.

“Go-Live” Support

We believe it is essential to provide system user support throughout the critical period between go-live and when the system becomes operationally stable and is formally accepted by the Agency. As documented in the go-live support section of the Implementation Plan, we retain sufficient DDI staff and provide coverage of transition personnel—both on-site and off-site—to ease stakeholder adoption and use of the PBMS and resolve any issues that may arise.

The go-live support section of the Implementation Plan also describes how, during the go-live support period, Xerox makes any adjustments to the PBMS needed to ensure optimal processing, and how Xerox

monitors operational performance metrics such as system availability, Point of Sale processing performance, and call center response times to ensure that required performance thresholds are met or exceeded.

After the go-live support period is complete, the help desk takes responsibility for ongoing support of the system.

Implementation and Rollout Plan

Xerox develops an Implementation Plan for Vermont that establishes a structured, methodical approach tailored to the specific needs and requirements of the PBMS project, which includes roadmaps for managing system releases to production. The Implementation Plan references a separate ORR Plan that identifies operational readiness criteria, approach, and walkthrough processes to confirm system Vermont PBMS staff, and Agency readiness.

The Implementation Plan calls for the development of implementation checklists. We build a detailed work plan specifically for go-live week that identifies implementation tasks and validation items; and business area leads are tasked with defining their own teams' supplementary checklists, as well. The checklists represent a carefully orchestrated and integrated schedule; tasks are not daily or weekly, but hour-by-hour and even minute-by-minute. By creating the checklist in Microsoft Project, tasks are scheduled and include predecessor tasks, expected time of completion, successor tasks, and assigned resources. At the start of go-live week, we can then export the tasks into Excel or SharePoint lists, adding information such as escalation instructions, procedures, and validation instructions. We track the specific time and date as each task is completed.

Checklists include tasks and validation activities covering items such as:

- Facility
- Hardware operation
- Telecommunications
- Interfaces with internal and external business partners
- Vermont PBMS staff readiness
- Operations support staff training
- Provider training
- Agency staff training
- System, user, and operations documentation
- Network identification
- System access and security
- User security forms
- Building security
- Confidentiality of data
- Report generation and distribution processes
- System backup and recovery procedures
- Hardware and software installation
- Regression testing after code is deployed to production

To make certain that implementation is successful and its objectives are achieved, the Implementation Plan is actively monitored and regularly reviewed throughout the project life cycle. We staff a "command center" to continually monitor the implementation effort for potential issues and to perform mitigation for identified risks. Documentation on issues and risks is maintained in the project's SharePoint site for stakeholder access, communication, and transparency. Our SharePoint site thus provides centralized, ready access to action items, issues, and risks to project stakeholders for quick and efficient updates and reporting.

Post-Implementation Operational Monitoring Plan

During implementation planning, Xerox collaborates with the Agency to create a Post-Implementation Operational Monitoring Plan that documents the expected monitoring and metrics reporting the Agency wants and we agree to provide. The plan includes the metrics desired and the schedule and methods for reporting. It includes processes to monitor the PBMS to ensure there are no immediate or ongoing adverse effects on Agency programs.

Revise System Documentation and Operating Procedures (as needed)

Xerox updates system documentation throughout the project as changes are made, either through change requests, defect resolutions, or other approved change protocols. If any changes have been introduced as a result of lessons learned from Implementation and Roll Out Phase activities, we update the system documentation accordingly. The same holds true for operating procedures or any other user documentation.

Formal Acceptance of the System

Xerox conducts a readiness meeting to confirm implementation readiness. Upon our own internal “go” recommendation; we notify the Agency and request review and approval for implementation of the PBMS. Upon receiving Agency approval, we execute the Implementation Plan and checklists and begin transition to operations.

Post-Implementation Evaluation Report

Xerox uses the Implementation Plan as a guide to organizing our Post-Implementation Evaluation Report. We use the Project Work Plan to confirm that all implementation tasks have been completed. The Post-Implementation Evaluation Report describes:

- Lessons learned
- Project successes and failures
- Evaluation metrics, including:
 - Actual and planned budget comparisons
 - Actual and planned schedule comparisons
 - Actual and planned scope comparisons
 - PBMS authorized system user satisfaction
- Benefits gained over the previous PBMS
- Current status of the PBMS
- Ongoing contingencies or problems

The Final Implementation Report includes an Executive Summary that can be shared with the CMS Regional Office and with leadership from other Agency stakeholders if desired.

As the PBMS settles into operations and the Agency continues to face new challenges, we stand ready to provide continued technical, operational, and programmatic support. Our national perspective, best practices research, and continuous improvements provide the Agency with a rich repository of

information, ideas, and solutions for dealing with the challenges of Vermont's PBMS today and tomorrow.

Business Continuity/Disaster Recovery Plan Updates and/or Testing Results

We develop the initial Business Continuity/Disaster Recovery Plan during the Initiation and Planning Phase. Once the system is live, we review the plan annually and revise the plan as needed based on personnel, operational, system, or equipment changes or based on assessment and testing findings.

Xerox annually simulates a disaster recovery to check the efficiency of our recovery and backup procedures once operations begin. For each disaster recovery/business continuity test, we create a testing plan and submit it to the Agency for review and approval. We also deliver the results of the tests, including a description of issues we encountered and recommendations for elimination of the issues.

10.0 Quality Management

Instructions: Describe the Vendor's quality assurance practices as well as how the Vendor incorporates each customer's unique requirements. The response shall describe the Vendor's internal quality management program referencing the use of any specific methodologies. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the Quality Management Requirements set forth in Template H – Non-Functional Requirements, Tab I5 Quality Management Requirements'.

At Xerox, quality is more than just meeting a requirement. Quality extends throughout our solution to drive continuous project performance improvement.

Quality Management Approach (I5.1, I5.2, I5.3, I5.4, I5.5, I5.6, I5.7, I5.8, I5.9)

The goal of quality management and continuous improvement is to drive innovation and increase efficiency and effectiveness, while driving out ambiguity and opportunity for errors. This ultimately improves the outcomes and experience delivered to our customers and the public we all serve. This is our plan for the Vermont PBMS program.

Xerox uses a number of proven methodologies, which are consistent with the requirements listed in Template H, Tab I5, that facilitate the identification, evaluation, and execution of improved quality work processes of the PBMS.

At the foundation of a solid continuous improvement approach is a strong management commitment to understanding the interdependency of operations, staff, processes, and the customer. Throughout each Xerox pharmacy program and collectively as an organization we continuously look to improve and manage quality.

Our staff, with their day-to-day service and professional expertise, along with the encouragement and support, and even financial incentives from our corporate leadership for submitting innovative and quality management ideas, are poised to bring an organized and high quality PBMS to Vermont.

Xerox continually seeks out ways to deliver high-quality, innovative solutions to improve program performance and healthcare outcomes. With the mission of continuously improving service through established methods, tools, and best practices that meet or exceed industry standards, Xerox has established a structured quality program in our proven SPARK-ITS Quality Management System (QMS)

that takes project execution and delivery to the next level. Our quality processes and methodology not only help us measure performance, but also help us identify specific opportunities for improvement and guide our decisions for targeted enhancements.

Xerox quality activities begin with defined and measurable performance standards and goals that apply to system development tasks, operational performance documents, and deliverables. We meet these performance measures through documented processes and procedures that meet the requirements of AHS

Central to our quality activities are the ongoing monitoring, evaluation, and reporting of all project activities to measure actual performance and identify improvement opportunities. Closely tied to these activities are the project’s training activities, which are essential to supporting continuous quality improvement and instilling a culture of quality within our pharmacy organization.

Below in Exhibit I-46 we share a high-level approach to Xerox quality management methodology.

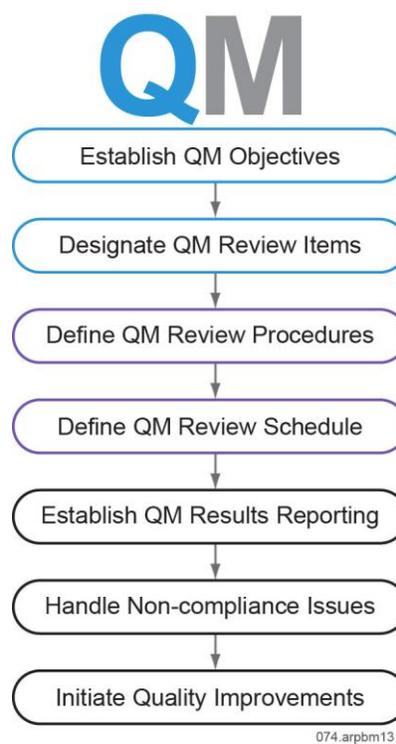


Exhibit I-47. Xerox Quality Management Methodology
Xerox’s high-level approach to quality management methodology.

Xerox has a proven PBMS solution for Vermont. It is an array of sturdy and sophisticated, yet user friendly, systems designed to meet the pharmacy needs of the Vermont Agency of Human Services (AHS). While Xerox has the earned confidence in our technical systems we know that the quality and improvement of our solutions is dependent on the collaboration of technical and business experts and users of the systems. Our Quality Management System (QMS) continually leverages our subject matter experts (SMEs), system reports, service level agreements and performance metrics, requirements traceability reports and defect logs, person-to-person interaction, among other numerous inputs to ensure the output is a high quality overall pharmacy program that is in compliance with quality assurance efforts specified by the State.

Quality Management Personnel

Xerox feels quality is achieved by ensuring commitment and accountability of the team from top to bottom – each team member having a place in the quality process and the program’s success. In the table below we show some of the roles on the PBMS team and their responsibilities more central to quality management:

Table I-26. Quality Management Personnel	
Role	Quality Responsibilities
Account Executive	<ul style="list-style-type: none"> • Overall project management and scheduling, correspondence between the State and the Vendor • Dispute resolution, and status reporting to the State for the duration of the contract
Account Manager	<ul style="list-style-type: none"> • Responsible for facilitating the project by using the project management processes, organizing the project, and managing the team work activities consistent with the approved work plan • Directs the planning, design, development, implementation, maintenance, and evaluation of programs, services, policies and procedures that assure accurate and timely claims processing • Participates in developing, implementing, and maintaining cost-effective programs and strategies to provide value added services to the Department
Operations Manager	<ul style="list-style-type: none"> • Responsible for the daily operation of activities, including claims operations, provider relations, quality assurance, and LAN administration • Works closely with the managers in these areas in establishing the PBM site and documenting procedures for all operational units • Ensures that all performance standards are met • Oversees the execution of the Quality Plan and the comprehensive staff-training program
Quality Assurance Analyst	<ul style="list-style-type: none"> • The quality assurance (QA) analyst performs quality reviews for all aspects of project implementation including quality planning, contract compliance, program compliance, and quality improvement activities. This position ensures that completed tasks satisfy the documented procedures. Specific responsibilities include: • Conducting quality planning, contract compliance, program compliance, and quality improvement activities • Ensuring all related activities are completed in accordance with documented procedures • Ensuring all services provided meet or exceed contract requirements
Call Center Quality Assurance	<ul style="list-style-type: none"> • Performs quality assurance reviews on all components of the operations; Conducts call monitoring based on the approved quality assurance plan and quality assurance policies and procedures • Assists with collecting information for staff performance reviews by monitoring individual and group performance against established standards • Assists the correspondence and research analysts with dispute resolution investigation and documentation resolution activities, if necessary
DRAMS Quality Assurance Tester	<ul style="list-style-type: none"> • Creates and executes verification and validation test cases, records results, and writes issue and problem reports. • Creating, preparing, and conducting quality assurance/verification reviews of software development artifacts • Documenting issues and problems on test plans and scripts • Assisting in maintaining and enhancing existing test scripts

Table I-26. Quality Management Personnel	
OS+ Quality Assurance Tester	<ul style="list-style-type: none"> • Creates and executes verification and validation test cases, records results, and writes issue and problem reports. • Creates prepares, and conducts quality assurance/verification reviews of software development artifacts • Documents issue and problems on test plans and scripts • Assists in maintaining and enhancing existing test scripts
OS+ Business Objects (BO) Developer	<ul style="list-style-type: none"> • Assists in solutions analysis, prototyping, and testing of reports. • Develops, tests and maintains defined reports and ad-hoc queries • Provides technical assistance by responding to inquiries from clients regarding issues and/or questions about reports • Creates and maintains technical documentation • Leads and documents the results of data, business processes, and other research in formal and informal reports for review with stakeholders and governance bodies • Develops and maintains data and information architecture documentation, such as data flows and data structures

Elements of Quality Management Plan

One of the core artifacts for the Xerox PBM solution is the Project Management Plan (PMP). This document will include substantial detail with respect to the Quality Management Plan. Among the topics covered within the PMP is the Quality Management Plan. All aspects of the quality management plan will be derived by thorough discussion and review by AHS. The plan will include input from the staff and management charged with ensuring quality in the Vermont PBMS. Sections within the plan include requirements analysis and definition, detailed design documentation, and the tools for tracking the requirements and testing/defect management. The quality management plan also describes the specific metrics and quality management reports with details on how the data is collected, by whom, the frequency, and how it is presented to the Agency.

Traceability

Requirements traceability is accomplished through a collaboration of integrated tools including IBM Rational ClearQuest, DOORS, and the project's SharePoint site. The following diagram depicts the integration of information feeding and deriving from the RTM. In addition, it also lists the specific information type located within each tool.

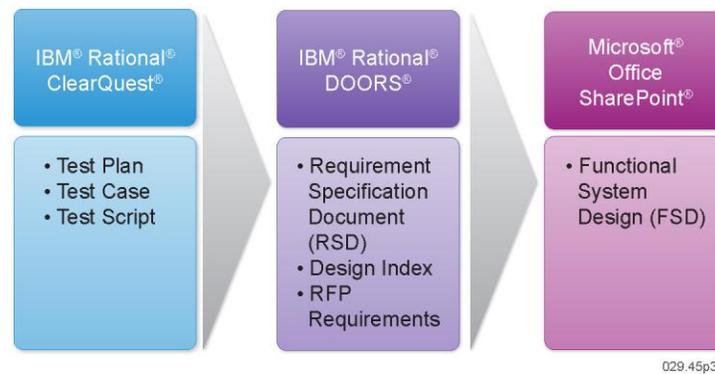


Exhibit I-47. Requirements Traceability Tools
Vermont PBMS Project Traceability Tools

Test Traceability

A brief description of each tool, its role in traceability, and specific integration is explained as follows:

- Requirements Traceability Matrix
 - The RTM is generated using the integration between IBM Rational DOORS and CLEARQUEST.
 - Serves as the central repository for all traceability components of design and testing for the contract.
- IBM Rational ClearQuest
 - Rational ClearQuest is a comprehensive, web-based testing management software for test planning, development, and execution; manual testing; and automated test integration. ClearQuest allows collaborative management of test plans/scenarios, test cases, and test scripts, requirements traceability, and defects remediation throughout testing execution.
 - ClearQuest is integrated with DOORS using the Open Services for Lifecycle Collaboration (OSLC) specification. OSLC is the key component enabling bidirectional links between test and requirement artifacts.
 - Key features via OSLC integration include:
 - Linkage from test cases in ClearQuest to requirements in DOORS that have been associated with the parent test plan.
 - Monitoring of changes to requirements in DOORS thereby allowing the identification of test cases not meeting coverage expectations.
 - Producing traceability and test reports on Rational DOORS requirements based on their corresponding test plans and test cases in ClearQuest.
- Dynamic Object-Oriented Requirements System (DOORS):
 - DOORS, a database housing the Design Index containing all functional and RFP requirements involved in the development of RSDs and FSDs for the system.
 - As shown in the diagram above, all RSDs and RFP requirements are housed in DOORS and are recorded and maintained in the Design Index.
 - A link is established for each RSD to the corresponding RFP requirement, also located in DOORS.
 - Integration from DOORS to SharePoint is achieved via link sets, as both tools are designed to be readily compatible.

- Microsoft SharePoint:
 - All project documents are stored in the project's SharePoint site.
 - Each artifact is listed in the Design Index module in DOORS.
 - The design index entries are linked to one or more associated RSD requirement.
 - The design index entries are linked to artifacts in SharePoint by an external link

Traceability Summary

The Xerox test team uses IBM Rational Suite to manage requirements traceability to/from test items. Requirements are stored in DOORS, pushed via the OSLC interface from DOORS to the testing tool ClearQuest, allowing traceability from the test scenario/case residing in ClearQuest. The testing suite is configured to show linkage from functional requirements to test cases, which are ultimately, traced to the RFP requirements in DOORS, and defects specific to a test and/or requirement. These linkages, in conjunction with other coverage metrics explained below, are used to determine which test cases are impacted when requirements change. The overall process of tracing requirements from the test scenario/test case to the RSD, FSD, and ultimately the RFP requirement is detailed in the *Test Traceability Procedure*.

Traceability Metrics

Metrics reporting during test planning includes metrics that measure traceability. This traceability measures the coverage of requirements-to-test cases (ensures that requirements have at least one associated test case), as well as coverage of test cases-to-requirements (ensures that every test case has an associated requirement). Test cases are traced to functional requirements of the RSD in DOORS that ultimately trace to the RFP requirements in DOORS.

The test team also measures traceability during test execution, confirming that all scripts have been successfully passed for each testable requirement. Metrics are utilized that monitor successful test execution for each requirement, using the traceability from the requirement to the test case, test script, and test execution records.

Table I-27. Xerox Tools to Support Quality Management	
Product	Use
IBM Rational DOORS	Requirements traceability management
IBM Rational Publishing Engine (RPE)	DOORS requirements traceability reporting and document creation
IBM Rational ClearQuest	Test planning, test case scenario construction, and metric reporting; meets requirements for IEEE "level test log"
Subversion and ClearQuest	Collaborative change management capabilities
Microsoft SharePoint	Online collaboration tool that tracks Change Requests (CR); deliverable status and client feedback; continuous process improvement opportunities, etc.

System Environment Setup

Quality management also includes ensuring the system environments are established properly. Separate test environments are used as determined appropriate for the test criteria. Multiple test environments

provide for increasing levels of verification as the code is migrated from one test level to another (e.g., from unit to system to acceptance). The project's software configuration management tools control the migration from one test environment to another.

Each test environment includes the following aspects:

- Complete set of the programs necessary to perform the automated functions of the system.
- Complete set of database tables and test data that are separate and distinct from the other testing environments.
- Procedures and automated processes for the backing up and restoring of the database tables in each of the testing environments.
- Test data comprehensiveness shall be determined by the test plan for a specific test type.

Test Review Process

The test team conducts a peer review of test plans, cases, scripts, and test reports. Peer reviews of test cases verify:

- Proper requirement coverage (traceability) of functional and nonfunctional requirements
- That the test deliverables meet their intended purpose
- System files and data have been identified
- Completeness and correctness of the test script
- Collaborations with functional teams have been specified

The test manager designates test specialists and business analysts from the related functional teams to participate in test case peer reviews and coordinate participation from other project areas as needed. The functional test leads may elect to review a representative sample of test cases of not less than 10% of the total number of test cases developed within a specific team. When the peer review results identify deficiencies, the author addresses the deficiencies and resubmits the item to peer review. This process repeats until the peer review process yields no further deficiencies.

Possible test case peer review attendees are as follows:

- Functional test lead.
- Senior test analysts from different functional areas.
- SMEs from other project functional areas.

Quality Review Process

The test team works with the quality analyst to perform peer and document quality reviews of the test plans, cases, scripts, and test reports to confirm to adherence to documentation standards and verify that the document meets its intended purpose. Quality reviews of test artifacts also verify:

- Document standards are followed for each document type
- Peer review process is followed correctly

The quality analyst reviews a representative sample of the test artifacts (plans, cases, scripts, reports) of not less than 10 percent of the total number of artifacts developed within a specific test group by

functional area. When the quality review results identify deficiencies, the deficiencies are communicated to the functional area's test lead for clarification to the testing staff; the author addresses the deficiencies and resubmits the item to quality review. This process repeats until the quality review process yields no further deficiencies.

Possible test case peer review attendees are as follows:

- Quality Assurance Analyst
- Test SME for the test functional area in review
- Test SMEs from other test functional areas

Client Review and Approval Process

See the *Create and Submit Deliverable Procedure* for the step-by-step process to create, internally review, submit for client review, gather feedback, and finalize client deliverables, including test plans.

Test Administration

Automatic Defect Testing Process

To support this requirement, Xerox's procedures for tracking and correcting defects are documented in the defect management component of our Master Test Plan. These procedures include the following steps:

- Identifying, confirming, and manually logging defects
- Assigning an owner
- Analyzing and repairing the defects and updating related documentation
- Verifying that defects are fixed
- Retesting and verification
- Closing the defects

Xerox implements ClearQuest 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. ClearQuest's defect management supports defect reporting, defect monitoring, updates, and tracking to closure. It includes a defect dashboard showing root causes of all defects.

Exhibit I-48 outlines the Xerox defect management process.

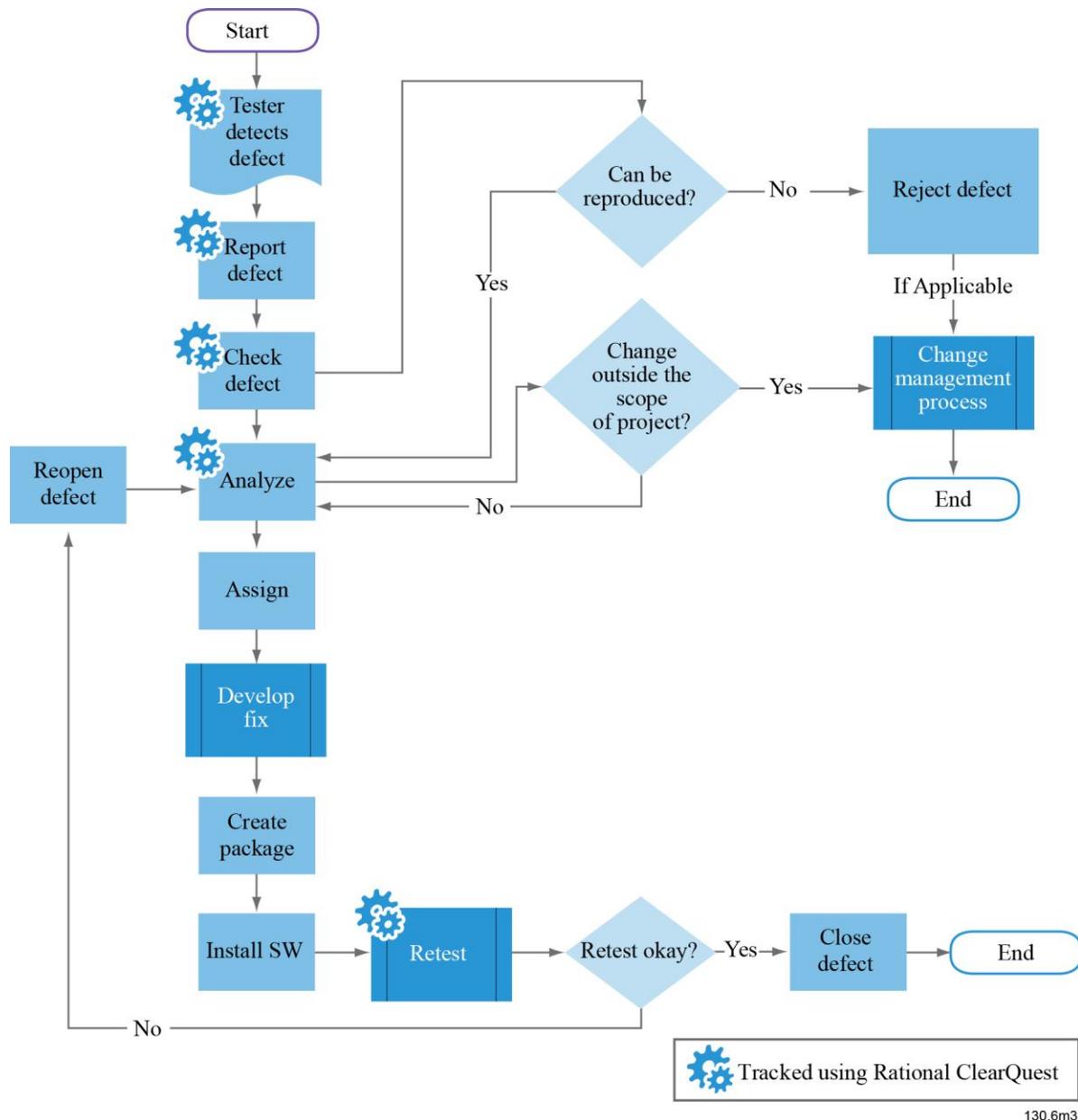


Exhibit I-48. Defect Management Process Flow

All defects move through a consistent identification, management, and resolution flow regardless of the test level that surfaced the defect.

For managing and reporting defects, it is important to categorize the defects based on severity. For severity levels, we apply standard codes ranging from the most severe defects to the least severe defects, as shown in Table I-28.

Table I-28. Severity Code Identification		
Severity	System Available	Severity of Function
1	No	Critical
2	Yes	Major
3	Yes	Average
4	Yes	Minor
5	Yes	Enhancement

We work with the Agency to finalize severity definitions and determination process within the Master Test Plan. We acknowledge that the Agency maintains final authority on severity assignments.

Testers and technical staff work together (developers, architects, etc.) to triage the defect by assessing the root cause of the problem. For example, if a defect is found within the functionality on a Web page, team members will need to know if the cause of the defect is within the Web page itself (presentation layer), data or tables that support the Web page (data layer), problem with the rules configuration, or perhaps a problem with the requirements or design. Based on this analysis, the tester assigns the defect to the appropriate team member for resolution. The development team member (e.g., developer, database analyst, configuration analyst, etc.) corrects and unit tests the defect and works with the business analyst to update the related design documentation if necessary. The fix is migrated using our software configuration processes into the system and integration test environment so the tester can validate that the code works correctly. All analysis and results are documented.

Upon completion of the test case execution, we record test results in the testing tool, and we report test status. If a test case is executed multiple times, the execution results are stored separately with a date stamp to provide historical information. Before the final delivery of test results to the Agency, the test analyst verifies all exit criteria associated with the test cases being delivered are met.

Xerox documents and reports on test level execution progress, status, and metrics. The results—submitted via SharePoint at the end of each iteration and at the end of the test level—include an overview of the testing effort and the disposition of all test cases, including expected and actual results. All defects are identified and classified in the report and include the status of the defect resolution as of the date of the report. The ClearQuest application provides extensive tracking and reporting of defects and their resolution.

Defect Review Meetings

Defect review meetings are typically held daily for managing defects in a functional area. The meeting includes the test lead, functional SME, and developer for each functional area. Each defect for the functional area is reviewed to:

- Confirm the validity of the defect.
- Confirm the developer’s understanding of the issue.
- Review suggested solution for the issue.
- Schedule the advancement of the defect’s solution into the next code release.

Information collected in the defect review meetings is used during the defect triage meetings held with the test manager and other test leads.

Defect Triage Meetings

Defect triage meetings are held throughout the SPARK-ITS System Testing and Readiness Testing Workflows. These meetings are the responsibility of the test manager and are held on a regular basis with the time frame being recorded in the project schedule (work plan). A typical scenario is to hold triage meetings once per month in the earliest stages of system testing, once per week for the majority of the testing effort; possibly ramping up to multiple times per week at the height of testing and/or if defect rates warrant additional meetings per week.

A combination of test manager, test lead, development lead, functional SMEs, and client (client only involved in triage meetings during UAT) are involved in these triage meetings. The test manager provides reports on defects in advance of the meeting. Test analysts attend to provide information about identified defects. The attendees discuss each defect, determine a high level resolution strategy, assign it a priority, and determine a schedule for resolution. The appropriate manager (development manager, functional manager, etc.) assigns the defect to a resource for correction and reports the resolution of each defect back into the test tool. The test manager is responsible for tracking and reporting on the status of all defect resolutions.

Defect Regression Testing

Defect regression testing is a standard practice throughout all testing types. All defects that are resolved but pending release are regressed when the test team is notified of the new release containing the fixes. When a defect passes regression, it will be considered “Closed.” If a defect fails regression, the test team notifies the development team by entering notes into the defect in ClearQuest. The test manager or designee is responsible for tracking and reporting to development and client the status of regression testing. Defect regression testing should not be confused with general regression testing in which previously passing test cases are re-executed. Defect regression testing is performed to validate the fix for a resolved defect before re-assigning the failed/blocked test cases for execution.

It is recommended that a separate cycle of defect regression testing occur at the beginning of each test release to confirm the resolution of severity 1 and 2 defects. This is particularly beneficial if the defect repair cannot be confirmed in the execution of a functional test. The scope of this last cycle should be determined by the test manager. Testing metrics and defect reports should be used in this determination process.

Root Cause Analysis

At the point of closure for each defect, the test analyst reviews the defect data and selects a root cause from the following options:

- Requirement unclear or incorrect
- Design incorrect or not aligned to requirement
- Code or configuration not aligned to design
- Code or configuration error or conflict

- Test design or execution error
- Data, environment setup, or integration defect
- Process not followed (e.g., code was changed without being required or designed; design was changed after the test case was finalized; other version control issues)

Xerox uses Rational ClearQuest as our defect tracking tool. This Web-based tool allows users to manage and report on defects, as well as perform root cause analysis. The process involves compiling information on defects found during testing or normal system operation, analyzing that information, and reporting on it so that trends and significant events are recognized.

Deviation Policy

The *Testing and Validation Plan* and later level test plan documents are submitted to the client for review and approval. Once approved, they are placed under configuration control as indicated in the Configuration Items list. Deviations to the procedures detailed in the level test plans must be delivered to the test manager. Email communication with the test manager initiates the process for requesting deviation to a level test plan.

The request includes:

- Task(s) requiring deviation
- Rationale for deviation
- Effect on system/software quality

The request is reviewed by test manager and presented to the client only if valid. Only once the deviation is agreed will it be processed. The test manager, test leads, and client are involved in the deviation policy process.

Control Procedures

Test Issue and Risk Management

The test team uses the project's SharePoint site to manage internal and project-level issues and risks. In regards to testing only test leads and senior test analysts are authorized to enter issues and risks into SharePoint. The test leads review internal issues and risks with the test manager during test lead coordination meetings. Any issue or risk that cannot be resolved internally is escalated to a project-level issue or risk. Project-level issues and risks must be approved by the test manager prior to being entered into SharePoint.

Test Script Change Process

Approved system test cases and test scripts under version control and housed within ClearQuest can only be modified upon approval from the responsible test lead. The test script change process is used as a guideline for senior test analysts, test analysts, and test leads to review, validate, and approve script issues found during test execution. When a script change results in a change in the expected results such as a design change, the test analyst should proceed with the test script change process. Inconsequential

changes such as the renaming of a menu bar can be performed without senior test analyst or test lead approval.

Configuration Management

The migration of code from one level to another is closely monitored through the Xerox configuration management processes as detailed in a configuration and management plan. Xerox follows these documented processes to ensure the migration of tested code, from one test environment to the next, is properly managed and executed, so the integrity of each code version is not compromised. In this way the test results can be tied to each version of code. Prior to migration, a schedule is prepared with regard to the frequency of planned migrations. The test team works with the migration team to tailor approval procedures for allowing code to move from one test environment to another. The configuration and release management Plan requires changed components to pass through a series of required testing stages before being moved into production. If any issues are discovered in subsequent test stages, the component in question is returned to the development environment for modification. Components that have been returned to the development environment for issues discovered in any testing stage shall be unit tested by the developer prior to retesting by the test analyst. All defined procedures must be approved by the appropriate team leads, the test lead, and the database administrator.

Data Management

Data Sources

Data sources are dictated by the level of testing planned and executed.

Data is derived from three primary source areas: converted data, manipulated data, and created data. For the initial levels of testing where data are required but not yet available, they are created.

The conversion processes, both automated and manual, create the values and formats of applicable legacy data that will become available in subsequent testing. Converted data becomes the primary source for data used in system test and all subsequent test levels. The scope of the data varies by the functional area and the system requirements. The amount of data required is derived from the data requirements and the volume needed to thoroughly test the functional areas of the system.

During the initial implementation with each new test level, new data is converted and loaded into the respective test environment. Prior to loading, the data is verified to ensure the data matches the documented data formats or, if different, to make the appropriate programming updates to account for new valid values or code sets and apply them to the new system. Electronic versions of the parameters for each converted data load are retained. A report is produced to confirm the successful transfer of data for testing, including a list of all transferred and/or converted files, conversion totals, list of permanent data stores that are created by the test rather than loaded, and a list of all other files transferred and/or converted.

Specific test data requirements may necessitate manipulating data to successfully execute a test. There are also requirements that can only be tested by creating test data. The test analyst identifies what type of data is needed and may use, create, or manipulate the data to accomplish the test objective(s).

Data Storage

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 phase remains independent.

Data Uses

In order to prevent test analysts from using the same test data and possibly invalidating test cases and specific test results, test data is segmented and assigned to individual test analysts, wherever possible. Examples of data segmentation include assigning sets of test data to test analysts according to member ID, provider ID, or member/provider characteristics. Segmenting test data allows multiple test analysts to test in the same environment without adversely impacting one another.

Innovation

A few last yet very exciting words regarding our mission to ensure we deliver the highest quality pharmacy programs in the industry, we are pleased to share some of our team's brightest ideas in real development. This is innovation at work!

- **Managed Care Analytics** – Xerox Government Healthcare Solutions (GHS), in partnership with the Xerox Innovation Research Center in Webster, NY, is developing a solution to help states actively manage their MCOs. Specifically, the tool will provide states with the ability to monitor the quality of care and health outcomes MCOs provide and identify opportunities for program cost containment and reduction. The first pilot of this tool will begin in Quarter1 in partnership with the State of New Mexico. The solution features:
 - A scorecard comparison between MCOs
 - Findings and recommendations to help States make more informed policy and purchasing decisions
 - General data querying capability
- **Personalization Engine** – GHS, in partnership with XIG, created an analytics engine to be used in our contact centers to predict the wants and needs of the member and provider populations. The predictions can occur prior to or at the beginning of a call. The functionality allows us to better serve our clients by reaching out directly, for example, via text or e-mail with the information needed before the client initiates a call! If the client does call, we can provide the information they are looking for immediately after authentication, reducing talk time and improving customer service.
- **Fraud, Waste, & Abuse (FWA)** – GHS, in partnership with PARC (Xerox' Palo Alto Research Center), is creating improved FWA analytics for our current post-pay solution and our new pre-pay option. The analytics are currently built into the Metal Detector (MD) tool and deployed on the California MMIS account. The advanced analytics and MD tool are being implemented under the recently won Virginia DMAS Audit contract with a go-live date of 3/1/2014. By the end of 2014, the plan is to have a pre-pay solution ready to bring to market.

11.0 System Administration and Disaster Recovery – whole section confidential

Instructions: The Vendor must provide a narrative overview of how the proposed solution will meet the System Administration and Disaster Recovery requirements. The approach must, at a minimum, provide details on how the Vendor intends to meet or exceed the System Administration and Disaster Recovery Requirements set forth in Template H – Non-Functional Requirements, Tab O1 System Administration and Disaster Recovery’.

Based on our tested and proven methodologies and real world recovery experience, our Disaster Recovery and Business Continuity solutions focuses on continuity of the PBMS project’s critical functions and preparedness for quick activation of a powerful disaster recovery response in the event of either a man-made or natural disaster.

Meeting the very real need for effective and practiced Disaster Recovery and Business Continuity Plans is fundamental both to AHS’ overall project strategy and to our design for ensuring ongoing operations for the PBMS project. The increased number and severity of natural disasters and security threats in recent years has underscored the need for effective planning and readiness.

As shown in Exhibit I-49, Xerox DR/BC Approach, our Disaster Recovery and Business Continuity (DR/BC) solutions focus on prevention, business continuity of critical functions following a minor or major service disruption, and preparedness for quick activation of a powerful response when a natural or manmade disaster occurs. Our approach addresses all aspects of contract operations, including contingency for alternate facilities for back-up and recovery of all hardware and software and handling all types of emergencies and disasters.



Exhibit I-49. Xerox DR/BC Approach

We combine technology and human resources to help prevent disruption to the PBMS project.

Xerox proudly offers a stable and reliable disaster recovery and business continuity planning infrastructure. Our DR/BC planning capabilities encompass management of both technologies and human processes that enable us to deliver a comprehensive, effective, and proven means for addressing prevention, disaster recovery, and business continuity for the PBMS project.

The key to Xerox’s success in building and managing these capabilities is that we do not simply react to disasters—we anticipate and prepare for them. Working in collaboration with AHS, we customize our existing, proven, corporate mandated and supported DR/BC plan templates to develop Vermont-specific staffing, facilities, technology, and operational procedures. Our plans ensure that critical business functions effectively continue in the event of any service interruption, be it short-term, limited, extensive, or catastrophic.

We proactively monitor and assess our systems and processes, and improve our approach as necessary, resulting in an outstanding industry track record in managing DR/BC. We employ real-time monitoring and reporting tools for network, database, and telecom functionality. The plan is designed and developed using methods based on industry best practices and the valuable practical experience we have gleaned through supporting disaster recovery efforts for Medicaid programs during major crises such as Hurricanes Ike, Rita, Katrina, Dennis, Gustav, and Wilma, as well as the eruption of Mount Redoubt in Alaska, which caused earthquake tremors more than 100 miles from the site of the volcano.

In the remainder of this section, we describe our approach to security in the following sequence:

- 11.1 Disaster Recovery Plan
- 11.2 Redundancy and Failover
- 11.3 Data Archiving
- 11.5 Monitoring, Tracking, and Auditing
- 11.6 Service Level Agreements (SLAs)
- 11.7 Help Desk
- 11.8 Data Security

Disaster Recovery Plan (O1.1, O1.5)

A business operation cannot be considered completely recovered from a disaster until full operational capabilities including all lines of communication are restored. Through our DR/BC plan and our demonstrated processes in managing previous unavoidable disasters, we deliver the operational resiliency that AHS, beneficiaries, potential program enrollees, and other stakeholders rightly expect for the project. We work with AHS to ensure the unique aspects of its environment, regulations, and other factors are incorporated during the creation of the customized DR/BC plan for the project, based upon our proven template.

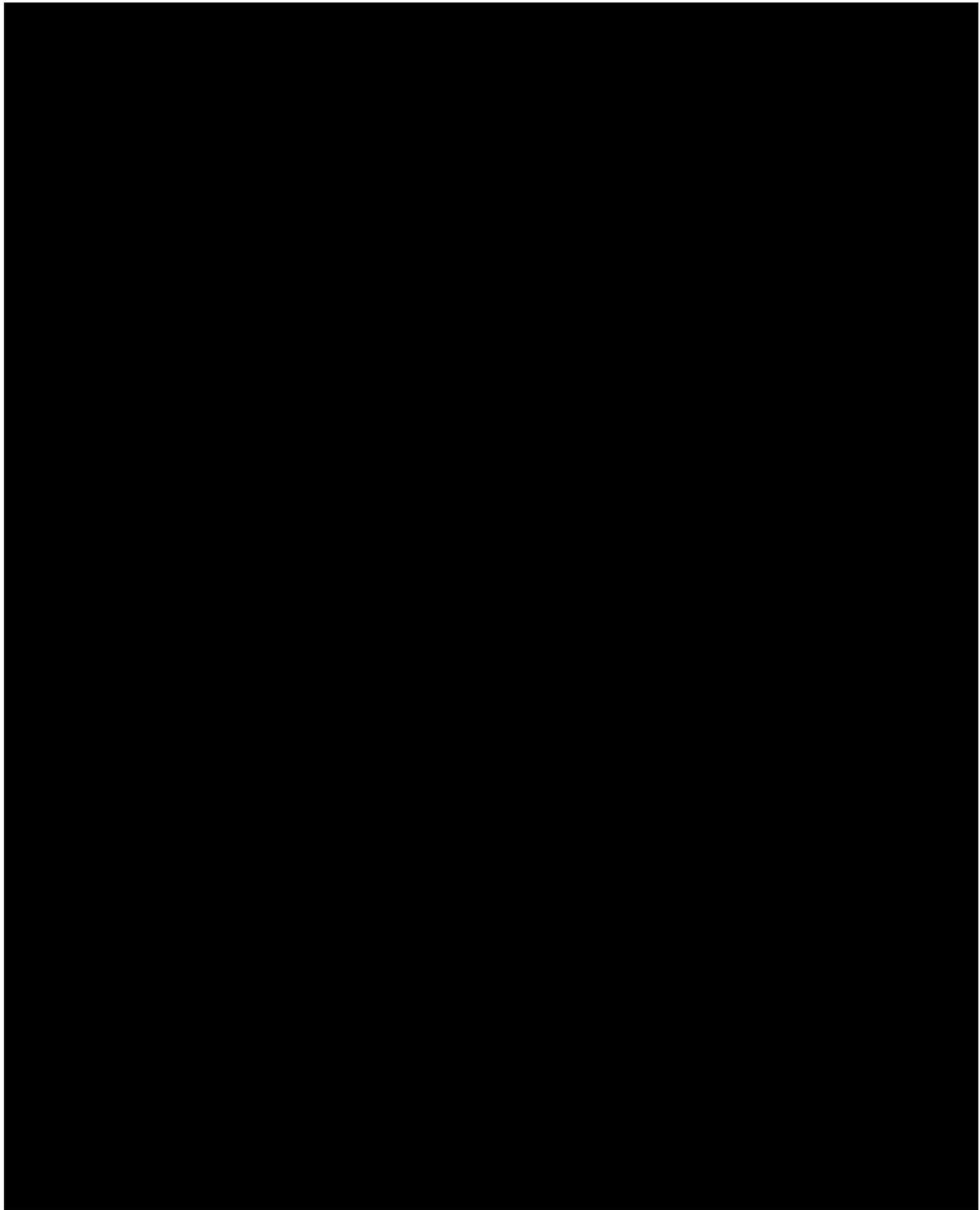
The plan follows our standard low-risk approach for all PBM projects, to help ensure the successful implementation and execution of disaster recovery measures and to help maintain service continuity. While no plan can account for every possible event or business impact, through detailed planning, our DR methodology is applied to ensure the most cost efficient plan is developed to support AHS’ business functions in the event of a disaster. We leverage our years of practical experience in successfully preparing for and recovering from real disaster situations that were unavoidable to shape an effective plan to help ensure systems and equipment remain operational or are restored quickly.

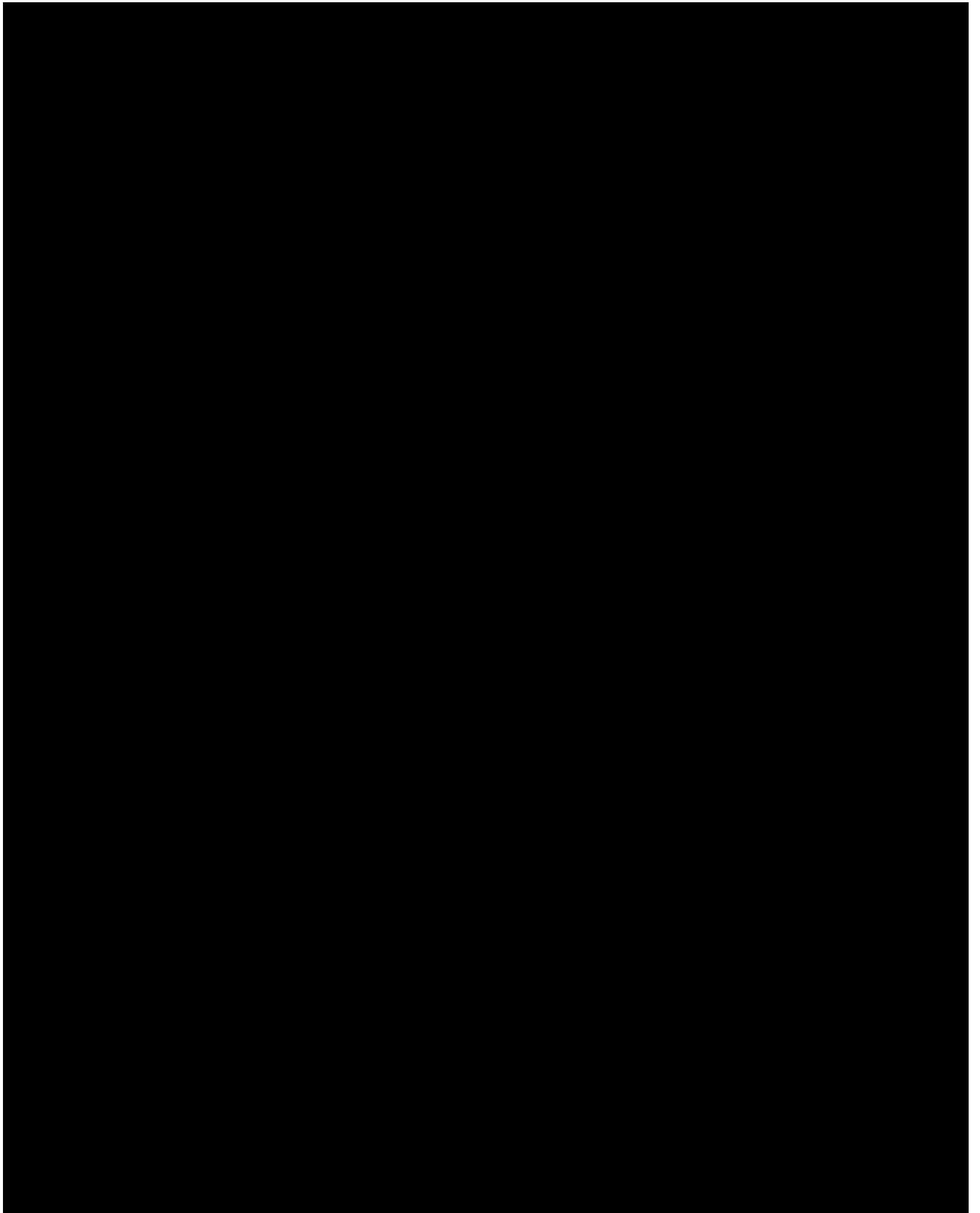
Mission critical systems are defined as those resources needed for survival of the project, or where loss of the resources could result in significant financial impact, or where loss of use or access to such resources cannot be tolerated for longer than a AHS-determined period of time. Xerox creates the plan for AHS to maintain or restore mission critical business functionality following a service disruption, as outlined in the contract.

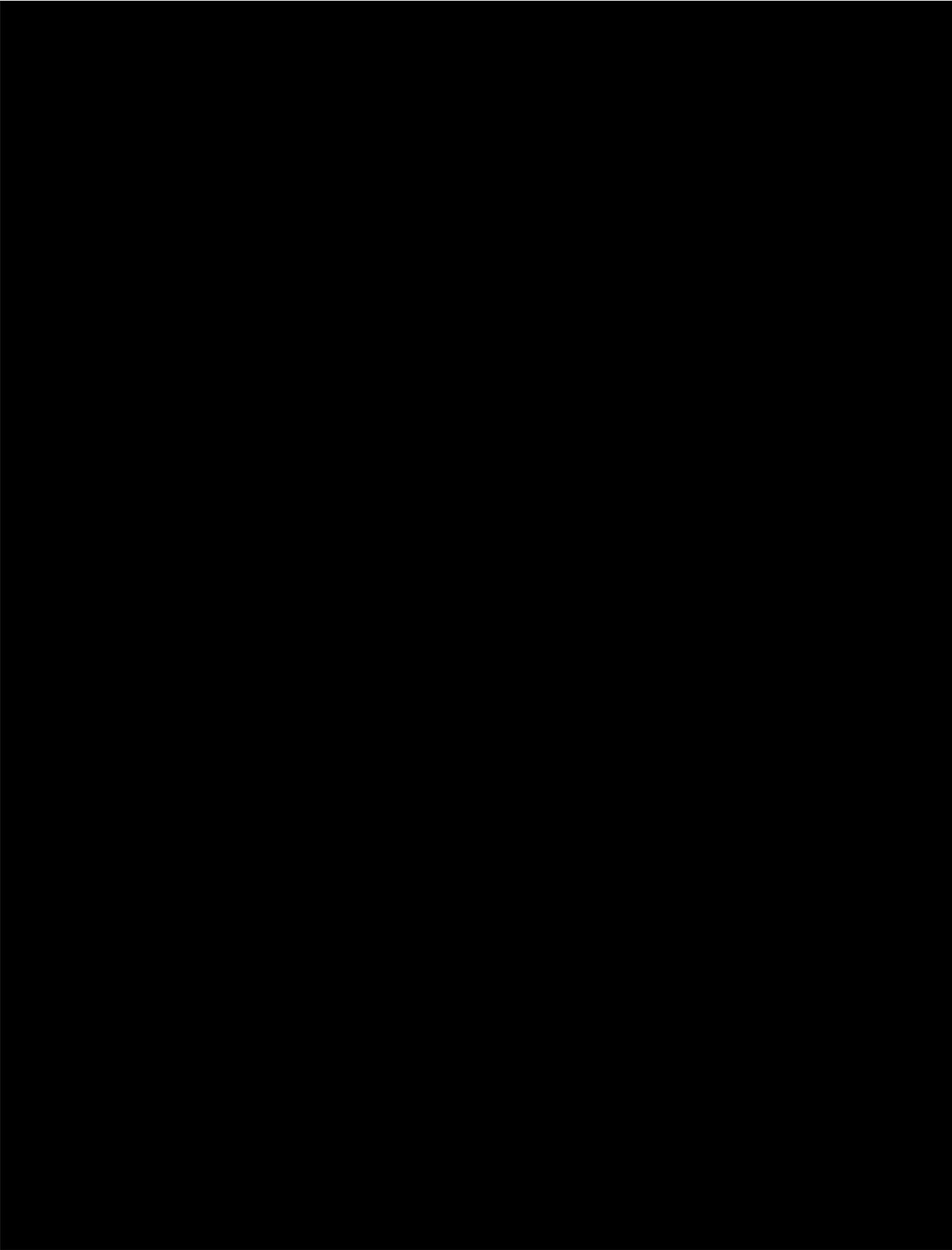
We work with AHS to ensure the unique aspects of the PBMS environment, regulations, and other factors are incorporated during the creation of the customized DR/BC plan for the project. The DR/BC plan is developed, implemented, and maintained on the basis of our proven corporate templates and tools. Our ongoing reviews help ensure the DR/BC plan is updated as necessary to reflect changes to business needs. The stages in the DR/BC planning lifecycle include:

- **Analysis** – includes AHS’ analysis and identification of the risks associated with various types of natural and man-made events, which could affect operations
- **Solution design** – includes identification of appropriate back-up and recovery mechanisms
- **Implementation** – includes the design, processes, and procedures to support recovery
- **Testing and approval** – includes annual tests and AHS approval
- **Maintenance** – includes continued evaluation of the DR/BC plan and the readiness of our people, processes, equipment, facilities, and systems to implement and support the plans

Through our DR/BC planning and our experience, we deliver the operational resiliency that HHS, providers, and other stakeholders rightly expect. A sample of the table of contents of our DR/BC plan template is shown in Exhibits I-50 through I-52.

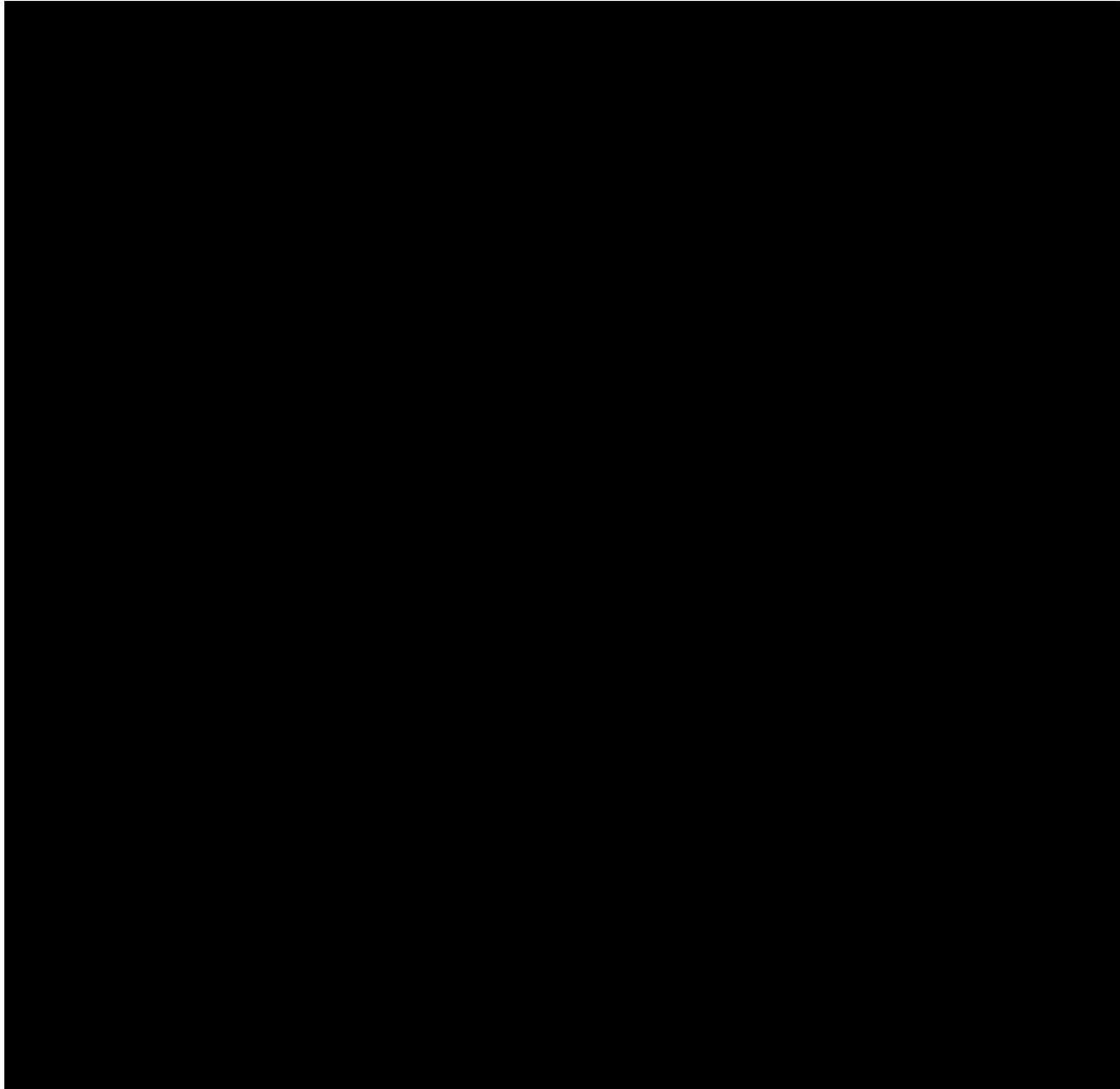






Escalation Plan

The DR/BC plan describes recovery procedures for both major and minor outages, based upon five escalating levels of business interruption as described in Table I-29, Business Interruption Assessment Procedures. It also outlines the decisions, tasks, and actions that should be performed in response to a situation that disrupts normal business processes. The development of the DR/BC plan includes incident management planning, which documents critical communication points in managing event and business recovery planning, and the steps to recovering business. Employees are trained in the actions needed to handle each type of interruption.



Redundancy and Failover (O1.2, O1.3)

Xerox proposes primary hosting of hardware and software for PBMS production and staging environments at the secure, environmentally stable, Xerox-owned data center located in Pittsburgh, Pennsylvania and production hot standby and non-production (development, system integration testing, model office, and business to business testing) environments are hosted in the Xerox Tarrytown, New York data center. Failure in any component at our primary data center, located in Pittsburgh, Pennsylvania, results in automatic switch over to the redundant component. Only in the case of multiple or system-wide failures do we trigger failover to our backup data center.

The project production environment is designed with full redundancy of hardware and network infrastructure and is capable of handling 100 percent of the production operational capacity with no degradation in performance. Clustered servers are used on every tier providing immediate failover. Data is stored on a fully redundant disk array. Load balancing, reverse proxy servers, and other components also support redundant failover. The network includes redundant routers and circuits at all critical access points to eliminate single points of failure related to local circuits and router equipment. The PBMS benefits from built-in resiliency at multiple levels: The front end servers are load balanced, and if a front-end server becomes unavailable (failure or planned maintenance), any client that is currently interacting with that server is automatically redirected to one of the remaining servers. The Java application servers are configured in logical redundant pairs, and if one becomes unavailable, the workload is taken over by the remaining server. The combination of Oracle RAC and a redundant SAN guarantees that the database can always be accessed.

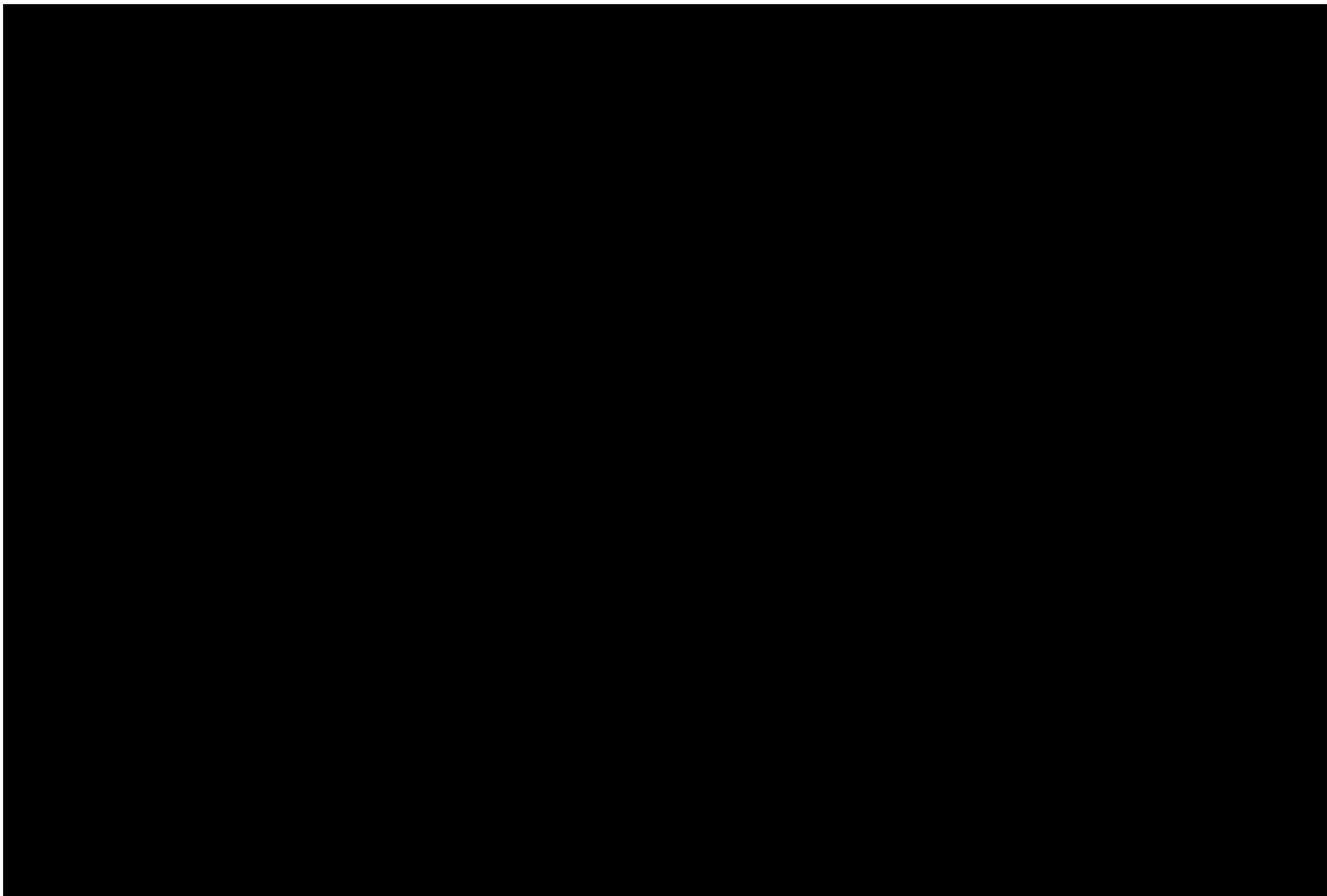
Environments in our data centers are configured with at least full redundancy, and in some cases multiple redundancies, of all system server components. There are multiple redundant/clustered servers for components including:

- Apache (HTTP servers)
- Websphere Application Server
- Microsoft SQL Server
- Oracle
- IIS/.Net
- Business Objects

Our data centers are also configured with full redundancy for both power and Internet connectivity. The facilities operate with dual power feeds on two separate power grids. In addition, batteries and backup diesel generators that are controlled by uninterruptible power systems prevent loss of the system due to a single-point electrical failure. Xerox provides for redundant Internet access with duplicate firewalls and hot failover F-5 3400 load balancers. We contract with two network vendors and connect all of our clients to both vendors to create redundant capability.

Hot Seamless Failover

Should a system failure occurs at the Pittsburgh data center, we have well-defined procedures in place to respond to various types of failures (such as network, database, and application failures), to ensure the proper personnel are notified, and to begin the problem resolution process. Redundant servers, routers, storage devices, and network connections may be able to manage the problem by automatic failover to the redundant component. If this does not resolve the issue, failover to the secondary data center in Tarrytown, New York is initiated. Exhibit I-53 illustrates the status of the data center when failover has occurred and Tarrytown is designated the active site.



The architecture of our system includes SmartRouters that automatically direct claims transactions from switch vendors to our active application servers, whether at the primary hosting site or our secondary site. SmartRouters also provide load balancing and transaction resource management. When Tarrytown has become the active site due to an interruption of service in Pittsburgh (not a disaster incident), identical versions of SmartPA, SmartFusion, and PBM OS+ installed in Tarrytown are processing claims and PA transactions. Switch vendors are still connected to Pittsburgh, but their transactions are routed to Tarrytown by our SmartRouter. Data replication has reversed direction, so that now Oracle Active Data Guard is replicating data from Tarrytown to Pittsburgh.

All PBMS 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 replicated in near real-time to our secondary facility SAN, so the data is available for the failover process.

All Xerox data center facilities provide equivalent levels of security, safety, and reliability. Pittsburgh and Tarrytown data centers are state-of-the-art facilities, with redundant power supplies, air conditioning systems, and strong physical security. Both data centers are connected with very large optical links to the two largest American data carriers, and also connected to the Internet with multiple high throughput connections from diverse Internet Service Providers (ISPs). Both sites also maintain dedicated support teams who provide network and hardware monitoring and support.



Testing

Xerox Continuous Availability Services creates the DR/BC testing plan to be executed each quarter of the year for the duration of the contract, as required by the RFP. If no system maintenance or outages have occurred during a quarter to exercise this capability, then Xerox schedules a test failover and fail back to occur within the month following the end of such quarter. The plan includes the information needed to make the decision-making processes as efficient as possible during a disruption. It 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 AHS, Xerox leadership, the recovering site, and the backup sites.

We coordinate the scheduling of the DR/BC test with AHS, and encourage its full participation in conducting, observing, and analyzing the test results. We seek the observations of AHS' participants and document the full test results in a written report for the Agency's review.

The report contains:

- Synopsis of the test methodology
- Evaluation criteria
- Evaluation scores
- Deficiencies noted
- Corrective action plans for any deficiencies
- Lessons learned
- Other documentation

We include successes as well as any deficiencies and the associated corrective action plan. We submit an updated report when any corrective actions have been successfully implemented. As the DR/BC plan is a living document, any changes resulting from the testing process are incorporated into the plan.

Data Archiving (O1.9)

We comply with AHS' data archiving requirements and do not dispose of any records without specific written instructions from AHS. For the PBMS project, we back up all critical files and tables on a daily basis as well as other key check points throughout the day and night. This provides us with absolute data integrity and seamless recovery should any process fail.

We generate complete backups of all data used by the PBMS Project. We store these backups in both our Pittsburgh data center library and at our secure, offsite location in Moon Township, Pennsylvania. This offsite vault is owned and operated by Xerox. In the case of any short-term disruption, we can quickly restore data or systems using the latest full or incremental back-ups. Our Moon Township vault facility is environmentally controlled and protected by a sophisticated fire prevention system. Tapes are moved to and from the storage vault by Xerox employees using Xerox vehicles

Monitoring, Tracking, and Auditing (O1.6, O1.7, O1.8, O1.11, O1.12, O1.13)

Xerox maintains support staff 24/7/365 in our centralized data center to help facilitate the PBMS is available 99.99% of the time measured in five minute intervals. Resources include network architects,

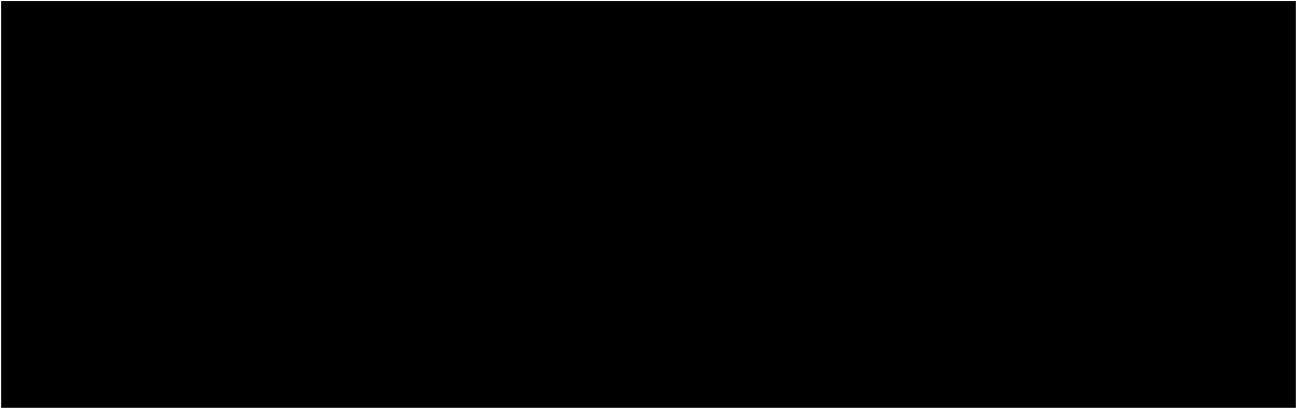
designers, and engineers with appropriate industry experience and certifications to provide design, engineering, and implementation consultation for the network.

In addition, a comprehensive monitoring process that includes sophisticated monitoring tools and dedicated monitoring staff, is employed to ensure that a failure in an infrastructure component is identified quickly and recovery activities are initiated immediately. We have well-defined procedures in place to respond to various failures (such as network, database, and application failures), to minimize interruptions in service.

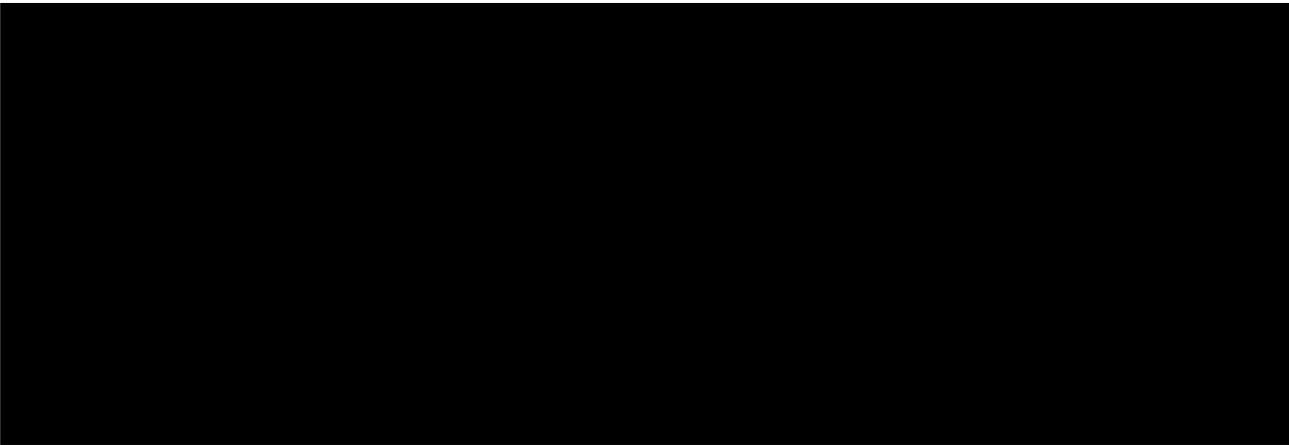
PBMS availability and usage are monitored 24/7 for top performance. We use the following monitoring tools to track system usage:

- **Nimsoft:** For monitoring against pre-defined benchmarks. Nimsoft monitoring tools support application monitoring, end user response time monitoring, and server monitoring. 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.
- **Nagios:** To monitor network services. Nagios is an enterprise-level, open-standard monitoring application. A simple plug-in design allows users to easily develop their own service checks. The ability to define a network host hierarchy using "parent" hosts, allowing detection of and distinction between hosts that are down and those that are unreachable.
- **BMC TM-ART:** Provides application level monitoring and availability as well as end-to-end response measurements via transaction execution. Proactively identifies and alerts performance trends over specified intervals.
- **Oracle Grid Control:** Provides a single, integrated solution for testing, deploying, operating, monitoring, diagnosing, and resolving problems.

In order to monitor PBMS' processing speed and the network, we maintain switch company monitoring Web pages and reports. Authorized AHS users can view the switch monitoring Web page, enabling them to constantly monitor the processing time and statistics of all pharmacy claims, as shown in the following sample Web page in Exhibit I-54. Switch Vendor Summary.



By selecting the Switch Vendor Detail Tab, as shown in Exhibit I-55, Switch Vendor Detail, users may view information including vendor name, total paid claims, total denied claims, and average claim processing time.



In addition to the suite of monitoring tools at Xerox's disposal, we utilize custom load generation programs to perform stress testing and monitor system capacity. We use real-time monitoring/alerting software at all layers (network, Web, application, and database) so issues of unexpected growth are identified and addressed as soon as possible.

In the call center, the Avaya Call Management System (CMS) interfaces with the ACD to allow the generation of reports, administration of ACD parameters, and supervision of call activities. Available information features include live, real time statistics and historical reports to monitor and report on Help Desk service.

Audit Trail of Changes (O1.10)

PBMS application logic is stored in the Subversion repository and any modifications must be checked into Subversion as a part of the standard Xerox source code control function. Information captured includes date, time, user ID, and logic changes.

Code cannot be deployed into any environment without having first been logged in using Subversion controls. Developers use Subversion to maintain current and historical versions of files such as source code, web pages, and documentation.

Processing rules are maintained in the system documentation which is an integral part of the migration process. Full descriptions of PBMS application logic changes are provided in system documentation and available to authorized users for examination and review.

Audit Trail of Accesses

PBM OS+ uses Oracle Flashback Data Archive, to capture changes to the source database table. This product allows the system to capture a before image of data that has been modified on an Oracle database. These images are written to Oracle “shadow” tables and are then used by the audit log user interface to display the data. The audit log user interface displays each table and every attribute that has changed with before and after data, the date and time of the change, originating transaction and/or business function/process and the User ID of the person that changed the data. Both online and batch changes are captured.

Utilities for Retrieving and Reporting Processing Logic Changes

Xerox encourages transparency of project information and collaborates with AHS through the use of Subversion, SharePoint, and PBMS websites.

PBMS application logic is stored in the Subversion repository and any modifications must be checked into Subversion as a part of the standard Xerox source code control function. Developers use Subversion to maintain current and historical versions of files such as source code, Web pages, and documentation. Subversion allows authorized users to view current versions, recall prior versions, and examine logs of who made which changes and the history of how data/processing logic changed. We will work with AHS to determine requirements for reporting.

System documentation is stored in our project repository in SharePoint for easy access and viewing by authorized AHS staff. Current and previous versions provide a history of logic and business processing changes.

Another example of ensuring the visibility of project information is shown in parameters and lists that are maintained in dated spans to support business rule changes. Criteria defined in the SmartPA rules engine can also be accessed by authorized users.

Service Level Agreements (SLAs) (O1.7)

Xerox has a successful history meeting system performance and availability requirements as defined in SLAs identified by AHS in collaboration with Xerox. The detailed design of the hardware, software, and network infrastructure ensures that it performs to the required levels of the PBMS project.

Our proven approach to data center management ensures that we maintain acceptable performance levels in all areas, including incorporation of key performance measures and service level requirements. Techniques used in our data centers to ensure that we meet agreed upon service levels include, but are not limited to:

- Comprehensive real-time monitoring processes to ensure that a failure in an infrastructure component is identified quickly and recovery activities are initiated immediately
- Staff available 24/7/365 in our data centers to provide support and problem resolution

- Redundancy of hardware and software to eliminate single points of failure
- Clustered database servers to ensure continued availability of data in the event of a component failure
- Oracle relational database management system (RDBMS) technology to provide flexible scalability
- Servers load balanced to ensure peaks in network traffic are shared across available servers
- Data stored on Hitachi Virtual Storage Platform (VSP) SAN for the highest performance and capacity

Information Technology Infrastructure Library (ITILv3) Best Practice Standards (O1.8)

The Xerox Quality Management System (QMS) is an industry-leading approach to delivering IT best practices, improving internal controls, providing world-class services, and implementing continuous improvement. Our QMS is designed and built from activities including:

- Adopting the Information Technology Infrastructure Library (ITIL) best-practice framework for IT service management
- Validating performance and compliance through third-party audits and certifications
- Using Lean Thinking and Six Sigma principles to drive continuous improvement and customer value

The QMS framework supports our operational excellence goals by facilitating increased effectiveness and efficiency, thereby leading to consistently high service delivery performance and reduced service delivery costs. Xerox provides a truly integrated IT service management platform that consolidates service delivery so that our clients benefit from standardization, an ITILv3-capable solution, and advanced service management capabilities.

The focus of the QMS is to foster the use of an established IT framework to help promote standardization and consistency throughout our internal IT operations and service delivery organization. We use ITIL standards to accomplish this goal. ITIL provides guidelines for IT process best practices that are tailored to meet the unique needs of the PBMS project. By implementing these processes, we improve organizational efficiency, cost controls, and communication. ITIL also provides a foundation for common terminology and metrics across multiple regions and operational centers.

The ITIL v3 framework provides process integration that can be used to break down operational silos and foster cooperation between IT functions. ITIL v3 adds an emphasis on the life cycle approach to IT and encompasses service strategy at its core, with continual service improvement wrapping all processes to focus on the necessity of constant evolution. The interdependencies of information and workflow for the Service Support processes are a significant component of ITIL. The integration of these operational activities drives the business planning processes defined within the Service Delivery set including:

- Capacity management
- Financial management
- Availability management
- Service level management
- Continuity management
- Customer relationship management

These processes interact across areas, as well as within each set of processes. For example, configuration management data supports availability, continuity, financial, and capacity management; and availability interfaces strongly with both incident and problem management. We use the ITIL framework to identify and assess gaps, and establish and augment processes to address the identified gaps.

ISO/IEC 20000, a worldwide standard specifically aimed at IT service management, certifies that Xerox has successfully implemented the ITIL best-practices framework.

Help Desk (O1.4)

Our help desk for the PBMS project is located in our established Henderson, North Carolina call center. This professionally staffed call center currently supports 23 different state Medicaid, pharmacy benefit manager (PBM), health information exchange (HIE), electronic health record (EHR), and Medicaid Management Information System (MMIS) clients and two large national healthcare payer clients. More than 500 clinical and pharmacy services specialists promptly respond to more than 385,000 calls each month.

The help desk—available via a toll-free number—is staffed with well-trained, knowledgeable customer service representatives (CSRs) who answer technical inquiries about PBMS usability, help callers solve problems, technical issues. The help desk is available Monday – Friday, 8:00 a.m. – 7:00 p.m. Eastern Time and Saturdays from 8:00 am – 5:00 pm Eastern Time.

Based on Xerox’s extensive experience providing help desk services, we are keenly aware that the success of any pharmacy program depends upon the intelligent deployment of competent, trained personnel using proven, documented processes supported by the appropriate technology. In establishing its help desk, Xerox strives to provide the best customer contact experience in the industry. We invest in people, processes, and technology to develop an iterative process that leads to continual improvement and ever-increasing customer satisfaction.

To help ensure help desk CSRs deliver high quality and responsive assistance, each CSR receives Vermont PBMS project-specific and role-specific training. We develop AHS-approved policies, procedures, and scripts to support our staff in delivering accurate and efficient assistance to callers. The help desk is supported by an advanced telephone system and related reporting tools to ensure quick, efficient customer service for AHS staff. Table I-30 provides a summary of the key components of our help desk technology solution.

Staffing the Help Desk

The goal in staffing the PBMS help desk is to provide the right number of people at the right time with the right set of skills to handle expected call demand.

- **Recruit.** We begin by carefully selecting CSRs with a passion for excellence and customer-focused philosophies. We look for prior experience in healthcare or a related field and seek people with an ability to go beyond the obvious to find resolution to customer issues. Using a strict set of selection criteria, we ensure that the CSRs hired are stable, qualified, and dedicated.
- **Train.** Once we select CSRs, we invest the proper training in them so that they are fully prepared to meet the demands of our callers. Taking shortcuts with training only serves to put our CSRs at risk—

and does not lead to the positive customer experience outcome that we seek. We supply continual training to our CSRs to ensure they are able to deliver the best possible service.

- **Reward.** Our third method of investing in people is through financial means. The vast majority of our call center locations utilize a variable pay scale known as activity based compensation. Based on factors such as quality, efficiency, customer satisfaction, and attendance, our CSRs and management staff have an opportunity to earn premium pay. This innovative approach has a direct impact on our callers. Quality of service and customer satisfaction matters because it has a financial impact on the CSRs. The end result is low turnover, high morale, and a satisfied customer community.

Call Center Processes

We develop processes for diffusing contentious situations and active problem resolution; we teach our CSRs ways to turn “bad” calls into a positive customer experience and escalate difficult calls for additional support. On a periodic basis, we review our call center policy and procedure manual to examine the effectiveness of each process. Experience shows that when we have the right processes in place and we follow them, we achieve positive outcomes for our callers.

We also invest in processes that lead to positive results and better outcomes for our clients. Through years of refinement, we have developed a quality assurance (QA) process that provides feedback in a positive way that fosters understanding and growth. We monitor recorded calls and live calls and sit side-by-side with our CSRs to assist them with calls as needed. Every CSR is scheduled for a quality review session and we conduct calibration sessions with everyone involved in the QA process to ensure consistency.

Call Center Technology

Finally, we believe that in order to provide the optimum customer service experience, we must invest in technology. Our Henderson telephony environment is scalable, technologically sound, and operationally efficient. Our telecommunications solution uses industry-standard Avaya technology to provide AHS with a reliable infrastructure that can accommodate fluctuations in call volume and/or program growth. Managing call centers is a core competency of Xerox. In our call center, the telecommunications solution includes the features listed in Table I-30 to provide a flexible and powerful telecommunications environment:

Table I-30. Help Desk Supporting Technology	
Component	Features
Help Desk Technology by Avaya	<p>Our telecommunications system includes all necessary switching, automated call distribution (ACD), and other hardware, software, and connectivity to help ensure an efficient and effective help desk. The following features contribute to the telecommunications environment:</p> <p>Provides sufficient telephone lines and trunks to handle all incoming calls Provides capability for greeting/educational messages while callers are in queue.</p> <p>Offers speed dial, conference call capacity, transfer, and other features.</p> <p>Supports conventional digital circuits and stations, internet protocol (IP), integrated services digital network (ISDN), and primary rate interface (PRI).</p> <p>Allows ACD administration to route calls effectively and minimize wait times and</p>

Table I-30. Help Desk Supporting Technology	
Component	Features
	busy signals. Advanced ACD call routing features include touch-tone routing, as well as skills-based and best-service routing to efficiently route incoming calls, while minimizing wait times and busy signals. ACD groups can be defined based on an inquiry's anticipated complexity (e.g., eligibility verification, policy clarifications). Supports real time statistics and historical reporting through integrated platform, including average speed to answer, talk time, and abandonment rate. Supports customizable greeting messages, including estimated wait time; also supports voicemail.
ULTRASelect by Verint Systems	Allows real time performance monitoring, call recording and storage of call performance to ensure quality delivery of service. Provides evaluation templates and reporting.
Witness Impact 360 Workforce Management by Verint	Provides workforce optimization for strategic planning, workforce management, performance optimization, and application platform and integration.
OmniTrack by Xerox	Supports contact record management and tracking for help desk inquiries, workflow, and reporting. Allows real time and historical reporting (i.e., open/closed inquiries and aging).
Call Back Manager by Servion	Provides auto dialer services for the help desk

We have invested significant resources in developing and delivering excellent call center customer service. Our call centers have been recognized for customer satisfaction excellence under the rigorous J. D. Power and Associates Call Center Certification Programs. We offer advanced call center technology, with an understanding of both human and automated elements to deliver outstanding customer service every day throughout the life of the contract. Our collective knowledge, expertise, carefully selected technology, and best practices gained through extensive experience in other states provide valuable assurance of our ability to meet all RFP requirements and AHS' expectations.

Quality Assurance. Our quality assurance plan includes regular evaluations of performance and quality, including call monitoring/recording to evaluate help desk CSRs performance on content, customer service and other skills, and efficiency. CSRs adhere to established operational procedures and performance standards that incorporate industry and Xerox best practices to efficiently respond to all calls. Records of inquiries and responses are maintained through our OmniTrack system.

Reporting. The Avaya Call Management System (CMS) interfaces with the ACD to allow the generation of reports, administration of ACD parameters, and supervision of call activities to ensure the most efficient service possible. Available information and reporting features include live, real time statistics and historical reports to monitor and report on help desk service.

Data Security (O1.14, O1.15, O1.16, O1.17, O1.18, O1.19)

Xerox's objective in applying security, privacy, and confidentiality controls is to prevent improper loss, misuse, disclosure, modification, deletion, or destruction of program data while ensuring that where there is a legitimate "need to know" and only the minimum information necessary to discharge program responsibilities is available to properly authorized individuals. To accomplish this, we employ safeguards

at administrative and management levels, operational and technical levels, and within the application architecture. Our controls are standardized, documented, communicated to our workers, persistently enforced, and continuously evaluated to identify opportunities for improvement.

The PBMS is fully compliant with all federal and state laws, rules, regulations and guidelines. Our security approach fully aligns with HIPAA's three-fold security objectives of integrity, confidentiality, and availability and aligns with NIST guidelines. Xerox uses 128-bit Secure Socket Layer (SSL) data encryption to safeguard any private information (including PHI, login IDs, and passwords) as it is transmitted from the browser client to the Web portal over the public Internet. All data transmitted outside our secure data center is encrypted "in flight." We encrypt all disk and tape backups. For ad hoc interactive transfers, files up to 2GB in size will be sent by Xerox's existing Secure Large File Transfer service supporting AES 256. PGP Command Line can be used to implement encryption into existing or planned file transfer applications. Where circumstances warrant, communications are encrypted via VPN tunneling.

We employ a role-based security model that assigns users access role based on business need. Role-based access limits a user to only the data and functions for which they are approved. Each role can be customized to allow inquiry and/or update authority to specific functional areas of the system. Refer to Proposal Section 3.0, Regulatory and Security, for a complete overview of our security controls.

12.0 Performance

Instructions: Describe the Vendor's approach for the proposed solution to meet performance standards. The approach must, at a minimum, provide details on how the proposed Solution intends to meet or exceed the Performance Requirements set forth in the Template H – Non-Functional Requirements, Tab O2 SLRs and Performance.

Operations Management and Monitoring (P1.19,P1.20,P1.21,P1.24-P1.27)

PBMS provides a comprehensive performance measurement and management infrastructure, as well as tools that allow administrators to easily visualize and analyze performance data collected in real time and take corrective actions. Our metrics-monitoring component will aid the Agency's performance tracking with user-friendly, flexible metrics, reporting tools and dashboards that provide system performance transparency. System monitoring provides both the Agency and Xerox with quantified analysis of the system's performance as well as adherence to response time requirements. The PBMS's flexibility and extensibility allow the system to expand more easily than legacy systems to maintain performance as demands increase. Our performance measurement tools allow us to proactively monitor, trend, and prevent performance issues and respond quickly to any unexpected system failures or down time. Our hardware selection allows simplified configuration to meet variations in transaction volumes and periodic increases in system demand.

Xerox's monitoring tools allow us to proactively monitor response time and availability and isolate bottlenecks in transaction processing. These products support reporting on performance thresholds and provide critical information for administrators to intervene proactively if, and when necessary, instead of reacting after the event to a report of a problem.

We use the following monitoring tools to stay abreast of system condition:

- **Nimsoft:** For monitoring against pre-defined benchmarks. Nimsoft monitoring tools support application monitoring, end-user response time monitoring, and server monitoring. 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.
- **Nagios:** To monitor network services. Nagios is an enterprise-level, open-standard monitoring application. A simple plug-in design allows users to easily develop their own service checks. The tool has the ability to define a network host hierarchy using "parent" hosts, allowing detection of and distinction between hosts that are down and those that are unreachable.
- **BMC TM-ART:** Provides application level monitoring and availability, as well as end-to-end response measurements via transaction execution. This tool proactively identifies and alerts performance trends over specified intervals.
- **Oracle Grid Control:** Provides a single, integrated solution for testing, deploying, operating, monitoring, diagnosing, and resolving problems.

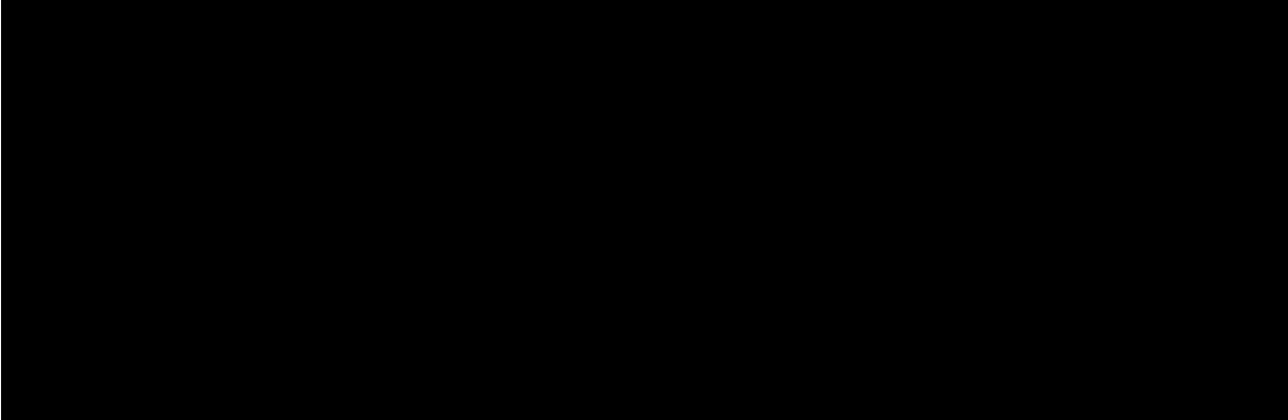
As required, Xerox reports any performance issues affecting POS processing within fifteen minutes of detection and issues affecting PA processing within thirty minutes of detection.

Operational Information

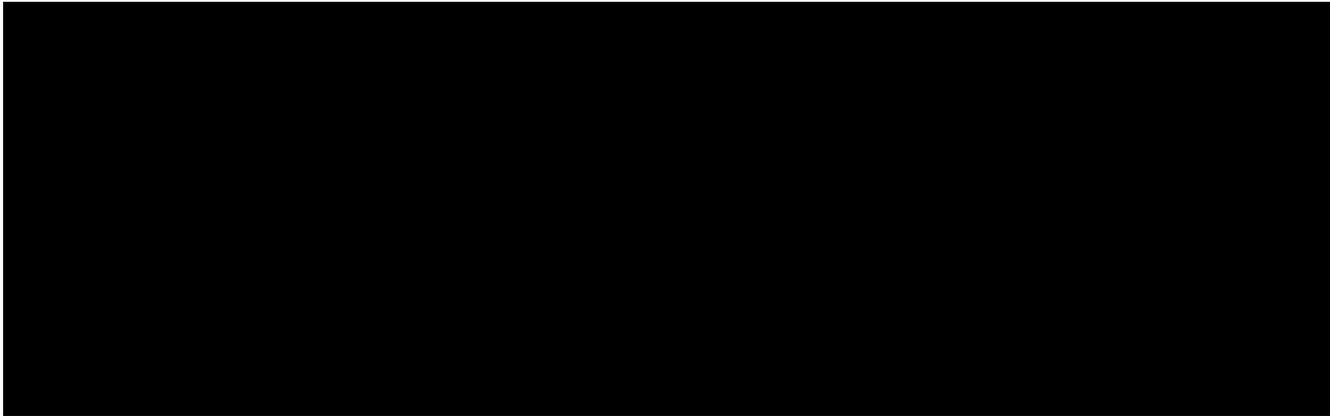
Xerox understands the importance of maintaining current policies, processes, and workflows related to supporting the PBMS. Keeping documents up to date is vital to our daily interactions with the Agency and the provider community. During the Operations and Maintenance Phase, we maintain our manuals for policies, processes, workflows, and general privacy and security requirements in an electronic format. This format allows Agency and Xerox staff to easily find policy, workflow, and procedure information for any PBMS function.

Switch Vendor Monitoring

In order to monitor the PBMS processing speed and the network, we maintain switch vendor monitoring Web pages and reports. Authorized DVHA users can view the switch vendor monitoring Web pages, enabling them to constantly monitor the processing time and statistics of all pharmacy claims, as shown in the following sample Web page in Exhibit I-56, Switch Vendor Summary.



By selecting the Switch Vendor Detail Tab, as shown in Exhibit I-57, Switch Vendor Detail, users may view information including vendor name, total paid claims, total denied claims, and average claim processing time.



Call Center Monitoring (P1.11-P1.13)

In the call center, the Avaya Call Management System (CMS) interfaces with the Automatic Call Distribution (ACD) system to allow the generation of reports, administration of ACD parameters, and supervision of call activities. Available information features include real-time statistics and historical reports to monitor and report on Help Desk service.

Xerox maintains sufficient telephone lines, technology and personnel to confidently agree to the service level agreements proposed in the RFP, including:

- First call resolution rate will be 95% or greater. First contact completion applies when the first person the customer reaches either answers the question, resolves the problem, or dispatches service where appropriate.
- Call Answering Time - 95% of all calls entering the hold queue will be answered within 30 seconds by an agent with 90% of those answered within 20 seconds and the remaining answered within 40 seconds.
- Call abandonment Rate will be 3% or less. This is the percent of calls that are disconnected/abandoned after entering the hold queue.

Xerox uses the Avaya Communications Manager 5.0 and Call Management System (CMS) to maintain extensive call reporting statistics in order to monitor our performance against service level agreements. In addition to monitoring our overall call center performance, we monitor call statistics online by individual specialist, including incoming and outgoing calls, talk time, and after-call time (time spent on call tracking notes or letter generation).

With a continuous query engine to support trend analysis, we analyze calling patterns based on phone numbers, explore special call treatments (including service-observed calls and audio problems) and call abandon patterns. We use this trending analysis to support our proactive workforce management approach.

Account Management (P1.29-P.133)

Our account management and control functions are supported by our proven Standardized Process and Resource Kit for Implementing Technology Solutions (SPARK-ITS®) Quality Management System (QMS). The SPARK-ITS QMS includes project management, maintenance, and training methodologies that provide a comprehensive framework for ongoing provider operations as well as process documentation, maintenance, and improvements.

Xerox agrees to the following account management related performance requirements as specified in the RFP:

- 85% of all calls are resolved within two business days of receipt
- All written inquiries will be responded to within two business days
- Ongoing change requests, including programming changes requested by the Agency, are completed within 20 business days or 30 calendar days of receipt of the request, unless other time parameters are agreed to by the Agency.
- Xerox guarantees a satisfaction rating of at least 100 for satisfied or very satisfied. We will survey Agency staff and report results back to DVHA.
- Xerox guarantees the timing of response to the Agency comments of the contract draft within 10 business days of the receipt of the contract requested changes.

Availability (P1.1,P1.7,P1.8,P1.14,P1.16)

Xerox maintains support staff in our data center 24/7/365 in order to ensure the PBMS is available 99.90%, 365 days per year, 24 hours per day, with the exception of State approved scheduled down time during off hours for system back-ups and maintenance. Network architects, designers, and engineers with appropriate industry experience and certifications provide design, engineering, and implementation consultation services for the PBMS network.

To achieve outstanding system availability, Xerox uses a combination of redundant hardware and intelligent software. We work collaboratively with the Agency to understand business needs and design solutions that keep the system highly available, and expandable as required. The production and disaster recovery environments of the PBMS are designed with full redundancy of hardware and network

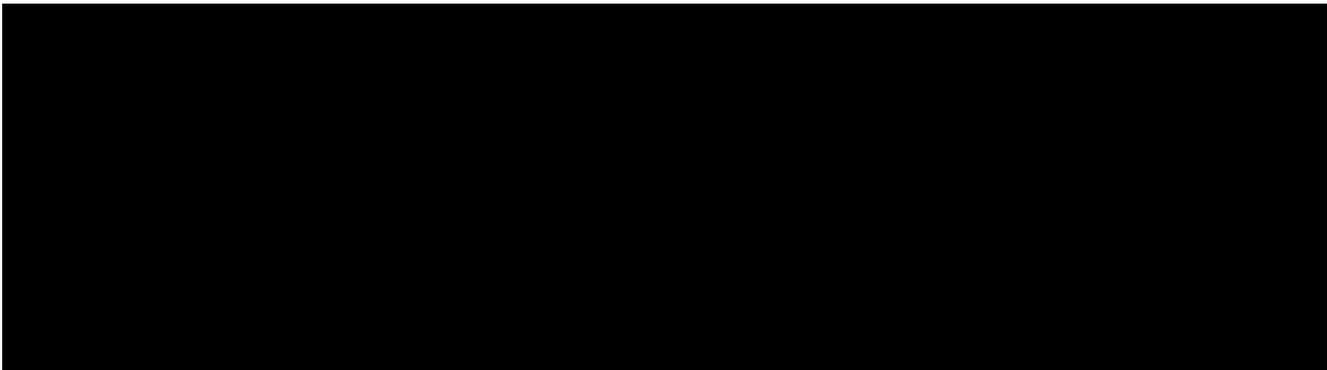
infrastructure, capable of handling 100 percent of the production operational capacity with no degradation in performance. Clustered servers are utilized on every tier providing immediate failover. Data is stored on a fully redundant disc array. Load balancing, reverse proxy servers, and other components also support redundant failover. The network includes redundant routers and circuits at all critical access points to eliminate single points of failure related to local circuits and router equipment.

By providing expert staff that constantly monitors the system using proven tools, Xerox ensures that unscheduled PBMS downtime (anytime the user cannot access the PBMS or carry out business functions) does not exceed 15 minutes per occurrence. Xerox agrees to take necessary action to meet End-to-End system availability and response times as per the contracted service level agreements. As required, Xerox reports any unscheduled PBMS downtime within fifteen minutes of detection.

System Response Times (P1.2-P1.4,P1.15,P1.17,P1.18)

The Web-based GUI responds to at least 95% of user requests in less than three seconds. Complex or large data searches that may require more time provide user feedback to the screen that the requested action is being processed. Only specified or agreed-to exclusions would exceed fifteen seconds.

The PBMS POS engine is a high performance claims adjudication engine that processes real-time and HIPAA compliant POS claims transactions routed via a switch vendor. Table I-31 reflects current performance metrics for the POS engine in production.



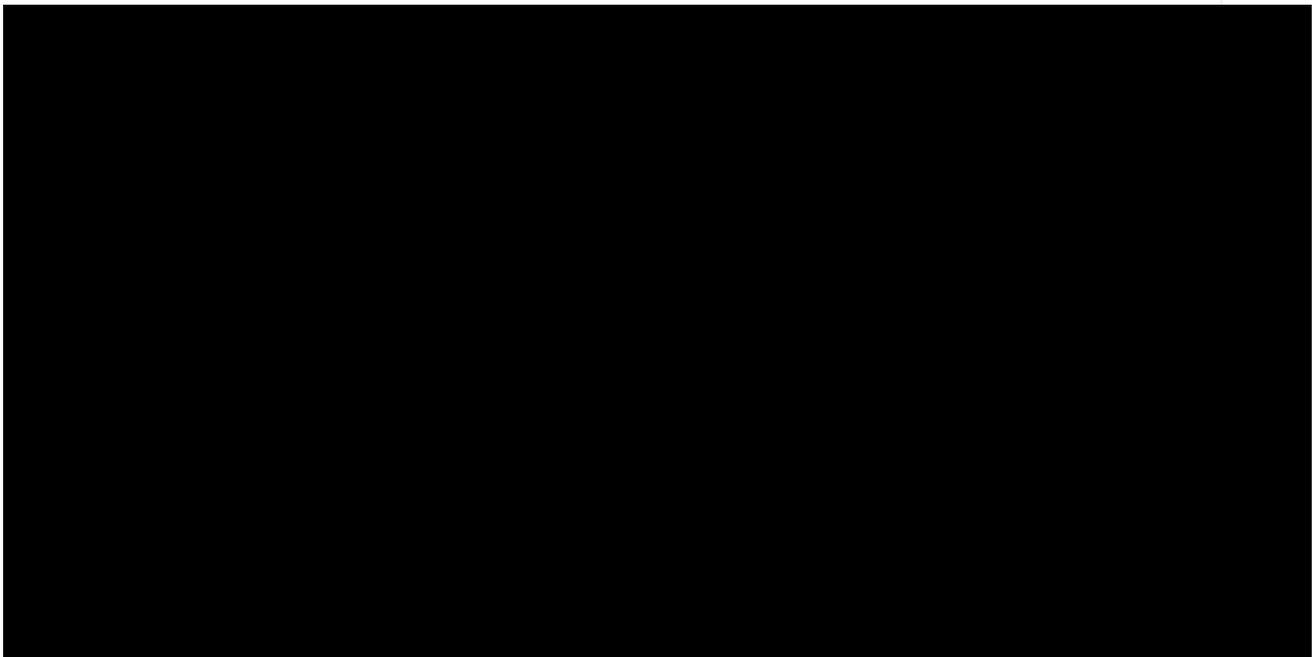
POS processes prescription claims at 99.9% accuracy rate. Enrollment eligibility data and provider enrollment data is updated within four hours of receipt of electronic files.

Static Standard and Ad-hoc Reporting (P1.5,P1.6,P1.28)

Xerox provides static standard and ad hoc operational reporting supported by data maintained in the DW/DSS. The PBMS comes packaged with a proven, high quality reporting solution that leverages an industry-leading suite of reporting and business intelligence tools from Business Objects. This best-of-breed business intelligence (BI) tool provides a stable and mature platform for producing reports, analytics, and dashboards. Maximum response time for Dashboard reports and static standard reports (pre-run reports that no longer need to query the DW/DSS) is five seconds, 95% of the time. Maximum response time for parameter-based reports is 20 seconds. Response time may vary based on report time-period and complexity. Additionally, 100% of the monthly and quarterly standard management reports shall be available and delivered to the Agency within 30 days after the end of each quarter.

Dashboard Reports (P1.25)

Because efficient and reliable processing of POS transactions through pharmacy switch companies and the PBM OS+ claims engine is essential to the smooth operations between the PBMS and pharmacies, we closely monitor the performance of the system. We have established a performance reporting process, with reports including system uptime/downtime data, average adjudication time, help desk statistics, pharmacy reimbursement totals, and other information, as defined during DDI and approved by AHS. Exhibit I-58, Dashboard Report, provides a sample dashboard report used for other Medicaid accounts. The dashboard is created in Microsoft Excel and stored in the project SharePoint library along with supporting documentation regarding our performance statistics.



Disaster Recovery (P1.9, P1.10)

We consider disaster recovery a subset of business continuity, which focuses returning systems, hardware, and facilities to a normal state of operations after interruption by a natural or man-made disaster within the shortest time possible.

To ensure continuity of business operations in the event of a business interruption, we develop a plan tailored to meet the specific requirements of the project. The plan includes the information needed to make the decision-making processes as efficient as possible during a disruption. It contains specific guidance to the recovery teams in executing comprehensive, documented procedures to recover the production environment in the predefined recovery time objective of four hours and ensuring the recovery point objective of less than one hour of data loss is met.

Please refer to Section 11.0 System Administration and Disaster Recovery for further detail.

Security and Privacy (P1.17,P1.22)

Xerox has developed comprehensive physical and information security and privacy policy standards appropriate for every operational organization. Our policy conforms to regulatory and industry standards as well as best practices for security, confidentiality, and auditing. We have developed a standardized process for implementing our security and privacy plans that consists of a thorough analysis of the minimum necessary uses and disclosures of personal information, including Protected Health Information (PHI), development of local privacy procedures, provision of Health Insurance Portability and Accountability Act (HIPAA) awareness training at time of hire and annually, provision of privacy and security training, documentation, and practice readiness review. Our facilities that access, use, disclose, store, or otherwise handle PHI are also governed by our health data privacy policies. These policies reflect requirements of the HIPAA privacy rules and provide staff members with guidance in handling and protecting health data.

Xerox adheres to the data security guidelines contained within the HIPAA Security Rule and follows the Agency's guidance for granting access to the system. The security layer of the architecture provides security services across the presentation, application, and data layers of the system. This includes access to the application, as well as COTS products used to access the database, through reporting tools such as Business Objects. The security layer is implemented using identity and access management tools to manage user identities, roles, security policies, organizations, authentication, authorization, access control and other additional services, for example, data encryption and secure socket layer (SSL).

PBM OS+ employs the following industry-standard security features:

- SSL connection for secure message transmission
- Lightweight Directory Access Protocol (LDAP) Directory service
- Page and field-level authorization
- Time-outs that automatically terminate unattended sessions
- Lock-outs for multiple invalid password attempts
- Single user multi-organizational support to allow a user to belong to multiple organizations, each having unique security privileges
- Data security provided through encryption to protect sensitive data during transmission
- Full audit-trail capabilities with the ability to track changes to PHI

HIPAA's privacy and security standards are designed to protect clients' individually identifiable health information, as well as other confidential data. Since the issuance of the Privacy and Security Rules, Xerox has ensured that our policies and practices support the security and privacy requirements that apply to PBMS usage. Our security approach aligns fully with HIPAA's threefold security objectives of integrity, confidentiality, and availability.

Xerox agrees to notify the State according to HIPAA requirements of any security or data breach including PHI or PII data, and is responsible for the incident responses procedures and activation. Xerox confirms the PBMS solution will meet all HIPAA standards for the protection of PHI and PII data and will be held responsible to remediate any system breach that results in identify theft. Xerox confirms responsibility for all fines and damages related to any breach of PHI or PII data security.

Audit Support (P1.18)

Xerox agrees to correct any Federal or State audit findings related to the PBMS in the timeframe specified in the audit report.

**13.0 Service Level Requirements – Business Process
 Performance Measures**

Instructions: Describe the approach to ensuring the Vendor processes and solution are able to meet the following Service Level Requirements. Include in this response the Vendor approach to measuring and reporting on these requirements, the process for remediating any non-compliant components. The Vendor may suggest alternate or additional SLR's that they deem appropriate.

Business Process Performance Measures		
SLR Name	Service Level Requirement	Frequency of Measurement
1. File Updates	Performs required file updates – eligibility, provider, drug coverage – as required based on the frequency established by the State, with 99% accuracy.	Monthly
2. Point-of-Sale Network System Downtime	Unscheduled system downtime will be no greater than 2 hours per incident; not to exceed 2 times per contract year	Monthly
3. Prior Authorizations	All requests for Prior Authorization shall be acted upon within 72 hours	Monthly
5. Retail Point-of-Sale Claims Adjudication Accuracy	Financial accuracy rate of at least 99% for all pharmacy claims processed at point-of-sale.	Monthly
6. Payment Accuracy	The MMIS and PBM Vendor to quickly identify, correct and report to DVHA any erroneous payments from the MMIS, and ensure that no overpayments or underpayments are made from State or Federal funds	Monthly
7. First Call Resolution	First call resolution rate will be 95% or greater. First contact completion applies when the first person the customer reaches either answers the question, resolves the problem, or dispatches service where appropriate.	Monthly
8. Call Answering Time	95% of all calls received will be answered within 30 seconds	Monthly

9. Call Abandonment Rate	Not more than 3% of all calls will be abandoned	Monthly
10. Federal Compliance	Compliant with key Federal legislation (e.g. HIPAA, ADA, OSHA, etc.) in all activities	Monthly
11. State Compliance	Compliant with Vermont Law in all activities	Monthly
12. Privacy and Security	Compliant with all HIPAA requirements for privacy and security in all activities, breaches will be reported within 2 hours of becoming known by the Vendor	Immediately
13. Data Breach	Breaches in data access will be reported within 30 minutes of becoming known by the Vendor	Immediately
16. Breach Notifications	Breaches in data access regulations shall be made known to the State	Monthly

Xerox brings an experienced team and a well-tested approach to the Vermont Medicaid pharmacy program and understands and agrees to the service level requirements listed above. Xerox commits to meeting these expectations consistently.

Xerox clearly identifies the roles and responsibilities of both individuals and groups that support the Vermont Medicaid Pharmacy Program. The service level requirements listed above are managed by multiple individuals and groups within Xerox, but the approach and processes used to ensure compliance are consistent regardless of the assigned responsibility. Below, we describe the planned approach to meeting each requirement.

1. File Updates Performs required file updates – eligibility, provider, drug coverage – as required based on the frequency established by the State, with 99% accuracy. Monthly.

The Production Control group is responsible for ensuring that all file updates are scheduled and performed according to AHS requirements. During DDI, Xerox gathers technical requirements regarding the State’s required update frequencies and then implements appropriate manual or automated job scheduling to ensure all update jobs run as expected.

Each production job is scheduled and tested prior to Go Live to ensure the files are updated correctly and timely. Once the production jobs pass testing, they are implemented in the production environment and monitored to ensure success completion as scheduled. Production control logs document the performance of all production jobs and are used to document compliance.

2. Point-of-Sale Network System Downtime - Unscheduled system downtime will be no greater than 2 hours per incident; not to exceed 2 times per contract year. Monthly.

The Xerox POS network is based on high availability infrastructure and has a proven track record of exceptional reliability. All unscheduled downtime is documented by the technical teams and reported by the Account Manager.

3. Prior Authorizations - All requests for Prior Authorization shall be acted upon within 72 hours. Monthly.

The Xerox Document Management System (DMS) tracks the date and time PA requests are received and also records the date and time a PA is completed (approved/denied). This allows the Xerox clinical team to monitor and manage to the 72 hours service level required by AHS. The DMS workflow is a “first in, first out” model that presents the oldest PA in the queue to the agents first. This ensures that the agents are always working on the oldest PA’s in queue.

The system also allows Xerox management to set an automatic escalation timer so that any PA approaching the 72 hour limit will be automatically escalated to the supervisor queue so that those PAs can be managed expeditiously to ensure that 100% of PAs are completed in less than 72 hours. The Account Manager provides the PA reporting to AHS.

5. Retail Point-of-Sale Claims Adjudication Accuracy - Financial accuracy rate of at least 99% for all pharmacy claims processed at point-of-sale. Monthly.

Pre-production testing is critical to our ability to ensure a financial accuracy rate for POS claims adjudication accuracy of 99%. During the implementation period, Xerox plans for and executes a well-defined and structured testing process that tests all POS edits and pricing choices. Test results are shared with AHS, and the system is not deemed production ready until AHS approves all testing results.

Any subsequent benefit or pricing changes that are requested after Go Live are subjected to similar testing to ensure all adjudication determinations are consistent with AHS policies and requirements. The Xerox Account Manager provides AHS with POS accuracy documentation each month.

6. Payment Accuracy - The MMIS and PBM Vendor to quickly identify, correct and report to DVHA any erroneous payments from the MMIS, and ensure that no overpayments or underpayments are made from State or Federal funds. Monthly.

As with POS adjudication logic, payment production is tested prior to Go Live to ensure all aspects of adjudication that “feed” the payment process are operating as AHS expects. Each payment cycle, Xerox provides the MMIS the data files needed to support provider payment. These files provide the detailed claim data for each “To Be Paid” claim including provider ID and amount owed to the provider. The MMIS vendor can compare the information in the payment files to the output of the payment process to provide a quality control mechanism for the overall payment process.

7. First Call Resolution - First call resolution rate will be 95% or greater. First contact completion applies when the first person the customer reaches either answers the question, resolves the problem, or dispatches service where appropriate. Monthly.

Xerox call center management monitors first call resolution using the Omnitrack call documentation system to detect repeat calls for the same issue. The supervisors use this data to work with agents to improve their ability to accurately determine the reason(s) for the call and then to resolve the reason(s) during the call to eliminate the need for a repeat call. This will be reported monthly to the agency.

8. Call Answering Time - 95% of all calls received will be answered within 30 seconds. Monthly.

The Xerox call centers utilize Avaya switches and Call Management System (CMS) software to monitor and manage call center performance. Every call is documented including date and time arrived, time to

answer, handle time, and many other statistics. These statistics are easily presented via multiple predefined reports. Call center management monitors these statistics throughout the day to ensure that adequate staff is available to meet normal and peak service level requirements and to provide a good customer experience throughout the day.

Xerox management adjusts agent schedules and staffing numbers as needed to maintain the desired service levels. Each month, call center management generate the desired reports to document call center performance including average speed to answer. These reports are provided to the Xerox Account Manager to share with AHS.

9. Call Abandonment Rate - Not more than 3% of all calls will be abandoned. Monthly.

Call abandonment occurs when average speed to answer increases beyond the point at which callers are willing to hold. Xerox manages call abandonment by carefully monitoring call volume during each 30 minute interval throughout the day and adjusting staffing to accommodate fluctuations in the incoming call volume.

We monitor and review historic call arrival patterns to predict future arrival patterns to allow us to have sufficient agents in place during peak call arrival times to avoid undue hold time and thereby manage call abandonment rate below the 3% threshold. This statistic is also provided by the Avaya CMS system and is reported routinely each month.

10. Federal Compliance - Compliant with key Federal legislation (e.g. HIPAA, ADA, OSHA, etc.) in all activities. Monthly.

Xerox leadership, human resources, legal and compliance teams monitor key federal legislation such as HIPAA, ADA and OSHA to ensure that Xerox's current policy and procedures accurately reflect required practices. Xerox managers then train new employees and provide recurrent training on these important laws and regulations so that each individual is aware of the laws and regulations that have an impact on their conduct and actions.

Xerox has reporting processes in place for reporting suspected HIPAA, ADA or OSHA issues. Once reported, Xerox management follows corporate policies and has the ability to confer with experts in the particular law or regulations in question if a situation is deemed exceptional. The Xerox Account Manager collects and reports any issues that occur during the month to the appropriate AHS representative.

11. State Compliance - Compliant with Vermont Law in all activities. Monthly.

As part of the RFP response process, Xerox conducts a legal review of the RFP and associated documentation and the controlling state statutes to ensure that we understands the Vermont law that applies to the work being proposed. Once the project is underway, the Xerox Account Manager is the liaison between the operations teams and the Xerox legal team. Any compliance issues noted during the month will be documented and reported by the Account Manager.

12. Privacy and Security - Compliant with all HIPAA requirements for privacy and security in all activities, breaches will be reported within 2 hours of becoming known by the Vendor. Immediately.

All Xerox agents and managers involved in the Vermont pharmacy program are aware of the HIPAA requirements and are trained to report breaches immediately. Xerox provides an online reporting tool that is available to all employees. Once issues are reported internally, appropriate resources are assigned the responsibility of investigating and reporting and documenting the issue, identifying the underlying cause, and determining the impact and how to mitigate the impact of any breach.

The Xerox Account Manager will report all HIPAA breaches to the appropriate Agency staff informed timely.

16. Breach Notifications - Breaches in data access regulations shall be made known to the State. Monthly.

The Xerox Account Manager will report any data access breaches as part of the monthly status report to the State.

14.0 Service Level Requirements – System Performance Measures

Instructions: Describe the approach to ensuring the Vendor processes and solution is able to meet the following Service Level Requirements. Include in this response the Vendor approach to measuring and reporting on these requirements, the process for remediating any non-compliant components. The Vendor may suggest alternate or additional SLR's that they deem appropriate.

System Performance Measures		
SLR Name	Service Level Requirement	Frequency of Measurement
1. On-line Availability	All Solution components as delivered shall be available 99.9% of the time.	Monthly
2. On-line PBMS Application Response Times	The Vendor's PBM System response time will be no greater than 8 seconds and must average 3 seconds or less for all interactive system transactions, including claims processing, other than the reporting-related system interactions covered by the next 4 SLRs. The response time is measured as the time from when the users presses enter until the screen refresh in response is complete.	Monthly
3. On-line Search and Lookup queries Response Times	The maximum response time for search and lookup performance is 3 seconds for 95 percent of the time. Maximum response time shall not exceed 15 seconds except for agreed to exclusions.	Monthly

4. Dashboard Report Response Times	The maximum response time for a Dashboard report is 5 seconds from all user locations with a high-speed network connection (greater than 768KB), 95% of the time.	Monthly
5. Static Standard Report Response Times	The maximum response time for a Static Standard report is 5 seconds from all user locations with a high-speed network connection (greater than 768KB), 95% of the time.	Monthly
6. Parameter-based Report Response Times	The maximum response time for a parameter-based report is 20 seconds.	Monthly

System Performance Measures

High-quality performance is our goal for every aspect of the project, but especially in meeting the operations and system performance requirements. PBMS provides a comprehensive performance measurement and management infrastructure as well as tools that allow administrators to easily visualize and analyze performance data collected in real time to take corrective actions.

Our monitoring process includes sophisticated monitoring tools such as Oracle Grid Control, Nimsoft Monitoring Solution (NMS), BMC Transaction Management Application Response Time (TM ART), and Nagios, and monitoring staff employed to ensure that a failure in an infrastructure component is identified quickly and recovery activities are initiated immediately. In addition to the suite of monitoring tools at Xerox’s disposal, we use custom load generation programs to perform stress testing and monitor system capacity. We use real-time monitoring/alerting software at all layers (network, Web, application, and database) so issues of unexpected growth are identified and addressed as soon as possible.

We closely monitor the performance of the system with an established performance reporting process, with reports including system uptime/downtime data, average adjudication time, help desk statistics, pharmacy reimbursement totals, and other information, as defined during Design, Development and Implementation (DDI) and approved by the Agency.

Nimsoft

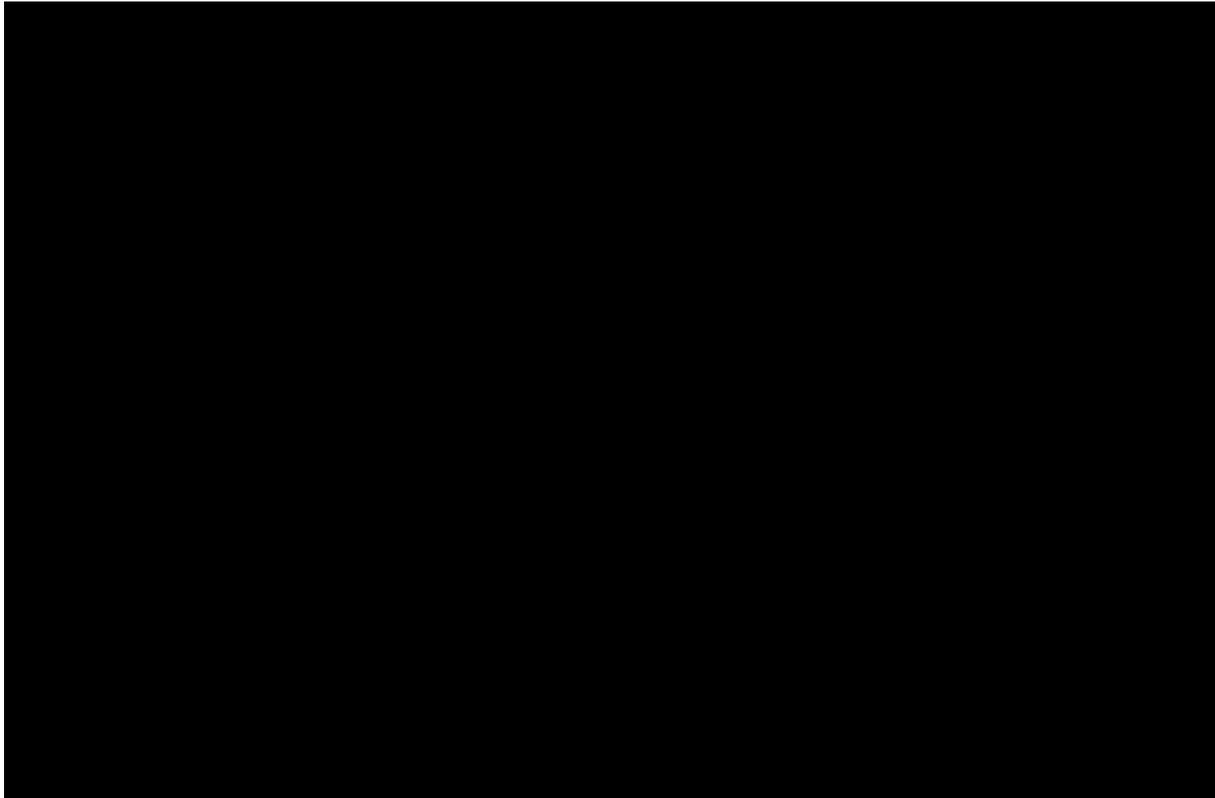
For monitoring against pre-defined benchmarks, Xerox uses Nimsoft monitoring tools to support application monitoring, end user response time monitoring, and server monitoring. Monitors can be set to create alerts when specified thresholds are breached and used to highlight the source of issues before they become critical. The tools provide real-time, problem detection and analysis to help maintain availability of the system as shown in Exhibit I-59, Nimsoft Monitoring Display.

Nagios

To monitor network services, Xerox uses Nagios, which is an enterprise level open standard monitoring application. Key features of Nagios include:

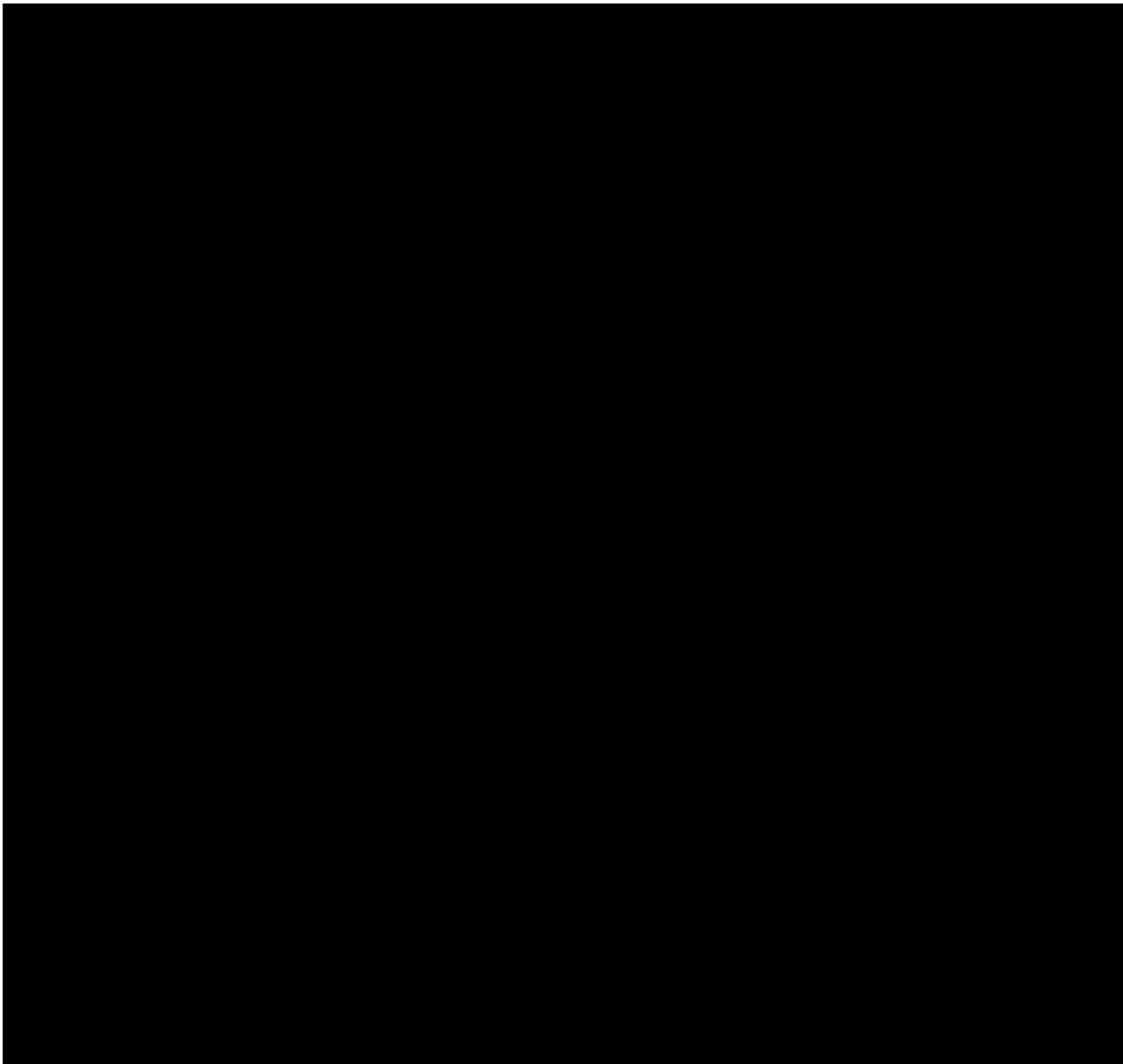
- Monitoring of network services (SMTP, HTTP, NNTP, PING, etc.)
- Monitoring of host resources (processor load, disk usage, etc.)
- Simple plug-in design that allows users to easily develop their own service checks
- Parallelized service checks
- Ability to define network host hierarchy using "parent" hosts, allowing detection of and distinction between hosts that are down and those that are unreachable
- Contact notifications when service or host problems occur and get resolved (via email, pager, or user-defined method)
- Ability to define event handlers to be run during service or host events for proactive problem resolution
- Automatic log file rotation
- Support for implementing redundant monitoring hosts
- Optional Web interface for viewing current network status, notification and problem history, log file, etc.

Exhibit I-60, Nagios Dashboard, provides an example of the dashboard view showing monitoring of several host resources.



BMC TM ART

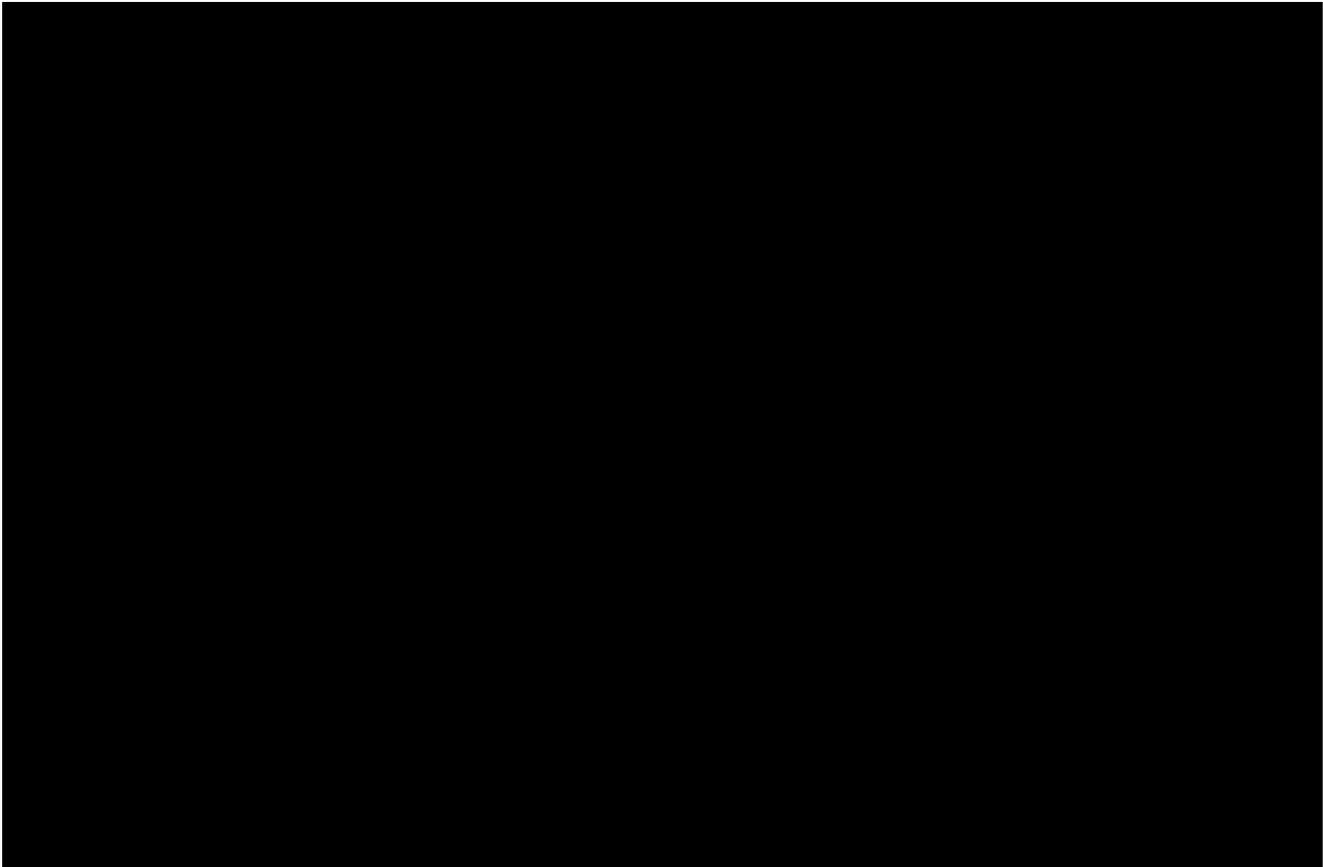
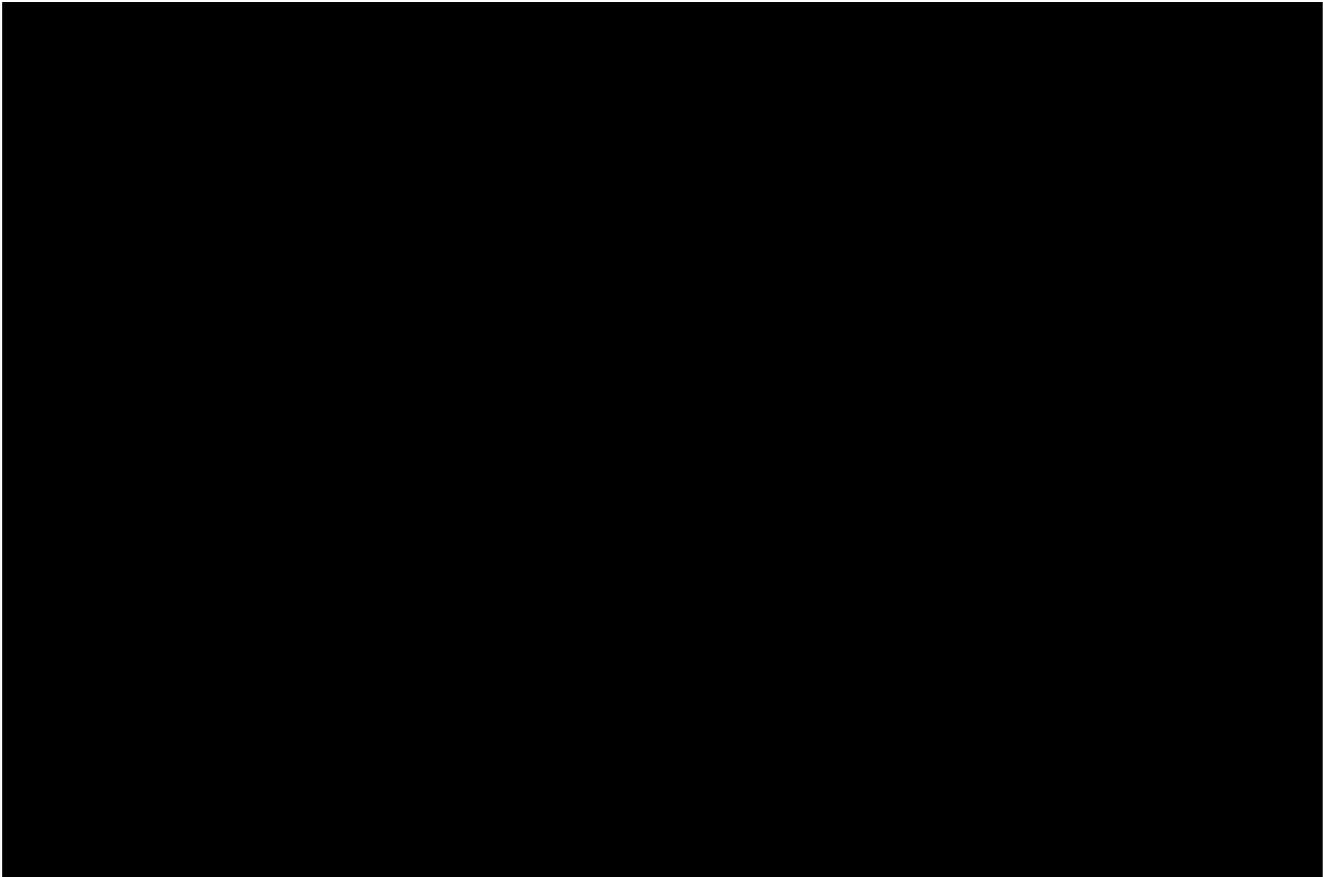
Xerox uses BMC TM ART to monitor JEE based transactions, as they execute, to uncover the root cause of bottlenecks and memory utilization issues. It helps to correlate and profile transactions, even those that span across multiple sub-systems. It also provides key performance metrics that allow support teams to spot trends and potential delays before they occur. A typical BMC TM ART display is shown in Exhibit I-61, BMC TM ART System Monitor Display.



Oracle Enterprise Manager

To help ensure the highest level of application availability, the PBM OS+ database environment is monitored by Oracle Enterprise Manager 10g (OEM). OEM provides a single, integrated solution for testing, deploying, operating, monitoring, diagnosing, and resolving problems. It delivers enhanced manageability and automation to reduce the cost of management. The use of OEM, as shown in Exhibit I-62, OEM Grid Control–Consolidated View, Exhibit 3-7, OEM Grid Control–Detailed Database, and Exhibit I-63, OEM Grid Control–Database Activity, allows proactive, as opposed to reactive, maintenance of the PBM OS+ environment.



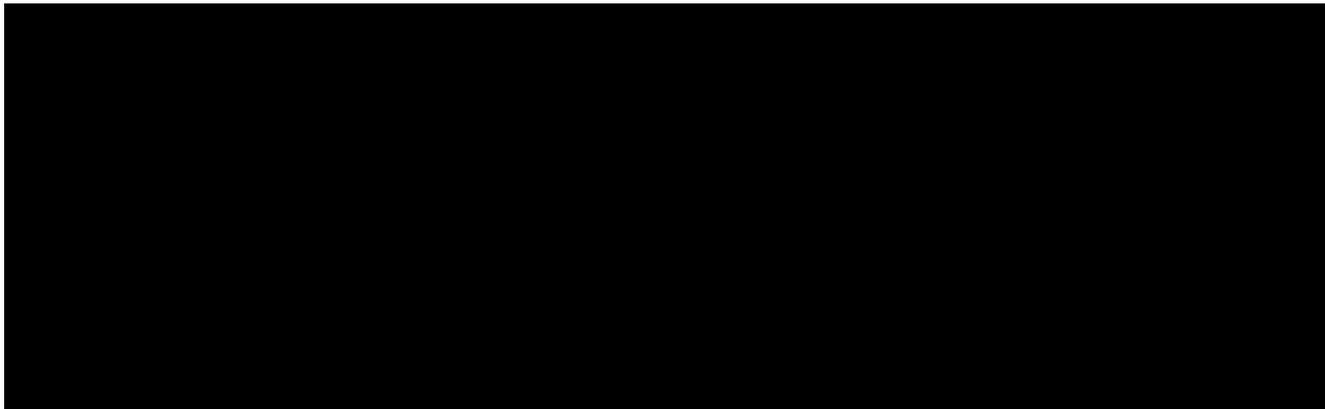


Switch Vendor Monitoring

In order to monitor the PBMS processing speed and the network, we maintain switch vendor monitoring Web pages and reports. Authorized DVHA users can view the switch vendor monitoring Web pages, enabling them to constantly monitor the processing time and statistics of all pharmacy claims, as shown in the following sample Web page in Exhibit I-65, Switch Vendor Summary.



By selecting the Switch Vendor Detail Tab, as shown in Exhibit I-66, Switch Vendor Detail, users may view information including vendor name, total paid claims, total denied claims, and average claim processing time.



Service Level Requirements

- 1. On-line Availability - All Solution components as delivered shall be available 99.9% of the time. Monthly.**

PBMS Production support utilizes data collection from Nimsoft, TM ART, Nagios and OEM to generate monthly reports reflecting 99.9% availability of solution components.

- 2. On-line PBMS Application Response Times - The Vendor's PBM System response time will be no greater than 8 seconds and must average 3 seconds or less for all interactive system transactions, including claims processing, other than the reporting-related system interactions covered by the next 4 SLRs. The response time is measured as the time from when the users presses enter until the screen refresh in response is complete. Monthly.**

PBMS Production support utilizes data collection from application-tracked switch vendor and claims processing detail, available via the data warehouse and Business Objects. Web response data is collected from TM ART for end-to-end user transactions. Reports are generated monthly reflecting system response times no greater than eight and an average of three seconds or less for interactive system transactions, including claims processing.

- 3. On-line Search and Lookup queries Response Times - The maximum response time for search and lookup performance is 3 seconds for 95 percent of the time. Maximum response time shall not exceed 15 seconds except for agreed to exclusions.**

Web response data is collected from TM ART and reported monthly to confirm that search and lookup performance is three seconds for 95% of transaction and under 15 seconds except for agreed to exclusions.

- 4. Dashboard Report Response Times - The maximum response time for a Dashboard report is 5 seconds from all user locations with a high-speed network connection (greater than 768KB), 95% of the time. Monthly.**

Dashboard reports are assembled by the Production Support team using data collected from application-level metrics recorded in the online database and made available to Business Objects via the data warehouse, Nagios, Nimsoft, OEM and TM ART. They are published on the Project SharePoint site. Response time for retrieval of a Dashboard report is five seconds from locations utilizing a high-speed network connection, 95% of the time.

- 5. Static Standard Report Response Times - The maximum response time for a Static Standard report is 5 seconds from all user locations with a high-speed network connection (greater than 768KB), 95% of the time. Monthly.**

Static Standard reports are pre-run using Business Objects and made available as a static report (no longer needing to query the database). Response time for retrieval of a Static Standard reports is five seconds from locations utilizing a high-speed network connection, 95% of the time.

- 6. Parameter-based Report Response Times - The maximum response time for a parameter-based report is 20 seconds. Monthly.**

The PBMS comes packaged with a proven, high quality reporting solution that leverages an industry-leading suite of reporting and business intelligence tools from Business Objects. Maximum response time for parameter-based reports is 20 seconds. Response time may vary based on report time-period and complexity.

15.0 Non-Functional Requirements Assumptions

Document the assumptions related to the Non-Functional Requirements in Table 1. The Vendor may add rows as appropriate.

Table 1 Non-Functional Requirements Assumptions

Item #	Reference (Section, Page, Paragraph)	Description	Rationale
1.	Section I, Section I, 8 Testing and Validation, page 5. Table X-X. Client Key Roles and Responsibilities	User Acceptance Testing will be performed by Vermont	Page 72 of RFP states that State will perform their own testing - "The Vendor must thoroughly test the software itself before the State UAT and FAT teams begin their work."
2.			
3.			
4.			
5.			

1.0 Instructions

The Vendor must submit an Implementation Phase Work Plan that will be used to create a consistent and coherent management plan. This Work Plan will demonstrate that the Vendor has a thorough understanding for the scope of work and what must be done to satisfy the project requirements and implement a pharmacy benefit management system and services that meet the requirements of the State.

The Work Plan must include detail sufficient to give the State an understanding of how the Vendor's knowledge and approach will:

- Manage the Work;
- Guide Work execution;
- Document planning assumptions and decisions;
- Facilitate communication among stakeholders; and
- Define key management review as to content, scope, and schedule.

At a minimum, the Vendor's Work Plan must include the following:

- Work breakdown structure;
- High Level Project schedule for all project deliverables and milestones;
- Who is assigned responsibility for each deliverable within the work breakdown structure to the level at which control will be exercised;
- Identification of deliverables that require a more prompt State acceptance than described in the RFP including the proposed acceptance period for the deliverable;
- Performance measurement baselines for technical scope and schedule;
- Major milestones and target date(s) for each milestone that are consistent with this RFP's dates;
- Description of the Vendor's proposed organization(s) and management structure responsible for fulfilling the Contract's requirements and supporting the work, in terms of oversight and control;
- Definition of the review processes for each milestone and deliverable (e.g. mandatory design review) and a description of how the parties will conduct communication and status review;
- Description of the project issue resolution process including an escalation plan, where the escalation plan includes contact information for each person identified in the proposed problem reporting and escalation procedure and describes the amount of time elapsed before a problem is escalated within their organization; and
- If the Vendor chooses to use subcontractors, this part of the Vendor's proposal must describe its approach to managing its subcontractors effectively.

Planning, scheduling, and meeting project timelines requires two fundamental project management processes—effective initial project planning and consistent project tracking and oversight. Our Work Plan provides the Agency and the Xerox project management team with the roadmap to track progress, complete deliverables, and deliver the system on time. The Work Plan provides a comprehensive log of the proposed activities required to successfully plan, execute, control, and complete the project. During Task 1 Project Initiation and Planning, the Agency and Xerox work jointly to finalize the work plan tasks and timelines presented in Xerox’s proposal. To validate the plan, we review and adjust the key activities and activity dates drafted in the work plan. In this section, we provide a draft project work plan that shows our proposed schedule for project activities. Our Work Breakdown Structure (WBS) for the Vermont PBMS project shows all tasks, deliverables, and milestones of the project. Xerox developed the WBS based on our experience with similar projects elsewhere—such as Medicaid projects for the states of Wyoming, Mississippi, and Missouri; and the MMIS project for the District of Columbia—and on our awareness of the size and complexity of the Vermont PBMS project.

**Proven Standards and Staff
Minimize Risk and Simplify
Integration**

- Industry standard approach enables ready integration with project plans from other project contractors
- Xerox has effectively managed work plans for dozens of comparable projects
- Skilled project management resources successfully manage delivery and mitigate risks to meet schedule commitments with high quality and within budget

The project work plan encompasses the hierarchal WBS and schedule covering the entire project. It facilitates planning, scheduling, and meeting project timelines and is used for three primary purposes:

- To define and organize the scope of the total project, using a hierarchical tree structure. Each level of this structure breaks down the project deliverables or objectives into more specific and measurable elements.
- To assign responsibilities and to monitor and control the project. The WBS makes the deliverables more precise and concrete so that the stakeholders know exactly what has to be accomplished to complete each deliverable.
- To define interfaces and dependencies with other PBMS tasks.

During the project initiation and planning task, the Agency, Xerox, and the System Integrator work jointly to finalize the project work plan tasks, timelines, and dependencies. We start with the draft project work plan and schedule that shows our proposed schedule for project activities that are to occur within each phase of the project. The project work plan lists deliverables from RFP Table 7. Recurring Deliverables and Table 8. Task Related Deliverables. Each task includes durations, planned start and end dates, estimated levels of effort, project milestones, and dependencies (internal and external). Appropriate tasks are scheduled with predecessors, successors, types of dependency (e.g., finish-to-start or finish-to-finish), and lag time between tasks, if appropriate.

Xerox’s proposed work plan is included in Attachment B. Work Plan.

Project Work Plan Organization and Content

Our draft work plan is based on the requirements, dates, deliverables, and responsibilities outlined in the RFP. We conducted an extensive analysis AHS’s requirements during our proposal preparation effort and

included the use of innovative and agile methods to provide an approach that maximizes the use of time and resources. We used a combination “top down/bottom up” approach to project planning, where broad project deadlines define each phase, and at the task level, each requirement was analyzed and estimated, first as a stand-alone element, and later as part of the final project work plan. We have made every effort to ensure that our project plan reflects a realistic time required to complete tasks, provide deliverables, and meet AHS-defined milestones.

The proposed project schedule includes “State” as a resource type for each task for which AHS staff is required during a review cycle or walkthrough, based on AHS responsibilities listed in the RFP. After project start-up, we work with AHS to determine the percent of time required for each review. As required by the RFP, we expect AHS staff to be available for deliverable reviews. We also show AHS staff as participants in other applicable tasks or activities.

Project Work Plan and Schedule Conventions

The project work plan and schedule includes the following columns: WBS, Requirement #, Start, Finish, Duration, Work, Predecessors, and Resource Names. Through application of our SPARK-ITS QMS standards, the milestones and deliverables are easily identifiable. We use the following abbreviations to indicate the noted work plan conventions:

- “C:” indicates a client (Agency) task, referring either to tasks that are the sole responsibility of the Agency or that require Agency participation.
- "D-I:" indicates an interim deliverable. An Agency review period follows each interim delivery.
- "D:" indicates final submission of a contractual deliverable. The submission is followed by a final Agency review period.
- "M:" indicates a Milestone (e.g., Agency approval of a deliverable or the completion of tasks within a summary task or phase).
- “WP:” indicates a work product. These are artifacts that are not required for formal delivery, but which Xerox shares with the Agency as part of our PMM or SDM.

Ongoing tasks that recur throughout the life of the project (such as status reports) are listed only once in the project work plan. Other activities, such as those that are conducted cyclically in our expedited agile design/development/testing approach, are assigned larger work allocations with specific start and end dates.

Project transparency is key; therefore, on a frequent basis, we publish updated plans that are available for review. When changes to the project work plan and schedule are significant enough to require re-baselining the deliverable and milestone dates, the project manager submits a change request for consideration by the joint (Agency and Xerox) change control board. Upon approval, the work plan administrator revises the plan and submits it to the Agency for review and approval prior to publication. Historical versions of the project work plan and schedule are retained for future reference.

Project Work Plan and Schedule General Assumptions, Constraints, and Dependencies

While significant effort has gone into the development of this project work plan and schedule, its ultimate success is determined by the performance of our management and staff. We are confident that our experience has prepared us to accomplish the scope of work requirements in a manner that meets or exceeds the needs of the Agency and its providers, clients, and other stakeholders.

1. Xerox has made every effort to propose a WBS that represents the actual activities to be completed during the project. However, changes to the plan may be required as details and scope are further defined. Tasks, durations, milestones, deliverables, and dependencies may change due to progressive elaboration of the project solution.
2. The project work plan and schedule was developed assuming a standard eight-hour workday, with no work planned for weekends or holidays.
3. If a given task or activity falls behind schedule, we have the option of either assigning more resources or requiring existing project personnel to work overtime or on weekends.
4. Where practical, we have overlapped non-dependent tasks to expedite the schedule.
5. The project work plan and schedule is based on the RFP and may be subject to revision after the project begins, at which time the project work plan and schedule is finalized for Agency review and approval. The revised version of the project work plan and schedule is used as a baseline for monitoring the progress of the project from that point forward.
6. In order to meet the timelines described by the project work plan and schedule, the Xerox team assumes key decision makers from the Agency and stakeholder groups are available to make timely decisions on all outstanding issues.

As Xerox and the Agency work together through each phase, they may mutually agree to adjust deliverable and milestone dates through a controlled change request process.

Review Process for Milestones and Deliverables

The term “deliverables” refers to all work products Xerox delivers to the Agency for formal review and approval. Xerox optionally provides additional work products to the Agency for review and understanding. While these additional work products are not required by the RFP, we believe it is important to share the processes and decisions in the documents with the Agency to strengthen our partnership and achieve greater alignment of expectations.

Xerox holds formal deliverables and additional work products to very stringent review and quality standards. Our methodology emphasizes producing high-quality deliverables consistently and predictably. It also enhances productivity and efficiency, and reduces the need for maintaining hard copies of documents. It includes two internal reviews—peer reviews and document quality assurance reviews—to verify that deliverables are accurate and complete before submitting them to the Agency. Some deliverables also may require informal or formal walkthroughs, both of which are documented in our methodology. Once we have completed our internal reviews, we submit deliverables to the Agency

Xerox deliverables are complete, tested, and proven

- Repeatable, collaborative processes produce high quality deliverables
- Robust SharePoint repository of deliverables and documentation
- Xerox provides additional work products to strengthen our partnership and set the stage for the project's success

for review and comments. We modify the deliverable according to the Agency's direction, conduct an additional internal review if appropriate, and submit the final deliverable to the Agency for approval.

Xerox works with the Agency to create a Deliverables Expectation Document (DED), a key document that is part of our Standardized Process and Resource Kit-Implementing Technology Solutions (SPARK-ITS®) approach and one that is a result of our substantial experience and an example of our commitment to leveraging lessons learned. The DED is effectively the plan that helps manage the deliverables. The DED details the description, location, constraints, assumptions, content, format, and the criteria for Agency approval and acceptance in order to streamline the deliverable preparation and revision processes. Additionally, we review the project work plan and schedule to gain the Agency's approval of its schedule, tasks, deliverables, milestones, durations, initial resources, and dependencies.

For convenience, collaboration, and transparency, we use a Web-accessible Microsoft® Office SharePoint® site repository of deliverables and documentation. This repository enables authorized Agency users to access deliverables and provide feedback from virtually anywhere, at any time. From project onset, we coordinate with the Agency to ensure that our SharePoint site is configured to meet the Agency's expectations, and we train project team members on use of the site to optimize communication and efficiency.

We also use SharePoint to automate the assignment and tracking of editing and review responsibilities. 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 is ready for review. This notification prompts the recipient to review the deliverable and provide comments; it also notifies the original author/editor when comments are ready. Once comments are addressed and deliverables are ready for Agency review and approval, the PBMS project manager uses SharePoint functionality to send an electronic notification to the Agency for final approval.

Project Issue Resolution Process

One of our goals is to provide complete transparency to the Agency in every aspect of our operations. As such, we work with the Agency consistent with the approved Communication Management Plan and Risk Management Plan to formalize procedures used to notify the appropriate Agency staff when there are any issues that impact providers, clients or stakeholders. As part of our Agency approved Issue Resolution Management Plan, we have a problem escalation process that includes Agency notifications. The notification process is also documented in our internal policy and procedure manuals, and our staff receives training to ensure that the Agency receives all communication should a systems issue occur.

In the event there are discrepancies, errors, failed file transmissions, or abnormal interactions with external interfaces during a file transfer process or there is an issue identified with information contained in the PBMS or an incident that causes the failure of any component of the PBMS, the notification process is essentially the same. The Agency receives a disruption confirmation by telephone and/or email as preferred by the Agency designated contact. Periodic online progress updates are sent to the Agency, as additional information becomes available, addressing the cause of the problem and the estimated time to correct the problem. Based on the Agency-approved process, other stakeholders who may be impacted are notified through a broadcast message on the Web portal and or a recorded message through the call center.

In response to an incident, the Pharmacy Call Center staff is notified and receives a script so they can provide the most recent information to providers who may contact the Center. This same script can also be provided to the Agency or other stakeholders to assist in answering any incoming calls.

Our goal is to minimize the impact on providers, clients, and other stakeholders who rely on the PBMS for information supporting healthcare decisions. Any issue or disruption is considered critical and is communicated immediately to the Agency. The reference component provides the flexibility to quickly incorporate changes in benefits and services governing the Vermont PBM program.

Xerox's Approach to Managing Subcontractors Effectively

Throughout our extensive history serving as a prime contractor for numerous successful Medicaid and PBM projects, Xerox has gained valuable, practical experience in establishing and maintaining effective working relationships with subcontractors. Our approach to ensuring the success of the PBMS project leverages our strength and proven performance as a prime contractor and the longstanding relationships we have established and cultivated with the industry's best service providers. This ability to partner with and work effectively with nationally recognized contractors nationwide is demonstrated in our selection of Cognizant and Walgreens as subcontractors for the PBMS project. As the prime contractor, Xerox is wholly accountable to the Agency for meeting contract terms, including all work performed by our subcontractors.

We are highly experienced in managing subcontractors on large-scale projects, and employ best practices for reviewing their plans, monitoring their progress, and evaluating their work products to ensure compliance with defined requirements. We are confident that we are providing the necessary continuity of leadership and expertise to direct the activities of Xerox staff and our subcontractor to ensure successful contract execution and follow-through.

Prime Contractor Experience: Xerox Leadership

As prime contractor, Xerox is wholly accountable to the Agency for the integration and completion of all scope of work requirements and meeting performance requirements under the PBMS project. As noted previously, Xerox selected and is proposing our subcontractors Cognizant and Walgreens, whose experience, expertise, technologies, and processes will best assist us in performing the PBMS contract scope of services at the highest level of quality. Together, this Xerox Team provides a unified commitment to assisting the Agency enhance the PBMS consistent with Agency goals and objectives.

Xerox has an extensive history of working collaboratively with other contractors and vendors. We have served successfully both as a single solution provider and as a member of multi-vendor projects of similar scope. For example:

- **In California**, Xerox was awarded a contract with the California Department of Health Care Services to take over legacy MMIS operations, followed by design, development, implementation, and operation of a new MITA-aligned MMIS. Aligning with partners IBM and CGI, Xerox completed a successful takeover of the existing MMIS and fiscal agent operations on October 3, 2011. California's Medicaid program, Medi-Cal, is the largest in the nation, serving 7.5 million beneficiaries and more than 80,000 providers.

- **In Texas**, we currently provide fiscal agent and pharmacy claims services as part of the Texas Medicaid and Healthcare Partnership (TMHP), formed in 2003. This large and successful project leverages a coalition of seven best-in-class companies with Xerox as the prime contractor. The Texas Medicaid program is third largest in the nation, serving 3.5 million beneficiaries and 45,000 providers.
- **In Hawaii**, we have served as the prime contractor since 2002, supplying full fiscal intermediary services, PBM, and an electronic health record solution with system development and MMIS maintenance and operations services provided by the State of Arizona through Hawaii's partnership with the Arizona Health Care Cost Containment System.

Best Practices and Lessons Learned

Xerox has extensive, practical experience managing subcontractors for mission-critical Medicaid projects nationwide and we bring best practices and leverage lessons learned in subcontractor management to the PBMS project. We fully understand that the PBMS project requires considerable coordination of effort between Xerox and our subcontractors as well as a commitment on the part of both organizations to work towards common goals and criteria for success. We avoid risk to the project by leveraging a proven working relationship (since 2006) with Cognizant on other large-scale projects and following a proven project management methodology (PMM) for subcontractor and communication management through the life of the contract.

Best practices that have proven successful include the following:

Establishing and maintaining lasting partnerships: The ability to establish and maintain good working relationships with subcontractors and partners is a singular best practice that Xerox brings to our projects and one that engenders confidence in our clients along with multiple positive effects. Xerox has proven ability to work cooperatively and collaboratively with other contractors allows us to consistently provide states with the nation's best providers of technology and services. We create partnerships with contractors whose work ethic, thought leadership, credentials, and qualifications best meet the needs of our clients, thereby reducing risk to their projects and providing the highest levels of quality.

Following a proven PMM: Following a proven project management methodology (PMM) is a best practice in overseeing and monitoring all project activities including those of our subcontractors. Our PMM, Standardized Process and Resource Kit for Implementing Technology Solutions (SPARK-ITS®), provides complete, consistent, and integrated processes for managing subcontractors. Communication protocols, clearly defined requirements, and measurable service level agreements are agreed upon and documented during project initiation planning, allowing Xerox to employ best practices for reviewing subcontractor plans, monitoring progress, and evaluating subcontractor work products to ensure compliance with defined requirements.

Additionally, because successful communication promotes the successful completion of project tasks, deliverables, and milestones, our PMM Communication Management Plan identifies the protocols for communicating with our subcontractors during all project phases. Because Xerox and Cognizant have worked together on other large-scale projects, good communication is already established between the two organizations, and we are both firm in our commitment that consistent, open communication will be a hallmark of the PBMS project. Xerox as the prime contractor for the PBMS and Account Manager Gilbert

Barrios ensure that all contractual requirements are met on time and to the complete satisfaction of the State.

2.0 Assumptions

Document the assumptions related to the work plan in Table 1. The Vendor may add rows as necessary.

Table 1 Work Plan Assumptions

Item #	Reference (Section, Page, Paragraph)	Description	Rationale
1.	Section J, Work Plan	Changes to plan due to further defined details and scope.	Xerox has made every effort to propose a work plan that represents the actual activities to be completed during the project. However, changes to the plan may be required as details and scope are further defined. Tasks, durations, milestones, deliverables, and dependencies may change due to progressive elaboration of the project solution.
2.	Section J, Work Plan	Resource loading changes.	If a given task or activity falls behind schedule, Xerox has the option of either assigning more resources or requiring existing project personnel to work overtime or on weekends.
3.	Section J, Work Plan	Revisions to work plan.	The project work plan is based on the RFP and may be subject to revision after the project begins, at which time the project work plan is finalized for the Department review and approval. The revised version of the project work plan is used as a baseline for monitoring the progress of the project from that point forward.

1.0 Vendor Response Checklist

The Vendor must complete the following table in order to verify that all the RFP response requirements as part of Templates A-L have been completed as instructed.

Table 1 Vendor Response Checklist

Template	Proposal Response Item	Completed and Provided as Instructed??		Reference to Proposal Response Section
A	Cover Letter and Executive Summary	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section A
B	Vendor Experience	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section B
C	Vendor References	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section C
D	Organization and Staffing	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section D
E	Staff Experience	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section E
F	Functional Requirements	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section F
G	Functional Requirements Approach	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section G
H	Non-Functional Requirements	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section H
I	Non-Functional Requirements Approach	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section I
J	Work Plan	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section J
K	Response Checklist	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section K
L	Cost Workbook	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section L

2.0 Vendor Attachments

The Vendor must complete the following table identifying all the other documents (outside of the Templates A-L) that are being attached as part of the RFP response. The Vendor may add more rows as necessary.

Table 2 Vendor Attachment Checklist

Item #	Attachment Name	Attachment Provided?		Reference to Proposal Response Section
1	Attachment A. Financials	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section B. Vendor Experience
2	Attachment B. Work Plan	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>	Section J. Work Plan
3		YES <input type="checkbox"/>	NO <input type="checkbox"/>	
4		YES <input type="checkbox"/>	NO <input type="checkbox"/>	
5		YES <input type="checkbox"/>	NO <input type="checkbox"/>	
6		YES <input type="checkbox"/>	NO <input type="checkbox"/>	

**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, 2012

- 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

(State of incorporation)

**P.O. Box 4505, 45 Glover Avenue,
Norwalk, Connecticut 06856-4505**

(Address of principal executive offices)

16-0468020

(IRS Employer Identification No.)

(203) 968-3000

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$1 par value

Name of each exchange on which registered
**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, 2012 was \$10,287,686,280.

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, 2013
Common Stock, \$1 par value	1,223,836,871

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 2012 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2013 Annual Meeting of Shareholders and Proxy Statement (to be filed no 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. These 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 and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; actions of competitors; 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; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; our ability to recover capital investments; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that our Services business could be adversely affected if we are unsuccessful in managing the ramp-up of new contracts; development of new products and services; our ability to protect our intellectual property rights; our ability to expand equipment placements; 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; interest rates, cost of borrowing and access to credit markets; reliance on third parties for manufacturing of products and provision of services; our ability to drive the expanded use of color in printing and copying; the outcome of litigation and regulatory proceedings to which we may be a party; 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.

TABLE OF CONTENTS

	<u>Page</u>
Part I	
Item 1. Business Overview	5
Item 1A. Risk Factors	18
Item 1B. Unresolved Staff Comments	25
Item 2. Properties	25
Item 3. Legal Proceedings	25
Part II	
Item 5. Market for the Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6. Selected Financial Data	27
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	27
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	27
Item 9A. Controls and Procedures	28
Item 9B. Other Information	28
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	30
Item 11. Executive Compensation	31
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	32
Item 13. Certain Relationships, Related Transactions and Director Independence	32
Item 14. Principal Auditor Fees and Services	32
Part IV	
Item 15. Exhibits and Financial Statement Schedules	33
Signatures	34
Report of Independent Registered Public Accounting Firm	35
Schedule II Valuation and Qualifying Accounts	36
Index of Exhibits	37

PART I

ITEM 1. BUSINESS OVERVIEW

Xerox is the world's leading enterprise for business process and document management. We provide services, technology and expertise to enable our customers - from small businesses to large global enterprises - to focus on their core business and operate more effectively. The key areas in which we help businesses are:

Business Process Outsourcing: We are the largest worldwide diversified business process outsourcing company with an expertise in managing transaction-intensive processes. This includes services which support all enterprises through offerings such as customer care, finance and accounting and human resources, as well as vertically focused offerings in areas such as healthcare, transportation, retail and telecommunications, among others.

Information Technology Outsourcing: We specialize in designing, developing and delivering effective IT solutions that leverage our secure data centers, help desks and managed storage facilities around the world to provide a reliable IT infrastructure.

Document Technology and Document Outsourcing: Our document technology products and solutions support the work processes of our customers and provide them an efficient, cost effective printing and communications infrastructure. Our managed print services offering helps customers optimize the use of document systems across small businesses or large global enterprises.

We are a leader in a large, diverse and growing market estimated at over \$600 billion. The global **business process outsourcing** and **information technology outsourcing** markets are estimated at roughly \$250 billion each. These markets are very broad, encompassing horizontal business processes as well as industry specific-processes. The **document management** market is estimated at roughly \$130 billion. This market is comprised of the document systems, software, solutions and services that our customers have relied on for years to help run their businesses and reduce their costs. Xerox led the establishment of the managed print services market and continues as the industry leader today.

These market estimates are calculated by leveraging third party forecasts from firms such as Gartner and NelsonHall in conjunction with our assumptions about our markets.

Our Strategy and Business Model

We are well-positioned to lead in the markets in which we participate. At the heart of our strategy is the creation of sustained shareholder value through EPS growth and strong cash flow.

Our core strengths which drive our strategy include:

- **Our Brand** - We have a well-recognized and respected brand that is known by businesses worldwide for delivering industry-leading document technology, services and solutions. It continues to be ranked in the top percentile of the most valuable global brands.
- **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 11,500 active U.S. patents and five global research centers, we continue to lead the document technology industry and to take our technology into new service areas. See the "Innovation and RD&E" section for additional information about our renowned innovation.

- **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 and for our business.

We use our core strengths and market opportunities to grow our businesses by executing on the following growth drivers:

- **Expand Globally** - We leverage our global presence and customer relationships to expand our BPO and ITO services internationally. The majority of our BPO and ITO revenues are currently derived from services provided to customers in the United States. In addition, we will continue to grow globally through acquisitions. Three of our 2012 acquisitions were made outside of the United States.
- **Capitalize on Advantaged Verticals** - Within our Services and Document Technology segments, we serve verticals in which we have deep expertise resulting from years of experience, strong customer relationships, large scale and our renowned innovation. Capitalizing on the opportunities that these strengths provide us will continue to be key to growth.

An example of an advantaged vertical is healthcare, where we have built a \$2 billion business that touches every aspect of the industry - government, provider, payer, employer and pharma. In addition, we apply our innovation to differentiate our offerings. As a result, we are positioned to capitalize on current industry trends, including the changes presented by health reform. We also view transportation, wireless communications and graphic communications, among others, as advantaged verticals in which we have a leading position, strong capabilities and attractive market opportunities.

- **Disciplined Management of Portfolio** - Xerox has the most broad and diverse set of offerings in the Services segment and the most complete product portfolio in the Document Technology business. Our acquisitions are targeted at businesses that will increase our Services capabilities, position us in attractive Services segments and provide us with a greater global presence. We will continue to focus on managing our portfolio to maximize profitable growth.
- **Leverage Document Technology Leadership** - Xerox is the market share leader in the Document Technology market. We led the establishment of the managed print services ("MPS") market and we continue to lead this area of market growth. Our MPS offerings continue to expand and now consist of a continuum of offerings that serve large enterprise down through small and mid-size businesses. In addition, we leverage our leadership in Document Technology to help grow our business process outsourcing and IT outsourcing businesses.
- **Expand Customer Relationships** - We expand customer relationships through a strategy of "penetrate and radiate". As we establish relationships, we prove our capabilities and then work with the customer to determine other areas where we can improve their operations and drive down costs by managing non-core parts of their business. Our wide array of Services offerings enables us to do this effectively and results in a win-win for Xerox and our customers.
- **Invest in New Services** - Our Services acquisitions are a key element of our strategy. We target companies that provide new capabilities, offer access to adjacent services areas or expand our geographic presence. We will continue to invest in new services to grow our business profitably.

Annuity-Based Business Model

Through our annuity-based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 84 percent of our 2012 total revenue was annuity-based revenue that includes contracted services equipment maintenance, consumable supplies and financing, among other elements. The remaining 16 percent of our revenue comes from equipment sales, either from lease agreements that qualify as sales for accounting purposes or outright cash sales.

Our strategy and business model fundamentals translate into the following 2013 priorities:

- Managing our Services business for growth;
- Maintaining our leadership in document Technology;
- Managing our business with a focus on operational excellence; and
- Delivering strong cash flow and returning value to shareholders.

Acquisitions

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

In July 2012 we acquired:

- **Wireless Data Services (“WDS”)**, a telecommunications technical support and consultancy firm headquartered in the U.K. WDS uses a proprietary cloud-based platform called GlobalMine™ to capture, analyze and manage millions of technical support interactions across thousands of different types of mobile devices.
- **Lateral Data**, a leading e-discovery technology provider based in the United States. Lateral Data's flagship software, Viewpoint™, brings simplicity and affordability to e-discovery by enabling corporate legal departments and law firms to manage the entire e-discovery lifecycle using a single, in-house solution.

In January 2012 we acquired:

- **LaserNetworks Inc.**, a provider of MPS solutions that include print device tracking, centralized service and supply management and document routing. LaserNetworks is headquartered in Canada.
- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our business process outsourcing capabilities across Europe.

Additionally, we made the following acquisitions consistent with our strategy to expand distribution to under-penetrated markets:

- In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, printers and MPS, with locations in seven cities in Iowa and Illinois.
- In addition, we enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Innovation and RD&E

Xerox has a rich heritage of innovation that continues to be a core strength of the company as well as a competitive differentiator. The Company's investments in innovation align with its growth opportunities in areas like business services, color printing and customized communication. Our overall aim is to create value for our customers, for our shareholders and for our people by influencing the future in certain key areas. Our research work can be categorized under four themes:

- **Implementing Agile Business Processes:** To enable true business process agility, our research aims to automate business processes via flexible platforms that run on robust and scalable infrastructures. Automation of business processes benefits from our research on image, video and natural language processing coupled with machine learning. Application of these methods to business processes enables technology to perform tasks that today are performed manually by workers, thus enhancing worker productivity.
- **Harvesting Knowledge from Information:** Information comes in two forms: structured, where the content sits tidily in searchable indices or in limiting databases; or unstructured, where content can be anything from photos, videos, hand-written forms, emails, etc. Unstructured information has endless growth and creates a need for businesses to be more effective in mining context from content. This is a key research area for us - making sense of unstructured information using natural language processing and semantic analysis. We explore how to better analyze information for human use by better understanding contextual detail on how the content has been created and used. We are also developing proprietary methods for predictive analytics applied to business processes.
- **Delivering the Value of Personalization:** Our research leads to technologies that improve the efficiency, economics and relevancy of business communications and printing applications. We research methods to create affordable ubiquitous color printing, leveraging our solid ink printing technology. We are also exploring ways to expand the application space of digital printing to cover new applications such as packaging printing and printing directly on mediums that go far beyond paper, like food and clothing.
- **Enabling the Sustainable Enterprise:** Our research also focuses on developing technologies that minimize the environmental impact of document systems and business processes. An example is how we are continually working on lowering the operating and standby power of our printing systems by using new materials and print processes.

Within this framework, one particular area of focus is data analytics - simplifying complex data to turn it into actionable knowledge - helping our customers drive operational efficiencies, guide decisions, yield new insights and help predict what is next. The following are a few ways in which we are achieving this:

- **Digital Nurse Assistant: improving the quality of healthcare and enhancing service to individuals**
With the overload of information and data in the workplace, often more time is spent wading through data than focusing on the task at hand. When information can be intelligently aggregated and grouped, time can be saved. In healthcare, nurses sometimes spend 75 percent of their day coordinating documents. One of the innovations we developed, Digital Nurse Assistant, collects and categorizes all patient information into a simple, touch-screen dashboard. This means that critical patient information is not in a computer or in a file somewhere, it's in the hands of the people who need it.
- **Mining Mobile Information**
GlobalMine™, a proprietary cloud based platform, captures, analyzes, and manages millions of technical support interactions across thousands of different mobile device types. This data helps telecommunications clients react, in real time, to any systems issues or customer satisfaction problems that their customers may be experiencing with their devices or service.

- **Making Transportation Information and Data Meaningful**

The millions of commuters who take public transportation also provide critical data about their daily habits and that can be used to optimize service and save money for cities. Xerox analytics use this information to provide cities with structured data, which becomes the basis for schedule and infrastructure improvements that are responsive to what their passengers need. This has resulted in increased ridership and lower costs in the cities in which it has been implemented.

Global Research Centers

We have five global research centers that have unique areas of focus and are places where creativity and entrepreneurship are truly valued and leadership has empowered employees to deliver, resulting in leading-edge research and high-impact innovations that make a difference in the world. Our research centers are as follows:

- **Palo Alto Research Center ("PARC")** - Located in Palo Alto California, PARC is a wholly owned subsidiary of Xerox that is focused on areas of innovation on behalf of Xerox in areas that include content-centric networking, intelligent mobile computing and intelligent automation. PARC also leverages its heritage as the birthplace of modern technologies to provide research and development for non-competitive businesses in areas that include UV-LEDs and ethnography services.
- **Xerox Research Centre of Canada ("XRCC")** - Located in Mississauga, Ontario Canada, XRCC is Xerox's materials research center with a focus on imaging and consumable materials, such as toner and inks, for our document technology.
- **Xerox Research Center Webster ("XRCW")** - Located in Webster New York, XRCW focuses on system design, imaging, computing and marking science. In addition, XRCW is now focused on innovation to help the healthcare industry.
- **Xerox Research Centre Europe ("XRCE")** - Located in Grenoble France, XRCE research differentiates Xerox business process service offerings. The center focuses on image, text and data analytics, business process modeling and the study and understanding of work practices.
- **Xerox Research Center India ("XRCI")** - Located in Chennai India, XRCI focuses on unique innovation opportunities that emerge in and best serve developing markets. As Xerox's newest research lab, XRCI has a broad mandate to foster innovation across the Company's document technology and business process services offerings.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest). We have aligned our R&D investment portfolio with our growth initiatives, including enhancing customer value by building on our Services leadership as well as accelerating our color leadership.

Our total research, development and engineering expenses (including sustaining engineering expenses, which are the hardware engineering and software development costs incurred after we launch a product) totaled \$655 million in 2012, \$721 million in 2011 and \$781 million in 2010. Fuji Xerox R&D expenses were \$860 million in 2012, \$880 million in 2011 and \$821 million in 2010.

Segment Information

Our reportable segments are Services, Document Technology 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 small and midsize businesses ("SMBs") 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

Our Services segment is the largest segment within the company, with \$11,528 million in revenue in 2012, representing 52 percent of total revenue. The Document Technology segment contributed \$9,462 million in revenue, representing approximately 42 percent of total revenue, while the Other segment represented \$1,400 million in revenue representing approximately 6 percent of total revenue.

Services Segment

Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Information Technology Outsourcing ("ITO") and Document Outsourcing ("DO"). We provide non-core, mission-critical services that our clients need to run their day-to-day business. These services help our clients simplify the way work gets done, giving them more time and resources to allocate to their core operations, respond rapidly to changing technologies and reduce expenses associated with their business processes and information technology support.

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with an expertise in transaction-intensive offerings tailored for several industries. BPO represented 57 percent of our total Services segment revenue in 2012. Our services include:

- **Government Healthcare Solutions:** This business serves state and federal-funded government healthcare programs. We provide a broad range of solutions, from processing Medicaid claims to pharmacy benefits management, clinical program management, supporting health information exchanges, eligibility application processing and determination, delivering public and private health benefit exchange services and care and quality management. We have been delivering these systems since 1971 and we apply our deep knowledge of the Medicaid system, along with technological advances, to simplify and automate transaction-intensive processes. As a result, we are uniquely positioned to capitalize on the opportunities that health care reform is presenting.
- **Healthcare Payer and Pharma:** 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 data capture, claims processing, customer care, recovery services and healthcare communications. No competitor has offerings in all of these areas.
- **Healthcare Provider Solutions:** We provide consulting solutions, revenue cycle management and application services that are customized to meet the varying and changing needs of healthcare providers. We serve every large health system in the United States, with contracts in all 50 states. We also help our clients improve care through an analytics solution designed to provide clinical staff information.
- **Human Resources Services ("HRS"):** From actuarial expertise to full range of human resources consulting - from employee service centers to learning, retirement, health and welfare services - HRS delivers game-changing, innovative solutions that enable our clients to focus on their business. We differentiate ourselves around two themes of innovation: engagement and enablement. We help HR departments engage employees as individuals by communicating to them with personalized messages and enabling employees to get smarter about managing their own health, wealth and career outcomes.

- **Financial Services:** We provide finance and accounting services for any industry - from accounting to billing to procurement to accounts payable and receivable to tax management. In addition, we provide outsourcing of financial aid and enrollment office operations for colleges and universities and back-room functions such as customer services, transaction processing and mailroom operations for the financial services industry. We have a deep understanding of what drives the customer and we move beyond simply driving down costs.
- **Customer Care:** Xerox is the largest domestic customer care provider to the Wireless Telecom industry. We have years of experience in providing customer care services that improve our customers' productivity, efficiency and customer retention in telecommunications as well as a variety of other industries. Our customer care offerings include: customer service, sales, technical support, transaction processing, fulfillment and managed mobility services, among others.
- **Retail, Travel and Insurance:** We provide technology-based transactional services for retail, travel and non-healthcare insurance companies. We handle their data entry, mailrooms, imaging input and hosting, call centers and help desk with targeted industry focus.
- **Transportation Solutions:** We provide revenue-generating solutions in over 30 countries. Our solutions include fare collection, toll and parking solutions, and monitoring of red light cameras. We differentiate through the breadth of our offerings and innovative technology. For example, we developed dynamic pricing algorithms, which will be used in the new Los Angeles ExpressPark program. This program will create a new pricing system designed to relieve traffic congestion, reduce air pollution and improve the efficiency of downtown LA's transit operations.
- **Government Solutions:** We support our government clients with solutions for child support payment processing, tax and revenue systems, eligibility systems and services, electronic payments transfer, electronic payment cards and unclaimed property services, among others. Our competitive advantage is our depth of local expertise while at the same time having the scale required to deliver and manage multiple programs for federal, state, county and town governments.

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 risk of disruption to our clients' daily operations. ITO represented 12 percent of our total Services segment revenue in 2012.

We provide our ITO services across several verticals. Our ITO services include:

- **Mainframe and Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services. 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.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **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.

- **Cloud Services:** Our cloud services solutions cover the full range from infrastructure, mobility, collaboration and platform. We designed our solutions to quickly scale up or down and fit different business needs. These solutions are delivered through our cloud-based, multi-tenant infrastructure with compliance, monitoring and performance transparency built in.

In addition, we provide Remote Infrastructure Management, Help Desk/Service Desk Management, Managed Storage, Utility Computing, Disaster Recovery and Security Services.

Document Outsourcing

We are the 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 simplify their communication and business processes to grow revenue, reduce costs and operate more efficiently. DO represented 31 percent of our total Services segment revenue in 2012. Our two primary offerings within Document Outsourcing are Managed Print Services and Communication and Marketing Services.

- **Managed Print Services ("MPS"):** Xerox MPS optimizes, rationalizes and manages the operations of Xerox and non-Xerox print devices, driving efficiencies that can save clients up to 30 percent on their document-related costs. We provide the most comprehensive portfolio of MPS services in the industry, supporting small- and midsize businesses up through large global enterprises.

The key factors that differentiate us include our commitment to innovation and technology, including our cloud-based connectivity and integrated suite of software tools, as well as our global direct and channel partner coverage and certification programs. In addition, the industry's broadest portfolio of printing products sets us apart from our competition. We are recognized as an industry leader by several major analyst companies, including Gartner, IDC, Quocirca and Forrester.

We also partner with industry leaders to enhance our solutions. As an example, we recently selected Cisco's Unified Computing System ("UCS") to support our network of cloud-based MPS delivery centers around the world and speed up the connection between data servers and the more than one million Xerox and non-Xerox print devices we manage. As a result, customers experience a faster, more reliable delivery of MPS applications and we stay ahead of their needs by utilizing the data we collect to continually recommend new ways to simplify the way they work with both paper and digital documents.

The Xerox MPS continuum complements and provides opportunities to expand existing BPO and ITO services. Within BPO accounts, Xerox MPS helps to improve workflow and enhance employee productivity. In ITO accounts, MPS complements the client IT services that we are currently managing and positions Xerox as a complete IT services provider.

- **Communication & Marketing Services ("CMS"):** CMS delivers end-to-end outsourcing for design, communications, marketing, logistics and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through traditional routes, such as print, but also through a growing number of multimedia channels including SMS, Web, email and mobile media.

We help our clients identify how their customers want to be engaged, tailor their content, translate it, personalize their communication, decide on the appropriate channel, execute on campaigns and measure the resulting success.

Our advantage results from the breadth of our capabilities and our service-orientated approach that provides a single, seamless service for all communication and marketing logistics.

Document Technology Segment

Document Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (that which is not related to document outsourcing contracts). Our Document Technology business 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 primarily to small and midsize businesses through a worldwide network of independent resellers and online merchants. Our entry products represented 22 percent of our total Document Technology segment revenue in 2012. It 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 2012, we continued to build on our position in the market by:

- Making high-quality desktop color more affordable and easier to use for all businesses;
- Expanding our channel reach, partner programs and capacity to support the needs of small to midsize businesses in our customers' preferred buying locations; and
- Launching products and solutions that help individuals, small work teams, large workgroups or whole departments achieve their business goals.

In 2012, we added the following products:

- **ColorQube® family multifunction printers:** Based on Xerox solid ink technology, the ColorQube 8700 and ColorQube 8900 multifunction printers provide cost savings and color quality for small and midsize businesses. In addition, they have the ability to expand into a floor device with extra paper capacity and helpful finishing options.
- **WorkCentre® 3315 and WorkCentre® 3325:** These high-performance monochrome products feature a print speed of up to 37 pages per minute and a first-page-out time of 6.5 seconds. The WorkCentre 3325 also comes standard with internal Wi-Fi connectivity and the latest security features. Both devices feature a small footprint, allowing for easy integration within customer work environments.
- **Phaser® 7100 Color Printer:** This printer produces exceptional print quality on a wide variety of media - including oversize paper. The Phaser 7100 can be used either on a desktop or as a floor device with print speeds of up to 30 pages per minute and simple printer management with CentreWare Internet service.
- **The WorkCentre® 6605 and Phaser® 6600 printers:** These devices provide vibrant color output for smaller businesses and feature Print resolution of up to 600 X 600 X 4 dpi and color and black-and-white print speeds of up to 36 ppm.

Mid-range

Mid-range comprises products sold to enterprises of all sizes, principally through dedicated Xerox-branded partners and our direct sales force, indirect multi-branded channel partners and resellers worldwide. Our mid-range products represented 58 percent of our total Document Technology segment revenue in 2012. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features. In 2012, our mid-range business continued to build on our position in the market by:

- Making high-quality color more affordable and easier to use for small and mid-size businesses and large enterprises;
- Expanding our channel reach, partner programs and capacity to support the needs of the SMB market; and
- 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 document workflows.

The breadth of our Mid-range product portfolio is unmatched. These products include:

- **Xerox WorkCentre® 7525, 7530, and 7535:** These multifunction printers are equipped with features to help small and midsize businesses boost productivity and meet their sustainability goals. They offer speeds up to 25, 30 and 35 ppm color and black-and-white. The MFPs, which can print, copy, scan, fax and email, include advanced document management and workflow tools to make office work easier and also offer unparalleled ease of use and security features. In addition, the Hi-Q LED print engine technology consumes less energy and space and produces less noise, while printing resolutions of 1200 x 2400 dpi.
- **Xerox ColorQube® 9301/9302/9303:** The ColorQube™ 9300 Series combines Xerox's solid ink innovation with our legacy of advanced multifunction product leadership. This results in a multifunction printer that produces vivid color quality that is affordable and produces significantly less printing waste versus comparable color laser devices. The device copies and prints at speeds up to 55 ppm color and 60 ppm black-and-white, while increasing productivity even further with speeds up to 85 ppm in Fast Color mode for draft or short-life documents.
- **Xerox WorkCentre® 5325/5330/5335:** The highly modular WorkCentre 5300 series black-and-white MFP serves both small and midsize businesses as well as enterprise office environments. Its customizable workflow solutions help customers in document-intensive industries such as legal, health care and financial make their daily tasks more efficient.
- **Xerox D95/110/125 Copier/Printer:** This device offers production print, copy, scan and advanced finishing capabilities for pay-for-print shops and centralized reprographic departments in addition to education, healthcare and many other industries. With industry leading speeds of up to 125 ppm, this D95/110/125 Copier/Printer helps customers increase productivity and reduce costs.

High-end

Our High-end digital color and monochrome solutions are designed for customers in the graphic communications industry and for large enterprises. Our high-end products comprised 20 percent of our total Document Technology segment revenue in 2012. These devices enable digital on-demand printing, full-color printing and enterprise printing. We continue to expand our portfolio of cut sheet and continuous feed offerings in both toner and inkjet products. Our hardware and our integrated solutions such as automated in-line finishing result in “touch less” workflows (with little to no manual processing or human intervention) allow Xerox customers to produce more jobs and grow their business.

For more than two decades, Xerox has delivered innovative technologies that have revolutionized the production printing industry, maintaining our position as the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2012 with the launches of:

- **Xerox iGen® 150:** In May at drupa, we introduced our latest iGen product. The iGen 150 builds on the capabilities of the iGen4 with a number of new feature sets. The fastest cut sheet product in the production color fleet prints at 150 A4 ppm. In addition, we included a new 26” internal stacker to maximize output of the largest sheet size in the industry. A number of automated color management tools help enable productivity and our latest finishing solution, Integrated Plus, makes the production of booklets simpler.
- **Xerox Nuvera® 157 & 314:** At Graph Expo in October, we introduced the latest members of the Xerox Nuvera family, the Xerox Nuvera 157 and tandem engine 314 black-and-white production products. These products build on the success of the Nuvera family and offer new speed levels and functionality. The top speed of the single engine is increased to 157 ppm and to 314 images per minute in the tandem configuration. These devices also contain a new production stacking system that delivers neat output stacks at waist level that can be unloaded as the engine continues to print.
- **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.

Other Segment

The Other segment primarily includes revenue from paper sales, wide-format systems, network integration solutions and electronic presentation systems from Global Imaging Systems. Paper comprised approximately 59 percent of the revenues in the Other segment in 2012.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 34 percent of our revenue is generated by customers outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand our Services business in Europe and developing markets.

In 2012, our revenues by geography were as follows: United States: \$14,701 million (66% of total revenue), Europe: \$5,111 million (23% of total revenue) and Other areas: \$2,578 million (11% of total revenue). Revenues by geography are based on the location of the unit reporting the revenue and includes export sales.

Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,215 U.S. utility patents in 2012. On that basis, we would rank 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 about 1,900 U.S. utility patents in 2012. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2012, we held more than 11,500 U.S. design and utility 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 2012, we added 11 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in all 11 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, Océ, Sharp, Samsung, Seiko Epson and Toshiba TEC. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 500 U.S. 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

We operate in over 160 countries worldwide and 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. We manage our business based on the principal 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 go to market with a Services-led approach and 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 addition, our wholly-owned subsidiary, Global Imaging Systems ("GIS"), an office technology dealer which is comprised of regional core companies in the United States, sells and services document management systems, network integration devices and electronic presentation systems.

For small and mid-size business, we continued to expand our distribution in 2012 as GIS acquired four companies. Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands.

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 distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties distributing our products in Sudan and Syria. 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. Now, Xerox has only legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2012, total Xerox revenues of \$22.4 billion included less than \$35 thousand attributable to Sudan and Syria.

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.

In the Services business, our larger competitors include Accenture, Aon, Computer Sciences Corporation, Convergys, Dell, Genpact, Hewlett-Packard, IBM and Teletech. In addition, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

In the Document Technology business, our larger competitors include Canon, Hewlett-Packard, Kodak, Konica Minolta, Lexmark, and Ricoh.

Our brand recognition, positive reputation for business process and document management, innovative technology and service delivery are our competitive advantages. This combined with our breadth of product offerings, global distribution channels, and customer relationships positions us as a strong competitor going forward.

Global Employment

Globally, we have approximately 147,600 direct employees, including approximately 7,100 sales professionals, approximately 11,300 technical service employees and approximately 100,000 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. 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. Additionally, because we primarily finance our own products and have a long history of providing financing to our customers, we are able to minimize much of the risk normally associated with a finance 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, proceeds from capital market offerings and the sale of selected U.S. finance receivables. At December 31, 2012, we had \$5.3 billion of finance receivables and \$0.5 billion of equipment on operating leases, or Total Finance assets of \$5.8 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in a significant portion of our \$8.5 billion of debt being 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, NY, where we produce fusers, photoreceptors, Xerox iGen and Nuvera[®] systems, components, consumables and other products. We also 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, OR, for solid ink products, consumable supplies and components for our Mid-range and Entry products. We also have a 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 through 2014. 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 8 - Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2012 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

Our global services production model is one of our key competitive advantages. We have approximately 120 Strategic Delivery Centers located around the world including India, Mexico, Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. These locations are comprised of Customer Care Centers, Mega IT Data Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. 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 own a 25 percent interest and FUJIFILM Holdings Corporation ("FujiFilm") owns a 75 percent interest. 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 2012, 2011 and 2010 that are included in Note 2 - Segment Reporting in the Consolidated Financial Statements in our 2012 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 our 2012 Form 10-K.

Backlog

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 maintain significant operations and acquire or manufacture many of our products and/or their components, 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 services, applications and new products; 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 services and products and which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our services and products 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 services and products, 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 services and products, 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.

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.

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 enable us to perform our services under the contracts, 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 a 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.

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.

Our services business could be adversely affected if we are unsuccessful in managing the ramp-up of new contracts.

In order for our services business to continue its growth, we must successfully manage the ramp-up of services related to new contracts. If a client is not satisfied with the quality of work performed by us or a subcontractor, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. We could also trigger contractual credits to clients or a contractual default. Failure to properly transition new clients to our systems, properly budget transition costs or accurately estimate new contract operational costs could result in delays in our contract performance, trigger service level penalties, impair fixed or intangible assets or result in contract profit margins that do not meet our expectations or our historical profit margins.

If we fail to successfully develop new products, 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 decline.

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 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, 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 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 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 receive, 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 and financial and health information, as well as laws that regulate how we can obtain and use such 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 obtain and 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', clients' and 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.

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 primarily fund our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings, sales and securitizations of finance receivables and commercial paper 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. 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. 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 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). At December 31, 2012, we were in full compliance with the covenants and other provisions of the Credit Facility. Failure to comply with material provisions of or covenants in the Credit Facility could have a material adverse effect on our liquidity, 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.

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 future success in executing on 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 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-Related Products Directive (“ERP”) 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 ERP implementing measures. Another example is the European Union “REACH” Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that requires 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 effect on our operations and financial condition. Similarly, environmentally driven procurement requirements voluntarily adopted by customers in the marketplace (e.g., U.S. EPA EnergyStar) are constantly evolving and becoming more stringent, presenting further market access challenges if our products fail to comply.

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 Document Technology Segment. Our principal research facilities are located in California, New York, Canada, France and India. The research activities in our principal research centers benefit all of our operating segments. We lease and own several facilities worldwide to support our Services segment with larger concentrations of space in Texas, Kentucky, New Jersey, California, Mexico, Philippines, Jamaica and India. Our Corporate Headquarters is a leased facility located in Norwalk, Connecticut.

As a result of implementing our restructuring programs, (refer to Note 10 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements in our 2012 Annual Report, incorporated by reference), several leased and owned properties became surplus. We are obligated to maintain our leased surplus properties through required contractual periods. As of December 31, 2012, we have two remaining properties in surplus in Monrovia, California and Rampur, India. The facility in Monrovia has been subleased and the facility in Rampur has been sold pending receipt of a final 50% cash deferred payment.

We acquired approximately 23 leased properties totaling approximately 378,000 square feet in 2012 through mergers and acquisitions.

We also own or lease numerous facilities globally, which house general offices, sales offices, service locations, data centers, call centers 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.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the "Contingencies" note in the Consolidated Financial Statements, of the Xerox Corporation 2012 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 2012 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, 2012

During the quarter ended December 31, 2012, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the "Act").

Dividend Equivalent

- (a) Securities issued on October 31, 2012: Registrant issued 4,139 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 and one retired Director 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, Sara Martinez Tucker and Mary Agnes Wilderotter.
- (c) The DSUs were issued at a deemed purchase price of \$7.315 per DSU (aggregate price \$30,277), 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, 2012

Repurchases of Xerox Common Stock, par value \$1 per share include the following:

Board Authorized Share Repurchase Program:

	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⁾
October 1 through 31	13,044,987	\$ 7.26	13,044,987	\$ 548,454,665
November 1 through 30	20,999,340	6.44	20,999,340	1,413,120,094
December 1 through 31	14,924,318	6.95	14,924,318	1,309,348,335
Total	<u>48,968,645</u>		<u>48,968,645</u>	

(1) Exclusive of fees and costs.

(2) In October 2012, the Board of Directors authorized an additional \$1 billion in share repurchase. Of the cumulative \$6.0 billion of share repurchase authority granted by our Board of Directors, exclusive of fees and expenses, approximately \$4.7 billion has been used through December 31, 2012. 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
October 1 through 31	24,343	\$ 7.35	n/a	n/a
November 1 through 30	—	—	n/a	n/a
December 1 through 31	8,078	6.81	n/a	n/a
Total	<u>32,421</u>			

(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. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2012, as set forth and included under the caption “Five Years in Review,” of the Xerox Corporation 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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, 2012, 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, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2012 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

Principal Accounting Officer

On February 19, 2013, Registrant was informed that its Principal Accounting Officer, Gary R. Kabureck, will retire as Vice President and Chief Accounting Officer of Xerox Corporation effective March 31, 2013. Kabureck is a 28 year employee of Xerox. He will become a Board Member of the International Accounting Standards Board.

Effective April 1, 2013, Joseph H. Mancini, Jr. will become Vice President and Chief Accounting Officer of Xerox Corporation and will become Registrant's Principal Accounting Officer. A 23 year employee of Xerox, Mancini has held a number of senior finance roles including leading Xerox's mergers & acquisitions organization and serving as

Chief Financial Officer for Xerox's Document Technology business.

Executive Compensation

On February 20, 2013, the Compensation Committee of the Board of Directors of the Company took the following actions:

2012 and 2013 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 2012 APIP. The measures on which awards are based for the 2012 fiscal year are set out on Exhibit 10(e)(16) attached hereto. The Compensation Committee approved the payment of cash awards under the 2004 PIP for fiscal year 2012 to Ursula M. Burns, Chairman and Chief Executive Officer of the Company; Luca Maestri, Chief Financial Officer; and certain other officers, including Lynn R. Blodgett, Armando Zagalo de Lima and James A. Firestone, our next three most highly compensated executive officers for fiscal year 2012 (collectively, the "Named Executive Officers"). The Compensation Committee approved a cash award of \$1,072,500 to Ms. Burns, \$544,440 to Mr. Maestri, \$663,000 to Mr. Blodgett, \$454,282 to Mr. Zagalo de Lima, and \$464,100 to Mr. Firestone.

The Compensation Committee approved the measures for APIP awards for fiscal year 2013, which are set out on Exhibit 10(e)(23) attached hereto.

Other Compensation Actions

Effective January 1, 2013, the Compensation Committee increased Ms. Burns' annual incentive target amount from 150% to 200% of base salary based on a review of peer group proxy data.

Effective August 1, 2013, the Compensation Committee approved the following with respect to Mr. Zagalo de Lima's compensation as he transitions off an international assignment: 1) set the annualized base salary for Mr. Zagalo de Lima at \$750,000 from €517,000 (approximately \$690,600 at the exchange rate as of February 15, 2013 of \$1.3359/€1) based on the significant increase in his 2012 responsibilities, a review of internal pay data and the decrease in exchange rates since he was initially transferred to the U.S. Mr. Zagalo de Lima's base salary will now be denominated in U.S. dollars; 2) provided a transition allowance of \$182,000 for 2013 and \$90,000 for 2014; and 3) changed his pension formula benefit to include 100% of his target bonus (previously 70%) for retirement at age 55 or later (previously age 58 or later).

2010 E-LTIP Awards

The Compensation Committee determined that 149.80% of the performance shares granted under the 2010 Executive Long-Term Incentive Program ("2010 E-LTIP") was earned based on the Company's three-year cumulative targets established for Earnings Per Share and Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(8). The total number of shares earned for the three-year cumulative performance period ended December 31, 2012 that shall vest on July 1, 2013 for each Named Executive Officer is as follows: Ms. Burns, 1,409,663 shares; Mr. Blodgett, 375,923 shares; Mr. Zagalo de Lima, 281,939 shares; and Mr. Firestone, 375,923 shares. Included in these share amounts are shares that were previously earned for 2010 and 2011 annual performance, as previously disclosed in our 2010 Form 10-K and 2011 Form 10-K.

2011 E-LTIP Awards

The Compensation Committee determined that no performance shares granted under the 2011 Executive Long-Term Incentive Program ("2011 E-LTIP") were earned based on the Company's 2012 performance against the annual targets established for Earnings Per Share, Core Cash Flow from Operations and Revenue Growth. A description of the targets is set out on Exhibit 10(e)(13).

2012 E-LTIP Awards

The Compensation Committee determined that 13.33% of the performance shares granted under the 2012 Executive Long-Term Incentive Program ("2012 E-LTIP") was earned based on the Company's 2012 performance against the annual targets established for Earnings Per Share, Operating Cash Flow and Revenue Growth. A description of the targets is set out on Exhibit 10(e)(17). The number of shares earned for 2012 for each Named Executive Officer is as follows: Ms. Burns, 131,300 shares; Mr. Maestri, 50,826 shares*; Mr. Blodgett, 50,826 shares; Mr. Zagalo de Lima, 42,355 shares; and Mr. Firestone, 42,355 shares. Earned shares vest three years from their grant date.

ACS Performance Shares

In connection with the acquisition of ACS, Mr. Blodgett received a special one-time grant of performance shares that vested 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 could 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 no shares were earned for 2012 based on ACS's performance against the 2012 stated target. All previously earned shares are now fully vested.

2013 E-LTIP Awards

2013 E-LTIP awards made to Named Executive Officers reflect their leadership role in the Company, their historical and expected future contributions, and competitive award levels. The purpose of the 2013 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 2013 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 2016. 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 2013 E-LTIP are Adjusted Earnings Per Share (weighted 40%), Adjusted Operating Cash Flow (weighted 40%) and Revenue Growth (weighted 20%). These metrics are defined in Exhibit 10(e)(24) attached hereto. The Compensation Committee has established three-year cumulative targets for Adjusted Earnings Per Share, Adjusted Operating Cash Flow and Revenue Growth. Based on actual performance versus targets, the number of performance shares earned by Named Executive Officers under the 2013 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 will be made is attached hereto as Exhibit 10(e)(25).

Named Executive Officers in the 2013 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.

*In January 2013, Mr. Maestri announced his intention to step down from his position of Executive Vice President and Chief Financial Officer on February 28, 2013; accordingly, all earned shares under his E-LTIP awards will be cancelled effective February 28, 2013.

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 ("2013 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 21, 2013. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2012.

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 2013 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 2013 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*	54	Chairman of the Board and Chief Executive Officer	2010	1997
Lynn R. Blodgett	58	Executive Vice President; President, Services Business	2012	2010
James A. Firestone	58	Executive Vice President; President, Corporate Operations	2008	1998
Luca Maestri	49	Executive Vice President; Chief Financial Officer	2011	2011
Armando Zagalo de Lima	54	Executive Vice President; President, Technology Business	2012	2000
Don H. Liu	51	Senior Vice President, General Counsel and Secretary	2007	2007
Thomas J. Maddison	49	Senior Vice President, Human Resources	2010	2010
Gary R. Kabureck	59	Vice President and Chief Accounting Officer	2003	2000
Leslie F. Varon	56	Vice President, Finance and Corporate Controller	2010	2001

* Member of Xerox Board of Directors

Each officer named above, with the exception of Lynn R. Blodgett and Luca Maestri, 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.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions under “Proposal 1-Election of Directors” in our 2013 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2012”, “Outstanding Equity Awards at 2012 Fiscal Year-End”, “Option Exercises and Stock Vested in 2012”, “Pension Benefits for the 2012 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 2013 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 2013 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 2013 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 2013 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 2013 definitive Proxy Statement.

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, 2012;
 - Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2012;
 - Consolidated Balance Sheets as of December 31, 2012 and 2011;
 - Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2012;
 - Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2012;
 - 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, 2012; 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 2013 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 21, 2013

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 21, 2013

Signature	Title
<i>Principal Executive Officer:</i> /s/ URSULA M. BURNS Ursula M. Burns	Chairman of the Board, Chief Executive Officer and Director
<i>Principal Financial Officer:</i> /s/ LUCA MAESTRI Luca Maestri	Executive Vice President and Chief Financial Officer
<i>Principal Accounting Officer:</i> /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/ CHARLES PRINCE Charles Prince	Director
/s/ ANN N. REESE Ann N. Reese	Director
/s/ SARA MARTINEZ TUCKER Sara Martinez Tucker	Director
/s/ MARY AGNES WILDEROTTER Mary Agnes Wilderotter	Director

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 21, 2013 appearing in the 2012 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 21, 2013

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
For the three years ended December 31, 2012

(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
2012					
Allowance for Losses on:					
Accounts Receivable	\$ 102	\$ 45	\$ 2	\$ (41)	\$ 108
Finance Receivables	201	75	5	(111)	170
	<u>\$ 303</u>	<u>\$ 120</u>	<u>\$ 7</u>	<u>\$ (152)</u>	<u>\$ 278</u>
2011					
Allowance for Losses on:					
Accounts Receivable	\$ 112	\$ 57	\$ (1)	\$ (66)	\$ 102
Finance Receivables	212	100	(2)	(109)	201
	<u>\$ 324</u>	<u>\$ 157</u>	<u>\$ (3)</u>	<u>\$ (175)</u>	<u>\$ 303</u>
2010					
Allowance for Losses on:					
Accounts Receivable	\$ 148	\$ 60	\$ (14)	\$ (82)	\$ 112
Finance Receivables	222	128	6	(144)	212
	<u>\$ 370</u>	<u>\$ 188</u>	<u>\$ (8)</u>	<u>\$ (226)</u>	<u>\$ 324</u>

(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.

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 February 21, 2013.
- 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). See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 4(b)(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. See SEC File Number 001-04471.
- 4(b)(2) 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. See SEC File Number 001-04471.
- 4(b)(3) 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. See SEC File Number 001-04471.
- 4(b)(4) 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. See SEC File Number 001-04471.
- 4(c) Form of Credit Agreement dated as of December 16, 2011 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and BNP Paribas Securities Corp. as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").
Incorporated by reference to Exhibit 4(d) to Registrant's Current Report on Form 8-K dated December 16, 2011. See SEC File Number 001-04471.

- 4(d) 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. See SEC File Number 001-04471.
- 4(e)(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. See SEC File Number 001-12665.
- 4(e)(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. See SEC File Number 001-12665.
- 4(e)(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. See SEC File Number 001-04471.
- 4(f) 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 2013 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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *10(e)(5) 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. See SEC File Number 001-04471.
- *10(e)(6) 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. See SEC File Number 001-04471.
- *10(e)(7) 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. See SEC File Number 001-04471.
- *10(e)(8) 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. See SEC File Number 001-04471.
- *10(e)(9) 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. See SEC File Number 001-04471.
- *10(e)(10) 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. See SEC File Number 001-04471.
- *10(e)(11) 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. See SEC File Number 001-04471.
- *10(e)(12) Annual Performance Incentive Plan for 2011
- Incorporated by reference to Exhibit 10(e)(16) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(13) Performance Elements for 2011 Executive Long-Term Incentive Program ("2011 ELTIP")
- Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.
- *10(e)(14) Form of Executive Long-Term Incentive Award under 2011 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, 2010. See SEC File Number 001-04471.
- *10(e)(15) Form of Executive Long-Term Incentive Program Award Summary under 2011 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, 2010. See SEC File Number 001-04471.
- *10(e)(16) Annual Performance Incentive Plan for 2012.
- *10(e)(17) Performance Elements for 2012 Executive Long-Term Incentive Program ("2012 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, 2011. See SEC File Number 001-04471.
- *10(e)(18) Form of Executive Long-Term Incentive Award under 2012 ELTIP (Performance Shares).
- Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(19) Form of Executive Long-Term Incentive Program Award Summary under 2012 ELTIP (Performance Shares).
- Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(20) Form of Executive Long-Term Incentive Program Restricted Stock Unit Retention Award Summary under 2012 ELTIP.
- Incorporated by reference to Exhibit 10(e)(24) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(21) Form of Restricted Stock Unit Retention Award under 2012 ELTIP.
- Incorporated by reference to Exhibit 10(e)(25) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

- *10(e)(22) Registrant's 2004 Performance Incentive Plan, as amended and restated as of May 24, 2012.
Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. See SEC File Number 001-04471.
- *10(e)(23) Annual Performance Incentive Plan for 2013.
- *10(e)(24) Performance Elements for 2013 Executive Long-Term Incentive Program ("2013 ELTIP").
- *10(e)(25) Form of Executive Long-Term Incentive Award under 2013 ELTIP (Performance Shares).
- *10(e)(26) Form of Executive Long-Term Incentive Program Award Summary under 2013 ELTIP (Performance Shares).
- *10(e)(27) Form of Executive Long-Term Incentive Program Restricted Stock Unit Retention Award Summary under 2013 ELTIP.
Incorporated by reference to Exhibit 10(e)(24) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(28) Form of Restricted Stock Unit Retention Award under 2013 ELTIP.
Incorporated by reference to Exhibit 10(e)(25) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(f) [Reserved]
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *10(g)(4) Amendment No. 2 dated April 28, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- *10(g)(5) Amendment No. 3 dated December 7, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(5) to Registrant's Current Report on Form 8-K dated December 7, 2011. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 10(i) [Reserved]
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- *10(j)(4) Amendment No. 5 dated May 6, 2011 to Registrant's Universal Life Plan.
- Incorporated by reference to Exhibit 10(j)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- 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. See SEC File Number 001-04471.
- *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. See SEC File Number 001-04471.
- 10(m) 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. See SEC File Number 001-04471.
- *10(n) 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. See SEC File Number 001-04471.
- 10(o) 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. See SEC File Number 001-04471.**
- *10(p) Form of Severance Agreement entered into with various executive officers, effective October 2010.
- Incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.
- *10(q) 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. See SEC File Number 001-12665.
- *10(r)(1) Affiliated Compter 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. See SEC File Number 001-12665.
- *10(r)(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. See SEC File Number 001-12665.

- *10(s) 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. See SEC File Number 001-12665.
- *10(t) ACS Senior Executive Annual Incentive Plan.

Incorporated by reference to Exhibit A to ACS's Proxy Statement on Schedule 14A, filed April 14, 2009. See SEC File Number 001-12665.
- *10(u) 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. See SEC File Number 001-12665.
- *10(v) 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. See SEC File Number 001-12665.
- *10(w) 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. See SEC File Number 001-04471.
- *10(x) Master Plan Amendment dated May 2, 2011 to Registrant-Sponsored Benefit Plans.

Incorporated by reference to Exhibit 10(bb) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- 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 2012 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.
- 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.*

Annual Performance Incentive Plan for 2012 (“2012 APIP”)

Under the 2012 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 2012, 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 2012 APIP. Additionally, the Committee had established an opportunity for an individual performance component whereby the Committee has the authority to increase or decrease the award up to 20%, subject to the limitations of Section 162(m) of the Internal Revenue Code. The performance measures and weightings were adjusted earnings per share (weighted at 40%), operating cash flow (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%).

The performance against the 2012 APIP goals was as follows: adjusted earnings per share and constant currency revenue growth were below threshold and operating cash flow exceeded maximum.

Annual Performance Incentive Plan for 2013 (“2013 APIP”)

Under the 2013 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 2013, expressed as a percentage of base salary for each participating officer. The Committee also established overall threshold, target and maximum measures of performance for the 2013 APIP. Additionally, the Committee established an opportunity for an individual performance component whereby the Committee has the authority to increase or decrease the award up to 20%, subject to the limitations of Section 162(m) of the Internal Revenue Code. The performance measures and weightings are adjusted earnings per share (weighted at 40%), operating cash flow (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 2013 fiscal year, with payment to be made within the first four months of 2014.

2013 Executive Long-Term Incentive Program (“2013 E-LTIP”)

Under the 2013 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 weightings for the 2013 E-LTIP are:

(i) (40%) Adjusted Earnings per Share (EPS): 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 (on an individual, or in the aggregate, annual basis per item and subject to monetary thresholds as noted): amortization of acquisition-related intangibles; restructuring and asset impairment charges (amounts in excess of \$50 million); gains/(losses) resulting from acts of war, terrorism or natural disasters (if equal to or greater than \$50 million pre-tax); items individually identified within Other Expenses, net, (except for interest, currency and asset dispositions) and in an amount equal to or greater than \$25 million. If any such item qualifies for separate line item disclosure on the face of the consolidated statement of income in accordance with Generally Accepted Accounting Principles consistently applied, then such item will also warrant adjustment; gains/(losses) from the settlement of tax audits or changes in enacted tax law (if equal to or greater than \$30 million); 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).

(ii) (40%) Adjusted Operating Cash Flow: Net Cash provided by (used for) Operating Activities as reported in the Company’s audited consolidated financial statements, as adjusted for the following items: 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 year’s Annual Report.

(iii) (20%) Revenue Growth: Revenue growth adjusted to (1) exclude the impact of changes in the translation of foreign currencies into U.S. dollars and (2) exclude the impacts of individual acquisitions/divestitures when such impacts are disclosed on an individual basis in either the Company’s consolidated financial statements or MD&A.

Acquisitions and Divestitures: EPS, Operating Cash Flow and Revenue Growth will be adjusted for the impacts of any individual acquisition/divestiture in excess of \$500 million purchase/sale price.

Any other items approved by the Committee for adjustment of the above metrics will be considered a modification of the award.

**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 that appears in the award summary that provides the value (or number of Performance Shares) and vesting provisions of the award (the "Award Summary") in favor of the individual whose name appears on the Award Summary, who is 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 (the "Vesting Date") in connection with the PSs, 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 three-year cumulative performance goals (as shall be determined by the Committee) at one hundred percent (100%) of target. To the extent such performance measures are achieved at or between threshold and maximum levels on a three-year cumulative basis, PSs will be earned as set forth in the Award Summary. 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 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 Corporate 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.

OTHER TERMS

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 until ownership guidelines are met under Paragraph 4 hereof, subject to any ownership and holding requirements policies established by the Committee from time to time. Such shares shall be held in the Employee's Morgan Stanley Smith Barney account or in 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 is a Corporate officer of the Company and terminates for any other reason, the holding requirement will be applicable for up to a one year period following termination.

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 (the Company, subsidiary or affiliate, together, the "Employer") 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 Employer 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 Employer 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 three-year cumulative performance if achieved in accordance with Paragraph 2, based on the Employee's actual months of service, and 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 Employer 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 Employer by reason of retirement (i.e., for purposes of this Agreement, "retirement" for U.S. employees shall mean termination of employment at or above age 55 with 10 years of service with the Employer), 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 three-year cumulative performance, if achieved in accordance with Paragraph 2, based on the Employee's actual months of service, and 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 Employer due to termination for Cause, the PSs shall, subject to any Plan provisions to the contrary, be cancelled on the date of such termination of employment.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Employer'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 Employer-sponsored long-term disability plan benefits, the Employee shall be deemed to continue

active employment with the Employer. If the Employee is terminated because the Employee has received the maximum coverage under an Employer-provided 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 Employer, 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 Employer'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 Employer, or represents a conflict of interest with the interests of the Employer; (iv) conviction of, or entering a guilty plea with respect to, a crime whether or not connected with the Employer; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Employer.

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 Employer;

(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 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 Employer;

(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 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. Neither the Company nor the Employer is providing any tax, legal or financial advice, nor is the Company or Employer 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 Employer, is reasonably deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Employer, 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 Employer, if any;

(ii) disclosing confidential or proprietary business information of the Employer to any person or entity including but not limited to a competitor, vendor or customer without appropriate authorization from the Employer;

(iii) violating any rules, policies, procedures or guidelines of the Employer;

(iv) directly or indirectly soliciting any employee of the Employer to terminate employment with the Employer;

(v) directly or indirectly soliciting or accepting business from any customer or potential customer or encouraging any customer, potential customer or supplier of the Employer, to reduce the level of business it does with the Employer;

(vi) engaging in any other conduct or act that is determined to be injurious, detrimental or prejudicial to any interest of the Employer.

(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 Employer, 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 Employer, 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 Employer, 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 Employer and the Employee.

(b) An Employee shall not, without prior written authorization from the Employer, disclose to anyone outside the Employer, or use in other than the Employer's business, any confidential information or material, as specified in any agreement between the Employer and the Employee which contains post-employment prohibitions, relating to the business of the Employer acquired by the Employee either during or after employment with the Employer.

(c) An Employee, pursuant to any agreement between the Employer and the Employee which contains post-employment prohibitions shall disclose promptly and assign to the Employer, all right, title and interest in any invention or idea, patentable or not, made or conceived by the Employee during employment with the Employer, relating in any manner to the actual or

anticipated business, research or development work of the Employer, and shall do anything reasonably necessary to enable the Employer 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 and be bound by the terms and conditions of this Agreement, 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 its 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 7 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



Executive Long-Term Incentive Program Performance Share Award 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 3-Year Cumulative Performance is Achieved between Threshold and Maximum:	25% – 150% based on 3-year performance results

* Subject to the terms and conditions described in the Omnibus Agreement – 2013: PIP; ELTIP; PSs

* Performance measures which may include, but are not limited to, achievement of specific business objectives, and other measurements of individual, business unit or Company performance, are determined by the Committee in its sole discretion, consistent with the terms of the 2004 Performance Incentive Plan as Amended or Restated.

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 (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.

(in millions)	Year Ended December 31,				
	2012	2011	2010	2009	2008
Fixed Charges:					
Interest expense	\$ 428	\$ 478	\$ 592	\$ 527	\$ 567
Capitalized interest	13	13	5	8	10
Portion of rental expense which represents interest factor	215	227	211	89	84
Total Fixed Charges	\$ 656	\$ 718	\$ 808	\$ 624	\$ 661
Earnings Available for Fixed Charges:					
Pre-tax income	\$ 1,348	\$ 1,565	\$ 815	\$ 627	\$ (79)
Distributed equity income of affiliated companies	62	63	41	16	60
Add: Fixed charges	656	718	808	624	661
Less: Capitalized interest	(13)	(13)	(5)	(8)	(10)
Less: Net income-noncontrolling interests	(28)	(33)	(31)	(31)	(35)
Total Earnings Available for Fixed Charges	\$ 2,025	\$ 2,300	\$ 1,628	\$ 1,228	\$ 597
Ratio of Earnings to Fixed Charges	3.09	3.20	2.01	1.97	*
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:					
Fixed Charges:					
Interest expense	\$ 428	\$ 478	\$ 592	\$ 527	\$ 567
Capitalized interest	13	13	5	8	10
Portion of rental expense which represents interest factor	215	227	211	89	84
Total Fixed Charges before preferred stock dividends pre-tax income requirements	656	718	808	624	661
Preferred stock dividends pre-tax income requirements	39	39	35	—	—
Total Combined Fixed Charges and Preferred Stock Dividends	\$ 695	\$ 757	\$ 843	\$ 624	\$ 661
Earnings Available for Fixed Charges:					
Pre-tax income	\$ 1,348	\$ 1,565	\$ 815	\$ 627	\$ (79)
Distributed equity income of affiliated companies	62	63	41	16	60
Add: Fixed charges before preferred stock dividends	656	718	808	624	661
Less: Capitalized interest	(13)	(13)	(5)	(8)	(10)
Less: Net income-noncontrolling interests	(28)	(33)	(31)	(31)	(35)
Total Earnings Available for Fixed Charges and Preferred Stock Dividends	\$ 2,025	\$ 2,300	\$ 1,628	\$ 1,228	\$ 597
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	2.91	3.04	1.93	1.97	*

* Earnings for year ended December 31, 2008 were inadequate to cover fixed charges by \$64.

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

With sales approaching \$23 billion, we are the world's leading global enterprise for business process and document management. Our services, technology and expertise enable customers - from small businesses to large global enterprises - to focus on their core business and operate more effectively. Headquartered in Norwalk, Connecticut, we offer business process outsourcing, document 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. We also provide extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size. Through our business process and IT outsourcing services as well as our document technology and managed print services, we operate in a market estimated at over \$600 billion. The 147,600 people of Xerox serve customers in more than 160 countries. Approximately 34 percent of our revenue is generated outside the U.S.

We organize our business around two main segments: **Services** and **Document Technology**.

- Our **Services** segment is comprised of **business process outsourcing, information technology outsourcing and document outsourcing**. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.

A key priority in 2012 was continued growth in our services business. Revenue from services grew 6%, reflecting growth from all three lines of business, business process outsourcing ("BPO"), information technology outsourcing ("ITO") and document outsourcing services ("DO"). Growth in BPO benefited from recent modestly-sized acquisitions, consistent with our strategy to continue diversifying our services portfolio and to expand our business globally. In 2012, total business signings were nearly \$11 billion and revenue from services represented 52 percent of our total 2012 revenue. Segment margin began to improve during 2012 and was up 0.9 points in the fourth quarter 2012 as compared to the prior year.

- Our **Document Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (excluding contracts related to document outsourcing). Our product groups within this segment include Entry, Mid-range and High-end products.

In 2012, as a result of economic uncertainties in several regions and secular shifts in the marketplace, we focused our efforts on productivity improvements and reductions in our cost base as well as steadily expanding distribution through indirect channels. As a result, we maintained market leadership in the fastest growing, most attractive segments of this market and segment margin remained comparable with 2011. During the first quarter of 2013, we will launch new and refreshed products that enhance our portfolio of mid-range and production color document systems. In addition, we are launching a new operating system and software for our line of multifunction printers ("MFPs") that add extensive cloud-based functionality and embedded security protection from McAfee. We expect that this operating system integrated with new products will help drive improved installs and sales of Xerox equipment throughout the year.

Approximately 84 percent of our 2012 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in Services. Some of the key indicators of annuity revenue growth include:

- New Services business signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period.
- Services renewal rate, which is defined as the annual recurring revenue ("ARR") on contracts that are renewed during the period, calculated as a percentage of ARR on all contracts that were up for renewal during the period.
- Services pipeline growth, which measures the year-over-year increase in new business opportunities.
- Installations of printers and multifunction printers as well as the number of page-producing machines in the field ("MIF") and the page volume and mix of pages printed on color devices, where available.

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

- **Wireless Data Services ("WDS")**, a telecommunications technical support and consultancy firm headquartered in the United Kingdom.
- **Lateral Data**, a leading e-discovery technology provider based in the United States.
- **LaserNetworks Inc.**, a Canada-based provider of managed print services solutions that include print device tracking, centralized service and supply management and document routing.
- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our BPO capabilities across Europe.

In addition, during 2012 we acquired companies that expand our distribution capacity for Xerox document technology to small and midsized businesses ("SMB") and in under-penetrated markets. These acquisitions include **R.K. Dixon**, a leading provider of IT services, printers and managed print services, with locations in seven Iowa and Illinois cities. We also enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Financial Overview

During 2012 we focused on aligning our costs, investments, diverse portfolio and operations with our services-led strategy that is designed to accelerate growth in Services while maximizing the profitability of our Document Technology business.

Total revenue of \$22.4 billion in 2012 declined 1% from the prior year, with a 1-percentage point negative impact from currency. Total revenue reflected 6% growth in our Services segment as a result of strong performance in BPO, ITO and DO services. Document Technology revenues in 2012 declined 8% from the prior year and included a 2-percentage point negative impact from currency. Document Technology revenues in 2012 continued to be impacted by the weak macro-economic environment as well as an increasing migration of customers to our managed print services.

Net income attributable to Xerox for 2012 was \$1,195 million and included \$316 million of after-tax costs and expenses related to the amortization of intangible assets and restructuring. Net income for 2012 reflects continued pressure on margins, as we scale our revenue in Services and ramp-up new contracts, partially offset by operational improvements and cost reductions from restructuring actions. We incurred additional pre-tax restructuring charges of \$120 million in 2012 as compared to 2011 as we actively manage our cost structure to improve profitability and better align it with our services-focused business model. Net income attributable to Xerox for 2011 was \$1,295 million and included \$305 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, and the loss on the early extinguishment of a long-term liability, which were partially offset by an after-tax curtailment gain of \$66 million.

Cash flow from operations was \$2.6 billion in 2012 as compared to \$2.0 billion in 2011. The increase in cash was primarily due to the sales of receivables as well as a higher net runoff of finance receivables as a result of lower equipment sales. This increase was partially offset by higher accounts receivables primarily due to the growth in Services revenue. Cash used in investing activities of \$761 million primarily reflects capital expenditures of \$513 million and acquisitions of \$276 million. Cash used in financing activities was \$1.5 billion, which primarily reflects \$1.1 billion for the repurchase of common stock, \$255 million for dividends and a \$100 million reduction in Commercial Paper. We also issued approximately \$1.1 billion in new Senior Notes to fund the May 2012 maturity of our \$1.1 billion 5.59% Senior Notes.

We expect 2013 revenue in the range of flat to growing 2 percent, excluding the impact of currency. In our Services business, we expect continued revenue growth in the mid-to-high single digits. Services margins are expected to be in the 10 to 12 percent range as the Company places a heightened focus on operational efficiencies and applying innovation to automate more business processes. In our Document Technology business, we expect a mid-single digit revenue decline, an improvement from the prior year. The Company expects to benefit from product launches and the expansion of indirect channels plus the acceleration of color printing in key markets, all of which partially offset declines primarily related to black-and-white printing. Margins in Document Technology are expected to be flat on a year-over-year basis, continuing to support the strong profitability of this mature business and providing flexibility to accelerate growth in the digital color and SMB markets.

Europe

As of and for the year ended December 31, 2012, approximately \$3.1 billion of our total revenues and \$4.1 billion of our total assets are based in countries where the Euro is the functional currency. Approximately \$1.8 billion of those assets are finance receivables and approximately 15% of those receivables are with governmental entities. Accordingly, we are impacted by the challenges facing the Euro zone economies and governments, and we expect those challenges to continue into 2013 .

Currency Impact

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 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 34% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally 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 5% stronger in 2012 and 5% weaker in 2011, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 1% detriment in 2012 and a 2% benefit in 2011.

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

Application of the various accounting principles in GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Refer to Note 1 - Summary of Significant Accounting Policies - Revenue Recognition, in the Consolidated Financial Statements for additional information regarding our revenue recognition policies. Specifically, the revenue related to the following areas involve significant judgments and estimates:

- Bundled Lease Arrangements
- Sales to Distributors and Resellers
- Services - Percentage-of-completion.

[Bundled Lease Arrangements](#) - We sell our equipment under bundled lease arrangements, which typically include the equipment, service, supplies and a financing component for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 35% of our equipment sales revenue is related to sales made under bundled lease arrangements. Recognizing revenues under these arrangements requires us to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

[Sales to Distributors and Resellers](#) - We utilize distributors and resellers to sell many of our Document Technology products to end-user customers. 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 rebate, price-protection, cooperative marketing and other programs, and we record provisions and allowances for these programs as a reduction to revenue when the sales occur. Similarly, we also record estimates for sales returns and other discounts and allowances when the sales occur. We consider various factors, including a review of specific transactions and programs, historical experience and market and economic conditions when calculating these provisions and allowances. Approximately 10% of our revenues include sales to distributors and resellers and provisions and allowances recorded on these sales are approximately 20% of the associated gross revenues.

Revenue Recognition for Services - Percentage-of-Completion - A portion of our Services revenue is recognized using the percentage-of-completion ("POC") accounting method. This method requires the use of estimates and judgment. Approximately 3% of our Services revenue uses the POC accounting method. Although not significant to total Services revenue, the percentage-of-completion methodology is normally applied to certain of our larger and longer term outsourcing contracts involving system development and implementation services. The POC accounting methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed based on a current cumulative cost to estimated total cost basis and a reasonably consistent profit margin over the period. Due to the long-term nature of these arrangements, developing the estimates of cost 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. We perform ongoing profitability analysis of our POC services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to complete each contract are future labor costs, future product costs and expected productivity efficiencies. If at any time these estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost of services.

Allowance for Doubtful Accounts and Credit Losses

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 recorded bad debt provisions of \$120 million, \$157 million and \$188 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, respectively.

Bad debt provisions decreased by \$37 million in 2012. Reserves as a percentage of trade and finance receivables was 3.3% at December 31, 2012, which was consistent with the percentage at December 31, 2011 and 2010. The decrease in bad debt provisions was primarily related to improvements in Europe, reflecting a stabilization of credit issues noted in the prior year. 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. In addition, although our bad debt provisions improved in Europe, this region continues to be a focus of our credit review and analysis.

As discussed above, 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, 2012, our reserve for doubtful accounts ranged from 3.3% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2012 rate of 3.3% would change the 2012 provision by approximately \$85 million.

Refer to Note 4 - Accounts Receivables, Net and Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our defined benefit pension plans. These factors include assumptions we make about the expected return on plan assets, discount rate, 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 over future periods.

Cumulative net actuarial losses for our defined benefit pension plans of \$3.4 billion as of December 31, 2012 increased by approximately \$800 million from December 31, 2011. This increase reflects the increase in our benefit obligations as a result of a lower discount rate, which was only partially offset by positive returns on plan assets in 2012 as compared to expected returns. 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 consolidated weighted average expected rate of return on plan assets of 6.9% for 2012, 7.2% for 2011 and 7.3% for 2010, on a worldwide basis. During 2012, the actual return on plan assets was \$792 million as compared to an expected return of \$613 million. When estimating the 2013 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, particularly in light of current economic conditions, 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 2013 is 6.7%. The reduction in the expected rate of return in 2013 as compared to 2012 primarily reflects an expected slight decrease in long term capital market returns.

Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. 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. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2012 and to calculate our 2013 expense was 3.9%, which is lower than the 4.7% that was used to calculate our obligations as of December 31, 2011 and our 2012 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2012 and to calculate our 2013 expense was 3.6%, which is lower than the 4.5% that was used to calculate our obligation at December 31, 2011 and our 2012 expense.

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2013 projected net periodic pension cost by \$31 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2013 projected net periodic pension cost by \$19 million.

One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Annuity purchases represent benefits to be provided via contracts under which an insurance company is obligated to pay the benefits. Accordingly, under either option the participant's vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. Approximately two-thirds of participants elect to receive a lump-sum payment.

We have elected to apply settlement accounting and, therefore, we recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were \$3.4 billion at December 31, 2012, of which the U.S. primary domestic plans represented \$1.1 billion. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs - i.e. the lump-sum payment is made or the annuity purchased. Since settlement is dependent on an employee decision and election, the level of settlements and the associated losses can fluctuate significantly period to period. In 2012, settlement losses associated with our primary domestic pension plans amounted to \$82 million and were \$16 million, \$14 million, \$24 million and \$28 million for the first through fourth quarter of 2012, respectively. Currently, on average, approximately \$100 million of plan settlements will result in settlement losses of approximately \$24 million. During the three years ended December 31, 2012, U.S. plan settlements were \$481 million, \$598 million and \$393 million, respectively.

Refer to Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding our defined benefit pension plan assumptions.

The following is a summary of our benefit plan costs and funding for the three years ended December 31, 2012 as well as estimated amounts for 2013:

	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Costs:				
Defined benefit pension plans ⁽¹⁾	\$ 202	\$ 300	\$ 284	\$ 304
Curtailment gain ⁽²⁾	—	—	(107)	—
Defined contribution plans	113	63	66	51
Retiree health benefit plans	3	11	14	32
Total Benefit Plan Expense	\$ 318	\$ 374	\$ 257	\$ 387

(1) Estimated 2013 assumes settlement losses are consistent with 2012.

(2) Refer to the "Plan Amendment" section in Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for further information.

Our estimated 2013 defined benefit pension plan cost is expected to be approximately \$100 million lower than 2012, primarily driven by the U.S. defined benefit plan freeze at December 31, 2012, which eliminated approximately \$100 million of service costs and reduced the amortization of actuarial losses by \$47 million. These impacts were partially offset by the worldwide 80 bps decrease in the discount rate. Offsetting the decrease in our defined benefit pension plan expense is an increase in expense associated with our defined contribution plans as employees from those defined benefit pension plans that have been amended to freeze future service accruals are transitioned to enhanced defined contribution plans.

Benefit plan costs are included in several income statement components based on the related underlying employee costs.

	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Funding:				
Defined benefit pension plans:				
Cash	\$ 195	\$ 364	\$ 426	\$ 237
Stock	—	130	130	—
Total	195	494	556	237
Defined contribution plans	113	63	66	51
Retiree health benefit plans	80	84	73	92
Total Benefit Plan Funding	\$ 388	\$ 641	\$ 695	\$ 380

The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. This decrease is partially offset by an expected increase in contributions to our defined contribution plans.

Refer to Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding expense and funding.

Income Taxes

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. Adjustments to our valuation allowance, through (credits) charges to income tax expense, were \$(9) million, \$(5) million and \$22 million for the years ended December 31, 2012, 2011 and 2010, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of \$(14) million, \$(53) million and \$11 million for the years ended December 31, 2012, 2011 and 2010, 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 \$3.8 billion had valuation allowances of \$654 million and \$677 million at December 31, 2012 and 2011, 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. Unrecognized tax benefits were \$201 million, \$225 million and \$186 million at December 31, 2012, 2011 and 2010, respectively.

Refer to Note 16 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding deferred income taxes and unrecognized tax benefits.

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. Refer to Note 3 - Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

As a result of our acquisition of ACS, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill at December 31, 2012 was \$9.1 billion. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred.

Application of the annual 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 the assessment - qualitatively or quantitatively - of the fair value of each reporting unit against its carrying value. At December 31, 2012, \$6.8 billion and \$2.3 billion of goodwill was allocated to reporting units within our Services and Document Technology segments, respectively. Our Services segment is comprised of three reporting units while our Document Technology segment is comprised of one reporting unit for a total of four reporting units with goodwill balances.

Our annual impairment test of goodwill was performed in the fourth quarter of 2012. As a result of market and business conditions, we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for each of our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit using a discounted cash flow methodology. This valuation approach requires significant judgment and considers a number of factors that include, but are not limited to, expected future cash flows, growth rates and discount rates, and it requires us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our business.

When performing our discounted cash flow analysis for each reporting unit, we incorporate the use of projected financial information and discount rates that are developed using market participant-based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue and expense projections, capital spending trends, and investment in working capital to support anticipated revenue growth or other changes in the business. The selected discount rates consider the risk and nature of the respective reporting units' cash flows and an appropriate capital structure and rates of return that market participants would require to invest their capital in our reporting units.

In performing our 2012 impairment test, the following were the long-term assumptions for Document Technology and the three reporting units within our Services segment with respect to revenue, operating income and margins, which formed the basis for estimating future cash flows used in the discounted cash flow model:

- Document Technology - revenue decline: 2-3%, operating income: flat, operating margin: 10-12% - as we continue to manage costs as a result of an expected decline in revenues.
- Services - revenue growth: 4-6%, operating income growth: 7-10%, operating margin: 10-12% - as we benefit from recurring revenue and strong signings growth in recent years while maintaining costs and expenses.

We believe these assumptions are appropriate because they are consistent with historical results as well as our forecasted long-term business model and give appropriate consideration to the current economic environment and markets that we serve. The average discount rate applied to our projected cash flows was approximately 10% which we considered reasonable based on the estimated capital costs of applicable market participants. Although the sum of the fair values of our reporting units was in excess of our market capitalization, we believe the difference is reasonable when market-based control premiums and other factors are taken into consideration, including the evolution of our business to be predominantly services-based. We also compared our reporting unit and consolidated valuations against market multiples and likewise concluded that our valuations were reasonable.

The results of our testing indicated that each of our reporting units has a fair value in excess of its carrying value and no impairment charge was required. The excess of reporting unit fair values over carrying values for our Document Technology reporting unit and the BPO/ITO Government reporting unit within our Services segment (which has approximately \$2.0 billion of goodwill) are significantly less than in prior years with excess of fair value over carrying value of approximately 20% and 10%, respectively.

We will continue to monitor the impact of economic, market and industry factors impacting these reporting units in 2013. Subsequent to our fourth quarter impairment test, we did not identify any indicators of potential impairment that required an update to the annual impairment test.

Refer to Note 9 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by reportable segment.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2012 were as follows:

(in millions)	Revenues			Change		Pro-forma ⁽¹⁾	Percent of Total Revenue		
	2012	2011	2010	2012	2011	2011	2012	2011	2010
Equipment sales	\$ 3,476	\$ 3,856	3,857	(10)%	— %	— %	16%	17%	18%
Annuity revenue	18,914	18,770	17,776	1 %	6 %	2 %	84%	83%	82%
Total Revenue	\$ 22,390	\$ 22,626	21,633	(1)%	5 %	2 %	100%	100%	100%
Reconciliation to Condensed Consolidated Statements of Income:									
Sales	\$ 6,578	\$ 7,126	7,234						
Less: Supplies and other sales	(2,273)	(2,371)	(2,420)						
Less: Paper sales	(829)	(899)	(957)						
Equipment Sales	\$ 3,476	\$ 3,856	3,857	(10)%	— %	— %	16%	17%	18%
Outsourcing, service and rentals	\$ 15,215	\$ 14,868	13,739	2 %	8 %	4 %	68%	66%	64%
Add: Finance income	597	632	660	(6)%	(4)%	(4)%	2%	3%	3%
Add: Supplies and other sales	2,273	2,371	2,420	(4)%	(2)%	(3)%	10%	10%	11%
Add: Paper sales	829	899	957	(8)%	(6)%	(6)%	4%	4%	4%
Annuity Revenue	\$ 18,914	\$ 18,770	\$ 17,776	1 %	6 %	2 %	84%	83%	82%

(1) 2011 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 this non-GAAP financial measure.

Revenue 2012

Total revenues decreased 1% compared to the prior year and included a 1-percentage point negative impact from currency. Total revenues included the following:

- **Annuity revenue** increased 1% and included a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
 - **Outsourcing, service and rentals revenue** include outsourcing revenue within our Services segment and technical service revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of \$15,215 million increased 2% and included a 2-percentage point negative impact from currency. The increase was primarily driven by growth in all three lines of business in our Services segment partially offset by a declines in technical service revenues. Total digital pages declined 2% despite a 3% increase in digital MIF.
 - **Supplies and other sales** include unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of \$2,273 million decreased 4% and included a 1-percentage negative impact from currency. The decrease was primarily due to moderately lower demand.
 - **Paper sales**, which are primarily included within our Other segment, of \$829 million decreased 8% and included 2-percentage point negative impact from currency, driven primarily market pricing and lower activity.

- Finance income includes \$44 million in gains from the sale of finance receivables from our Document Technology segment (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information).
- **Equipment sales revenue** is reported primarily within our Document Technology segment and the document outsourcing business within our Services segment. Equipment sales revenue decreased 10% and included a 2-percentage point negative impact from currency primarily driven by delayed customer decision-making and overall weak economic and market conditions. An increase in total product installs was offset by the impact of lower product mix and price declines. Price declines were in the range of 5% to 10%.

Equipment sales within our Services segment continued to grow, driven by the migration of customers looking to reduce printing costs by moving to our document outsourcing offering.

- Color² revenue, decreased 6%, including a 2-percentage point negative impact from currency. An increase in color pages of 9% and color MIF of 14% were offset by a decline in color equipment sale revenue driven primarily by weakness in Europe and the impact of lower product mix. Color pages represented 30% of total pages in 2012.

Revenue 2011

Total revenues increased 5% compared to the prior year. Our consolidated 2011 results include a full year of revenues from ACS, which was acquired on February 5, 2010. On a pro-forma¹ basis, including ACS's estimated 2010 revenues for the period from January 1 through February 5 in our historical 2010 results, the total revenue for 2011 grew 2%. Total revenue growth included a 2-percentage point positive impact from currency. Total revenues included the following:

- Annuity revenue increased 6% or 2% on a pro-forma¹ basis, with a 1-percentage point positive impact from currency. Annuity revenue is comprised of the follows:
 - Outsourcing, service and rentals revenue of \$14,868 million increased 8%, or 4% on a pro-forma¹ basis, and included a 2-percentage point positive impact from currency. The increase was primarily due to growth in BPO and DO revenue in our Services segment partially offset by a decline in pages. Total digital pages declined 3% despite a 2% increase in digital MIF.
 - Supplies and other sales of \$2,371 million decreased 2% or 3% on a pro-forma¹ basis, with no impact from currency.
 - Paper sales of \$899 million decreased 6% and included 2-percentage point negative impact from currency.
- Equipment sales revenue was flat and included a 1-percentage point positive impact from currency. Favorable product mix in high-end products was offset by price declines in the range of 5% to 10%.
- Color² revenue increased 5%, including a 2-percentage point negative impact from currency. This increase was due to an increase in color pages of 9% and an increase in color equipment sale revenue of 4%. Color² pages represented 27% of total pages in 2011 while color device MIF represented 35% of total MIF.

An analysis of the change in revenue for each business segment is included in the "Operations Review of Segment Revenue and Profit" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,			Change		Pro-forma ⁽¹⁾	
	2012	2011	2010	2012	2011	2,011	2,010
Total Gross Margin	31.4%	32.8%	34.4%	(1.4) pts	(1.6) pts	(1.1) pts	(0.2) pts
RD&E as a % of Revenue	2.9%	3.2%	3.6%	(0.3) pts	(0.4) pts	(0.3) pts	(0.4) pts
SAG as a % of Revenue	19.2%	19.9%	21.2%	(0.7) pts	(1.3) pts	(1.0) pts	(0.9) pts
Operating Margin⁽¹⁾	9.3%	9.8%	9.6%	(0.5) pts	0.2 pts	0.3 pts	1.0 pts
Pre-tax Income Margin	6.0%	6.9%	3.8%	(0.9) pts	3.1 pts	3.4 pts	(2.2) pts

(1) See the "Non-GAAP Financial Measures" section for an explanation of Pro-forma and Operating Margin non-GAAP financial measures.

Operating Margin

The operating margin¹ for the year ended December 31, 2012 of 9.3% decreased 0.5-percentage points as compared to 2011. The decline, which was primarily in our Services segment due to a decrease in gross margin, was partially offset by expense reductions.

The operating margin¹ for the year ended December 31, 2011 of 9.8% increased 0.2-percentage points, or 0.3-percentage points on a pro-forma¹ basis as compared to 2010. The increase was due primarily to disciplined cost and expense management.

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, in 2011 gross margins and SAG are also discussed below on a pro-forma basis where we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for year ended December 31, 2012 of 31.4% decreased 1.4-percentage points as compared to 2011. The decrease was driven by the overall mix of services revenue, the ramping of new services contracts and pressure on government contracts, particularly in the third quarter 2012. These negative impacts were partially offset by productivity improvements and cost savings from restructuring.

Gross margin for year ended December 31, 2011 of 32.8% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma¹ basis, as compared to 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals, transaction currency and the mix of higher services revenue.

Services gross margin for the year ended December 31, 2012 decreased 1.7-percentage points as compared to 2011. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and pressure on government contracts, particularly in the third quarter 2012.

Services gross margin for the year ended December 31, 2011 decreased 1.7-percentage points, or 1.2 percentage points, on a pro-forma¹ basis, as compared to 2010. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals.

Document Technology gross margin for the year ended December 31, 2012 increased by 0.1-percentage points as compared to 2011. Productivity improvements, restructuring savings and gains recognized on the sales of finance receivables (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines, product mix and the unfavorable year-over-year impact of transaction currency.

Document Technology gross margin for the year ended December 31, 2011 decreased by 0.9-percentage points as compared to 2010 due to the impact of price declines and the negative year-over-year impact of transaction currency. The decline was partially offset by cost productivities and restructuring savings which reflect our continued focus on cost management.

Research, Development and Engineering Expenses (“RD&E”)

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
R&D	\$ 545	\$ 613	\$ 653	\$ (68)	\$ (40)
Sustaining engineering	110	108	128	2	(20)
Total RD&E Expenses	\$ 655	\$ 721	\$ 781	\$ (66)	\$ (60)
R&D Investment by Fuji Xerox⁽¹⁾	\$ 860	\$ 880	\$ 821	\$ (20)	\$ 59

(1) Fluctuation in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E as a percent of revenue for the year ended December 31, 2012 of 2.9% decreased 0.3-percentage points. 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 percent of revenue.

RD&E of \$655 million for the year ended December 31, 2012, was \$66 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. During 2012 we managed our investments in R&D to align with growth opportunities in areas like business services, color printing and customized communication. Xerox R&D is also strategically coordinated with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2011 of 3.2% decreased 0.4-percentage points. 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 percent of revenue.

RD&E of \$721 million for the year ended December 31, 2011, was \$60 million lower reflecting the impact of restructuring and productivity improvements.

Selling, Administrative and General Expenses (“SAG”)

SAG as a percent of revenue of 19.2% decreased 0.7-percentage points for the year ended December 31, 2012. 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 expenses of \$4,288 million for the year ended December 31, 2012 were \$209 million lower than the prior year period including a \$60 million favorable impact from currency. The decrease in SAG expense reflects the following:

- \$240 million decrease in selling expenses reflecting the benefits from restructuring and productivity improvements as well as lower compensation-related expenses and advertising spending partially offset by the impact of acquisitions.

- \$68 million increase in general and administrative expenses as restructuring savings and productivity improvements were more than offset by the impact of acquisitions and deferred compensation expense.
- \$37 million decrease in bad debt expenses to \$120 million, driven primarily by lower write-offs in Europe.

SAG as a percent of revenue of 19.9% decreased 1.3-percentage points, or 1.0-percentage points on a pro-forma¹ basis for the year ended December 31, 2011.

SAG expenses of \$4,497 million for the year ended December 31, 2011 was \$97 million lower the prior year period, or \$156 million lower on a pro-forma¹ basis, both including a \$68 million unfavorable impact from currency. The pro-forma SAG expense decrease reflects the following:

- \$68 million decrease in selling expenses reflecting the benefits from restructuring, productivity improvements and decrease in brand advertising partially offset by the impact of acquisitions.
- \$54 million decrease in general and administrative expenses primarily reflecting lower compensation as well as the benefits from restructuring and operational improvements.
- \$31 million decrease in bad debt expense, to \$157 million as improvements in write-off trends in North America were more than offset by higher write-offs in southern Europe.

Restructuring and Asset Impairment Charges

During the year ended December 31, 2012, we recorded net restructuring and asset impairment charges of \$153 million (\$97 million after-tax). Approximately 47% of the charges were related to our Services segment and 53% to our Document Technology segment and included the following:

- \$160 million of severance costs related to headcount reductions of approximately 6,300 employees primarily in North America. The actions impacted several functional areas, and approximately 63% of the costs were focused on gross margin improvements, 31% in SAG and 6% on the optimization of RD&E investments.
- \$5 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- \$2 million of asset impairment losses.

The above charges were partially offset by \$14 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2013 pre-tax savings of approximately \$170 million from our 2012 restructuring actions.

During the year ended December 31, 2011, we recorded net restructuring and asset impairment charges of \$33 million (\$18 million after-tax) which included the following:

- \$98 million of severance costs related to headcount reductions of approximately 3,900 employees primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- \$1 million for lease termination costs.
- \$5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.

The above charges were partially offset by \$71 million of net reversals for changes in estimated reserves from prior period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2012 for all programs was \$130 million, of which approximately \$122 million is expected to be spent over the next twelve months. Refer to Note 10, 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. 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 year ended December 31, 2012, we recorded \$328 million of expense related to the amortization of intangible assets, which is \$70 million lower than the prior year. The prior year expense included \$52 million related to the accelerated amortization of the ACS trade name intangible asset which was fully written off in 2011 as a result of the decision to discontinue its use and transition the services business to the "Xerox Business Services" trade name. The impact from the write off of the ACS trade name was partially offset by the amortization of intangible assets associated with current and prior-year acquisitions.

During the year ended December 31, 2011, we recorded \$398 million of expense related to the amortization of intangible assets, which was \$86 million higher than the prior year primarily as a result of the accelerated write-off of the ACS trade name.

Curtailment Gain

In December 2011, we amended all of our primary non-union 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 did not materially impact 2012 pension expense.

Worldwide Employment

Worldwide employment of 147,600 at December 31, 2012 increased approximately 8,000 from December 31, 2011, primarily due to the impact of acquisitions partially offset by restructuring related actions. Worldwide employment was approximately 139,650 and 136,500 at December 2011 and 2010, respectively.

Other Expenses, Net

(in millions)	Year Ended December 31,		
	2012	2011	2010
Non-financing interest expense	\$ 230	\$ 247	\$ 346
Interest income	(13)	(21)	(19)
Loss (gains) on sales of businesses and assets	2	(9)	(18)
Currency losses, net	3	12	11
ACS shareholders litigation settlement	—	—	36
Litigation matters	(1)	11	(4)
Loss on sales of accounts receivables	21	20	15
Loss on early extinguishment of liability	—	33	15
Deferred compensation investment gains	(10)	—	(12)
All other expenses, net	24	29	19
Total Other Expenses, Net	\$ 256	\$ 322	\$ 389

Non-Financing Interest Expense: Non-financing interest expense for the year ended December 31, 2012 of \$230 million was \$17 million lower than prior year. The decrease in interest expense is primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt.

Non-financing interest expense for the year ended December 31, 2011 of \$247 million was \$99 million lower than the prior year. The decrease 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 refinancing existing debt and utilizing the commercial paper program.

Loss (Gains) on Sales of Businesses and Assets: The gains in 2011 and 2010 were primarily related to 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 and the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities.

The 2011 net currency losses were primarily due to the significant movement in exchange rates during the third quarter of 2011 among the U.S. Dollar, Euro, Yen and several developing market currencies.

The 2010 net currency losses include a currency loss of \$21 million for the re-measurement of our Venezuelan Bolivar denominated monetary net assets following a devaluation of the Bolivar in the first quarter of 2010. 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.

ACS Shareholders' Litigation Settlement: The 2010 expense of \$36 million relates to the settlement of claims by ACS shareholders arising from our acquisition of ACS in 2010. The total settlement for all defendants was approximately \$69 million, with Xerox paying approximately \$36 million net of insurance proceeds.

Litigation Matters: Litigation matters for 2012, 2011 and 2010 represent charges related to probable losses for various legal matters, none of which were individually material. Refer to Note 17 - Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Loss on Sales of Accounts Receivables: Represents the loss incurred on our sales of accounts receivables. Refer to "Sales of Accounts Receivables" below and Note 4 - Accounts Receivables, Net in the Condensed Consolidated Financial Statements for additional information regarding our sales of receivables.

Loss on Early Extinguishment of Liability: The 2011 loss of \$33 million was related to the redemption by Xerox Capital Trust I, our wholly-owned subsidiary trust, of 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.

The 2010 loss 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.

Deferred Compensation Investment Gains: Represents gains on investments supporting certain of our deferred compensation arrangements. These gains or losses are offset by an increase or decrease, respectively, in compensation expense recorded in SAG in our Services segment as a result of the increase or decrease in the liability associated with these arrangements.

Income Taxes

The 2012 effective tax rate was 20.5% or 24.0% on an adjusted basis¹. The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to foreign tax credits resulting from anticipated dividends and other foreign transactions as well as the geographical mix of profits. In addition, a net tax benefit from adjustments of certain unrecognized tax positions and deferred tax valuation allowances was offset by a tax law change.

The 2011 effective tax rate was 24.7% or 27.5% on an adjusted basis¹. The adjusted tax rate for the year 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 2010 effective tax rate was 31.4% or 31.2% on an adjusted basis¹. The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to the geographical mix of income before taxes and the related tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income 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 for 2012 includes a benefit of approximately 12-percentage points from these non-U.S. operations. Refer to Note 16 - Income and Other Taxes, in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

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 (e.g. audit settlements, tax law changes, changes in valuation allowances, etc.) that may not be predictable. We anticipate that our effective tax rate for 2013 will be approximately 28%, which excludes the effects of intangibles amortization and other discrete events. We also expect to record an estimated discrete benefit of approximately \$19 million in the first quarter 2013 for the retroactive benefits of the American Taxpayer Relief Act of 2012 which was signed into law on January 2, 2013.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31,		
	2012	2011	2010
Total equity in net income of unconsolidated affiliates	\$ 152	\$ 149	\$ 78
Fuji Xerox after-tax restructuring costs	16	19	38

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox.

The 2011 increase of \$71 million 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 the strengthening of the Yen and lower restructuring costs.

Refer to Note 8 - Investment in Affiliates, at Equity, in the Consolidated Financial Statements for additional information.

Net Income

Net income attributable to Xerox for the year ended December 31, 2012 was \$1,195 million, or \$0.88 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,398 million, or \$1.03 per diluted share, and included adjustments for the amortization of intangible assets.

Net income attributable to Xerox for the year ended December 31, 2011 was \$1,295 million, or \$0.90 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,563 million, or \$1.08 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 year ended December 31, 2010 was \$606 million, or \$0.43 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,296 million, or \$0.94 per diluted share, and included adjustments for the amortization of intangible assets, restructuring and asset impairment charges (including those incurred by Fuji Xerox), acquisition-related costs and other discrete costs and expenses.

Refer to the "Non-GAAP Financial Measures" section for the reconciliation of reported net income to adjusted net income.

Other Comprehensive Income

2012 Other comprehensive loss attributable to Xerox of \$511 million decreased \$217 million from 2011. The decreased loss was primarily due to gains from the translation of our foreign currency denominated net assets in 2012 as compared to translation losses in 2011. The translation gains are the result of a strengthening of our major foreign currencies against the U.S. Dollar in 2012 as compared to a weakening of those same currencies in 2011. A decrease in losses associated with our defined benefit plans was offset by an increase in unrealized losses from our cash flow hedges primarily due to a weakening of the Japanese Yen particularly in the fourth quarter 2012 (See Note 13 - Financial Instruments in the Consolidated Financial Statements for additional information regarding our cash flow hedges).

2011 Other comprehensive loss attributable to Xerox of \$728 million increased \$728 million from 2010. The increased loss was primarily due to losses associated with our defined benefit plans due to an increase in our benefit obligations as a result of a decrease in the discount rates used to measure our obligations (See discussion of Pension Plan Assumptions in the Application of Critical Accounting Policies section of the MD&A as well as Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information). In addition, losses from the translation of our foreign currency denominated net assets increased in 2011 as compared to 2010 as a result of the further weakening of our major foreign currencies against the U.S. Dollar in 2011.

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 conditions.

Operations Review of Segment Revenue and Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Services, Document Technology and Other. Revenues by segment for the three years ended December 31, 2012 were as follows:

<u>(in millions)</u>	<u>Total Revenue</u>	<u>Segment Profit (Loss)</u>	<u>Segment Margin</u>
2012			
Services	\$ 11,528	\$ 1,173	10.2 %
Document Technology	9,462	1,065	11.3 %
Other	1,400	(241)	(17.2)%
Total	\$ 22,390	\$ 1,997	8.9 %
2011			
Services	\$ 10,837	1,207	11.1 %
Document Technology	10,259	1,140	11.1 %
Other	1,530	(255)	(16.7)%
Total	\$ 22,626	\$ 2,092	9.2 %
2010			
Services	\$ 9,637	\$ 1,132	11.7 %
Document Technology	10,349	1,085	10.5 %
Other	1,647	(342)	(20.8)%
Total	\$ 21,633	\$ 1,875	8.7 %
2010 Pro-forma⁽¹⁾			
Services	\$ 10,256	\$ 1,166	11.4 %
Document Technology	10,349	1,085	10.5 %
Other	1,647	(353)	(21.4)%
Total	\$ 22,252	\$ 1,898	8.5 %

(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.

Services Segment

Our Services segment is comprised of three service offerings: Business Process Outsourcing ("BPO"), Document Outsourcing ("DO") and Information Technology Outsourcing ("ITO"). 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.

Services segment revenues for the three years ended December 31, 2012 were as follows:

(in millions)	Revenue			Change		Pro-forma ⁽¹⁾ Change
	2012	2011	2010	2012	2011	2011
Business processing outsourcing	\$ 6,610	\$ 6,074	\$ 5,145	9%	18%	8 %
Document outsourcing	3,659	3,545	3,264	3%	9%	9 %
Information technology outsourcing	1,426	1,326	1,249	8%	6%	(4)%
Less: Intra-segment elimination	(167)	(108)	(21)	*	*	*
Total Services Revenue	\$ 11,528	\$ 10,837	\$ 9,637	6%	12%	6 %

* Percent not meaningful.

(1) See the "Non-GAAP Financial Measures" section for an explanation of Pro-forma and Operating Margin non-GAAP financial measures.

Note: In 2011, the Services segment is discussed on a pro-forma¹ basis. ACS was acquired on February 5, 2010, accordingly for comparison purposes, we adjusted our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Revenue 2012

Services revenue of \$11,528 million increased 6% with 1-percentage point negative impact from currency.

- BPO revenue increased 9%, including a 1-percentage point negative impact from currency, and represented 57% of total Services revenue. BPO growth was driven by the government healthcare, healthcare payer, customer care, financial services, retail, travel and insurance businesses and other state government solutions, as well as the benefits from recent acquisitions.
- DO revenue increased 3%, including a 2-percentage point negative impact from currency, and represented 31% of total Services revenue. The increase in DO revenue was primarily driven by our new partner print services offerings as well as new signings.
- ITO revenue increased 8% and represented 12% of total Services revenue. ITO growth was driven by the revenue ramp resulting from strong growth in recent quarters and also includes 3-percentage points of growth related to revenue from intercompany services, which is eliminated in total Services segment revenue.

Segment Margin 2012

Services segment margin of 10.2% decreased 0.9-percentage points from the prior year primarily due to a decline in gross margin, which was driven by the ramping of new services contracts, pressure on government contracts, the impact of lower contract renewals and lower volumes in some areas of the business. The gross margin decline was partially offset by the benefits from restructuring and lower SAG, primarily in DO.

Metrics

Pipeline

Our total services sales pipeline at December 31, 2012, including synergy opportunities, grew 6% over the prior year. 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. TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Signings were as follows:

(in billions)	Year Ended December 31,		
	2012	2011	2010
BPO	\$ 6.0	\$ 6.8	\$ 10.0
DO	3.3	4.4	3.3
ITO	1.5	3.4	1.3
Total Signings	\$ 10.8	\$ 14.6	\$ 14.6

Services signings were an estimated \$10.8 billion in TCV for 2012 and decreased 25% compared to the prior year. This decline was driven by a decrease in large deals from the prior year as well as delays in customer decision making. While the total number of BPO/ITO contracts signed in 2012 increased from 2011, the decline in large deals drove a reduction in the average contract length of new business signings in 2012. The above DO signings amount represents Enterprise signings only and does not include signings from our partner print services offerings, which is driving the revenue growth in DO.

Services signings were an estimated at \$14.6 billion in TCV for 2011 and were flat as compared to the prior year and were impacted by the cyclical nature of large deals particularly the California Medicaid signing in 2010. Signings did trend positively in 2011, increasing sequentially for the last three quarters of the year with signings growth particularly in ITO.

Renewal rate (for BPO and ITO only)

Renewal rate is defined as the annual recurring revenue ("ARR") on contracts that are renewed during the period as a percentage of ARR on all contracts on which a renewal decision was made during the period. Although our renewal rate was below our target range in the fourth quarter 2012, our full year 2012 renewal rate was 85%, which was within our target range of 85%-90% and 5 percentage points higher than full year 2011. Our 2011 renewal rate of 80% was 7-percentage points lower than the 2010 renewal rate of 87%.

Revenue 2011

Services revenue of \$10,837 million increased 12% or 6% on a pro-forma¹ basis, with no impact from currency.

- BPO revenue had pro-forma¹ revenue growth of 8% and represented 55% of total Services revenue. The growth in BPO was primarily driven by acquisitions over the past two years consistent with our strategy to expand our service offerings through "tuck-in" acquisitions. BPO growth was also driven to a lesser extent by growth in the healthcare payer, human resources services, business process solutions and transportation solutions businesses.
- DO revenue increased 9%, including a 2-percentage point positive impact from currency, and represented 33% of total Services revenue. The increase in DO revenue reflects an improving growth trend from our partner print services offerings as well as new signings.
- ITO revenue on a pro-forma¹ basis decreased 4% and represented 12% of total Services revenue. The decrease in ITO revenue was driven by lower third-party equipment sales as well as the impact of lower contract renewals partially offset by growth in new commercial business.

Segment Margin 2011

Services segment margin of 11.1% decreased 0.6-percentage points, or 0.3-percentage points on a pro-forma¹ basis, from the prior year as the gross margin decline, which was driven by the ramping of new services contracts and the impact of lower contract renewals, more than offset the lower costs and expenses from restructuring and synergy savings.

Document Technology Segment

Our Document Technology segment includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Document 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)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Equipment sales	\$ 2,879	\$ 3,277	\$ 3,404	(12)%	(4)%
Annuity revenue	6,583	6,982	6,945	(6)%	1 %
Total Revenue	\$ 9,462	\$ 10,259	\$ 10,349	(8)%	(1)%

Revenue 2012

Document Technology revenue of \$9,462 million decreased 8%, including a 2-percentage points negative impact from currency. Total revenues include the following:

- 12% decrease in equipment sales revenue with a 1-percentage point negative impact from currency. This decline, primarily in mid-range and high-end equipment, was driven by delayed customer decision-making reflecting the continued weak macro-environment. In addition, the impact of lower product mix and price declines in the range of 5% to 10% more than offset growth in installs. Document Technology revenue excludes increasing revenues in our DO offerings. As noted previously, in 2013 we will be investing in our portfolio with significant product announcements in the mid-range and entry production color spaces.
- 6% decrease in annuity revenue, including a 2-percentage point negative impact from currency driven by lower supplies and a decline in total digital pages of 2% as well as the continued migration of customers to our partner print services offerings, which is included in our Services segment.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2012

Document Technology segment margin of 11.3% increased 0.2-percentage points from prior year. Productivity improvements, restructuring savings and gains recognized on the sale of finance receivables (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines and overall lower revenues.

Installs 2012

Entry

- 39% increase in color multifunction devices driven by demand for the WorkCentre® 6015, WorkCentre 6605 and ColorQube 8700/8900.
- 23% increase in entry black-and-white multifunction devices driven by demand for the WorkCentre® 3045.
- 7% decrease in color printers driven by a decrease in sales to OEM partners.

Mid-Range

- 2% decrease in installs of mid-range color devices driven as a difficult compare in the U.S. from the fourth quarter 2012 was partially offset by demand for products such as the WorkCentre[®] 7535/7125/7530 and the WorkCentre[®] 7556, which enabled continued market share gains in the fastest growing and most profitable segment of the office color market.
- 10% decrease in installs of mid-range black-and-white devices.

High-End

- 34% increase in installs of high-end color systems driven by strong demand for the Xerox Color 770. This product has enabled large market share gains in the Entry Production Color market segment.
- 26% decrease in installs of high-end black-and-white systems, reflecting continued declines in the overall market.

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 2 - Segment Reporting, in the Consolidated Financial Statements.

Revenue 2011

Document Technology revenue of \$10,259 million decreased 1%, including 2-percentage points positive impact from currency. Total revenues include the following:

- 4% decrease in equipment sales revenue with a 1-percentage point positive impact from currency primarily driven by a decline in Europe reflecting the economic conditions in the Euro Zone, particularly in the fourth quarter 2011. In addition, install declines of entry and mono products were only partially offset by install growth in mid-range and high-end color products. Consistent with prior years, price declines were in the range of 5% to 10%. Document Technology revenue excludes increasing revenues in our DO offerings.
- 1% increase in annuity revenue, including a 2-percentage point positive impact from currency. An increase in supplies revenue was offset by a decline in pages.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2011

Document Technology segment margin of 11.1% increased 0.6-percentage points from prior year. 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 2011

Entry

4% decrease in entry black-and-white and color multifunction devices and color printers reflecting:

- 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.

These declines were partially offset by growth in newly launched products such as the WorkCentre[®] 3045 and WorkCentre[®] 6015.

Mid-Range

- 26% increase in installs of mid-range color devices driven primarily by demand for new products, such as the WorkCentre[®] 7530/7535, WorkCentre[®] 7545/7556 and WorkCentre[®] 7120 and the Xerox Color 550/560. This growth has enabled market share gains in the fastest growing and most profitable segment of the office color market.
- 2% increase in installs of mid-range black-and-white devices driven by strong demand for the recently launched WorkCentre[®] 5325/5330/5335 product partially offset by declines in Europe.

High-End

- 7% increase in installs of high-end color systems driven primarily by installs of our market-leading Xerox Color 800 and 1000 and iGen as well as 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.
- 8% decrease in installs of high-end black-and-white systems driven by declines across most product areas.

Other Segment

Revenue 2012

Other segment revenue of \$1,400 million decreased 8%, including 1-percentage point negative impact from currency, due to a decline in paper sales, which is driven by lower market pricing and activity, as well as a decline in revenues from wide format systems and lower patent sales and licensing revenue. Paper comprised approximately 59% of the 2012 Other segment revenue.

Segment Loss 2012

Other segment loss of \$241 million, improved \$14 million from the prior year, primarily driven by a decrease in Other Expenses, Net partially offset by lower gross profit as a result of the decline in revenues.

Revenue 2011

Other segment revenue of \$1,530 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 an increase in revenue from patent sales and licensing as noted below. Paper comprised approximately 59% of the 2011 Other segment revenue.

In 2011, we entered into an agreement with another company that included, among other items, the sale of certain patents and the 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 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.

Segment Loss 2011

Other segment loss of \$255 million, improved \$87 million from the prior year, primarily driven by lower non-financing interest expense and SAG expense.

(1) See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

(2) Color revenues and pages represent revenues and pages from color enabled devices and is a subset of total revenues and excludes Global Imaging Systems, Inc. ("GIS").

Capital Resources and Liquidity

Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access the financial capital markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

- As of December 31, 2012 and 2011, total cash and cash equivalents were \$1,246 million and \$902 million, respectively, we had no borrowings under our Commercial Paper Programs as of December 31, 2012 and \$100 million as of December 31, 2011. There were no outstanding borrowings or letters of credit under our \$2 billion Credit Facility for either year end. The increase in our cash balance in 2012 was largely from the sales and run-off of finance receivables partially offset by an increase in share repurchases. We expect to use approximately \$400 million of our total cash to pay down maturing Senior Notes in May 2013.
- Our Commercial Paper program was established in 2010 as a means to reduce our cost of capital and to provide us with an additional liquidity vehicle in the market. Aggregate Commercial Paper and Credit Facility borrowings may not exceed the borrowing capacity under our Credit Facility at any time.
- 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 \$2,580 million, \$1,961 million and \$2,726 million for the three years ended December 31, 2012, respectively.
- We expect cash flows from operations between \$2.1 and \$2.4 billion for 2013. We expect lower contributions from finance receivables of approximately \$500 million, due to fewer collections as a result of the 2012 finance receivables sales and a lower natural run-off of the portfolio, given our expectations of better equipment activity. This impact is expected to be partially offset by lower pension funding requirements. We expect the rest of working capital to be essentially flat year over year.

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2012, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Net cash provided by operating activities	\$ 2,580	\$ 1,961	\$ 2,726	\$ 619	\$ (765)
Net cash used in investing activities	(761)	(675)	(2,178)	(86)	1,503
Net cash used in financing activities	(1,472)	(1,586)	(3,116)	114	1,530
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)	6	11
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)	653	2,279
Cash and cash equivalents at beginning of year	902	1,211	3,799	(309)	(2,588)
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	1,211	\$ 344	\$ (309)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$2,580 million for the year ended December 31, 2012. The \$619 million increase in cash from 2011 was primarily due to the following:

- \$879 million increase from finance receivables primarily due to sales of receivables as well as higher net run-off of finance receivables as a result of lower equipment sales (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information).
- \$124 million increase due to lower inventory growth.
- \$74 million increase due to lower restructuring payments.
- \$62 million increase due to lower contributions to our defined benefit pension plans primarily in the U.S. as a result of the recently enacted pension funding legislation.
- \$41 million increase as a result of less up-front costs and other customer related spending associated primarily with new services contracts.
- \$390 million decrease due to a lower benefit from accounts receivable sales as well as growth in services revenue.
- \$45 million decrease from higher net income tax payments primarily due to refunds in the prior year.

In March 2012, we elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding.

Net cash provided by operating activities was \$1,961 million for the year ended December 31, 2011. The \$765 million decrease in cash from 2010 was primarily due to the following:

- \$533 million decrease due to lower benefit from changes in accounts payable and accrued compensation primarily related to the timing of payments as well as lower spending.
- \$189 million decrease due to higher contributions to our defined benefit pension plans.
- \$101 million decrease as a result of up-front costs and other customer related spending associated primarily with new services contracts.
- \$65 million decrease from higher net income tax payments primarily due to refunds in the prior year.
- \$49 million decrease due to higher finance receivables of \$39 million and equipment on operating leases of \$10 million both reflective of increased equipment placements.
- \$46 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 a lower benefit from accounts receivable sales partially offset by improved collections.
- \$290 million increase in pre-tax income before depreciation and amortization, litigation, restructuring, curtailment and the Venezuelan currency devaluation.
- \$113 million increase due to the absence of cash outflows from acquisition-related expenditures.

In September 2011, we elected to make a contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding.

Cash Flows from Investing Activities

Net cash used in investing activities was \$761 million for the year ended December 31, 2012. The \$86 million increase in the use of cash from 2011 was primarily due to the following:

- \$64 million increase in acquisitions. 2012 acquisitions include Wireless Data for \$95 million, RK Dixon for \$58 million as well as seven smaller acquisitions totaling \$123 million. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million as well as a net cash receipt of \$35 million for Symcor.
- \$19 million increase due to lower cash proceeds from asset sales.

Net cash used in investing activities was \$675 million for the year ended December 31, 2011. The \$1,503 million decrease in the use of cash from 2010 was primarily due to the following:

- \$1,522 million decrease in acquisitions. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million as well as a net cash receipt of \$35 million for Symcor. 2010 acquisitions include ACS for \$1,495 million, ExcellerateHRO, LLP for \$125 million, TMS Health, LLC for \$48 million, Irish Business Systems Limited for \$29 million, Georgia Duplicating Products for \$21 million and Spur Information Solutions for \$12 million.
- \$24 million increase due to lower cash proceeds from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was \$1,472 million for the year ended December 31, 2012. The \$114 million decrease in the use of cash from 2011 was primarily due to the following:

- \$670 million decrease reflecting the absence of payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.
- \$351 million increase from higher share repurchases in 2012.
- \$157 million increase from net debt activity. 2012 reflects net proceeds of \$1.1 billion from Senior Notes issued in March offset by net payments on 2012 Senior Notes of \$1.1 billion that matured in May and a decrease of \$100 million in Commercial Paper. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper.
- \$47 million increase due to higher distributions to noncontrolling interests.

Net cash used in financing activities was \$1,586 million for the year ended December 31, 2011. The \$1,530 million decrease in the use of cash from 2010 was primarily due to the following:

- \$3,105 million decrease from net debt activity. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper. 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 \$109 million for 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 an increase of \$300 million in Commercial Paper.
- \$701 million increase resulting from the resumption of our share repurchase program.
- \$670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.
- \$139 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- \$26 million increase reflecting a full year of dividend payments on shares issued in connection with the acquisition of ACS in 2010.
- \$12 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Customer Financing Activities

We provide lease equipment financing to our customers, primarily in our Document 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 primarily fund our customer financing activity through cash generated from operations, cash on hand, commercial paper borrowings, sales and securitizations of finance receivables and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically with our small and mid-sized customers, 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 Total finance assets, net associated with our lease and finance operations:

(in millions)	December 31,	
	2012	2011
Total Finance receivables, net ⁽¹⁾	\$ 5,313	\$ 6,362
Equipment on operating leases, net	535	533
Total Finance Assets, Net	\$ 5,848	\$ 6,895

(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 Consolidated Balance Sheets.

The decrease of \$1,047 million in Total finance assets, net reflects the sale of finance receivables (discussed further below) and the decrease in equipment sales over the past several years as well as equipment sales growth in regions or operations where we don't offer direct leasing. These impacts were partially offset by an increase of \$83 million due to currency.

We maintain a certain level of debt, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the breakdown of our total debt at December 31, 2012 and 2011 between financing debt and core debt:

(in millions)	December 31,	
	2012	2011
Financing debt ⁽¹⁾	\$ 5,117	\$ 6,033
Core debt	3,372	2,600
Total Debt	\$ 8,489	\$ 8,633

(1) Financing debt includes \$4,649 million and \$5,567 million as of December 31, 2012 and December 31, 2011, 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.

In 2013, we expect to continue the leveraging of our finance assets at an assumed 7:1 ratio of debt to equity. We also may sell or securitize certain finance receivables as another means to support our customer financing activities - see discussion further below of finance receivable sale activity in 2012. The following summarizes our total debt at December 31, 2012 and 2011:

(in millions)	December 31,	
	2012	2011
Principal debt balance ⁽¹⁾	\$ 8,410	\$ 8,450
Net unamortized discount	(63)	(7)
Fair value adjustments	142	190
Total Debt	\$ 8,489	\$ 8,633

(1) Includes Commercial Paper of \$0 and \$100 million as of December 31, 2012 and 2011, respectively.

Sales of Accounts Receivable

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivables without recourse to third-parties. 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)	Year Ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivable	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

(1) Represents the difference between current and prior year fourth quarter 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 - Accounts Receivables, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 million to a third-party financial institution for cash proceeds of \$630 million and beneficial interests from the purchaser of \$101 million. These transactions enable us to lower the cost associated with our financing portfolio.

A pre-tax gain of \$44 million was recognized on these sales and is net of additional fees and expenses of \$5 million. The gain was reported in Finance income in Document Technology segment revenues. We will continue to service the sold receivables and expect to a record servicing fee income of approximately \$12 million over the expected life of the associated receivables.

Refer to Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

The net impact on operating cash flows from the sales of accounts receivable and finance receivables is summarized below:

(in millions)	Year Ended December 31,		
	2012	2011	2010
Cash received from finance receivables sales	\$ 625	\$ —	\$ —
Collections on sold finance receivables ⁽¹⁾	(45)	—	—
Net cash impact of finance receivable sales	580	—	—
Net cash impact of accounts receivable sales	(78)	133	106
Net Cash Impact On Cash Flows From Operating Activities	\$ 502	\$ 133	\$ 106

(1) Represents cash that would have been collected if we had not sold finance receivables.

Capital Market Activity

Debt Exchange

In February 2012, we completed an exchange of our 5.71% Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of \$303, for \$362 of our 4.50% Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.50% Senior Notes due 2021 from \$700 to \$1,062. The exchange was conducted to retire high-interest, long-dated debt in a favorable interest rate environment. The debt exchange was accounted for as a non-revolving debt modification and, therefore, it did not result in any gain or loss. The difference between the book value of our Zero Coupon Notes and the principal value of the Senior Notes issued in exchange will be accreted over the remaining term of the Senior Notes. Upfront fees paid to third parties in connection with the exchange were not material and were expensed as incurred.

Senior Notes

In March 2012, we issued \$600 of Floating Rate Senior Notes due 2013 (the “2013 Floating Rate Notes”) and \$500 of 2.95% Senior Notes due 2017 (the “2017 Senior Notes”). The 2013 Floating Rate Notes were issued at par and the 2017 Senior Notes were issued at 99.875% of par, resulting in aggregate net proceeds for both notes of approximately \$1,093. The 2013 Floating Rate Notes accrue interest at a rate per annum, reset quarterly, equal to the three-month LIBOR plus 1.400% and are payable quarterly. The 2017 Senior Notes accrue interest at a rate of 2.95% per annum and are payable semi-annually. As a result of the discount, they have a weighted average effective interest rate of 2.977%. In connection with the issuance of these Senior Notes, debt issuance costs of \$6 were deferred. This debt issuance partially funded the May 2012 maturity of our \$1,100 of 5.59% Senior Notes.

Refer to Note 12- Debt in the Consolidated Financial Statements for additional information regarding our debt.

Financial Instruments

Refer to Note 13 - Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs - Treasury Stock

During 2012, we repurchased 146.3 million shares for an aggregate cost of \$1.1 billion, including fees. Through February 20, 2013, we repurchased an additional 1.4 million shares at an aggregate cost of \$10.1 million, including fees, for a cumulative program total of 429.7 million shares at a cost of \$4.7 billion, including fees. We expect total share repurchases of at least \$400 million in 2013.

In October 2012, the Board of Directors authorized an additional \$1.0 billion in share repurchase, bringing the total remaining authorization for share repurchases to \$1.3 billion as of February 20, 2013.

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 \$226 million, \$241 million and \$243 million on common stock in 2012, 2011 and 2010, respectively. The decrease in 2012 as compared to prior years is primarily due to a lower level of outstanding shares in 2012 as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of \$24 million, \$24 million and \$21 million on the Series A Convertible Preferred Stock in 2012, 2011 and 2010, respectively. The preferred shares were issued in connection with the acquisition of ACS.

In addition the company increased its dividend from 4.25 cents per share to 5.75 cents per share per quarter, beginning with the dividend payable on April 30, 2013. Accordingly, we expect approximately \$300 million in dividend payments for the full year 2013.

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 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
2013	\$ 1,039
2014	1,093
2015	1,259
2016	954
2017	1,002
2018	1,001
2019	650
2020	—
2021	1,062
2022 and thereafter	350
Total	\$ 8,410

Foreign Cash

At December 31, 2012, we had \$1,246 million of cash and cash equivalents on a consolidated basis. Of that amount, approximately \$400 million was held outside the U.S. by our foreign subsidiaries to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings.

However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 16- Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

At December 31, 2012, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right 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 12 - Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2012, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2013	2014	2015	2016	2017	Thereafter
Total debt, including capital lease obligations ⁽¹⁾	\$ 1,039	\$ 1,093	\$ 1,259	\$ 954	\$ 1,002	\$ 3,063
Interest on debt ⁽¹⁾	421	363	293	234	177	777
Minimum operating lease commitments ⁽²⁾	636	425	265	157	74	83
Defined benefit pension plans	195	—	—	—	—	—
Retiree health payments	80	80	79	77	75	339
Estimated Purchase Commitments:						
Flextronics ⁽³⁾	498	—	—	—	—	—
Fuji Xerox ⁽⁴⁾	2,069	—	—	—	—	—
Other ⁽⁵⁾	169	131	43	16	1	—
Total	\$ 5,107	\$ 2,092	\$ 1,939	\$ 1,438	\$ 1,329	\$ 4,262

(1) Refer to Note 12 - Debt in the Consolidated Financial Statements for additional information regarding debt.

(2) Refer to Note 7 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately \$600 million per year.

(4) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.

(5) 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.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2012 cash contributions for these plans were \$364 million for our defined benefit pension plans and \$84 million for our retiree health plans. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 million in 2012.

In 2013, based on current actuarial calculations, we expect to make contributions of approximately \$195 million to our worldwide defined benefit pension plans and approximately \$80 million to our retiree health benefit plans. The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. 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. Although we currently expect contributions to our worldwide defined benefit pension plans to increase moderately in 2014, primarily in the U.S., contributions are still expected to be lower over the next several years as compared to 2011 and 2012 primarily as a result of the amendment of several of our defined benefit pension plans to freeze current benefits and eliminate benefit accruals for future service.

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, \$2.2 billion and \$2.1 billion in 2012, 2011 and 2010, 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 8 - 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, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 million, with the decrease from December 31, 2011 balance of approximately \$1,120 million, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010 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, 2012 we had \$211 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 million and additional letters of credit of approximately \$242 million, 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.

Other Contingencies and Commitments

As more fully discussed in Note 17 - Contingencies and Litigation 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 non-consolidated 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, 2012, we had \$201 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and foreign 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

Occasionally we may utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."). We enter into the following arrangements that have off-balance sheet elements:

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 7 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- We have facilities primarily in the U.S., Canada and several countries in Europe that enable us to sell to third-parties certain accounts receivable without recourse. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 4 - Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.
- During 2012 we entered into arrangements to sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales.

At December 31, 2012, we do not believe we have any off-balance sheet arrangements that have, or reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

In addition, see the table above for the Company's contractual cash obligations and other commercial commitments and Note 17 - Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, 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, 2012, 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, 2012. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2012 would have an impact on our cumulative translation adjustment portion of equity of approximately \$711 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox Brasil, and translated into U.S. Dollars using the year-end exchange rates, was approximately \$7.1 billion at December 31, 2012.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2012, 2011 and 2010 approximated 4.7%, 5.2%, and 5.8%, 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, 2012, \$903 million of our total debt of \$8,489 million carried variable interest rates, including the effect of pay variable interest rate swaps, if any, we may 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, 2012, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$113 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). In addition, 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 and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following tables.

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 2012 reporting year, adjustments were limited to the amortization of intangible assets.

- Net income and Earnings per share ("EPS"), and
- Effective tax rate.

The above have been adjusted for the following items:

- **Amortization of intangible assets (all periods):** 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.

- **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.
- **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 the item on our results of operations for the period: 1) Loss on early extinguishment of liability (2011 and 2010), 2) Medicare subsidy tax law change (income tax effect only)(2010), 3) ACS shareholder's litigation settlement (2010) and 4) Venezuela devaluation (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.

We also calculate and utilize an Operating income and margin earnings measure by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the amortization of intangible assets and restructuring expenses (see above), operating income and margin also exclude Other expenses, net. 2011 operating income and margin also exclude a Curtailment gain recorded in the fourth quarter 2011 while 2010 operating income and margin exclude ACS acquisition related costs (see above). Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. The Curtailment gain resulted from the amendment of our primary non-union U.S. defined benefit pension plans for salaried employees to fully freeze future benefit and service accruals after December 31, 2012. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Pro-forma Basis

To better understand the trends in our business, we discuss our 2011 operating results by comparing them against adjusted prior period results which include ACS historical results for the comparable period. We acquired ACS on February 5, 2010 and ACS's results subsequent to that date are included in our reported results. Accordingly, for the comparison of our reported 2011 results to 2010, we included ACS's 2010 estimated results for the period January 1 through February 5, 2010 in our reported 2010 results (pro-forma 2010). We refer to these comparisons against adjusted results as "pro-forma" basis comparisons. ACS's historical results for this period 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.

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Year Ended December 31,					
	2012		2011		2010	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported	\$ 1,195	\$ 0.88	\$ 1,295	\$ 0.90	\$ 606	\$ 0.43
Adjustments:						
Amortization of intangible assets	203	0.15	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
Adjusted	\$ 1,398	\$ 1.03	\$ 1,563	\$ 1.08	\$ 1,296	\$ 0.94
Weighted average shares for adjusted EPS ⁽¹⁾	1,356		1,444		1,378	
Fully diluted shares at December 31, 2012 ⁽²⁾	1,271					

(1) Average shares for the calculation of adjusted EPS and include 27 million of shares associated with the Series A convertible preferred stock and therefore the related annual dividend was excluded.

(2) Represents common shares outstanding at December 31, 2012 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the fourth quarter 2012.

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	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
As Reported	\$ 1,348	\$ 277	20.5%	\$ 1,565	\$ 386	24.7%	815	256	31.4%
Adjustments:									
Amortization of intangible assets	328	125		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	<u>\$ 1,676</u>	<u>\$ 402</u>	<u>24.0%</u>	<u>\$ 1,996</u>	<u>\$ 549</u>	<u>27.5%</u>	<u>1,759</u>	<u>548</u>	<u>31.2%</u>

Operating Income / Margin reconciliation:

(in millions)	As Reported			Pro-forma ⁽¹⁾
	2012	2011	2010	2010
Total Revenue	\$ 22,390	\$ 22,626	\$ 21,633	\$ 22,252
Pre-tax Income	1,348	1,565	815	777
Adjustments:				
Amortization of intangible assets	328	398	312	339
Xerox restructuring charge	153	33	483	483
Curtailement gain	—	(107)	—	—
ACS Acquisition-related costs	—	—	77	77
Other expenses, net	256	322	389	444
Adjusted Operating Income	<u>\$ 2,085</u>	<u>\$ 2,211</u>	<u>\$ 2,076</u>	<u>\$ 2,120</u>
Pre-tax Income Margin	6.0%	6.9%	3.8%	3.5%
Adjusted Operating Margin	9.3%	9.8%	9.6%	9.5%

(1) Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 5 in our reported 2010 results.

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 2012 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,		
	2012	2011	2010
Revenues			
Sales	\$ 6,578	\$ 7,126	\$ 7,234
Outsourcing, service and rentals	15,215	14,868	13,739
Finance income	597	632	660
Total Revenues	22,390	22,626	21,633
Costs and Expenses			
Cost of sales	4,362	4,697	4,741
Cost of outsourcing, service and rentals	10,802	10,269	9,195
Equipment financing interest	198	231	246
Research, development and engineering expenses	655	721	781
Selling, administrative and general expenses	4,288	4,497	4,594
Restructuring and asset impairment charges	153	33	483
Acquisition-related costs	—	—	77
Amortization of intangible assets	328	398	312
Curtailment gain	—	(107)	—
Other expenses, net	256	322	389
Total Costs and Expenses	21,042	21,061	20,818
Income Before Income Taxes and Equity Income	1,348	1,565	815
Income tax expense	277	386	256
Equity in net income of unconsolidated affiliates	152	149	78
Net Income	1,223	1,328	637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share	\$ 0.88	\$ 0.90	\$ 0.43

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31,		
	2012	2011	2010
Net Income	\$ 1,223	\$ 1,328	\$ 637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Other Comprehensive Income (Loss), Net⁽¹⁾:			
Translation adjustments, net	\$ 113	\$ (105)	\$ (35)
Unrealized (losses) gains, net	(63)	12	12
Changes in defined benefit plans, net	(561)	(636)	23
Other Comprehensive Loss, Net	(511)	(729)	—
Less: Other comprehensive loss, net attributable to noncontrolling interests	—	(1)	—
Other Comprehensive Loss, Net Attributable to Xerox	\$ (511)	\$ (728)	\$ —
Comprehensive Income, Net	\$ 712	\$ 599	\$ 637
Less: Comprehensive income, net attributable to noncontrolling interests	28	32	31
Comprehensive Income, Net Attributable to Xerox	\$ 684	\$ 567	\$ 606

(1) Refer to Note 20 - Other Comprehensive Income for gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and related tax effects.

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,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,246	\$ 902
Accounts receivable, net	2,866	2,600
Billed portion of finance receivables, net	152	166
Finance receivables, net	1,836	2,165
Inventories	1,011	1,021
Other current assets	1,162	1,058
Total current assets	8,273	7,912
Finance receivables due after one year, net	3,325	4,031
Equipment on operating leases, net	535	533
Land, buildings and equipment, net	1,556	1,612
Investments in affiliates, at equity	1,381	1,395
Intangible assets, net	2,783	3,042
Goodwill	9,062	8,803
Deferred tax assets, long-term	763	672
Other long-term assets	2,337	2,116
Total Assets	\$ 30,015	\$ 30,116
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 1,042	\$ 1,545
Accounts payable	1,913	2,016
Accrued compensation and benefits costs	741	757
Unearned income	438	432
Other current liabilities	1,776	1,631
Total current liabilities	5,910	6,381
Long-term debt	7,447	7,088
Pension and other benefit liabilities	2,958	2,487
Post-retirement medical benefits	909	925
Other long-term liabilities	778	861
Total Liabilities	18,002	17,742
Series A Convertible Preferred Stock	349	349
Common stock	1,239	1,353
Additional paid-in capital	5,622	6,317
Treasury stock, at cost	(104)	(124)
Retained earnings	7,991	7,046
Accumulated other comprehensive loss	(3,227)	(2,716)
Xerox shareholders' equity	11,521	11,876
Noncontrolling interests	143	149
Total Equity	11,664	12,025
Total Liabilities and Equity	\$ 30,015	\$ 30,116
Shares of common stock issued	1,238,696	1,352,849
Treasury stock	(14,924)	(15,508)
Shares of common stock outstanding	1,223,772	1,337,341

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,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	\$ 1,223	\$ 1,328	\$ 637
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,301	1,251	1,097
Provision for receivables	127	154	180
Provision for inventory	30	39	31
Deferred tax expense (benefit)	96	203	(2)
Undistributed equity in net income of unconsolidated affiliates	(90)	(86)	(37)
Stock-based compensation	125	123	123
Restructuring and asset impairment charges	153	33	483
Payments for restructurings	(144)	(218)	(213)
Contributions to defined benefit pension plans	(364)	(426)	(237)
Increase in accounts receivable and billed portion of finance receivables	(776)	(296)	(118)
Collections of deferred proceeds from sales of receivables	470	380	218
Increase in inventories	—	(124)	(151)
Increase in equipment on operating leases	(276)	(298)	(288)
Decrease in finance receivables	947	90	129
Increase in other current and long-term assets	(265)	(249)	(98)
Increase in accounts payable and accrued compensation	120	82	615
Decrease in other current and long-term liabilities	(71)	(22)	(9)
Net change in income tax assets and liabilities	42	89	229
Net change in derivative assets and liabilities	11	39	85
Other operating, net	(79)	(131)	52
Net cash provided by operating activities	2,580	1,961	2,726
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(388)	(338)	(355)
Proceeds from sales of land, buildings and equipment	9	28	52
Cost of additions to internal use software	(125)	(163)	(164)
Acquisitions, net of cash acquired	(276)	(212)	(1,734)
Other investing, net	19	10	23
Net cash used in investing activities	(761)	(675)	(2,178)
Cash Flows from Financing Activities:			
Net (payments) proceeds on debt	(108)	49	(3,056)
Payment of liability to subsidiary trust issuing preferred securities	—	(670)	—
Common stock dividends	(231)	(241)	(215)
Preferred stock dividends	(24)	(24)	(15)
Proceeds from issuances of common stock	44	44	183
Excess tax benefits from stock-based compensation	10	6	24
Payments to acquire treasury stock, including fees	(1,052)	(701)	—
Repurchases related to stock-based compensation	(42)	(27)	(15)
Distributions to noncontrolling interests	(69)	(22)	(22)
Net cash used in financing activities	(1,472)	(1,586)	(3,116)
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)
Cash and cash equivalents at beginning of year	902	1,211	3,799
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	\$ 1,211

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽³⁾	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
Comprehensive income	—	—	—	606	—	606	31	637
ACS acquisition	490	3,825	—	—	—	4,315	—	4,315
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(243)	—	(243)	—	(243)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(21)	—	(21)	—	(21)
Stock option and incentive plans, net	37	262	—	—	—	299	—	299
Distributions to noncontrolling interests	—	—	—	—	—	—	(19)	(19)
Balance at December 31, 2010	\$ 1,398	\$ 6,580	\$ —	\$ 6,016	\$ (1,988)	\$ 12,006	\$ 153	\$ 12,159
Comprehensive income	—	—	—	1,295	(728)	567	32	599
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(241)	—	(241)	—	(241)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Contribution of common stock to U.S. pension plan	17	113	—	—	—	130	—	130
Stock option and incentive plans, net	11	128	—	—	—	139	—	139
Payments to acquire treasury stock, including fees	—	—	(701)	—	—	(701)	—	(701)
Cancellation of treasury stock	(73)	(504)	577	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(36)	(36)
Balance at December 31, 2011	\$ 1,353	\$ 6,317	\$ (124)	\$ 7,046	\$ (2,716)	\$ 11,876	\$ 149	\$ 12,025
Comprehensive income	—	—	—	1,195	(511)	684	28	712
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(226)	—	(226)	—	(226)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Contribution of common stock to U.S. pension plan	15	115	—	—	—	130	—	130
Stock option and incentive plans, net	18	115	—	—	—	133	—	133
Payments to acquire treasury stock, including fees	—	—	(1,052)	—	—	(1,052)	—	(1,052)
Cancellation of treasury stock	(147)	(925)	1,072	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(34)	(34)
Balance at December 31, 2012	\$ 1,239	\$ 5,622	\$ (104)	\$ 7,991	\$ (3,227)	\$ 11,521	\$ 143	\$ 11,664

- (1) Cash dividends declared on common stock of \$0.0425 in each of the four quarters in 2012, 2011 and 2010.
(2) Cash dividends declared on preferred stock of \$12.22 per share in the first quarter of 2010 and \$20 per share in each quarter thereafter in 2010, 2011 and 2012.
(3) AOCL - Accumulated other comprehensive loss.

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except per-share data and where otherwise noted)

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 \$22.4 billion global enterprise for business process and document management. We offer business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, human resource 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.

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 before Income Taxes and Equity Income” as “pre-tax income” throughout the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements 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. 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 costs and expenses that require management estimates for the three years ended December 31, 2012:

<u>Expense/(Income)</u>	Year Ended December 31,		
	2012	2011	2010
Provision for restructuring and asset impairments	\$ 153	\$ 33	\$ 483
Provision for receivables	127	154	180
Provisions for litigation and regulatory matters	(1)	11	(4)
Provisions for obsolete and excess inventory	30	39	31
Provision for product warranty liability	29	30	33
Depreciation and obsolescence of equipment on operating leases	279	294	313
Depreciation of buildings and equipment	452	405	379
Amortization of internal use software	116	91	70
Amortization of product software	19	11	7
Amortization of acquired intangible assets	328	401	316
Amortization of customer contract costs	107	49	12
Defined pension benefits - net periodic benefit cost ⁽¹⁾	300	177	304
Retiree health benefits - net periodic benefit cost	11	14	32
Income tax expense	277	386	256

(1) 2011 includes \$107 pre-tax curtailment gain - refer to Note 15 - Employee Benefit Plans for additional information.

Changes in Estimates

In the ordinary course of accounting for the 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 and in Management's Discussion and Analysis of Financial Condition and Results of Operation.

New Accounting Standards and Accounting Changes

Except for the Accounting Standard Updates ("ASU's") discussed below, the new ASU's issued by the FASB during the last two years did not have any significant impact on the Company.

Goodwill:

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 a potential exposure exists, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We adopted ASU 2011-08 in 2011. The adoption of this update did not have a material effect on our financial condition or results of operations. See "Goodwill and Other Intangible Assets" below for additional information.

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 Shareholders' 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.

We adopted ASU 2011-05 effective for our fiscal year ending December 31, 2011 and have retrospectively applied the new presentation of comprehensive income to 2010. We elected to present comprehensive income in two separate but consecutive statements. Note 20 - Other Comprehensive Income provides details regarding the gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and the related tax effects. Other than the change in presentation and disclosure, the update did not have an impact on our financial condition or results of operations.

In February 2013, the FASB issued **ASU No. 2013-02**, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide additional information about the amounts reclassified out of Accumulated Other Comprehensive Income by component. This update is effective for us beginning January 1, 2013.

Fair Value Accounting:

In May 2011, the FASB issued **ASU 2011-04**, which amended Fair Value Measurements and Disclosures - Overall (ASC Topic 820-10) 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. This update changed certain fair value measurement principles and enhanced the disclosure requirements, particularly for level 3 fair value measurements. We adopted this update prospectively effective for our fiscal year beginning January 1, 2012. This update did not have a material effect on financial condition or results of operations.

Balance Sheet Offsetting:

In December 2011, the FASB issued **ASU 2011-11**, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the Balance Sheet and instruments and transactions subject to an agreement similar to a master netting arrangement to enable users of its financial statements to understand the effects of offsetting and related arrangements on its financial position. This update is effective for our fiscal year beginning January 1, 2013 and must be applied retrospectively. In January 2013, the FASB issued ASU 2013-01 which limited the scope of this guidance to derivatives, repurchase type agreements and securities borrowing and lending transactions. The principal impact from this update will be to expand disclosures regarding our financial instruments. We currently report our derivative assets and liabilities on a gross basis in the Balance Sheet even in those instances where offsetting may be allowed under a master netting agreement.

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 it is realized or realizable and earned. We consider revenue realized or realizable and earned when we have persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until equipment has been shipped or services have been provided to the customer, risk of loss has transferred to the customer, and either customer acceptance has been obtained, customer acceptance provisions have lapsed, or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment-Related Revenues

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.

Technical Services: Technical service revenues are derived primarily from maintenance contracts on the equipment sold to our 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.

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. 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 the equipment, financing, maintenance and other executory costs, 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 other executory costs plus a 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 below under "Leases."

Our pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, 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 25 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.

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology 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. However, revenue is only recognized when the distributor or reseller has economic substance apart from the company, the sales price is not contingent upon resale or payment by the end user customer and we have no further obligations related to bringing about the resale, delivery or installation of the product.

Distributors and resellers participate in various rebate, price-protection, 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 contract 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 equipment sales 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. 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: As noted above, equipment may be placed with customers under bundled lease arrangements. 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.

We consider the economic life of most of our products to be 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. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

Services-Related Revenue

Outsourcing: 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.

Revenues on certain fixed price contracts where we provide 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 using the percentage-of-completion accounting methodology. 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.

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.

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 initiation of the ongoing services through the end of the contract term.

In connection with our services arrangements, we incur and capitalize 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. Certain initial direct costs of an arrangement are capitalized and amortized over the contractual service period of the arrangement to cost of services.

From time to time, we also provide inducements to customers in various forms, 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 were \$356 and \$294 at December 31, 2012 and 2011, respectively, and the balance at December 31, 2012 is expected to be amortized over a weighted average period of approximately seven years. Amortization expense associated with customer-related contract costs at December 31, 2012 is expected to be approximately \$103 in 2013.

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.

Our outsourcing services contracts may also include the sale of equipment and software. In these instances we follow the policies noted above under Equipment-related Revenue.

Other Revenue Recognition Policies

Multiple Element Arrangements: As described above, 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.
- 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.

In substantially all of our multiple element arrangements, we are able to separate the deliverables since we normally will meet both of the following criteria:

- 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.

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 primarily determined based on VSOE or third-party evidence ("TPE") of the selling price. The above noted revenue policies are then applied to each separated deliverable, as applicable.

Revenue-based taxes: We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The primary revenue-based taxes are sales tax and value-added tax ("VAT").

Other Significant Accounting Policies

Shipping and Handling

Costs related to shipping and handling are recognized as incurred and included in Cost of sales in the Consolidated Statements of Income.

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. Sustaining engineering costs were \$110, \$108 and \$128 in 2012, 2011 and 2010, respectively. Refer to Management's Discussion and Analysis, RD&E section for additional information regarding RD&E expense.

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.

Receivable Sales

We regularly sell certain portions of our receivable portfolios. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management's best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 4 - Accounts Receivable, Net and Note 5 - Finance Receivables, Net for more details on our receivable sales.

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, which normally are not significant. 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 6 - Inventories and Equipment on Operating Leases, Net and Note 7 - Land, Buildings, Equipment and Software, 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. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility ("Product Software"). These costs are amortized based on estimated future revenues over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are charged to Costs of services as incurred.

Refer to Note 7 - Land, Buildings, Equipment and Software, Net for further information.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If we perform the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (step 2) to measure such impairment. In 2012, we elected to proceed to the quantitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test. Based on our quantitative assessments, we concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

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 9 - 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.

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 on 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 market-related 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 market-related 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 market-related 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. The discount rate reflects the current rate at which benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments adjusted to eliminate the effects of call provisions, as well as the expected timing of pension and other benefit payments.

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 and other actuarial assumptions, are added to or subtracted from any cumulative actuarial gain or loss from prior years. This amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss. We amortize net actuarial gains and losses as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss (excluding asset gains or losses that have not been recognized in market-related value) exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets (the "corridor" method). This determination is made on a plan-by-plan basis. If amortization is required for a particular plan, we amortize the applicable net gain or loss in excess of the 10 percent threshold on a straight-line basis in net periodic pension cost over the remaining service period of the employees participating in that pension plan. In plans where substantially all participants are inactive, the amortization period for the excess is the average remaining life expectancy of the plan participants.

Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Under either option the participant's vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. We have elected to apply settlement accounting and therefore we recognize the losses associated with settlements in this plan immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of the participant's vested benefit.

Refer to Note 15 - Employee Benefit Plans for further information regarding our Pension and Post-Retirement Benefit Obligations.

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 recorded in Currency (gains) and losses within Other expenses, net together with other foreign currency remeasurements.

Note 2 – 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 – **Services and Document Technology**. Our Services segment operations involve delivery of a broad range of services including business process, document and IT outsourcing. Our Document Technology segment includes the sale and support of a broad range of document systems from entry level to high-end.

The **Services** segment is comprised of three outsourcing service offerings:

- Business Process Outsourcing ("BPO")
- Document Outsourcing (which includes Managed Print Services) ("DO")
- Information Technology Outsourcing ("ITO")

Business process outsourcing services include service arrangements where we manage a customer's business activity or process. 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. Document outsourcing also includes revenues from our partner print services offerings. 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.

Our **Document 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 segment classified as **Other** includes several units, none of which meet the thresholds for separate segment reporting. This group primarily includes Global Paper and Supplies Distribution Group (predominantly paper sales), 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.

Selected financial information for our Operating segments was as follows:

	Years Ended December 31,			
	Services	Document Technology	Other	Total
2012 ⁽¹⁾				
Revenue	\$ 11,453	\$ 8,951	\$ 1,389	\$ 21,793
Finance income	75	511	11	597
Total Segment Revenue	\$ 11,528	\$ 9,462	\$ 1,400	\$ 22,390
Interest expense	22	172	234	428
Segment profit (loss) ⁽²⁾	1,173	1,065	(241)	1,997
Equity in net income of unconsolidated affiliates	30	122	—	152
2011 ⁽¹⁾				
Revenue	\$ 10,754	\$ 9,722	\$ 1,518	\$ 21,994
Finance income	83	537	12	632
Total Segment Revenue	\$ 10,837	\$ 10,259	\$ 1,530	\$ 22,626
Interest expense	\$ 25	\$ 202	\$ 251	\$ 478
Segment profit (loss) ⁽²⁾	1,207	1,140	(255)	2,092
Equity in net income of unconsolidated affiliates	31	118	—	149
2010 ⁽¹⁾				
Revenue	\$ 9,548	\$ 9,790	\$ 1,635	\$ 20,973
Finance income	89	559	12	660
Total Segment Revenue	\$ 9,637	\$ 10,349	\$ 1,647	\$ 21,633
Interest expense	\$ 28	\$ 212	\$ 352	\$ 592
Segment profit (loss) ⁽²⁾	1,132	1,085	(342)	1,875
Equity in net income of unconsolidated affiliates	16	62	—	78

- (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, Services, 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:

Segment Profit Reconciliation to Pre-tax Income	Years Ended December 31,		
	2012	2011	2010
Total Segment Profit	\$ 1,997	\$ 2,092	\$ 1,875
Reconciling items:			
Restructuring and asset impairment charges	(153)	(33)	(483)
Restructuring charges of Fuji Xerox	(16)	(19)	(38)
Acquisition-related costs	—	—	(77)
Amortization of intangible assets	(328)	(398)	(312)
Venezuelan devaluation costs	—	—	(21)
ACS shareholders' litigation settlement	—	—	(36)
Loss on early extinguishment of liability and debt	—	(33)	(15)
Equity in net income of unconsolidated affiliates	(152)	(149)	(78)
Curtailement gain	—	107	—
Other	—	(2)	—
Pre-tax Income	\$ 1,348	\$ 1,565	\$ 815

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, 2012:

	Revenues			Long-Lived Assets ⁽¹⁾		
	2012	2011	2010	2012	2011	2010
United States	\$ 14,701	\$ 14,493	\$ 13,801	\$ 1,966	\$ 1,894	\$ 1,764
Europe	5,111	5,557	5,332	784	776	741
Other areas	2,578	2,576	2,500	262	276	309
Total Revenues and Long-Lived Assets	\$ 22,390	\$ 22,626	\$ 21,633	\$ 3,012	\$ 2,946	\$ 2,814

(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

2012 Acquisitions

In July 2012, we acquired **Wireless Data Services, Ltd. ("WDS")**, a provider of technical support, knowledge management and related consulting to the world's largest wireless telecommunication brands for approximately \$95 (£60 million) in cash. Based in the U.K., WDS's expertise in the telecommunications industry strengthens our broad portfolio of customer care solutions.

In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, copiers, printers and managed print services for approximately \$58 in cash. The acquisition furthers our coverage of central Illinois and eastern Iowa, building on our strategy to create a nationwide network of locally-based companies focused on customers' needs to improve performance through efficiencies.

Our Document Technology segment also acquired three additional businesses in 2012 for a total of \$62 in cash as part of our strategy of increasing our U.S. distribution network primarily for small and mid-size businesses. Our Services segment acquired four additional businesses in 2012 for a total of \$61 in cash, primarily related to customer care and software to support our BPO service offerings.

2012 Summary

All of our 2012 acquisitions reflected 100% ownership of the acquired companies. 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. WDS is included within our Services segment while the acquisition of R.K. Dixon is included within our Document Technology segment. Our 2012 acquisitions contributed aggregate revenues of approximately \$162 to our 2012 total revenues from their respective acquisition dates. The purchase prices for all acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. The primary elements that generated the goodwill are the value of synergies and the acquired assembled workforce. Approximately 50% of the goodwill recorded in 2012 is expected to be deductible for tax purposes. Refer to Note 9 - Goodwill and Intangible Assets, Net for additional information.

The following table summarizes the purchase price allocations for our 2012 acquisitions as of the acquisition dates:

	Weighted-Average Life (Years)	Total 2012 Acquisitions
Accounts/finance receivables		\$ 51
Intangible assets:		
Customer relationships	8	40
Trademarks	19	22
Non-compete agreements	4	5
Software	5	10
Goodwill		184
Other assets		29
Total Assets Acquired		341
Liabilities assumed		(65)
Total Purchase Price		\$ 276

2011 and 2010 Acquisitions

In December 2011, we acquired the Merizon Group Inc. which operates **MBM** formerly known as Modern Business Machines, a Wisconsin-based office products distributor for approximately \$42 net of cash acquired. The acquisition furthers our strategy of creating a nationwide network of locally-based companies focused on improving document workflow and office efficiency.

In November 2011, we acquired **The Breakaway Group** ("Breakaway"), a cloud-based service provider that helps healthcare professionals accelerate their adoption of an electronic medical records ("EMR") system, for approximately \$18 net of cash acquired. We are also obligated to pay the sellers up to an additional \$25 if certain future performance targets are achieved, of which \$18 was recorded as of the acquisition date representing the estimated fair value of this obligation for a total acquisition fair value of \$36. The Denver-based firm's technology allows caregivers to practice using an EMR system without jeopardizing actual patient data. This acquisition adds to our offering of services that help healthcare professionals use the EMR system for clinical benefit.

In September 2011, we acquired the net assets related to the **U.S. operations of Symcor Inc.** ("Symcor"). In connection with the acquisition, 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 for a net cash receipt of \$35. The assumed liabilities primarily include customer contract liabilities representing the estimated fair value of the obligations associated with the assumed customer contracts. We are recognizing these liabilities over a weighted-average period of approximately two years consistent with the cash outflows from the contracts. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing.

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 April 2011, we acquired **Unamic/HCN B.V.**, the largest privately-owned customer care provider in the Benelux region in Western Europe, 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 February 2011, we acquired **Concept Group, Ltd.** for \$41 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 3,000 customers.

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, for approximately \$48 in cash. TMS enables us to improve communications among pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, we augment the IT and BPO services we deliver to the healthcare and pharmaceutical industries.

In July 2010, we acquired **ExcellerateHRO, LLP** ("EHRO"), a global benefits administration and relocation services provider for \$125 net of cash acquired. EHRO established us as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services.

Our Document Technology segment also acquired seven additional business in 2011 and two additional business in 2010 for \$21 and \$50, respectively, in cash as part of our strategy of increasing our distribution network for small and mid-size businesses. Our Services segment acquired three additional businesses in 2011 and one additional business in 2010 for \$25 and \$12, respectively, in cash primarily related to software to support our BPO service offerings.

Summary - 2011 and 2010 Acquisitions

All of our 2011 and 2010 acquisitions reflected 100% ownership of the acquired companies. The operating results of the 2011 and 2010 acquisitions described above were not material to our financial statements and were included within our results from the respective acquisition dates. Breakaway, Symcor, ESM, Unamic/HCN, TMS and EHRO were included within our Services segment while the acquisitions of MBM and Concept Group were primarily included within our Document Technology segment. The purchase price for all acquisitions, except Symcor, were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. Refer to Note 9 - Goodwill and Intangible Assets, Net for additional information. Our 2011 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$397 and \$177 to our 2012 and 2011 total revenues, respectively. Excluding ACS, our 2010 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$323, \$318 and \$140 to our 2012, 2011 and 2010 total revenues, respectively.

Contingent Consideration

In connection with certain acquisitions, we are obligated to make contingent payments if specified contractual performance targets are achieved. Contingent consideration obligations are recorded at their respective fair value. As of December 31, 2012, the maximum aggregate amount of outstanding contingent obligations to former owners of acquired entities was approximately \$55, of which \$32 was accrued representing the estimated fair value of this obligation.

Affiliated Computer Services, Inc. ("ACS")

In February 2010, we acquired **ACS** in a cash-and-stock transaction valued at approximately \$6.5 billion. Each outstanding share of ACS common stock was converted into a combination of 4.935 shares of Xerox common stock and \$18.60 in cash. We also issued convertible preferred stock with a fair value of \$349 and stock options valued at \$222. Refer to Note 18 - Preferred Stock and Note 19 - Shareholders' Equity for additional information regarding the issuance of preferred stock and stock options, respectively. In addition, we repaid \$1.7 billion of ACS's debt and assumed an additional \$0.6 billion of debt. The total aggregate purchase price was \$8.8 billion.

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed are recognized at their fair values as of the acquisition date. The acquisition of ACS resulted in recognized Goodwill of \$5.1 billion and Intangible assets of \$3.0 billion. The operating results of ACS are included in our Services segment from February 6, 2010. Had we acquired ACS on January 1, 2010, full year 2010 revenues, net income and diluted EPS would have been \$22,252, \$592 and \$0.41, respectively.

Note 4 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	December 31,	
	2012	2011
Amounts billed or billable	\$ 2,639	\$ 2,307
Unbilled amounts	335	395
Allowance for doubtful accounts	(108)	(102)
Accounts Receivable, Net	\$ 2,866	\$ 2,600

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, 2012 and 2011 were approximately \$1,049 and \$963, respectively.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. 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.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable without recourse to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. 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 their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and were \$116 and \$97 at December 31, 2012 and 2011, 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.

Of the accounts receivables sold and derecognized from our balance sheet, \$766 and \$815 remained uncollected as of December 31, 2012 and 2011, respectively. Accounts receivable sales were as follows:

	Year Ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivables	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

(1) Represents the difference between current and prior year fourth quarter 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 – Finance Receivables, Net

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

	December 31,	
	2012	2011
Gross receivables	\$ 6,290	\$ 7,583
Unearned income	(809)	(1,027)
Subtotal	5,481	6,556
Residual values	2	7
Allowance for doubtful accounts	(170)	(201)
Finance Receivables, Net	5,313	6,362
Less: Billed portion of finance receivables, net	152	166
Less: Current portion of finance receivables not billed, net	1,836	2,165
Finance Receivables Due After One Year, Net	\$ 3,325	\$ 4,031

Contractual maturities of our gross finance receivables as of December 31, 2012 were as follows (including those already billed of \$152):

2013	2014	2015	2016	2017	Thereafter	Total
\$ 2,353	\$ 1,753	\$ 1,234	\$ 680	\$ 242	\$ 28	\$ 6,290

Sale of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 (net of an allowance of \$18) to a third-party financial institution for cash proceeds of \$630 and beneficial interests from the purchaser of \$101. The lease contracts, including associated service and supply elements, were initially sold to wholly-owned consolidated bankruptcy-remote limited purpose subsidiaries which in turn sold the principal and interest portions of such contracts to the third-party financial institution (the "ultimate purchaser"). As of December 31, 2012, the net carrying value of the receivables sold and derecognized from our balance sheet was \$647.

A pre-tax gain of \$44 was recognized on these sales and is net of fees and expenses of approximately \$5. The gain was reported in Finance income in Document Technology segment revenues. We continue to service the sold receivables for which we receive a 1% servicing fee. We have concluded that the 1% servicing fee (approximately \$12 over the expected life of the associated receivables) is adequate compensation and, accordingly, no servicing asset or liability was recorded.

The beneficial interests represent our right to receive future cash flows from the sold receivables which exceed the ultimate purchaser's initial investment and associated return on that investment as well as the servicing fee. The beneficial interests were initially recognized at an estimate of fair value based on the present value of the expected future cash flows. The present value of the expected future cash flows was calculated using management's best estimate of key assumptions including credit losses, prepayment rates and an appropriate risk adjusted discount rate (all unobservable Level 3 inputs) for which we utilized annualized rates of approximately 2.1%, 9.3% and 10.0%, respectively. These assumptions are supported by both our historical experience and anticipated trends relative to the particular portfolios of receivables sold. However, to assess the sensitivity on the fair value of the beneficial interests, we adjusted the credit loss rate, prepayment rate and discount rate assumptions individually by 10% and 20% while holding the other assumptions constant. Although the effect of multiple assumption changes was not considered in this analysis, a 10% or 20% adverse variation in any one of these three individual assumptions would each decrease the recorded beneficial interests by approximately \$4 or less.

The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests of which \$35 and \$68 is included in "Other current assets" and "Other long-term assets", respectively, in the accompanying Consolidated Balance Sheets at December 31, 2012. The beneficial interests are held by the bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We will report collections on the beneficial interests as operating cash flows in the Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity and the associated interest rate risk is de minimis considering their weighted average lives of less than 2 years.

Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and Western 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 assessments of the customer, including payment history and changes in credit quality.

The allowance for doubtful accounts and provision for 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 the 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. Loss rates declined in both the U.S. and Canada reflecting the effects of improved collections in those countries during 2011 and 2012. Since Europe is comprised of various 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. Charge-offs in Europe were flat in 2012 as compared to the prior years reflecting a stabilization of the credit issues noted in 2011. Loss rates peaked in 2011 as a result of the European economic challenges particularly for those countries in the southern region.

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	15	11	74	—	100
Charge-offs	(31)	(17)	(59)	(1)	(108)
Recoveries and other ⁽¹⁾	—	2	(5)	—	(3)
Balance at December 31, 2011	<u>75</u>	<u>33</u>	<u>91</u>	<u>2</u>	<u>201</u>
Provision	11	9	52	3	75
Charge-offs	(21)	(15)	(59)	(2)	(97)
Recoveries and other ⁽¹⁾	3	4	1	1	9
Sale of finance receivables	(18)	—	—	—	(18)
Balance at December 31, 2012	<u>\$ 50</u>	<u>\$ 31</u>	<u>\$ 85</u>	<u>\$ 4</u>	<u>\$ 170</u>
Finance Receivables Collectively Evaluated for Impairment:					
December 31, 2011 ⁽²⁾	\$ 2,993	\$ 825	\$ 2,630	\$ 108	\$ 6,556
December 31, 2012 ⁽²⁾	\$ 2,012	\$ 801	\$ 2,474	\$ 194	\$ 5,481

(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 \$2 and \$7 and the allowance for credit losses of \$170 and \$201 at December 31, 2012 and 2011, respectively.

(3) 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 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, 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:

	December 31, 2012			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 252	\$ 147	\$ 59	\$ 458
Government and Education	750	15	4	769
Graphic arts	92	90	137	319
Industrial	115	31	17	163
Healthcare	109	37	14	160
Other	70	39	34	143
Total United States	1,388	359	265	2,012
Finance and other services	151	116	40	307
Government and education	117	10	2	129
Graphic arts	37	34	30	101
Industrial	66	40	29	135
Other	75	43	11	129
Total Canada	446	243	112	801
France	274	294	134	702
U.K./Ireland	215	155	50	420
Central ⁽¹⁾	315	445	56	816
Southern ⁽²⁾	139	230	73	442
Nordics ⁽³⁾	49	36	9	94
Total Europe	992	1,160	322	2,474
Other	148	39	7	194
Total	\$ 2,974	\$ 1,801	\$ 706	\$ 5,481

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

December 31, 2011

	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 349	\$ 380	\$ 160	\$ 889
Government and education	821	20	4	845
Graphic arts	126	200	172	498
Industrial	180	83	32	295
Healthcare	130	42	28	200
Other	97	93	76	266
Total United States	1,703	818	472	2,993
Finance and other services	153	118	51	322
Government and education	121	9	4	134
Graphic arts	36	39	35	110
Industrial	56	41	34	131
Other	74	42	12	128
Total Canada	440	249	136	825
France	246	354	92	692
U.K./Ireland	201	162	54	417
Central ⁽¹⁾	330	494	57	881
Southern ⁽²⁾	219	256	63	538
Nordics ⁽³⁾	60	39	3	102
Total Europe	1,056	1,305	269	2,630
Other	75	26	7	108
Total	\$ 3,274	\$ 2,398	\$ 884	\$ 6,556

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.
Sweden, Norway, Denmark and Finland.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are 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:

December 31, 2012

	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	\$ 12	\$ 3	\$ 2	\$ 17	\$ 441	\$ 458	\$ 18
Government and education	21	5	3	29	740	769	42
Graphic arts	16	1	1	18	301	319	12
Industrial	5	2	1	8	155	163	6
Healthcare	6	2	1	9	151	160	9
Other	5	1	1	7	136	143	6
Total United States	65	14	9	88	1,924	2,012	93
Canada	2	3	2	7	794	801	30
France	—	5	1	6	696	702	22
U.K./Ireland	2	—	2	4	416	420	2
Central ⁽¹⁾	3	2	4	9	807	816	30
Southern ⁽²⁾	20	8	14	42	400	442	72
Nordics ⁽³⁾	1	—	—	1	93	94	—
Total Europe	26	15	21	62	2,412	2,474	126
Other	2	1	—	3	191	194	—
Total	\$ 95	\$ 33	\$ 32	\$ 160	\$ 5,321	\$ 5,481	\$ 249

December 31, 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	\$ 18	\$ 4	\$ 1	\$ 23	\$ 866	\$ 889	\$ 15
Government and education	21	5	2	28	817	845	29
Graphic arts	16	2	1	19	479	498	7
Industrial	7	2	1	10	285	295	6
Healthcare	5	2	—	7	193	200	5
Other	8	1	—	9	257	266	4
Total United States	75	16	5	96	2,897	2,993	66
Canada	3	2	1	6	819	825	27
France	1	1	1	3	689	692	16
U.K./Ireland	3	2	3	8	409	417	4
Central ⁽¹⁾	7	2	3	12	869	881	46
Southern ⁽²⁾	31	4	13	48	490	538	82
Nordics ⁽³⁾	1	—	—	1	101	102	—
Total Europe	43	9	20	72	2,558	2,630	148
Other	2	1	—	3	105	108	—
Total	\$ 123	\$ 28	\$ 26	\$ 177	\$ 6,379	\$ 6,556	\$ 241

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

Note 6 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	December 31,	
	2012	2011
Finished goods	\$ 844	\$ 866
Work-in-process	61	58
Raw materials	106	97
Total Inventories	\$ 1,011	\$ 1,021

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. 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 \$30, \$39 and \$31 in inventory write-down charges for the years ended December 31, 2012, 2011 and 2010, respectively.

Equipment on operating leases and the related accumulated depreciation were as follows:

	December 31,	
	2012	2011
Equipment on operating leases	\$ 1,533	\$ 1,556
Accumulated depreciation	(998)	(1,023)
Equipment on Operating Leases, Net	\$ 535	\$ 533

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 \$279, \$294 and \$313 for the years ended December 31, 2012, 2011 and 2010, respectively. Our equipment operating lease terms vary, generally from one to three years. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2013	2014	2015	2016	2017	Thereafter
\$ 397	\$ 285	\$ 177	\$ 103	\$ 46	\$ 15

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2012, 2011 and 2010 amounted to \$158, \$154 and \$133, respectively.

Note 7 - Land, Buildings, Equipment and Software, Net

Land, buildings and equipment, net were as follows:

	Estimated Useful Lives (Years)	December 31,	
		2012	2011
Land		\$ 61	\$ 60
Buildings and building equipment	25 to 50	1,135	1,121
Leasehold improvements	Varies	506	461
Plant machinery	5 to 12	1,571	1,557
Office furniture and equipment	3 to 15	1,681	1,470
Other	4 to 20	83	99
Construction in progress		74	93
Subtotal		5,111	4,861
Accumulated depreciation		(3,555)	(3,249)
Land, Buildings and Equipment, Net		\$ 1,556	\$ 1,612

Depreciation expense and operating lease rent expense were as follows:

	Year Ended December 31,		
	2012	2011	2010
Depreciation expense	\$ 452	\$ 405	\$ 379
Operating lease rent expense ⁽¹⁾	646	681	632

(1) We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Capital leased assets were less than \$80 at December 31, 2012 and 2011, respectively.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2012 were as follows:

2013	2014	2015	2016	2017	Thereafter
\$ 636	\$ 425	\$ 265	\$ 157	\$ 74	\$ 83

Internal Use and Product Software

Additions to:	Year Ended December 31,		
	2012	2011	2010
Internal use software	\$ 125	\$ 163	\$ 164
Product software	107	108	70

Capitalized costs, net:	December 31,	
	2012	2011
Internal use software	\$ 577	\$ 545
Product software	344	256

Useful lives of our internal use and product software generally vary from three to ten years. Included within product software is approximately \$200 of capitalized costs associated with a software system developed for use in certain of our government services businesses.

Our 2012 impairment review indicated these costs will be recoverable from estimated future operating profits. However, since the review indicated that the excess of estimated future operating profits over capitalized costs was less than 5%; in 2013 we will continue to closely monitor any significant changes in the estimated future revenues or margins from current or potential customers. Beginning in 2013, the costs associated with this software system will be amortized over seven years.

Note 8 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

	December 31,	
	2012	2011
Fuji Xerox	\$ 1,317	\$ 1,334
All other equity investments	64	61
Investments in Affiliates, at Equity	\$ 1,381	\$ 1,395

Our equity in net income of our unconsolidated affiliates was as follows:

	Year Ended December 31,		
	2012	2011	2010
Fuji Xerox	\$ 139	\$ 137	\$ 63
Other investments	13	12	15
Total Equity in Net Income of Unconsolidated Affiliates	\$ 152	\$ 149	\$ 78

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 \$1,317 at December 31, 2012, differs from our implied 25% interest in the underlying net assets, or \$1,430, due primarily to our deferral of gains resulting from sales of assets by us to 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.

Condensed financial data of Fuji Xerox was as follows:

	Year Ended December 31,		
	2012	2011	2010
Summary of Operations			
Revenues	\$ 12,633	\$ 12,367	\$ 11,276
Costs and expenses	11,783	11,464	10,659
Income before income taxes	850	903	617
Income tax expense	279	312	291
Net Income	571	591	326
Less: Net income - noncontrolling interests	6	5	5
Net Income - Fuji Xerox	\$ 565	\$ 586	\$ 321
Balance Sheet			
Assets:			
Current assets	\$ 5,154	\$ 5,056	\$ 4,884
Long-term assets	6,158	6,064	5,978
Total Assets	\$ 11,312	\$ 11,120	\$ 10,862
Liabilities and Equity:			
Current liabilities	\$ 3,465	\$ 3,772	\$ 3,534
Long-term debt	1,185	817	1,260
Other long-term liabilities	917	700	707
Noncontrolling interests	27	25	22
Fuji Xerox shareholders' equity	5,718	5,806	5,339
Total Liabilities and Equity	\$ 11,312	\$ 11,120	\$ 10,862

Yen/U.S. Dollar exchange rates used to translate are as follows:

Financial Statement	Exchange Basis	2012	2011	2010
Summary of Operations	Weighted average rate	79.89	79.61	87.64
Balance Sheet	Year-end rate	86.01	77.62	81.66

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 our patent portfolio in exchange for access to their patent portfolio. These payments are included in Outsourcing, service 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 negotiated 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 were as follows:

	Year Ended December 31,		
	2012	2011	2010
Dividends received from Fuji Xerox	\$ 52	\$ 58	\$ 36
Royalty revenue earned	132	128	116
Inventory purchases from Fuji Xerox	2,069	2,180	2,098
Inventory sales to Fuji Xerox	147	151	147
R&D payments received from Fuji Xerox	2	2	1
R&D payments paid to Fuji Xerox	15	21	30

As of December 31, 2012 and 2011, net amounts due to Fuji Xerox were \$110 and \$105, respectively.

Note 9 - Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

	Year Ended December 31,		
	Services	Document Technology	Total
Balance at December 31, 2009⁽¹⁾	\$ 1,295	\$ 2,127	\$ 3,422
Foreign currency translation	(22)	(25)	(47)
Acquisitions:			
ACS	5,127	—	5,127
EHRO	77	—	77
TMS	35	—	35
IBS	—	14	14
Other	10	11	21
Balance at December 31, 2010	\$ 6,522	\$ 2,127	\$ 8,649
Foreign currency translation	(28)	(6)	(34)
Acquisitions:			
Unamic/HCN	43	—	43
Breakaway	33	—	33
ESM	28	—	28
Concept Group	—	26	26
MBM	—	20	20
Other	21	17	38
Balance at December 31, 2011	\$ 6,619	\$ 2,184	\$ 8,803
Foreign currency translation	41	34	75
Acquisitions:			
WDS	69	—	69
R.K. Dixon	—	30	30
Other	51	34	85
Balance at December 31, 2012	\$ 6,780	\$ 2,282	\$ 9,062

(1) Includes the reallocation of approximately \$300 of goodwill related to our Managed Print Services business from Document Technology to Services to reflect the current composition of our Segments.

Intangible Assets, Net

Net intangible assets were \$2.8 billion at December 31, 2012 and approximately \$2.4 billion relate to the Services segment and \$0.4 billion relate to the Document Technology segment. Intangible assets were comprised of the following:

	Weighted Average Amortization	December 31, 2012			December 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	12 years	\$ 3,562	\$ 1,052	\$ 2,510	\$ 3,522	\$ 751	\$ 2,771
Distribution network	25 years	123	64	59	123	59	64
Trademarks ⁽¹⁾	20 years	257	59	198	238	47	191
Technology, patents and non-compete ⁽¹⁾	4 years	23	7	16	29	13	16
Total Intangible Assets		\$ 3,965	\$ 1,182	\$ 2,783	\$ 3,912	\$ 870	\$ 3,042

(1) Includes \$10 and \$5 of indefinite-lived assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was \$328, \$401, and \$316 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense for 2011 includes \$52 for the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision to discontinue its use and transition our services business to the "Xerox Business Services" trade name.

Excluding the impact of additional acquisitions, amortization expense is expected to approximate \$333 in 2013 and 2014, and \$328 in years 2015 through 2017.

Note 10 – Restructuring and Asset Impairment Charges

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 consist of severance actions and impact all major geographies and segments. Management continues to evaluate our business, therefore, in future years, there may be additional provisions for new plan initiatives as well as changes in previously recorded estimates, as payments are made or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets sold, abandoned or made obsolete as a result of these programs.

Costs associated with restructuring, including employee severance and lease termination costs are generally recognized when it has been determined that a liability has been incurred, which is generally upon communication to the affected employees or exit from the leased facility, respectively. 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 employee severance costs when they are both probable and reasonably estimable.

A summary of our restructuring program activity during the three years ended December 31, 2012 is as follows:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance at December 31, 2009	\$ 54	\$ 20	\$ —	\$ 74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	—	(41)
Net current period charges ⁽²⁾	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance at December 31, 2010	298	25	—	323
Restructuring provision	98	1	5	104
Reversals of prior accruals	(65)	(6)	—	(71)
Net current period charges ⁽²⁾	33	(5)	5	33
Charges against reserve and currency	(215)	(13)	(5)	(233)
Balance at December 31, 2011	116	7	—	123
Restructuring provision	160	5	2	167
Reversals of prior accruals	(13)	—	(1)	(14)
Net current period charges ⁽²⁾	147	5	1	153
Charges against reserve and currency	(140)	(5)	(1)	(146)
Balance at December 31, 2012	\$ 123	\$ 7	\$ —	\$ 130

(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:

	Year Ended December 31,		
	2012	2011	2010
Charges against reserve	\$ (146)	\$ (233)	\$ (234)
Asset impairment	1	5	26
Effects of foreign currency and other non-cash items	1	10	(5)
Restructuring Cash Payments	\$ (144)	\$ (218)	\$ (213)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Year Ended December 31,		
	2012	2011	2010
Services	\$ 71	\$ 12	\$ 104
Document Technology	82	23	325
Other	—	(2)	54
Total Net Restructuring Charges	\$ 153	\$ 33	\$ 483

Refer to the "Restructuring and Asset Impairment Charges" section of our MD&A for additional discussion of net restructuring charges for the three years ended December 31, 2012.

Note 11 - Supplementary Financial Information

The components of other current and long-term assets and liabilities were as follows:

	December 31,	
	2012	2011
Other Current Assets		
Deferred taxes and income taxes receivable	\$ 296	\$ 261
Royalties, license fees and software maintenance	165	143
Restricted cash	151	97
Prepaid expenses	143	147
Derivative instruments	11	58
Deferred purchase price from sales of accounts receivables	116	97
Beneficial interests - sales of finance receivables	35	—
Advances and deposits	29	28
Other	216	227
Total Other Current Assets	\$ 1,162	\$ 1,058
Other Current Liabilities		
Deferred taxes and income taxes payable	\$ 105	\$ 83
Other taxes payable	170	150
Interest payable	83	84
Restructuring reserves	122	116
Derivative instruments	82	31
Product warranties	13	15
Dividends payable	69	74
Distributor and reseller rebates/commissions	117	112
Servicer liabilities	146	88
Other	869	878
Total Other Current Liabilities	\$ 1,776	\$ 1,631
Other Long-term Assets		
Prepaid pension costs	\$ 35	\$ 76
Net investment in discontinued operations	190	204
Internal use software, net	577	545
Product software, net	344	256
Restricted cash	214	246
Debt issuance costs, net	37	38
Customer contract costs, net	356	294
Beneficial interests - sales of finance receivables	68	—
Deferred compensation plan investments	100	92
Other	416	365
Total Other Long-term Assets	\$ 2,337	\$ 2,116
Other Long-term Liabilities		
Deferred and other tax liabilities	\$ 262	\$ 290
Environmental reserves	14	16
Unearned income	134	82
Restructuring reserves	8	7
Other	360	466
Total Other Long-term Liabilities	\$ 778	\$ 861

Restricted Cash and Investments

As more fully discussed in Note 17 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. In addition, as more fully discussed in Note 4 - Accounts Receivable, Net and Note 5 - Finance Receivables, Net, we continue to service the receivables sold under most of our receivable sale agreements. As servicer, we may collect cash related to sold receivables prior to month-end that will be remitted to the purchaser the following month. Since we are acting on behalf of the purchaser in our capacity as servicer, such cash collected is reported as restricted cash. Restricted cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

Restricted cash amounts were as follows:

	December 31,	
	2012	2011
Tax and labor litigation deposits in Brazil	\$ 211	\$ 240
Escrow and cash collections related to receivable sales	146	88
Other restricted cash	8	15
Total Restricted Cash and Investments	\$ 365	\$ 343

Net Investment in Discontinued Operations

At December 31, 2012, our net investment in discontinued operations primarily consisted of a \$208 performance-based instrument relating to the 1997 sale of The Resolution Group (“TRG”) net of remaining net liabilities associated with our discontinued operations of \$18. 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. The performance-based instrument is pledged as security for our future funding obligations to our U.K. Pension Plan for salaried employees.

Note 12 – Debt

Short-term borrowings were as follows:

	December 31,	
	2012	2011
Commercial paper	\$ —	\$ 100
Current maturities of long-term debt	1,042	1,445
Total Short-term Debt	\$ 1,042	\$ 1,545

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 was as follows:

	December 31,	
	2012	2011
	Weighted Average Interest Rates at December 31, 2012 ⁽²⁾	
Xerox Corporation		
Senior Notes due 2012	—%	1,100
Senior Notes due 2013	5.65%	400
Floating Rate Notes due 2013	1.71%	600
Convertible Notes due 2014	9.00%	19
Senior Notes due 2014	8.25%	750
Floating Rate Notes due 2014	1.13%	300
Senior Notes due 2015	4.29%	1,000
Notes due 2016	7.20%	250
Senior Notes due 2016	6.48%	700
Senior Notes due 2017	6.83%	500
Senior Notes due 2017	2.98%	500
Notes due 2018	0.57%	1
Senior Notes due 2018	6.37%	1,000
Senior Notes due 2019	5.66%	650
Senior Notes due 2021	5.39%	1,062
Zero Coupon Notes due 2023	—%	301
Senior Notes due 2039	6.78%	350
Subtotal - Xerox Corporation		\$ 8,021
Subsidiary Companies		
Senior Notes due 2015	4.25%	250
Borrowings secured by other assets	4.31%	77
Other	1.23%	1
Subtotal-Subsidiary Companies		\$ 328
Principal Debt Balance		8,350
Unamortized discount		(63)
Fair value adjustments ⁽¹⁾		142
Less: current maturities		(1,445)
Total Long-term Debt		\$ 7,088

(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:

2013 ⁽¹⁾	2014	2015	2016	2017	Thereafter	Total
1,039	\$ 1,093	\$ 1,259	\$ 954	\$ 1,002	\$ 3,063	\$ 8,410

(1) Quarterly total debt maturities for 2013 are \$12, \$410, \$609 and \$8 for the first, second, third and fourth quarters, respectively.

Commercial Paper

We have a private placement commercial paper (“CP”) program in the U.S. under which we may issue CP up to a maximum amount of \$2.0 billion outstanding at any time. Aggregate CP and Credit Facility borrowings may not exceed \$2.0 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. At December 31, 2012, we did not have any CP Notes outstanding.

Credit Facility

We have a \$2.0 billion unsecured revolving Credit Facility with a group of lenders which matures in 2016. The Credit Facility contains a \$300 letter of credit sub-facility, and also includes an accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed \$2.75 billion. We entered into the facility in December 2011 and we have the right to request a one year extension on each of the first and second anniversary dates of this facility. No extension was requested at the first anniversary date in 2012.

The Credit Facility provides a backstop to our \$2.0 billion CP program. Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes.

At December 31, 2012 we had no outstanding borrowings or letters of credit under the Credit Facility.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. 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 a spread that varies between 0.00% and 0.45% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 0.90% and 1.45% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2012, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.175% and 1.175%, respectively.

An annual facility fee is payable to each participator in the Credit Facility at a rate that varies between 0.10% and 0.30% depending on our credit rating. Based on our credit rating as of December 31, 2012, the applicable rate is 0.20%.

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 termination of the lenders' commitments to lend 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

Refer to the "Capital Market Activity" section in our Capital Resources and Liquidity section of the MDA for a discussion of 2012 Capital Market activity.

Interest

Interest paid on our short-term and long-term debt amounted to \$462, \$538 and \$586 for the years ended December 31, 2012, 2011 and 2010, respectively.

Interest expense and interest income was as follows:

	Year Ended December 31,		
	2012	2011	2010
Interest expense ⁽¹⁾	\$ 428	\$ 478	\$ 592
Interest income ⁽²⁾	610	653	679

(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

Net (payments) proceeds on debt as shown on the Consolidated Statements of Cash Flows was as follows:

	Year Ended December 31,		
	2012	2011	2010
Net (payments) proceeds on short-term debt	\$ (108)	\$ (200)	\$ 300
Proceeds from issuance of long-term debt	1,116	1,000	—
Payments on long-term debt	(1,116)	(751)	(3,357)
Net (Payments) Proceeds on Other Debt	\$ (108)	\$ 49	\$ (3,057)

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 may 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. We did not have any interest rate swap agreements outstanding at December 31, 2012 or 2011.

Terminated Swaps: During the period from 2004 to 2011, we early terminated 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 2012, 2011 and 2010, the amortization of these fair value adjustments reduced interest expense by \$49, \$53 and \$28, respectively, and we expect to record a net decrease in interest expense of \$142 in future years through 2018.

Foreign Exchange Risk Management

As a global company, we are 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 purchased 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 December 31, 2012, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,505, which is typical 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 December 31, 2012:

Currencies Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Japanese Yen/U.S. Dollar	\$ 640	\$ (37)
U.S. Dollar/Euro	559	(6)
U.K. Pound Sterling/Euro	516	(4)
Euro/U.K. Pound Sterling	502	5
Japanese Yen/Euro	463	(33)
Euro/U.S. Dollar	188	1
U.S. Dollar/Japanese Yen	87	—
Indian Rupee/U.S. Dollar	65	1
Mexican Peso/U.S. Dollar	65	1
Euro/Japanese Yen	61	—
Philippine Peso/U.S. Dollar	52	1
Euro/Swiss Franc	37	—
Swiss Franc/Euro	29	—
U.S. Dollar/Canadian Dollar	25	—
All Other	216	—
Total Foreign Exchange Hedging	\$ 3,505	\$ (71)

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2012.

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. The net (liability) asset fair value of these contracts was \$(48) and \$26 as of December 31, 2012 and December 31, 2011, 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	December 31,	
		2012	2011
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 3	\$ 37
	Other current liabilities	(51)	(11)
	Net Designated (Liability) Asset	\$ (48)	\$ 26
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 8	\$ 21
	Other current liabilities	(31)	(20)
	Net Undesignated (Liability) Asset	\$ (23)	\$ 1
Summary of Derivatives	Total Derivative Assets	\$ 11	\$ 58
	Total Derivative Liabilities	(82)	(31)
	Net Derivative (Liability) Asset	\$ (71)	\$ 27

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	Year Ended December 31,					
		Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2012	2011	2010	2012	2011	2010
Interest rate contracts	Interest expense	\$ —	\$ 15	\$ 99	\$ —	\$ (15)	\$ (99)

Derivatives in Cash Flow Hedging Relationships	Year Ended December 31,						
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)		
	2012	2011	2010		2012	2011	2010
Foreign exchange contracts – forwards	\$ (50)	\$ 30	\$ 46	Cost of sales	\$ 37	\$ 14	\$ 28

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) were 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 December 31, 2012, net after-tax losses of of \$37 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 (Loss) Gain	Year Ended December 31,		
		2012	2011	2010
Foreign exchange contracts – forwards	Other expense – Currency (losses) gains, net	\$ (38)	\$ 33	\$ 113

During the three years ended December 31, 2012, we recorded Currency losses, net of \$3, \$12 and \$11, 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 14 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities fair value measured on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	As of December 31,	
	2012	2011
Assets:		
Foreign exchange contracts-forwards	\$ 11	\$ 58
Deferred compensation investments in cash surrender life insurance	77	69
Deferred compensation investments in mutual funds	23	23
Total	\$ 111	\$ 150
Liabilities:		
Foreign exchange contracts-forwards	\$ 82	\$ 31
Deferred compensation plan liabilities	110	97
Total	\$ 192	\$ 128

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 Fair Value Measured on a Nonrecurring Basis

The estimated fair values of our other financial assets and liabilities fair value measured on a nonrecurring basis were as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,246	\$ 1,246	\$ 902	\$ 902
Accounts receivable, net	2,866	2,866	2,600	2,600
Short-term debt	1,042	1,051	1,545	1,622
Long-term debt	7,447	8,040	7,088	7,496

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 was estimated based on quoted market prices for publicly traded securities (Level 1) or on the current rates offered to us for debt of similar maturities (Level 2). 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 defined benefit and defined contribution pension and other post-retirement benefit plans, primarily retiree health care, in our domestic and international operations. December 31 is the measurement date for all of our post-retirement benefit plans.

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Change in Benefit Obligation:						
Benefit obligation, January 1	\$ 4,670	\$ 4,456	\$ 5,835	\$ 5,275	\$ 1,007	\$ 1,006
Service cost	112	108	83	78	9	8
Interest cost	282	328	270	284	42	47
Plan participants' contributions	—	—	9	10	19	33
Actuarial loss	480	403	537	513	18	26
Currency exchange rate changes	—	—	232	(85)	4	(3)
Curtailments	—	—	(1)	—	—	—
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	(2)	(2)	(1)	7	(7)	(4)
Benefit Obligation, December 31	\$ 5,033	\$ 4,670	\$ 6,708	\$ 5,835	\$ 989	\$ 1,007
Change in Plan Assets:						
Fair value of plan assets, January 1	\$ 3,393	\$ 3,202	\$ 4,884	\$ 4,738	\$ —	\$ —
Actual return on plan assets	358	406	434	288	—	—
Employer contribution	331	408	163	148	84	73
Plan participants' contributions	—	—	9	10	19	33
Currency exchange rate changes	—	—	197	(57)	—	—
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	—	—	—	4	—	—
Fair Value of Plan Assets, December 31	\$ 3,573	\$ 3,393	\$ 5,431	\$ 4,884	\$ —	\$ —
Net Funded Status at December 31⁽¹⁾	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)
Amounts Recognized in the Consolidated Balance Sheets:						
Other long-term assets	\$ —	\$ —	\$ 35	\$ 76	\$ —	\$ —
Accrued compensation and benefit costs	(23)	(22)	(25)	(23)	(80)	(82)
Pension and other benefit liabilities	(1,437)	(1,255)	(1,287)	(1,004)	—	—
Post-retirement medical benefits	—	—	—	—	(909)	(925)
Net Amounts Recognized	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)

(1) Includes under-funded and non-funded plans.

Benefit plans pre-tax amounts recognized in AOCL at December 31:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Net actuarial loss	\$ 1,255	\$ 963	\$ 2,013	\$ 1,589	\$ 97	\$ 70
Prior service (credit) cost	(17)	(38)	—	1	(128)	(163)
Total Pre-tax Loss (Gain)	\$ 1,238	\$ 925	\$ 2,013	\$ 1,590	\$ (31)	\$ (93)
Accumulated Benefit Obligation	\$ 5,027	\$ 4,617	\$ 6,359	\$ 5,517		

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	December 31, 2012						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,679	\$ 5,997	\$ 355	\$ 527	\$ 5,034	\$ 6,524	\$ 11,558
Accumulated benefit obligation	4,672	5,686	355	520	5,027	6,206	11,233
Fair value of plan assets	3,574	5,213	—	—	3,574	5,213	8,787

	December 31, 2011						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,342	\$ 4,391	\$ 327	\$ 445	\$ 4,669	\$ 4,836	\$ 9,505
Accumulated benefit obligation	4,291	4,127	326	434	4,617	4,561	9,178
Fair value of plan assets	3,393	3,811	—	—	3,393	3,811	7,204

Our pension plan assets and benefit obligations at December 31, 2012 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S. funded	\$ 3.6	\$ 4.6	\$ (1.0)
U.S. unfunded	—	0.4	(0.4)
Total U.S.	\$ 3.6	\$ 5.0	\$ (1.4)
U.K.	3.4	3.7	(0.3)
Canada	0.7	1.0	(0.3)
Other funded	1.3	1.5	(0.2)
Other unfunded	—	0.5	(0.5)
Total	\$ 9.0	\$ 11.7	\$ (2.7)

Most of our defined benefit pension plans generally provide employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provide a benefit at the greater of (i) the 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).

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Pension Benefits					
	Year Ended December 31,					
	U.S. Plans			Non-U.S. Plans		
	2012	2011	2010	2012	2011	2010
Components of Net Periodic Benefit Costs:						
Service cost	\$ 112	\$ 108	\$ 109	\$ 83	\$ 78	\$ 69
Interest cost ⁽¹⁾	282	328	310	270	284	265
Expected return on plan assets ⁽²⁾	(306)	(337)	(296)	(307)	(310)	(274)
Recognized net actuarial loss	53	33	40	53	39	31
Amortization of prior service credit	(23)	(23)	(23)	—	—	1
Recognized settlement loss	82	80	72	1	4	—
Recognized curtailment gain	—	(107)	—	—	—	—
Defined Benefit Plans	200	82	212	100	95	92
Defined contribution plans	28	31	25	35	35	26
Net Periodic Benefit Cost	228	113	237	135	130	118
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:						
Net actuarial loss	427	334	8	416	518	190
Prior service credit	(2)	(2)	(17)	(1)	—	(2)
Amortization of net actuarial loss	(135)	(113)	(112)	(54)	(40)	(31)
Amortization of net prior service credit	23	23	23	—	—	(1)
Curtailment gain - recognition of net prior service credit	—	107	—	—	—	—
Total Recognized in Other Comprehensive Income	313	349	(98)	361	478	156
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 541	\$ 462	\$ 139	\$ 496	\$ 608	\$ 274

(1) Interest cost includes interest expense on non-TRA obligations of \$382, \$388 and \$381 and interest expense directly allocated to TRA participant accounts of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Expected return on plan assets includes expected investment income on non-TRA assets of \$443, \$423 and \$376 and actual investment income on TRA assets of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

Retiree Health

Year Ended December 31,

	2012	2011	2010
Components of Net Periodic Benefit Costs:			
Service cost	\$ 9	\$ 8	\$ 8
Interest cost	42	47	54
Recognized net actuarial loss	1	—	—
Amortization of prior service credit	(41)	(41)	(30)
Net periodic benefit cost	11	14	32
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:			
Net actuarial loss	18	25	13
Prior service credit	(6)	(3)	(86)
Amortization of net actuarial loss	(1)	—	—
Amortization of net prior service credit	41	41	30
Total recognized in Other Comprehensive Income	52	63	(43)
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 63	\$ 77	\$ (11)

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 \$106 and \$(2), respectively, excluding amounts that may be recognized through settlement losses. 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 \$2 and \$(43), 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

Pension Plan Freezes

Over the past several years, we have amended several of our defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service. In certain plans we are required to continue to consider salary increases in determining the benefit obligation related to prior service. The following is a discussion of these amendments and their impact on our primary defined benefit pension plans.

In 2011, we amended all our primary U.S. defined benefit plans for salaried employees. Our primary qualified plans had previously been amended to freeze the final pay formulas within the plans as of December 31, 2012, but a cash balance service credit was expected to continue post December 31, 2012. The 2011 amendments fully freeze any further benefit and service accrual after December 31, 2012 for all of these plans, including the non-qualified plans. As a result of these plan amendments, in 2011 we recognized a pre-tax curtailment gain of \$107 (\$66 after-tax). The gain represents the recognition of deferred gains from other prior year amendments ("Prior service credits") as a result of the discontinuation of any future benefit or service accrual period. This amendment will also result in a change in amortization period as of January 1, 2013 for actuarial gains and losses from the average remaining service period of participants (approximately ten years) to the average remaining life expectancy of all participants (approximately thirty-three years) as a result of all participants being considered inactive as of the effective date of the freeze.

As of December 31, 2012, the aggregate accumulated actuarial losses for our primary U.S. Defined Benefit Plans for salaried employees amounted to \$1.1 billion. This change is expected to reduce our 2013 pension expense by approximately \$47. This reduction is expected to be partially offset by an increased contribution to the U.S. defined contribution plan as all employees have been transferred to that plan following the freeze.

In 2011, the Canadian Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary increases to the extent applicable; therefore, the amendment did not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2011.

In 2009, the U.K. Final Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary and inflation increases to the extent applicable; therefore, the amendment does not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2009.

Retiree Health 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 was effective January 1, 2011. The Company instead decided to 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 reduced both the 2012 and 2011 retiree-health expenses by approximately \$13.

Plan Assets

Current Allocation

As of the 2012 and 2011 measurement dates, the global pension plan assets were \$9.0 billion and \$8.3 billion, respectively. These assets were invested among several asset classes. Our common stock represents approximately \$99 or 1.0% of total plan assets at December 31, 2012.

The following tables presents the defined benefit plans assets measured at fair value and the basis for that measurement:

December 31, 2012					
U.S. Defined Benefit Plans Assets					
Asset Class	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 48	\$ —	\$ —	\$ 48	1%
Equity Securities:					
U.S. large cap	411	10	—	421	12%
Xerox common stock	99	—	—	99	3%
U.S. mid cap	79	—	—	79	2%
U.S. small cap	67	28	—	95	3%
International developed	133	205	—	338	9%
Emerging markets	282	67	—	349	10%
Global equity	2	6	—	8	—%
Total Equity Securities	1,073	316	—	1,389	39%
Debt Securities:					
U.S. treasury securities	—	367	—	367	10%
Debt security issued by government agency	—	153	—	153	4%
Corporate Bonds	—	1,080	—	1,080	31%
Asset backed securities	—	11	—	11	—%
Total Debt Securities	—	1,611	—	1,611	45%
Derivatives:					
Interest rate contracts	—	15	—	15	—%
Foreign exchange contracts	(2)	—	—	(2)	—%
Equity contracts	5	—	—	5	—%
Credit contracts	—	(1)	—	(1)	—%
Total Derivatives	3	14	—	17	—%
Real estate	59	46	58	163	5%
Private equity/Venture capital	—	—	300	300	8%
Other ⁽¹⁾	12	33	—	45	2%
Total Defined Benefit Plans Assets	\$ 1,195	\$ 2,020	\$ 358	\$ 3,573	100%

(1) Other Level 1 assets include net non-financial assets of \$13 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2012

Non-U.S. Defined Benefit Plans Assets

Asset Class	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 500	\$ —	\$ —	\$ 500	9%
Equity Securities:					
U.S. large cap	204	50	—	254	5%
U.S. mid cap	14	—	—	14	—%
U.S. small cap	30	1	—	31	1%
International developed	1,107	174	—	1,281	24%
Emerging markets	322	76	—	398	7%
Global equity	5	12	—	17	—%
Total Equity Securities	1,682	313	—	1,995	37%
Debt Securities:					
U.S. treasury securities	1	19	—	20	—%
Debt security issued by government agency	35	1,253	—	1,288	24%
Corporate bonds	150	753	—	903	17%
Asset backed securities	3	31	—	34	1%
Total Debt Securities	189	2,056	—	2,245	42%
Common/Collective trust	2	—	—	2	—%
Derivatives:					
Interest rate contracts	—	74	—	74	1%
Foreign exchange contracts	9	8	—	17	—%
Other contracts	69	—	—	69	1%
Total Derivatives	78	82	—	160	2%
Hedge funds	—	—	3	3	—%
Real estate	19	35	332	386	7%
Guaranteed insurance contracts	—	—	131	131	3%
Other ⁽¹⁾	13	(4)	—	9	—%
Total Defined Benefit Plans Assets	\$ 2,483	\$ 2,482	\$ 466	\$ 5,431	100%

(1) Other Level 1 assets include net non-financial assets of \$5 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2011

U.S. Defined Benefit Plans Assets

Asset Class	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 198	\$ —	\$ —	\$ 198	6 %
Equity Securities:					
U.S. large cap	366	7	—	373	11 %
Xerox common stock	50	—	—	50	2 %
U.S. mid cap	69	—	—	69	2 %
U.S. small cap	56	89	—	145	4 %
International developed	162	327	—	489	15 %
Emerging markets	117	—	—	117	3 %
Total Equity Securities	820	423	—	1,243	37 %
Debt Securities:					
U.S. treasury securities	4	393	—	397	12 %
Debt security issued by government agency	—	180	—	180	5 %
Corporate bonds	6	875	—	881	26 %
Asset backed securities	—	10	—	10	— %
Total Debt Securities	10	1,458	—	1,468	43 %
Derivatives:					
Interest rate contracts	18	13	—	31	1 %
Foreign exchange contracts	8	—	—	8	— %
Equity contracts	23	—	—	23	1 %
Total Derivatives	49	13	—	62	2 %
Real estate	45	35	72	152	5 %
Private equity/Venture capital	—	—	318	318	9 %
Other ⁽¹⁾	(62)	14	—	(48)	(2)%
Total Defined Benefit Plans Assets	\$ 1,060	\$ 1,943	\$ 390	\$ 3,393	100 %

(1) Other Level 1 assets include net non-financial liabilities of \$62 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2011

Non-U.S. Defined Benefit Plans Assets

Asset Class	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 380	\$ —	\$ —	\$ 380	8%
Equity Securities:					
U.S. large cap	145	43	—	188	4%
U.S. mid cap	21	—	—	21	—%
U.S. small cap	27	—	—	27	1%
International developed	1,047	154	—	1,201	25%
Emerging markets	180	54	—	234	5%
Global equity	7	17	—	24	—%
Total Equity Securities	1,427	268	—	1,695	35%
Debt Securities:					
U.S. treasury securities	5	23	—	28	1%
Debt security issued by government agency	64	1,227	—	1,291	26%
Corporate bonds	144	595	—	739	15%
Asset backed securities	2	51	—	53	1%
Total Debt Securities	215	1,896	—	2,111	43%
Common/Collective trust	3	—	—	3	—%
Derivatives:					
Interest rate contracts	—	90	—	90	2%
Foreign exchange contracts	6	(1)	—	5	—%
Other contracts	64	—	—	64	1%
Total Derivatives	70	89	—	159	3%
Hedge funds	—	—	3	3	—%
Real estate	22	97	280	399	8%
Guaranteed insurance contracts	—	—	116	116	3%
Other ⁽¹⁾	14	4	—	18	—%
Total Defined Benefit Plans Assets	\$ 2,131	\$ 2,354	\$ 399	\$ 4,884	100%

(1) Other Level 1 assets include net non-financial assets of \$8 such as due to/from broker, interest receivables and accrued expenses.

The following tables represents a roll-forward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

U.S. Defined Benefit Plans Assets
Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

	Real Estate	Private Equity/Venture Capital	Total
Balance at December 31, 2010	\$ 69	\$ 307	\$ 376
Purchases	2	30	32
Sales	(6)	(61)	(67)
Realized gains (losses)	—	46	46
Unrealized gains (losses)	6	(4)	2
Other	1	—	1
Balance at December 31, 2011	72	318	390
Purchases	1	20	21
Sales	(11)	(48)	(59)
Realized gains (losses)	1	36	37
Unrealized gains (losses)	(5)	(26)	(31)
Balance at December 31, 2012	\$ 58	\$ 300	\$ 358

Non-U.S. Defined Benefit Plans Assets
Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

	Real Estate	Guaranteed Insurance Contracts	Hedge Funds	Total
Balance at December 31, 2010	\$ 206	\$ 97	\$ 3	\$ 306
Purchases	67	3	—	70
Sales	—	(3)	(1)	(4)
Net transfers in from Level 1	2	12	—	14
Net transfers in from Level 2	—	9	—	9
Realized gains (losses)	—	(1)	—	(1)
Unrealized gains (losses)	12	(4)	—	8
Currency translation	(4)	(3)	—	(7)
Other	(3)	6	1	4
Balance at December 31, 2011	280	116	3	399
Purchases	13	15	—	28
Sales	(21)	(7)	—	(28)
Net transfers in from Level 2	69	—	—	69
Realized gains (losses)	1	4	—	5
Unrealized gains (losses)	(25)	(1)	—	(26)
Currency translation	15	4	—	19
Balance at December 31, 2012	\$ 332	\$ 131	\$ 3	\$ 466

Valuation Method

Our primary Level 3 assets are Real Estate and Private Equity/Venture Capital investments. The fair value of our real estate investment funds are based on the Net Asset Value ("NAV") of our ownership interest in the funds. NAV information is received from the investment advisers and is primarily derived from third party real estate appraisals for the properties owned. The fair value for our private equity/venture capital partnership investments are based on our share of the estimated fair values of the underlying investments held by these partnerships as reported in their audited financial statements. The valuation techniques and inputs for our Level 3 assets have been consistently applied for all periods presented.

Investment Strategy

The target asset allocations for our worldwide defined benefit pension plans were:

	2012		2011	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Equity investments	41%	40%	41%	41%
Fixed income investments	43%	47%	43%	46%
Real estate	5%	9%	5%	9%
Private equity	9%	—%	9%	—%
Other	2%	4%	2%	4%
Total Investment Strategy	100%	100%	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, and may include Company stock. 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

In 2012, we made cash contributions of \$364 (\$201 U.S. and \$163 Non-U.S.) and \$84 to our defined benefit pension plans and retiree health benefit plans, respectively. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 (\$331 U.S. and \$163 Non-U.S.) in 2012.

In 2013 we expect, based on current actuarial calculations, to make contributions of approximately \$195 (\$26 U.S. and \$169 non-U.S.) to our defined benefit pension plans and \$80 to our retiree health benefit plans. The decrease in required contributions to our U.S. defined benefit pension plans reflect the expected benefits from the pension funding legislation enacted in the U.S. during 2012.

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
	U.S.	Non-U.S.	Total	
2013	\$ 483	\$ 248	\$ 731	\$ 80
2014	445	251	696	80
2015	402	261	663	79
2016	370	274	644	77
2017	348	280	628	75
Years 2018-2022	1,425	1,550	2,975	339

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits					
	2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%

	Retiree Health		
	2012	2011	2010
	Discount rate	3.6%	4.5%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits							
	2013		2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%	5.7%	5.7%
Expected return on plan assets	7.8%	6.1%	7.8%	6.2%	8.3%	6.6%	8.3%	6.6%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%	3.5%	3.6%

	Retiree Health			
	2013	2012	2011	2010
	Discount rate	3.6%	4.5%	4.9%

Note: Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded. 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 were as follows:

	December 31,	
	2012	2011
Health care cost trend rate assumed for next year	7.5%	8.5%
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	\$ 3	\$ (3)
Effect on post-retirement benefit obligation	62	54

Defined Contribution Plans

We have savings and investment plans in several countries, including the U.S., Finland and Canada. In many instances, employees from those defined benefit pension plans that have been amended to freeze future service accruals will be transitioned to an enhanced defined contribution plan. For the U.S. plans, employees may contribute a portion of their salaries and bonuses to the plans, and we match a portion of the employee contributions. We recorded charges related to our defined contribution plans of \$63 in 2012, \$66 in 2011 and \$51 in 2010.

Note 16 - Income and Other Taxes

Income before income taxes ("pre-tax income") was as follows:

	Year Ended December 31,		
	2012	2011	2010
Domestic income	\$ 878	\$ 917	\$ 433
Foreign income	470	648	382
Income Before Income Taxes	\$ 1,348	\$ 1,565	\$ 815

Provisions (benefits) for income taxes were as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal Income Taxes			
Current	\$ 24	\$ 52	\$ 153
Deferred	84	134	(17)
Foreign Income Taxes			
Current	123	103	59
Deferred	—	38	8
State Income Taxes			
Current	34	28	46
Deferred	12	31	7
Total Provision (Benefit)	\$ 277	\$ 386	\$ 256

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

	Year Ended December 31,		
	2012	2011	2010
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Nondeductible expenses	2.6 %	2.0 %	6.3 %
Effect of tax law changes	0.7 %	0.2 %	(0.2)%
Change in valuation allowance for deferred tax assets	(0.7)%	(0.3)%	2.6 %
State taxes, net of federal benefit	2.1 %	2.4 %	2.0 %
Audit and other tax return adjustments	(4.7)%	(1.0)%	(3.6)%
Tax-exempt income, credits and incentives	(2.6)%	(3.1)%	(3.9)%
Foreign rate differential adjusted for U.S. taxation of foreign profits ⁽¹⁾	(11.8)%	(10.4)%	(6.7)%
Other	(0.1)%	(0.1)%	(0.1)%
Effective Income Tax Rate	20.5 %	24.7 %	31.4 %

(1) The "U.S. taxation of foreign profits" represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, we paid a total of \$137, \$94 and \$49 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2012, respectively.

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
	2012	2011	2010
Pre-tax income	\$ 277	\$ 386	\$ 256
Common shareholders' equity:			
Changes in defined benefit plans	(233)	(277)	12
Stock option and incentive plans, net	(5)	1	(6)
Cash flow hedges	(24)	3	5
Translation adjustments	(9)	2	6
Total Income Tax Expense (Benefit)	\$ 6	\$ 115	\$ 273

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, 2012, 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:

	2012	2011	2010
Balance at January 1	\$ 225	\$ 186	\$ 148
Additions from acquisitions	—	—	46
Additions related to current year	28	43	38
Additions related to prior years positions	5	38	24
Reductions related to prior years positions	(36)	(17)	(16)
Settlements with taxing authorities ⁽¹⁾	(13)	(14)	(19)
Reductions related to lapse of statute of limitations	(8)	(8)	(35)
Currency	—	(3)	—
Balance at December 31	\$ 201	\$ 225	\$ 186

(1) Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2012, 2011 and 2010 are \$16, \$36 and \$39, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or that they 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 recognized interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements within income tax expense. We had \$20, \$28 and \$31 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2012, 2011 and 2010, respectively.

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 2005. 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

We had undistributed earnings of foreign subsidiaries and other foreign investments carried at equity at December 31, 2012 of approximately \$8.8 billion. We have provided deferred taxes on approximately \$500 of those earnings due to their anticipated repatriation to the U.S. The remaining \$8.3 billion of undistributed earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. We do not believe it is practical to calculate the potential deferred tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

	December 31,	
	2012	2011
Deferred Tax Assets		
Research and development	\$ 793	\$ 876
Post-retirement medical benefits	359	368
Anticipated foreign repatriations	264	41
Depreciation and amortization	52	71
Net operating losses	630	637
Other operating reserves	300	285
Tax credit carryforwards	177	379
Deferred compensation	312	306
Allowance for doubtful accounts	73	93
Restructuring reserves	30	29
Pension	696	547
Other	143	132
Subtotal	<u>3,829</u>	<u>3,764</u>
Valuation allowance	(654)	(677)
Total	<u>\$ 3,175</u>	<u>\$ 3,087</u>
Deferred Tax Liabilities		
Unearned income and installment sales	\$ 947	\$ 996
Intangibles and goodwill	1,252	1,261
Other	48	41
Total	<u>\$ 2,247</u>	<u>\$ 2,298</u>
Total Deferred Taxes, Net	<u>\$ 928</u>	<u>\$ 789</u>

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, 2012 and 2011 amounted to \$273 and \$229, 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, 2012 and 2011 was a decrease of \$23 and \$58, 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, 2012, we had tax credit carryforwards of \$177 available to offset future income taxes, of which \$79 are available to carryforward indefinitely while the remaining \$98 will expire 2013 through 2032 if not utilized. We also had net operating loss carryforwards for income tax purposes of \$1.3 billion that will expire 2013 through 2032, if not utilized, and \$2.4 billion available to offset future taxable income indefinitely.

Note 17 – Contingencies and Litigation

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.

Additionally, guarantees, indemnifications 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, 2012, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

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, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 with the decrease from December 31, 2011 balance of approximately \$1,120, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010, 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, 2012 we had \$211 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 and additional letters of credit of approximately \$242, 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.

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 refile. 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.

Guarantees, Indemnifications and Warranty Liabilities

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 and such procedures also 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 indemnities 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 (such as those related to "clawback" provisions in certain compensation arrangements) 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 of the equipment 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, 2012 were \$29, \$30 and \$33, respectively. Total product warranty liabilities as of December 31, 2012 and 2011 were \$14 and \$16, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2012:

- \$454 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.
- \$736 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, 2012, we serviced a FFEL portfolio of approximately 3.7 million loans with an outstanding principal balance of approximately \$53.0 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, 2012, other current liabilities include reserves which we believe to be adequate. At December 31, 2012, other current liabilities include reserves of approximately \$3.6 for losses on defaulted loans purchased.

Note 18 - Preferred Stock

Series A Convertible Preferred Stock

In 2010, in connection with our acquisition of ACS, we issued 300,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of \$300 and an initial fair value of \$349. The convertible preferred stock pays quarterly cash dividends at a rate of 8% per year (\$24 per year). 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), subject to customary anti-dilution adjustments.

On or after February 5, 2015, if the closing price of our common stock exceeds 130% of the then applicable conversion price (currently \$11.125 per share of common stock) for 20 out of 30 trading days, we have the right to cause 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, 2012, 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, \$1.00 par value per share. At December 31, 2012, 155 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.

Treasury Stock

We account for the repurchased common stock under the cost method and include such treasury stock as a component of our common shareholder's 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.

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2012 (shares in thousands):

Authorized share repurchase programs	\$	6,000
Share repurchase cost	\$	4,691
Share repurchase fees	\$	8
Number of shares repurchased		428,314

In 2012, the Board of Directors authorized an additional \$1.5 billion in share repurchase bringing the total authorization to \$6 billion.

The following table reflects the changes in Common and Treasury stock shares (shares in thousand):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2009	869,381	—
Stock based compensation plans, net	37,018	—
ACS acquisition ⁽¹⁾	489,802	—
Other	1,377	—
Balance at December 31, 2010	1,397,578	—
Stock based compensation plans, net	11,027	—
Contributions to U.S. pension plan ⁽²⁾	16,645	—
Acquisition of Treasury stock	—	87,943
Cancellation of Treasury stock	(72,435)	(72,435)
Other	34	—
Balance at December 31, 2011	1,352,849	15,508
Stock based compensation plans, net	17,343	—
Contributions to U.S. pension plan ⁽²⁾	15,366	—
Acquisition of Treasury stock	—	146,278
Cancellation of Treasury stock	(146,862)	(146,862)
Other	—	—
Balance at December 31, 2012	1,238,696	14,924

(1) Refer to Note 3 - Acquisitions for additional information.

(2) Refer to Note 15 - Employee Benefits Plans 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 stock-based awards 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, 2012 and 2011, 50 million and 31 million shares, respectively, were available for grant of awards.

Stock-based compensation expense was as follows:

	Year Ended December 31,					
	2012		2011		2010	
Stock-based compensation expense, pre-tax	\$	125	\$	123	\$	123
Income tax benefit recognized in earnings		48		47		47

Restricted Stock Units: Compensation expense is based upon the grant date market price for most awards. The primary grant in 2009 had a market based condition and therefore the grant date price was based on a Monte Carlo simulation. Compensation expense is recorded over the vesting period, which is normally three years from the date of grant, based on management’s estimate of the number of shares expected to vest.

Performance Shares: We grant officers and selected executives PSs that vest contingent upon meeting pre-determined Revenue, 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 annual actual results for Revenue exceed the stated targets and 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 cannot exceed 50% for officers and 25% for non-officers of the original grant.

The fair value of PSs is based upon the market price of our stock on the date of the grant. Compensation expense is recognized over the vesting period, which is normally three years from the date of grant, based on management's estimate of the number of shares expected to vest. If the stated targets are not met, any recognized compensation cost would be reversed.

In connection with the ACS acquisition, selected ACS executives received a special one-time grant of PSs that vest over a three-year period ending February 2013 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).

Employee Stock Options: With the exception of the conversion of ACS options 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. Substantially all stock options previously issued under our employee long-term incentive plan are fully exercised, cancelled or expired as of December 31, 2012.

Summary of Stock-based Compensation Activity

(Shares in thousands; amounts per share)	2012		2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Restricted Stock Units						
Outstanding at January 1	33,784	\$ 8.70	32,431	\$ 8.68	25,127	\$ 10.18
Granted	13,033	7.82	8,035	10.66	11,845	8.56
Vested	(14,848)	6.89	(5,225)	11.64	(3,671)	18.22
Cancelled	(1,555)	8.97	(1,457)	8.57	(870)	10.36
Outstanding at December 31	30,414	9.19	33,784	8.70	32,431	8.68
Performance Shares						
Outstanding at January 1	9,763	\$ 9.21	7,771	\$ 9.78	4,874	\$ 15.49
Granted	5,193	7.87	4,852	10.42	5,364	8.10
Vested	—	—	(1,587)	12.84	(1,566)	18.48
Cancelled	(420)	8.96	(1,273)	12.79	(901)	15.51
Outstanding at December 31	14,536	8.74	9,763	9.21	7,771	9.78
Stock Options						
Outstanding at January 1	50,070	\$ 6.98	71,038	\$ 8.00	28,363	\$ 10.13
Granted	—	—	—	—	96,662	6.79
Cancelled/expired	(8,617)	8.58	(14,889)	8.38	(2,735)	7.33
Exercised	(7,721)	5.69	(6,079)	8.21	(51,252)	6.92
Outstanding at December 31	33,732	6.86	50,070	6.98	71,038	8.00
Exercisable at December 31	28,676	6.95	39,987	7.14	57,985	8.38

The total unrecognized compensation cost related to non-vested stock-based awards at December 31, 2012 was as follows:

Awards	Unrecognized Compensation	Remaining Weighted-Average Vesting Period (Years)
Restricted Stock Units	\$ 125	1.5
Performance Shares	58	1.5
Stock Options	12	1.6
Total	\$ 195	

The aggregate intrinsic value of outstanding RSUs and PSs awards was as follows:

Awards	December 31, 2012
Restricted Stock Units	\$ 207
Performance Shares	99

Information related to stock options outstanding and exercisable at December 31, 2012 was as follows:

	Options	
	Outstanding	Exercisable
Aggregate intrinsic value	\$ 7	\$ 5
Weighted-average remaining contractual life (years)	4.3	3.9

The total intrinsic value and actual tax benefit realized for vested and exercised stock-based awards was as follows:

Awards	December 31, 2012			December 31, 2011			December 31, 2010		
	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit
Restricted Stock Units	\$ 117	\$ —	\$ 33	\$ 56	\$ —	\$ 22	\$ 31	\$ —	\$ 10
Performance Shares	—	—	—	17	—	6	12	—	5
Stock Options	12	44	4	18	44	7	155	183	56

No Performance Shares vested in 2012 since the 2009 primary award grant that normally would have vested in 2012 was replaced with a grant of Restricted Stock Units with a market based condition and therefore were accounted and reported for as part of Restricted Stock Units.

ACS Acquisition

In connection with the acquisition of ACS (see Note 3 - Acquisitions for additional 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, and was recorded as part of the acquisition fair value. The remaining \$54 is associated with ACS options issued in August 2009 which did not fully vest and become exercisable upon the acquisition, but continue to vest according to specified vesting schedules, and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from date of grant. 33,693 thousand Xerox options issued upon this conversion remain outstanding at December 31, 2012.

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

Note 20 – Other Comprehensive Income

Other Comprehensive Income is composed of the following:

	Year Ended December 31,					
	2012		2011		2010	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments Gains (Losses)	\$ 104	\$ 113	\$ (103)	\$ (105)	\$ (29)	\$ (35)
Unrealized (Losses) Gains:						
Changes in fair value of cash flow hedges - (losses) gains	(50)	(35)	30	22	46	31
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(37)	(28)	(14)	(9)	(28)	(18)
Other	—	—	(1)	(1)	(1)	(1)
Net unrealized (losses) gains	\$ (87)	\$ (63)	\$ 15	\$ 12	\$ 17	\$ 12
Defined Benefit Plans (Losses) Gains:						
Actuarial / Prior service losses	(852)	(578)	(872)	(607)	(106)	(191)
Amortization ⁽²⁾	126	85	89	60	91	164
Curtailment gain - recognition of prior service credit	—	—	(107)	(66)	—	—
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	(13)	(13)	(31)	(31)	28	28
Other ⁽⁴⁾	(55)	(55)	8	8	22	22
Changes in defined benefit plans (losses) gains	\$ (794)	\$ (561)	\$ (913)	\$ (636)	\$ 35	\$ 23
Other Comprehensive (Loss) Income	(777)	(511)	(1,001)	(729)	23	—
Less: Other comprehensive loss attributable to noncontrolling interests	—	—	(1)	(1)	—	—
Other Comprehensive (Loss) Income Attributable to Xerox	\$ (777)	\$ (511)	\$ (1,000)	\$ (728)	\$ 23	\$ —

(1) Reclassified to Cost of sales - refer to Note 13 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 15 - Employee Benefit Plans for additional information.

(3) Represents our share of Fuji Xerox's benefit plan changes.

(4) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

Accumulated Other Comprehensive Loss ("AOCL")

AOCL is composed of the following:

	December 31,		
	2012	2011	2010
Cumulative translation adjustments	\$ (826)	\$ (939)	\$ (835)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(2,364)	(1,803)	(1,167)
Other unrealized (losses) gains, net	(37)	26	14
Total Accumulated Other Comprehensive Loss	\$ (3,227)	\$ (2,716)	\$ (1,988)

(1) Includes our share of Fuji Xerox.

Note 21 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Year Ended December 31,		
	2012	2011	2010
Basic Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	(24)	(21)
Adjusted Net Income Available to Common Shareholders	\$ 1,171	\$ 1,271	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	—	(21)
Interest on convertible securities, net	1	1	—
Adjusted Net Income Available to Common Shareholders	\$ 1,172	\$ 1,296	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Common shares issuable with respect to:			
Stock options	4,335	9,727	13,497
Restricted stock and performance shares	20,804	16,993	13,800
Convertible preferred stock	—	26,966	—
Convertible securities	1,992	1,992	—
Adjusted Weighted Average Common Shares Outstanding	1,329,184	1,443,774	1,350,728
Diluted Earnings per Share	\$ 0.88	\$ 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:			
Stock options	29,397	40,343	57,541
Restricted stock and performance shares	23,430	26,018	25,983
Convertible preferred stock	26,966	—	26,966
Convertible securities	—	—	1,992
	79,793	66,361	112,482
Dividends 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, 2012.

/s/ URSULA M. BURNS

Chief Executive Officer

/s/ LUCA MAESTRI

Chief Financial Officer

/s/ GARY R. KABURECK

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, comprehensive income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, 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 21, 2013

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

(in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2012					
Revenues	\$ 5,503	\$ 5,541	\$ 5,423	\$ 5,923	\$ 22,390
Costs and Expenses	5,190	5,190	5,106	5,556	21,042
Income before Income Taxes and Equity Income	313	351	317	367	1,348
Income tax expenses	77	66	63	71	277
Equity in net income of unconsolidated affiliates	40	31	34	47	152
Net Income	276	316	288	343	1,223
Less: Net income - noncontrolling interests	7	7	6	8	28
Net Income Attributable to Xerox	\$ 269	\$ 309	\$ 282	\$ 335	\$ 1,195
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.23	\$ 0.21	\$ 0.26	\$ 0.90
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.21	0.26	0.88
2011					
Revenues	\$ 5,465	\$ 5,614	\$ 5,583	\$ 5,964	\$ 22,626
Costs and Expenses	5,115	5,213	5,216	5,517	21,061
Income before Income Taxes and Equity Income	350	401	367	447	1,565
Income tax expenses	95	108	81	102	386
Equity in net income of unconsolidated affiliates	34	34	43	38	149
Net Income	289	327	329	383	1,328
Less: Net income - noncontrolling interests	8	8	9	8	33
Net Income Attributable to Xerox	\$ 281	\$ 319	\$ 320	\$ 375	\$ 1,295
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.22	\$ 0.23	\$ 0.27	\$ 0.92
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.22	0.26	0.90

⁽¹⁾ 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.

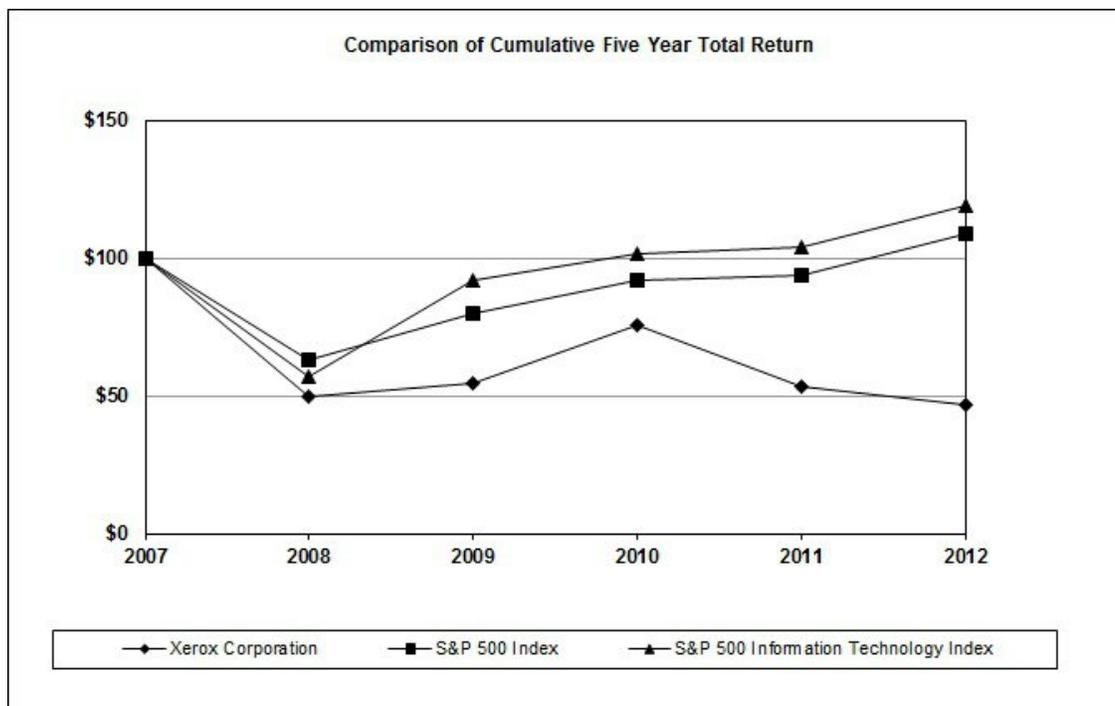
FIVE YEARS IN REVIEW

(in millions, except per-share data)

	2012	2011	2010 ⁽¹⁾	2009	2008
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.90	\$ 0.92	\$ 0.44	\$ 0.56	\$ 0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Earnings					
Basic	0.90	0.92	0.44	0.56	0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Common stock dividends declared	0.17	0.17	0.17	0.17	0.17
Operations					
Revenues	\$ 22,390	\$ 22,626	\$ 21,633	\$ 15,179	\$ 17,608
Sales	6,578	7,126	7,234	6,646	8,325
Outsourcing, service and rentals	15,215	14,868	13,739	7,820	8,485
Finance income	597	632	660	713	798
Income from continuing operations	1,223	1,328	637	516	265
Income from continuing operations - Xerox	1,195	1,295	606	485	230
Net income	1,223	1,328	637	516	265
Net income - Xerox	1,195	1,295	606	485	230
Financial Position					
Working capital	\$ 2,363	\$ 1,531	\$ 2,222	\$ 5,270	\$ 2,700
Total Assets	30,015	30,116	30,600	24,032	22,447
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,042	1,545	1,370	988	1,610
Long-term debt	7,447	7,088	7,237	8,276	6,774
Total Debt	8,489	8,633	8,607	9,264	8,384
Liability to subsidiary trust issuing preferred securities	—	—	650	649	648
Series A convertible preferred stock	349	349	349	—	—
Xerox shareholders' equity	11,521	11,876	12,006	7,050	6,238
Noncontrolling interests	143	149	153	141	120
Total Consolidated Capitalization	\$ 20,502	\$ 21,007	\$ 21,765	\$ 17,104	\$ 15,390
Selected Data and Ratios					
Common shareholders of record at year-end	39,397	41,982	43,383	44,792	46,541
Book value per common share	\$ 9.41	\$ 8.88	\$ 8.59	\$ 8.11	\$ 7.21
Year-end common stock market price	\$ 6.82	\$ 7.96	\$ 11.52	\$ 8.46	\$ 7.97
Employees at year-end	147,600	139,700	136,500	53,600	57,100
Gross margin	31.4%	32.8%	34.4%	39.7%	38.9%
Sales gross margin	33.7%	34.1%	34.5%	33.9%	33.7%
Outsourcing, service and rentals gross margin	29.0%	30.9%	33.1%	42.6%	41.9%
Finance gross margin	66.8%	63.4%	62.7%	62.0%	61.8%

(1) 2010 results include the acquisition of ACS

PERFORMANCE GRAPH



Total Return To Shareholders

(Includes reinvestment of dividends)	Year Ended December 31,					
	2007	2008	2009	2010	2011	2012
Xerox Corporation	\$ 100.00	\$ 49.97	\$ 54.46	\$ 75.46	\$ 53.16	\$ 46.59
S&P 500 Index	\$ 100.00	63.00	79.67	91.68	93.61	108.59
S&P 500 Information Technology Index	\$ 100.00	56.86	91.96	101.32	103.77	119.15

Source: Standard & Poor's Investment Services

Notes: Graph assumes \$100 invested on December 31, 2007 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
2012				
High	\$ 8.76	\$ 8.15	\$ 7.94	\$ 7.39
Low	7.73	6.94	6.38	6.23
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
2011				
High	\$ 11.71	\$ 10.88	\$ 10.71	\$ 8.57
Low	9.87	9.40	6.97	6.72
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425

* Price as of close of business

SUBSIDIARIES of XEROX CORPORATION

The following companies are subsidiaries of Xerox Corporation as of December 31, 2012. 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)
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
Connecticut Business Systems, LLC	Delaware
Conway Office Products, LLC	New Hampshire
Business Equipment Unlimited	Maine
Cameron Office Products, LLC	Massachusetts
Eastern Managed Print Network, LLC	New York
Northeast Copier Systems, LLC	Massachusetts
CopyCo Office Solutions, Inc.	Indiana
CTX Business Solutions, Inc.	Oregon
Dahill Office Technology Corporation	Texas (34)
Denitech Corporation	Texas
Electronic Systems, Inc.	Virginia
TML Enterprises, Inc.	Virginia
GDP Finance, Inc.	Georgia
Georgia Duplicating Products, Inc.	Georgia
Global Iowa, Inc.	Iowa
Global Iowa Finance, Inc.	Iowa
Midwest Business Solutions, Inc.	Iowa
Premier Office Equipment, Inc.	Iowa
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
Merizon Group Incorporated	Wisconsin

Michigan Office Solutions, Inc.	Michigan
Minnesota Office Technology Group, Inc.	Minnesota
Mr. Copy, Inc.	California
MRC Smart Technology Solutions, Inc.	California
MWB Copy Products, Inc.	California
SoCal Office Technologies, Inc.	California
Martin Whalen Office Solutions, Inc.	Illinois
MW Leasing Company	Illinois
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
R. K. Dixon Company	Iowa
Saxon Business Systems, Inc.	Florida
Stewart Business Systems, LLC	New Jersey
Xerox Audio Visual Solutions, Inc.	Georgia
Daniel Communications, Inc.	Alabama
Zoom Imaging Solutions, Inc.	California
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Institute for Research on Learning	Delaware
LaserNetworks Inc.	Delaware
Lateral Data, L.P.	Texas
NewField Information Technology LLC	Pennsylvania
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware
The Xerox Foundation	Delaware
Xerox Argentina Industrial y Comercial S.A.	Argentina (1)
Xerox Business Services, LLC	Delaware
ACS Application Management Services, LLC	California
Agilera, LLC	Delaware
Agilera Messaging, LLC	Delaware
ACS BRC Holdings, LLC	Delaware
ACS Enterprise Solutions, LLC	Delaware
ACS BPO Services, Inc.	Delaware
Government Records Services, Inc.	Delaware
Title Records Corporation	Delaware
ACS Government Systems, Inc.	Delaware
ACS TMC, Inc.	Delaware
Digital Information Systems Company, L.L.C.	Georgia
Xerox Audit & Compliance Solutions, LLC	Delaware
Xerox Heritage, LLC	Virginia
Xerox State Healthcare, LLC	Delaware
ACS EDI Gateway, Inc.	Delaware
Consultec IPA, Inc.	New York

Xerox Federal Solutions LLC	Delaware
ACS Health Care, Inc.	Oregon
CredenceHealth, Inc.	Tennessee
MidasPlus, Inc.	Arizona
Stait Software, Inc.	Oregon
ACS ComplIQ Corporation	Nevada
ACS Consultant Holdings Corporation	Delaware
Xerox Consultant Company, Inc.	Michigan
Superior Venture Partner, Inc.	Pennsylvania
ACS e-Services, LLC	Delaware
e-Services Group (St. Lucia) Ltd.	St. Lucia
e-Services Group International (Jamaica) Limited	Jamaica (47)
ACS Health Administration, Inc.	Delaware
ACS Healthcare Analytics, Inc.	Delaware
ACS Human Resources Solutions, LLC	Delaware
Buck Consultants, LLC	Delaware
Buck Consultants Limited/Conseillers Buck Limitee	Ontario
Buck Consultants Insurance Agency Limited	Ontario
Buck Consultants	Belgium (44)
Buck Kwasha Securities LLC	Delaware
LiveWire, LLC	Missouri
Xerox HR Solutions, LLC	Pennsylvania
Xerox HR Solutions, LLP	Delaware (67)
ACS HR Solutions UK Limited	United Kingdom
ACS HR Solutions World Services, LLC	Delaware
Xerox Relocation & Assignment Services, LLC	Delaware
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, LLC	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 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
Breakaway Healthcare and Life Sciences, LLC	Colorado
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
Restaurant Technology Services, LLC	Delaware
RTS Information Consulting (Chengdu) Co. Ltd	China
Restaurant Technology Services UK Limited	United Kingdom
Specialty I, LLC	Delaware
The National Abandoned Property Processing Corporation	Delaware
Wagers & Associates, Inc.	Colorado
Wireless Data Services North America, Inc.	Washington
Wireless Data Services (Operations), Inc.	Idaho
WDS Global-Texas, Inc.	Texas
Xerox Care and Quality Solutions, Inc.	Wisconsin
Xerox Commercial Solutions, LLC	Nevada
ACS Global, Inc.	Delaware
Affiliated Computer Services (Australia) Pty Ltd.	Australia
ML 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
Education Sales and Marketing, LLC	Colorado
ESM Chaperone, LLC	Colorado
TMS Health, LLC	Delaware
Truckload Management Services, Inc.	Colorado
Xerox Education Services, Inc.	Delaware
ACS Asset Management Group, Inc.	Oregon
Education Services Company	Delaware
ACS Education Loan Services LLC	Delaware
Xerox Education Solutions, LLC	Delaware
Xerox 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
Xerox Capital LLC	Turks & Caicos Islands (9)

Xerox de Chile S.A.	Chile (40)
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox DNHC LLC	Delaware
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 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 YH	Korea
XC Trading Malaysia	Malaysia
XC Trading Shenzhen Co., Ltd.	China
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Monocolour Limited	Ireland
NewField Information Technology Limited	United Kingdom
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
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 (5)
Xerox Finance Leasing S.A.E.	Egypt (3)
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda (16)
Xerox UK Holdings Limited	United Kingdom
Triton Business Finance Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom

Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Limited	United Kingdom
Affiliated Computer Services International B.V.	Netherlands
ACS-BPS (Ghana) Limited	Ghana
ACS BPS de Guatemala S.A.	Guatemala (70)
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
Wireless Data Services Limited	United Kingdom
Hugh Symons Wireless Data Services Pty. Limited	Australia
Wireless Data Services (Asia Pacific) PTE Ltd.	Singapore
Wireless Data Services (Proprietary) Limited	South Africa
ACS (Cyprus) Holdings Limited	Cyprus
Affiliated Computer Services of India Private Limited	India (58)
ACS Czech Republic s.r.o.	Czech Republic
ACS HR Solutions Nederland B.V.	Netherlands
ACS HR Solutions Share Plan Services (Guernsey) Limited	Guernsey
ACS of the Philippines, Inc.	Philippines (62)
ACS Solutions Chile SA	Chile (57)
ACS Solutions Hong Kong Limited	Hong Kong
ACS Solutions of Puerto Rico, Inc.	Puerto Rico
ACS Solutions Schweiz AG	Switzerland
Affiliated Computer Services Austria GmbH	Austria
Affiliated Computer Services do Brasil Ltda.	Brazil (55)
ACS HR Solucoes Servicos de Recursos Humanos do Brasil Ltda.	Brazil (72)

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 South Africa (Proprietary) Limited	South Africa
Affiliated Computer Services (Tianjin) Co., Ltd.	China
Veenman B.V.	Netherlands
Veenman Financial Services B.V.	Netherlands
Wilhaave Groep B.V.	Netherlands
Unamic Holding B.V.	Netherlands
Unamic/HCN B.V.	Netherlands
Telenamic N.V.	Suriname (73)
Unamic/HCN BVBA	Belgium (74)
Unamic HCN Musterfi Hizmetleri Limited Sirketi	Turkey (75)
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox (Nederland) BV	Netherlands
"Veco" Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands
Xerox Services BV	Netherlands
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 Canada Inc.	Ontario
Xerox (Barbados) SRL	Barbados (14)
Xerox Finance (Luxembourg) Sarl	Luxembourg
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
ACS HR Solutions Canada Co.	Nova Scotia

Xerox Canada Ltd.	Canada (4)
LaserNetworks Inc.	Ontario
6999816 Canada Inc.	Canada
Green Imaging Supplies Inc.	Canada
Xerox Financial Services Canada Ltd.	Ontario
Xerox Capital (Europe) Limited	United Kingdom
Concept Group Limited	Scotland
Concept Group (Sales) Limited	Scotland
Imaging Business Systems (N.I.) Limited	Northern Ireland
Irish Business Systems Limited (Republic of Ireland)	Republic of Ireland
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 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	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
ACS HR Solutions Deutschland GmbH	Germany
Xerox IT Services GmbH	Germany
Xerox GmbH	Germany
Xerox Dienstleistungsgesellschaft GmbH	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
Xerox Management Services N.V.	Belgium

Xerox N.V.	Belgium
Xerox Luxembourg SA	Luxembourg (27)
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 Serviços e Participações Ltda	Brazil
Xerox Comercio e Industria Ltda	Brazil
Xerox Slovenia d.o.o.	Slovenia
Xerox S.p.A.	Italy
ACS Solutions Italia, S.p.A.	Italy
Nuova Karel Soluzioni S.r.l. unipersonale	Italy
Xerox Financial Services Italia S.p.A.	Italy
Xerox Italia Rental Services Srl	Italy
Xerox Italia Services S.p.A.	Italy
XLW S.r.l.	Italy
Eagle Connect Sh.p.k.	Albania
Voice Star Sh.p.k.	Albania
XLW Star S.r.l.	Romania
Xerox Telebusiness GmbH	Germany
Xerox (Ukraine) Ltd LLC	Ukraine (17)
Xerox S.A.S.	France (22)
Affiliated Computer Services Holdings (France) S.A.S.	France
Affiliated Computer Services Business Process Solutions S.A.S.	France (64)
Affiliated Computer Services Strategic Support (France) E.U.R.L.	France
Affiliated Computer Services Solutions France S.A.S.	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
Xerox XIB Limited	Bermuda
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
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Lease Receivables I, LLC	Delaware

Xerox Lease Receivables 2012-2 LLC	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico (28)
Xerox Mortgage Services, Inc.	Delaware
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Xerox Trade Receivables II LLC	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) Owned 96% by Xerox Egypt S.A.E., 3% by Xerox Middle East Investments (Bermuda) Limited and 1% by Egyptian Finance Company S.A.E.
- (4) Owned 80.24% by Xerox Canada Inc. and 19.76% by Xerox Canada Finance Inc.
- (5) Owned 75% by Xerox Middle East Investments (Bermuda) Limited and 25% by Egyptian Finance Company S.A.E
- (6) [RESERVED]
- (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) [RESERVED]
- (12) [RESERVED]
- (13) [RESERVED]
- (14) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation
- (15) [RESERVED]
- (16) Owned 51% by Xerox Middle East Investments (Bermuda) Limited; the remaining 49% is owned by a third party - the Estate of the late Hareb Al Otaiba
- (17) Owned 99% by Xerox Limited; the remaining 1% is owned by Xerox Property Services Limited, another subsidiary of Xerox Limited
- (18) Owned 75% by Xerox Corporation; the remaining 25% is owned by an outside third party in Trinidad
- (19) Owned 95% by Fuji Xerox Co., Ltd. and 5% by Biznet Corporation
- (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 Holdings 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) [RESERVED]
- (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 1 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) [RESERVED]
- (39) [RESERVED]
- (40) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation
- (41) Owned 19% by Xerox Business Services, LLC; 37% by Xerox State & Local Solutions, Inc.; 23% by Buck Consultants, LLC; 15% by Xerox State Healthcare, LLC; 6% by ACS HR Solutions, LLC
- (42) Owned 99.9% by ACS Properties, LLC and 0.1% by Xerox Business Services, LLC
- (43) [RESERVED]
- (44) Owned 79.884% by Buck Consultants, LLC and 20.116% by ACS Holdings (Germany) GmbH

- (45) Owned 99.9% by Xerox Business Services, LLC 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) Ltd.; 0.0002% by ACS Global Inc.
- (48) Owned 93.59% by Xerox Corporation, 6.35% by Xerox Commercial Solutions, LLC and .06% by Xerox State and Local Solutions, Inc.
- (49) Owned 90% by ACS Global Inc; 10% by Xerox Commercial Solutions, LLC
- (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% Xerox Commercial Solutions, LLC; 1% LiveBridge, Inc.; 1% Market Line S.A. in Argentina; 1% ACS Middle East, Inc.
- (52) Owned 90% by ACS Global, Inc.; 10% Xerox Commercial Solutions, LLC
- (53) Owned 99.9090% by Affiliated Computer Services International (Barbados) Limited; .0910% by Xerox Commercial Solutions, LLC
- (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 Xerox State & Local Solutions, Inc.; 0.0006% by Xerox State Healthcare, LLC; 0.0006% by Xerox Business Services, LLC
- (55) Owned 99.9997 by Affiliated Computer Services International B.V.; .0003% by Xerox Business Services, LLC
- (56) Owned 99% by ACS Public Sector Solutions Inc; 1% by Xerox State and Local Solutions, Inc.
- (57) Owned 99.5% by Affiliated Computer Services International B.V.; .5% by Xerox State and Local Solutions, Inc.
- (58) Owned 99.0% by ACS (Cyprus) Holdings Limited; 1.0% by Xerox Commercial Solutions, LLC
- (59) Owned 99.9999% by Affiliated Computer Services International B.V.; .0001% by Xerox State and Local Solutions, Inc.
- (60) [RESERVED]
- (61) Owned 99% by Affiliated Computer Services International B.V.; 1% by Xerox Commercial Solutions, LLC
- (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 Xerox Commercial Solutions, LLC
- (64) Owned 99.9383% by Affiliated Computer Services Holdings (France) S.A.S.; 0.0616% by Affiliated Computer Services International B.V.; 0.0001 by Xerox Commercial Solutions, LLC
- (65) Owned 99% by Affiliated Computer Services Solutions France S.A.S.; 1% by Xerox State & Local Solutions, Inc.
- (66) Owned 99.8% by ACS Business Process Solutions Limited; 0.2% by Xerox Commercial Solutions, LLC
- (67) Owned 99% by Xerox HR Solutions, LLC; 1% by ACS Human Resource Solutions, LLC
- (68) Owned 99% by ASC Transport Solutions, Inc.; 1% by Xerox State & Local Solutions, Inc.
- (69) [RESERVED]
- (70) Owned 98% by Affiliated Computer International B.V.; 2% by Xerox State & Local Solutions, Inc.
- (71) [RESERVED]
- (72) Owned 99% by Affiliated Computer Services do Brasil Ltda.; 1% by ACS HR Solutions World Services, LLC
- (73) Owned 50% by Unamic/HCN B.V.; 50% by Telesur, a non-ACS/Xerox entity
- (74) Owned 99.9% by Unamic/HCN B.V.; .1% by Unamic Holding B.V.
- (75) Owned 98.99% by Unamic/HCN B.V.; 1.01% by Unamic Holding B.V.

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, 333-125250, 333-09821, and 333-167922) of Xerox Corporation of our report dated February 21, 2013 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 21, 2013 relating to the financial statement schedule, which appears in this Form10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 21, 2013

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 21, 2013

/s/ URSULA M. BURNS

Ursula M. Burns
Principal Executive Officer

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 21, 2013

/s/ LUCA MAESTRI

Luca Maestri
Principal Financial Officer

**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 ended December 31, 2012, 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 21, 2013

/s/ LUCA MAESTRI

Luca Maestri
Chief Financial Officer

February 21, 2013

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.

As 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.



Today's Xerox

Inside

Today's Xerox	02	Consolidated Financial Statements	55
Letter to Shareholders	04	Notes to Consolidated Financial Statements	60
Innovation at Work	08	Reports and Signatures	111
Financial Measures	10	Quarterly Results of Operations	113
Non-GAAP Measures	11	Five Years in Review	114
Board of Directors	12	Corporate Information	115
Our Business	14	Officers	116
Management's Discussion and Analysis	27		

Financial Highlights (in millions, except EPS)

	2012	2011
Total revenue	\$ 22,390	\$ 22,626
Equipment sales	3,476	3,856
Annuity revenue	18,914	18,770
Net income – Xerox	1,195	1,295
Adjusted net income* – Xerox	1,398	1,563
Diluted earnings per share	0.88	0.90
Adjusted earnings per share*	1.03	1.08
Net cash provided by operating activities	2,580	1,961
Adjusted operating margin*	9.3%	9.8%

* See non-GAAP measures on Page 11 for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.



Today's Xerox is the world's leading enterprise for business process and document management.

That means we help take some of the work out of work. Our services, technology and expertise enable workplaces, big and small, to simplify the way work gets done so they can operate more effectively and focus more on what matters most: their real business.

Today's Xerox is simplifying the way work gets done in surprising ways.

Handling \$421 billion in accounts payables annually.

We simplify business by managing global finance, accounting and procurement operations for customers across the entire order-to-cash life cycle. All delivered as scalable solutions designed to help achieve measurable process efficiencies and cost savings in both the short and the long term.



Reducing document-related costs by up to 30%.

We simplify business by providing print services that help companies around the globe manage their costs by printing fewer pages, digitizing more documents, consolidating devices and lowering printing-related energy use.

Processing 900 million insurance claims every year.

We simplify business by helping healthcare providers, insurers and government agencies automate and accelerate the claims process and stay ahead of regulatory changes. Which in turn reduces turnaround time and costs for everyone.



Managing benefits for over 11 million employees.

We simplify business by supporting HR teams with industry-leading benefits administration ranging from complex health, welfare and defined benefit plans to innovative employee training tools and technology. All designed to help reduce risk, improve compliance and create great places to work.



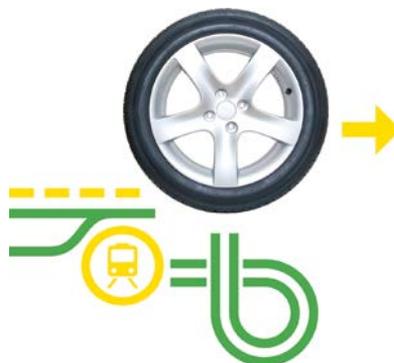
Answering 1.6 million customer interactions a day.

We simplify business by helping companies manage their customer care operations, help desks and online support. Giving access to timely, scalable and cost-effective call center solutions in any language, anywhere around the world.



Collecting 37 billion annual transit fares a year.

We simplify business by creating innovative, scalable and flexible fare collection solutions for public transit operators around the world. The results are not only an improved passenger experience and reduced operating costs, but with more people taking public transportation, fewer cars are on the road.



Letter to Shareholders



Ursula M. Burns
Chairman and
Chief Executive Officer

Dear Fellow Shareholders,

This report is filled with numbers. In our big data world, numbers speak volumes about results. They influence *your* investment decisions and they influence the way *we* run our business. I'm an engineer by training and lead with a strong passion for our brand and an obsession with the numbers that indicate our progress. We're a company going through considerable change at a time when economies are uncertain, the markets we serve are shifting and our "always on" connected world requires a faster pace and a more competitive edge to win. Numbers keep me grounded. They provide clarity of where we've been and where we're headed. Here's a glimpse of what I mean...

52 percent of our revenue now comes from Services. While our brand is still associated with our heritage in copying and printing, today more than half of our business is linked to a diverse portfolio of outsourcing services, including customer care (likely even for the company who makes your smartphone), healthcare claims reimbursement (likely for your private insurance company) and automated tolling and parking transactions (think EZ Pass and then think how long commutes would be without it).

84 percent of Xerox's revenue is annuity based. That's \$18.9 billion in revenue. A stable, less volatile base.

\$2.6 billion in operating cash flow, which reflects the cash-generating strength of this annuity-based business model.

#1 worldwide revenue market share leadership for our Document Technology. This speaks to the continued power of the Xerox brand in a market that we created and continue to benefit from through healthy margins and established relationships in 160 countries.

1,900. That's the total number of patents garnered by Xerox along with our colleagues at the Palo Alto Research Center and at Fuji Xerox last year alone, bringing to more than 11,500 the number of active

U.S. patents in our portfolio. This year, October 22 to be exact, marks the 75th anniversary of when Chester Carlson made the first xerographic image in his lab in New York City. His humble ways of applying innovation to more easily share information continue to be a source of inspiration for our research community. And, remarkably 75 years later, our innovation focus remains very true to Chester's – finding smarter ways to strip away complexity and simplify how work gets done.

These numbers are a big part of today's Xerox. We're evolving every day from the well-established copier company to the world's leading enterprise for business process and document management.

Our transformation comes with its share of challenges. In 2012, we continued to face them head on – prioritizing where we needed to make improvement and executing with precision to deliver. We made progress. In some areas, the progress isn't fast enough for me.

For example, as we ramp up growth in our Services business, we must also improve our Services operating margin. That means being more disciplined in how we execute large contracts, so we're applying innovation and identifying efficient ways to serve our clients better. We increased margins in the fourth quarter of 2012 – and I expect that the benefits of our operational focus in this area will deliver continued improvement going forward.

Despite the economic headwinds we faced last year, I believe we can improve revenue trends in our Document Technology business. We understand the market dynamics, know the pressure points and can identify where weakness is due to economy and where weakness is due to secular concerns. We are also clear eyed on areas of greatest growth potential – like in color printing and reaching more small and mid-size businesses around the world. Last year, we were conservative in the way we managed our Document Technology business. Due to



Michelin wanted to outsource F&A, so they made tracks to our door.

Our Challenge: Bring efficiency and cost savings to global Finance and Accounting operations.

Bottom-line Results: Michelin was initiating a major transformation program for its Finance function. To improve performance, reduce costs and enhance overall quality, the company chose us to provide global outsourced Finance and Accounting services. We built an F&A solution that today meets company requirements and service level expectations.

the economic uncertainty across most regions, we put our focus on reducing the cost base while expanding distribution through indirect channels. This year, we're ramping up marketing investments and introducing new offerings while broadening our channel partnerships – positioning us better to pursue profitable opportunities.

So, although 2012 presented our business with some obstacles, we moved forward in refining our business model, improving operational efficiency and growing our Services business – all while delivering value to you. Here's a summary of how we performed:

- Net income of \$1.2 billion; adjusted net income of \$1.4 billion.¹
- GAAP earnings per share of 88 cents; adjusted earnings per share of \$1.03.¹
- Total revenue of \$22.4 billion, down 1 percent or flat in constant currency¹ from 2011.
 - Total Services revenue of \$11.5 billion, up 6 percent or up 7 percent in constant currency.¹
 - Total Document Technology revenue of \$9.5 billion, down 8 percent or down 6 percent in constant currency.¹
- Operating margin of 9.3 percent.¹
- Operating cash flow of \$2.6 billion.
- Share repurchase of \$1.05 billion and \$255 million in dividends.

Priorities Drive Performance

We participate in a \$600 billion market. And we continue to tackle it aggressively on four fronts.

First: Managing our Services business for growth. I mentioned earlier that revenue from our Services business is now more than half of our total revenue and is growing at a steady pace. We expect it will grow to two-thirds of our revenue by 2017. My confidence in the long-term success of our Services business stems from the diversity of our offerings and the deep expertise we've established to work closely with clients on their important business processes:

- When a major automobile company selected Xerox to handle their employee benefits program, we were able to build, manage and support their open enrollment process in a matter of months.
- Just as a telecommunications company decided to start selling their new product in Brazil, they tapped us to open, staff and lead their in-country customer care service.
- As soon as the Affordable Care Act in the United States became more of a certainty for state governments, several of our government clients looked to us for help establishing Health Insurance Exchanges and strengthening the administrative backbone of their Medicaid and other health and welfare programs.

I could go on but the bottom line is that our Services business will continue to grow because of the breadth and depth of our offerings and, more important, because of our respected experience, innovation and expertise that wins us trust from our clients. That trust helped us sign new contracts during 2012 worth more than \$2 billion in annual revenue and to win 85 percent of the contracts that were up for renewal during the year. It's trust we never take for granted.



Norwegian State Railways needed dual-mode ticketing, we gave them paper and plastic.

Our Challenge: Launch interoperable e-ticketing and paper-based ticketing systems.

Bottom-line Results: To expand passenger self-service ticketing options and reduce operating costs, the Norwegian State Railway wanted an interoperable e-ticketing system and revenue collection and control system. We deployed national, paper-based and contactless smart card solutions that met the client's high requirements for quality, availability and reliability.

Second: Maintaining our leadership in Document Technology.

Print is changing, but it is far from dead. Where transactional black-and-white documents are in decline, color printing in offices and graphic communications settings is growing – and, not surprising, is an area of strength for our business. We offer the industry's broadest range of color printing technology to serve small offices all the way up to large production houses. You may no longer use inkjet printers in your home. (That's OK with me; it's not the business we're in.) But, in offices and print shops, our color technology is in demand and has resulted in pages on color devices growing 9 percent in 2012. Through an expanded network of channel partners, we're now able to bring the Xerox brand to more establishments around the globe.

Third: Managing our business with a focus on operational

excellence. This is something we're very proficient at today and it's an area where we never rest. It gives us the financial flexibility to help offset certain pressures on the business – whether it's economic uncertainty or necessary investments that drive growth. We continue to invest in what matters to our customers, including high-value scalable products and unrivalled service and delivery that earn customer loyalty.

Fourth: Delivering strong cash flow and returning value to you.

By executing with precision and excellence on the first three priorities, we delivered on the fourth. We generated \$2.6 billion in operating cash flow in 2012 and allocated \$1.05 billion of that cash to buy back a significant number of Xerox shares during the year. In addition, we paid out \$255 million in dividends during the year. You expect and deserve a strong return on your investment in Xerox and we owe you nothing less.

So, that's our story. Solid results in a challenging environment – a robust strategy for an expanding market opportunity – and a clear set of priorities aimed at creating value for all of our constituents. But that's only part of the story... here's the rest.

Creating Customer Value

I spend a lot of my time meeting with customers, learning about their business problems and trying to explain to them that we can help. Just a few years ago, that was a tough sell. The Xerox brand is powerful, but for many it stood for superior document technology. Period.

Talking to our customers about our Services offerings was often met with "Is that what Xerox does?" That has changed – partly because of our marketing efforts and partly because of the pervasiveness of our footprint. Today I can tell customers that we handle \$421 billion in accounts payables annually... answer 1.6 million customer interactions daily... manage benefits for more than 11 million employees... process 900 million insurance claims every year... collect 37 billion transit fares annually... reduce document-related costs for enterprises large and small by up to 30 percent... and a whole lot more.

Sustainable Strategy

I was speaking with students recently at NYU Polytechnic, my undergraduate alma mater, when a student asked me what Xerox might look like five years from now. The world is changing at such a dramatic pace that I imagine a lot of CEOs might have a difficult time answering



InterContinental Hotels Group needed a world-class managed print approach. We checked in with our global leadership and innovation.

Our Challenge: Improve the quality, efficiency and cost of document services at IHG's corporate office that can be scaled to other properties globally.

Bottom-line Results: When IHG wanted to build a foundation to streamline and automate business processes, reduce outside printing expenses and create a reliable in-house print center with color output capabilities, they turned to us. We introduced a more efficient back office that improved productivity through digital documents and automated work processes and saved IHG more than \$1.5 million a year on outside printing.

that question. Frankly, I didn't. That's because our strategy is built to evolve. We continue to invest heavily in innovation and to work with our customers to understand their changing needs. Although I can't tell you how we will be solving their business process problems five years out, I can tell you that we will continue to simplify the way their back-office work gets done while boosting productivity and reducing costs.

We've been at this for a very long time – ever since Chester Carlson set out to make office work a little easier. It's a journey toward a never-ending goal of making things simpler for our customers so they can focus on what matters most. That's what we'll be doing five years from now and likely 50 years from now as well.

To that end, the team at Xerox and I are bullish about the future. We know there'll be hurdles to overcome, we know where we can improve, but we also know we'll stay focused, impatient with the status quo and hungry for greater success. So this is a good time to keep your eye on Xerox. Here's why:

- Services-led growth;
- profitable leadership from Document Technology;
- cash-generating annuity-based business model;
- consistent earnings expansion; and
- financial strength to invest in building value for Xerox... and building value for you.

And, of course, we'll be doing all this with a passion for helping our customers succeed... a thirst for innovation... a respect for our people

and our commitment to help them grow... a deep desire to make our communities and our planet always better than they are... and a responsibility to create value for all our stakeholders. You can count on us to make it happen.

Thank you for your trust in Xerox. We work hard every day to earn it and to keep it. It's that simple.

Ursula M. Burns
Chairman and Chief Executive Officer

¹ 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.

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 on page 11.

Today's Xerox is a company that was built on innovation. It defines and differentiates us. Every year, the Xerox group, which includes our partnership with Fuji Xerox, invests well over a billion dollars to discover new ways to make our customers more successful.

As a global company, we benefit from gathering the unique insights of the most skilled researchers from around the world. Across five research centers in the U.S., Canada, Europe and India, our innovators are working together with partners and customers to explore new ways of turning ideas into differentiated value.

And it's clear that these efforts are working. One measure of how well we're doing is the number of patents our innovators are awarded. Currently, we have more than 11,500 active patents in our portfolio with 1,900 U.S. patents awarded to Xerox last year. As a result, our patent issuance is up

17 percent, ranking the Xerox group in the top 10 for patents granted in 2012.

If you look behind the scenes of our labs, you'll find Xerox exploring the future in unexpected but relevant ways. Sure, you'd see work that's broadening the boundaries of what's possible in digital printing, but you'd also find renowned work on intuitive data analysis and a variety of sustainable technologies and innovations that reflect today's Xerox. Here's a closer look at how innovation can simplify the ways work gets done.



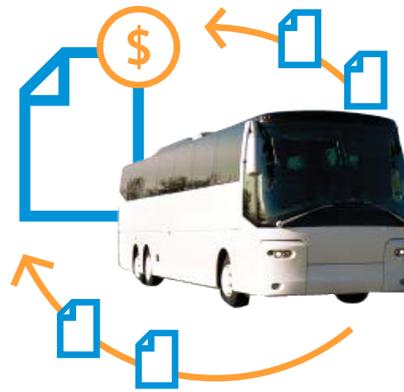
Delivering Better Patient Care

Observation: Nurses spend a tremendous amount of time compiling patient data from multiple sources.

Insight: Consolidating and simplifying processes gives nurses better information so they can spend more time on patient care.

Xerox Innovation: Creation of a digital dashboard that:

- Delivers a real-time view of patient status so they can make better healthcare decisions.
- Automatically aggregates data from electronic medical records, medical testing devices (X-rays, EKGs, MRIs) and more.
- Mobilizes the information (on mobile devices or rolling carts) for access wherever the patient goes.



Driving Public Transit with Data

Observation: In many cities, use of public transportation is declining while roadways are becoming more crowded.

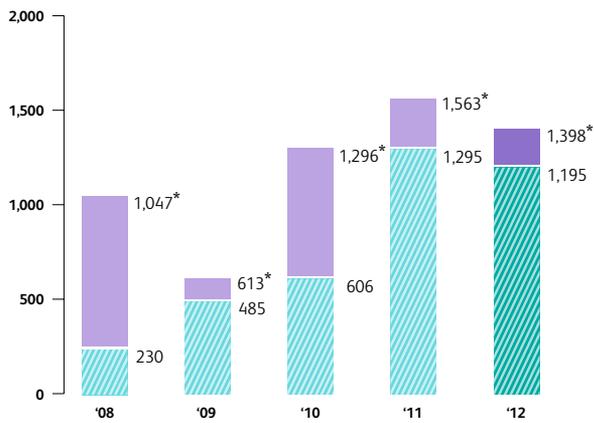
Insight: Analyzing user data could improve the passenger experience and increase overall use of public transportation.

Xerox Innovation: Mining previously unused ticketing data to deliver insights that:

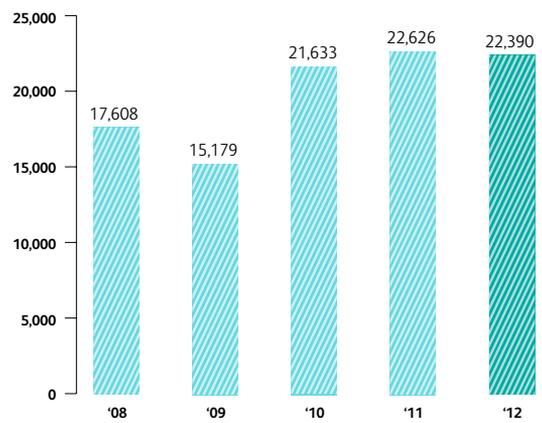
- Improve the overall network and remap the route system (schedules, number of stops and frequencies).
- Reduce travel and wait times for passengers.
- Inform timely decisions on new routes.

Financial Measures

Net Income – Xerox (in millions)

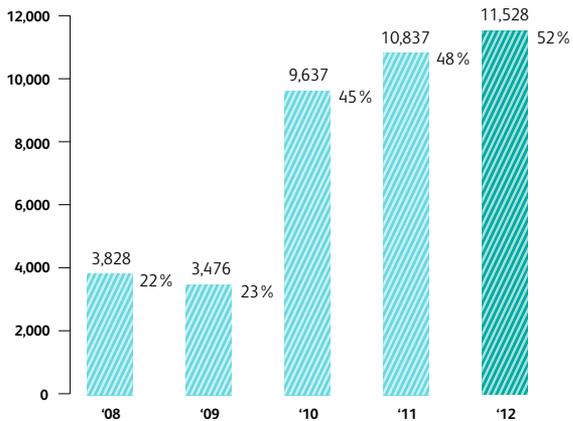


Total Revenue (in millions)



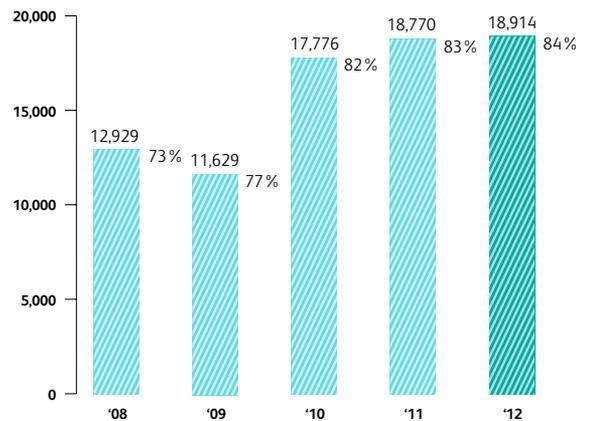
Total Services Segment Revenue

(in millions – percent of total revenue)

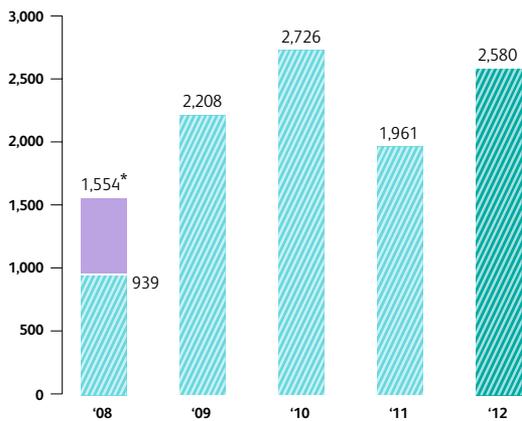


Annuity Revenue

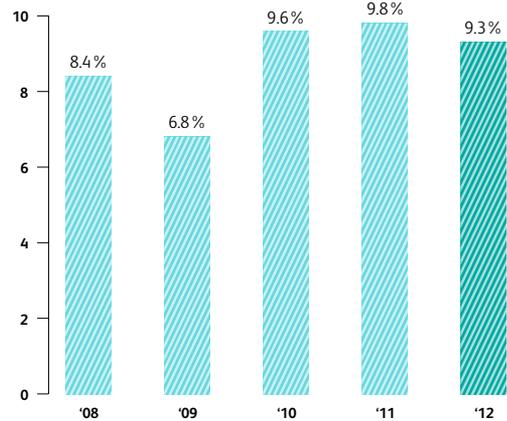
(in millions – percent of total revenue)



Net Cash from Operating Activities (in millions)



Adjusted Operating Margin*



* See non-GAAP measures for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

Non-GAAP Measures

Adjusted Earnings Per Share (EPS)

Year Ended December 31,

(in millions; except per-share amounts)	2012		2011		2010	2009	2008
	Net Income	EPS	Net Income	EPS	Net Income	Net Income	Net Income
As Reported	\$ 1,195	\$ 0.88	\$ 1,295	\$ 0.90	\$ 606	\$ 485	\$ 230
Adjustments:							
Amortization of intangible assets	203	0.15	248	0.17	194	38	35
Loss on early extinguishment of debt	-	-	20	0.01	10	-	-
Xerox and Fuji Xerox restructuring charge	-	-	-	-	355	41	308
ACS acquisition-related costs	-	-	-	-	58	49	-
ACS shareholders' litigation settlement	-	-	-	-	36	-	-
Venezuelan devaluation costs	-	-	-	-	21	-	-
Medicare subsidy tax law change	-	-	-	-	16	-	-
Provision for litigation matters	-	-	-	-	-	-	491
Equipment write-off	-	-	-	-	-	-	24
Settlement of unrecognized tax benefits	-	-	-	-	-	-	(41)
	203	0.15	268	0.18	690	128	817
Adjusted	\$ 1,398	\$ 1.03	\$ 1,563	\$ 1.08	\$ 1,296	\$ 613	\$ 1,047
Weighted average shares for reported EPS		1,329		1,444			
Weighted average shares for adjusted EPS		1,356		1,444			

Operating Margin (in millions)

Year Ended December 31,

	2012	2011	2010	2009	2008
	Total Revenues	\$22,390	\$22,626	\$21,633	\$15,179
Pre-tax Income (loss)	\$1,348	\$1,565	\$815	\$627	\$(79)
Adjustments:					
Amortization of intangible assets	328	398	312	60	54
Xerox restructuring charge	153	33	483	(8)	429
Curtailment gain	-	(107)	-	-	-
ACS acquisition-related costs	-	-	77	72	-
Equipment write-off	-	-	-	-	39
Other expenses, net	256	322	389	285	1,033
Adjusted Operating Income	\$2,085	\$2,211	\$2,076	\$1,036	\$1,476
Pre-tax Income Margin	6.0%	6.9%	3.8%	4.1%	(0.4%)
Adjusted Operating Margin	9.3%	9.8%	9.6%	6.8%	8.4%

Adjusted Net Cash from Operating Activities (in millions)

Year Ended December 31, 2008

Operating Cash Flow – As Reported	\$939
Adjustments:	
Payments for securities litigation	615
Operating Cash Flow – As Adjusted	\$1,554

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.

Board of Directors



Left to right, standing

Glenn A. Britt^B

Chairman and Chief Executive Officer
Time Warner Cable Inc.
New York, NY

Robert J. Keegan^{A, B}

Retired Chairman,
Chief Executive Officer and President
The Goodyear Tire & Rubber Company
Akron, OH

Ann N. Reese^{C, D}

Executive Director
Center for Adoption Policy
Rye, NY

Mary Agnes Wilderotter^D

Chairman and Chief Executive Officer
Frontier Communications Corporation
Stamford, CT

William Curt Hunter^{A, C}

Dean Emeritus, Tippie College of Business
University of Iowa
Iowa City, IA

Sara Martinez Tucker^{C, D}

President and Chief Executive Officer
National Math and Science Initiative
Dallas, TX

Left to right, seated

Charles Prince^{C, D}

Retired Chairman and Chief Executive Officer
Citigroup Inc.
New York, NY

Ursula M. Burns

Chairman and Chief Executive Officer
Xerox Corporation
Norwalk, CT

Richard J. Harrington^A

Retired President and Chief Executive Officer
The Thomson Corporation
Stamford, CT

Robert A. McDonald^{A, B}

Chairman of the Board, President and
Chief Executive Officer
The Procter & Gamble Company
Cincinnati, OH

A: Member of the Audit Committee

B: Member of the Compensation Committee

C: Member of the Corporate Governance Committee

D: Member of the Finance Committee

Today's Xerox is a company on the move with entrepreneurial grit and genuine competitive advantages, including the unbeatable blend of a broad range of diverse Services and innovative Document Technologies. Most important, we have talented and empowered people who are committed to growing our business with world-class service and technological advancements that simplify the ways work gets done.

Our Business

Business Overview

Xerox is the world's leading enterprise for business process and document management. We provide services, technology and expertise to enable our customers – from small businesses to large global enterprises – to focus on their core business and operate more effectively. The key areas in which we help businesses are:

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company with an expertise in managing transaction-intensive processes. This includes services which support all enterprises through offerings such as customer care, finance and accounting and human resources, as well as vertically focused offerings in areas such as healthcare, transportation, retail and telecommunications, among others.

Information Technology Outsourcing

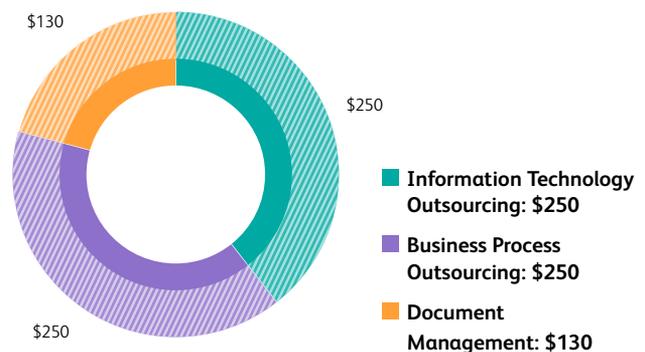
We specialize in designing, developing and delivering effective IT solutions that leverage our secure data centers, help desks and managed storage facilities around the world to provide a reliable IT infrastructure.

Document Technology and Document Outsourcing

Our document technology products and solutions support the work processes of our customers and provide them an efficient, cost effective printing and communications infrastructure. Our managed print services offering helps customers optimize the use of document systems across small businesses or large global enterprises.

We are a leader in a large, diverse and growing market estimated at over \$600 billion. The global **business process outsourcing** and **information technology outsourcing** markets are estimated at roughly \$250 billion each. These markets are very broad, encompassing horizontal business processes as well as industry-specific processes.

Market Size (in millions)



These market estimates are calculated by leveraging third party forecasts from firms such as Gartner and NelsonHall in conjunction with our assumptions about our markets.

The **document management** market is estimated at roughly \$130 billion. This market is comprised of the document systems, software, solutions and services that our customers have relied on for years to help run their businesses and reduce their costs. Xerox led the establishment of the managed print services market and continues to be the industry leader today.



Core Strengths

Our Brand
 Global Presence
 Renowned Innovation
 Operational Excellence

Businesses

Business Process Outsourcing
 IT Outsourcing
 Document Outsourcing
 Document Technology

Growth Drivers

Expand Globally
 Capitalize on Advantaged Verticals
 Disciplined Management of Portfolio
 Leverage Document Technology Leadership
 Expand Customer Relationships
 Invest in New Services

Our Strategy and Business Model

We are well-positioned to lead in the markets in which we participate. At the heart of our strategy is the creation of sustained shareholder value through EPS growth and strong cash flow.

Our core strengths which drive our strategy include:

- **Our Brand** – We have a well-recognized and respected brand that is known by businesses worldwide for delivering industry-leading document technology, services and solutions. It continues to be ranked in the top percentile of the most valuable global brands.
- **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 11,500 active U.S. patents and five global research centers, we continue to lead the document technology industry and to take our technology into new service areas. See the “Innovation and RD&E” section for additional information about our renowned innovation.

- **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 and for our business.

We use our core strengths and market opportunities to grow our businesses by executing on the following growth drivers:

- **Expand Globally** – We leverage our global presence and customer relationships to expand our BPO and ITO services internationally. The majority of our BPO and ITO revenues are currently derived from services provided to customers in the United States. In addition, we will continue to grow globally through acquisitions. Three of our 2012 acquisitions were made outside of the United States.
- **Capitalize on Advantaged Verticals** – Within our Services and Document Technology segments, we serve verticals in which we have deep expertise resulting from years of experience, strong customer relationships, large scale and our renowned innovation. Capitalizing on the opportunities that these strengths provide us will continue to be key to growth.

Our Business

An example of an advantaged vertical is healthcare, where we have built a \$2 billion business that touches every aspect of the industry – government, provider, payer, employer and pharma. In addition, we apply our innovation to differentiate our offerings. As a result, we are positioned to capitalize on current industry trends, including the changes presented by health reform. We also view transportation, wireless communications and graphic communications, among others, as advantaged verticals in which we have a leading position, strong capabilities and attractive market opportunities.

- **Disciplined Management of Portfolio** – Xerox has the most broad and diverse set of offerings in the Services segment and the most complete product portfolio in the Document Technology business. Our acquisitions are targeted at businesses that will increase our Services capabilities, position us in attractive Services segments and provide us with a greater global presence. We will continue to focus on managing our portfolio to maximize profitable growth.
- **Leverage Document Technology Leadership** – Xerox is the market share leader in the Document Technology market. We led the establishment of the managed print services (“MPS”) market and we continue to lead this area of market growth. Our MPS offerings continue to expand, and now consist of a continuum of offerings that serve large enterprise down through small and mid-size businesses. In addition, we leverage our leadership in Document Technology to help grow our business process outsourcing and IT outsourcing businesses.
- **Expand Customer Relationships** – We expand customer relationships through a strategy of “penetrate and radiate.” As we establish relationships, we prove our capabilities and then work with the customer to determine other areas where we can improve their operations and drive down costs by managing non-core parts of their business. Our wide array of Services offerings enables us to do this effectively and results in a win-win for Xerox and our customers.
- **Invest in New Services** – Our Services acquisitions are a key element of our strategy. We target companies that provide new capabilities, offer access to adjacent services areas or expand our geographic presence. We will continue to invest in new services to grow our business profitably.

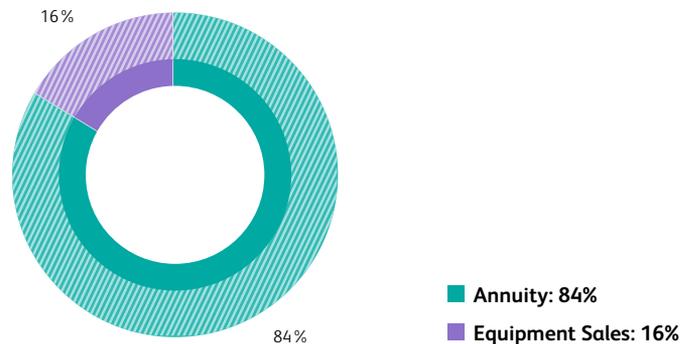
Annuity-Based Business Model

Through our annuity-based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 84 percent of our 2012 total revenue was annuity-based revenue that includes contracted services equipment maintenance, consumable

supplies and financing, among other elements. The remaining 16 percent of our revenue comes from equipment sales, either from lease agreements that qualify as sales for accounting purposes or outright cash sales.

Revenue Stream



Our strategy and business model fundamentals translate into the following 2013 priorities:

- managing our Services business for growth;
- maintaining our leadership in Document Technology;
- managing our business with a focus on operational excellence; and
- delivering strong cash flow and returning value to shareholders.

Acquisitions

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

In July 2012 we acquired:

- **Wireless Data Services (“WDS”)**, a telecommunications technical support and consultancy firm headquartered in the U.K. WDS uses a proprietary cloud-based platform called GlobalMine™ to capture, analyze and manage millions of technical support interactions across thousands of different types of mobile devices.
- **Lateral Data**, a leading e-discovery technology provider based in the United States. Lateral Data’s flagship software, Viewpoint™, brings simplicity and affordability to e-discovery by enabling corporate legal departments and law firms to manage the entire e-discovery lifecycle using a single, in-house solution.

In January 2012 we acquired:

- **LaserNetworks Inc.**, a provider of MPS solutions that include print device tracking, centralized service and supply management and document routing. LaserNetworks is headquartered in Canada.

- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our business process outsourcing capabilities across Europe.

Additionally, we made the following acquisitions consistent with our strategy to expand distribution to under-penetrated markets:

- In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, printers and MPS, with locations in seven cities in Iowa and Illinois.
- In addition, we enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Innovation and RD&E

Xerox has a rich heritage of innovation that continues to be a core strength of the company as well as a competitive differentiator. Our investments in innovation align with growth opportunities in areas like business services, color printing and customized communication. Our overall aim is to create value for our customers, for our shareholders and for our people by influencing the future in certain key areas. Our research work can be categorized under four themes:

- **Implementing Agile Business Processes:** To enable true business process agility, our research aims to automate business processes via flexible platforms that run on robust and scalable infrastructures. Automation of business processes benefits from our research on image, video and natural language processing coupled with machine learning. Application of these methods to business processes enables technology to perform tasks that today are performed manually by workers, thus enhancing worker productivity.
- **Harvesting Knowledge from Information:** Information comes in two forms: structured, where the content sits tidily in searchable indices or in limiting databases; or unstructured, where content can be anything from photos, videos, hand-written forms, emails, etc. Unstructured information has endless growth and creates a need for businesses to be more effective in mining context from content. This is a key research area for us – making sense of unstructured information using natural language processing and semantic analysis. We explore how to better analyze information for human use by better understanding contextual detail on how the content has been created and used. We are also developing proprietary methods for predictive analytics applied to business processes.
- **Delivering the Value of Personalization:** Our research leads to technologies that improve the efficiency, economics and relevancy of business communications and printing applications. We research methods to create affordable ubiquitous color printing, leveraging our solid ink printing technology. We are also exploring ways to

expand the application space of digital printing to cover new applications such as packaging printing and printing directly on mediums that go far beyond paper, like food and clothing.

- **Enabling the Sustainable Enterprise:** Our research also focuses on developing technologies that minimize the environmental impact of document systems and business processes. An example is how we are continually working on lowering the operating and standby power of our printing systems by using new materials and print processes.

Within this framework, one particular area of focus is data analytics – simplifying complex data to turn it into actionable knowledge – helping our customers drive operational efficiencies, guide decisions, yield new insights and help predict what is next. The following are a few ways in which we are achieving this:

- **Digital Nurse Assistant**
With the overload of information and data in the workplace, often more time is spent wading through data than focusing on the task at hand. When information can be intelligently aggregated and grouped, time can be saved. In healthcare, nurses sometimes spend 75 percent of their day coordinating documents. One of the innovations we developed, Digital Nurse Assistant, collects and categorizes all patient information into a simple, touch-screen dashboard. This means that critical patient information is not in a computer or in a file somewhere, it's in the hands of the people who need it.
- **Mining Mobile Information**
GlobalMine™, a proprietary cloud-based platform, captures, analyzes and manages millions of technical support interactions across thousands of different mobile device types. This data helps telecommunications clients react, in real time, to any systems issues or customer satisfaction problems that their customers may be experiencing with their devices or service.
- **Making Transportation Information and Data Meaningful**
The millions of commuters who take public transportation also provide critical data about their daily habits, and that can be used to optimize service and save money for cities. Xerox analytics uses this information to provide cities with structured data, which becomes the basis for schedule and infrastructure improvements that are responsive to what their passengers need. This has resulted in increased ridership and lower costs in the cities in which it has been implemented.

Our Business



Global Research Centers

We have five global research centers that have unique areas of focus. They are places where creativity and entrepreneurship are truly valued and leadership has empowered employees to deliver, resulting in leading-edge research and high-impact innovations that make a difference in the world. Our research centers are as follows:

Palo Alto Research Center (“PARC”) – Located in Palo Alto, California, PARC is a wholly owned subsidiary of Xerox that is focused on innovation on behalf of Xerox in areas that include content-centric networking, intelligent mobile computing and intelligent automation. PARC also leverages its heritage as the birthplace of modern technologies to provide research and development for non-competitive businesses in areas that include UV-LEDs and ethnography services.

Xerox Research Centre of Canada (“XRCC”) – Located in Mississauga, Ontario, Canada, XRCC is Xerox’s materials research center with a focus on imaging and consumable materials, such as toner and inks, for our document technology.

Xerox Research Center Webster (“XRCW”) – Located in Webster, New York, XRCW focuses on system design, imaging, computing and marking science. In addition, XRCW is now focused on innovation to help the healthcare industry.

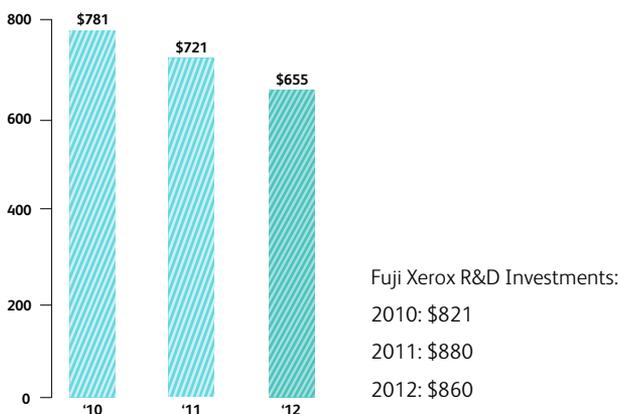
Xerox Research Centre Europe (“XRCE”) – Located in Grenoble, France, XRCE research differentiates Xerox business process service offerings. The center focuses on image, text and data analytics, business process modeling and the study and understanding of work practices.

Xerox Research Center India (“XRCI”) – Located in Chennai, India, XRCI focuses on unique innovation opportunities that emerge in, and best serve, developing markets. As Xerox’s newest research lab, XRCI has a broad mandate to foster innovation across our document technology and business process services offerings.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest). We have aligned our R&D investment portfolio with our growth initiatives, including enhancing customer value by building on our Services leadership as well as accelerating our color leadership.

Our total research, development and engineering expenses (including sustaining engineering expenses, which are the hardware engineering and software development costs incurred after we launch a product) totaled \$655 million in 2012, \$721 million in 2011 and \$781 million in 2010. Fuji Xerox R&D expenses were \$860 million in 2012, \$880 million in 2011 and \$821 million in 2010.

RD&E Expenses (in millions)



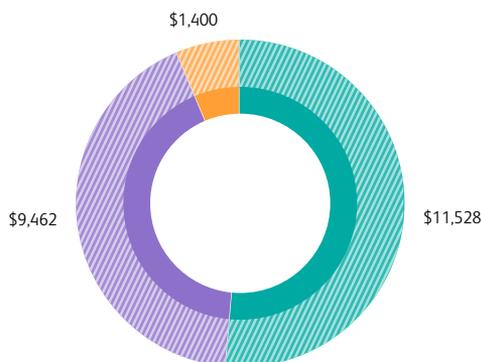
Segment Information

Our reportable segments are Services, Document Technology 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 small and mid-size businesses (“SMBs”) to graphic communications companies, governmental entities, educational institutions and Fortune 1000 corporate accounts. None of our business segments depend 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

Our Services segment is the largest segment within the company, with \$11,528 million in revenue in 2012, representing 52 percent of total revenue. The Document Technology segment contributed \$9,462 million in revenue, representing approximately 42 percent of total revenue, while the Other segment contributed \$1,400 million in revenue representing approximately 6 percent of total revenue.

Revenues by Business Segment (in millions)



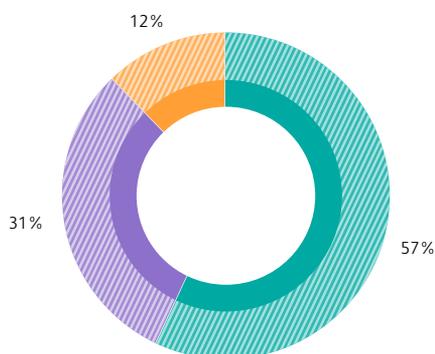
- Services: \$11,528**
 Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”).
- Document Technology: \$9,462**
 Document Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products.
- Other: \$1,400**
 The Other segment primarily includes revenue from paper sales, wide-format systems, network integration solutions and electronic presentation systems from Global Imaging Systems (“GIS”).

Our Business

Services Segment

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”). We provide non-core, mission-critical services that our clients need to run their day-to-day business. These services help our clients simplify the way work gets done, giving them more time and resources to allocate to their core operations, respond rapidly to changing technologies and reduce expenses associated with their business processes and information technology support.

Services Revenue Mix



- **Business Process Outsourcing: 57%**
- **Document Outsourcing: 31%**
- **Information Technology Outsourcing: 12%**

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with an expertise in transaction-intensive offerings tailored for several industries. BPO represented 57 percent of our total Services segment revenue in 2012. Our services include:

- **Government Healthcare Solutions:** This business serves state and federal-funded government healthcare programs. We provide a broad range of solutions, from processing Medicaid claims to pharmacy benefits management, clinical program management, supporting health information exchanges, eligibility application processing and determination, delivering public and private health benefit exchange services and care and quality management. We have been delivering these systems since 1971 and we apply our deep knowledge of the Medicaid system, along with technological advances, to simplify and automate transaction-intensive processes. As a result, we are uniquely positioned to capitalize on the opportunities that healthcare reform is presenting.

- **Healthcare Payer and Pharma:** 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 data capture, claims processing, customer care, recovery services and healthcare communications. No competitor has offerings in all of these areas.
- **Healthcare Provider Solutions:** We provide consulting solutions, revenue cycle management and application services that are customized to meet the varying and changing needs of healthcare providers. We serve every large health system in the United States, with contracts in all 50 states. We also help our clients improve care through an analytics solution designed to provide clinical staff information.
- **Human Resources Services (“HRS”):** From actuarial expertise to a full range of human resources consulting – from employee service centers to learning, retirement, health and welfare services – HRS delivers game-changing, innovative solutions that enable our clients to focus on their business. We differentiate ourselves around two themes of innovation: engagement and enablement. We help HR departments engage employees as individuals by communicating to them with personalized messages and enabling employees to get smarter about managing their own health, wealth and career outcomes.
- **Financial Services:** We provide finance and accounting services for any industry – from accounting to billing to procurement to accounts payables and receivables to tax management. In addition, we provide outsourcing of financial aid and enrollment office operations for colleges and universities and back-room functions such as customer services, transaction processing and mailroom operations for the financial services industry. We have a deep understanding of what drives the customer and we move beyond simply driving down costs.
- **Customer Care:** Xerox is the largest domestic customer care provider to the wireless telecom industry. We have years of experience in providing customer care services that improve our customers’ productivity, efficiency and customer retention in telecommunications as well as a variety of other industries. Our customer care offerings include: customer service, sales, technical support, transaction processing, fulfillment and managed mobility services, among others.
- **Retail, Travel and Insurance:** We provide technology-based transactional services for retail, travel and non-healthcare insurance companies. We handle their data entry, mailrooms, imaging input and hosting, call centers and help desks with targeted industry focus.
- **Transportation Solutions:** We provide revenue-generating solutions in over 30 countries. Our solutions include fare collection, toll and parking solutions and monitoring of red light cameras. We

differentiate through the breadth of our offerings and innovative technology. For example, we developed dynamic pricing algorithms, which will be used in the new Los Angeles ExpressPark program. This program will create a new pricing system designed to relieve traffic congestion, reduce air pollution and improve the efficiency of downtown LA's transit operations.

- **Government Solutions:** We support our government clients with solutions for child support payment processing, tax and revenue systems, eligibility systems and services, electronic payments transfer, electronic payment cards and unclaimed property services, among others. Our competitive advantage is our depth of local expertise, while at the same time having the scale required to deliver and manage multiple programs for federal, state, county and town governments.

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 risk of disruption to our clients' daily operations. ITO represented 12 percent of our total Services segment revenue in 2012.

We provide our ITO services across several verticals. Our ITO services include:

- **Mainframe and Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth, and provide comprehensive systems support services. 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.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **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.
- **Cloud Services:** Our cloud services solutions cover the full range from infrastructure, mobility, collaboration and platform. We designed our solutions to quickly scale up or down and fit different business needs. These solutions are delivered through our cloud-based, multi-tenant infrastructure with compliance, monitoring and performance transparency built in.

In addition, we provide Remote Infrastructure Management, Help Desk/Service Desk Management, Managed Storage, Utility Computing, Disaster Recovery and Security Services.

Document Outsourcing

We are the 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 simplify their communication and business processes to grow revenue, reduce costs and operate more efficiently. DO represented 31 percent of our total Services segment revenue in 2012. Our two primary offerings within Document Outsourcing are Managed Print Services and Communication and Marketing Services.

- **Managed Print Services ("MPS"):** Xerox MPS optimizes, rationalizes and manages the operations of Xerox and non-Xerox print devices, driving efficiencies that can save clients up to 30 percent on their document-related costs. We provide the most comprehensive portfolio of MPS services in the industry, supporting small and mid-size businesses up through large global enterprises.

The key factors that differentiate us include our commitment to innovation and technology, including our cloud-based connectivity and integrated suite of software tools, as well as our global direct and channel partner coverage and certification programs. In addition, the industry's broadest portfolio of printing products sets us apart from our competition. We are recognized as an industry leader by several major analyst companies, including Gartner, IDC, Quocirca and Forrester.

We also partner with industry leaders to enhance our solutions. As an example, we recently selected Cisco's Unified Computing System ("UCS") to support our network of cloud-based MPS delivery centers around the world and speed up the connection between data servers and the more than one million Xerox and non-Xerox print devices we manage. As a result, customers experience a faster, more reliable delivery of MPS applications and we stay ahead of their needs by utilizing the data we collect to continually recommend new ways to simplify the way they work with both paper and digital documents.

The Xerox MPS continuum complements and provides opportunities to expand existing BPO and ITO services. Within BPO accounts, Xerox MPS helps to improve workflow and enhance employee productivity. In ITO accounts, MPS complements the client IT services that we are currently managing and positions Xerox as a complete IT services provider.

Our Business

- **Communication & Marketing Services (“CMS”):** CMS delivers end-to-end outsourcing for design, communications, marketing, logistics and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through traditional routes such as print, but also through a growing number of multimedia channels including SMS, Web, email and mobile media.

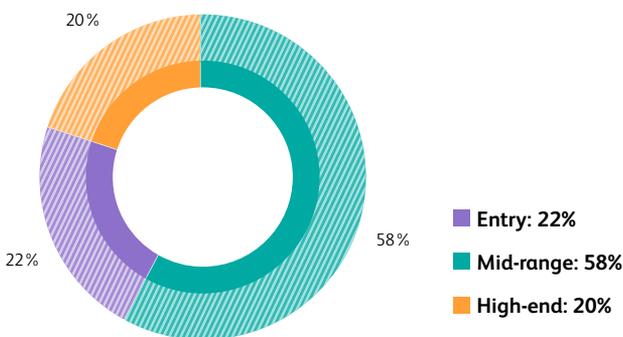
We help our clients identify how their customers want to be engaged, tailor their content, translate it, personalize their communication, decide on the appropriate channel, execute on campaigns and measure the resulting success.

Our advantage results from the breadth of our capabilities and our service-orientated approach that provides a single, seamless service for all communication and marketing logistics.

Document Technology Segment

Document Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (that which is not related to document outsourcing contracts). Our Document Technology business is centered around strategic product groups that share common technology, manufacturing and product platforms.

Document Technology Revenue Mix



Our strategic product groups are as follows:

Entry

Entry comprises products sold primarily to small and mid-size businesses through a worldwide network of independent resellers and online merchants. Our entry products represented 22 percent of our total Document Technology segment revenue in 2012. It 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 2012, we continued to build on our position in the market by:

- making high-quality desktop color more affordable and easier to use for all businesses;
- expanding our channel reach, partner programs and capacity to support the needs of small to mid-size businesses in our customers’ preferred buying locations; and
- launching products and solutions that help individuals, small work teams, large workgroups or whole departments achieve their business goals.

In 2012, we added the following products:

- **ColorQube® family multifunction printers:** Based on Xerox solid ink technology, the ColorQube 8700 and ColorQube 8900 multifunction printers provide cost savings and color quality for small and mid-size businesses. In addition, they have the ability to expand into a floor device with extra paper capacity and helpful finishing options.
- **WorkCentre® 3315 and WorkCentre® 3325:** These high-performance monochrome products feature a print speed of up to 37 pages per minute (ppm) and a first-page-out time of 6.5 seconds. The WorkCentre 3325 also comes standard with internal Wi-Fi connectivity and the latest security features. Both devices feature a small footprint, allowing for easy integration within customer work environments.
- **Phaser® 7100 Color Printer:** This printer produces exceptional print quality on a wide variety of media – including oversize paper. The Phaser 7100 can be used either on a desktop or as a floor device with print speeds of up to 30 pages per minute and simple printer management with CentreWare Internet service.
- **The WorkCentre® 6605 and Phaser® 6600 printers:** These devices provide vibrant color output for smaller businesses and feature print resolution of up to 600 X 600 X 4 dpi and color and black-and-white print speeds of up to 36 ppm.

Mid-Range

Mid-range comprises products sold to enterprises of all sizes, principally through dedicated Xerox-branded partners and our direct sales force, indirect multi-branded channel partners and resellers worldwide. Our mid-range products represented 58 percent of our total Document Technology segment revenue in 2012. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features. In 2012, our mid-range business continued to build on our position in the market by:

- making high-quality color more affordable and easier to use for small and mid-size businesses and large enterprises;
- expanding our channel reach, partner programs and capacity to support the needs of the SMB market; and
- 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 document workflows.

The breadth of our mid-range product portfolio is unmatched. These products include:

- **Xerox WorkCentre® 7525/7530/7535:** These multifunction printers are equipped with features to help small and mid-size businesses boost productivity and meet their sustainability goals. They offer speeds up to 25, 30 and 35 ppm color and black-and-white. The MFPs, which can print, copy, scan, fax and email, include advanced document management and workflow tools to make office work easier and also offer unparalleled ease of use and security features. In addition, the Hi-Q LED print engine technology consumes less energy and space and produces less noise, with a printing resolution of 1200 x 2400 dots per inch.
- **Xerox ColorQube® 9301/9302/9303:** The ColorQube 9300 series combines Xerox's solid ink innovation with our legacy of advanced multifunction product leadership. This results in a multifunction printer that produces vivid color quality that is affordable and produces significantly less printing waste versus comparable color laser devices. The device copies and prints at speeds up to 55 ppm color and 60 ppm black-and-white, while increasing productivity even further with speeds up to 85 ppm in Fast Color mode for draft or short-life documents.
- **Xerox WorkCentre® 5325/5330/5335:** The highly modular WorkCentre 5300 series black-and-white MFP serves both small and mid-size businesses as well as enterprise office environments. Its customizable workflow solutions help customers in document-intensive industries such as legal, healthcare and financial make their daily tasks more efficient.
- **Xerox D95/110/125 Copier/Printer:** This device offers production print, copy, scan and advanced finishing capabilities for pay-for-print shops and centralized reprographic departments, in addition to education, healthcare and many other industries. With industry leading speeds of up to 125 ppm, this D95/110/125 Copier/Printer helps customers increase productivity and reduce costs.

High-End

Our high-end digital color and monochrome solutions are designed for customers in the graphic communications industry and for large enterprises. Our high-end products comprised 20 percent of our total

Document Technology segment revenue in 2012. These devices enable digital on-demand printing, full-color printing and enterprise printing. We continue to expand our portfolio of cut sheet and continuous feed offerings in both toner and inkjet products. Our hardware and our integrated solutions, such as automated in-line finishing, result in "touch less" workflows (with little to no manual processing or human intervention) allowing Xerox customers to produce more jobs and grow their business.

For more than two decades, Xerox has delivered innovative technologies that have revolutionized the production printing industry, maintaining our position as the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2012 with the launches of:

- **Xerox iGen® 150:** In May at drupa, we introduced our latest iGen product. The iGen 150 builds on the capabilities of the Xerox® iGen4 with a number of new feature sets. The fastest cut sheet product in the production color fleet prints at 150 A4 ppm. In addition, we included a new 26" internal stacker to maximize output of the largest sheet size in the industry. A number of automated color management tools help enable productivity and our latest finishing solution, Integrated Plus, makes the production of booklets simpler.
- **Xerox Nuvera® 157/314:** At Graph Expo in October, we introduced the latest members of the Xerox Nuvera family, the Xerox Nuvera 157 and tandem engine 314 black-and-white production products. These products build on the success of the Xerox Nuvera family and offer new speed levels and functionality. The top speed of the single engine is increased to 157 ppm and to 314 images per minute in the tandem configuration. These devices also contain a new production stacking system that delivers neat output stacks at waist level that can be unloaded as the engine continues to print.
- **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.

Other Segment

The Other segment primarily includes revenue from paper sales, wide-format systems, network integration solutions and electronic presentation systems from Global Imaging Systems. Paper comprised approximately 59 percent of the revenues in the Other segment in 2012.

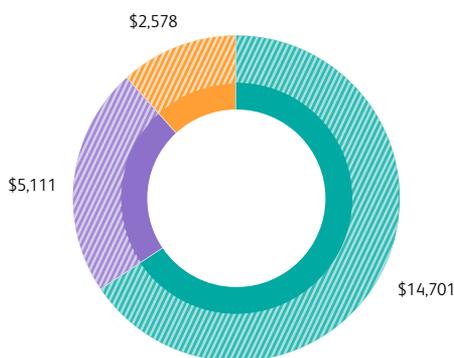
Our Business

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 34 percent of our revenue is generated by customers outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand our Services business in Europe and developing markets.

In 2012, our revenues by geography were as follows: United States: \$14,701 million (66 percent of total revenue), Europe: \$5,111 million (23 percent of total revenue) and Other areas: \$2,578 million (11 percent of total revenue).

Revenues by Geography (in millions)



- U.S.: \$14,701
- Europe: \$5,111
- Other Areas: \$2,578

Revenues by geography are based on the location of the unit reporting the revenue and include export sales.

Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,215 U.S. utility patents in 2012. On that basis, we would rank 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 about 1,900 U.S. utility patents in 2012. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2012, we held more than 11,500 U.S. design and utility 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 2012, we added 11 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in all 11 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, Océ, Sharp, Samsung, Seiko Epson and Toshiba TEC. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 500 U.S. 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

We operate in over 160 countries worldwide and 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. We manage our business based on the principal 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 go to market with a Services-led approach and sell our products and services directly to customers through our worldwide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web. In addition, our wholly-owned subsidiary, Global Imaging Systems ("GIS"), an office technology dealer which is comprised of regional core companies in the United States, sells and services document management systems, network integration devices and electronic presentation systems.

For small and mid-size businesses, we continued to expand our distribution in 2012 as GIS acquired four companies. Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands.

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 distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties distributing our products in Sudan and Syria. 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. Now, Xerox has only legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2012, total Xerox revenues of \$22.4 billion included less than \$35 thousand attributable to Sudan and Syria.

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.

In the Services business, our larger competitors include Accenture, Aon, Computer Sciences Corporation, Convergys, Dell, Genpact, Hewlett-Packard, IBM and Teletech. In addition, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

In the Document Technology business, our larger competitors include Canon, Hewlett-Packard, Kodak, Konica Minolta, Lexmark and Ricoh.

Our brand recognition, positive reputation for business process and document management, innovative technology and service delivery are our competitive advantages. This combined with our breadth of product offerings, global distribution channels and customer relationships positions us as a strong competitor going forward.

Global Employment

Globally, we have approximately 147,600 direct employees, including approximately 7,100 sales professionals, approximately 11,300 technical service employees and approximately 100,000 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. 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. Additionally, because we primarily finance our own products and have a long history of providing financing to our customers, we are able to minimize much of the risk normally associated with a finance 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, proceeds from capital market offerings and the sale of selected U.S. finance receivables. At December 31, 2012, we had \$5.3 billion of finance receivables and \$0.5 billion of equipment on operating leases, or total finance assets of \$5.8 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets, which results in a significant portion of our \$8.5 billion of debt being 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, NY, where we produce fusers, photoreceptors, Xerox iGen and Xerox Nuvera systems, components, consumables and other products. We also 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, OR, for solid ink products, consumable supplies and components for our mid-range and entry products. We also have a 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 through 2014. 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 8 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2012 Annual Report for additional information regarding our relationship with Fuji Xerox.

Our Business

Services Global Production Model

Our global services production model is one of our key competitive advantages. We have approximately 120 Strategic Delivery Centers located around the world including India, Mexico, Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. These locations are comprised of Customer Care Centers, Mega IT Data Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. 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 own a 25 percent interest and FUJIFILM Holdings Corporation (“FujiFilm”) owns a 75 percent interest. 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 2012, 2011 and 2010 that are included in Note 2 – Segment Reporting in the Consolidated Financial Statements in our 2012 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 our 2012 Form 10-K.

Backlog

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.

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

With sales approaching \$23 billion, we are the world's leading global enterprise for business process and document management. Our services, technology and expertise enable customers – from small businesses to large global enterprises – to focus on their core business and operate more effectively. Headquartered in Norwalk, Connecticut, we offer business process outsourcing, document 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. We also provide extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size. Through our business process and IT outsourcing services as well as our document technology and managed print services, we operate in a market estimated at over \$600 billion. The 147,600 people of Xerox serve customers in more than 160 countries. Approximately 34% of our revenue is generated outside the U.S.

We organize our business around two main segments: **Services** and **Document Technology**.

- Our **Services** segment is comprised of business process outsourcing, information technology outsourcing and document outsourcing. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.

A key priority in 2012 was continued growth in our services business. Revenue from services grew 6%, reflecting growth from all three lines of business, business process outsourcing ("BPO"), information technology outsourcing ("ITO") and document outsourcing services ("DO"). Growth in BPO benefited from recent modestly-sized acquisitions, consistent with our strategy to continue diversifying our services portfolio and to expand our business globally. In 2012, total business signings were nearly \$11 billion and revenue from services represented 52% of our total 2012 revenue. Segment margin began to improve during 2012 and was up 0.9 points in the fourth quarter 2012 as compared to the prior year.

- Our **Document Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (excluding contracts related to document outsourcing).

Our product groups within this segment include Entry, Mid-range and High-end products.

In 2012, as a result of economic uncertainties in several regions and secular shifts in the marketplace, we focused our efforts on productivity improvements and reductions in our cost base, as well as steadily expanding distribution through indirect channels. As a result, we maintained market leadership in the fastest growing, most attractive segments of this market and segment margin remained comparable with 2011. During the first quarter of 2013, we will launch new and refreshed products that enhance our portfolio of mid-range and production color document systems. In addition, we are launching a new operating system and software for our line of multifunction printers ("MFPs") that add extensive cloud-based functionality and embedded security protection from McAfee. We expect that this operating system integrated with new products will help drive improved installs and sales of Xerox equipment throughout the year.

Approximately 84% of our 2012 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in Services. Some of the key indicators of annuity revenue growth include:

- New Services business signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period.
- Services renewal rate, which is defined as the annual recurring revenue ("ARR") on contracts that are renewed during the period, calculated as a percentage of ARR on all contracts that were up for renewal during the period.
- Services pipeline growth, which measures the year-over-year increase in new business opportunities.
- Installations of printers and multifunction printers as well as the number of page-producing machines in the field ("MIF") and the page volume and mix of pages printed on color devices, where available.

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

- **Wireless Data Services ("WDS")**, a telecommunications technical support and consultancy firm headquartered in the United Kingdom.
- **Lateral Data**, a leading e-discovery technology provider based in the United States.
- **LaserNetworks Inc.**, a Canada-based provider of managed print services solutions that include print device tracking, centralized service and supply management and document routing.
- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our BPO capabilities across Europe.

Management's Discussion

In addition, during 2012 we acquired companies that expand our distribution capacity for Xerox document technology to small and mid-sized businesses ("SMB") and in under-penetrated markets. These acquisitions include **R.K. Dixon**, a leading provider of IT services, printers and managed print services, with locations in seven Iowa and Illinois cities. We also enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Financial Overview

During 2012 we focused on aligning our costs, investments, diverse portfolio and operations with our services-led strategy that is designed to accelerate growth in Services while maximizing the profitability of our Document Technology business.

Total revenue of \$22.4 billion in 2012 declined 1% from the prior year, with a 1-percentage point negative impact from currency. Total revenue reflected 6% growth in our Services segment as a result of strong performance in BPO, ITO and DO services. Document Technology revenues in 2012 declined 8% from the prior year and included a 2-percentage point negative impact from currency. Document Technology revenues in 2012 continued to be impacted by the weak macro-economic environment as well as an increasing migration of customers to our managed print services.

Net income attributable to Xerox for 2012 was \$1,195 million and included \$316 million of after-tax costs and expenses related to the amortization of intangible assets and restructuring. Net income for 2012 reflects continued pressure on margins, as we scale our revenue in Services and ramp-up new contracts, partially offset by operational improvements and cost reductions from restructuring actions. We incurred additional pre-tax restructuring charges of \$120 million in 2012 as compared to 2011 as we actively manage our cost structure to improve profitability and better align it with our services-focused business model. Net income attributable to Xerox for 2011 was \$1,295 million and included \$305 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring and the loss on the early extinguishment of a long-term liability, which were partially offset by an after-tax curtailment gain of \$66 million.

Cash flow from operations was \$2.6 billion in 2012 as compared to \$2.0 billion in 2011. The increase in cash was primarily due to the sales of receivables as well as a higher net runoff of finance receivables as a result of lower equipment sales. This increase was partially offset by higher accounts receivables primarily due to the growth in Services revenue. Cash used in investing activities of \$761 million primarily reflects capital expenditures of \$513 million and acquisitions of \$276 million. Cash used in financing activities was \$1.5 billion, which primarily reflects \$1.1 billion for the repurchase of common stock, \$255 million for dividends and a \$100 million reduction in Commercial Paper. We also issued approximately \$1.1 billion in new Senior Notes to fund the May 2012 maturity of our \$1.1 billion 5.59% Senior Notes.

We expect 2013 revenue in the range of flat to growing 2%, excluding the impact of currency. In our Services business, we expect continued revenue growth in the mid-to-high single digits. Services margins are expected to be in the 10%-12% range as the Company places a heightened focus on operational efficiencies and applying innovation to automate more business processes. In our Document Technology business, we expect a mid-single digit revenue decline, an improvement from the prior year. The Company expects to benefit from product launches and the expansion of indirect channels plus the acceleration of color printing in key markets, all of which partially offset declines primarily related to black-and-white printing. Margins in Document Technology are expected to be flat on a year-over-year basis, continuing to support the strong profitability of this mature business and providing flexibility to accelerate growth in the digital color and SMB markets.

Europe

As of and for the year ended December 31, 2012, approximately \$3.1 billion of our total revenues and \$4.1 billion of our total assets are based in countries where the Euro is the functional currency. Approximately \$1.8 billion of those assets are finance receivables and approximately 15% of those receivables are with governmental entities. Accordingly, we are impacted by the challenges facing the Euro zone economies and governments, and we expect those challenges to continue into 2013.

Currency Impact

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 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 34% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally 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 5% stronger in 2012 and 5% weaker in 2011, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 1% detriment in 2012 and a 2% benefit in 2011.

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

Application of the various accounting principles in GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Refer to Note 1 – Summary of Significant Accounting Policies – Revenue Recognition in the Consolidated Financial Statements for additional information regarding our revenue recognition policies. Specifically, the revenue related to the following areas involves significant judgments and estimates:

- Bundled Lease Arrangements
- Sales to Distributors and Resellers
- Services – Percentage-of-completion

Bundled Lease Arrangements – We sell our equipment under bundled lease arrangements, which typically include the equipment, service, supplies and a financing component for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 35% of our equipment sales revenue is related to sales made under bundled lease arrangements. Recognizing revenues under these arrangements requires us to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

Sales to Distributors and Resellers – We utilize distributors and resellers to sell many of our Document Technology products to end-user customers. 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 rebate, price-protection, cooperative marketing and other programs, and we record provisions and allowances for these programs as a reduction to revenue when the sales occur. Similarly, we also record estimates for sales returns and other discounts and allowances when the sales occur. We consider various factors, including a review of specific transactions and programs, historical experience and market and economic conditions when calculating these provisions and allowances. Approximately 10% of our revenues include sales to distributors and resellers, and provisions and allowances recorded on these sales are approximately 20% of the associated gross revenues.

Revenue Recognition for Services – Percentage-of-Completion –

A portion of our Services revenue is recognized using the percentage-of-completion ("POC") accounting method. This method requires the use of estimates and judgment. Approximately 3% of our Services revenue uses the POC accounting method. Although not significant to total Services revenue, the percentage-of-completion methodology is normally applied to certain of our larger and longer term outsourcing contracts involving system development and implementation services. The POC accounting methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed based on a current cumulative cost to estimated total cost basis and a reasonably consistent profit margin over the period. Due to the long-term nature of these arrangements, developing the estimates of cost 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. We perform ongoing profitability analysis of our POC services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to complete each contract are future labor costs, future product costs and expected productivity efficiencies. If at any time these estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost of services.

Management's Discussion

Allowance for Doubtful Accounts and Credit Losses

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 recorded bad debt provisions of \$120 million, \$157 million and \$188 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, respectively.

Bad debt provisions decreased by \$37 million in 2012. Reserves, as a percentage of trade and finance receivables, were 3.3% at December 31, 2012, which was consistent with the percentage at December 31, 2011 and 2010. The decrease in bad debt provisions was primarily related to improvements in Europe, reflecting a stabilization of credit issues noted in the prior year. 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. In addition, although our bad debt provisions improved in Europe, this region continues to be a focus of our credit review and analysis.

As discussed above, 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, 2012, our reserve for doubtful accounts ranged from 3.3% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2012 rate of 3.3% would change the 2012 provision by approximately \$85 million.

Refer to Note 4 – Accounts Receivables, Net and Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our defined benefit pension plans. These factors include assumptions we make about the expected return on plan assets, discount rates, 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 over future periods.

Cumulative net actuarial losses for our defined benefit pension plans of \$3.4 billion as of December 31, 2012 increased by approximately \$800 million from December 31, 2011. This increase reflects the increase in our benefit obligations as a result of a lower discount rate, which was only partially offset by positive returns on plan assets in 2012 as compared to expected returns. 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 consolidated weighted average expected rate of return on plan assets of 6.9% for 2012, 7.2% for 2011 and 7.3% for 2010, on a worldwide basis. During 2012, the actual return on plan assets was \$792 million as compared to an expected return of \$613 million. When estimating the 2013 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, particularly in light of current economic conditions, 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 2013 is 6.7%. The reduction in the expected rate of return in 2013 as compared to 2012 primarily reflects an expected slight decrease in long-term capital market returns.

Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. 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. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2012 and to calculate our 2013 expense was 3.9%, which is lower than the 4.7% that was used to calculate our obligations as of December 31, 2011 and our 2012 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2012 and to calculate our 2013 expense was 3.6%, which is lower than the 4.5% that was used to calculate our obligation at December 31, 2011 and our 2012 expense.

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2013 projected net periodic pension cost by \$31 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2013 projected net periodic pension cost by \$19 million.

One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Annuity purchases represent benefits to be provided via contracts under which an insurance company is obligated to pay the benefits. Accordingly, under either option, the participant's vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. Approximately two-thirds of participants elect to receive a lump-sum payment.

We have elected to apply settlement accounting and, therefore, we recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate

unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were \$3.4 billion at December 31, 2012, of which the U.S. primary domestic plans represented \$1.1 billion. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs – i.e. the lump-sum payment is made or the annuity purchased. Since settlement is dependent on an employee's decision and election, the level of settlements and the associated losses can fluctuate significantly period to period. In 2012, settlement losses associated with our primary domestic pension plans amounted to \$82 million and were \$16 million, \$14 million, \$24 million and \$28 million for the first through fourth quarters of 2012, respectively. Currently, on average, approximately \$100 million of plan settlements will result in settlement losses of approximately \$24 million. During the three years ended December 31, 2012, U.S. plan settlements were \$481 million, \$598 million and \$393 million, respectively.

Refer to Note 15 – Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding our defined benefit pension plan assumptions.

The following is a summary of our benefit plan costs and funding for the three years ended December 31, 2012 as well as estimated amounts for 2013:

(in millions)	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Costs:				
Defined benefit pension plans ⁽¹⁾	\$ 202	\$ 300	\$ 284	\$ 304
Curtailment gain ⁽²⁾	–	–	(107)	–
Defined contribution plans	113	63	66	51
Retiree health benefit plans	3	11	14	32
Total Benefit Plan Expense	\$ 318	\$ 374	\$ 257	\$ 387

⁽¹⁾ Estimated 2013 assumes settlement losses are consistent with 2012.

⁽²⁾ Refer to the "Plan Amendment" section in Note 15 – Employee Benefit Plans in the Consolidated Financial Statements for further information.

Our estimated 2013 defined benefit pension plan cost is expected to be approximately \$100 million lower than 2012, primarily driven by the U.S. defined benefit plan freeze at December 31, 2012, which eliminated approximately \$100 million of service costs and reduced the amortization of actuarial losses by \$47 million. These impacts were partially offset by the worldwide 80 bps decrease in the discount rate. Offsetting the decrease in our defined benefit pension plan expense is an increase in expense associated with our defined contribution plans as employees from those defined benefit pension plans that have been amended to freeze future service accruals are transitioned to enhanced defined contribution plans.

Benefit plan costs are included in several income statement components based on the related underlying employee costs.

(in millions)	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Funding:				
Defined benefit pension plans:				
Cash	\$ 195	\$ 364	\$ 426	\$ 237
Stock	–	130	130	–
Total	195	494	556	237
Defined contribution plans	113	63	66	51
Retiree health benefit plans	80	84	73	92
Total Benefit Plan Funding	\$ 388	\$ 641	\$ 695	\$ 380

The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. This decrease is partially offset by an expected increase in contributions to our defined contribution plans.

Refer to Note 15 – Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding expense and funding.

Income Taxes

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. Adjustments to our valuation allowance, through (credits) charges to income tax expense, were \$(9) million, \$(5) million and \$22 million for the years ended December 31, 2012, 2011 and 2010, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of \$(14) million, \$(53) million and \$11 million for the years ended December 31, 2012, 2011 and 2010, 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 \$3.8 billion had valuation allowances of \$654 million and \$677 million at December 31, 2012 and 2011, respectively.

Management's Discussion

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. Unrecognized tax benefits were \$201 million, \$225 million and \$186 million at December 31, 2012, 2011 and 2010, respectively.

Refer to Note 16 – Income and Other Taxes in the Consolidated Financial Statements for additional information regarding deferred income taxes and unrecognized tax benefits.

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. Refer to Note 3 – Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

As a result of our acquisition of ACS, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill at December 31, 2012 was \$9.1 billion. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred.

Application of the annual 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 the assessment – qualitatively or quantitatively – of the fair value of each reporting unit against its carrying value. At December 31, 2012, \$6.8 billion and \$2.3 billion of goodwill was allocated to reporting units within our Services and Document Technology segments, respectively. Our Services segment is comprised of three reporting units while our Document Technology segment is comprised of one reporting unit for a total of four reporting units with goodwill balances.

Our annual impairment test of goodwill was performed in the fourth quarter of 2012. As a result of market and business conditions, we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for each of our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit using a discounted cash flow methodology. This valuation approach requires significant judgment and considers a number of factors that include, but are not limited to, expected future cash flows, growth rates

and discount rates, and it requires us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our business.

When performing our discounted cash flow analysis for each reporting unit, we incorporate the use of projected financial information and discount rates that are developed using market participant-based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue and expense projections, capital spending trends, and investment in working capital to support anticipated revenue growth or other changes in the business. The selected discount rates consider the risk and nature of the respective reporting units' cash flows and an appropriate capital structure and rates of return that market participants would require to invest their capital in our reporting units.

In performing our 2012 impairment test, the following were the long-term assumptions for Document Technology and the three reporting units within our Services segment with respect to revenue, operating income and margins, which formed the basis for estimating future cash flows used in the discounted cash flow model:

- **Document Technology** – revenue decline: 2% -3%, operating income: flat, operating margin: 10% -12% – as we continue to manage costs as a result of an expected decline in revenues.
- **Services** – revenue growth: 4% -6%, operating income growth: 7% -10%, operating margin: 10% -12% – as we benefit from recurring revenue and strong signings growth in recent years while maintaining costs and expenses.

We believe these assumptions are appropriate because they are consistent with historical results as well as our forecasted long-term business model and give appropriate consideration to the current economic environment and markets that we serve. The average discount rate applied to our projected cash flows was approximately 10%, which we considered reasonable based on the estimated capital costs of applicable market participants. Although the sum of the fair values of our reporting units was in excess of our market capitalization, we believe the difference is reasonable when market-based control premiums and other factors are taken into consideration, including the evolution of our business to be predominantly services-based. We also compared our reporting unit and consolidated valuations against market multiples and likewise concluded that our valuations were reasonable.

The results of our testing indicated that each of our reporting units has a fair value in excess of its carrying value and no impairment charge was required. The excess of reporting unit fair values over carrying values for our Document Technology reporting unit and the BPO/ITO Government reporting unit within our Services segment (which has approximately \$2.0 billion of goodwill) are significantly less than in prior years with excess of fair value over carrying value of approximately 20% and 10%, respectively.

We will continue to monitor the impact of economic, market and industry factors impacting these reporting units in 2013. Subsequent to our fourth quarter impairment test, we did not identify any indicators of potential impairment that required an update to the annual impairment test. Refer to Note 9 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by reportable segment.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2012 was as follows:

(in millions)	Revenues			Change		Pro-forma ⁽¹⁾	Percent of Total Revenue		
	2012	2011	2010	2012	2011	2011	2012	2011	2010
Equipment sales	\$ 3,476	\$ 3,856	\$ 3,857	(10)%	–	–	16%	17%	18%
Annuity revenue	18,914	18,770	17,776	1%	6%	2%	84%	83%	82%
Total Revenue	\$ 22,390	\$ 22,626	\$ 21,633	(1)%	5%	2%	100%	100%	100%

Reconciliation to Consolidated Statements of Income:

Sales	\$ 6,578	\$ 7,126	\$ 7,234						
Less: Supplies and other sales	(2,273)	(2,371)	(2,420)						
Less: Paper sales	(829)	(899)	(957)						
Equipment Sales	\$ 3,476	\$ 3,856	\$ 3,857	(10)%	–	–	16%	17%	18%
Outsourcing, service and rentals	\$ 15,215	\$ 14,868	\$ 13,739	2%	8%	4%	68%	66%	64%
Add: Finance income	597	632	660	(6)%	(4)%	(4)%	2%	3%	3%
Add: Supplies and other sales	2,273	2,371	2,420	(4)%	(2)%	(3)%	10%	10%	11%
Add: Paper sales	829	899	957	(8)%	(6)%	(6)%	4%	4%	4%
Annuity Revenue	\$ 18,914	\$ 18,770	\$ 17,776	1%	6%	2%	84%	83%	82%

⁽¹⁾ 2011 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 this non-GAAP financial measure.

Revenue 2012

Total revenues decreased 1% compared to the prior year and included a 1-percentage point negative impact from currency. Total revenues included the following:

- **Annuity revenue** increased 1% and included a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
 - **Outsourcing, service and rentals revenue** – includes outsourcing revenue within our Services segment and technical service revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of \$15,215 million increased 2% and included a 2-percentage point negative impact from currency. The increase was primarily driven by growth in all three lines of business in our Services segment, partially offset by a decline in technical service revenues. Total digital pages declined 2% despite a 3% increase in digital MIF.

- **Supplies and other sales** – includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of \$2,273 million decreased 4% and included a 1-percentage point negative impact from currency. The decrease was primarily due to moderately lower demand.
- **Paper sales** – which are primarily included within our Other segment, of \$829 million decreased 8% and included a 2-percentage point negative impact from currency, driven primarily by market pricing and lower activity.
- **Finance income** – includes \$44 million in gains from the sale of finance receivables from our Document Technology segment (see Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information).

Management's Discussion

- **Equipment sales revenue** is reported primarily within our Document Technology segment and the document outsourcing business within our Services segment. Equipment sales revenue decreased 10% and included a 2-percentage point negative impact from currency, primarily driven by delayed customer decision-making and overall weak economic and market conditions. An increase in total product installs was offset by the impact of lower product mix and price declines. Price declines were in the range of 5% - 10%.

Equipment sales within our Services segment continued to grow, driven by the migration of customers looking to reduce printing costs by moving to our document outsourcing offering.

- Color² revenue decreased 6%, including a 2-percentage point negative impact from currency. An increase in color pages of 9% and color MIF of 14% were offset by a decline in color equipment sales revenue, driven primarily by weakness in Europe and the impact of lower product mix. Color pages represented 30% of total pages in 2012.

Revenue 2011

Total revenues increased 5% compared to the prior year. Our consolidated 2011 results include a full year of revenues from ACS, which was acquired on February 5, 2010. On a pro-forma¹ basis, including ACS's estimated 2010 revenues for the period from January 1 through February 5 in our historical 2010 results, the total revenue for 2011 grew 2%. Total revenue growth included a 2-percentage point positive impact from currency. Total revenues included the following:

- Annuity revenue increased 6% or 2% on a pro-forma¹ basis, with a 1-percentage point positive impact from currency. Annuity revenue is comprised of the following:
 - Outsourcing, service and rentals revenue of \$14,868 million increased 8%, or 4% on a pro-forma¹ basis, and included a 2-percentage point positive impact from currency. The increase was primarily due to growth in BPO and DO revenue in our Services segment partially offset by a decline in pages. Total digital pages declined 3% despite a 2% increase in digital MIF.
 - Supplies and other sales of \$2,371 million decreased 2%, or 3% on a pro-forma¹ basis, with no impact from currency.
 - Paper sales of \$899 million decreased 6% and included a 2-percentage point negative impact from currency.
- Equipment sales revenue was flat and included a 1-percentage point positive impact from currency. Favorable product mix in high-end products was offset by price declines in the range of 5% - 10%.
- Color² revenue increased 5%, including a 2-percentage point negative impact from currency. This increase was due to an increase in color pages of 9% and an increase in color equipment sales revenue of 4%. Color² pages represented 27% of total pages in 2011 while color device MIF represented 35% of total MIF.

An analysis of the change in revenue for each business segment is included in the "Operations Review of Segment Revenue and Profit" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,			Change		Pro-forma ⁽¹⁾	
	2012	2011	2010	2012	2011	2011	2010
Total Gross Margin	31.4%	32.8%	34.4%	(1.4) pts	(1.6) pts	(1.1) pts	(0.2) pts
RD&E as a % of Revenue	2.9%	3.2%	3.6%	(0.3) pts	(0.4) pts	(0.3) pts	(0.4) pts
SAG as a % of Revenue	19.2%	19.9%	21.2%	(0.7) pts	(1.3) pts	(1.0) pts	(0.9) pts
Operating Margin⁽¹⁾	9.3%	9.8%	9.6%	(0.5) pts	0.2 pts	0.3 pts	1.0 pts
Pre-tax Income Margin	6.0%	6.9%	3.8%	(0.9) pts	3.1 pts	3.4 pts	(2.2) pts

⁽¹⁾ See the "Non-GAAP Financial Measures" section for an explanation of Pro-forma and Operating Margin non-GAAP financial measures.

Operating Margin

The operating margin¹ for the year ended December 31, 2012 of 9.3% decreased 0.5-percentage points as compared to 2011. The decline, which was primarily in our Services segment due to a decrease in gross margin, was partially offset by expense reductions.

The operating margin¹ for the year ended December 31, 2011 of 9.8% increased 0.2-percentage points, or 0.3-percentage points on a pro-forma¹ basis, as compared to 2010. The increase was due primarily to disciplined cost and expense management.

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, in 2011 gross margins and SAG are also discussed below on a pro-forma basis where we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for year ended December 31, 2012 of 31.4% decreased 1.4-percentage points as compared to 2011. The decrease was driven by the overall mix of services revenue, the ramping of new services contracts and pressure on government contracts, particularly in the third quarter 2012. These negative impacts were partially offset by productivity improvements and cost savings from restructuring.

Gross margin for year ended December 31, 2011 of 32.8% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma¹ basis, as compared to 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals, transaction currency and the mix of higher services revenue.

Services gross margin for the year ended December 31, 2012 decreased 1.7-percentage points as compared to 2011. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and pressure on government contracts, particularly in the third quarter 2012.

Services gross margin for the year ended December 31, 2011 decreased 1.7-percentage points, or 1.2 percentage points, on a pro-forma¹ basis, as compared to 2010. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals.

Document Technology gross margin for the year ended December 31, 2012 increased by 0.1-percentage points as compared to 2011. Productivity improvements, restructuring savings and gains recognized on the sales of finance receivables (see Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines, product mix and the unfavorable year-over-year impact of transaction currency.

Document Technology gross margin for the year ended December 31, 2011 decreased by 0.9-percentage points as compared to 2010 due to the impact of price declines and the negative year-over-year impact of transaction currency. The decline was partially offset by cost productivities and restructuring savings which reflect our continued focus on cost management.

Research, Development and Engineering Expenses ("RD&E")

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
R&D	\$ 545	\$ 613	\$ 653	\$ (68)	\$ (40)
Sustaining engineering	110	108	128	2	(20)
Total RD&E Expenses	\$ 655	\$ 721	\$ 781	\$ (66)	\$ (60)
R&D Investment by Fuji Xerox⁽¹⁾	\$ 860	\$ 880	\$ 821	\$ (20)	\$ 59

⁽¹⁾ Fluctuation in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

Management's Discussion

RD&E as a percent of revenue for the year ended December 31, 2012 of 2.9% decreased 0.3-percentage points. 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 percent of revenue.

RD&E of \$655 million for the year ended December 31, 2012, was \$66 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. During 2012 we managed our investments in R&D to align with growth opportunities in areas like business services, color printing and customized communication. Xerox R&D is also strategically coordinated with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2011 of 3.2% decreased 0.4-percentage points. 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 percent of revenue.

RD&E of \$721 million for the year ended December 31, 2011, was \$60 million lower, reflecting the impact of restructuring and productivity improvements.

Selling, Administrative and General Expenses ("SAG")

SAG as a percent of revenue of 19.2% decreased 0.7-percentage points for the year ended December 31, 2012. 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 expenses of \$4,288 million for the year ended December 31, 2012 were \$209 million lower than the prior year period including a \$60 million favorable impact from currency. The decrease in SAG expenses reflects the following:

- \$240 million decrease in selling expenses reflecting the benefits from restructuring and productivity improvements, as well as lower compensation-related expenses and advertising spending partially offset by the impact of acquisitions.
- \$68 million increase in general and administrative expenses as restructuring savings and productivity improvements were more than offset by the impact of acquisitions and deferred compensation expense.
- \$37 million decrease in bad debt expenses to \$120 million, driven primarily by lower write-offs in Europe.

SAG as a percent of revenue of 19.9% decreased 1.3-percentage points, or 1.0-percentage points on a pro-forma¹ basis, for the year ended December 31, 2011.

SAG expenses of \$4,497 million for the year ended December 31, 2011 was \$97 million lower than the prior year period, or \$156 million lower on a pro-forma¹ basis, both including a \$68 million unfavorable impact from currency. The pro-forma SAG expense decrease reflects the following:

- \$68 million decrease in selling expenses reflecting the benefits from restructuring, productivity improvements and decrease in brand advertising partially offset by the impact of acquisitions.
- \$54 million decrease in general and administrative expenses primarily reflecting lower compensation as well as the benefits from restructuring and operational improvements.
- \$31 million decrease in bad debt expense, to \$157 million as improvements in write-off trends in North America were more than offset by higher write-offs in southern Europe.

Restructuring and Asset Impairment Charges

During the year ended December 31, 2012, we recorded net restructuring and asset impairment charges of \$153 million (\$97 million after-tax). Approximately 47% of the charges were related to our Services segment and 53% to our Document Technology segment and included the following:

- \$160 million of severance costs related to headcount reductions of approximately 6,300 employees primarily in North America. The actions impacted several functional areas, and approximately 63% of the costs were focused on gross margin improvements, 31% in SAG and 6% on the optimization of RD&E investments.
- \$5 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- \$2 million of asset impairment losses.

The above charges were partially offset by \$14 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2013 pre-tax savings of approximately \$170 million from our 2012 restructuring actions.

During the year ended December 31, 2011, we recorded net restructuring and asset impairment charges of \$33 million (\$18 million after-tax) which included the following:

- \$98 million of severance costs related to headcount reductions of approximately 3,900 employees primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- \$1 million for lease termination costs.
- \$5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.

The above charges were partially offset by \$71 million of net reversals for changes in estimated reserves from prior period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2012 for all programs was \$130 million, of which approximately \$122 million is expected to be spent over the next twelve months. Refer to Note 10 – 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. 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 year ended December 31, 2012, we recorded \$328 million of expense related to the amortization of intangible assets, which is \$70 million lower than the prior year. The prior year expense included \$52 million related to the accelerated amortization of the ACS trade name intangible asset which was fully written off in 2011 as a result of the decision to discontinue its use and transition the services business to the “Xerox Business Services” trade name. The impact from the write off of the ACS trade name was partially offset by the amortization of intangible assets associated with current and prior-year acquisitions.

During the year ended December 31, 2011, we recorded \$398 million of expense related to the amortization of intangible assets, which was \$86 million higher than the prior year primarily as a result of the accelerated write-off of the ACS trade name.

Curtailment Gain

In December 2011, we amended all of our primary non-union 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 did not materially impact 2012 pension expense.

Worldwide Employment

Worldwide employment of 147,600 at December 31, 2012 increased approximately 8,000 from December 31, 2011, primarily due to the impact of acquisitions, partially offset by restructuring related actions. Worldwide employment was approximately 139,650 and 136,500 at December 2011 and 2010, respectively.

Other Expenses, Net

(in millions)	Year Ended December 31,		
	2012	2011	2010
Non-financing interest expense	\$ 230	\$ 247	\$ 346
Interest income	(13)	(21)	(19)
Loss (gains) on sales of businesses and assets	2	(9)	(18)
Currency losses, net	3	12	11
ACS shareholders litigation settlement	–	–	36
Litigation matters	(1)	11	(4)
Loss on sales of accounts receivables	21	20	15
Loss on early extinguishment of liability	–	33	15
Deferred compensation investment gains	(10)	–	(12)
All other expenses, net	24	29	19
Total Other Expenses, Net	\$ 256	\$ 322	\$ 389

Non-Financing Interest Expense: Non-financing interest expense for the year ended December 31, 2012 of \$230 million was \$17 million lower than prior year. The decrease in interest expense is primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt.

Non-financing interest expense for the year ended December 31, 2011 of \$247 million was \$99 million lower than the prior year. The decrease 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 refinancing existing debt and utilizing the commercial paper program.

Loss (Gains) on Sales of Businesses and Assets: The gains in 2011 and 2010 were primarily related to 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 and the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities.

The 2011 net currency losses were primarily due to the significant movement in exchange rates during the third quarter of 2011 among the U.S. Dollar, Euro, Yen and several developing market currencies.

Management's Discussion

The 2010 net currency losses included a currency loss of \$21 million for the re-measurement of our Venezuelan Bolivar denominated monetary net assets following a devaluation of the Bolivar in the first quarter of 2010. 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.

ACS Shareholders' Litigation Settlement: The 2010 expense of \$36 million relates to the settlement of claims by ACS shareholders arising from our acquisition of ACS in 2010. The total settlement for all defendants was approximately \$69 million, with Xerox paying approximately \$36 million net of insurance proceeds.

Litigation Matters: Litigation matters for 2012, 2011 and 2010 represent charges related to probable losses for various legal matters, none of which were individually material. Refer to Note 17 – Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Loss on Sales of Accounts Receivables: Represents the loss incurred on our sales of accounts receivables. Refer to "Sales of Accounts Receivables" below and Note 4 – Accounts Receivables, Net in the Consolidated Financial Statements for additional information regarding our sales of receivables.

Loss on Early Extinguishment of Liability: The 2011 loss of \$33 million was related to the redemption by Xerox Capital Trust I, our wholly-owned subsidiary trust, of 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.

The 2010 loss 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.

Deferred Compensation Investment Gains: Represents gains on investments supporting certain of our deferred compensation arrangements. These gains or losses are offset by an increase or decrease, respectively, in compensation expense recorded in SAG in our Services segment as a result of the increase or decrease in the liability associated with these arrangements.

Income Taxes

The 2012 effective tax rate was 20.5% or 24.0% on an adjusted basis.¹ The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to foreign tax credits resulting from anticipated dividends and other foreign transactions as well as the geographical mix of profits. In addition, a net tax benefit from adjustments of certain unrecognized tax positions and deferred tax valuation allowances was offset by a tax law change.

The 2011 effective tax rate was 24.7% or 27.5% on an adjusted basis.¹ The adjusted tax rate for the year 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 2010 effective tax rate was 31.4% or 31.2% on an adjusted basis.¹ The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to the geographical mix of income before taxes and the related tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income 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 for 2012 includes a benefit of approximately 12-percentage points from these non-U.S. operations. Refer to Note 16 – Income and Other Taxes, in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

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 (e.g. audit settlements, tax law changes, changes in valuation allowances, etc.) that may not be predictable. We anticipate that our effective tax rate for 2013 will be approximately 28%, which excludes the effects of intangibles amortization and other discrete events. We also expect to record an estimated discrete benefit of approximately \$19 million in the first quarter 2013 for the retroactive benefits of the American Taxpayer Relief Act of 2012 which was signed into law on January 2, 2013.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31,		
	2012	2011	2010
Total equity in net income of unconsolidated affiliates	\$ 152	\$ 149	\$ 78
Fuji Xerox after-tax restructuring costs	16	19	38

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox.

The 2011 increase of \$71 million 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 the strengthening of the Yen and lower restructuring costs.

Refer to Note 8 – Investment in Affiliates, at Equity, in the Consolidated Financial Statements for additional information.

Net Income

Net income attributable to Xerox for the year ended December 31, 2012 was \$1,195 million, or \$0.88 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,398 million, or \$1.03 per diluted share, and included adjustments for the amortization of intangible assets.

Net income attributable to Xerox for the year ended December 31, 2011 was \$1,295 million, or \$0.90 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,563 million, or \$1.08 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 year ended December 31, 2010 was \$606 million, or \$0.43 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,296 million, or \$0.94 per diluted share, and included adjustments for the amortization of intangible assets, restructuring and asset impairment charges (including those incurred by Fuji Xerox), acquisition-related costs and other discrete costs and expenses.

Refer to the “Non-GAAP Financial Measures” section for the reconciliation of reported net income to adjusted net income.

Other Comprehensive Income

2012 Other comprehensive loss attributable to Xerox of \$511 million decreased \$217 million from 2011. The decreased loss was primarily due to gains from the translation of our foreign currency-denominated net assets in 2012 as compared to translation losses in 2011. The translation gains are the result of a strengthening of our major foreign currencies against the U.S. Dollar in 2012 as compared to a weakening of those same currencies in 2011. A decrease in losses associated with our defined benefit plans was offset by an increase in unrealized losses from our cash flow hedges primarily due to a weakening of the Japanese Yen particularly in the fourth quarter 2012 (See Note 13 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our cash flow hedges).

2011 Other comprehensive loss attributable to Xerox of \$728 million increased \$728 million from 2010. The increased loss was primarily due to losses associated with our defined benefit plans due to an increase in our benefit obligations as a result of a decrease in the discount rates used to measure our obligations (See discussion of Pension Plan Assumptions in the Application of Critical Accounting Policies section of the MD&A as well as Note 15 – Employee Benefit Plans in the Consolidated Financial Statements for additional information). In addition, losses from the translation of our foreign currency-denominated net assets increased in 2011 as compared to 2010 as a result of the further weakening of our major foreign currencies against the U.S. Dollar in 2011.

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 conditions.

Operations Review of Segment Revenue and Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Services, Document Technology and Other. Revenues by segment for the three years ended December 31, 2012 were as follows:

(in millions)	Total Revenue	Segment Profit (Loss)	Segment Margin
2012			
Services	\$ 11,528	\$ 1,173	10.2%
Document Technology	9,462	1,065	11.3%
Other	1,400	(241)	(17.2)%
Total	\$ 22,390	\$ 1,997	8.9%
2011			
Services	\$ 10,837	1,207	11.1%
Document Technology	10,259	1,140	11.1%
Other	1,530	(255)	(16.7)%
Total	\$ 22,626	\$ 2,092	9.2%
2010			
Services	\$ 9,637	\$ 1,132	11.7%
Document Technology	10,349	1,085	10.5%
Other	1,647	(342)	(20.8)%
Total	\$ 21,633	\$ 1,875	8.7%
2010 Pro-forma⁽¹⁾			
Services	\$ 10,256	\$ 1,166	11.4%
Document Technology	10,349	1,085	10.5%
Other	1,647	(353)	(21.4)%
Total	\$ 22,252	\$ 1,898	8.5%

⁽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.

Services Segment

Our Services segment is comprised of three service offerings: Business Process Outsourcing (“BPO”), Document Outsourcing (“DO”) and Information Technology Outsourcing (“ITO”). 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.

Management's Discussion

Services segment revenues for the three years ended December 31, 2012 were as follows:

(in millions)	Revenue			Change		Pro-forma ⁽¹⁾ Change
	2012	2011	2010	2012	2011	2011
Business processing outsourcing	\$ 6,610	\$ 6,074	\$ 5,145	9%	18%	8%
Document outsourcing	3,659	3,545	3,264	3%	9%	9%
Information technology outsourcing	1,426	1,326	1,249	8%	6%	(4)%
Less: Intra-segment elimination	(167)	(108)	(21)	*	*	*
Total Services Revenue	\$ 11,528	\$ 10,837	\$ 9,637	6%	12%	6%

* Percent not meaningful.

⁽¹⁾ See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Note: In 2011, the Services segment is discussed on a pro-forma¹ basis. ACS was acquired on February 5, 2010, accordingly for comparison purposes, we adjusted our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Revenue 2012

Services revenue of \$11,528 million increased 6% with a 1-percentage point negative impact from currency.

- BPO revenue increased 9%, including a 1-percentage point negative impact from currency, and represented 57% of total Services revenue. BPO growth was driven by the government healthcare, healthcare payer, customer care, financial services, retail, travel and insurance businesses and other state government solutions, as well as the benefits from recent acquisitions.
- DO revenue increased 3%, including a 2-percentage point negative impact from currency, and represented 31% of total Services revenue. The increase in DO revenue was primarily driven by our new partner print services offerings as well as new signings.
- ITO revenue increased 8% and represented 12% of total Services revenue. ITO growth was driven by the revenue ramp resulting from strong growth in recent quarters and also includes 3-percentage points of growth related to revenue from intercompany services, which is eliminated in total Services segment revenue.

Segment Margin 2012

Services segment margin of 10.2% decreased 0.9-percentage points from the prior year primarily due to a decline in gross margin, which was driven by the ramping of new services contracts, pressure on government contracts, the impact of lower contract renewals and lower volumes in some areas of the business. The gross margin decline was partially offset by the benefits from restructuring and lower SAG, primarily in DO.

Metrics

Pipeline

Our total services sales pipeline at December 31, 2012, including synergy opportunities, grew 6% over the prior year. 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. TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Signings were as follows:

(in billions)	Year Ended December 31,		
	2012	2011	2010
BPO	\$ 6.0	\$ 6.8	\$ 10.0
DO	3.3	4.4	3.3
ITO	1.5	3.4	1.3
Total Signings	\$ 10.8	\$ 14.6	\$ 14.6

Services signings were an estimated \$10.8 billion in TCV for 2012 and decreased 25% compared to the prior year. This decline was driven by a decrease in large deals from the prior year as well as delays in customer decision making. While the total number of BPO/ITO contracts signed in 2012 increased from 2011, the decline in large deals drove a reduction in the average contract length of new business signings in 2012. The above DO signings amount represents Enterprise signings only and does not include signings from our partner print services offerings, which is driving the revenue growth in DO.

Services signings were an estimated \$14.6 billion in TCV for 2011 and were flat as compared to the prior year and were impacted by the cyclical nature of large deals particularly the California Medicaid signing in 2010. Signings did trend positively in 2011, increasing sequentially for the last three quarters of the year with signings growth particularly in ITO.

Renewal rate (BPO and ITO only)

Renewal rate is defined as the annual recurring revenue (“ARR”) on contracts that are renewed during the period as a percentage of ARR on all contracts on which a renewal decision was made during the period. Although our renewal rate was below our target range in the fourth quarter 2012, our full year 2012 renewal rate was 85%, which was within our target range of 85%-90% and 5-percentage points higher than full year 2011. Our 2011 renewal rate of 80% was 7-percentage points lower than the 2010 renewal rate of 87%.

Revenue 2011

Services revenue of \$10,837 million increased 12%, or 6% on a pro-forma¹ basis, with no impact from currency.

- BPO revenue had pro-forma¹ revenue growth of 8% and represented 55% of total Services revenue. The growth in BPO was primarily driven by acquisitions over the past two years consistent with our strategy to expand our service offerings through “tuck-in” acquisitions. BPO growth was also driven to a lesser extent by growth in the healthcare payer, human resources services, business process solutions and transportation solutions businesses.
- DO revenue increased 9%, including a 2-percentage point positive impact from currency, and represented 33% of total Services revenue. The increase in DO revenue reflects an improving growth trend from our partner print services offerings as well as new signings.
- ITO revenue on a pro-forma¹ basis decreased 4% and represented 12% of total Services revenue. The decrease in ITO revenue was driven by lower third-party equipment sales as well as the impact of lower contract renewals partially offset by growth in new commercial business.

Segment Margin 2011

Services segment margin of 11.1% decreased 0.6-percentage points, or 0.3-percentage points on a pro-forma¹ basis, from the prior year as the gross margin decline, which was driven by the ramping of new services contracts and the impact of lower contract renewals more than offset the lower costs and expenses from restructuring and synergy savings.

Document Technology Segment

Our Document Technology segment includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Document 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)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Equipment sales	\$ 2,879	\$ 3,277	\$ 3,404	(12)%	(4)%
Annuity revenue	6,583	6,982	6,945	(6)%	1%
Total Revenue	\$ 9,462	\$ 10,259	\$ 10,349	(8)%	(1)%

Revenue 2012

Document Technology revenue of \$9,462 million decreased 8%, including a 2-percentage point negative impact from currency. Total revenues include the following:

- 12% decrease in equipment sales revenue with a 1-percentage point negative impact from currency. This decline, primarily in mid-range and high-end equipment, was driven by delayed customer decision-making reflecting the continued weak macro-environment. In addition, the impact of lower product mix and price declines in the range of 5%-10% more than offset growth in installs. Document Technology revenue excludes increasing revenues in our DO offerings. As noted previously, in 2013 we will be investing in our portfolio with significant product announcements in the mid-range and entry production color spaces.
- 6% decrease in annuity revenue, including a 2-percentage point negative impact from currency, driven by lower supplies and a decline in total digital pages of 2% as well as the continued migration of customers to our partner print services offerings, which is included in our Services segment.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2012

Document Technology segment margin of 11.3% increased 0.2-percentage points from prior year. Productivity improvements, restructuring savings and gains recognized on the sale of finance receivables (see Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines and overall lower revenues.

Management's Discussion

Installs 2012

Entry

- 39% increase in color multifunction devices driven by demand for the WorkCentre® 6015, WorkCentre 6605 and Xerox® ColorQube 8700/8900.
- 23% increase in entry black-and-white multifunction devices driven by demand for the WorkCentre® 3045.
- 7% decrease in color printers driven by a decrease in sales to OEM partners.

Mid-Range

- 2% decrease in installs of mid-range color devices driven as a difficult compare in the U.S. from the fourth quarter 2012 was partially offset by demand for products such as the WorkCentre® 7535/7125/7530 and the WorkCentre® 7556, which enabled continued market share gains in the fastest growing and most profitable segment of the office color market.
- 10% decrease in installs of mid-range black-and-white devices.

High-End

- 34% increase in installs of high-end color systems driven by strong demand for the Xerox Color 770. This product has enabled large market share gains in the Entry Production Color market segment.
- 26% decrease in installs of high-end black-and-white systems, reflecting continued declines in the overall market.

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 2 – Segment Reporting, in the Consolidated Financial Statements.

Revenue 2011

Document Technology revenue of \$10,259 million decreased 1%, including 2-percentage points positive impact from currency. Total revenues include the following:

- 4% decrease in equipment sales revenue, with a 1-percentage point positive impact from currency, primarily driven by a decline in Europe reflecting the economic conditions in the Euro Zone, particularly in the fourth quarter 2011. In addition, install declines of entry and mono products were only partially offset by install growth in mid-range and high-end color products. Consistent with prior years, price declines were in the range of 5%-10%. Document Technology revenue excludes increasing revenues in our DO offerings.
- 1% increase in annuity revenue, including a 2-percentage point positive impact from currency. An increase in supplies revenue was offset by a decline in pages.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2011

Document Technology segment margin of 11.1% increased 0.6-percentage points from prior year. 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 2011

Entry

4% decrease in entry black-and-white and color multifunction devices and color printers reflecting:

- 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.

These declines were partially offset by growth in newly launched products such as the WorkCentre® 3045 and WorkCentre® 6015.

Mid-Range

- 26% increase in installs of mid-range color devices driven primarily by demand for new products, such as the WorkCentre® 7530/7535, WorkCentre® 7545/7556 and WorkCentre® 7120 and the Xerox Color 550/560. This growth has enabled market share gains in the fastest growing and most profitable segment of the office color market.
- 2% increase in installs of mid-range black-and-white devices driven by strong demand for the recently launched WorkCentre® 5325/5330/5335 products partially offset by declines in Europe.

High-End

- 7% increase in installs of high-end color systems driven primarily by installs of our market-leading Xerox Color 800 and 1000 and iGen as well as 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.
- 8% decrease in installs of high-end black-and-white systems driven by declines across most product areas.

Other Segment

Revenue 2012

Other segment revenue of \$1,400 million decreased 8%, including a 1-percentage point negative impact from currency, due to a decline in paper sales, which is driven by lower market pricing and activity, as well as a decline in revenues from wide format systems and lower patent sales and licensing revenue. Paper comprised approximately 59% of the 2012 Other segment revenue.

Segment Loss 2012

Other segment loss of \$241 million, improved \$14 million from the prior year, primarily driven by a decrease in Other Expenses, Net partially offset by lower gross profit as a result of the decline in revenues.

Revenue 2011

Other segment revenue of \$1,530 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 an increase in revenue from patent sales and licensing as noted below. Paper comprised approximately 59% of the 2011 Other segment revenue.

In 2011, we entered into an agreement with another company that included, among other items, the sale of certain patents and the 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 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.

Segment Loss 2011

Other segment loss of \$255 million, improved \$87 million from the prior year, primarily driven by lower non-financing interest expense and SAG expense.

⁽¹⁾ See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

⁽²⁾ Color revenues and pages represent revenues and pages from color enabled devices and are a subset of total revenues and excludes Global Imaging Systems, Inc. ("GIS").

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2012, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Net cash provided by operating activities	\$ 2,580	\$ 1,961	\$ 2,726	\$ 619	\$ (765)
Net cash used in investing activities	(761)	(675)	(2,178)	(86)	1,503
Net cash used in financing activities	(1,472)	(1,586)	(3,116)	114	1,530
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)	6	11
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)	653	2,279
Cash and cash equivalents at beginning of year	902	1,211	3,799	(309)	(2,588)
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	\$ 1,211	\$ 344	\$ (309)

Capital Resources and Liquidity

Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access the financial capital markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

- As of December 31, 2012 and 2011, total cash and cash equivalents were \$1,246 million and \$902 million, respectively, we had no borrowings under our Commercial Paper Programs as of December 31, 2012 and \$100 million as of December 31, 2011. There were no outstanding borrowings or letters of credit under our \$2 billion Credit Facility for either year end. The increase in our cash balance in 2012 was largely from the sales and run-off of finance receivables partially offset by an increase in share repurchases. We expect to use approximately \$400 million of our total cash to pay down maturing Senior Notes in May 2013.
- Our Commercial Paper program was established in 2010 as a means to reduce our cost of capital and to provide us with an additional liquidity vehicle in the market. Aggregate Commercial Paper and Credit Facility borrowings may not exceed the borrowing capacity under our Credit Facility at any time.
- 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 \$2,580 million, \$1,961 million and \$2,726 million for the three years ended December 31, 2012, respectively.
- We expect cash flows from operations between \$2.1 and \$2.4 billion for 2013. We expect lower contributions from finance receivables of approximately \$500 million, due to fewer collections as a result of the 2012 finance receivables sales and a lower natural run-off of the portfolio, given our expectations of better equipment activity. This impact is expected to be partially offset by lower pension funding requirements. We expect the rest of working capital to be essentially flat year-over-year.

Management's Discussion

Cash Flows from Operating Activities

Net cash provided by operating activities was \$2,580 million for the year ended December 31, 2012. The \$619 million increase in cash from 2011 was primarily due to the following:

- \$879 million increase from finance receivables primarily due to sales of receivables as well as higher net run-off of finance receivables as a result of lower equipment sales (see Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information).
- \$124 million increase due to lower inventory growth.
- \$74 million increase due to lower restructuring payments.
- \$62 million increase due to lower contributions to our defined benefit pension plans primarily in the U.S. as a result of the recently enacted pension funding legislation.
- \$41 million increase as a result of less up-front costs and other customer-related spending associated primarily with new services contracts.
- \$390 million decrease due to a lower benefit from accounts receivable sales as well as growth in services revenue.
- \$45 million decrease from higher net income tax payments primarily due to refunds in the prior year.

In March 2012, we elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding.

Net cash provided by operating activities was \$1,961 million for the year ended December 31, 2011. The \$765 million decrease in cash from 2010 was primarily due to the following:

- \$533 million decrease due to lower benefit from changes in accounts payable and accrued compensation primarily related to the timing of payments as well as lower spending.
- \$189 million decrease due to higher contributions to our defined benefit pension plans.
- \$101 million decrease as a result of up-front costs and other customer-related spending associated primarily with new services contracts.
- \$65 million decrease from higher net income tax payments primarily due to refunds in the prior year.
- \$49 million decrease due to higher finance receivables of \$39 million and equipment on operating leases of \$10 million, both reflective of increased equipment placements.
- \$46 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 a lower benefit from accounts receivable sales partially offset by improved collections.
- \$290 million increase in pre-tax income before depreciation and amortization, litigation, restructuring, curtailment and the Venezuelan currency devaluation.
- \$113 million increase due to the absence of cash outflows from acquisition-related expenditures.

In September 2011, we elected to make a contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding.

Cash Flows from Investing Activities

Net cash used in investing activities was \$761 million for the year ended December 31, 2012. The \$86 million increase in the use of cash from 2011 was primarily due to the following:

- \$64 million increase in acquisitions. 2012 acquisitions include Wireless Data for \$95 million, RK Dixon for \$58 million, as well as seven smaller acquisitions totaling \$123 million. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million, as well as a net cash receipt of \$35 million for Symcor.
- \$19 million increase due to lower cash proceeds from asset sales.

Net cash used in investing activities was \$675 million for the year ended December 31, 2011. The \$1,503 million decrease in the use of cash from 2010 was primarily due to the following:

- \$1,522 million decrease in acquisitions. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million, as well as a net cash receipt of \$35 million for Symcor. 2010 acquisitions include ACS for \$1,495 million, ExcellerateHRO, LLP for \$125 million, TMS Health, LLC for \$48 million, Irish Business Systems Limited for \$29 million, Georgia Duplicating Products for \$21 million and Spur Information Solutions for \$12 million.
- \$24 million increase due to lower cash proceeds from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was \$1,472 million for the year ended December 31, 2012. The \$114 million decrease in the use of cash from 2011 was primarily due to the following:

- \$670 million decrease reflecting the absence of payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.

- \$351 million increase from higher share repurchases in 2012.
- \$157 million increase from net debt activity. 2012 reflects net proceeds of \$1.1 billion from Senior Notes issued in March offset by net payments on 2012 Senior Notes of \$1.1 billion that matured in May and a decrease of \$100 million in Commercial Paper. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper.
- \$47 million increase due to higher distributions to noncontrolling interests.

Net cash used in financing activities was \$1,586 million for the year ended December 31, 2011. The \$1,530 million decrease in the use of cash from 2010 was primarily due to the following:

- \$3,105 million decrease from net debt activity. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper. 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 \$109 million for 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 an increase of \$300 million in Commercial Paper.
- \$701 million increase resulting from the resumption of our share repurchase program.
- \$670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.
- \$139 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- \$26 million increase reflecting a full year of dividend payments on shares issued in connection with the acquisition of ACS in 2010.
- \$12 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Customer Financing Activities

We provide lease equipment financing to our customers, primarily in our Document 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 primarily fund our customer financing activity through cash generated from operations, cash on hand, commercial paper borrowings, sales and securitizations of finance receivables and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically with our small and mid-sized customers, 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 Total finance assets, net associated with our lease and finance operations:

(in millions)	December 31,	
	2012	2011
Total Finance receivables, net ⁽¹⁾	\$ 5,313	\$ 6,362
Equipment on operating leases, net	535	533
Total Finance Assets, Net	\$ 5,848	\$ 6,895

⁽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 Consolidated Balance Sheets.

The decrease of \$1,047 million in Total finance assets, net reflects the sale of finance receivables (discussed further below) and the decrease in equipment sales over the past several years, as well as equipment sales growth in regions or operations where we don't offer direct leasing. These impacts were partially offset by an increase of \$83 million due to currency.

We maintain a certain level of debt, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the breakdown of our total debt at December 31, 2012 and 2011 between financing debt and core debt:

(in millions)	December 31,	
	2012	2011
Financing debt ⁽¹⁾	\$ 5,117	\$ 6,033
Core debt	3,372	2,600
Total Debt	\$ 8,489	\$ 8,633

⁽¹⁾ Financing debt includes \$4,649 million and \$5,567 million as of December 31, 2012 and December 31, 2011, 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.

Management's Discussion

In 2013, we expect to continue the leveraging of our finance assets at an assumed 7:1 ratio of debt to equity. We also may sell or securitize certain finance receivables as another means to support our customer financing activities – see discussion further below of finance receivable sale activity in 2012. The following summarizes our total debt at December 31, 2012 and 2011:

(in millions)	December 31,	
	2012	2011
Principal debt balance ⁽¹⁾	\$ 8,410	\$ 8,450
Net unamortized discount	(63)	(7)
Fair value adjustments	142	190
Total Debt	\$ 8,489	\$ 8,633

⁽¹⁾ Includes Commercial Paper of \$0 and \$100 million as of December 31, 2012 and 2011, respectively.

Sales of Accounts Receivable

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivables without recourse to third-parties. 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)	Year ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivable	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

⁽¹⁾ Represents the difference between current and prior year fourth quarter 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 – Accounts Receivables, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 million to a third-party financial institution for cash proceeds of \$630 million and beneficial interests from the purchaser of \$101 million. These transactions enable us to lower the cost associated with our financing portfolio.

A pre-tax gain of \$44 million was recognized on these sales and is net of additional fees and expenses of \$5 million. The gain was reported in Finance income in Document Technology segment revenues. We will

continue to service the sold receivables and expect to a record servicing fee income of approximately \$12 million over the expected life of the associated receivables.

Refer to Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for additional information.

The net impact on operating cash flows from the sales of accounts receivable and finance receivables is summarized below:

(in millions)	Year ended December 31,		
	2012	2011	2010
Cash received from finance receivables sales	\$ 625	\$ –	\$ –
Collections on sold finance receivables ⁽¹⁾	(45)	–	–
Net cash impact of finance receivable sales	580	–	–
Net cash impact of accounts receivable sales	(78)	133	106
Net Cash Impact On Cash Flows From Operating Activities	\$ 502	\$ 133	\$ 106

⁽¹⁾ Represents cash that would have been collected if we had not sold finance receivables.

Capital Market Activity

Debt Exchange

In February 2012, we completed an exchange of our 5.71 % Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of \$303 million, for \$362 million of our 4.50 % Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.50 % Senior Notes due 2021 from \$700 million to \$1,062 million. The exchange was conducted to retire high-interest, long-dated debt in a favorable interest rate environment. The debt exchange was accounted for as a non-revolving debt modification and, therefore, it did not result in any gain or loss. The difference between the book value of our Zero Coupon Notes and the principal value of the Senior Notes issued in exchange will be accreted over the remaining term of the Senior Notes. Upfront fees paid to third parties in connection with the exchange were not material and were expensed as incurred.

Senior Notes

In March 2012, we issued \$600 million of Floating Rate Senior Notes due 2013 (the “2013 Floating Rate Notes”) and \$500 million of 2.95 % Senior Notes due 2017 (the “2017 Senior Notes”). The 2013 Floating Rate Notes were issued at par and the 2017 Senior Notes were issued at 99.875 % of par, resulting in aggregate net proceeds for both notes of approximately \$1,093 million. The 2013 Floating Rate Notes accrue interest at a rate per annum, reset quarterly, equal to the three-month LIBOR plus 1.400 % and are payable quarterly. The 2017 Senior Notes accrue interest at a rate of 2.95 % per annum and are payable semi-annually. As a result of the discount, they have a weighted average effective interest rate of 2.977 %. In connection with the issuance of

these Senior Notes, debt issuance costs of \$6 million were deferred. This debt issuance partially funded the May 2012 maturity of our \$1,100 million of 5.59% Senior Notes.

Refer to Note 12 – Debt in the Consolidated Financial Statements for additional information regarding our debt.

Financial Instruments

Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs – Treasury Stock

During 2012, we repurchased 146.3 million shares for an aggregate cost of \$1.1 billion, including fees. Through February 20, 2013, we repurchased an additional 1.4 million shares at an aggregate cost of \$10.1 million, including fees, for a cumulative program total of 429.7 million shares at a cost of \$4.7 billion, including fees. We expect total share repurchases of at least \$400 million in 2013.

In October 2012, the Board of Directors authorized an additional \$1.0 billion in share repurchase, bringing the total remaining authorization for share repurchases to \$1.3 billion as of February 20, 2013.

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 \$226 million, \$241 million and \$243 million on common stock in 2012, 2011 and 2010, respectively. The decrease in 2012 as compared to prior years is primarily due to a lower level of outstanding shares in 2012 as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of \$24 million, \$24 million and \$21 million on the Series A Convertible Preferred Stock in 2012, 2011 and 2010, respectively. The preferred shares were issued in connection with the acquisition of ACS.

In addition, the company increased its dividend from 4.25 cents per share to 5.75 cents per share per quarter, beginning with the dividend payable on April 30, 2013. Accordingly, we expect approximately \$300 million in dividend payments for the full year 2013.

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 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
2013	\$ 1,039
2014	1,093
2015	1,259
2016	954
2017	1,002
2018	1,001
2019	650
2020	–
2021	1,062
2022 and thereafter	350
Total	\$ 8,410

Foreign Cash

At December 31, 2012, we had \$1,246 million of cash and cash equivalents on a consolidated basis. Of that amount, approximately \$400 million was held outside the U.S. by our foreign subsidiaries to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings.

However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 16 – Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Management's Discussion

Loan Covenants and Compliance

At December 31, 2012, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right 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 12 – Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2012, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2013	2014	2015	2016	2017	Thereafter
Total debt, including capital lease obligations ⁽¹⁾	\$ 1,039	\$ 1,093	\$ 1,259	\$ 954	\$ 1,002	\$ 3,063
Interest on debt ⁽¹⁾	421	363	293	234	177	777
Minimum operating lease commitments ⁽²⁾	636	425	265	157	74	83
Defined benefit pension plans	195	–	–	–	–	–
Retiree health payments	80	80	79	77	75	339
Estimated Purchase Commitments:						
Flextronics ⁽³⁾	498	–	–	–	–	–
Fuji Xerox ⁽⁴⁾	2,069	–	–	–	–	–
Other ⁽⁵⁾	169	131	43	16	1	–
Total	\$ 5,107	\$ 2,092	\$ 1,939	\$ 1,438	\$ 1,329	\$ 4,262

⁽¹⁾ Refer to Note 12 – Debt in the Consolidated Financial Statements for additional information regarding debt.

⁽²⁾ Refer to Note 7 – Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

⁽³⁾ Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately \$600 million per year.

⁽⁴⁾ Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.

⁽⁵⁾ 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.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2012 cash contributions for these plans were \$364 million for our defined benefit pension plans and \$84 million for our retiree health plans. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 million in 2012.

In 2013, based on current actuarial calculations, we expect to make contributions of approximately \$195 million to our worldwide defined benefit pension plans and approximately \$80 million to our retiree health benefit plans. The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. 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. Although we currently expect contributions to our worldwide defined benefit pension plans to increase moderately in 2014, primarily in the U.S., contributions are still expected to be lower over the next several years as compared to 2011 and 2012, primarily as a result of the amendment of several of our defined benefit pension plans to freeze current benefits and eliminate benefit accruals for future service.

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, \$2.2 billion and \$2.1 billion in 2012, 2011 and 2010, 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 8 – 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, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 million, with the decrease from the December 31, 2011 balance of approximately \$1,120 million, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010 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, 2012 we had \$211 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 million and additional letters of credit of approximately \$242 million, 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 the 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 and Litigation 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 non-consolidated 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

Management's Discussion

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, 2012, we had \$201 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and foreign 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

Occasionally we may utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."). We enter into the following arrangements that have off-balance sheet elements:

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 7 – Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- We have facilities, primarily in the U.S., Canada and several countries in Europe, that enable us to sell to third-parties certain accounts receivable without recourse. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 4 – Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.
- During 2012 we entered into arrangements to sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 5 – Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales.

At December 31, 2012, we do not believe we have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

In addition, see the table above for the Company's contractual cash obligations and other commercial commitments and Note 17 – Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, 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, 2012, 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, 2012. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2012 would have an impact on our cumulative translation adjustment portion of equity of approximately \$711 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox Brasil, and translated into U.S. Dollars using the year-end exchange rates, was approximately \$7.1 billion at December 31, 2012.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2012, 2011 and 2010 approximated 4.7%, 5.2%, and 5.8%, 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, 2012, \$903 million of our total debt of \$8,489 million carried variable interest rates, including the effect of pay variable interest rate swaps, if any, we may 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, 2012, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$113 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (“GAAP”). In addition, 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, and the most directly comparable measures calculated and presented in accordance with GAAP, are set forth on the following tables.

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 2012 reporting year, adjustments were limited to the amortization of intangible assets:

- Net income and Earnings per share (“EPS”), and
- Effective tax rate.

The above have been adjusted for the following items:

- **Amortization of intangible assets (all periods):** 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.

- **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.
- **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 the item on our results of operations for the period: (1) Loss on early extinguishment of liability (2011 and 2010), (2) Medicare subsidy tax law change (income tax effect only) (2010), (3) ACS shareholder’s litigation settlement (2010) and (4) Venezuela devaluation (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.

We also calculate and utilize an Operating income and margin earnings measure by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the amortization of intangible assets and restructuring expenses (see above), operating income and margin also exclude Other expenses, net. 2011 operating income and margin also exclude a Curtailment gain recorded in the fourth quarter 2011 while 2010 operating income and margin exclude ACS acquisition related costs (see above). Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. The Curtailment gain resulted from the amendment of our primary non-union U.S. defined benefit pension plans for salaried employees to fully freeze future benefit and service accruals after December 31, 2012. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Management's Discussion

Pro-forma Basis

To better understand the trends in our business, we discuss our 2011 operating results by comparing them against adjusted prior period results which include ACS historical results for the comparable period. We acquired ACS on February 5, 2010 and ACS's results subsequent to that date are included in our reported results. Accordingly, for the comparison of our reported 2011 results to 2010, we included ACS's 2010 estimated results for the period January 1 through February 5, 2010 in our reported 2010 results (pro-forma 2010). We refer to these comparisons against adjusted results as "pro-forma" basis comparisons. ACS's historical results for this period 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.

Net Income and EPS reconciliation:

	Year Ended December 31,					
	2012		2011		2010	
(in millions; except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported	\$ 1,195	\$ 0.88	\$ 1,295	\$ 0.90	\$ 606	\$ 0.43
Adjustments:						
Amortization of intangible assets	203	0.15	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
Venezuelan devaluation costs	–	–	–	–	21	0.02
Medicare subsidy tax law change	–	–	–	–	16	0.01
Adjusted	\$ 1,398	\$ 1.03	\$ 1,563	\$ 1.08	\$ 1,296	\$ 0.94
Weighted average shares for adjusted EPS ⁽¹⁾	1,356		1,444		1,378	
Fully diluted shares at December 31, 2012 ⁽²⁾	1,271					

⁽¹⁾ Average shares for the calculation of adjusted EPS and include 27 million of shares associated with the Series A convertible preferred stock and therefore the related annual dividend was excluded.

⁽²⁾ Represents common shares outstanding at December 31, 2012 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the fourth quarter 2012.

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	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
As Reported	\$ 1,348	\$ 277	20.5%	\$ 1,565	\$ 386	24.7%	\$ 815	\$ 256	31.4%
Adjustments:									
Amortization of intangible assets	328	125		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	–	
Venezuelan devaluation costs	–	–		–	–		21	–	
Medicare subsidy tax law change	–	–		–	–		–	(16)	
Adjusted	\$ 1,676	\$ 402	24.0%	\$ 1,996	\$ 549	27.5%	\$ 1,759	\$ 548	31.2%

Operating Income/Margin reconciliation:

(in millions)	As Reported				Pro-forma ⁽¹⁾
	2012	2011	2010	2010	
Total Revenue	\$ 22,390	\$ 22,626	\$ 21,633	\$ 22,252	
Pre-tax Income	1,348	1,565	815	777	
Adjustments:					
Amortization of intangible assets	328	398	312	339	
Xerox restructuring charge	153	33	483	483	
Curtailment gain	–	(107)	–	–	
ACS acquisition-related costs	–	–	77	77	
Other expenses, net	256	322	389	444	
Adjusted Operating Income	\$ 2,085	\$ 2,211	\$ 2,076	\$ 2,120	
Pre-tax Income Margin	6.0%	6.9%	3.8%	3.5%	
Adjusted Operating Margin	9.3%	9.8%	9.6%	9.5%	

⁽¹⁾ Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 5 in our reported 2010 results.

Management's Discussion

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 2012 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.

Consolidated Statements of Income

(in millions, except per-share data)	Year Ended December 31,		
	2012	2011	2010
Revenues			
Sales	\$ 6,578	\$ 7,126	\$ 7,234
Outsourcing, service and rentals	15,215	14,868	13,739
Finance income	597	632	660
Total Revenues	22,390	22,626	21,633
Costs and Expenses			
Cost of sales	4,362	4,697	4,741
Cost of outsourcing, service and rentals	10,802	10,269	9,195
Equipment financing interest	198	231	246
Research, development and engineering expenses	655	721	781
Selling, administrative and general expenses	4,288	4,497	4,594
Restructuring and asset impairment charges	153	33	483
Acquisition-related costs	–	–	77
Amortization of intangible assets	328	398	312
Curtailment gain	–	(107)	–
Other expenses, net	256	322	389
Total Costs and Expenses	21,042	21,061	20,818
Income Before Income Taxes and Equity Income	1,348	1,565	815
Income tax expense	277	386	256
Equity in net income of unconsolidated affiliates	152	149	78
Net Income	1,223	1,328	637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share	\$ 0.88	\$ 0.90	\$ 0.43

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(in millions)	Year Ended December 31,		
	2012	2011	2010
Net Income	\$ 1,223	\$ 1,328	\$ 637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Other Comprehensive Income (Loss), Net: ⁽¹⁾			
Translation adjustments, net	\$ 113	\$ (105)	\$ (35)
Unrealized (losses) gains, net	(63)	12	12
Changes in defined benefit plans, net	(561)	(636)	23
Other Comprehensive Loss, Net	(511)	(729)	–
Less: Other comprehensive loss, net attributable to noncontrolling interests	–	(1)	–
Other Comprehensive Loss, Net Attributable to Xerox	\$ (511)	\$ (728)	\$ –
Comprehensive Income, Net	\$ 712	\$ 599	\$ 637
Less: Comprehensive income, net attributable to noncontrolling interests	28	32	31
Comprehensive Income, Net Attributable to Xerox	\$ 684	\$ 567	\$ 606

⁽¹⁾ Refer to Note 20 – Other Comprehensive Income for gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and related tax effects.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheets

(in millions, except share data in thousands)	December 31,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,246	\$ 902
Accounts receivable, net	2,866	2,600
Billed portion of finance receivables, net	152	166
Finance receivables, net	1,836	2,165
Inventories	1,011	1,021
Other current assets	1,162	1,058
Total current assets	8,273	7,912
Finance receivables due after one year, net	3,325	4,031
Equipment on operating leases, net	535	533
Land, buildings and equipment, net	1,556	1,612
Investments in affiliates, at equity	1,381	1,395
Intangible assets, net	2,783	3,042
Goodwill	9,062	8,803
Deferred tax assets, long-term	763	672
Other long-term assets	2,337	2,116
Total Assets	\$ 30,015	\$ 30,116
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 1,042	\$ 1,545
Accounts payable	1,913	2,016
Accrued compensation and benefits costs	741	757
Unearned income	438	432
Other current liabilities	1,776	1,631
Total current liabilities	5,910	6,381
Long-term debt	7,447	7,088
Pension and other benefit liabilities	2,958	2,487
Post-retirement medical benefits	909	925
Other long-term liabilities	778	861
Total Liabilities	18,002	17,742
Series A Convertible Preferred Stock	349	349
Common stock	1,239	1,353
Additional paid-in capital	5,622	6,317
Treasury stock, at cost	(104)	(124)
Retained earnings	7,991	7,046
Accumulated other comprehensive loss	(3,227)	(2,716)
Xerox shareholders' equity	11,521	11,876
Noncontrolling interests	143	149
Total Equity	11,664	12,025
Total Liabilities and Equity	\$ 30,015	\$ 30,116
Shares of common stock issued	1,238,696	1,352,849
Treasury stock	(14,924)	(15,508)
Shares of common stock outstanding	1,223,772	1,337,341

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in millions)	Year Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	\$ 1,223	\$ 1,328	\$ 637
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,301	1,251	1,097
Provision for receivables	127	154	180
Provision for inventory	30	39	31
Deferred tax expense (benefit)	96	203	(2)
Undistributed equity in net income of unconsolidated affiliates	(90)	(86)	(37)
Stock-based compensation	125	123	123
Restructuring and asset impairment charges	153	33	483
Payments for restructurings	(144)	(218)	(213)
Contributions to defined benefit pension plans	(364)	(426)	(237)
Increase in accounts receivable and billed portion of finance receivables	(776)	(296)	(118)
Collections of deferred proceeds from sales of receivables	470	380	218
Increase in inventories	–	(124)	(151)
Increase in equipment on operating leases	(276)	(298)	(288)
Decrease in finance receivables	947	90	129
Increase in other current and long-term assets	(265)	(249)	(98)
Increase in accounts payable and accrued compensation	120	82	615
Decrease in other current and long-term liabilities	(71)	(22)	(9)
Net change in income tax assets and liabilities	42	89	229
Net change in derivative assets and liabilities	11	39	85
Other operating, net	(79)	(131)	52
Net cash provided by operating activities	2,580	1,961	2,726
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(388)	(338)	(355)
Proceeds from sales of land, buildings and equipment	9	28	52
Cost of additions to internal use software	(125)	(163)	(164)
Acquisitions, net of cash acquired	(276)	(212)	(1,734)
Other investing, net	19	10	23
Net cash used in investing activities	(761)	(675)	(2,178)
Cash Flows from Financing Activities:			
Net (payments) proceeds on debt	(108)	49	(3,056)
Payment of liability to subsidiary trust issuing preferred securities	–	(670)	–
Common stock dividends	(231)	(241)	(215)
Preferred stock dividends	(24)	(24)	(15)
Proceeds from issuances of common stock	44	44	183
Excess tax benefits from stock-based compensation	10	6	24
Payments to acquire treasury stock, including fees	(1,052)	(701)	–
Repurchases related to stock-based compensation	(42)	(27)	(15)
Distributions to noncontrolling interests	(69)	(22)	(22)
Net cash used in financing activities	(1,472)	(1,586)	(3,116)
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)
Cash and cash equivalents at beginning of year	902	1,211	3,799
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	\$ 1,211

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(in millions)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽³⁾	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
Comprehensive income	–	–	–	606	–	606	31	637
ACS acquisition	490	3,825	–	–	–	4,315	–	4,315
Cash dividends declared-common stock ⁽¹⁾	–	–	–	(243)	–	(243)	–	(243)
Cash dividends declared-preferred stock ⁽²⁾	–	–	–	(21)	–	(21)	–	(21)
Stock option and incentive plans, net	37	262	–	–	–	299	–	299
Distributions to noncontrolling interests	–	–	–	–	–	–	(19)	(19)
Balance at December 31, 2010	\$ 1,398	\$ 6,580	\$ –	\$ 6,016	\$ (1,988)	\$ 12,006	\$ 153	\$12,159
Comprehensive income	–	–	–	1,295	(728)	567	32	599
Cash dividends declared-common stock ⁽¹⁾	–	–	–	(241)	–	(241)	–	(241)
Cash dividends declared-preferred stock ⁽²⁾	–	–	–	(24)	–	(24)	–	(24)
Contribution of common stock to U.S. pension plan	17	113	–	–	–	130	–	130
Stock option and incentive plans, net	11	128	–	–	–	139	–	139
Payments to acquire treasury stock, including fees	–	–	(701)	–	–	(701)	–	(701)
Cancellation of treasury stock	(73)	(504)	577	–	–	–	–	–
Distributions to noncontrolling interests	–	–	–	–	–	–	(36)	(36)
Balance at December 31, 2011	\$ 1,353	\$ 6,317	\$ (124)	\$ 7,046	\$ (2,716)	\$ 11,876	\$ 149	\$12,025
Comprehensive income	–	–	–	1,195	(511)	684	28	712
Cash dividends declared-common stock ⁽¹⁾	–	–	–	(226)	–	(226)	–	(226)
Cash dividends declared-preferred stock ⁽²⁾	–	–	–	(24)	–	(24)	–	(24)
Contribution of common stock to U.S. pension plan	15	115	–	–	–	130	–	130
Stock option and incentive plans, net	18	115	–	–	–	133	–	133
Payments to acquire treasury stock, including fees	–	–	(1,052)	–	–	(1,052)	–	(1,052)
Cancellation of treasury stock	(147)	(925)	1,072	–	–	–	–	–
Distributions to noncontrolling interests	–	–	–	–	–	–	(34)	(34)
Balance at December 31, 2012	\$ 1,239	\$ 5,622	\$ (104)	\$ 7,991	\$ (3,227)	\$ 11,521	\$ 143	\$11,664

⁽¹⁾ Cash dividends declared on common stock of \$0.0425 in each of the four quarters in 2012, 2011 and 2010.

⁽²⁾ Cash dividends declared on preferred stock of \$12.22 per share in the first quarter of 2010 and \$20 per share in each quarter thereafter in 2010, 2011 and 2012.

⁽³⁾ AOCL – Accumulated other comprehensive loss.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 \$22.4 billion global enterprise for business process and document management. We offer business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, human resource 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.

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 before Income Taxes and Equity Income” as “pre-tax income” throughout the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements 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. 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 costs and expenses that require management estimates for the three years ended December 31, 2012:

Expense/(Income)	Year Ended December 31,		
	2012	2011	2010
Provision for restructuring and asset impairments	\$ 153	\$ 33	\$ 483
Provision for receivables	127	154	180
Provisions for litigation and regulatory matters	(1)	11	(4)
Provisions for obsolete and excess inventory	30	39	31
Provision for product warranty liability	29	30	33
Depreciation and obsolescence of equipment on operating leases	279	294	313
Depreciation of buildings and equipment	452	405	379
Amortization of internal use software	116	91	70
Amortization of product software	19	11	7
Amortization of acquired intangible assets	328	401	316
Amortization of customer contract costs	107	49	12
Defined pension benefits – net periodic benefit cost ⁽¹⁾	300	177	304
Retiree health benefits – net periodic benefit cost	11	14	32
Income tax expense	277	386	256

⁽¹⁾ 2011 includes \$107 pre-tax curtailment gain – refer to Note 15 – Employee Benefit Plans for additional information.

Changes in Estimates

In the ordinary course of accounting for the 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 and in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

New Accounting Standards and Accounting Changes

Except for the Accounting Standard Updates (“ASUs”) discussed below, the new ASUs issued by the FASB during the last two years did not have any significant impact on the Company.

Goodwill:

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 a potential exposure exists, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We adopted ASU 2011-08 in 2011. The adoption of this update did not have a material effect on our financial condition or results of operations. See “Goodwill and Other Intangible Assets” below for additional information.

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 Shareholders’ 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.

We adopted ASU 2011-05 effective for our fiscal year ending December 31, 2011 and have retrospectively applied the new presentation of comprehensive income to 2010. We elected to present comprehensive income in two separate but consecutive statements. Note 20 – Other Comprehensive Income provides details regarding the gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and the related tax effects. Other than the change in presentation and disclosure, the update did not have an impact on our financial condition or results of operations.

In February 2013, the FASB issued **ASU No. 2013-02**, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide additional information about the amounts reclassified out of Accumulated Other Comprehensive Income by component. This update is effective for us beginning January 1, 2013.

Fair Value Accounting:

In May 2011, the FASB issued **ASU 2011-04**, which amended Fair Value Measurements and Disclosures – Overall (ASC Topic 820-10) 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. This update changed certain fair value measurement principles and enhanced the disclosure requirements, particularly for level 3 fair value measurements. We adopted this update prospectively effective for our fiscal year beginning January 1, 2012. This update did not have a material effect on financial condition or results of operations.

Balance Sheet Offsetting:

In December 2011, the FASB issued **ASU 2011-11**, Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the Balance Sheet and instruments and transactions subject to an agreement similar to a master netting arrangement to enable users of its financial statements to understand the effects of offsetting and related arrangements on its financial position. This update is effective for our fiscal year beginning January 1, 2013 and must be applied retrospectively. In January 2013, the FASB issued **ASU 2013-01** which limited the scope of this guidance to derivatives, repurchase type agreements and securities borrowing and lending transactions. The principal impact from this update will be to expand disclosures regarding our financial instruments. We currently report our derivative assets and liabilities on a gross basis in the Balance Sheet even in those instances where offsetting may be allowed under a master netting agreement.

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 it is realized or realizable and earned. We consider revenue realized or realizable and earned when we have persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until equipment has been shipped or services have been provided to the customer, risk of loss has transferred to the customer and either customer acceptance has been obtained, customer acceptance provisions have lapsed or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment-Related Revenues

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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Technical Services: Technical service revenues are derived primarily from maintenance contracts on the equipment sold to our 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.

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. 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 the equipment, financing, maintenance and other executory costs, 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 other executory costs plus a 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 below under "Leases."

Our pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, 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 25 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.

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology 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. However, revenue is only recognized when the distributor or reseller has economic substance apart from the company, the sales price is not contingent upon resale or payment by the end user customer and we have no further obligations related to bringing about the resale, delivery or installation of the product.

Distributors and resellers participate in various rebate, price-protection, 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 is generally recognized upon shipment or utilization by customers in accordance with the sales contract 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 equipment sales 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. 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: As noted above, equipment may be placed with customers under bundled lease arrangements. 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.

We consider the economic life of most of our products to be 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. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

Services-Related Revenue

Outsourcing: 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.

Revenues on certain fixed price contracts where we provide 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 using the percentage-of-completion accounting methodology. 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.

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.

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 initiation of the ongoing services through the end of the contract term.

In connection with our services arrangements, we incur and capitalize 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. Certain initial direct costs of an arrangement are capitalized and amortized over the contractual service period of the arrangement to cost of services.

From time to time, we also provide inducements to customers in various forms, 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 were \$356 and \$294 at December 31, 2012 and 2011, respectively, and the balance at December 31, 2012 is expected to be amortized over a weighted average period of approximately seven years. Amortization expense associated with customer-related contract costs at December 31, 2012 is expected to be approximately \$103 in 2013.

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.

Our outsourcing services contracts may also include the sale of equipment and software. In these instances we follow the policies noted above under Equipment-related Revenue.

Other Revenue Recognition Policies

Multiple Element Arrangements: As described above, 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.
- 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.

In substantially all of our multiple element arrangements, we are able to separate the deliverables since we normally will meet both of the following criteria:

- 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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 primarily determined based on VSOE or third-party evidence (“TPE”) of the selling price. The above noted revenue policies are then applied to each separated deliverable, as applicable.

Revenue-based taxes: We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The primary revenue-based taxes are sales tax and value-added tax (“VAT”).

Other Significant Accounting Policies

Shipping and Handling

Costs related to shipping and handling are recognized as incurred and included in Cost of sales in the Consolidated Statements of Income.

Research, Development and Engineering (“RD&E”)

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to ongoing product improvements or environmental compliance after initial product launch. Sustaining engineering costs were \$110, \$108 and \$128 in 2012, 2011 and 2010, respectively. Refer to Management’s Discussion and Analysis, RD&E section for additional information regarding RD&E expense.

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.

Receivable Sales

We regularly sell certain portions of our receivable portfolios. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management’s best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 4 – Accounts Receivable, Net and Note 5 – Finance Receivables, Net for more details on our receivable sales.

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, which normally are not significant. 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 6 – Inventories and Equipment on Operating Leases, Net and Note 7 – Land, Buildings, Equipment and Software, 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. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility (“Product Software”). These costs are amortized based on estimated future revenues over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are charged to costs of services as incurred.

Refer to Note 7 – Land, Buildings, Equipment and Software, Net for further information.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (Step 1). If we perform the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (Step 2) to measure such impairment. In 2012, we elected to proceed to the quantitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test. Based on our quantitative assessments, we concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

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 9 – 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.

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 on 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 market-related 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)

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the market-related 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 market-related 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. The discount rate reflects the current rate at which benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments adjusted to eliminate the effects of call provisions, as well as the expected timing of pension and other benefit payments.

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 and other actuarial assumptions, are added to or subtracted from any cumulative actuarial gain or loss from prior years. This amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss. We amortize net actuarial gains and losses as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss (excluding asset gains or losses that have not been recognized in market-related value) exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets (the “corridor” method). This determination is made on a plan-by-plan basis. If amortization is required for a particular plan, we amortize the applicable net gain or loss in excess of the 10% threshold on a straight-line basis in net periodic pension cost over the remaining service period of the employees participating in that pension plan. In plans where substantially all participants are inactive, the amortization period for the excess is the average remaining life expectancy of the plan participants.

Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Under either option the participant’s vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. We have elected to apply settlement accounting and therefore we recognize the losses associated with settlements in this plan immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of the participant’s vested benefit.

Refer to Note 15 – Employee Benefit Plans for further information regarding our Pension and Post-Retirement Benefit Obligations.

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 recorded in Currency (gains) and losses within Other expenses, net together with other foreign currency remeasurements.

Note 2 – 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 – **Services and Document Technology**. Our Services segment operations involve delivery of a broad range of services including business process, document and IT outsourcing. Our Document Technology segment includes the sale and support of a broad range of document systems from entry level to high-end.

The **Services** segment is comprised of three outsourcing service offerings:

- Business Process Outsourcing (“BPO”)
- Document Outsourcing (which includes Managed Print Services (“DO”))
- Information Technology Outsourcing (“ITO”)

Business process outsourcing services include service arrangements where we manage a customer’s business activity or process. 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. Document outsourcing also includes revenues from our partner print services offerings. 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.

Our **Document 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 segment classified as **Other** includes several units, none of which meet the thresholds for separate segment reporting. This group primarily includes Global Paper and Supplies Distribution Group (predominantly paper sales), 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.

Selected financial information for our Operating segments was as follows:

	Years Ended December 31,			Total
	Services	Document Technology	Other	
2012 ⁽¹⁾				
Revenue	\$ 11,453	\$ 8,951	\$ 1,389	\$ 21,793
Finance income	75	511	11	597
Total Segment Revenue	\$ 11,528	\$ 9,462	\$ 1,400	\$ 22,390
Interest expense	22	172	234	428
Segment profit (loss) ⁽²⁾	1,173	1,065	(241)	1,997
Equity in net income of unconsolidated affiliates	30	122	–	152
2011 ⁽¹⁾				
Revenue	\$ 10,754	\$ 9,722	\$ 1,518	\$ 21,994
Finance income	83	537	12	632
Total Segment Revenue	\$ 10,837	\$ 10,259	\$ 1,530	\$ 22,626
Interest expense	\$ 25	\$ 202	\$ 251	\$ 478
Segment profit (loss) ⁽²⁾	1,207	1,140	(255)	2,092
Equity in net income of unconsolidated affiliates	31	118	–	149
2010 ⁽¹⁾				
Revenue	\$ 9,548	\$ 9,790	\$ 1,635	\$ 20,973
Finance income	89	559	12	660
Total Segment Revenue	\$ 9,637	\$ 10,349	\$ 1,647	\$ 21,633
Interest expense	\$ 28	\$ 212	\$ 352	\$ 592
Segment profit (loss) ⁽²⁾	1,132	1,085	(342)	1,875
Equity in net income of unconsolidated affiliates	16	62	–	78

⁽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, Services, 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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following is a reconciliation of segment profit to pre-tax income:

Segment Profit Reconciliation to Pre-tax Income	Years Ended December 31,		
	2012	2011	2010
Total Segment Profit	\$ 1,997	\$ 2,092	\$ 1,875
Reconciling items:			
Restructuring and asset impairment charges	(153)	(33)	(483)
Restructuring charges of Fuji Xerox	(16)	(19)	(38)
Acquisition-related costs	–	–	(77)
Amortization of intangible assets	(328)	(398)	(312)
Venezuelan devaluation costs	–	–	(21)
ACS shareholders' litigation settlement	–	–	(36)
Loss on early extinguishment of liability and debt	–	(33)	(15)
Equity in net income of unconsolidated affiliates	(152)	(149)	(78)
Curtailment gain	–	107	–
Other	–	(2)	–
Pre-tax Income	\$ 1,348	\$ 1,565	\$ 815

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, 2012:

	Revenues			Long-Lived Assets ⁽¹⁾		
	2012	2011	2010	2012	2011	2010
United States	\$ 14,701	\$ 14,493	\$ 13,801	\$ 1,966	\$ 1,894	\$ 1,764
Europe	5,111	5,557	5,332	784	776	741
Other areas	2,578	2,576	2,500	262	276	309
Total Revenues and Long-Lived Assets	\$ 22,390	\$ 22,626	\$ 21,633	\$ 3,012	\$ 2,946	\$ 2,814

⁽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

2012 Acquisitions

In July 2012, we acquired **Wireless Data Services, Ltd. (“WDS”)**, a provider of technical support, knowledge management and related consulting to the world’s largest wireless telecommunication brands for approximately \$95 (£60 million) in cash. Based in the U.K., WDS’s expertise in the telecommunications industry strengthens our broad portfolio of customer care solutions.

In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, copiers, printers and managed print services for approximately \$58 in cash. The acquisition furthers our coverage of central Illinois and eastern Iowa, building on our strategy to create a nationwide network of locally-based companies focused on customers’ needs to improve performance through efficiencies.

Our Document Technology segment also acquired three additional businesses in 2012 for a total of \$62 in cash as part of our strategy of increasing our U.S. distribution network primarily for small and mid-size businesses. Our Services segment acquired four additional businesses in 2012 for a total of \$61 in cash, primarily related to customer care and software to support our BPO service offerings.

2012 Summary

All of our 2012 acquisitions reflected 100% ownership of the acquired companies. 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. WDS is included within our Services segment while the acquisition of R.K. Dixon is included within our Document Technology segment. Our 2012 acquisitions contributed aggregate revenues of approximately \$162 to our 2012 total revenues from their respective acquisition dates. The purchase prices for all acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management’s estimates. The primary elements that generated the goodwill are the value of synergies and the acquired assembled workforce. Approximately 50% of the goodwill recorded in 2012 is expected to be deductible for tax purposes. Refer to Note 9 – Goodwill and Intangible Assets, Net for additional information.

The following table summarizes the purchase price allocations for our 2012 acquisitions as of the acquisition dates:

	Weighted-Average Life (Years)	Total 2012 Acquisitions
Accounts/finance receivables		\$ 51
Intangible assets:		
Customer relationships	8	40
Trademarks	19	22
Non-compete agreements	4	5
Software	5	10
Goodwill		184
Other assets		29
Total Assets Acquired		341
Liabilities assumed		(65)
Total Purchase Price		\$ 276

2011 and 2010 Acquisitions

In December 2011, we acquired the Merizon Group Inc. which operates **MBM**, formerly known as Modern Business Machines, a Wisconsin-based office products distributor for approximately \$42 net of cash acquired. The acquisition furthers our strategy of creating a nationwide network of locally-based companies focused on improving document workflow and office efficiency.

In November 2011, we acquired **The Breakaway Group (“Breakaway”)**, a cloud-based service provider that helps healthcare professionals accelerate their adoption of an electronic medical records (“EMR”) system, for approximately \$18 net of cash acquired. We are also obligated to pay the sellers up to an additional \$25 if certain future performance targets are achieved, of which \$18 was recorded as of the acquisition date representing the estimated fair value of this obligation for a total acquisition fair value of \$36. The Denver-based firm’s technology allows caregivers to practice using an EMR system without jeopardizing actual patient data. This acquisition adds to our offering of services that help healthcare professionals use the EMR system for clinical benefit.

In September 2011, we acquired the net assets related to the **U.S. operations of Symcor Inc. (“Symcor”)**. In connection with the acquisition, we assumed and took over the operational responsibility

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 for a net cash receipt of \$35. The assumed liabilities primarily include customer contract liabilities representing the estimated fair value of the obligations associated with the assumed customer contracts. We are recognizing these liabilities over a weighted-average period of approximately two years consistent with the cash outflows from the contracts. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing.

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 April 2011, we acquired **Unamic/HCN B.V.**, the largest privately-owned customer care provider in the Benelux region in Western Europe, 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 February 2011, we acquired **Concept Group, Ltd.** for \$41 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 3,000 customers.

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, for approximately \$48 in cash. TMS enables us to improve communications among pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, we augment the IT and BPO services we deliver to the healthcare and pharmaceutical industries.

In July 2010, we acquired **ExcellerateHRO, LLP** (“EHRO”), a global benefits administration and relocation services provider, for \$125 net of cash acquired. EHRO established us as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services.

Our Document Technology segment also acquired seven additional businesses in 2011 and two additional businesses in 2010 for \$21 and \$50, respectively, in cash as part of our strategy of increasing our distribution network for small and mid-size businesses. Our Services segment acquired three additional businesses in 2011 and one additional business in 2010 for \$25 and \$12, respectively, in cash primarily related to software to support our BPO service offerings.

Summary – 2011 and 2010 Acquisitions

All of our 2011 and 2010 acquisitions reflected 100% ownership of the acquired companies. The operating results of the 2011 and 2010 acquisitions described above were not material to our financial statements and were included within our results from the respective acquisition dates. Breakaway, Symcor, ESM, Unamic/HCN, TMS and EHRO were included within our Services segment while the acquisitions of MBM and Concept Group were primarily included within our Document Technology segment. The purchase price for all acquisitions, except Symcor, was primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. Refer to Note 9 – Goodwill and Intangible Assets, Net for additional information. Our 2011 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$397 and \$177 to our 2012 and 2011 total revenues, respectively. Excluding ACS, our 2010 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$323, \$318 and \$140 to our 2012, 2011 and 2010 total revenues, respectively.

Contingent Consideration

In connection with certain acquisitions, we are obligated to make contingent payments if specified contractual performance targets are achieved. Contingent consideration obligations are recorded at their respective fair value. As of December 31, 2012, the maximum aggregate amount of outstanding contingent obligations to former owners of acquired entities was approximately \$55, of which \$32 was accrued representing the estimated fair value of this obligation.

Affiliated Computer Services, Inc. (“ACS”)

In February 2010, we acquired ACS in a cash-and-stock transaction valued at approximately \$6.5 billion. Each outstanding share of ACS common stock was converted into a combination of 4.935 shares of Xerox common stock and \$18.60 in cash. We also issued convertible preferred stock with a fair value of \$349 and stock options valued at \$222. Refer to Note 18 – Preferred Stock and Note 19 – Shareholders' Equity for additional information regarding the issuance of preferred stock and stock options, respectively. In addition, we repaid \$1.7 billion of ACS's debt and assumed an additional \$0.6 billion of debt. The total aggregate purchase price was \$8.8 billion.

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed are recognized at their fair values as of the acquisition date. The acquisition of ACS resulted in recognized Goodwill of \$5.1 billion and Intangible assets of \$3.0 billion. The operating results of ACS are included in our Services segment from February 6, 2010. Had we acquired ACS on January 1, 2010, full year 2010 revenues, net income and diluted EPS would have been \$22,252, \$592 and \$0.41, respectively.

Note 4 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	December 31,	
	2012	2011
Amounts billed or billable	\$ 2,639	\$ 2,307
Unbilled amounts	335	395
Allowance for doubtful accounts	(108)	(102)
Accounts Receivable, Net	\$ 2,866	\$ 2,600

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, 2012 and 2011 were approximately \$1,049 and \$963, respectively.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. 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.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable without recourse to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. 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 their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and were \$116 and \$97 at December 31, 2012 and 2011, 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.

Of the accounts receivables sold and derecognized from our balance sheet, \$766 and \$815 remained uncollected as of December 31, 2012 and 2011, respectively. Accounts receivable sales were as follows:

	Year Ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivables	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

⁽¹⁾ Represents the difference between current and prior year fourth quarter 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 – Finance Receivables, Net

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

	December 31,	
	2012	2011
Gross receivables	\$ 6,290	\$ 7,583
Unearned income	(809)	(1,027)
Subtotal	5,481	6,556
Residual values	2	7
Allowance for doubtful accounts	(170)	(201)
Finance Receivables, Net	5,313	6,362
Less: Billed portion of finance receivables, net	152	166
Less: Current portion of finance receivables not billed, net	1,836	2,165
Finance Receivables Due After One Year, Net	\$ 3,325	\$ 4,031

Contractual maturities of our gross finance receivables as of December 31, 2012 were as follows (including those already billed of \$152):

2013	2014	2015	2016	2017	Thereafter	Total
\$2,353	\$1,753	\$1,234	\$680	\$242	\$28	\$6,290

Sale of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 (net of an allowance of \$18) to a third-party financial institution for cash proceeds of \$630 and beneficial interests from the purchaser of \$101. The lease contracts, including associated service and supply elements, were initially sold

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

to wholly-owned consolidated bankruptcy-remote limited purpose subsidiaries which in turn sold the principal and interest portions of such contracts to the third-party financial institution (the "ultimate purchaser"). As of December 31, 2012, the net carrying value of the receivables sold and derecognized from our balance sheet was \$647.

A pre-tax gain of \$44 was recognized on these sales and is net of fees and expenses of approximately \$5. The gain was reported in Finance income in Document Technology segment revenues. We continue to service the sold receivables for which we receive a 1% servicing fee. We have concluded that the 1% servicing fee (approximately \$12 over the expected life of the associated receivables) is adequate compensation and, accordingly, no servicing asset or liability was recorded.

The beneficial interests represent our right to receive future cash flows from the sold receivables which exceed the ultimate purchaser's initial investment and associated return on that investment as well as the servicing fee. The beneficial interests were initially recognized at an estimate of fair value based on the present value of the expected future cash flows. The present value of the expected future cash flows was calculated using management's best estimate of key assumptions including credit losses, prepayment rates and an appropriate risk-adjusted discount rate (all unobservable Level 3 inputs) for which we utilized annualized rates of approximately 2.1%, 9.3% and 10.0%, respectively. These assumptions are supported by both our historical experience and anticipated trends relative to the particular portfolios of receivables sold. However, to assess the sensitivity on the fair value of the beneficial interests, we adjusted the credit loss rate, prepayment rate and discount rate assumptions individually by 10% and 20% while holding the other assumptions constant. Although the effect of multiple assumption changes was not considered in this analysis, a 10% or 20% adverse variation in any one of these three individual assumptions would each decrease the recorded beneficial interests by approximately \$4 or less.

The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests of which \$35 and \$68 is included in "Other current assets" and "Other long-term assets," respectively, in the accompanying Consolidated Balance Sheets at December 31, 2012. The beneficial interests are held by the bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We will report collections on the beneficial interests as operating cash flows in the Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity and the associated interest rate risk is de minimis considering their weighted average lives of less than 2 years.

Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and Western 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 assessments of the customer, including payment history and changes in credit quality.

The allowance for doubtful accounts and provision for 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 the allowance for credit losses. This loss rate is primarily based upon historical loss experiences 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. Loss rates declined in both the U.S. and Canada reflecting the effects of improved collections in those countries during 2011 and 2012. Since Europe is comprised of various 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. Charge-offs in Europe were flat in 2012 as compared to the prior year's, reflecting a stabilization of the credit issues noted in 2011. Loss rates peaked in 2011 as a result of the European economic challenges particularly for those countries in the southern region.

The following table is a rollforward of the allowance for doubtful finance receivables as well as the related investment in finance receivables:

Allowance for Credit Losses	United States	Canada	Europe	Other ⁽³⁾	Total
Balance at December 31, 2010	\$ 91	\$ 37	\$ 81	\$ 3	\$ 212
Provision	15	11	74	–	100
Charge-offs	(31)	(17)	(59)	(1)	(108)
Recoveries and other ⁽¹⁾	–	2	(5)	–	(3)
Balance at December 31, 2011	75	33	91	2	201
Provision	11	9	52	3	75
Charge-offs	(21)	(15)	(59)	(2)	(97)
Recoveries and other ⁽¹⁾	3	4	1	1	9
Sale of finance receivables	(18)	–	–	–	(18)
Balance at December 31, 2012	\$ 50	\$ 31	\$ 85	\$ 4	\$ 170
Finance Receivables Collectively Evaluated for Impairment:					
December 31, 2011 ⁽²⁾	\$ 2,993	\$ 825	\$ 2,630	\$ 108	\$ 6,556
December 31, 2012 ⁽²⁾	\$ 2,012	\$ 801	\$ 2,474	\$ 194	\$ 5,481

(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 \$2 and \$7 and the allowance for credit losses of \$170 and \$201 at December 31, 2012 and 2011, respectively.

(3) 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 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, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluations 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%.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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:

	December 31, 2012			Total Finance Receivables
	Investment Grade	Non-investment Grade	Substandard	
Finance and other services	\$ 252	\$ 147	\$ 59	\$ 458
Government and education	750	15	4	769
Graphic arts	92	90	137	319
Industrial	115	31	17	163
Healthcare	109	37	14	160
Other	70	39	34	143
Total United States	1,388	359	265	2,012
Finance and other services	151	116	40	307
Government and education	117	10	2	129
Graphic arts	37	34	30	101
Industrial	66	40	29	135
Other	75	43	11	129
Total Canada	446	243	112	801
France	274	294	134	702
U.K./Ireland	215	155	50	420
Central ⁽¹⁾	315	445	56	816
Southern ⁽²⁾	139	230	73	442
Nordics ⁽³⁾	49	36	9	94
Total Europe	992	1,160	322	2,474
Other	148	39	7	194
Total	\$ 2,974	\$ 1,801	\$ 706	\$ 5,481

⁽¹⁾ Switzerland, Germany, Austria, Belgium and Holland.

⁽²⁾ Italy, Greece, Spain and Portugal.

⁽³⁾ Sweden, Norway, Denmark and Finland.

December 31, 2011

	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 349	\$ 380	\$ 160	\$ 889
Government and education	821	20	4	845
Graphic arts	126	200	172	498
Industrial	180	83	32	295
Healthcare	130	42	28	200
Other	97	93	76	266
Total United States	1,703	818	472	2,993
Finance and other services	153	118	51	322
Government and education	121	9	4	134
Graphic arts	36	39	35	110
Industrial	56	41	34	131
Other	74	42	12	128
Total Canada	440	249	136	825
France	246	354	92	692
U.K./Ireland	201	162	54	417
Central ⁽¹⁾	330	494	57	881
Southern ⁽²⁾	219	256	63	538
Nordics ⁽³⁾	60	39	3	102
Total Europe	1,056	1,305	269	2,630
Other	75	26	7	108
Total	\$ 3,274	\$ 2,398	\$ 884	\$ 6,556

⁽¹⁾ Switzerland, Germany, Austria, Belgium and Holland.

⁽²⁾ Italy, Greece, Spain and Portugal.

⁽³⁾ Sweden, Norway, Denmark and Finland.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are 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:

	December 31, 2012						
	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	\$ 12	\$ 3	\$ 2	\$ 17	\$ 441	\$ 458	\$ 18
Government and education	21	5	3	29	740	769	42
Graphic arts	16	1	1	18	301	319	12
Industrial	5	2	1	8	155	163	6
Healthcare	6	2	1	9	151	160	9
Other	5	1	1	7	136	143	6
Total United States	65	14	9	88	1,924	2,012	93
Canada	2	3	2	7	794	801	30
France	–	5	1	6	696	702	22
U.K./Ireland	2	–	2	4	416	420	2
Central ⁽¹⁾	3	2	4	9	807	816	30
Southern ⁽²⁾	20	8	14	42	400	442	72
Nordics ⁽³⁾	1	–	–	1	93	94	–
Total Europe	26	15	21	62	2,412	2,474	126
Other	2	1	–	3	191	194	–
Total	\$ 95	\$ 33	\$ 32	\$ 160	\$ 5,321	\$ 5,481	\$ 249

⁽¹⁾ Switzerland, Germany, Austria, Belgium and Holland.

⁽²⁾ Italy, Greece, Spain and Portugal.

⁽³⁾ Sweden, Norway, Denmark and Finland.

December 31, 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	\$ 18	\$ 4	\$ 1	\$ 23	\$ 866	\$ 889	\$ 15
Government and education	21	5	2	28	817	845	29
Graphic arts	16	2	1	19	479	498	7
Industrial	7	2	1	10	285	295	6
Healthcare	5	2	–	7	193	200	5
Other	8	1	–	9	257	266	4
Total United States	75	16	5	96	2,897	2,993	66
Canada	3	2	1	6	819	825	27
France	1	1	1	3	689	692	16
U.K./Ireland	3	2	3	8	409	417	4
Central ⁽¹⁾	7	2	3	12	869	881	46
Southern ⁽²⁾	31	4	13	48	490	538	82
Nordics ⁽³⁾	1	–	–	1	101	102	–
Total Europe	43	9	20	72	2,558	2,630	148
Other	2	1	–	3	105	108	–
Total	\$ 123	\$ 28	\$ 26	\$ 177	\$ 6,379	\$ 6,556	\$ 241

⁽¹⁾ Switzerland, Germany, Austria, Belgium and Holland.

⁽²⁾ Italy, Greece, Spain and Portugal.

⁽³⁾ Sweden, Norway, Denmark and Finland.

Useful lives of our internal use and product software generally vary from three to ten years. Included within product software is approximately \$200 of capitalized costs associated with a software system developed for use in certain of our government services businesses.

Our 2012 impairment review indicated these costs will be recoverable from estimated future operating profits. However, since the review indicated that the excess of estimated future operating profits over capitalized costs was less than 5%; in 2013 we will continue to closely monitor any significant changes in the estimated future revenues or margins from current or potential customers. Beginning in 2013, the costs associated with this software system will be amortized over seven years.

Note 8 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

	December 31,	
	2012	2011
Fuji Xerox	\$ 1,317	\$ 1,334
All other equity investments	64	61
Investments in Affiliates, at Equity	\$ 1,381	\$ 1,395

Our equity in net income of our unconsolidated affiliates was as follows:

	Year Ended December 31,		
	2012	2011	2010
Fuji Xerox	\$ 139	\$ 137	\$ 63
Other investments	13	12	15
Total Equity in Net Income of Unconsolidated Affiliates	\$ 152	\$ 149	\$ 78

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 \$1,317 at December 31, 2012, differs from our implied 25% interest in the underlying net assets, or \$1,430, due primarily to our deferral of gains resulting from sales of assets by us to 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.

Condensed financial data of Fuji Xerox was as follows:

	Year Ended December 31,			
	2012	2011	2010	
Summary of Operations				
Revenues	\$ 12,633	\$ 12,367	\$ 11,276	
Costs and expenses	11,783	11,464	10,659	
Income before income taxes	850	903	617	
Income tax expense	279	312	291	
Net Income	571	591	326	
Less: Net income – noncontrolling interests	6	5	5	
Net Income – Fuji Xerox	\$ 565	\$ 586	\$ 321	
Balance Sheet				
Assets:				
Current assets	\$ 5,154	\$ 5,056	\$ 4,884	
Long-term assets	6,158	6,064	5,978	
Total Assets	\$ 11,312	\$ 11,120	\$ 10,862	
Liabilities and Equity:				
Current liabilities	\$ 3,465	\$ 3,772	\$ 3,534	
Long-term debt	1,185	817	1,260	
Other long-term liabilities	917	700	707	
Noncontrolling interests	27	25	22	
Fuji Xerox shareholders' equity	5,718	5,806	5,339	
Total Liabilities and Equity	\$ 11,312	\$ 11,120	\$ 10,862	
Yen/U.S. Dollar exchange rates used to translate are as follows:				
Financial Statement	Exchange Basis	2012	2011	2010
Summary of Operations	Weighted average rate	79.89	79.61	87.64
Balance Sheet	Year-end rate	86.01	77.62	81.66

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 our patent portfolio in exchange for access to their patent portfolio. These payments are included in Outsourcing, service 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 negotiated 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 were as follows:

	Year Ended December 31,		
	2012	2011	2010
Dividends received from Fuji Xerox	\$ 52	\$ 58	\$ 36
Royalty revenue earned	132	128	116
Inventory purchases from Fuji Xerox	2,069	2,180	2,098
Inventory sales to Fuji Xerox	147	151	147
R&D payments received from Fuji Xerox	2	2	1
R&D payments paid to Fuji Xerox	15	21	30

As of December 31, 2012 and 2011, net amounts due to Fuji Xerox were \$110 and \$105, respectively.

Note 9 – Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

	Services	Document Technology	Total
Balance at December 31, 2009 ⁽¹⁾	\$ 1,295	\$ 2,127	\$ 3,422
Foreign currency translation	(22)	(25)	(47)
Acquisitions:			
ACS	5,127	–	5,127
EHRO	77	–	77
TMS	35	–	35
IBS	–	14	14
Other	10	11	21
Balance at December 31, 2010	\$ 6,522	\$ 2,127	\$ 8,649
Foreign currency translation	(28)	(6)	(34)
Acquisitions:			
Unamic/HCN	43	–	43
Breakaway	33	–	33
ESM	28	–	28
Concept Group	–	26	26
MBM	–	20	20
Other	21	17	38
Balance at December 31, 2011	\$ 6,619	\$ 2,184	\$ 8,803
Foreign currency translation	41	34	75
Acquisitions:			
WDS	69	–	69
R.K. Dixon	–	30	30
Other	51	34	85
Balance at December 31, 2012	\$ 6,780	\$ 2,282	\$ 9,062

⁽¹⁾ Includes the reallocation of approximately \$300 of goodwill related to our Managed Print Services business from Document Technology to Services to reflect the current composition of our Segments.

Intangible Assets, Net

Net intangible assets were \$2.8 billion at December 31, 2012 and approximately \$2.4 billion related to the Services segment and \$0.4 billion related to the Document Technology segment. Intangible assets were comprised of the following:

	Weighted Average Amortization	December 31, 2012			December 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	12 years	\$ 3,562	\$ 1,052	\$ 2,510	\$ 3,522	\$ 751	\$ 2,771
Distribution network	25 years	123	64	59	123	59	64
Trademarks ⁽¹⁾	20 years	257	59	198	238	47	191
Technology, patents and non-compete ⁽¹⁾	4 years	23	7	16	29	13	16
Total Intangible Assets		\$ 3,965	\$ 1,182	\$ 2,783	\$ 3,912	\$ 870	\$ 3,042

⁽¹⁾ Includes \$10 and \$5 of indefinite-lived assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was \$328, \$401, and \$316 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense for 2011 includes \$52 for the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision to discontinue its use and transition our services business to the "Xerox Business Services" trade name.

Excluding the impact of additional acquisitions, amortization expense is expected to approximate \$333 in 2013 and 2014, and \$328 in years 2015 through 2017.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 10 – Restructuring and Asset Impairment Charges

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 consist of severance actions and impact all major geographies and segments. Management continues to evaluate our business, therefore, in future years, there may be additional provisions for new plan initiatives as well as changes in previously recorded estimates, as payments are made or actions are completed. Asset impairment charges were also incurred in connection

with these restructuring actions for those assets sold, abandoned or made obsolete as a result of these programs.

Costs associated with restructuring, including employee severance and lease termination costs are generally recognized when it has been determined that a liability has been incurred, which is generally upon communication to the affected employees or exit from the leased facility, respectively. 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 employee severance costs when they are both probable and reasonably estimable.

A summary of our restructuring program activity during the three years ended December 31, 2012 is as follows:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance at December 31, 2009	\$ 54	\$ 20	\$ –	\$ 74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	–	(41)
Net current period charges ⁽²⁾	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance at December 31, 2010	298	25	–	323
Restructuring provision	98	1	5	104
Reversals of prior accruals	(65)	(6)	–	(71)
Net current period charges ⁽²⁾	33	(5)	5	33
Charges against reserve and currency	(215)	(13)	(5)	(233)
Balance at December 31, 2011	116	7	–	123
Restructuring provision	160	5	2	167
Reversals of prior accruals	(13)	–	(1)	(14)
Net current period charges ⁽²⁾	147	5	1	153
Charges against reserve and currency	(140)	(5)	(1)	(146)
Balance at December 31, 2012	\$ 123	\$ 7	\$ –	\$ 130

⁽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:

	Year Ended December 31,		
	2012	2011	2010
Charges against reserve	\$ (146)	\$ (233)	\$ (234)
Asset impairment	1	5	26
Effects of foreign currency and other non-cash items	1	10	(5)
Restructuring Cash Payments	\$ (144)	\$ (218)	\$ (213)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Year Ended December 31,		
	2012	2011	2010
Services	\$ 71	\$ 12	\$ 104
Document Technology	82	23	325
Other	–	(2)	54
Total Net Restructuring Charges	\$ 153	\$ 33	\$ 483

Refer to the “Restructuring and Asset Impairment Charges” section of our MD&A for additional discussion of net restructuring charges for the three years ended December 31, 2012.

Note 11 – Supplementary Financial Information

The components of other current and long-term assets and liabilities were as follows:

	December 31,	
	2012	2011
Other Current Assets		
Deferred taxes and income taxes receivable	\$ 296	\$ 261
Royalties, license fees and software maintenance	165	143
Restricted cash	151	97
Prepaid expenses	143	147
Derivative instruments	11	58
Deferred purchase price from sales of accounts receivables	116	97
Beneficial interests – sales of finance receivables	35	–
Advances and deposits	29	28
Other	216	227
Total Other Current Assets	\$ 1,162	\$ 1,058

(continued)	December 31,	
	2012	2011
Other Current Liabilities		
Deferred taxes and income taxes payable	\$ 105	\$ 83
Other taxes payable	170	150
Interest payable	83	84
Restructuring reserves	122	116
Derivative instruments	82	31
Product warranties	13	15
Dividends payable	69	74
Distributor and reseller rebates/commissions	117	112
Servicer liabilities	146	88
Other	869	878
Total Other Current Liabilities	\$ 1,776	\$ 1,631
Other Long-term Assets		
Prepaid pension costs	\$ 35	\$ 76
Net investment in discontinued operations	190	204
Internal use software, net	577	545
Product software, net	344	256
Restricted cash	214	246
Debt issuance costs, net	37	38
Customer contract costs, net	356	294
Beneficial interests – sales of finance receivables	68	–
Deferred compensation plan investments	100	92
Other	416	365
Total Other Long-term Assets	\$ 2,337	\$ 2,116
Other Long-term Liabilities		
Deferred and other tax liabilities	\$ 262	\$ 290
Environmental reserves	14	16
Unearned income	134	82
Restructuring reserves	8	7
Other	360	466
Total Other Long-term Liabilities	\$ 778	\$ 861

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Restricted Cash and Investments

As more fully discussed in Note 17 – Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. In addition, as more fully discussed in Note 4 – Accounts Receivable, Net and Note 5 – Finance Receivables, Net, we continue to service the receivables sold under most of our receivable sale agreements. As servicer, we may collect cash related to sold receivables prior to month-end that will be remitted to the purchaser the following month. Since we are acting on behalf of the purchaser in our capacity as servicer, such cash collected is reported as restricted cash. Restricted cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

Restricted cash amounts were as follows:

	December 31,	
	2012	2011
Tax and labor litigation deposits in Brazil	\$ 211	\$ 240
Escrow and cash collections related to receivable sales	146	88
Other restricted cash	8	15
Total Restricted Cash and Investments	\$ 365	\$ 343

Net Investment in Discontinued Operations

At December 31, 2012, our net investment in discontinued operations primarily consisted of a \$208 performance-based instrument relating to the 1997 sale of The Resolution Group (“TRG”) net of remaining net liabilities associated with our discontinued operations of \$18. 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. The performance-based instrument is pledged as security for our future funding obligations to our U.K. Pension Plan for salaried employees.

Note 12 – Debt

Short-term borrowings were as follows:

	December 31,	
	2012	2011
Commercial paper	\$ –	\$ 100
Current maturities of long-term debt	1,042	1,445
Total Short-term Debt	\$ 1,042	\$ 1,545

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 was as follows:

	Weighted Average Interest Rates at December 31, 2012 ⁽²⁾	December 31,	
		2012	2011
Xerox Corporation			
Senior Notes due 2012	–	\$ –	\$ 1,100
Senior Notes due 2013	5.65%	400	400
Floating Rate Notes due 2013	1.71%	600	–
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	750
Floating Rate Notes due 2014	1.13%	300	300
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 2017	2.98%	500	–
Notes due 2018	0.57%	1	1
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.66%	650	650
Senior Notes due 2021	5.39%	1,062	700
Zero Coupon Notes due 2023	–	–	301
Senior Notes due 2039	6.78%	350	350
Subtotal – Xerox Corporation		\$ 8,082	\$ 8,021
Subsidiary Companies			
Senior Notes due 2015	4.25%	250	250
Borrowings secured by other assets	4.31%	77	76
Other	1.23%	1	3
Subtotal-Subsidiary Companies		\$ 328	\$ 329
Principal Debt Balance		8,410	8,350
Unamortized discount		(63)	(7)
Fair value adjustments ⁽¹⁾		142	190
Less: current maturities		(1,042)	(1,445)
Total Long-term Debt		\$ 7,447	\$ 7,088

⁽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:

2013 ⁽¹⁾	2014	2015	2016	2017	Thereafter	Total
\$ 1,039	\$ 1,093	\$ 1,259	\$ 954	\$ 1,002	\$ 3,063	\$ 8,410

⁽¹⁾ Quarterly total debt maturities for 2013 are \$12, \$410, \$609 and \$8 for the first, second, third and fourth quarters, respectively.

Commercial Paper

We have a private placement commercial paper (“CP”) program in the U.S. under which we may issue CP up to a maximum amount of \$2.0 billion outstanding at any time. Aggregate CP and Credit Facility borrowings may not exceed \$2.0 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. At December 31, 2012, we did not have any CP Notes outstanding.

Credit Facility

We have a \$2.0 billion unsecured revolving Credit Facility with a group of lenders which matures in 2016. The Credit Facility contains a \$300 letter of credit sub-facility, and also includes an accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed \$2.75 billion. We entered into the facility in December 2011 and we have the right to request a one year extension on each of the first and second anniversary dates of this facility. No extension was requested at the first anniversary date in 2012.

The Credit Facility provides a backstop to our \$2.0 billion CP program. Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes.

At December 31, 2012 we had no outstanding borrowings or letters of credit under the Credit Facility.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. 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 a spread that varies between 0.00% and 0.45% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 0.90% and 1.45% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2012, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.175% and 1.175%, respectively.

An annual facility fee is payable to each participator in the Credit Facility at a rate that varies between 0.10% and 0.30% depending on our credit rating. Based on our credit rating as of December 31, 2012, the applicable rate is 0.20%.

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 termination of the lenders’ commitments to lend 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

Refer to the “Capital Market Activity” section in our Capital Resources and Liquidity section of the MDA for a discussion of 2012 Capital Market activity.

Interest

Interest paid on our short-term and long-term debt amounted to \$462, \$538 and \$586 for the years ended December 31, 2012, 2011 and 2010, respectively.

Interest expense and interest income was as follows:

	Year Ended December 31,		
	2012	2011	2010
Interest expense ⁽¹⁾	\$ 428	\$ 478	\$ 592
Interest income ⁽²⁾	610	653	679

⁽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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 7:1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net (Payments) Proceeds on Debt

Net (payments) proceeds on debt as shown on the Consolidated Statements of Cash Flows was as follows:

	Year Ended December 31,		
	2012	2011	2010
Net (payments) proceeds on short-term debt	\$ (108)	\$ (200)	\$ 300
Proceeds from issuance of long-term debt	1,116	1,000	–
Payments on long-term debt	(1,116)	(751)	(3,357)
Net (Payments) Proceeds on Other Debt	\$ (108)	\$ 49	\$ (3,057)

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 may 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. We did not have any interest rate swap agreements outstanding at December 31, 2012 or 2011.

Terminated Swaps: During the period from 2004 to 2011, we early terminated 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 2012, 2011 and 2010, the amortization of these fair value adjustments reduced interest expense by \$49, \$53 and \$28, respectively, and we expect to record a net decrease in interest expense of \$142 in future years through 2018.

Foreign Exchange Risk Management

As a global company, we are 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 purchased 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 December 31, 2012, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,505, which is typical 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 December 31, 2012:

Currencies Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Japanese Yen/U.S. Dollar	\$ 640	\$ (37)
U.S. Dollar/Euro	559	(6)
U.K. Pound Sterling/Euro	516	(4)
Euro/U.K. Pound Sterling	502	5
Japanese Yen/Euro	463	(33)
Euro/U.S. Dollar	188	1
U.S. Dollar/Japanese Yen	87	–
Indian Rupee/U.S. Dollar	65	1
Mexican Peso/U.S. Dollar	65	1
Euro/Japanese Yen	61	–
Philippine Peso/U.S. Dollar	52	1
Euro/Swiss Franc	37	–
Swiss Franc/Euro	29	–
U.S. Dollar/Canadian Dollar	25	–
All Other	216	–
Total Foreign Exchange Hedging	\$ 3,505	\$ (71)

⁽¹⁾ Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2012.

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. The net (liability) asset fair value of these contracts was \$(48) and \$26 as of December 31, 2012 and December 31, 2011, respectively.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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	December 31,	
		2012	2011
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 3	\$ 37
	Other current liabilities	(51)	(11)
	Net Designated (Liability) Asset	\$ (48)	\$ 26
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 8	\$ 21
	Other current liabilities	(31)	(20)
	Net Undesignated (Liability) Asset	\$ (23)	\$ 1
Summary of Derivatives			
	Total Derivative Assets	\$ 11	\$ 58
	Total Derivative Liabilities	(82)	(31)
	Net Derivative (Liability) Asset	\$ (71)	\$ 27

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	Year Ended December 31,					
		Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2012	2011	2010	2012	2011	2010
Interest rate contracts	Interest expense	\$ –	\$ 15	\$ 99	\$ –	\$ (15)	\$ (99)

Derivatives in Cash Flow Hedging Relationships	Year Ended December 31,						
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)		
	2012	2011	2010		2012	2011	2010
Foreign exchange contracts – forwards	\$ (50)	\$ 30	\$ 46	Cost of sales	\$ 37	\$ 14	\$ 28

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) were 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 December 31, 2012, net after-tax losses of \$37 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 (Loss) Gain	Year Ended December 31,		
		2012	2011	2010
Foreign exchange contracts – forwards	Other expense – Currency (losses) gains, net	\$ (38)	\$ 33	\$ 113

During the three years ended December 31, 2012, we recorded Currency losses, net of \$3, \$12 and \$11, 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 14 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities fair value measured on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	As of December 31,	
	2012	2011
Assets:		
Foreign exchange contracts – forwards	\$ 11	\$ 58
Deferred compensation investments in cash surrender life insurance	77	69
Deferred compensation investments in mutual funds	23	23
Total	\$ 111	\$ 150
Liabilities:		
Foreign exchange contracts – forwards	\$ 82	\$ 31
Deferred compensation plan liabilities	110	97
Total	\$ 192	\$ 128

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 Fair Value Measured on a Nonrecurring Basis

The estimated fair values of our other financial assets and liabilities fair value measured on a nonrecurring basis were as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,246	\$ 1,246	\$ 902	\$ 902
Accounts receivable, net	2,866	2,866	2,600	2,600
Short-term debt	1,042	1,051	1,545	1,622
Long-term debt	7,447	8,040	7,088	7,496

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 was estimated based on quoted market prices for publicly traded securities (Level 1) or on the current rates offered to us for debt of similar maturities (Level 2). 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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 15 – Employee Benefit Plans

We sponsor numerous defined benefit and defined contribution pension and other post-retirement benefit plans, primarily retiree health care, in our domestic and international operations. December 31 is the measurement date for all of our post-retirement benefit plans.

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Change in Benefit Obligation:						
Benefit obligation, January 1	\$ 4,670	\$ 4,456	\$ 5,835	\$ 5,275	\$ 1,007	\$ 1,006
Service cost	112	108	83	78	9	8
Interest cost	282	328	270	284	42	47
Plan participants' contributions	–	–	9	10	19	33
Actuarial loss	480	403	537	513	18	26
Currency exchange rate changes	–	–	232	(85)	4	(3)
Curtailments	–	–	(1)	–	–	–
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	(2)	(2)	(1)	7	(7)	(4)
Benefit Obligation, December 31	\$ 5,033	\$ 4,670	\$ 6,708	\$ 5,835	\$ 989	\$ 1,007
Change in Plan Assets:						
Fair value of plan assets, January 1	\$ 3,393	\$ 3,202	\$ 4,884	\$ 4,738	\$ –	\$ –
Actual return on plan assets	358	406	434	288	–	–
Employer contribution	331	408	163	148	84	73
Plan participants' contributions	–	–	9	10	19	33
Currency exchange rate changes	–	–	197	(57)	–	–
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	–	–	–	4	–	–
Fair Value of Plan Assets, December 31	\$ 3,573	\$ 3,393	\$ 5,431	\$ 4,884	\$ –	\$ –
Net Funded Status at December 31⁽¹⁾	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)
Amounts Recognized in the Consolidated Balance Sheets:						
Other long-term assets	\$ –	\$ –	\$ 35	\$ 76	\$ –	\$ –
Accrued compensation and benefit costs	(23)	(22)	(25)	(23)	(80)	(82)
Pension and other benefit liabilities	(1,437)	(1,255)	(1,287)	(1,004)	–	–
Post-retirement medical benefits	–	–	–	–	(909)	(925)
Net Amounts Recognized	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)

⁽¹⁾ Includes under-funded and non-funded plans.

Benefit plans pre-tax amounts recognized in AOCL at December 31:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Net actuarial loss	\$ 1,255	\$ 963	\$ 2,013	\$ 1,589	\$ 97	\$ 70
Prior service (credit) cost	(17)	(38)	–	1	(128)	(163)
Total Pre-tax Loss (Gain)	\$ 1,238	\$ 925	\$ 2,013	\$ 1,590	\$ (31)	\$ (93)
Accumulated Benefit Obligation	\$ 5,027	\$ 4,617	\$ 6,359	\$ 5,517		

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	December 31, 2012						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,679	\$ 5,997	\$ 355	\$ 527	\$ 5,034	\$ 6,524	\$ 11,558
Accumulated benefit obligation	4,672	5,686	355	520	5,027	6,206	11,233
Fair value of plan assets	3,574	5,213	–	–	3,574	5,213	8,787

	December 31, 2011						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,342	\$ 4,391	\$ 327	\$ 445	\$ 4,669	\$ 4,836	\$ 9,505
Accumulated benefit obligation	4,291	4,127	326	434	4,617	4,561	9,178
Fair value of plan assets	3,393	3,811	–	–	3,393	3,811	7,204

Our pension plan assets and benefit obligations at December 31, 2012 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S. funded	\$ 3.6	\$ 4.6	\$ (1.0)
U.S. unfunded	–	0.4	(0.4)
Total U.S.	\$ 3.6	\$ 5.0	\$ (1.4)
U.K.	3.4	3.7	(0.3)
Canada	0.7	1.0	(0.3)
Other funded	1.3	1.5	(0.2)
Other unfunded	–	0.5	(0.5)
Total	\$ 9.0	\$ 11.7	\$ (2.7)

Most of our defined benefit pension plans generally provide employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provide a benefit at the greater of (i) the 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).

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Pension Benefits Year Ended December 31,					
	U.S. Plans			Non-U.S. Plans		
	2012	2011	2010	2012	2011	2010
Components of Net Periodic Benefit Costs:						
Service cost	\$ 112	\$ 108	\$ 109	\$ 83	\$ 78	\$ 69
Interest cost ⁽¹⁾	282	328	310	270	284	265
Expected return on plan assets ⁽²⁾	(306)	(337)	(296)	(307)	(310)	(274)
Recognized net actuarial loss	53	33	40	53	39	31
Amortization of prior service credit	(23)	(23)	(23)	–	–	1
Recognized settlement loss	82	80	72	1	4	–
Recognized curtailment gain	–	(107)	–	–	–	–
Defined Benefit Plans	200	82	212	100	95	92
Defined contribution plans	28	31	25	35	35	26
Net Periodic Benefit Cost	228	113	237	135	130	118
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:						
Net actuarial loss	427	334	8	416	518	190
Prior service credit	(2)	(2)	(17)	(1)	–	(2)
Amortization of net actuarial loss	(135)	(113)	(112)	(54)	(40)	(31)
Amortization of net prior service credit	23	23	23	–	–	(1)
Curtailment gain – recognition of net prior service credit	–	107	–	–	–	–
Total Recognized in Other Comprehensive Income	313	349	(98)	361	478	156
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 541	\$ 462	\$ 139	\$ 496	\$ 608	\$ 274

⁽¹⁾ Interest cost includes interest expense on non-TRA obligations of \$382, \$388 and \$381 and interest expense directly allocated to TRA participant accounts of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

⁽²⁾ Expected return on plan assets includes expected investment income on non-TRA assets of \$443, \$423 and \$376 and actual investment income on TRA assets of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

	Retiree Health		
	Year Ended December 31,		
	2012	2011	2010
Components of Net Periodic Benefit Costs:			
Service cost	\$ 9	\$ 8	\$ 8
Interest cost	42	47	54
Recognized net actuarial loss	1	–	–
Amortization of prior service credit	(41)	(41)	(30)
Net periodic benefit cost	11	14	32
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:			
Net actuarial loss	18	25	13
Prior service credit	(6)	(3)	(86)
Amortization of net actuarial loss	(1)	–	–
Amortization of net prior service credit	41	41	30
Total recognized in Other Comprehensive Income	52	63	(43)
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 63	\$ 77	\$ (11)

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 \$106 and \$(2), respectively, excluding amounts that may be recognized through settlement losses. 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 \$2 and \$(43), 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

Pension Plan Freezes

Over the past several years, we have amended several of our defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service. In certain plans we are required to continue to consider salary increases in determining the benefit obligation related to prior service. The following is a discussion of these amendments and their impact on our primary defined benefit pension plans.

In 2011, we amended all of our primary U.S. defined benefit plans for salaried employees. Our primary qualified plans had previously been amended to freeze the final pay formulas within the plans as of December 31, 2012, but a cash balance service credit was expected to continue post December 31, 2012. The 2011 amendments fully freeze any further benefit and service accrual after December 31, 2012 for all of these plans, including the non-qualified plans. As a result of these plan amendments, in 2011 we recognized a pre-tax curtailment gain of \$107 (\$66 after-tax). The gain represents the recognition of deferred gains from other prior year amendments (“Prior service credits”) as a result of the discontinuation of any future benefit or service accrual period. This amendment will also result in a change in amortization period as of January 1, 2013 for actuarial gains and losses from the average remaining service period of participants (approximately ten years) to the average remaining life expectancy of all participants (approximately thirty-three years) as a result of all participants being considered inactive as of the effective date of the freeze.

As of December 31, 2012, the aggregate accumulated actuarial losses for our primary U.S. Defined Benefit Plans for salaried employees amounted to \$1.1 billion. This change is expected to reduce our 2013 pension expense by approximately \$47. This reduction is expected to be partially offset by an increased contribution to the U.S. defined contribution plan as all employees have been transferred to that plan following the freeze.

In 2011, the Canadian Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary increases to the extent applicable; therefore, the amendment did not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2011.

In 2009, the U.K. Final Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary and inflation increases to the extent applicable; therefore, the amendment does not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2009.

Retiree Health 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 was effective January 1, 2011. The Company instead decided to 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 reduced both the 2012 and 2011 retiree-health expenses by approximately \$13.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Plan Assets

Current Allocation

As of the 2012 and 2011 measurement dates, the global pension plan assets were \$9.0 billion and \$8.3 billion, respectively. These assets were invested among several asset classes. Our common stock represents approximately \$99 or 1.0% of total plan assets at December 31, 2012.

The following tables presents the defined benefit plans assets measured at fair value and the basis for that measurement:

Asset Class	December 31, 2012				
	U.S. Defined Benefit Plans Assets				
	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 48	\$ –	\$ –	\$ 48	1%
Equity Securities:					
U.S. large cap	411	10	–	421	12%
Xerox common stock	99	–	–	99	3%
U.S. mid cap	79	–	–	79	2%
U.S. small cap	67	28	–	95	3%
International developed	133	205	–	338	9%
Emerging markets	282	67	–	349	10%
Global equity	2	6	–	8	–%
Total Equity Securities	1,073	316	–	1,389	39%
Debt Securities:					
U.S. treasury securities	–	367	–	367	10%
Debt security issued by government agency	–	153	–	153	4%
Corporate Bonds	–	1,080	–	1,080	31%
Asset backed securities	–	11	–	11	–%
Total Debt Securities	–	1,611	–	1,611	45%
Derivatives:					
Interest rate contracts	–	15	–	15	–%
Foreign exchange contracts	(2)	–	–	(2)	–%
Equity contracts	5	–	–	5	–%
Credit contracts	–	(1)	–	(1)	–%
Total Derivatives	3	14	–	17	–%
Real estate	59	46	58	163	5%
Private equity/Venture capital	–	–	300	300	8%
Other ⁽¹⁾	12	33	–	45	2%
Total Defined Benefit Plans Assets	\$ 1,195	\$ 2,020	\$ 358	\$ 3,573	100%

⁽¹⁾ Other Level 1 assets include net non-financial assets of \$13 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2012

Asset Class	Non-U.S. Defined Benefit Plans Assets				
	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 500	\$ –	\$ –	\$ 500	9%
Equity Securities:					
U.S. large cap	204	50	–	254	5%
U.S. mid cap	14	–	–	14	–%
U.S. small cap	30	1	–	31	1%
International developed	1,107	174	–	1,281	24%
Emerging markets	322	76	–	398	7%
Global equity	5	12	–	17	–%
Total Equity Securities	1,682	313	–	1,995	37%
Debt Securities:					
U.S. treasury securities	1	19	–	20	–%
Debt security issued by government agency	35	1,253	–	1,288	24%
Corporate bonds	150	753	–	903	17%
Asset backed securities	3	31	–	34	1%
Total Debt Securities	189	2,056	–	2,245	42%
Common/Collective trust	2	–	–	2	–%
Derivatives:					
Interest rate contracts	–	74	–	74	1%
Foreign exchange contracts	9	8	–	17	–%
Other contracts	69	–	–	69	1%
Total Derivatives	78	82	–	160	2%
Hedge funds	–	–	3	3	–%
Real estate	19	35	332	386	7%
Guaranteed insurance contracts	–	–	131	131	3%
Other ⁽¹⁾	13	(4)	–	9	–%
Total Defined Benefit Plans Assets	\$ 2,483	\$ 2,482	\$ 466	\$ 5,431	100%

⁽¹⁾ Other Level 1 assets include net non-financial assets of \$5 such as due to/from broker, interest receivables and accrued expenses.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Asset Class	December 31, 2011				
	U.S. Defined Benefit Plans Assets				
	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 198	\$ –	\$ –	\$ 198	6%
Equity Securities:					
U.S. large cap	366	7	–	373	11%
Xerox common stock	50	–	–	50	2%
U.S. mid cap	69	–	–	69	2%
U.S. small cap	56	89	–	145	4%
International developed	162	327	–	489	15%
Emerging markets	117	–	–	117	3%
Total Equity Securities	820	423	–	1,243	37%
Debt Securities:					
U.S. treasury securities	4	393	–	397	12%
Debt security issued by government agency	–	180	–	180	5%
Corporate bonds	6	875	–	881	26%
Asset backed securities	–	10	–	10	–
Total Debt Securities	10	1,458	–	1,468	43%
Derivatives:					
Interest rate contracts	18	13	–	31	1%
Foreign exchange contracts	8	–	–	8	–
Equity contracts	23	–	–	23	1%
Total Derivatives	49	13	–	62	2%
Real estate	45	35	72	152	5%
Private equity/Venture capital	–	–	318	318	9%
Other ⁽¹⁾	(62)	14	–	(48)	(2)%
Total Defined Benefit Plans Assets	\$ 1,060	\$ 1,943	\$ 390	\$ 3,393	100%

⁽¹⁾ Other Level 1 assets include net non-financial liabilities of \$62 such as due to/from broker, interest receivables and accrued expenses.

Asset Class	December 31, 2011				
	Non-U.S. Defined Benefit Plans Assets				
	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 380	\$ –	\$ –	\$ 380	8%
Equity Securities:					
U.S. large cap	145	43	–	188	4%
U.S. mid cap	21	–	–	21	–
U.S. small cap	27	–	–	27	1%
International developed	1,047	154	–	1,201	25%
Emerging markets	180	54	–	234	5%
Global equity	7	17	–	24	–
Total Equity Securities	1,427	268	–	1,695	35%
Debt Securities:					
U.S. treasury securities	5	23	–	28	1%
Debt security issued by government agency	64	1,227	–	1,291	26%
Corporate bonds	144	595	–	739	15%
Asset backed securities	2	51	–	53	1%
Total Debt Securities	215	1,896	–	2,111	43%
Common/Collective trust	3	–	–	3	–
Derivatives:					
Interest rate contracts	–	90	–	90	2%
Foreign exchange contracts	6	(1)	–	5	–
Other contracts	64	–	–	64	1%
Total Derivatives	70	89	–	159	3%
Hedge funds	–	–	3	3	–
Real estate	22	97	280	399	8%
Guaranteed insurance contracts	–	–	116	116	3%
Other ⁽¹⁾	14	4	–	18	–
Total Defined Benefit Plans Assets	\$ 2,131	\$ 2,354	\$ 399	\$ 4,884	100%

⁽¹⁾ Other Level 1 assets include net non-financial assets of \$8 such as due to/from broker, interest receivables and accrued expenses.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following tables represent a roll-forward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

U.S. Defined Benefit Plans Assets	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)		
	Real Estate	Private Equity/ Venture Capital	Total
Balance at December 31, 2010	\$ 69	\$ 307	\$ 376
Purchases	2	30	32
Sales	(6)	(61)	(67)
Realized gains (losses)	–	46	46
Unrealized gains (losses)	6	(4)	2
Other	1	–	1
Balance at December 31, 2011	72	318	390
Purchases	1	20	21
Sales	(11)	(48)	(59)
Realized gains (losses)	1	36	37
Unrealized gains (losses)	(5)	(26)	(31)
Balance at December 31, 2012	\$ 58	\$ 300	\$ 358

Non-U.S. Defined Benefit Plans Assets	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
	Real Estate	Guaranteed Insurance Contracts	Hedge Funds	Total
Balance at December 31, 2010	\$ 206	\$ 97	\$ 3	\$ 306
Purchases	67	3	–	70
Sales	–	(3)	(1)	(4)
Net transfers in from Level 1	2	12	–	14
Net transfers in from Level 2	–	9	–	9
Realized gains (losses)	–	(1)	–	(1)
Unrealized gains (losses)	12	(4)	–	8
Currency translation	(4)	(3)	–	(7)
Other	(3)	6	1	4
Balance at December 31, 2011	280	116	3	399
Purchases	13	15	–	28
Sales	(21)	(7)	–	(28)
Net transfers in from Level 2	69	–	–	69
Realized gains (losses)	1	4	–	5
Unrealized gains (losses)	(25)	(1)	–	(26)
Currency translation	15	4	–	19
Balance at December 31, 2012	\$ 332	\$ 131	\$ 3	\$ 466

Valuation Method

Our primary Level 3 assets are Real Estate and Private Equity/Venture Capital investments. The fair value of our real estate investment funds are based on the Net Asset Value (“NAV”) of our ownership interest in the funds. NAV information is received from the investment advisers and is primarily derived from third-party real estate appraisals for the properties owned. The fair value for our private equity/venture capital partnership investments are based on our share of the estimated fair values of the underlying investments held by these partnerships as reported in their audited financial statements. The valuation techniques and inputs for our Level 3 assets have been consistently applied for all periods presented.

Investment Strategy

The target asset allocations for our worldwide defined benefit pension plans were:

	2012		2011	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Equity investments	41%	40%	41%	41%
Fixed income investments	43%	47%	43%	46%
Real estate	5%	9%	5%	9%
Private equity	9%	–%	9%	–%
Other	2%	4%	2%	4%
Total Investment Strategy	100%	100%	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, and may include Company stock. 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

In 2012, we made cash contributions of \$364 (\$201 U.S. and \$163 Non-U.S.) and \$84 to our defined benefit pension plans and retiree health benefit plans, respectively. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 (\$331 U.S. and \$163 Non-U.S.) in 2012.

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits					
	2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%

	Retiree Health		
	2012	2011	2010
Discount rate	3.6%	4.5%	4.9%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits							
	2013		2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%	5.7%	5.7%
Expected return on plan assets	7.8%	6.1%	7.8%	6.2%	8.3%	6.6%	8.3%	6.6%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%	3.5%	3.6%

	Retiree Health			
	2013	2012	2011	2010
Discount rate	3.6%	4.5%	4.9%	5.4%

Note: Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded. Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

In 2013 we expect, based on current actuarial calculations, to make contributions of approximately \$195 (\$26 U.S. and \$169 non-U.S.) to our defined benefit pension plans and \$80 to our retiree health benefit plans. The decrease in required contributions to our U.S. defined benefit pension plans reflect the expected benefits from the pension funding legislation enacted in the U.S. during 2012.

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
	U.S.	Non-U.S.	Total	
2013	\$ 483	\$ 248	\$ 731	\$ 80
2014	445	251	696	80
2015	402	261	663	79
2016	370	274	644	77
2017	348	280	628	75
Years 2018-2022	1,425	1,550	2,975	339

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Assumed healthcare cost trend rates were as follows:

	December 31,	
	2012	2011
Healthcare cost trend rate assumed for next year	7.5%	8.5%
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 healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	\$ 3	\$ (3)
Effect on post-retirement benefit obligation	62	54

Defined Contribution Plans

We have savings and investment plans in several countries, including the U.S., Finland and Canada. In many instances, employees from those defined benefit pension plans that have been amended to freeze future service accruals will be transitioned to an enhanced defined contribution plan. For the U.S. plans, employees may contribute a portion of their salaries and bonuses to the plans, and we match a portion of the employee contributions. We recorded charges related to our defined contribution plans of \$63 in 2012, \$66 in 2011 and \$51 in 2010.

Note 16 – Income and Other Taxes

Income before income taxes (“pre-tax income”) was as follows:

	Year Ended December 31,		
	2012	2011	2010
Domestic income	\$ 878	\$ 917	\$ 433
Foreign income	470	648	382
Income Before Income Taxes	\$ 1,348	\$ 1,565	\$ 815

Provisions (benefits) for income taxes were as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal Income Taxes			
Current	\$ 24	\$ 52	\$ 153
Deferred	84	134	(17)
Foreign Income Taxes			
Current	123	103	59
Deferred	–	38	8
State Income Taxes			
Current	34	28	46
Deferred	12	31	7
Total Provision (Benefit)	\$ 277	\$ 386	\$ 256

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

	Year Ended December 31,		
	2012	2011	2010
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	2.6%	2.0%	6.3%
Effect of tax law changes	0.7%	0.2%	(0.2)%
Change in valuation allowance for deferred tax assets	(0.7)%	(0.3)%	2.6%
State taxes, net of federal benefit	2.1%	2.4%	2.0%
Audit and other tax return adjustments	(4.7)%	(1.0)%	(3.6)%
Tax-exempt income, credits and incentives	(2.6)%	(3.1)%	(3.9)%
Foreign rate differential adjusted for U.S. taxation of foreign profits ⁽¹⁾	(11.8)%	(10.4)%	(6.7)%
Other	(0.1)%	(0.1)%	(0.1)%
Effective Income Tax Rate	20.5%	24.7%	31.4%

⁽¹⁾ The “U.S. taxation of foreign profits” represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, we paid a total of \$137, \$94 and \$49 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2012, respectively.

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
	2012	2011	2010
Pre-tax income	\$ 277	\$ 386	\$ 256
Common shareholders' equity:			
Changes in defined benefit plans	(233)	(277)	12
Stock option and incentive plans, net	(5)	1	(6)
Cash flow hedges	(24)	3	5
Translation adjustments	(9)	2	6
Total Income Tax Expense (Benefit)	\$ 6	\$ 115	\$ 273

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, 2012, 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:

	2012	2011	2010
Balance at January 1	\$ 225	\$ 186	\$ 148
Additions from acquisitions	–	–	46
Additions related to current year	28	43	38
Additions related to prior years positions	5	38	24
Reductions related to prior years positions	(36)	(17)	(16)
Settlements with taxing authorities ⁽¹⁾	(13)	(14)	(19)
Reductions related to lapse of statute of limitations	(8)	(8)	(35)
Currency	–	(3)	–
Balance at December 31	\$ 201	\$ 225	\$ 186

⁽¹⁾ Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2012, 2011 and 2010 are \$16, \$36 and \$39, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or that they 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 recognized interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements within income tax expense. We had \$20, \$28 and \$31 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2012, 2011 and 2010, respectively.

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 2005. 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

We had undistributed earnings of foreign subsidiaries and other foreign investments carried at equity at December 31, 2012 of approximately \$8.8 billion. We have provided deferred taxes on approximately \$500 of those earnings due to their anticipated repatriation to the U.S. The remaining \$8.3 billion of undistributed earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. We do not believe it is practical to calculate the potential deferred tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

	December 31,	
	2012	2011
Deferred Tax Assets		
Research and development	\$ 793	\$ 876
Post-retirement medical benefits	359	368
Anticipated foreign repatriations	264	41
Depreciation and amortization	52	71
Net operating losses	630	637
Other operating reserves	300	285
Tax credit carryforwards	177	379
Deferred compensation	312	306
Allowance for doubtful accounts	73	93
Restructuring reserves	30	29
Pension	696	547
Other	143	132
Subtotal	3,829	3,764
Valuation allowance	(654)	(677)
Total	\$3,175	\$3,087
Deferred Tax Liabilities		
Unearned income and installment sales	\$ 947	\$ 996
Intangibles and goodwill	1,252	1,261
Other	48	41
Total	\$ 2,247	\$ 2,298
Total Deferred Taxes, Net	\$ 928	\$ 789

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, 2012 and 2011 amounted to \$273 and \$229, 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, 2012 and 2011 was a decrease of \$23 and \$58, 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, 2012, we had tax credit carryforwards of \$177 available to offset future income taxes, of which \$79 are available to carryforward indefinitely while the remaining \$98 will expire 2013 through 2032 if not utilized. We also had net operating loss carryforwards for income tax purposes of \$1.3 billion that will expire 2013 through 2032, if not utilized, and \$2.4 billion available to offset future taxable income indefinitely.

Note 17 – Contingencies and Litigation

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.

Additionally, guarantees, indemnifications 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,

2012, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

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, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 with the decrease from December 31, 2011 balance of approximately \$1,120, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010, 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, 2012 we had \$211 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 and additional letters of credit of approximately \$242, 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 the 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.

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 refile. 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'

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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.

Guarantees, Indemnifications and Warranty Liabilities

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 and such procedures also 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 indemnities 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 actions 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 (such as those related to "clawback" provisions in certain compensation arrangements) 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 of the equipment 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, 2012 were \$29, \$30 and \$33, respectively. Total product warranty liabilities as of December 31, 2012 and 2011 were \$14 and \$16, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2012:

- \$454 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.
- \$736 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, 2012, we serviced a FFEL portfolio of approximately 3.7 million loans with an outstanding principal balance of approximately \$53.0 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, 2012, other current liabilities include reserves which we believe to be adequate. At December 31, 2012, other current liabilities include reserves of approximately \$3.6 for losses on defaulted loans purchased.

Note 18 – Preferred Stock

Series A Convertible Preferred Stock

In 2010, in connection with our acquisition of ACS, we issued 300,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of \$300 and an initial fair value of \$349. The convertible preferred stock pays quarterly cash dividends at a rate of 8% per year (\$24 per year). 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), subject to customary anti-dilution adjustments.

On or after February 5, 2015, if the closing price of our common stock exceeds 130% of the then applicable conversion price (currently \$11.125 per share of common stock) for 20 out of 30 trading days, we have the right to cause 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, 2012, 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, \$1.00 par value per share. At December 31, 2012, 155 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.

Treasury Stock

We account for the repurchased common stock under the cost method and include such treasury stock as a component of our common shareholder's 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.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2012 (shares in thousands):

Authorized share repurchase programs	\$ 6,000
Share repurchase cost	\$ 4,691
Share repurchase fees	\$ 8
Number of shares repurchased	428,314

In 2012, the Board of Directors authorized an additional \$1.5 billion in share repurchase bringing the total authorization to \$6 billion.

The following table reflects the changes in Common and Treasury stock shares (shares in thousands):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2009	869,381	–
Stock based compensation plans, net	37,018	–
ACS acquisition ⁽¹⁾	489,802	–
Other	1,377	–
Balance at December 31, 2010	1,397,578	–
Stock based compensation plans, net	11,027	–
Contributions to U.S. pension plan ⁽²⁾	16,645	–
Acquisition of Treasury stock	–	87,943
Cancellation of Treasury stock	(72,435)	(72,435)
Other	34	–
Balance at December 31, 2011	1,352,849	15,508
Stock based compensation plans, net	17,343	–
Contributions to U.S. pension plan ⁽²⁾	15,366	–
Acquisition of Treasury stock	–	146,278
Cancellation of Treasury stock	(146,862)	(146,862)
Other	–	–
Balance at December 31, 2012	1,238,696	14,924

⁽¹⁾ Refer to Note 3 – Acquisitions for additional information.

⁽²⁾ Refer to Note 15 – Employee Benefits Plans 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 stock-based awards 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, 2012 and 2011, 50 million and 31 million shares, respectively, were available for grant of awards.

Stock-based compensation expense was as follows:

	Year Ended December 31,		
	2012	2011	2010
Stock-based compensation expense, pre-tax	\$ 125	\$ 123	\$ 123
Income tax benefit recognized in earnings	48	47	47

Restricted Stock Units: Compensation expense is based upon the grant date market price for most awards. The primary grant in 2009 had a market based condition and therefore the grant date price was based on a Monte Carlo simulation. Compensation expense is recorded over the vesting period, which is normally three years from the date of grant, based on management’s estimate of the number of shares expected to vest.

Performance Shares: We grant officers and selected executives PSs that vest contingent upon meeting pre-determined Revenue, 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 annual actual results for Revenue exceed the stated targets and 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 cannot exceed 50% for officers and 25% for non-officers of the original grant.

The fair value of PSs is based upon the market price of our stock on the date of the grant. Compensation expense is recognized over the vesting period, which is normally three years from the date of grant, based on management’s estimate of the number of shares expected to vest. If the stated targets are not met, any recognized compensation cost would be reversed.

In connection with the ACS acquisition, selected ACS executives received a special one-time grant of PSs that vest over a three-year period ending February 2013 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).

Employee Stock Options: With the exception of the conversion of ACS options 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. Substantially all stock options previously issued under our employee long-term incentive plan are fully exercised, cancelled or expired as of December 31, 2012.

Summary of Stock-based Compensation Activity

(Shares in thousands; amounts per share)	2012		2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Restricted Stock Units						
Outstanding at January 1	33,784	\$ 8.70	32,431	\$ 8.68	25,127	\$ 10.18
Granted	13,033	7.82	8,035	10.66	11,845	8.56
Vested	(14,848)	6.89	(5,225)	11.64	(3,671)	18.22
Cancelled	(1,555)	8.97	(1,457)	8.57	(870)	10.36
Outstanding at December 31	30,414	9.19	33,784	8.70	32,431	8.68
Performance Shares						
Outstanding at January 1	9,763	\$ 9.21	7,771	\$ 9.78	4,874	\$ 15.49
Granted	5,193	7.87	4,852	10.42	5,364	8.10
Vested	–	–	(1,587)	12.84	(1,566)	18.48
Cancelled	(420)	8.96	(1,273)	12.79	(901)	15.51
Outstanding at December 31	14,536	8.74	9,763	9.21	7,771	9.78
Stock Options						
Outstanding at January 1	50,070	\$ 6.98	71,038	\$ 8.00	28,363	\$ 10.13
Granted	–	–	–	–	96,662	6.79
Cancelled/expired	(8,617)	8.58	(14,889)	8.38	(2,735)	7.33
Exercised	(7,721)	5.69	(6,079)	8.21	(51,252)	6.92
Outstanding at December 31	33,732	6.86	50,070	6.98	71,038	8.00
Exercisable at December 31	28,676	6.95	39,987	7.14	57,985	8.38

The total unrecognized compensation cost related to non-vested stock-based awards at December 31, 2012 was as follows:

Awards	Unrecognized Compensation	Remaining Weighted-Average Vesting Period (Years)
Restricted Stock Units	\$ 125	1.5
Performance Shares	58	1.5
Stock Options	12	1.6
Total	\$ 195	

The aggregate intrinsic value of outstanding RSUs and PSs awards was as follows:

Awards	December 31, 2012
Restricted Stock Units	\$ 207
Performance Shares	99

Information related to stock options outstanding and exercisable at December 31, 2012 was as follows:

	Options	
	Outstanding	Exercisable
Aggregate intrinsic value	\$ 7	\$ 5
Weighted-average remaining contractual life (years)	4.3	3.9

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The total intrinsic value and actual tax benefit realized for vested and exercised stock-based awards was as follows:

Awards	December 31, 2012			December 31, 2011			December 31, 2010		
	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit
Restricted Stock Units	\$ 117	\$ –	\$ 33	\$ 56	\$ –	\$ 22	\$ 31	\$ –	\$ 10
Performance Shares	–	–	–	17	–	6	12	–	5
Stock Options	12	44	4	18	44	7	155	183	56

No Performance Shares vested in 2012 since the 2009 primary award grant that normally would have vested in 2012 was replaced with a grant of Restricted Stock Units with a market based condition and therefore were accounted and reported for as part of Restricted Stock Units.

ACS Acquisition

In connection with the acquisition of ACS (see Note 3 – Acquisitions for additional 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, and was recorded as part of the acquisition fair value. The remaining \$54 is associated with ACS options issued in August 2009 which did not fully vest and become exercisable upon the acquisition, but continue to vest according to specified vesting schedules and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from date of grant. 33,693 thousand Xerox options issued upon this conversion remain outstanding at December 31, 2012.

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

Note 20 – Other Comprehensive Income

Other Comprehensive Income is composed of the following:

	Year Ended December 31,					
	2012		2011		2010	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments Gains (Losses)	\$ 104	\$ 113	\$ (103)	\$ (105)	\$ (29)	\$ (35)
Unrealized (Losses) Gains:						
Changes in fair value of cash flow hedges – (losses) gains	(50)	(35)	30	22	46	31
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(37)	(28)	(14)	(9)	(28)	(18)
Other	–	–	(1)	(1)	(1)	(1)
Net unrealized (losses) gains	\$ (87)	\$ (63)	\$ 15	\$ 12	\$ 17	\$ 12
Defined Benefit Plans (Losses) Gains:						
Actuarial/Prior service losses	(852)	(578)	(872)	(607)	(106)	(191)
Amortization ⁽²⁾	126	85	89	60	91	164
Curtailment gain – recognition of prior service credit	–	–	(107)	(66)	–	–
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	(13)	(13)	(31)	(31)	28	28
Other ⁽⁴⁾	(55)	(55)	8	8	22	22
Changes in defined benefit plans (losses) gains	\$ (794)	\$ (561)	\$ (913)	\$ (636)	\$ 35	\$ 23
Other Comprehensive (Loss) Income	(777)	(511)	(1,001)	(729)	23	–
Less: Other comprehensive loss attributable to noncontrolling interests	–	–	(1)	(1)	–	–
Other Comprehensive (Loss) Income Attributable to Xerox	\$ (777)	\$ (511)	\$ (1,000)	\$ (728)	\$ 23	\$ –

⁽¹⁾ Reclassified to Cost of sales – refer to Note 13 – Financial Instruments for additional information regarding our cash flow hedges.

⁽²⁾ Reclassified to Total Net Periodic Benefit Cost – refer to Note 15 – Employee Benefit Plans for additional information.

⁽³⁾ Represents our share of Fuji Xerox's benefit plan changes.

⁽⁴⁾ Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

Accumulated Other Comprehensive Loss (“AOCL”)

AOCL is composed of the following:

	December 31,		
	2012	2011	2010
Cumulative translation adjustments	\$ (826)	\$ (939)	\$ (835)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(2,364)	(1,803)	(1,167)
Other unrealized (losses) gains, net	(37)	26	14
Total Accumulated Other Comprehensive Loss	\$ (3,227)	\$ (2,716)	\$ (1,988)

⁽¹⁾ Includes our share of Fuji Xerox.

Notes to Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 21 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Year Ended December 31,		
	2012	2011	2010
Basic Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	(24)	(21)
Adjusted Net Income Available to Common Shareholders	\$ 1,171	\$ 1,271	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	–	(21)
Interest on convertible securities, net	1	1	–
Adjusted Net Income Available to Common Shareholders	\$ 1,172	\$ 1,296	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Common shares issuable with respect to:			
Stock options	4,335	9,727	13,497
Restricted stock and performance shares	20,804	16,993	13,800
Convertible preferred stock	–	26,966	–
Convertible securities	1,992	1,992	–
Adjusted Weighted Average Common Shares Outstanding	1,329,184	1,443,774	1,350,728
Diluted Earnings per Share	\$ 0.88	\$ 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:			
Stock options	29,397	40,343	57,541
Restricted stock and performance shares	23,430	26,018	25,983
Convertible preferred stock	26,966	–	26,966
Convertible securities	–	–	1,992
	79,793	66,361	112,482
Dividends per common share	\$ 0.17	\$ 0.17	\$ 0.17

Reports of Management

Management's Responsibility for Financial Statements

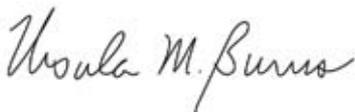
Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's 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, 2012.



Ursula M. Burns
Chief Executive Officer



Luca Maestri
Chief Financial Officer



Gary R. Kabureck
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, comprehensive income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, 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.



PricewaterhouseCoopers LLP

Stamford, Connecticut

February 21, 2013

Quarterly Results of Operations (Unaudited)

(in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2012					
Revenues	\$ 5,503	\$ 5,541	\$ 5,423	\$ 5,923	\$ 22,390
Costs and Expenses	5,190	5,190	5,106	5,556	21,042
Income Before Income Taxes and Equity Income	313	351	317	367	1,348
Income tax expenses	77	66	63	71	277
Equity in net income of unconsolidated affiliates	40	31	34	47	152
Net Income	276	316	288	343	1,223
Less: Net income – noncontrolling interests	7	7	6	8	28
Net Income Attributable to Xerox	\$ 269	\$ 309	\$ 282	\$ 335	\$ 1,195
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.23	\$ 0.21	\$ 0.26	\$ 0.90
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.21	0.26	0.88
2011					
Revenues	\$ 5,465	\$ 5,614	\$ 5,583	\$ 5,964	\$ 22,626
Costs and Expenses	5,115	5,213	5,216	5,517	21,061
Income Before Income Taxes and Equity Income	350	401	367	447	1,565
Income tax expenses	95	108	81	102	386
Equity in net income of unconsolidated affiliates	34	34	43	38	149
Net Income	289	327	329	383	1,328
Less: Net income – noncontrolling interests	8	8	9	8	33
Net Income Attributable to Xerox	\$ 281	\$ 319	\$ 320	\$ 375	\$ 1,295
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.22	\$ 0.23	\$ 0.27	\$ 0.92
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.22	0.26	0.90

⁽¹⁾ 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

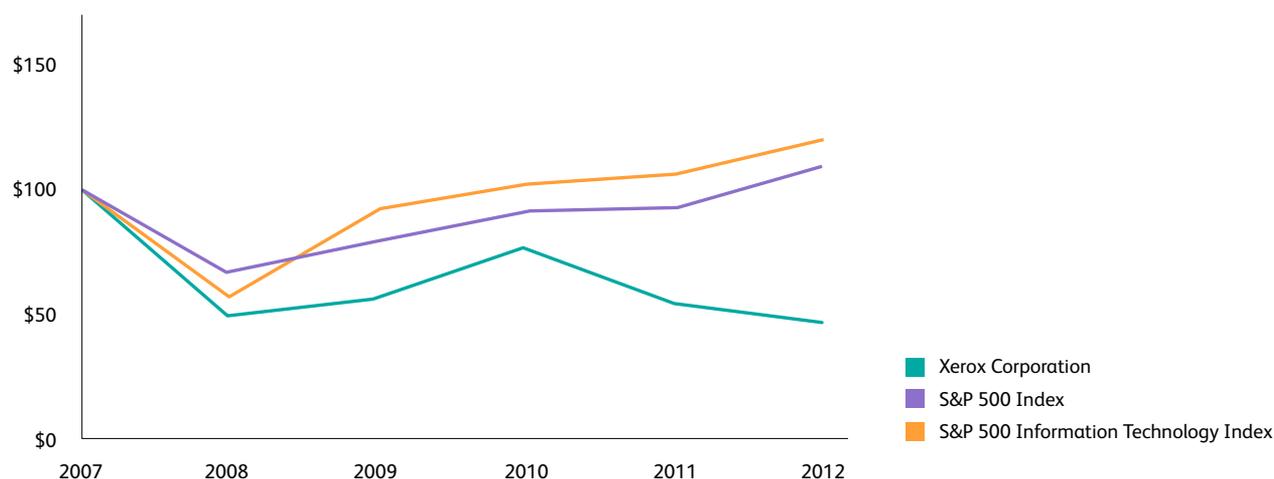
(in millions, except per-share data)

	2012	2011	2010 ⁽¹⁾	2009	2008
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.90	\$ 0.92	\$ 0.44	\$ 0.56	\$ 0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Earnings					
Basic	0.90	0.92	0.44	0.56	0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Common stock dividends declared	0.17	0.17	0.17	0.17	0.17
Operations					
Revenues	\$ 22,390	\$ 22,626	\$ 21,633	\$ 15,179	\$ 17,608
Sales	6,578	7,126	7,234	6,646	8,325
Outsourcing, service and rentals	15,215	14,868	13,739	7,820	8,485
Finance income	597	632	660	713	798
Income from continuing operations	1,223	1,328	637	516	265
Income from continuing operations – Xerox	1,195	1,295	606	485	230
Net income	1,223	1,328	637	516	265
Net income – Xerox	1,195	1,295	606	485	230
Financial Position					
Working capital	\$ 2,363	\$ 1,531	\$ 2,222	\$ 5,270	\$ 2,700
Total Assets	30,015	30,116	30,600	24,032	22,447
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,042	1,545	1,370	988	1,610
Long-term debt	7,447	7,088	7,237	8,276	6,774
Total Debt	8,489	8,633	8,607	9,264	8,384
Liability to subsidiary trust issuing preferred securities	–	–	650	649	648
Series A convertible preferred stock	349	349	349	–	–
Xerox shareholders' equity	11,521	11,876	12,006	7,050	6,238
Noncontrolling interests	143	149	153	141	120
Total Consolidated Capitalization	\$ 20,502	\$ 21,007	\$ 21,765	\$ 17,104	\$ 15,390
Selected Data and Ratios					
Common shareholders of record at year-end	39,397	41,982	43,383	44,792	46,541
Book value per common share	\$ 9.41	\$ 8.88	\$ 8.59	\$ 8.11	\$ 7.21
Year-end common stock market price	\$ 6.82	\$ 7.96	\$ 11.52	\$ 8.46	\$ 7.97
Employees at year-end	147,600	139,700	136,500	53,600	57,100
Gross margin	31.4%	32.8%	34.4%	39.7%	38.9%
Sales gross margin	33.7%	34.1%	34.5%	33.9%	33.7%
Outsourcing, service and rentals gross margin	29.0%	30.9%	33.1%	42.6%	41.9%
Finance gross margin	66.8%	63.4%	62.7%	62.0%	61.8%

⁽¹⁾ 2010 results include the acquisition of ACS

Performance Graph and Corporate Information

Comparison of Cumulative Five-Year Total Return



Total Return to Shareholders

(Includes reinvestment of dividends)	Year Ended December 31,					
	2007	2008	2009	2010	2011	2012
Xerox Corporation	\$ 100.00	\$ 49.97	\$ 54.46	\$ 75.46	\$ 53.16	\$ 46.59
S&P 500 Index	\$ 100.00	63.00	79.67	91.68	93.61	108.59
S&P 500 Information Technology Index	\$ 100.00	56.86	91.96	101.32	103.77	119.15

Source: Standard & Poor's Investment Services

Notes: Graph assumes \$100 invested on December 31, 2007 in Xerox Corp., the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

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
2012				
High	\$ 8.76	\$ 8.15	\$ 7.94	\$ 7.39
Low	7.73	6.94	6.38	6.23
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
2011				
High	\$ 11.71	\$ 10.88	\$ 10.71	\$ 8.57
Low	9.87	9.40	6.97	6.72
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425

* Price as of close of business

Officers

Ursula M. Burns

Chairman and Chief Executive Officer

Lynn R. Blodgett

Executive Vice President
President, Xerox Services

James A. Firestone

Executive Vice President
President, Corporate Operations

Armando Zagalo de Lima

Executive Vice President
President, Xerox Technology

Don H. Liu

Senior Vice President
General Counsel and Secretary

Thomas J. Maddison

Senior Vice President
Chief Human Resources Officer

David Amoriell

Vice President
Chief Operating Officer,
Transportation, Central and Local Government
Xerox Services

Thomas Blodgett

Vice President
Chief Operating Officer, Europe
Xerox Services

David Bywater

Vice President
Chief Operating Officer, State Government
Xerox Services

Christa B. Carone

Vice President
Chief Marketing Officer

M. Stephen Cronin

Vice President
President, Large Enterprise Operations
Xerox Technology

Richard M. Dastin

Vice President
President, Office and Solutions Business Group
Xerox Technology

Kathleen S. Fanning

Vice President
Vice President, Worldwide Tax

Michael R. Festa

Vice President
Chief Financial Officer
Xerox Services

Jacques H. Guers

Vice President
President, Xerox Europe
Xerox Technology

Connie Harvey

Vice President
Chief Operating Officer, Commercial Services
Xerox Services

Jeffrey Jacobson

Vice President
President, Global Graphic Communications
Operations
Xerox Technology

Kevin Kyser

Vice President
Chief Operating Officer,
Information Technology Outsourcing
Xerox Services

James H. Lesko

Vice President
Vice President, Investor Relations

Joseph H. Mancini Jr.

Vice President
Chief Accounting Officer

Ivy Thomas McKinney

Vice President
Deputy General Counsel and
Chief Ethics Officer

Shaun W. Pantling

Vice President
President, Europe Client Operations
Xerox Technology

Russell M. Peacock

Vice President
President, Global Technology and Delivery Group,
Global Imaging Systems and
Xerox Canada
Xerox Technology

Rhonda L. Seegal

Vice President
Treasurer

Hervé Tessler

Vice President
President, Developing Markets Operations
Xerox Technology

Sophie V. Vandebroek

Vice President
Chief Technology Officer and
President, Xerox Innovation Group

Leslie F. Varon

Vice President
Vice President, Finance and Corporate Controller

Ann Vezina

Vice President
Chief Operating Officer,
Enterprise Business Process Outsourcing
Xerox Services

Kevin M. Warren

Vice President
President, U.S. Client Operations
Xerox Technology

Douraid Zaghouani

Vice President
President, Channel Partner Operations
Xerox Technology

Carol J. Zierhoffer

Vice President
Chief Information Officer

Douglas H. Marshall

Assistant Secretary

Carol A. McFate

Assistant Treasurer
Chief Investment Officer

Shareholder Information

For investor information, including comprehensive earnings releases: visit www.xerox.com/investor or call 888.979.8378.

For shareholder services: call 800.828.6396 (TDD: 800.368.0328) or 781.575.3222; or write to Computershare Trust Company, N.A. P.O. Box 43078 Providence, RI 02940-3078; or use email available at www.computershare.com.

Annual Meeting

Tuesday, May 21, 2013, 9:00 a.m. EDT
Xerox Corporate Headquarters
45 Glover Avenue
Norwalk, CT 06856

Proxy material mailed on April 8, 2013 to shareholders of record as of March 25, 2013.

Investor Contacts

Jennifer Horsley
jennifer.horsley@xerox.com

Joseph Ketchum
joseph.ketchum@xerox.com

This annual report is also available online at www.xerox.com/investor.

Electronic Delivery Enrollment

Xerox offers shareholders the convenience of electronic delivery including:

- Immediate receipt of the Proxy Statement and Annual Report
- Online proxy voting

Registered Shareholders visit

<http://www.eTree.com/Xerox>
You are a registered shareholder if you have your stock certificate in your possession or if the shares are being held by our transfer agent, Computershare.

Beneficial Shareholders visit

<http://enroll.icsdelivery.com/xrx>
You are a beneficial shareholder if you maintain your position in Xerox within a brokerage account.

How to Reach Us

Xerox Corporation

45 Glover Avenue
Norwalk, CT 06856-4505
United States
203.968.3000
www.xerox.com

Xerox Europe

Riverview
Oxford Road
Uxbridge
Middlesex
United Kingdom
UB8 1HS
+44.1895.251133

Fuji Xerox Co., Ltd.

Tokyo Midtown West
9-7-3, Akasaka
Minato-ku, Tokyo 107-0052
Japan
+81.3.6271.5111

Products and Services

www.xerox.com or by phone:
800.ASK.XEROX (800.275.9376)

Additional Information

The Xerox Foundation

203.849.2478
Evelyn Shockley, Manager

Diversity Programs and EEO-1 Reports

585.423.6157
www.xerox.com/diversity

Minority and Women-Owned Business Suppliers

585.423.3150
www.xerox.com/supplierdiversity

Ethics Helpline

866.XRX.0001 (866.979.0001) North America;
International numbers and
Web submission tool on www.xerox.com/ethics
email: ethics@xerox.com

Environment, Health and Safety Progress Report

800.828.6571, prompts 1, 3
www.xerox.com/environment

Global Citizenship

www.xerox.com/citizenship
email: citizenship@xerox.com

Governance

www.xerox.com/governance

Questions from Students and Educators

email: nancy.dempsey@xerox.com

Xerox Innovation

www.xerox.com/innovation

Independent Auditors

PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, CT 06901
203.539.3000

Xerox Corporation
45 Glover Avenue
P.O. Box 4505
Norwalk, CT 06856-4505
United States
203.968.3000
www.xerox.com



You'll find us everywhere business gets done.
2011 Annual Report

Customer Care Solutions

1.6 million

customer care interactions daily through call centers, help desks and online support

Human Resources Services

4.4 million

employees and retirees served annually

Communications and Marketing Services

42%

reduction in statement queries to the call center of a telecom provider through improved online and print communication; 6% sales conversion rate on an auto industry direct marketing campaign

Finance and Accounting Services

\$275 billion

consumer loan servicing portfolio

Document Management

30%

savings in document costs through Xerox's managed print services; four-year leader in Gartner MPS Magic Quadrant

IT Outsourcing

28,000

servers, 373,000 desktops supported, 16 data centers worldwide

Parking and Transportation Solutions

37 billion

transit fare transactions processed annually

Think of the modern day enterprise as a several-story office building – IT occupying one floor, customer care on another, HR on top of that, marketing and communications on a floor, finance and accounting on another. And of course, the parking garage or train station to accommodate workers' commutes.

Today, you're likely to find the new Xerox on any one or all of these floors, applying our expertise in ways that free up our clients to focus on what matters most: their real business.

“We’re the new Xerox. We don’t make the hottest new gadget on store shelves or run a hospital that saves lives or get you to work on time or manufacture the safest aircraft on the planet. But we do something every bit as important. We’re behind the scenes, managing the ‘must do work’ that enables every one of those things to happen. It’s a noble mission. To take some very complex business processes and make them appear simple to those who need them.”

– Ursula M. Burns

Table of Contents

2	Financial Highlights	105	Reports and Signatures
3	Letter to Shareholders	107	Quarterly Results of Operations
10	Board of Directors	108	Five Years in Review
12	Our Business	109	Performance Graph
28	Management’s Discussion and Analysis	110	Corporate Information
55	Consolidated Financial Statements	111	Officers
60	Notes to Consolidated Financial Statements		

Financial Highlights

(in millions, except EPS)

	2011	2010
Total revenue	\$22,626	\$ 21,633
Equipment sales	3,856	3,857
Annuity revenue	18,770	17,776
Net income – Xerox	1,295	606
Adjusted net income* – Xerox	1,563	1,296
Diluted earnings per share	0.90	0.43
Adjusted earnings per share*	1.08	0.94
Net cash provided by operating activities	1,961	2,726
Adjusted operating margin*	9.8%	9.6%

* See non-GAAP measures on Page 9 for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

Letter to Shareholders



Ursula M. Burns
Chairman and Chief Executive Officer

Dear Fellow Shareholders,

The one thing that's predictable about business is that it's fundamentally unpredictable. It's constantly changing – by chance and by design. And, macro forces bring new challenges every day. This was certainly the case in 2011 – a pivotal year of transformation for our business, and a year when – all said and done – Xerox people delivered solid financial results, made measured progress, and continued to build our company into the world's leading enterprise for business process and document management. Here is a brief summary of how we performed:

- We delivered adjusted earnings per share of \$1.08¹ – up 15 percent¹ over the previous year.
- Total revenue for the full year was \$22.6 billion – up two percent pro-forma.¹
- We generated \$2 billion in cash from operations.
- Adjusted net income of \$1.6 billion¹ was up 21 percent.¹
- We resumed our share repurchase program in 2011 and made a sizable investment in it, as well as paying \$265 million in dividends – tangible signs of our commitment to return value to our shareholders.

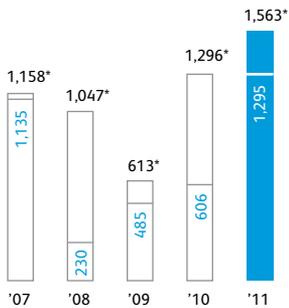
Delivering on Commitments

Throughout the year, our business faced challenges stemming from global economic uncertainty as well as the impact on our supply chain from the earthquake in Japan. Despite these pressures, I'm pleased with our 2011 results, but far from satisfied. I'm impatient by nature and, therefore, very focused on speeding up our progress. As a company, we're doing this through the following strategies. While the statements themselves seem relatively simple, the complexity is in the detail, and our priorities are clearly centered on the implementation.

First: Accelerating our services business. We set out to grow services faster by diversifying our offerings and expanding globally. More of our total revenue now comes from services than technology. In 2011, revenue from services grew six percent pro-forma¹. And, through expanded sales activities, we won a considerable amount of new business – increasing our new business signings by 14 percent.

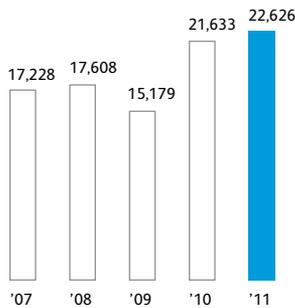
Net Income – Xerox

(millions)



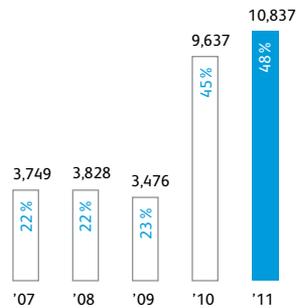
Total Revenue

(millions)



Total Services Segment Revenue

(millions – percent of total revenue)



* See non-GAAP measures on page 9 for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

The Services segment now represents the largest portion of our business.

Second: Maintaining our leadership in document technology.

We not only continue to hold our number-one equipment revenue market share position, but we also grew share in 2011. We did this by offering a more extensive and affordable portfolio of color products and by expanding our distribution to serve more small and midsize businesses around the world.

Third: Managing our business with a disciplined focus on operational excellence.

This gives us the financial flexibility to help offset certain pressures on the business – whether it’s economic uncertainty or necessary investments that drive growth. Either way – and despite challenges thrown our way – our focus is on delivering strong bottom-line results. We’re justifiably proud that we do this very well.

Fourth: The bottom line for Xerox shareholders – expanding earnings and returning value to all of you.

By executing well on the first three priorities, we delivered on the fourth. Full-year 2011 adjusted earnings per share grew 15 percent¹. We generated \$2 billion in operating cash flow and repurchased a significant number of Xerox shares during the year.

Accelerating

our services business.

Maintaining

our leadership in document technology.

Managing

our business with a disciplined focus on operational excellence.

Expanding

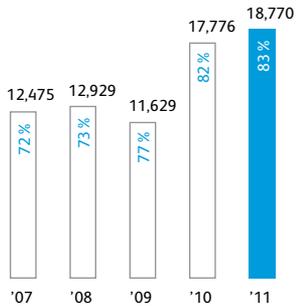
earnings and returning value to all of you.

“Full-year 2011 adjusted earnings per share grew 15 percent.”

So, good results. And, they’re evidence of a company that is financially sound, delivering consistent double-digit earnings growth and applying operational excellence to navigate that unpredictability most companies face. But, as I mentioned previously, I’m not satisfied – and I won’t be until we grow revenue faster. In 2011, revenue was hampered by macro conditions. But, we didn’t let the headwinds that pressured our top-line performance disrupt our ability to deliver strong bottom-line results. That said, ratcheting revenue is a necessity for the sustainable strength of our business. I have great confidence in our growth potential, and, I can assure you, the Xerox team is taking a targeted approach to capture the rich opportunity in front of us.

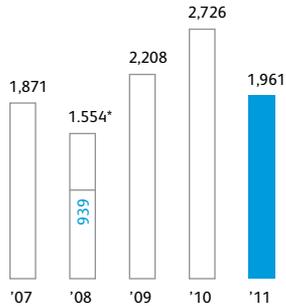
Annuity Revenue

(millions – percent of total revenue)

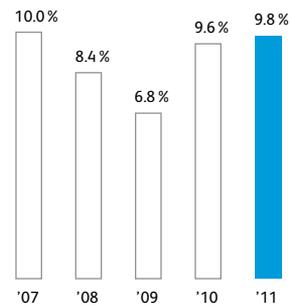


Net Cash from Operating Activities

(millions)



Adjusted Operating Margin*



Transformation of Xerox

Changes are taking place in our heartland industry of document technology. We won't see a paperless office anytime soon, but we are seeing less reliance on paper in our daily lives, both at work and at home. One example I often use, because everybody gets it, is bank statements, credit card bills and things of that sort. Most of you likely now receive your bill statements online instead of paper statements in the mail. And you're probably paying for those bills online too. Somewhere in that transactional process, Xerox is very likely behind the scenes making it happen.

That's because we didn't resist what's been taking place in our industry and we didn't stick our heads in the sand to avoid seeing the changes. We have had our eyes wide open, embraced the changes and in many cases led them. In fact, we started to transform our company more than a decade ago.

Once synonymous with copying and then printing, some of you might recall we began referring to ourselves as The Document Company – a signal that we had expertise in paper *and* digital documents and a sweet spot in helping customers navigate seamlessly between both worlds. We started to make niche acquisitions that enabled us to handle digital discovery for lawyers, electronic mortgage applications for banks and others. The more we did, the more our customers wanted. That's a great place to be – a window of opportunity that doesn't come often.

As you know, we leapt at the opportunity. Two years ago, we acquired Affiliated Computer Services (ACS), a major player in the business process and IT outsourcing market. Overnight, our \$3.5 billion services business became a \$10 billion business. And, through our growth in this area, revenue from services now represents the largest portion of our business. As I like to point out: lots of companies talk about transformation; we're doing it.

“Making things simpler has always been in our DNA.”

Since acquiring ACS, I've done a lot of reflecting on how it has changed our company. Two paradoxical thoughts keep coming back to me. One is that the more things change, *the more they stay the same*. From our earliest days, our purpose was never about making copies. It was about making it easier for people to share information. Chester Carlson, the inventor of xerography, said as much when he described his goal as “making office work a little simpler, a little less tedious and a little more productive.” Making things simpler has always been in our DNA. When you walk up to a Xerox device, then as now, you select your features, push a button and a lot of very complex technology takes over – technology the customer doesn't care too much about or need to know about. By the way, much the same is true of the ACS tradition – a company that was built over time on the premise that being exceptionally good at back-office work gave its clients one less thing to worry about.

As Xerox and ACS became one, I believe our founders would be pleased that, at the core, our purpose has not shifted far from our legacies – doing things behind the curtain to simplify the ways work gets done. That’s what I mean when I say that the more things change, the more they stay the same in some fundamental ways.

Relevant Value Proposition

The other thought I keep coming back to is how relevant the new Xerox has become. With our value proposition as the world’s leading enterprise for business process and document management, we free companies to be the best at what *they* do. When I meet with my peers in business and governments around the world, a handful of concerns keep repeating themselves.

First, everything about their operations is in a state of flux. Change, even chaos, is the norm. Back-office operations are seen as necessary, but not a core competency. Enterprises know they are essential, but don’t want to expend energy and resources on them that can be better used elsewhere. That’s why more and more organizations – business and government, big and small – are turning to partners who know how to run big, complex business processes flawlessly and efficiently.

“I think you would be amazed at both the breadth and depth of the business processes we design and operate – customer call centers, accounts payable and receivable, HR benefits programs, IT infrastructure and networks, health information exchanges, ‘red-light cameras’ for traffic violations and so much more.”

In other words, *they want business partners like Xerox*. We have the deep knowledge, the innovative approach and the operational excellence that drive down cost and take the worry off the shoulders of our customers. I think you would be amazed at both the breadth and depth of the business processes we design and operate – customer call centers, accounts payable and receivable, HR benefits programs, IT infrastructure and networks, health information exchanges, ‘red-light cameras’ for traffic violations and so much more. We’re the company you encounter every day and never see. For example, KLM Royal Dutch Airlines and other airlines asked us to convert their paper tickets to an electronic format, streamlining the process and delivering a 75 percent reduction in turnaround time.

“KLM Royal Dutch Airlines and other airlines asked us to convert their paper tickets to an electronic format, streamlining the process and delivering a 75 percent reduction in turnaround time.”

A second concern that customers keep bringing up is one everyone can relate to – information overload. We all deal with mountains of information. Some of it’s on paper, some is digital and it’s all coming at us at dizzying speed and greater volume than ever. Clients can’t be bothered with thinking about the problem, let alone addressing it. They want partners who can speed up and simplify access to information and data and make it all affordable.

In other words, *they want partners like Xerox*. We have unmatched capabilities, expertise, technology and services to manage the flow of information and bridge the divide between paper and digital – simply and affordably. In most cases, we even save customers money, make their lives simpler and make the earth greener. For example, at Medco, we’re developing and managing a multi-channel platform that lets Medco’s 65 million members personalize how they receive information from the company – via hard-copy statements, secure website, email, text messages or a combination of all these channels.

A related issue is the difficulty clients have in finding and using data. As one of my friends is fond of saying: “I save everything and can find nothing.” She voices a common issue. Information is everywhere – on paper, online, in photos, on servers, on the desktop, in file drawers, in smartphones and now in the cloud. There are all sorts of issues that come with the volume of information – privacy, access, retrieval and storage, to name a few.

The customers I meet know they have both a problem and a lost opportunity. Whoever said information is power had it right. Customers yearn for partners who can take those streams of data and mountains of information and harness them to create value. Customers want someone to make sure they’re making the right investments to help them find what they want when they want. They want to turn information from a liability into an asset.

In other words, *they want partners like Xerox*. We are expert at protecting client privacy, mining data for competitive advantage and improved customer service, and getting just the right piece of information or insight to just the right person just when they need it. In the world of information, we’re the “just-in-time” people.

For example, we're using data from traffic and parking patterns to help the City of Los Angeles turn parking into a smart, analytics-based business. Electronic street signs and smartphone apps direct drivers to available spaces in real time. Fees for parking vary by demand as a way of directing more people to mass transit during peak rush hours. It's a smart way to use information that results in a simpler way for people to get around. And, it's Xerox innovation – much of which was developed at our research centers in France and Palo Alto – at its very best.

“Electronic street signs and smartphone apps direct drivers to available spaces in real time.”

And the last question that is on the minds of business leaders – but, interestingly is never directly asked – is this: “Is this a company I want to do business with?” There are a lot of important questions behind that basic one. Customers want to know you'll be fair and honest, that you're reliable and won't let them down, that you'll continue to innovate and bring them best practices, that the values of the company speak to things that are important to them.

In other words, *they want partners like Xerox*. Customers have choices on who gets their business. Trusting some of your most critical operational processes to a business partner is a high-stakes game. We're staffing call centers on behalf of our customers. Paying bills and transacting payments on their behalf. Managing IT infrastructures on their behalf. Creating sophisticated electronic medical records on their behalf. Processing insurance claims on their behalf. Creating and distributing client communication on their behalf. Considering these responsibilities, I'm proud to look our customers in the eye and tell them that we're as close to a “sure bet” as they will ever find. And if there is a problem, we will work with them for as long as it takes to make it right. There are a lot of proof points that we're the company that a customer wants:

- Our brand is known and respected around the world. Its multi-billion-dollar value is the sum total of millions upon millions of decisions made, actions taken and values lived by our people for several decades.
- We operate our business through a value system that was espoused by our founders over 60 years ago. These values include a deep commitment to corporate citizenship that is a point of pride for our business and for our people. And it's rewarding to be recognized for our actions: last year the Dow Jones Sustainability Index named Xerox a leader in environmental stewardship and social responsibility.

- Innovation is in our DNA. By applying the breakthroughs that emerge from our five global research labs into our products and services, we continue to differentiate ourselves with clients and competitors. The Xerox group, which includes our partnership with Fuji Xerox, garnered 1,618 U.S. patents last year, placing us eighth on the IFI patent intelligence list worldwide – and assuring our customers that we will continue to bring them a steady stream of innovation and value.

Enabling Customers to Be Their Best

No, we don't make the sexiest new product on the market or run a hospital that saves lives or get you to work safely and on time or manufacture the most luxurious and safest aircraft on the planet or design a spacecraft that will explore the stars. But we do something every bit as important. We're behind the scenes, managing the “must-do work” that enables every one of those things to happen. It's a noble mission. To take some very complex business processes and make them simple for those who need them.

We've become a critical enabler for business and government. When you speak with leaders in the public and private sector, they don't tell you that they pay their Medicare clients in a cost-effective way or that their marketing brochures are personalized and printed with the highest quality. They tell you that they provide a safety net for people who need healthcare or that they have the best smartphones in the world.

We allow all these great people to do what they do really well. And, that's a great place to be. Now I must tell you that it tries my patience. Every place I look, I see a process we should be improving. If I see an accounting operation or a document technology center or an IT hub or a call center, I want to grab someone and tell them they shouldn't be worried about it. You should make your cars or provide a service to your clients and let us worry about this “stuff” for you.

“We allow all these great people to do what they do really well. And, that's a great place to be.”

As I hope you can tell, this work excites me. We create value on so many levels. We are just hitting our stride. And, I'm confident a world of opportunity is ours for the taking.

Opportunities Abound

We operate in a \$600 billion market. We have a sound strategy to aggressively pursue growth. We have an enviable value proposition that helps our clients improve *their* business results. We have a business model that is proven, flexible and robust. And we have a unique blend of innovative technology, operational excellence and a remarkable reservoir of expertise that resides in the minds of our people.

Our priorities remain the same in 2012. They're straightforward and align with every business decision we make:

- Accelerate growth in our services business.
- Maintain our leadership in technology.
- Continue our focus on operational excellence.
- Expand earnings and give you a good return on your investment.

To that end, in 2012 we expect to continue increasing earnings per share. We'll grow revenue and generate strong cash flow. By doing so, we'll provide further value to you through dividends and share repurchase.

We are keenly aware that the world's economies are still in recovery. We are humbled by the strength of our competitors. And we know that as good as we are today, we must be even better tomorrow. That challenge galvanizes us. We wouldn't have it any other way.

We're excited about the extraordinary opportunity that stretches out before us. Xerox people – now 140,000 strong – are ready to pursue it aggressively on your behalf. We don't take the trust you place in us for granted. We're ready for real business.



Ursula M. Burns
Chairman and Chief Executive Officer

In memory of David T. Kearns (1930–2011)



I would be remiss if I did not mention the passing of former Xerox chairman and CEO David Kearns this past year. David led Xerox through a turbulent time – the decade of the 1980s – when we were buffeted by foreign competition that threatened our survival. He overhauled our product line, focused on the customer and insisted on quality in all we did. He turned the company around and did it without sacrificing our values. As he used to say: "I'm not interested in building a big company but a great company."

That is David's legacy and it permeates Xerox still. We can think of no better way to honor his memory than to persevere in his tradition – to create value for our customers and shareholders; to uphold the values he held dear such as diversity, sustainability and community engagement; and to leave our company – and our world – better than we found them.

⁽¹⁾ 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.

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 on the following page.

Non-GAAP Measures

Adjusted Earnings per Share (EPS) (in millions, except per-share amounts)	Year Ended December 31,						
	2011		2010		2009	2008	2007
	Net Income	EPS	Net Income	EPS	Net Income	Net Income	Net Income
As Reported	\$1,295	\$ 0.90	\$ 606	\$ 0.43	\$ 485	\$ 230	\$1,135
Adjustments:							
Amortization of intangible assets	248	0.17	194	0.14	38	35	28
Loss on early extinguishment of debt	20	0.01	10	0.01	—	—	—
Xerox and Fuji Xerox restructuring charge			355	0.26	41	308	(5)
ACS acquisition-related costs			58	0.04	49	—	—
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	—
Equipment write-off			—	—	—	24	—
Settlement of unrecognized tax benefits			—	—	—	(41)	—
	268	0.18	690	0.51	128	817	23
Adjusted	\$1,563	\$ 1.08	\$1,296	\$ 0.94	\$ 613	\$1,047	\$1,158
Weighted average shares for reported EPS		1,444		1,351			
Weighted average shares for adjusted EPS		1,444		1,378			

Revenue Growth – Pro-forma/Without Currency (in millions)	Year Ended December 31,				
	As Reported	As Reported	Pro-forma	% Change	Pro-forma
	2011	2010	2010 ⁽¹⁾		% Change
Revenue Category					
Equipment sales	\$ 3,856	\$ 3,857	\$ 3,857	0 %	0 %
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 %
Segment					
Services	\$10,837	\$ 9,637	\$10,256	12 %	6 %
Technology	10,259	10,349	10,349	(1 %)	(1 %)
Other	1,530	1,647	1,647	(7 %)	(7 %)
Total Revenues	\$22,626	\$21,633	\$22,252	5 %	2 %

⁽¹⁾ Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 5 in our reported 2010 results adjusted for deferred revenue, exited businesses and certain non-recurring product sales.

Operating Margin (in millions)	Year Ended December 31,				
	2011	2010	2009	2008	2007
Total Revenues	\$22,626	\$21,633	\$15,179	\$17,608	\$17,228
Pre-tax income (loss)	\$ 1,565	\$ 815	\$ 627	\$ (79)	\$ 1,468
Adjustments:					
Amortization of intangible assets	398	312	60	54	42
Xerox restructuring charge	33	483	(8)	429	(6)
Curtailed gain	(107)	—	—	—	—
ACS acquisition-related costs	—	77	72	—	—
Equipment write-off	—	—	—	39	—
Other expenses, net	322	389	285	1,033	223
Adjusted Operating Income	\$ 2,211	\$ 2,076	\$ 1,036	\$ 1,476	\$ 1,727
Pre-tax Income Margin	6.9 %	3.8 %	4.1 %	(0.4 %)	8.5 %
Adjusted Operating Margin	9.8 %	9.6 %	6.8 %	8.4 %	10.0 %

Adjusted Net Cash from Operating Activities (in millions)	Year Ended
	December 31, 2008
Operating Cash Flow – As Reported	\$ 939
Adjustments:	
Payments for securities litigation	615
Operating Cash flow – As Adjusted	\$ 1,554

Board of Directors



Left to right, standing

N. J. Nicholas, Jr.*

Investor
New York, NY

Glenn A. Britt^B

Chairman and Chief Executive Officer
Time Warner Cable Inc.
New York, NY

Robert J. Keegan^{A, B}

Retired Chairman, President and CEO
The Goodyear Tire & Rubber Company
Akron, OH

Ann N. Reese^{C, D}

Executive Director
Center for Adoption Policy
Rye, NY

Mary Agnes Wilderotter^D

Chairman and Chief Executive Officer
Frontier Communications Corporation
Stamford, CT

William Curt Hunter^{A, C}

Dean, Tippie College of Business
University of Iowa
Iowa City, IA

Sara Martinez Tucker^{C, D}

Independent Consultant
San Francisco, CA

Left to right, seated

Charles Prince^{C, D}

Retired Chairman and Chief Executive Officer
Citigroup Inc.
New York, NY

Ursula M. Burns

Chairman and Chief Executive Officer
Xerox Corporation
Norwalk, CT

Richard J. Harrington^A

Retired President and Chief Executive Officer
The Thomson Corporation
Stamford, CT

Robert A. McDonald^{A, B}

Chairman, President and Chief Executive Officer
The Procter & Gamble Company
Cincinnati, OH

A: Member of the Audit Committee

B: Member of the Compensation Committee

C: Member of the Corporate Governance Committee

D: Member of the Finance Committee

* Retiring from the Xerox Board; all other directors are up for re-election at the 2012 Annual Meeting of Shareholders.

The one thing that's predictable about business is that it's fundamentally unpredictable. It's constantly changing – by chance and by design. And, macro forces bring new challenges every day. This was certainly the case in 2011 – a pivotal year of transformation for our business, and a year when – all said and done – **Xerox people delivered solid financial results, made measured progress, and continued to build our company into the world's leading enterprise for business process and document management.**

Our Business

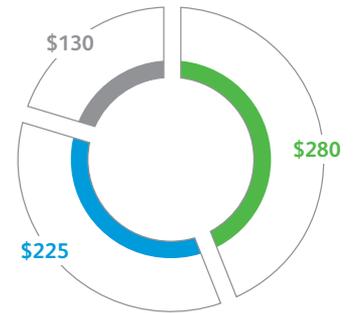
Business Overview

We provide the industry's broadest portfolio of business process and IT outsourcing support, document technology and solutions. 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. 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 expertise of our people to deliver further value for our customers through our document outsourcing solutions, helping customers improve their productivity and reduce costs.

With sales approaching \$23 billion and operations in 160 countries, we are the world's leading enterprise for business process and document management. Our services, technology and expertise enable workplaces – from small businesses to large global enterprises – to simplify the way work gets done so they operate more effectively.

We are a leader in a large, diverse and growing market estimated at over \$600 billion

(in billions)



■ \$280B Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Through 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.

■ \$225B Business Process Outsourcing

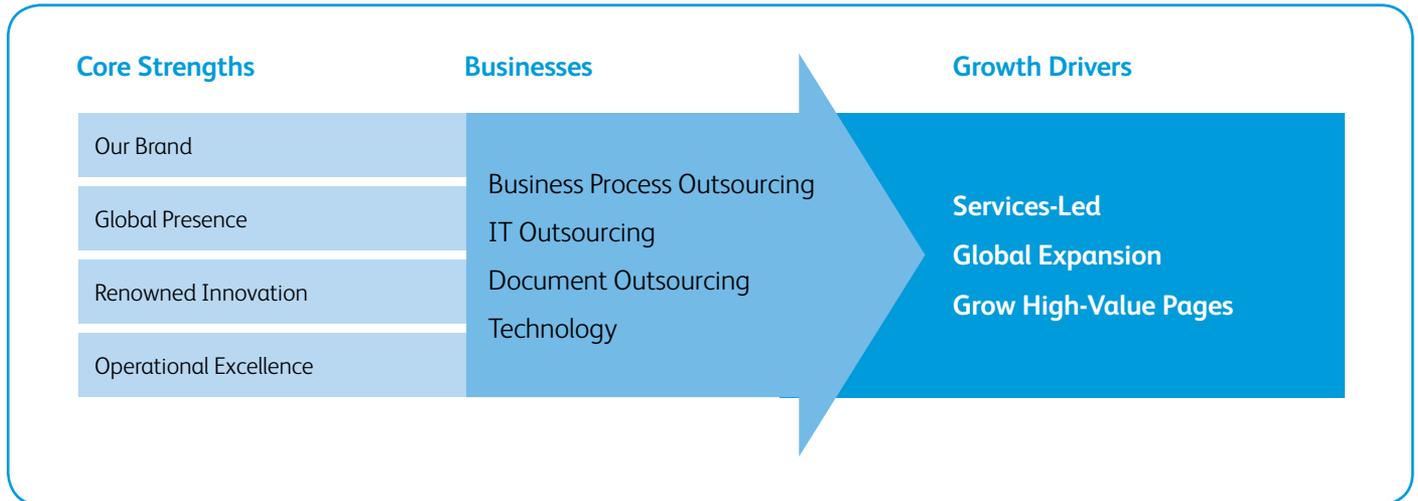
We are the largest worldwide diversified business process outsourcing company in the large and growing BPO market. The BPO market comprises the outsourcing of non-core, mission-critical business processes and functions that clients need to run their day-to-day operations. The market is very broad, encompassing 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 Gartner and NelsonHall 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 takes advantage of our core strengths to drive growth within our segments and lines of businesses.

Our core strengths include:

- **Our Brand** – We have a well-recognized and respected 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 10,500 active U.S. patents and five global research centers, we continue to lead the document technology industry and to take our technology into new service areas. See the separate “Innovation and RD&E” section for additional information on our renowned innovation.
- **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 and for our business.

We organize our business around two segments: Services and Technology.

- Our **Services** segment is comprised of business process outsourcing, information technology outsourcing and document outsourcing. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.
- Our **Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (that which is not related to document outsourcing contracts). Our strategic product groups within this segment include Entry, Mid-range and High-end products.

Our Business

We use our core strengths and market opportunities to grow our businesses by executing on the following growth drivers:

- **Services-Led** – We provide the most diverse set of business service offerings in the industry, delivering value through operational excellence and applying innovation to drive process automation. We are the industry leader in Document Outsourcing and continue to strengthen this leadership by expanding our Managed Print Services (“MPS”) for businesses small to large. In total, our services business represents significant growth opportunity for the company, and our investments align with actively pursuing this growth. In 2011, Services represented the largest portion of our business, at 48 percent of total revenue.
- **Global Expansion** – We continue to use the benefit of our global presence to expand our business process and IT outsourcing offerings beyond the U.S. In addition, the strength of our brand and global footprint position us well to penetrate more of the small and midsize business (“SMB”) opportunity, especially in developing markets.
- **Grow High-Value Pages** – We will maintain our lead in technology and document outsourcing by growing “high-value” pages – those produced in color and/or featuring customized content. We have the broadest portfolio of color printing technology in the industry 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 27 percent of Xerox pages printed on color devices, we believe there remains tremendous opportunity to grow color pages and associated revenue. 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.

Acquisitions

Consistent with our strategy to expand our Services offerings through “tuck-in” acquisitions, we acquired the following companies in 2011:

- In April 2011, we acquired **Unamic/HCN**, the largest privately owned customer care provider in the Benelux region in Western Europe. 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 IT**, a U.K.-based print consultancy and software solution provider. This acquisition expanded our market-leading managed print services portfolio. NewField’s consulting and software services help companies implement MPS more quickly. Its software suite creates visual maps of a floor plan to show how printers are used throughout an office. By combining this mapping with a database that tracks usage patterns of document devices, workplaces small to large are better able to monitor and manage the use of the devices and their overall print-related costs.
- In July 2011, we acquired **Education and Sales Marketing, LLC (“ESM”)**, a leading provider of outsourced enrollment management and student loan default solutions. The acquisition of ESM enables us to offer a broader range of financial services to assist post-secondary schools in attracting and retaining the most qualified students, while reducing accreditation risk.
- In November 2011, we acquired **The Breakaway Group**, a cloud-based service provider that helps healthcare professionals accelerate their adoption of Electronic Medical Records (“EMR”). The Denver-based firm’s technology allows caregivers to practice using an EMR without jeopardizing real patient data. This acquisition expands our services for healthcare providers.
- We also completed additional Services acquisitions in the areas of Healthcare Provider, Customer Care and Financial Services in 2011, increasing our presence in the United States and in Europe.

Additionally in 2011, we made acquisitions consistent with our strategy to expand distribution of Xerox technology to under-penetrated markets:

- In February 2011, we acquired **Concept Group, Ltd.** This acquisition broadens our reach into the small and midsize 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 3,000 customers.
- In April and May 2011, we acquired **Premier Office Equipment, Inc.** and **Midwest Business Solutions**, both based in Iowa. And, in December 2011, we acquired the **Merizon Group Incorporated**, which operates **MBM**, a Wisconsin-based office products distributor. These acquisitions further our strategy of creating a U.S. nationwide network of locally based providers focused on improving document workflow and office efficiency for small and midsize businesses.
- In addition, throughout 2011, we enhanced our distribution by acquiring office products distributors in New York, Illinois, Virginia and Florida.

Business Model Fundamentals

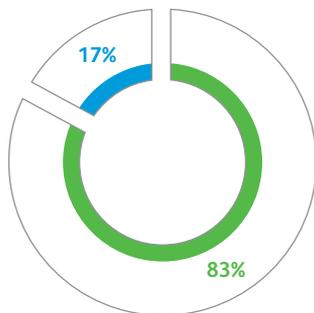
Through our annuity-based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

Annuity Model

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 83 percent of our 2011 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Some of the key indicators of annuity revenue growth include:

- Services signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period
- Services pipeline growth, which measures the year-over-year increase in new business opportunities
- 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 pages printed on color devices, as these pages generate more revenue per page than black-and-white.

Revenue Stream



■ 83% Annuity

Approximately 83% of our revenue, annuity includes revenues from services, maintenance, supplies, rentals and financing.

■ 17% Equipment Sales

The remaining 17% of our revenue comes from equipment sales, from either lease arrangements that qualify as sales for accounting purposes or outright cash sales.

Cash Generation

The combination of consistent strong cash flow from operations and modest capital investments enabled us in 2011 to provide a return to shareholders through:

- Repurchasing a significant number of Xerox shares during the year
- Expanding our Services business and our distribution capabilities through acquisitions – we spent over \$200 million on acquisitions in 2011
- Maintaining our quarterly dividend.

Expanded Earnings per Share

In 2011, we expanded our earnings per share through:

- Modest revenue growth driven by Services
- Driving cost efficiencies throughout the company
- Making accretive acquisitions
- Repurchasing shares.

We expect to use the same model to expand earnings per share in the future.

Innovation and RD&E

Xerox has a rich heritage of innovation, and it continues to be not only a core strength of the company but also a competitive differentiator. Our investments in innovation align with its growth opportunities in areas such as business services, color printing and customized communication. Our overall aim is to create value for our customers, for our shareholders and for our people by influencing the future in key areas. Four innovation themes emerge in our research portfolio:

1) Implementing Agile Business Processes

In today’s fast-paced and rapidly evolving marketplace, flexibility is required to operate efficiently and effectively. Xerox innovation investments are focused on automating business processes through flexible platforms that run on scalable infrastructures, speeding up and simplifying the ways work gets done, anywhere and at any time. By infusing more agility into business processes, clients benefit from our research on image, video and natural language processing coupled with machine learning.

2) Harvesting Knowledge from Information

Information comes in two forms: structured, where the content sits tidily in searchable indices or in limiting databases; or unstructured, where content can be anything from photos, videos, hand-written forms, emails, etc. The unstructured information has endless growth and creates a need for businesses to be more effective in mining context from content. This is a key research area for us – making sense of unstructured information using natural language processing and semantic analysis. We explore how to better analyze information for human use by better understanding contextual detail on how the content has been created and used. We’re also developing proprietary methods for predictive analytics applied to business processes.

Our Business

3) Delivering the Value of Personalization

Our research leads to technologies that improve the efficiency, economics and relevancy of business communications and printing applications. We research methods to create affordable ubiquitous color printing, leveraging our solid ink printing technology. We're also exploring ways to expand the application space of digital printing to cover new applications such as packaging printing and printing directly on mediums that go far beyond paper, like foods and clothing.

4) Enabling the Sustainable Enterprise

Our research also focuses on developing technologies that minimize the environmental impact of document systems and business processes. An example is our solid ink technology, which produces up to 90 percent less waste than comparable color laser devices, as well as our MPS software, which helps our customers reduce energy and paper use.

Xerox Global Research Centers



- 1 Palo Alto Research Center**
PARC is a wholly owned subsidiary of Xerox and is focused on areas of innovation on behalf of Xerox in areas that include content-centric networking, intelligent mobile computing and intelligent automation. PARC also leverages its heritage as the birthplace of modern technologies to provide research and development for non-competitive businesses in areas that include UV-LEDs and ethnography services.
- 2 Xerox Research Centre of Canada**
XRCC is Xerox's materials research center with a focus on imaging and consumable materials, like toner and inks, for our document technology.
- 3 Xerox Research Center Webster**
XRCW focuses on system design, imaging, computing and marking science to contribute to Xerox's ability to solve complex business problems for customers of all of our businesses.

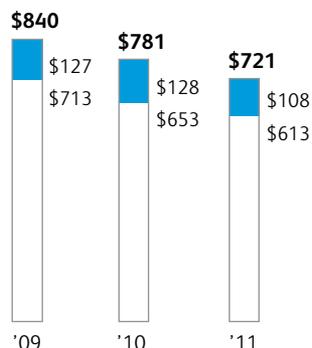
- 4 Xerox Research Centre Europe**
XRCE research differentiates Xerox business process service offerings. The center focuses on image, text and data analytics, business process modeling and the study and understanding of work practices.
- 5 Xerox Research Centre India**
XRCI focuses on unique innovation opportunities that emerge in and best serve developing markets. As Xerox's newest research lab, XRCI has a broad mandate to foster innovation across the company's document technology and business process services offerings.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest). We have aligned our R&D investment portfolio with our growth initiatives, including accelerating our color transition and enhancing customer value by building on our Services leadership.

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.

RD&E Expenses

(in millions)



Fuji Xerox invested \$880 million in R&D in 2011, \$821 million in 2010 and \$796 million in 2009.

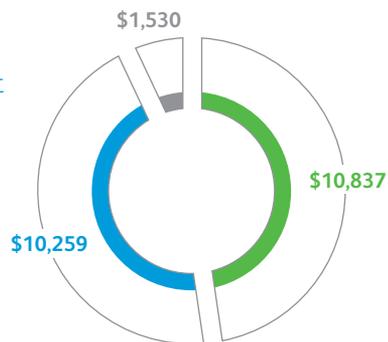
- R&D
- Sustaining Engineering

Segment Information

Our reportable segments are Services, Technology 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 small and midsize businesses (“SMBs”) 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)



■ \$10,837 Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”).

■ \$10,259 Technology

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products.

■ \$1,530 Other

The Other segment primarily includes revenue from paper sales, wide-format systems, and GIS network integration solutions and electronic presentation systems.

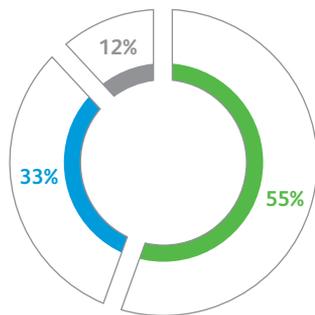
Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”). We provide non-core, mission-critical services that our clients need to run their day-to-day business. The services help our clients simplify the way work gets done, giving them more time and resources to allocate to their core operations, respond rapidly to changing technologies, and reduce expenses associated with their business processes and information technology support.

The cost and complexities of smoothly and securely running back-office operations can be a distraction from focusing on core business. That’s why enterprises turn to partners who specialize in key business processes.

Our Business

Services Revenue Mix



■ 55% Business Process Outsourcing

BPO, which provides a multitude of services for our customers' non-core processes, is the largest component of the Services segment.

■ 33% Document Outsourcing

Our DO business provides services that help customers optimize their printing infrastructure and streamline their communication and business processes.

■ 12% Information Technology Outsourcing

Our ITO business allows our customers worldwide to focus on their competencies instead of their IT infrastructure.

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with an expertise in transaction-intensive offerings tailored for several industries. Our services include:

- **Human Resources Services ("HRS"):** From actuarial expertise to the full range of human resources consulting – from employee service centers to learning, retirement, health and welfare services – HRS delivers game-changing, innovative solutions that enable our clients to focus on their business. We differentiate ourselves around two themes of innovation: engagement and enablement. We help HR departments engage employees as individuals by communicating to them with personalized messages and by enabling employees to get smarter about managing their own health, wealth and career outcomes.
- **Financial Services:** We provide finance and accounting services for any industry – from accounting to billing to procurement to accounts payable and receivable to tax management. In addition, we provide outsourcing of financial aid and enrollment office operations for colleges and universities, and back-room functions such as customer services, transaction processing and mailroom operations for the financial services industry. Based on our experience, we have a deep understanding of what drives the customer and we move beyond simply driving out costs.

- **Healthcare Payers and Pharma:** 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 data capture, claims processing, customer care, recovery services and healthcare communications. No competitor has offerings in all the areas where we play.
- **Business Process Solutions ("BPS"):** BPS provides customer management with solutions to solve client issues in areas such as customer care, tech support and services, customer acquisition and retention activities. We also provide innovative services including social media monitoring and customer care analytics. We are the only company in the world that can enhance the customer experience by optimizing all of the customer touch points, like call center support, Web-based help desks and rapid response via social media. By providing these touch points through one supplier, we are able to streamline efficiencies and drive down costs while enabling our clients to maintain fewer supplier relationships.
- **Healthcare Provider Solutions:** We provide consulting solutions, revenue cycle management and application services that are customized to meet the varying and changing needs of healthcare providers. We serve every large health system in the United States, with contracts in all 50 states. We also help our clients improve care through an analytics solution designed to provide clinical staff information.
- **Retail, Travel and Insurance:** We provide technology-based transactional services for retail, travel and non-healthcare insurance companies. We handle their data entry, mailroom, imaging input and hosting, call centers and help desk with targeted industry focus.
- **Government Solutions:** We support our government clients with solutions for child support payment processing, tax and revenue systems, eligibility systems and services, electronic payments transfer, electronic payment cards and unclaimed property services, among others. Our competitive advantage is our depth of local expertise while at the same time having the scale required to deliver and manage multiple programs for federal, state, county and town governments.
- **Transportation Solutions:** We provide revenue-generating solutions in over 30 countries. Our solutions include fare collection, toll and parking solutions, and monitoring of red-light cameras. We differentiate through the breadth of our offerings and innovative technology. For example, we developed dynamic pricing algorithms, which will be used in the new Los Angeles ExpressPark program. This program will create a new pricing system that is designed to relieve traffic congestion, reduce air pollution and improve the efficiency of downtown LA's transit operations.
- **Government Healthcare Solutions ("GHS"):** GHS serves state-funded government healthcare programs. We provide a broad range of solutions, from processing Medicaid claims to pharmacy benefits management, clinical program management, health information exchanges, eligibility and health benefit exchange services, and care and quality management. We've been delivering these systems since 1971 and we apply our deep knowledge of the Medicaid system, along with technological advances, to simplify and automate transactional-intensive processes.

Xerox Smarter Document Technologies Improving BPO Efficiency

We have applied Xerox's "Smarter Document" technologies to help automate 75 paper-intensive business process workflows within our BPO lines of business. In 2011, we processed an average of 30 million images per month using this Xerox proprietary technology, improving imaging accuracy rates, reducing costs and, in some cases, providing new services to our customers.

The largest number of images processed using this technology were within the Healthcare Payer line of business, where the number of images increased 250 percent. Xerox's advanced text and image categorization and data extraction software can convert hard-copy forms into structured data that can be quickly and accurately processed to ensure correct application of insurance benefits and correspondence with patients and doctors. This has resulted in increased accuracy and productivity in the processing of healthcare claims forms for our customers.



Xerox Applying Innovation in Transportation

We are the largest provider of transportation services to governments worldwide and have managed parking systems for more than 30 cities in the U.S. and 88 jurisdictions in the United Kingdom during the past 30 years. Xerox innovation is helping transform parking into an analytics-based business that improves systems for both city transportation managers and the public. Our comprehensive parking management system can track all parking-related transactions and provide real-time parking data analytics to jurisdictions and drivers by combining:

- Electronic sensors that track parking availability
- Dynamic pricing that balances supply and demand
- Real-time parking guidance systems that direct traffic flow to available parking.

Our parking solutions result in less traffic congestion and reduced air pollution from cars idling in traffic or in search of parking spaces.

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.

Our ITO services include:

- **Mainframe Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services. 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.
- **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.
- **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.

In addition, we provide Remote Infrastructure Management, Help Desk/Service Desk Management, Managed Storage, Utility Computing, Disaster Recovery and Security Services.

Our Enterprise Cloud offering includes the application management platform (known as AMP core).

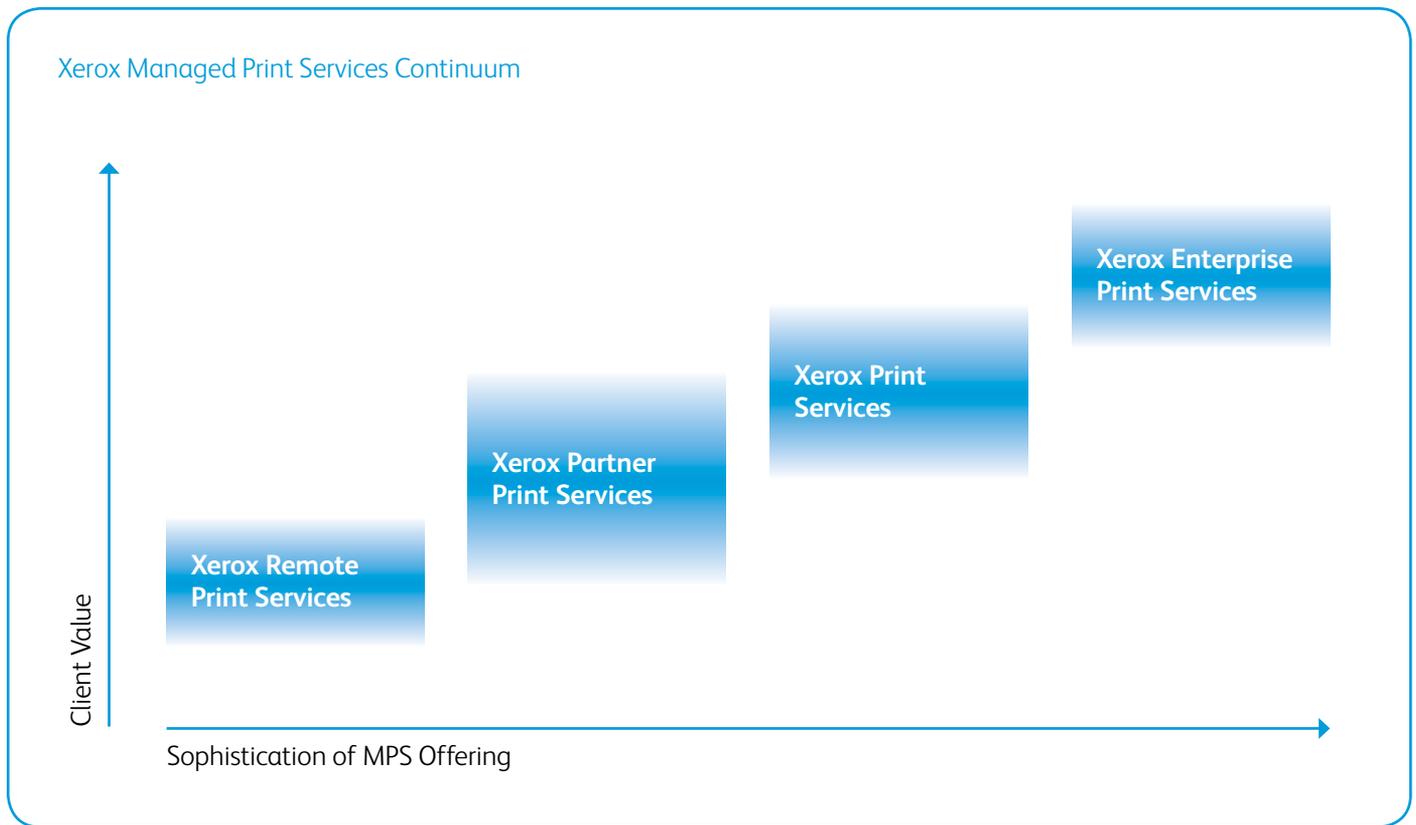
AMP core is an integrated dashboard of our services and provides us with the power and flexibility to automate IT processes. It provides our clients with the ability to easily control services to determine the timing of provisioning, including installs, moves, adds and changes.

In addition, we have expanded our cloud services for small and midsize businesses. The services include:

Xerox Cloud Infrastructure as a Service (IaaS) for Mid-range and Intel systems, which:

- Meets the conflicting demands of various operating models
- Delivers secure cloud services via five global data centers
- Is quickly installed and ready to use
- Ensures complete tracking, auditing and reporting capabilities.

Our Business



Document Outsourcing

We are an industry leader in document outsourcing services, with more than 20 years of experience and 15,000 business professionals across 160 countries. We help companies optimize their printing infrastructure and simplify their communication and business processes to grow revenue, reduce costs and operate more efficiently. Our two primary offerings within Document Outsourcing are Managed Print Services and Communication and Marketing Services.

Managed Print Services

Xerox MPS optimizes, rationalizes and manages the operations of Xerox and non-Xerox print devices, driving efficiencies that can save clients up to 30 percent on their document-related costs. Our MPS continuum provides the most comprehensive portfolio of MPS services in the industry, supporting small and midsize businesses up through large global enterprises.

The key factors that differentiate us include our commitment to innovation and technology, including our cloud-based connectivity and integrated suite of software tools solutions, as well as our global direct and channel partner coverage and certification programs. In addition, the industry's broadest portfolio of printing products sets us apart from our competition. We are recognized as an industry leader by several major analyst companies, including Gartner, IDC and Quocirca.

The Xerox MPS continuum complements and provides opportunities to expand existing BPO and ITO services. Within BPO accounts, Xerox MPS helps to improve workflow and enhance employee productivity. In ITO accounts, MPS complements the client IT services that we are currently managing and positions Xerox as a complete IT services provider.

Communication & Marketing Services (“CMS”)

CMS delivers end-to-end outsourcing for design, communications, marketing, logistics and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through traditional routes, such as print, but also through a growing number of multimedia channels including SMS, Web, email and mobile media.

We help our clients identify how their customers want to be engaged, tailor their content, translate it, personalize their communication, decide on the appropriate channel, execute on campaigns and measure the resulting success.

Our advantage comes through the breadth of our capabilities and our service-oriented approach to provide a single, seamless service for all communication and marketing logistics.

XMPie software expands marketing reach, brings marketing relevance and delivers measurable results.

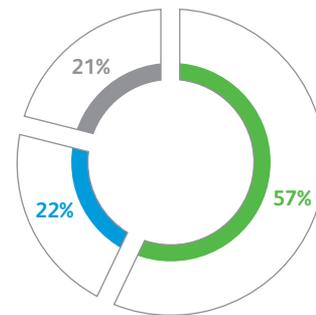
By bridging the gap between digital print and new media, XMPie, a Xerox company, is revolutionizing the way marketers create, implement, measure and refine one-to-one campaigns. XMPie's exclusive technology makes it possible to track an entire cross-media campaign from a single database. With each contact – across print, email, Web and other new media – information is collected and instantly updated. This powerful capability provides new opportunities to continue the dialogue and provide meaningful follow-up within moments of a customer or prospect interaction. Updates made in a Web form can be used to create dynamic Web content, prompt a phone call from a sales or customer service representative, or be immediately available for the next wave of a print campaign.

Technology

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (that which is not related to document outsourcing contracts). Our Technology business is centered around strategic product groups that share common technology, manufacturing and product platforms.

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 Revenue Mix



■ 57% Mid-range

The Mid-range business comprises a wide range of multifunction printers, copiers, digital printing presses, and light production printers and copiers sold to enterprises of all sizes.

■ 22% Entry

The Entry business comprises products sold principally to small and midsize businesses.

■ 21% High-end

The High-end business provides high-end digital color and monochrome systems designed for customers in the graphic communications industry and for large enterprises.

Our Business

Our strategic product groups are as follows:

Entry

Entry comprises products sold primarily to small and midsize businesses through a worldwide network of independent resellers and online merchants. It 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 2011, we continued to build on our position in the market by:

- Making high-quality desktop color more affordable and easier to use for all businesses
- Expanding our channel reach, partner programs and capacity to support the needs of small to midsize businesses
- Launching products and solutions that help individuals, small work teams, large workgroups or whole departments achieve their business goals.

We continued to build on our portfolio in 2011 with the launches of:

- **Compact Printers and MFPs:** In 2011, Xerox introduced a new line of compact color and monochrome printers and MFPs for small businesses. Xerox innovations with LED print heads and emulsion aggregation (“EA”) toner resulted in a small, low-cost product that maintains the professional appearance of the printed page. The new products introduced were: Phaser® 6000/6010 color printers, WorkCentre® 6015 color MFP, Phaser® 3010/3040 printers and WorkCentre® 3045 MFP.
- **Phaser® 6700:** This high-speed workgroup color printer accelerates productivity for workgroups in midsize to large businesses. With a 47 page per minute (“ppm”) print speed, advanced touch-screen interface and optional stacker/stapler, the Phaser 6700 is ideal for workgroup teams. The Phaser 6700 also has enhanced print quality and reliability with true 2400 x 1200 dpi print resolution and a 120,000-page duty cycle.
- **Phaser® 7800:** This color printer lowers the cost of printing for smaller graphic design firms and in-house marketing departments. Using the Hi-Q LED print system, EA toner and hardware-assisted edge enhancement and trapping, in addition to a 45 ppm tabloid/A3-size print engine and finishing capabilities from the WorkCentre 7500 series, the Phaser 7800 also handles the heaviest paper in common use – up to 350gsm – the most flexible media handling in its class.

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 2011, our Mid-range business continued to build on our position in the market by:

- Making high-quality color more affordable and easier to use for small/midsize businesses and large enterprises alike
- Expanding our channel reach, partner programs and capacity to support the needs of the SMB market
- 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. In 2011, we launched:

- **Xerox WorkCentre® 7525, 7530 and 7535:** These new multifunction printers are equipped with features to help small and midsize businesses boost productivity and meet their sustainability goals. They offer speeds up to 25, 30 and 35 ppm in color and black-and-white. The MFPs, which can print, copy, scan, fax and email, include advanced document management and workflow tools to make office work easier, and also offer unparalleled ease of use and security features. In addition, the Hi-Q LED print engine technology consumes less energy and space and produces less noise, while printing resolutions of 1200 x 2400 dpi.
- **Xerox ColorQube® 9301/9302/9303:** The ColorQube 9300 Series combines Xerox’s solid ink innovation with our legacy of advanced multifunction product leadership. This results in a multifunction printer that produces vivid color quality that is affordable and produces less printing waste versus comparable color laser devices. The device copies and prints at speeds up to 55 ppm color and 60 ppm black-and-white, while increasing productivity even further with speeds up to 85 ppm in Fast Color mode for draft or short-life documents.
- **Xerox WorkCentre® 7125:** This multifunction printer combines affordable color with high-productivity workflow tools. It provides value-seeking SMB customers with a low entry price in combination with high-end features. The WorkCentre 7125 helps SMBs maximize office productivity, produce impactful color documents, and seamlessly create and share business-critical information, in full office color.
- **Xerox WorkCentre® 5325/5330/5335:** The highly modular WorkCentre 5300 series black-and-white MFP serves both small and midsize businesses, as well as enterprise office environments. Its customizable workflow solutions help customers in document-intensive industries such as legal, healthcare and financial make the daily tasks they perform more efficient.



Xerox Mobile Solutions empower today's mobile professionals with the freedom to send print jobs from any email-enabled device.

The Xerox Mobile Print Solution removes the last barrier to mobile productivity, enabling printing from any email-enabled device. The solution is:

Simple

There's no software to load on the mobile device, no searching for online printer information, or time wasted looking for the right application.

Convenient

While traveling or working between offices, users can print MS Office documents and PDFs.

Secure

Mobile workers can print and retrieve documents at a Xerox-enabled MFP with a secure PIN code.

High-end

Our High-end digital color and monochrome solutions are designed for customers in the graphic communications industry and for large enterprises. These devices enable digital on-demand printing, digital full-color printing and enterprise printing. Integrated solutions such as automated in-line finishing result in "touch-less" workflows (with little to no manual processing or human intervention) that allow Xerox customers to produce more jobs and grow their business. We provide products and solutions that enable our customers to delight their customers with the highest-quality output available in the market. 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, Xerox has delivered innovative technologies that have revolutionized the production printing industry, maintaining our position as the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2011 with the launches of:

- **Xerox 770:** We launched the 770 late in 2011 to enhance our entry production color offerings. The 770 builds on the very successful 700 product, with productivity enhancements to speed and color management. The 770 produces output at 70 ppm, including heavyweight stocks. An in-line spectrophotometer has been added to the 770, enabling the Xerox Automated Color Quality Suite ("ACQS"). ACQS brings features usually found on higher-end products such as the 8080 and Color Press, and makes the Xerox production color portfolio the broadest in the industry.
- **iGen4 Matte Dry Ink:** We added an additional dry ink offering for the iGen4: matte dry ink ("MDI"). This alternative dry ink provides a flatter or more-offset-like image quality. Ideal for the expanding photo market, matte dry ink, along with the largest sheet size in the market – 26"/660mm – expands iGen4's market-leading applications.

Our Business

CiPress™ 500 Production Inkjet System – continuing innovations in printing with a new waterless inkjet system.

In 2011 Xerox launched the Xerox CiPress 500, the world’s only high-speed waterless inkjet printing system. The CiPress prints at 500 feet per minute and efficiently creates personalized marketing, transpromotional and publishing pieces. The device enables customers to use the same plain, low-cost untreated papers they use with their offset presses and cut-sheet digital devices today without the added expense of high-cost treated or specialty papers that aqueous or other inkjet products require.

The CiPress printing system produces vivid full-color images using Xerox’s solid ink printing technology, incorporating innovations developed by researchers and scientists inside Xerox labs in Wilsonville, Oregon; Toronto; and Webster, New York. In total, this technology is covered by more than 3,000 solid ink and CiPress-specific patents and patent applications worldwide. Driving the CiPress are robust print heads with more than 49,000 nozzles jetting nearly two billion ink drops per second. This print head design, combined with our patented, granulated, resin-based ink that is unique to Xerox, results in vivid image quality on low-cost papers.

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.

Other

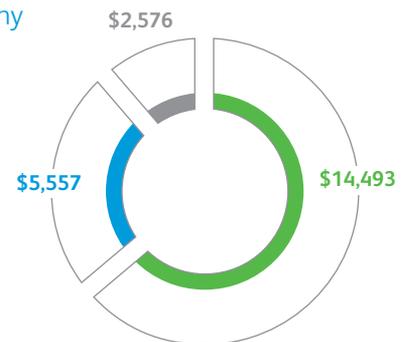
The Other segment primarily includes revenue from paper sales, wide-format systems, and network integration solutions and electronic presentation systems from Global Imaging Systems. Paper comprised approximately 59 percent of the revenues in the Other segment.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 36 percent of our revenue is generated by customers outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand our Services business in Europe and developing markets.

Revenues by Geography

(in millions)



- \$14,493 U.S.
- \$5,557 Europe
- \$2,576 Other Areas

Revenues by geography are based on the location of the unit reporting the revenue and includes export sales.

Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,030 U.S. utility patents in 2011. On that basis, we would rank 19th 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 2011. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2011, we held more than 10,500 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 2011, we added 12 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in nine 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, Océ, Sharp, Samsung and Seiko Epson. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 550 U.S. 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

We manage our business based on the principal segments described earlier. We have organized the marketing, selling and distribution of our products and services by geography, channel type, customer or market, and line of business.

Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands.

We sell our products and services directly to customers through our worldwide 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 simplify and streamline their 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 midsize businesses, we continued to expand our distribution in 2011 by acquiring nine companies.

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 distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties distributing 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 2011, total Xerox revenues of \$22.6 billion included less than \$0.1 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.

Our Business

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.

In the Services business, our larger competitors are Accenture, Aon, Computer Sciences Corporation, Convergys, Dell, Genpact, Hewlett-Packard, IBM and Teletech. In addition, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

In the Technology business, our larger competitors include Canon, Hewlett-Packard, Kodak, Konica Minolta, Lexmark and Ricoh.

Our brand recognition, positive reputation for business process and document management, innovative technology and service delivery are our key competitive advantages. This, combined with our breadth of product offerings, global distribution channels and customer relationships, positions us as a strong competitor going forward.

Global Employment

Globally, we have approximately 139,650 direct employees, including approximately 7,500 sales professionals, approximately 11,500 technical service employees and approximately 100,000 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. 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. Additionally, because we primarily finance our own products and have a long history of providing financing to our customers, we are able to minimize much of the risk normally associated with a finance 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, 2011, we had \$6.4 billion of finance receivables and \$0.5 billion of equipment on operating leases, or Total Finance assets of \$6.9 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in a significant portion of our \$8.6 billion of debt being 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, NY, where we produce fusers, photoreceptors, Xerox iGen and Nuvera® systems, components, consumables and other products. We also 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, OR, for solid ink products, consumable supplies and components for our Mid-range and Entry products. We also have a 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 through 2014. 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. In March 2011, we were impacted by the natural disaster in Japan, when demand exceeded availability of certain products and supplies sourced from Fuji Xerox. Additionally, incremental logistics and freight costs were incurred as a result of alternate sourcing for components and materials. Supply and demand dynamics returned to normal by the end of 2011. Refer to Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2011 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

Our global services production model is one of our key competitive advantages. We have 79 Strategic Delivery Centers located around the world including India, Mexico, the Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. These are comprised of Customer Care Centers, Mega IT Data Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. 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 percent interest, and FUJIFILM Holdings Corporation (“FujiFilm”) owns 75 percent. 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 2011, 2010 and 2009 that are included in Note 2 – Segment Reporting in the Consolidated Financial Statements in our 2011 Annual Report. See also the risk factor entitled: “Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes” in Part I, Item 1A of Form 10-K.

Backlog

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.

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

With sales approaching \$23 billion, we are the world's leading global enterprise for business process and document management. Our 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. Headquartered in Norwalk, Connecticut, 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. Through our business process and IT outsourcing services, as well as our document technology and managed print services, we operate in a market estimated to be more than \$600 billion. The 140,000 people of Xerox serve clients in more than 160 countries. Approximately 36% of our revenue is generated from customers outside the U.S.

We organize our business around two main segments: **Services** and **Technology**.

- Our **Services** segment is comprised of **business process outsourcing, information technology outsourcing and document outsourcing**. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.

A key priority for Xerox in 2011 was accelerating growth in our services business. Revenue from services grew 12%, or 6% on a pro-forma⁽¹⁾ basis, reflecting growth from our business process outsourcing ("BPO") and document outsourcing ("DO") services. Growth in BPO benefited from recent modestly sized acquisitions, consistent with our strategy to continue diversifying our services portfolio and to expand our business globally. Our information technology outsourcing ("ITO") services business declined 4% during the year; however, there was a recent uplift in ITO signings in the fourth quarter. In 2011, through expanded sales activities, we increased new business signings by 14% and our services business now represents the largest portion of our total revenue at 48%.

- Our **Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (the portion not related to document outsourcing contracts). Our product categories within this segment include Entry, Mid-range and High-end products.

Maintaining our leadership in document technology was a key priority in 2011. We not only continued to hold our number-one equipment revenue market share position, but we also grew market share during the year. We did this by offering a more extensive and affordable portfolio of color products and by expanding our distribution to serve more small and midsize businesses around the world. During the year, we launched 27 new products, with an emphasis on broadening our color portfolio for both production and office markets and expanding our channels of distribution for these products.

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 83% of our 2011 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in services. Some of the key indicators of annuity revenue growth include:

- Services signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period
- Services pipeline growth, which measures the year-over-year increase in new business opportunities
- 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.

Consistent with our strategy to expand our service offerings through "tuck-in" acquisitions, we acquired the following companies in 2011:

- In April 2011, we acquired Unamic/HCN B.V., the largest privately owned customer care provider in the Benelux region in Western Europe.
- In July 2011, we acquired Education Sales and Marketing, LLC ("ESM"), a leading provider of outsourced enrollment management and student loan default solutions.
- In September 2011, we acquired the net assets of the U.S. operations of Symcor. Symcor specializes in outsourcing services for U.S. financial institutions, and its offerings range from cash management services to statement and check processing.
- In November 2011, we acquired The Breakaway Group ("Breakaway"), a cloud-based service provider that helps healthcare professionals accelerate their adoption of electronic medical records.

We also completed additional Services acquisitions in the areas of print consultancy, healthcare provider and customer care in 2011, increasing our presence in the United States and Europe.

Management's Discussion

In addition, we acquired companies during 2011 that expand our distribution capacity for Xerox technology to small and midsize businesses ("SMB") and in under-penetrated markets:

- In February 2011, we acquired Concept Group, Ltd. This acquisition expands our reach into the SMB market in the U.K.
- In December 2011, we acquired the Merizon Group Incorporated, which operates MBM, a Wisconsin-based office products distributor.

We also acquired office product distributors in Iowa, New York, Illinois, Virginia and Florida.

Financial Overview

Total revenue of \$22.6 billion in 2011 grew 5% from the prior year, including a 2-percentage point favorable impact from currency. To provide a clearer comparison of our year-over-year results, we are also providing a discussion and analysis on a pro-forma basis for the full year, 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 2011 increased 2%, including a 2-percentage point favorable impact from currency. Total revenue growth was primarily driven by increased revenues in our Services segment, which grew by 12% in 2011 or 6% on a pro-forma⁽¹⁾ basis, reflecting strong performance in BPO and DO services. Technology revenues in 2011 declined 1% from the prior year and included a 2-percentage point favorable impact from currency. Technology revenues in 2011 were impacted by macro conditions, including the natural disaster in Japan in the first quarter and economic weakness in Europe, particularly in the fourth quarter.

Net income attributable to Xerox for 2011 was \$1.3 billion and included \$305 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, and the loss on the early extinguishment of a long-term liability, which were partially offset by an after-tax curtailment gain of \$66 million. Net income attributable to Xerox for 2010 was \$606 million and included \$690 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, acquisition-related costs and other discrete items. The improvement in net income reflects continued operational cost savings from restructuring and productivity improvements that more than offset the impacts from economic events.

Cash flow from operations was \$2.0 billion in 2011 as compared to \$2.7 billion in 2010. The decrease reflects increased cash usage in 2011 for working capital, higher pension contributions and investments associated with new services contracts. Cash used in investing activities of \$675 million primarily reflects capital expenditures of \$501 million and acquisitions of \$212 million. Cash used in financing activities was \$1.6 billion, which includes the redemption of Xerox Capital Trust's \$650 million preferred securities, the scheduled repayment of \$750 million of Senior Notes and net payments of \$200 million on Commercial Paper, partially offset by the issuance of \$1.0 billion in Senior Notes. Financing activities also reflect \$701 million for the repurchase of common stock and \$265 million for dividends.

Total revenue is expected to grow modestly in 2012, reflecting the mix of continued solid growth in our services business, partially offset by continued pressure in our technology business, which is impacted by challenging economic conditions, especially in Europe. The steady progress we've made in increasing signings for our diverse service offerings positions us well to accelerate revenue growth from Services in 2012. In our Technology business, we expect that Xerox's competitively advantaged product portfolio and expanded distribution will drive an increase in installs of Xerox equipment, maintaining our leadership in document technology.

We expect to continue our focus on cost management and productivity improvements. This will help offset the potential impact from unfavorable currency movements, pension expense and funding requirements, near-term impact of new Services contracts and economic uncertainty.

Our 2012 balance sheet and cash flow strategy includes: sustaining our working capital improvements; 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 repurchases, acquisitions and dividends.

Europe

As of and for the year ended December 31, 2011, approximately \$3.5 billion of our total revenues and \$3.3 billion of our total assets are based in countries where the Euro is the functional currency. Approximately \$1.9 billion of those assets are finance receivables and approximately 16% of those receivables are with governmental entities. Accordingly, we are impacted by the significant challenges facing the Euro Zone economies and governments, and we expect those negative impacts to continue in 2012 mainly with respect to revenue growth and bad debt provisions.

Currency Impact

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 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.

Management's Discussion

Approximately 36% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally 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 5% weaker in 2011 and 2% stronger in 2010, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 2% benefit in 2011 and negligible in 2010.

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 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 in "Revenue Recognition for Leases" in Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements.

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 25 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 portion of our services revenue is recognized using the percentage-of-completion accounting method. This method requires the use of estimates and judgment as discussed below. During 2011, we recognized approximately \$320 million of revenue using the percentage-of-completion accounting method.

Revenues on certain fixed-price contracts where we provide system development and implementation services related to our information technology business 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 of service. We perform ongoing profitability analysis of our services contracts in order to determine whether the latest estimates require updating.

Management's Discussion

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 \$157 million, \$188 million and \$291 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009, respectively.

Historically, the majority of the bad debt provision is 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 \$31 million in 2011. Reserves as a percentage of trade and finance receivables were 3.3% at both December 31, 2011 and 2010 and 4.1% at December 31, 2009. The improving trend in write-offs for the U.S. and Canada was offset by higher write-offs in Southern Europe. 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, Net in the Consolidated Financial Statements for additional information.

As discussed above, in preparing our Consolidated Financial Statements for the three years ended December 31, 2011, 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, 2011, our reserve for doubtful accounts ranged from 3.1% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2011 rate of 3.3% would change the 2011 provision by approximately \$93 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. In plans where substantially all participants are inactive, the amortization period for net actuarial gains and losses is the average remaining life expectancy of the plan participants.

Cumulative actuarial losses for our defined benefit pension plans of \$2.6 billion as of December 31, 2011 increased by approximately \$700 million from December 31, 2010. The increase reflects the increase in our benefit obligations as a result of a lower discount rate, which was only partially offset by positive returns on plan assets in 2011 as compared to expected returns. 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 7.2% for 2011, 7.3% for 2010 and 7.4% for 2009, on a worldwide basis. During 2011, the actual return on plan assets was \$694 million. When estimating the 2012 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, particularly in light of current economic conditions, 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 2012 is 6.9%. The reduction in the expected rate of return in 2012 as compared to 2011 reflects the expected decrease in long-term capital market returns for all asset categories.

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.

Management's Discussion

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, 2011 and to calculate our 2012 expense was 4.7%, which is lower than the 5.2% that was used to calculate our 2011 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2011 and to calculate our 2012 expense was 4.5%, which is lower than the 4.9% that was used to calculate our 2011 expense.

The following is a summary of our benefit plan costs and funding for the three years ended December 31, 2011, as well as estimated amounts for 2012:

	Estimated		Actual	
	2012	2011	2010	2009
Benefit Plan Costs:				
Defined benefit pension plans ⁽¹⁾	\$321	\$284	\$304	\$232
Curtailment gain ⁽²⁾	—	(107)	—	—
Defined contribution plans	67	66	51	38
Retiree health benefit plans	13	14	32	26
Total Benefit Plan Expense	\$401	\$257	\$387	\$296

⁽¹⁾ Estimated 2012 assumes settlement losses are consistent with 2011.

⁽²⁾ Refer to the "Plan Amendment" section in Note 14 – Employee Benefit Plans in the Consolidated Financial Statements for further information.

Our estimated 2012 defined benefit pension plan cost is expected to be approximately \$37 million higher than 2011, primarily driven by reductions in the discount rate and the corresponding increase in service cost as well as higher amortization of actuarial losses.

	Estimated		Actual	
	2012	2011	2010	2009
Benefit Plan Funding:				
Defined benefit pension plans	\$560	\$556	\$237	\$122
Defined contribution plans	67	66	51	38
Retiree health benefit plans	80	73	92	107
Total Benefit Plan Funding	\$707	\$695	\$380	\$267

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2012 projected net periodic pension cost by \$28 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2012 projected net periodic pension cost by \$18 million.

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 14 – Employee Benefit Plans in the Consolidated Financial Statements.

Income Taxes

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 (credits) charges to income tax expense, were \$(5) million, \$22 million and \$(11) million for the years ended December 31, 2011, 2010 and 2009, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of \$(53) million, \$11 million and \$55 million for the years ended December 31, 2011, 2010 and 2009, 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 \$3.7 billion and \$3.8 billion had valuation allowances of \$677 million and \$735 million at December 31, 2011 and 2010, 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. Unrecognized tax benefits were \$225 million, \$186 million and \$148 million at December 31, 2011, 2010 and 2009, respectively.

Management's Discussion

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.

Refer to Note 15 – Income and Other Taxes for additional information regarding deferred income taxes and unrecognized tax benefits.

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 not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

In the fourth quarter of 2011, we early-adopted 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. As a result, in performing our annual impairment test, we 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, including goodwill. If it is concluded that this is the case for one or more reporting units, we perform a detailed quantitative assessment. Our annual impairment test of goodwill is performed in the fourth quarter of each year.

We performed a quantitative goodwill impairment test in 2010. The estimated fair values of our reporting units for that test 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. Based on these valuations, the fair values of our reporting units exceeded their carrying values by more than adequate margins. The lowest margins were in two of the three reporting units comprising our Services segment. However, these two reporting units were the direct result of our acquisition of ACS and, therefore, the lower margins were considered reasonable due, in large part, to the recent nature of the acquisition.

The qualitative assessment of goodwill impairment requires significant judgment. This assessment involves the consideration and evaluation of various factors, including macroeconomic and general economic conditions; entity-specific events such as industry and market conditions as well as reporting unit-level financial performance; and other events affecting a reporting unit, such as an expectation that a reporting unit will be sold or reorganized.

After consideration of the margins from our 2010 quantitative impairment test, our 2011 qualitative assessment centered on the evaluation of the key factors from those noted above and whether there had been any significant adverse changes since the 2010 quantitative test. The assessment involved a review of internal and external sources of information necessary to monitor the relevant factors for each reporting unit, including a review of analyst reports as well as credit rating information.

We believe that our expected long-term projections with respect to revenue, operating profit and cash flows continue to be achievable based on consideration of the following:

- **Services** – Services revenue grew in 2011, signings for new contracts increased 14%, and our services pipeline increased 5% over the prior year. Accordingly, we believe that we are well positioned for continued future growth in each of our services reporting units consistent with our long-term projections. As such, we continue to invest in growing our DO, BPO and ITO service offerings to commercial and government customers, both domestically and internationally.
- **Technology** – In 2011, we continued to hold our number-one equipment revenue market share position and we also grew market share. We also launched 27 new products, reflecting the continued demand for our equipment. In addition, we continue to expand our distribution capabilities to serve more small and midsize businesses.
- **Cost containment** – We continue to offset pricing pressures and increased supply chain costs with cost savings from restructuring and productivity improvements.
- **Capital** – We remain an investment-grade company and have ready access to the capital markets, including a commercial paper program.

Based on the above, in 2011, after completing our annual qualitative reviews for each of our reporting units, we concluded that it was not more likely than not that the carrying value of any of our reporting units exceeds its fair value. Accordingly, we concluded that further quantitative analysis and testing was not required, and no goodwill impairment charge was required during the fourth quarter 2011.

Refer to Note 8 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by operating segment.

Management's Discussion

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2011 was as follows:

(in millions)	Revenues			Change		Pro-forma ⁽¹⁾		Percent of Total Revenue		
	2011	2010	2009	2011	2010	2011	2010	2011	2010	2009
Equipment sales	\$ 3,856	\$ 3,857	3,550	—%	9%	—%	9%	17%	18%	23%
Annuity revenue	18,770	17,776	11,629	6%	53%	2%	1%	83%	82%	77%
Total Revenue	\$22,626	\$ 21,633	15,179	5%	43%	2%	3%	100%	100%	100%
Memo: Color ⁽²⁾	\$ 6,795	\$ 6,446	5,972	5%	8%	5%	8%	30%	30%	39%
Reconciliation to Consolidated Statements of Income:										
Sales	\$ 7,126	\$ 7,234	6,646	(1)%	9%	(2)%	7%	31%	33%	43%
Less: Supplies, paper and other sales	(3,270)	(3,377)	(3,096)					(14)%	(15)%	(20)%
Equipment Sales	\$ 3,856	\$ 3,857	3,550	—%	9%	—%	9%	17%	18%	23%
Service, outsourcing and rentals	\$ 14,868	\$ 13,739	7,820	8%	76%	4%	1%	66%	64%	52%
Add: Finance income	632	660	713	(4)%	(7)%	(4)%	(7)%	3%	3%	5%
Add: Supplies, paper and other sales	3,270	3,377	3,096	(3)%	9%	(4)%	4%	14%	15%	20%
Annuity Revenue	\$18,770	\$ 17,776	\$ 11,629	6%	53%	2%	1%	83%	82%	77%

Revenue 2011

Total revenues increased 5% compared to the prior year. Our consolidated 2011 results include a full year 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, the total revenue for 2011 grew 2%. Total revenue growth included a 2-percentage point positive impact from currency. Total revenues included the following:

- Annuity revenue increased 6%, or 2% on a pro-forma⁽¹⁾ basis, and included a 1-percentage point positive impact from currency. Annuity revenue is comprised of the following:
 - Service, outsourcing and rentals revenue of \$14,868 million increased 8%, or 4% on a pro-forma⁽¹⁾ basis, and included a 2-percentage point positive impact from currency. The increase was primarily due to growth in BPO and DO revenue in our Services segment, partially offset by a decline in pages. Total digital pages declined 3% despite a 2% increase in digital MIF.
 - Supplies, paper and other sales of \$3,270 million decreased 3%, or 4% on a pro-forma⁽¹⁾ basis, and included a 1-percentage point positive impact from currency. The decrease primarily reflected a decline in paper sales.

- Equipment sales revenue was flat and included a 1-percentage point positive impact from currency. Favorable product mix in high-end products was offset by price declines in the range of 5% to 10%.
- 5% increase in color⁽²⁾ revenue, including a 2-percentage point positive impact from currency reflecting:
 - 6% increase in color⁽²⁾ annuity revenue, with a 2-percentage point positive impact from currency. The increase was driven by higher page volumes of 9% on color devices, as well as an increase in color device MIF of 14%.
 - 4% increase in color⁽²⁾ equipment sales revenue, including a 2-percentage point positive impact from currency. This increase was driven by higher installs of new mid-range products.
 - Color⁽²⁾ pages represented 27% of total pages in 2011 while color device MIF represented 35% of total MIF.

Management's Discussion

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⁽¹⁾ basis, total revenue for 2010 grew 3%. Currency had a negligible impact on total revenues during 2010. Total revenues included the following:

- Annuity revenue increased 53%, or 1% on a pro-forma⁽¹⁾ 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⁽¹⁾ basis, and included a negligible impact from currency. The increase was driven by 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⁽¹⁾ basis, with a 1-percentage point negative impact from currency. Growth in supplies revenues was partially offset by a decline in paper sales.
- Equipment sales revenue increased 9% and included a 1-percentage point negative impact from currency. Growth in install activity was partially offset by price declines of approximately 5% and mix.
- 8% increase in color⁽²⁾ revenue, including a 1-percentage point negative impact from currency reflecting:
 - 5% increase in color⁽²⁾ 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⁽²⁾ 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⁽²⁾ representing 23% of total pages in 2010, while color device MIF represented 31% of total MIF.

An analysis of the change in revenue for each business segment is included in the "Operations Review of Segment Revenue and Profit" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,			Change		Pro-forma ⁽¹⁾	
	2011	2010	2009	2011	2010	2011	2010
Total Gross Margin	32.8%	34.4%	39.7%	(1.6) pts	(5.3) pts	(1.1) pts	(0.2) pts
RD&E as a % of Revenue	3.2%	3.6%	5.5%	(0.4) pts	(1.9) pts	(0.3) pts	(0.4) pts
SAG as a % of Revenue	19.9%	21.2%	27.3%	(1.3) pts	(6.1) pts	(1.0) pts	(0.9) pts
Operating Margin⁽³⁾	9.8%	9.6%	6.8%	0.2 pts	2.8 pts	0.3 pts	1.0 pts
Pre-tax Income Margin	6.9%	3.8%	4.1%	3.1 pts	(0.3) pts	3.4 pts	(2.2) pts

Operating Margin

The operating margin⁽³⁾ for the year ended December 31, 2011 of 9.8% increased 0.2-percentage points, or 0.3-percentage points on a pro-forma⁽¹⁾ basis, as compared to 2010. The increase was due primarily to disciplined cost and expense management.

The operating margin⁽³⁾ for the year ended December 31, 2010 of 9.6% 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.

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 are also discussed below on a pro-forma basis. In 2011, for comparison purposes, we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. In 2010, for comparison purposes, we adjust our historical 2009 results to include ACS's 2009 estimated results for the period from February 6 through December 31, 2009. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends.

Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for year ended December 31, 2011 of 32.8% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma⁽¹⁾ basis, as compared to 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals, transaction currency and the mix of higher services revenue.

Gross margin for year ended December 31, 2010 of 34.4% decreased 5.3-percentage points, or 0.2-percentage points on a pro-forma⁽¹⁾ basis, as compared to 2009. The decrease is primarily due to the unfavorable impact of year-over-year transaction currency.

Services gross margin for the year ended December 31, 2011 decreased 1.7-percentage points, or 1.2-percentage points on a pro-forma⁽¹⁾ basis, as compared to 2010. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals.

Management's Discussion

Services gross margin for the year ended December 31, 2010 decreased 5.8-percentage points, but was essentially flat on a pro-forma⁽¹⁾ basis, as compared to 2009.

Technology gross margin for the year ended December 31, 2011 decreased by 0.9-percentage points as compared to 2010 due to the impact of price declines and the negative year-over-year impact of transaction currency. The decline was partially offset by cost

productivities and restructuring savings which reflect our continued focus on cost management.

Technology gross margin for the year ended December 31, 2010 decreased by 0.8-percentage points as compared to 2009. Cost improvements and positive mix partially offset a 0.5-percentage point adverse impact from transaction currency and price declines of about 1-percentage point.

Research, Development and Engineering Expenses ("RD&E")

(in millions)	Year Ended December 31,			Change	
	2011	2010	2009	2011	2010
R&D	\$ 613	\$ 653	\$ 713	\$ (40)	\$ (60)
Sustaining engineering	108	128	127	(20)	1
Total RD&E Expenses	\$ 721	\$ 781	\$ 840	\$ (60)	\$ (59)
R&D Investment by Fuji Xerox⁽¹⁾	\$ 880	\$ 821	\$ 796	\$ 59	\$ 25

⁽¹⁾ Increase in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E as a percentage of revenue for the year ended December 31, 2011 of 3.2% decreased 0.4-percentage points. 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 percentage of revenue.

RD&E of \$721 million for the year ended December 31, 2011 was \$60 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.

RD&E as a percentage of revenue for the year ended December 31, 2010 of 3.6% decreased 1.9-percentage points, reflecting savings from restructuring and productivity improvements.

RD&E of \$781 million for the year ended December 31, 2010 was \$59 million lower, reflecting the impact of restructuring cost actions which consolidated the development and engineering infrastructures within our Technology segment.

Selling, Administrative and General Expenses ("SAG")

SAG as a percentage of revenue of 19.9% decreased 1.3-percentage points, or 1.0-percentage points on a pro-forma⁽¹⁾ basis, for the year ended December 31, 2011. In addition to spending reductions and lower compensation, the decrease was also driven by the positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percentage of revenue.

SAG expenses of \$4,497 million for the year ended December 31, 2011 were \$97 million lower than the prior year period, or \$156 million lower on a pro-forma⁽¹⁾ basis, both including a \$68 million unfavorable impact from currency. The pro-forma SAG expense decrease reflects the following:

- \$68 million decrease in selling expenses reflecting the benefits from restructuring, productivity improvements and decrease in brand advertising, partially offset by the impact of acquisitions
- \$54 million decrease in general and administrative expenses primarily reflecting lower compensation as well as the benefits from restructuring and operational improvements
- \$31 million decrease in bad debt expenses to \$157 million, as improvements in write-off trends in North America were more than offset by higher write-offs in southern Europe.

SAG as a percentage of revenue of 21.2% decreased 6.1-percentage points, or 0.9-percentage points on a pro-forma⁽¹⁾ basis, for the year ended December 31, 2010.

Management's Discussion

SAG expenses of \$4,594 million for the year ended December 31, 2010 were \$445 million higher than 2009, or \$57 million lower on a pro-forma⁽¹⁾ basis, including a negligible impact from currency. The pro-forma 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, to \$188 million, reflecting an improved write-off trend.

Restructuring and Asset Impairment Charges

During the year ended December 31, 2011, we recorded net restructuring and asset impairment charges of \$33 million (\$18 million after-tax), which included the following:

- \$98 million of severance costs related to headcount reductions of approximately 3,900 employees, primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- \$1 million for lease termination costs.
- \$5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.
- The above charges were partially offset by \$71 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2012 pre-tax savings of approximately \$60 million from our 2011 restructuring actions.

To date we have identified and approved additional restructuring initiatives of approximately \$25 million for the first quarter of 2012. These actions are expected to impact all geographies and segments, with approximately equal focus on SAG reductions, gross margin improvements and optimization of RD&E investments.

During the year ended December 31, 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 continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but no longer have any direct or local operations in Venezuela.
- The above charges were partially offset by \$41 million of net reversals for changes in estimated reserves from prior-period initiatives.

Restructuring Summary

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 12 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. The remainder of the acquisition-related costs represents external incremental costs directly related to the integration of ACS and Xerox.

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 a Bridge Loan Facility commitment which was terminated as a result of securing permanent financing to fund the acquisition. The remainder of the costs represent transaction costs such as banking, legal and accounting fees, as well as some pre-integration costs such as external consulting services.

Management's Discussion

Amortization of Intangible Assets

During the year ended December 31, 2011, we recorded \$398 million of expense related to the amortization of intangible assets, which is \$86 million higher than the prior year. \$52 million of the increase reflects the accelerated write-off of the ACS trade name as a result of the decision to discontinue its use and transition the services business to the "Xerox Services" trade name. The remainder of the increase primarily reflects the additional month of amortization of intangibles associated with our acquisition of ACS in 2010, as well as the amortization of intangible assets associated with other prior-year acquisitions.

Curtailement Gain

In December 2011, we amended all of our primary non-union 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.

Worldwide Employment

Worldwide employment of 139,650 at December 31, 2011 increased approximately 3,100 from December 31, 2010, primarily due to the impact of acquisitions, partially offset by restructuring-related actions. Worldwide employment was approximately 136,500 and 53,600 at December 2010 and 2009, respectively.

Other Expenses, Net

(in millions)	Year Ended December 31,		
	2011	2010	2009
Non-financing interest expense	\$ 247	\$ 346	\$ 256
Interest income	(21)	(19)	(21)
Gains on sales of businesses and assets	(9)	(18)	(16)
Currency losses, net	12	11	26
ACS shareholders litigation settlement	—	36	—
Litigation matters	11	(4)	9
Loss on early extinguishment of liability	33	15	—
All other expenses, net	49	22	31
Total Other Expenses, Net	\$ 322	\$ 389	\$ 285

Non-financing Interest Expense: Non-financing interest expense for the year ended December 31, 2011 of \$247 million was \$99 million lower than the prior year. The decreases in interest expense reflect 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 refinancing existing debt and utilizing the commercial paper program.

Non-financing interest expense for the year ended December 31, 2010 of \$346 million was \$90 million higher than the prior year. The increase is 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.

Gains on Sales of Businesses and Assets: Gains on sales of businesses and assets for the three years ended December 31, 2011 were primarily related to 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 to which we do not apply cash flow hedge accounting treatment.

Management's Discussion

The 2011 net currency losses were primarily due to the significant movement in exchange rates during the third quarter of 2011 among the U.S. Dollar, Euro, Yen and several developing market currencies.

The 2010 net currency losses include a currency loss of \$21 million for the re-measurement of our Venezuelan Bolivar denominated monetary net assets following a devaluation of the Bolivar in the first quarter of 2010. 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 our developing markets.

ACS Shareholders' Litigation Settlement: The 2010 expense of \$36 million relates to the settlement of claims by ACS shareholders arising from our acquisition of ACS in 2010. The total settlement for all defendants was approximately \$69 million, with Xerox paying approximately \$36 million net of insurance proceeds.

Litigation Matters: Litigation matters for 2011, 2010 and 2009 represent charges related to probable losses for various legal matters, none of which were individually material. Refer to Note 16 – Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

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.

The 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.

All Other Expenses, Net: All other expenses, net for the year ended December 31, 2011 increased \$27 million driven in part by higher fees associated with the sale of receivables as well as higher interest expense on the Brazil tax and labor contingencies. All Other expenses, net for the year ended December 31, 2010 decreased \$9 million, primarily due to lower interest expense on the Brazil tax and labor contingencies.

Income Taxes

The 2011 effective tax rate was 24.7%, or 27.5% on an adjusted basis⁽³⁾. The adjusted tax rate for the year 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 2010 effective tax rate was 31.4%, or 31.2% on an adjusted basis⁽³⁾. The adjusted tax rate for the year was lower than the U.S. statutory rate, primarily due to the geographical mix of income before taxes and the related 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% on an adjusted basis⁽³⁾. The adjusted tax rate for the year was lower than the U.S. statutory 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.

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 for 2011 includes a benefit of approximately 10 percentage points from these non-U.S. operations. Refer to Note 15 – Income and Other Taxes in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

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 (such as audit settlements) 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 any discrete events.

Management's Discussion

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31,		
	2011	2010	2009
Total equity in net income of unconsolidated affiliates	\$ 149	\$ 78	\$ 41
Fuji Xerox after-tax restructuring costs	19	38	46

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox.

The 2011 increase of \$71 million 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 the strengthening of the Yen and lower restructuring costs.

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.

Net Income

Net income attributable to Xerox for the year ended December 31, 2011 was \$1,295 million, or \$0.90 per diluted share. On an adjusted basis⁽³⁾, net income attributable to Xerox was \$1,563 million, or \$1.08 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 year ended December 31, 2010 was \$606 million, or \$0.43 per diluted share. On an adjusted basis⁽³⁾, net income attributable to Xerox was \$1,296 million, or \$0.94 per diluted share, and included adjustments for the amortization of intangible assets, restructuring and asset impairment charges (including those incurred by Fuji Xerox), acquisition-related costs and other discrete costs and expenses.

Refer to the "Non-GAAP Financial Measures" section for the reconciliation of reported net income to adjusted net income.

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 conditions.

Operations Review of Segment Revenue and 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. Revenues by segment for the three years ended December 31, 2011 were as follows:

(in millions)	Total Revenue	Segment Profit (Loss)	Segment Margin
2011			
Services	\$ 10,837	\$ 1,207	11.1%
Technology	10,259	1,140	11.1%
Other	1,530	(255)	(16.7)%
Total	\$22,626	\$2,092	9.2%
2010			
Services	\$ 9,637	1,132	11.7%
Technology	10,349	1,085	10.5%
Other	1,647	(342)	(20.8)%
Total	\$ 21,633	\$ 1,875	8.7%
2009			
Services	\$ 3,476	\$ 231	6.6%
Technology	10,067	949	9.4%
Other	1,636	(342)	(20.9)%
Total	\$ 15,179	\$ 838	5.5%
2010 Pro-forma⁽¹⁾			
Services	\$ 10,256	\$ 1,166	11.4%
Technology	10,349	1,085	10.5%
Other	1,647	(353)	(21.4)%
Total	\$ 22,252	\$ 1,898	8.5%
2009 Pro-forma⁽¹⁾			
Services	\$ 9,379	\$ 1,008	10.7%
Technology	10,067	949	9.4%
Other	1,636	(447)	(27.3)%
Total	\$ 21,082	\$ 1,510	7.2%

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.

Management's Discussion

Services segment revenues for the three years ended December 31, 2011 were as follows:

(in millions)	Revenue			Change		Pro-forma ⁽¹⁾ Change	
	2011	2010	2009	2011	2010	2011	2010
Business Processing Outsourcing	\$ 6,035	\$5,112	\$ 94	18%	*	8%	8%
Document Outsourcing	3,584	3,297	3,382	9%	(3)%	9%	(3)%
Information Technology Outsourcing	1,326	1,249	—	6%	*	(4)%	—
Less: Intra-segment Elimination	(108)	(21)	—	*	*	*	—
Total Services Revenue	\$10,837	\$9,637	\$3,476	12%	177%	6%	3%

* Percentage not meaningful.

Note: The Services segment is discussed on a pro-forma⁽¹⁾ basis. In 2011, for comparison purposes, we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. In 2010, for comparison purposes, we adjust our historical 2009 results to include ACS's 2009 estimated results for the period from February 6 through December 31, 2009. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Revenue 2011

Services revenue of \$10,837 million increased 12%, or 6% on a pro-forma⁽¹⁾ basis, with no impact from currency.

- BPO revenue had pro-forma⁽¹⁾ revenue growth of 8% and represented 55% of total Services revenue. The growth in BPO was primarily driven by acquisitions over the past two years consistent with our strategy to expand our service offerings through "tuck-in" acquisitions. BPO growth was also driven to a lesser extent by growth in the healthcare payer, human resources services, business process solutions and transportation solutions businesses.
- DO revenue increased 9%, including a 2-percentage point positive impact from currency, and represented 33% of total Services revenue. The increase reflects an improving growth trend from our partner print services offerings as well as new signings.
- ITO revenue on a pro-forma⁽¹⁾ basis decreased 4% and represented 12% of total Services revenue. The decrease in ITO revenue was driven by lower third-party equipment sales as well as the impact of lower contract renewals, partially offset by growth in new commercial business.

Segment Margin 2011

Services segment margin of 11.1% decreased 0.6-percentage points, or 0.3-percentage points on a pro-forma⁽¹⁾ basis, from the prior year, as the gross margin decline, which was driven by the ramping of new services contracts and the impact of lower contract renewals, more than offset the lower costs and expenses from restructuring and synergy savings.

Metrics Pipeline

Our total services sales pipeline at December 31, 2011, including synergy opportunities, grew 5% over the prior year. We have been able to maintain a significant pipeline since the ACS acquisition. 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.

TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Signings were as follows:

(in billions)	Year Ended December 31,	
	2011	2010
BPO	\$ 6.8	\$ 10.0
DO	4.4	3.3
ITO	3.4	1.3
Total Signings	\$14.6	\$ 14.6

Services signings were an estimated \$14.6 billion in TCV for 2011 and were flat as compared to the prior year and were impacted by the cyclical nature of large deals, particularly the California Medicaid signing in 2010. However, signings did trend positively in 2011, increasing sequentially for the last three quarters of the year. Estimated services signings of \$14.6 billion in 2010 increased by 13% as compared to the comparable prior-year period, driven by strong signings in all lines of businesses.

Management's Discussion

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 acquisitions during the year.
- 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 in 2010 on usage levels and renewal rates.
- ITO revenue was flat on a pro-forma⁽¹⁾ basis and represented 13% of total Services revenue.

Segment Margin 2010

Services segment margin of 11.7% increased 5.1-percentage points, or 1.0-percentage points on a pro-forma⁽¹⁾ basis, from 2009, primarily driven by BPO revenue growth and lower G&A expenses.

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)	Year Ended December 31,			Change	
	2011	2010	2009	2011	2010
Equipment sales	\$ 3,277	\$ 3,404	\$ 3,137	(4)%	9%
Annuity revenue	6,982	6,945	6,930	1%	—%
Total Revenue	\$10,259	\$10,349	\$10,067	(1)%	3%

Revenue 2011

Technology revenue of \$10,259 million decreased 1%, including a 2-percentage point positive impact from currency. Total revenues include the following:

- 4% decrease in equipment sales revenue with a 1-percentage point positive impact from currency, primarily driven by a decline in Europe reflecting the economic conditions in the Euro Zone, particularly in the fourth quarter of 2011. In addition, install declines of entry and mono products were only partially offset by install growth in mid-range and high-end color products. Consistent with prior years, price declines were in the range of 5% to 10%. Technology revenue excludes increasing revenues in our DO offerings.
- 1% increase in annuity revenue, including a 2-percentage point positive impact from currency. An increase in supplies revenue was offset by a decline in pages.
- Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2011

Technology segment margin of 11.1% increased 0.6-percentage points from the prior year. 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 2011

Entry

4% decrease in entry black-and-white and color multifunction devices and color printers reflecting:

- 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.

These declines were partially offset by growth in newly launched products such as the WorkCentre® 3045 and WorkCentre® 6015.

Mid-range

- 26% increase in installs of mid-range color devices, driven primarily by demand for new products such as the WorkCentre® 7530/7535, WorkCentre® 7545/7556 and WorkCentre® 7120 and the Xerox Color 550/560. This growth has enabled market share gains in the fastest-growing and most profitable segment of the office color market.
- 2% increase in installs of mid-range black-and-white devices, driven by strong demand for the recently launched WorkCentre® 5325/5330/5335 product, partially offset by declines in Europe.

High-end

- 7% increase in installs of high-end color systems, driven primarily by installs of our market-leading Xerox Color 800 and 1000 and iGen, as well as 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.
- 8% 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 2 – Segment Reporting in the Consolidated Financial Statements.

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 include 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
- Annuity revenue was flat compared to the 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 is 22% entry, 56% mid-range and 22% high-end.

Management's Discussion

Segment Margin 2010

Technology segment margin of 10.5% increased 1.1-percentage points from the 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 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" are defined in Note 2 – Segment Reporting in the Consolidated Financial Statements.

Other

Revenue 2011

Other segment revenue of \$1,530 million decreased 7%, including a 2-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 revenue from patent sales and licensing as noted below. Paper comprised approximately 59% of the 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 the 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 Loss 2011

Other segment loss of \$255 million improved \$87 million from the prior year, primarily driven by lower non-financing interest expense and SAG expense.

Revenue 2010

Other segment 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 2010 Other segment revenue.

Segment Loss 2010

Other segment loss of \$342 million was flat from the prior year, 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.

⁽¹⁾ Results are discussed primarily on a pro-forma basis and include ACS's estimated results from January 1 through February 5 in 2010 and ACS's estimated results from February 6 through December 31 in 2009. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.

⁽²⁾ Color revenues and pages represent revenues and pages from color-enabled devices and is a subset of total revenues and excludes Global Imaging Systems, Inc. ("GIS").

⁽³⁾ See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Capital Resources and Liquidity

Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access the financial capital markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

- As of December 31, 2011 and 2010, total cash and cash equivalents were \$902 million and \$1.2 billion, respectively, borrowings under our Commercial Paper Programs were \$100 million and \$300 million, respectively, and there were no outstanding borrowings or letters of credit under our \$2 billion Credit Facility for either year-end. The decrease in our cash balance was largely due to the use of a portion of our cash balance to fund share repurchases in 2011.
- Our Commercial Paper program was established in 2010 as a means to reduce our cost of capital and to provide us with an additional liquidity vehicle in the market. Aggregate Commercial Paper and Credit Facility borrowings may not exceed the borrowing capacity under our Credit Facility at any time.
- 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 \$1,961 million, \$2,726 million and \$2,208 million for the three years ended December 31, 2011, respectively. We expect cash flows from operations of between \$2.0 and \$2.3 billion for 2012.

Management's Discussion

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2011, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31,			Change	
	2011	2010	2009	2011	2010
Net cash provided by operating activities	\$ 1,961	\$ 2,726	\$2,208	\$ (765)	\$ 518
Net cash used in investing activities	(675)	(2,178)	(343)	1,503	(1,835)
Net cash (used in) provided by financing activities	(1,586)	(3,116)	692	1,530	(3,808)
Effect of exchange rate changes on cash and cash equivalents	(9)	(20)	13	11	(33)
(Decrease) increase in cash and cash equivalents	(309)	(2,588)	2,570	2,279	(5,158)
Cash and cash equivalents at beginning of year	1,211	3,799	1,229	(2,588)	2,570
Cash and Cash Equivalents at End of Year	\$ 902	\$ 1,211	\$3,799	\$ (309)	\$ (2,588)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$1,961 million for the year ended December 31, 2011. The \$765 million decrease in cash from 2010 was primarily due to the following:

- \$533 million decrease due to lower benefit from changes in accounts payable and accrued compensation, primarily related to the timing of payments as well as lower spending.
- \$189 million decrease due to higher contributions to our defined benefit pension plans.
- \$101 million decrease as a result of up-front costs and other customer-related spending associated primarily with new services contracts.
- \$65 million decrease from higher net income tax payments, primarily due to refunds in the prior year.
- \$49 million decrease due to higher finance receivables of \$39 million and equipment on operating leases of \$10 million, both reflective of increased equipment placements.
- \$46 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 a lower benefit from accounts receivable sales, partially offset by improved collections.
- \$290 million increase in pre-tax income before depreciation and amortization, litigation, restructuring, curtailment and the Venezuelan currency devaluation.
- \$113 million increase due to the absence of cash outflows from acquisition-related expenditures.

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.

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 costs. 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.

Management's Discussion

Cash Flows from Investing Activities

Net cash used in investing activities was \$675 million for the year ended December 31, 2011. The \$1,503 million decrease in the use of cash from 2010 was primarily due to the following:

- \$1,522 million decrease in acquisitions. 2011 acquisitions include Unamic/HCN for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and 10 smaller acquisitions for an aggregate of \$46 million, as well as a net cash receipt of \$35 million for Symcor. 2010 acquisitions include ACS for \$1,495 million, ExcellerateHRO, LLP ("EHRO") for \$125 million, TMS Health, LLC ("TMS") for \$48 million, Irish Business Systems Limited ("IBS") for \$29 million, Georgia Duplicating Products for \$21 million and Spur Information Solutions for \$12 million.
- \$24 million increase due to lower cash proceeds from asset sales.

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 for \$48 million, IBS for \$29 million, Georgia Duplicating Products for \$21 million and Spur Information Solutions 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.

Cash Flows from Financing Activities

Net cash used in financing activities was \$1,586 million for the year ended December 31, 2011. The \$1,530 million decrease in the use of cash from 2010 was primarily due to the following:

- \$3,105 million decrease from net debt activity. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and net payments of \$200 million of Commercial Paper and \$1 million other debt. 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 \$109 million of 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.
- \$701 million increase resulting from the resumption of our share repurchase program.
- \$670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with its redemption of preferred securities.
- \$139 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- \$26 million increase reflecting a full year of dividend payments on shares issued in connection with the acquisition of ACS in 2010.
- \$12 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

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 \$109 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 of 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, net payments of \$57 million for secured debt 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 additional 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.

Financing Activities, Credit Facility and Capital Markets

Customer Financing Activities

We provide lease equipment financing to 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 with our small and midsize customers, 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.

Management's Discussion

The following represents our Total finance assets, net associated with our lease and finance operations:

(in millions)	December 31,	
	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 Consolidated Balance Sheets.

The decrease of \$255 million in Total finance assets, net includes unfavorable currency of \$63 million, and reflects the decrease in equipment sales over the past several years prior to 2011 as well as equipment sales growth in regions or operations where we do not have direct leasing.

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, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the breakdown of our total debt at December 31, 2011 and 2010 between financing debt and core debt:

(in millions)	December 31,	
	2011	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 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 total debt at December 31, 2011 and 2010:

(in millions)	December 31,	
	2011	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. The 2011 balance also includes \$650 million in debt resulting from the refinancing 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 ongoing 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)	Year Ended December 31,		
	2011	2010	2009
Accounts receivable sales	\$3,218	\$2,374	\$1,566
Deferred proceeds	386	307	—
Fees associated with sales	20	15	13
Estimated increase to operating cash flows ⁽¹⁾	133	106	309

⁽¹⁾ Represents the difference between current- and prior-year fourth-quarter 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.

Credit Facility and Capital Market Activity

In 2011, we refinanced our \$2.0 billion unsecured revolving Credit Facility that was executed in 2007 (the "2007 Credit Facility"). This new \$2.0 billion Credit Facility is a five-year commitment maturing in 2016 with a group of lenders, most of whom were lenders under the prior facility.

In May 2011, we issued \$300 million 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"). Proceeds from the offering were used to redeem the \$650 million Trust I 8% Preferred Securities mentioned below and for general corporate purposes.

Management's Discussion

In May 2011, Xerox Capital Trust I ("Trust I"), our wholly owned subsidiary, redeemed its 8% Preferred Securities due in 2027 of \$650 million. The redemption resulted in a pre-tax loss on extinguishment of debt of \$33 million (\$20 million after-tax), representing the call premium of approximately \$10 million and the write-off of unamortized debt costs and other liability carrying value adjustments of approximately \$23 million.

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding 2011 debt activity.

In February 2012, we completed an exchange of our 5.71% Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of \$303 million, for approximately \$363 million of our 4.50% Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.5% Senior notes due 2021 from \$700 million to \$1,063 million. The exchange was conducted to retire high-interest long-dated debt in a favorable interest rate environment.

Refer to Note 21 – Subsequent Events in the Consolidated Financial Statements for additional information regarding this debt exchange.

Financial Instruments

Refer to Note 12 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs – Treasury Stock

In July 2011, we resumed our share repurchase program previously authorized by our Board of Directors. During 2011, we repurchased 87.9 million shares for an aggregate cost of \$701 million, including fees. Through February 21, 2012, we repurchased an additional 6.1 million shares at an aggregate cost of \$50 million, including fees, for a cumulative program total of 288.1 million shares at a cost of \$3.7 billion, including fees. In January 2012, the Board of Directors authorized an additional \$500 million in share repurchase, bringing the total remaining authorization for share repurchases to \$1.3 billion as of February 21, 2012.

Refer to Note 18 – 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 \$241 million and \$243 million on common stock in 2011 and 2010, respectively. The decrease in 2011 is primarily due to a lower level of outstanding shares in 2011 as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of \$24 million and \$21 million on the Series A Convertible Preferred Stock in 2011 and 2010, respectively. The preferred shares were issued in connection with the acquisition of ACS. The slight increase in dividends is due to the shares being outstanding for a full year in 2011 as compared to 11 months in 2010.

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 principal debt maturities are in line with historical and projected cash flows and are spread over the next 10 years as follows (in millions):

Year	Amount
2012	\$1,545
2013	425
2014	1,078
2015	1,252
2016	951
2017	501
2018	1,001
2019	650
2020	—
2021 and thereafter	1,047
Total	\$8,450

2012 maturities include \$100 million of Commercial Paper and \$301 million for the 5.71% Zero Coupon Notes due 2023. In February 2012, we completed an exchange of the 5.71% Zero Coupon Notes due 2023 for approximately \$363 million of our 4.50% Senior Notes due 2021.

Foreign Cash

At December 31, 2011, we had \$902 million of cash and cash equivalents on a consolidated basis. Of that amount, approximately \$280 million was held outside the U.S. by our foreign subsidiaries and is needed to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries were needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings.

Management's Discussion

However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 15 – Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely

reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

At December 31, 2011, 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, 2011, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2012	2013	2014	2015	2016	Thereafter
Total debt, including capital lease obligations ⁽¹⁾	\$ 1,541	\$ 425	\$ 1,078	\$ 1,252	\$ 951	\$ 3,202
Minimum operating lease commitments ⁽²⁾	637	503	296	168	83	103
Defined benefit pension plans	560	—	—	—	—	—
Retiree health payments	80	83	82	81	80	372
Estimated Purchase Commitments:						
Flextronics ⁽³⁾	599	—	—	—	—	—
Fuji Xerox ⁽⁴⁾	2,180	—	—	—	—	—
IM service contracts ⁽⁵⁾	180	141	95	45	12	—
Other ⁽⁶⁾	22	5	2	—	—	—
Total	\$ 5,799	\$ 1,157	\$ 1,553	\$ 1,546	\$ 1,126	\$ 3,677

⁽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 \$100 million of Commercial Paper at December 31, 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⁾ Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. Actual purchases from Flextronics were approximately \$600 million in 2011 and 2010.

⁽⁴⁾ Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.

⁽⁵⁾ We have an information management contract with HP Enterprise Services ("HPES") which runs through 2014. Services provided under this contract include support for our European mainframe system processing, as well as workplace, service desk and voice and data network management. We can terminate this contract for convenience without paying a termination fee by providing 60 days prior notice. We also have several agreements for similar services with other third-party providers. These contracts have various terms through 2016 and include desktop services, voice and data network-related services, mainframe application, development and support and mid-range applications processing and support.

⁽⁶⁾ 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.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2011 cash contributions for these plans were \$426 million for our defined benefit pension plans and \$73 million for our retiree health plans. We also elected to make a contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2011. Accordingly, total contributions to our defined benefit pension plans were \$556 million in 2011.

In 2012, based on current actuarial calculations, we expect to make contributions of approximately \$560 million to our worldwide defined benefit pension plans and approximately \$80 million to our retiree health benefit plans. As in 2011, contributions to our defined benefit pension plans may include shares of our common stock in lieu of cash, depending on our cash requirements during the year. Despite favorable returns on our defined benefit pension plan assets, contributions in 2012 are expected to be level with 2011, primarily due to a significant decrease in the discount rate. 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 2012.

Management's Discussion

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 \$2.2 billion, \$2.1 billion and \$1.6 billion in 2011, 2010 and 2009, 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, 2011, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,120 million, with the decrease from December 31, 2010 balance of approximately \$1,274 million, primarily related to currency and adjustments from closed cases partially offset by interest and new cases. With respect to the unreserved balance of \$1,120 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, 2011 we had \$240 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$16 million and additional letters of credit of approximately \$237 million, 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.

Other Contingencies and Commitments

As more fully discussed in Note 16 – Contingencies and Litigation 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 non-consolidated 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, 2011, we had \$225 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 (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations"), 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 primarily in the U.S., Canada and several countries in Europe that enable us to sell to third parties, on an ongoing basis, certain accounts receivable without recourse. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.

See the table above for the Company's contractual cash obligations and other commercial commitments and Note 16 – Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

Management's Discussion

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 12 – 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, 2011, 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, 2011. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2011 would have an impact on our cumulative translation adjustment portion of equity of approximately \$740 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox Brasil, and translated into U.S. Dollars using the year-end exchange rates, was approximately \$7.4 billion at December 31, 2011.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2011, 2010 and 2009 approximated 5.2%, 5.8%, and 6.1%, 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, 2011, \$302 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, 2011, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$160 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). In addition, 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 and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following tables.

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 were limited to the amortization of intangible assets and the loss on early extinguishment of liability.

- Net income and Earnings per share ("EPS"),
- Effective tax rate, and
- Pre-tax income(loss) margin.

The above have been adjusted for the following items:

- **Amortization of intangible assets (all periods):** 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.
- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 and 2009 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.

Management's Discussion

- **Acquisition-related costs (2010 and 2009 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.
- **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 the item on our results of operations for the period: 1) Loss on early extinguishment of liability (2011 and 2010), 2) Medicare subsidy tax law change (income tax effect only)(2010), 3) ACS shareholders' litigation settlement (2010) and 4) Venezuela devaluation (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, the calculation of operating income and margin also excludes other expenses, net which is primarily composed of non-financing interest expense, as well a curtailment gain in 2011.

Pro-forma Basis

To better understand the trends in our business, we discuss our 2011 and 2010 operating results by comparing them against adjusted prior-period results which include ACS historical results for the comparable period. We acquired ACS on February 5, 2010 and ACS's results subsequent to that date are included in our reported results. Accordingly, for the comparison of our reported 2011 results to 2010, we included ACS's 2010 estimated results for the period January 1 through February 5, 2010 in our reported 2010 results (pro-forma 2010). For the comparison of our reported 2010 results to 2009, we included ACS's 2009 estimated results for the period February 6 through December 31 in our reported 2009 results (pro-forma 2009). We refer to these comparisons against adjusted results as "pro-forma" basis comparisons. ACS's historical results for these periods 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 a more 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 percentage 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.

Net Income and EPS Reconciliation:

	Year Ended December 31,			
	2011 ⁽¹⁾		2010	
(in millions; except per share amounts)	Net Income	EPS	Net Income	EPS
As 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
Adjusted	\$ 1,563	\$ 1.08	\$ 1,296	\$ 0.94
Weighted average shares for adjusted EPS ⁽²⁾	1,444		1,378	

⁽¹⁾ For 2011, we only adjusted for Amortization of intangible assets and the Loss on early extinguishment of liability.

⁽²⁾ Average shares for the calculation of adjusted EPS for 2011 were 1,444 million and include 27 million of shares associated with the Series A convertible preferred stock and therefore the related 2011 annual dividend of \$24 million is excluded. Year 2010 shares of 1,378 million also include pro-rated portion of the 27 million shares associated with the Series A convertible preferred stock and therefore the 2010 annual 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.

Management's Discussion

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2011 ⁽¹⁾			Year Ended December 31, 2010		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
As 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 early extinguishment of liability.

Operating Income/Margin Reconciliation:

(in millions)	2011	As Reported			Pro-forma	
		2010	2009	2010	2009	
Total Revenue	\$22,626	\$21,633	\$15,179	\$22,252	\$21,082	
Pre-tax Income	1,565	815	627	777	1,267	
Adjustments:						
Amortization of intangible assets	398	312	60	339	60	
Xerox restructuring charge	33	483	(8)	483	(8)	
Curtailment gain	(107)	—	—	—	—	
ACS acquisition-related costs	—	77	72	77	104	
Other expenses, net	322	389	285	444	382	
Adjusted Operating Income	\$ 2,211	\$ 2,076	\$ 1,036	\$ 2,120	\$ 1,805	
Pre-tax Income Margin	6.9%	3.8%	4.1%	3.5%	6.0%	
Adjusted Operating Margin	9.8%	9.6%	6.8%	9.5%	8.6%	

⁽¹⁾ Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 6 in our reported 2010 results. Pro-forma 2009 includes ACS's 2009 estimated results from February 6 through December 31 in our reported 2009 results. ACS's estimated results were 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.

Management's Discussion

Pro-forma:

Year Ended December 31,

(in millions)	As Reported		Pro-forma ⁽¹⁾		As Reported Change		Pro-forma Change		
	2011	2010	2009	2010	2009	2011	2010	2011	2010 ⁽²⁾
Total Xerox Revenue:									
Equipment sales	\$ 3,856	\$ 3,857	\$ 3,550	\$ 3,857	\$ 3,550	—%	9%	—%	9%
Supplies, paper and other	3,270	3,377	3,096	3,402	3,234	(3)%	9%	(4)%	4%
Sales	7,126	7,234	6,646	7,259	6,784	(1)%	9%	(2)%	7%
Service, outsourcing and rentals	14,868	13,739	7,820	14,333	13,585	8%	76%	4%	1%
Finance income	632	660	713	660	713	(4)%	(7)%	(4)%	(7)%
Total Revenues	\$22,626	\$21,633	\$15,179	\$22,252	\$21,082	5%	43%	2%	3%
Service, outsourcing and rentals	\$14,868	\$13,739	\$ 7,820	\$14,333	\$13,585	8%	76%	4%	1%
Add: Finance income	632	660	713	660	713				
Add: Supplies, paper and other sales	3,270	3,377	3,096	3,402	3,234				
Annuity Revenue	\$18,770	\$17,776	\$11,629	\$18,395	\$17,532	6%	53%	2%	1%
Gross Profit:									
Sales	\$ 2,429	\$ 2,493	\$ 2,251	\$ 2,494	\$ 2,269				
Service, outsourcing and rentals	4,599	4,544	3,332	4,646	4,585				
Finance income	401	414	442	414	442				
Total	\$ 7,429	\$ 7,451	\$ 6,025	\$ 7,554	\$ 7,296				
Gross Margin:									
Sales	34.1%	34.5%	33.9%	34.4%	33.4%	(0.4) pts	0.6 pts	(0.3) pts	1.1 pts
Service, outsourcing and rentals	30.9%	33.1%	42.6%	32.4%	33.8%	(2.2) pts	(9.5) pts	(1.5) pts	(0.7) pts
Finance income	63.4%	62.7%	62.0%	62.7%	62.0%	0.7 pts	0.7 pts	0.7 pts	0.7 pts
Total	32.8%	34.4%	39.7%	33.9%	34.6%	(1.6) pts	(5.3) pts	(1.1) pts	(0.2) pts
RD&E	\$ 721	\$ 781	\$ 840	\$ 781	\$ 840				
RD&E % Revenue	3.2%	3.6%	5.5%	3.5%	4.0%	(0.4) pts	(1.9) pts	(0.3) pts	(0.4) pts
SAG	\$ 4,497	\$ 4,594	\$ 4,149	\$ 4,653	\$ 4,651				
SAG % Revenue	19.9%	21.2%	27.3%	20.9%	22.1%	(1.3) pts	(6.1) pts	(1.0) pts	(0.9) pts
Adjusted Operating Profit	\$ 2,211	\$ 2,076	\$ 1,036	\$ 2,120	\$ 1,805				
Adjusting Operating Margin	9.8%	9.6%	6.8%	9.5%	8.6%	0.2 pts	2.8 pts	0.3 pts	1.0 pts
Services Segment									
Document Outsourcing	\$ 3,584	\$ 3,297	\$ 3,382	\$ 3,297	\$ 3,382	9%	(3)%	9%	(3)%
Business Processing Outsourcing ⁽²⁾	6,035	5,112	94	5,603	4,751	18%	*	8%	8%
Information Technology Outsourcing	1,326	1,249	—	1,377	1,246	6%	*	(4)%	—%
Less: Intra-segment Eliminations	(108)	(21)	—	(21)	—	*	*	*	*
Total Revenue – Services	\$10,837	\$ 9,637	\$ 3,476	\$10,256	\$ 9,379	12%	177%	6%	3%
Segment Profit – Services	\$ 1,207	\$ 1,132	\$ 231	\$ 1,166	\$ 1,008	7%	390%	4%	12%
Segment Margin – Services	11.1%	11.7%	6.6%	11.4%	10.7%	(0.6) pts	5.1 pts	(0.3) pts	1.0 pts

* Percentage change not meaningful.

⁽¹⁾ 2010 pro-forma includes ACS's 2010 estimated results from January 1 through February 5, 2010 in our reported 2010 results. 2009 pro-forma includes ACS's 2009 estimated results from February 6 through December 31, 2009 in our reported 2009 results. The ACS results were 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 changes for Xerox excluding ACS results for gross margin, RD&E and SAG were (0.2) pts, (0.5) pts and (0.8) pts, respectively, which were comparable to the pro-forma changes noted.

Management's Discussion

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 2011 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,		
	2011	2010	2009
Revenues			
Sales	\$ 7,126	\$ 7,234	\$ 6,646
Service, outsourcing and rentals	14,868	13,739	7,820
Finance income	632	660	713
Total Revenues	22,626	21,633	15,179
Costs and Expenses			
Cost of sales	4,697	4,741	4,395
Cost of service, outsourcing and rentals	10,269	9,195	4,488
Equipment financing interest	231	246	271
Research, development and engineering expenses	721	781	840
Selling, administrative and general expenses	4,497	4,594	4,149
Restructuring and asset impairment charges	33	483	(8)
Acquisition-related costs	—	77	72
Amortization of intangible assets	398	312	60
Curtailment gain	(107)	—	—
Other expenses, net	322	389	285
Total Costs and Expenses	21,061	20,818	14,552
Income before Income Taxes and Equity Income	1,565	815	627
Income tax expense	386	256	152
Equity in net income of unconsolidated affiliates	149	78	41
Net Income	1,328	637	516
Less: Net income attributable to noncontrolling interests	33	31	31
Net Income Attributable to Xerox	\$ 1,295	\$ 606	\$ 485
Basic Earnings per Share	\$ 0.92	\$ 0.44	\$ 0.56
Diluted Earnings per Share	\$ 0.90	\$ 0.43	\$ 0.55

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Statements of Comprehensive Income

(in millions)	Year Ended December 31,		
	2011	2010	2009
Net Income	\$1,328	\$ 637	\$ 516
Less: Net income attributable to noncontrolling interests	33	31	31
Net Income Attributable to Xerox	\$1,295	\$ 606	\$ 485
Other Comprehensive (Loss) Income⁽¹⁾:			
Translation adjustments, net	\$ (105)	\$ (35)	\$ 596
Unrealized gains (losses), net	12	12	2
Changes in defined benefit plans, net	(636)	23	(169)
Other Comprehensive (Loss) Income, Net	(729)	—	429
Less: Other comprehensive income attributable to noncontrolling interests	(1)	—	1
Other Comprehensive (Loss) Income Attributable to Xerox	\$ (728)	\$ —	\$ 428
Comprehensive Income, Net	\$ 599	\$ 637	\$ 945
Less: Comprehensive income attributable to noncontrolling interests	32	31	32
Comprehensive Income Attributable to Xerox	\$ 567	\$ 606	\$ 913

⁽¹⁾ Refer to Note 19 – Comprehensive Income for gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and related tax effects.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Balance Sheets

	December 31,	
	2011	2010
(in millions, except share data in thousands)		
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

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in millions)	2011	2010	2009
Cash Flows from Operating Activities:			
Net income	\$ 1,328	\$ 637	\$ 516
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,251	1,097	698
Provision for receivables	154	180	289
Provision for inventory	39	31	52
Deferred tax expense (benefit)	203	(2)	120
Net gain on sales of businesses and assets	(9)	(18)	(16)
Undistributed equity in net income of unconsolidated affiliates	(86)	(37)	(25)
Stock-based compensation	123	123	85
Restructuring and asset impairment charges	33	483	(8)
Curtailed gain	(107)	—	—
Payments for restructurings	(218)	(213)	(270)
Contributions to defined benefit pension plans	(426)	(237)	(122)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(296)	(118)	467
Collections of deferred proceeds from sales of receivables	380	218	—
(Increase) decrease in inventories	(124)	(151)	319
Increase in equipment on operating leases	(298)	(288)	(267)
Decrease in finance receivables	90	129	248
(Increase) decrease in other current and long-term assets	(249)	(98)	129
Increase in accounts payable and accrued compensation	82	615	157
Decrease in other current and long-term liabilities	(22)	(9)	(128)
Net change in income tax assets and liabilities	89	229	(18)
Net change in derivative assets and liabilities	39	85	(56)
Other operating, net	(15)	70	38
Net cash provided by operating activities	1,961	2,726	2,208
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(338)	(355)	(95)
Proceeds from sales of land, buildings and equipment	28	52	17
Cost of additions to internal use software	(163)	(164)	(98)
Acquisitions, net of cash acquired	(212)	(1,734)	(163)
Net change in escrow and other restricted investments	(10)	20	(6)
Other investing, net	20	3	2
Net cash used in investing activities	(675)	(2,178)	(343)
Cash Flows from Financing Activities:			
Net proceeds (payments) on debt	49	(3,056)	866
Payment of liability to subsidiary trust issuing preferred securities	(670)	—	—
Common stock dividends	(241)	(215)	(149)
Preferred stock dividends	(24)	(15)	—
Proceeds from issuances of common stock	44	183	1
Excess tax benefits from stock-based compensation	6	24	—
Payments to acquire treasury stock, including fees	(701)	—	—
Repurchases related to stock-based compensation	(27)	(15)	(12)
Distributions to noncontrolling interests	(22)	(22)	(14)
Net cash (used in) provided by financing activities	(1,586)	(3,116)	692
Effect of exchange rate changes on cash and cash equivalents	(9)	(20)	13
(Decrease) increase in cash and cash equivalents	(309)	(2,588)	2,570
Cash and cash equivalents at beginning of year	1,211	3,799	1,229
Cash and Cash Equivalents at End of Year	\$ 902	\$ 1,211	\$ 3,799

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Statements of Shareholders' Equity

(in millions)	Common Stock ⁽¹⁾	Additional Paid-In Capital	Treasury Stock ⁽¹⁾	Retained Earnings	AOCL ⁽⁶⁾	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2008	\$ 866	\$ 2,447	\$ —	\$ 5,341	\$(2,416)	\$ 6,238	\$ 120	\$ 6,358
Comprehensive income	—	—	—	485	428	913	32	945
Cash dividends declared-common stock ⁽²⁾	—	—	—	(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
Comprehensive income	—	—	—	606	—	606	31	637
ACS Acquisition ⁽⁴⁾	490	3,825	—	—	—	4,315	—	4,315
Cash dividends declared-common stock ⁽²⁾	—	—	—	(243)	—	(243)	—	(243)
Cash dividends declared-preferred stock ⁽³⁾	—	—	—	(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
Comprehensive income	—	—	—	1,295	(728)	567	32	599
Cash dividends declared-common stock ⁽²⁾	—	—	—	(241)	—	(241)	—	(241)
Cash dividends declared-preferred stock ⁽³⁾	—	—	—	(24)	—	(24)	—	(24)
Contribution of common stock to U.S. pension plan ⁽⁵⁾	17	113	—	—	—	130	—	130
Stock option and incentive plans	11	129	—	—	—	140	—	140
Tax loss on stock option and incentive plans, net	—	(1)	—	—	—	(1)	—	(1)
Payments to acquire treasury stock, including fees	—	—	(701)	—	—	(701)	—	(701)
Cancellation of treasury stock	(73)	(504)	577	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(37)	(37)
Other	—	—	—	—	—	—	1	1
Balance at December 31, 2011	\$1,353	\$6,317	\$(124)	\$7,046	\$(2,716)	\$11,876	\$ 149	\$12,025

⁽¹⁾ Refer to Note 18 – Shareholders' Equity for rollforward of related shares.

⁽²⁾ Cash dividends declared on common stock of \$0.0425 in each of the four quarters in 2011, 2010 and 2009.

⁽³⁾ Cash dividends declared on preferred stock of \$12.22 per share in the first quarter of 2010 and \$20 per share in each quarter thereafter in 2010 and 2011.

⁽⁴⁾ Refer to Note 3 – Acquisitions for additional information.

⁽⁵⁾ Refer to Note 14 – Employee Benefit Plans for additional information regarding pension plan contributions.

⁽⁶⁾ Refer to Note 19 – Comprehensive Income for components.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 \$22.6 billion global enterprise for business process and document management. We offer business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, human resource 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.

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 before Income Taxes and Equity Income” as “pre-tax income” throughout the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements 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, 2011:

Expense/(Income)	Year Ended December 31,		
	2011	2010	2009
Provision for restructuring and asset impairments	\$ 33	\$ 483	\$ (8)
Provisions for receivables ⁽¹⁾	154	180	289
Provisions for litigation and regulatory matters	11	(4)	9
Provisions for obsolete and excess inventory	39	31	52
Provision for product warranty liability	30	33	34
Depreciation and obsolescence of equipment on operating leases	294	313	329
Depreciation of buildings and equipment	405	379	247
Amortization of internal use software	91	70	53
Amortization of product software	11	7	5
Amortization of acquired intangible assets ⁽²⁾	401	316	64
Amortization of customer contract costs	49	12	—
Defined pension benefits – net periodic benefit cost ⁽³⁾	177	304	232
Other post-retirement benefits – net periodic benefit cost	14	32	26
Income tax expense ⁽⁴⁾	386	256	152

⁽¹⁾ Includes net receivable adjustments of \$(3), \$(8) and \$(2) for 2011, 2010 and 2009, respectively.

⁽²⁾ Includes amortization of approximately \$3 for patents, which is included in cost of sales for each period presented.

⁽³⁾ 2011 includes \$107 pre-tax curtailment gain – refer to Note 14 – Employee Benefit Plans for additional information.

⁽⁴⁾ Includes impacts from changes in unrecognized tax benefits and deferred tax valuation allowances.

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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

New Accounting Standards and Accounting Changes

Goodwill:

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 a potential exposure exists, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We adopted ASU 2011-08 in connection with our annual impairment test performed in the fourth quarter of 2011. The adoption of this update did not have a material effect on our financial condition or results of operations.

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 Shareholders' 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. In December 2011, the FASB issued ASU 2011-12, which deferred the effective date of guidance pertaining to the reporting of reclassification adjustments out of accumulated other comprehensive income in ASU 2011-05. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05. We adopted ASU 2011-05 effective for our fiscal year ending December 31, 2011 and have retrospectively applied the new presentation of comprehensive income to prior periods presented. We elected to present comprehensive income in two separate but consecutive statements. Note 19 – Comprehensive Income provides details regarding the gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and the related tax effects. Other than the change in presentation and disclosure, the update did not have an impact on our financial condition or results of operations.

Receivables:

In April 2011, the FASB issued ASU 2011-02, to provide additional guidance on a creditor's determination of whether a restructuring qualifies as a troubled debt restructuring. This 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 only occur on a limited basis and typically do not have a material impact.

Fair Value Accounting:

In May 2011, the FASB issued ASU 2011-04, which amended Fair Value Measurements and Disclosures – Overall (ASC Topic 820-10) 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. Early adoption is not permitted. We do not expect this update to have a material effect on our financial condition or results of operations.

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 rollforward of Level 3 measurements and added a new requirement to disclose transfers in and out of Level 1 and 2 measurements. The update also clarified the 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 was effective for our fiscal year beginning January 1, 2011. The principal impact from this update was expanded disclosures regarding our fair value measurements.

Other Accounting Changes:

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the Balance Sheet and instruments and transactions subject to an agreement similar to a master netting arrangement to enable users of its financial statements to understand the effects of offsetting and related arrangements on its financial position. This update is effective for our fiscal year beginning January 1, 2013 and must be applied retrospectively. The principle impact from this update will be to expand disclosures regarding our financial instruments. We currently report our derivative assets and liabilities on a gross basis in the Balance Sheet even in those instances where offsetting may be allowed under a master netting agreement.

In 2009, the FASB issued 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Except for the ASUs discussed above, the remaining ASUs issued by the FASB during the year 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-materials 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. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period. We also 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 were \$294 and \$134 at December 31, 2011 and 2010, respectively, and are amortized over a weighted average period of approximately eight years. Amortization expense associated with customer-related contract costs at December 31, 2011 is expected to be approximately \$80 in 2012.

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 2011 and 2010, we recognized approximately \$320 and \$270, respectively, 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 initiation of the ongoing services through the end of the contract term.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology 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 contract 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 equipment sales 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.

We consider the economic life of most of our products to be 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. Residual values, if any, are established at lease inception using estimates of fair value at the end of the lease term.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

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. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependent on fiscal funding outside of a governmental unit's control, 2) those that can be canceled 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 and that they are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancellable and account for the lease as an operating lease.

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."

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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.
- Outright 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.

If these criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being recognized ratably over the contract term or being deferred until the earlier of when such criteria are met or when the last undelivered element is delivered.

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. When VSOE cannot be established, we attempt to establish the selling price of each deliverable based on third-party evidence (“TPE”). TPE is determined based on competitor prices for similar deliverables when sold separately. In substantially all our multiple-element arrangements we allocate revenue 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. 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 objective of using an 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 16 – Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. In addition, as more fully discussed in Note 4 – Receivables, Net, we continue to service the receivables sold under most of our accounts receivable sale agreements. As servicer, we may collect cash related to sold receivables prior to month-end that will be remitted to the purchaser the following month. Since we are acting on behalf of the purchaser in our capacity as servicer, such cash collected is reported as restricted cash. 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 were as follows:

	December 31,	
	2011	2010
Tax and labor litigation deposits in Brazil	\$240	\$276
Escrow and cash collections related to receivable sales	88	88
Other restricted cash	15	7
Total Restricted Cash and Investments	\$343	\$371

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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 10 years. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

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 10 years. Amounts expended for Product Software are included in Cash Flows from Operations.

	Year Ended December 31,		
	2011	2010	2009
Additions to:			
Internal use software	\$163	\$164	\$98
Product software	108	70	1
		December 31,	
		2011	2010
Capitalized costs, net:			
Internal use software		\$545	\$468
Product software		256	145

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a “component”) if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

As noted previously, in the fourth quarter of 2011, we early-adopted 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. As a result, in performing our annual impairment test, we 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, including allocated goodwill. If it is concluded that this is the case for one or more reporting units, we would then perform a detailed quantitative assessment. In 2011, after completing our annual qualitative reviews for each of our reporting units, we concluded that it was not more likely than not that the carrying value of any of our reporting units exceeded its fair value and, therefore, further quantitative analysis was not required.

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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Research, Development and Engineering (“RD&E”)

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to ongoing product improvements or environmental compliance after initial product launch. Our RD&E expense was as follows:

	Year Ended December 31,		
	2011	2010	2009
R&D	\$ 613	\$ 653	\$ 713
Sustaining engineering	108	128	127
Total RD&E Expense	\$ 721	\$ 781	\$ 840

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 on 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 14 – 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 from prior years. This 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. In plans where substantially all participants are inactive, the amortization period for net actuarial gains and losses is the average remaining life expectancy of the plan participants.

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 \$12, \$11 and \$26 in 2011, 2010 and 2009, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income.

Note 2 – 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 midsize 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) (“DO”)
- Business Process Outsourcing (“BPO”)
- Information Technology Outsourcing (“ITO”).

Selected financial information for our Operating segments was as follows:

	Years Ended December 31,			Total
	Services	Technology	Other	
2011⁽¹⁾				
Revenue	\$10,754	\$ 9,722	\$ 1,518	\$21,994
Finance income	83	537	12	632
Total Segment Revenue	\$10,837	\$10,259	\$ 1,530	\$22,626
Interest expense	25	202	251	478
Segment profit (loss) ⁽²⁾	1,207	1,140	(255)	2,092
Equity in net income of unconsolidated affiliates	31	118	—	149
2010⁽¹⁾				
Revenue	\$ 9,548	\$ 9,790	\$ 1,635	\$20,973
Finance income	89	559	12	660
Total Segment Revenue	\$ 9,637	\$10,349	\$ 1,647	\$21,633
Interest expense	\$ 28	\$ 212	\$ 352	\$ 592
Segment profit (loss) ⁽²⁾	1,132	1,085	(342)	1,875
Equity in net income of unconsolidated affiliates	16	62	—	78
2009⁽¹⁾				
Revenue	\$ 3,373	\$ 9,470	\$ 1,623	\$14,466
Finance income	103	597	13	713
Total Segment Revenue	\$ 3,476	\$10,067	\$ 1,636	\$15,179
Interest expense	\$ 36	\$ 229	\$ 262	\$ 527
Segment profit (loss) ⁽²⁾	231	949	(342)	838
Equity in net income of unconsolidated affiliates	8	33	—	41

⁽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, is 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following is a reconciliation of segment profit to pre-tax income:

Segment Profit Reconciliation to Pre-tax Income	Year Ended December 31,		
	2011	2010	2009
Total Segment Profit	\$2,092	\$1,875	\$ 838
Reconciling items:			
Restructuring and asset impairment charges	(33)	(483)	8
Restructuring charges of Fuji Xerox	(19)	(38)	(46)
Acquisition-related costs	—	(77)	(72)
Amortization of intangible assets	(398)	(312)	(60)
Venezuelan devaluation costs	—	(21)	—
ACS shareholders' litigation settlement	—	(36)	—
Loss on early extinguishment of liability and debt	(33)	(15)	—
Equity in net income of unconsolidated affiliates	(149)	(78)	(41)
Curtailment gain	107	—	—
Other	(2)	—	—
Pre-tax Income	\$1,565	\$ 815	\$ 627

Geographic area data are based upon the location of the subsidiary reporting the revenue or long-lived assets and are as follows for the three years ended December 31, 2011:

	Revenues			Long-Lived Assets ⁽¹⁾		
	2011	2010	2009	2011	2010	2009
United States	\$ 14,493	\$13,801	\$ 8,156	\$ 1,894	\$1,764	\$1,245
Europe	5,557	5,332	4,971	776	741	717
Other areas	2,576	2,500	2,052	276	309	262
Total Revenues and Long-Lived Assets	\$ 22,626	\$21,633	\$15,179	\$2,946	\$2,814	\$2,224

⁽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

2011 Acquisitions

In December 2011, we acquired the Merizon Group Inc. which operates **MBM**, formerly known as Modern Business Machines, a Wisconsin-based office products distributor, for approximately \$42 net of cash acquired. The acquisition furthers our strategy of creating a nationwide network of locally based companies focused on improving document workflow and office efficiency.

In November 2011, we acquired **The Breakaway Group (“Breakaway”)**, a cloud-based service provider that helps healthcare professionals accelerate their adoption of an electronic medical records (“EMR”) system, for approximately \$18 net of cash acquired. We are also obligated to pay the sellers up to an additional \$25 if certain future performance targets are achieved, of which \$18 was recorded as of the acquisition date representing the estimated fair value of this obligation, for a total acquisition fair value of \$36. The Denver-based firm’s technology allows caregivers to practice using an EMR system without jeopardizing actual patient data. This acquisition adds to our offering of services that help healthcare professionals use the EMR system for clinical benefit.

In September 2011, we acquired the net assets related to the **U.S. operations of Symcor Inc. (“Symcor”)**. In connection with the acquisition, 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, for a net cash receipt of \$35. The assumed liabilities primarily include customer contract liabilities representing the estimated fair value of the obligations associated with the assumed customer contracts. We are recognizing these liabilities over a weighted-average period of approximately two years consistent with the cash outflows from the contracts. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing.

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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

In April 2011, we acquired **Unamic/HCN B.V.**, the largest privately owned customer care provider in the Benelux region in Western Europe, 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 February 2011, we acquired **Concept Group, Ltd.** for \$41 net of cash acquired. This acquisition expands our reach into the small and midsize 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 3,000 customers.

Our Technology segment also 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 primarily for small and midsize businesses. Our Services segment acquired three additional businesses in 2011 for a total of \$25 in cash, primarily related to software to support our BPO service offerings.

2011 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. Breakaway, Symcor, ESM and Unamic/HCN are included within our Services segment, while the acquisitions of MBM and Concept Group 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 valuation and management's estimates. Refer to Note 8 – Goodwill and Intangible Assets, Net for additional information. The overall weighted-average life of the identified amortizable intangible assets is 10 years, which is being amortized using a weighted average straight-line methodology. Our 2011 acquisitions contributed aggregate revenues of approximately \$177 to our 2011 total revenues from their respective acquisition dates.

2010 and 2009 Acquisitions

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, for approximately \$48 in cash. TMS enables us to improve communications among pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, we augment the IT and BPO services we deliver to the healthcare and pharmaceutical industries.

In July 2010, we acquired **ExcellerateHRO, LLP ("EHRO")**, a global benefits administration and relocation services provider, for \$125 net of cash acquired. EHRO established us as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services.

In January 2010, we acquired **Irish Business Systems Limited ("IBS")**, a managed print services provider, for approximately \$29 net of cash acquired. IBS expanded our reach into the small and midsize business market in Ireland, where it is the largest independent supplier of digital imaging and printing solutions.

In February 2009, we acquired **ComDoc, Inc.** for approximately \$145 in cash. ComDoc is one of the largest independent office technology dealers in the U.S. and it expanded our coverage in Ohio, Pennsylvania, New York and West Virginia.

Our Technology segment also acquired one additional business in both 2010 and 2009 for \$21 and \$18 in cash, respectively, as part of our strategy of increasing our U.S. distribution network for small and midsize businesses. Our Services segment acquired one additional business in 2010 for \$12 in cash.

Summary – 2010 and 2009 Acquisitions

The operating results of the 2010 and 2009 acquisitions described above were not material to our financial statements and were included within our results from the respective acquisition dates. TMS and EHRO were included within our Services segment, while the acquisition of IBS and ComDoc were 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. Refer to Note 8 – Goodwill and Intangible Assets, Net for additional information. Excluding ACS, our 2010 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$318 and \$140 to our 2011 and 2010 total revenues, respectively.

Contingent Consideration

In connection with certain acquisitions, we are obligated to make contingent payments if specified contractual performance targets are achieved. Contingent consideration obligations are recorded at their respective fair value. As of December 31, 2011, the maximum aggregate amount of outstanding contingent obligations to former owners of acquired entities was approximately \$42, of which \$27 was accrued, representing the estimated fair value of this obligation. We made contingent payments of \$2 and \$8 in 2011 and 2010, respectively, which are reflected within investing activities in the Consolidated Statements of Cash Flows.

Affiliated Computer Services, Inc. ("ACS")

In February 2010, we acquired **ACS** in a cash-and-stock transaction valued at approximately \$6.5 billion. Each outstanding share of ACS common stock was converted into a combination of 4.935 shares of Xerox common stock and \$18.60 in cash. In addition, as of the acquisition date, we repaid \$1.7 billion of ACS's debt and assumed an additional \$0.6 billion of debt. We also issued convertible preferred stock with a fair value of \$349 and stock options valued at \$222 (Refer to Note 17 – Preferred Stock and Note 18 – Shareholders' Equity for additional information regarding the issuance of preferred stock and stock options, respectively). 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed are 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

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.

	Year Ended December 31, 2010	
	Pro-forma	As Reported
Revenue	\$22,252	\$21,633
Net income – Xerox	592	606
Basic earnings per share	0.41	0.44
Diluted earnings per share	0.41	0.43

Note 4 – Receivables, Net

Accounts Receivable

Accounts receivable, net were as follows:

	December 31,	
	2011	2010
Amounts billed or billable	\$2,307	\$2,491
Unbilled amounts	395	447
Allowance for doubtful accounts	(102)	(112)
Accounts Receivable, Net	\$2,600	\$2,826

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. 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, 2011 and 2010 were approximately \$963 and \$1,066, respectively.

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 ongoing 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 by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. 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 their short-term nature. These receivables are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and were \$97 and \$90 at December 31, 2011 and December 31, 2010, respectively. Of the accounts receivables sold and derecognized from our Balance Sheet, \$815 and \$684 remained uncollected as of December 31, 2011 and 2010, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 receivable sales were as follows:

	Year Ended December 31,		
	2011	2010	2009
Accounts receivable sales	\$ 3,218	\$ 2,374	\$ 1,566
Deferred proceeds	386	307	—
Fees associated with sales	20	15	13
Estimated increase to operating cash flows ⁽¹⁾	133	106	309

⁽¹⁾ Represents the difference between current and prior year-end receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the year and (iii) currency.

Finance Receivables

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

	December 31,	
	2011	2010
Gross receivables	\$ 7,583	\$ 7,914
Unearned income	(1,027)	(1,093)
Subtotal	6,556	6,821
Residual values	7	11
Allowance for doubtful accounts	(201)	(212)
Finance receivables, net	6,362	6,620
Less: Billed portion of finance receivables, net	166	198
Less: Current portion of finance receivables not billed, net	2,165	2,287
Finance Receivables Due After One Year, Net	\$ 4,031	\$ 4,135

Contractual maturities of our gross finance receivables as of December 31, 2011 were as follows (including those already billed of \$166):

2012	2013	2014	2015	2016	Thereafter	Total
\$2,832	\$2,073	\$1,469	\$859	\$315	\$35	\$7,583

Our finance receivable portfolios are primarily in the U.S., Canada and Western 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 assessments of the customer, including payment history and changes in credit quality.

The allowance for doubtful accounts and provision for 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 the 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 have 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. Loss rates declined in both the U.S. and Canada, reflecting improving economic conditions in those countries during 2011, and now are more comparable to pre-2008 rates. Since Europe is comprised of various 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. However, although charge-offs in Europe were flat in 2011 as compared to 2010, loss rates increased in 2011 reflecting the economic challenges currently facing Europe, particularly for those countries in the southern region. We expect 2012 loss rates to continue to be elevated within Europe as compared to prior years because of the ongoing economic challenges in this region.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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, 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 at December 31, 2010	91	37	81	3	212
Provision	15	11	74	—	100
Charge-offs	(31)	(17)	(59)	(1)	(108)
Recoveries and other ⁽¹⁾	—	2	(5)	—	(3)
Balance at December 31, 2011	\$ 75	\$ 33	\$ 91	\$ 2	\$ 201
Finance Receivables Collectively Evaluated for Impairment:					
December 31, 2010 ⁽²⁾	\$ 3,177	\$ 872	\$ 2,706	\$ 66	\$ 6,821
December 31, 2011 ⁽²⁾	\$ 2,993	\$ 825	\$ 2,630	\$ 108	\$ 6,556

⁽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 \$7 and \$11, and the allowance for credit losses of \$201 and \$212 at December 31, 2011 and 2010, respectively.

⁽³⁾ 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 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, 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%.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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:

	December 31, 2011			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and Other Services	\$ 349	\$ 380	\$ 160	\$ 889
Government and Education	821	20	4	845
Graphic Arts	126	200	172	498
Industrial	180	83	32	295
Healthcare	130	42	28	200
Other	97	93	76	266
Total United States	1,703	818	472	2,993
Finance and Other Services	153	118	51	322
Government and Education	121	9	4	134
Graphic Arts	36	39	35	110
Industrial	56	41	34	131
Other	74	42	12	128
Total Canada	440	249	136	825
France	246	354	92	692
U.K./Ireland	201	162	54	417
Central ⁽¹⁾	330	494	57	881
Southern ⁽²⁾	219	256	63	538
Nordics ⁽³⁾	60	39	3	102
Total Europe	1,056	1,305	269	2,630
Other	75	26	7	108
Total	\$ 3,274	\$ 2,398	\$ 884	\$ 6,556

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

	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 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The aging of our billed finance receivables is as follows:

December 31, 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	\$ 18	\$ 4	\$ 1	\$ 23	\$ 866	\$ 889	\$ 15
Government and Education	21	5	2	28	817	845	29
Graphic Arts	16	2	1	19	479	498	7
Industrial	7	2	1	10	285	295	6
Healthcare	5	2	—	7	193	200	5
Other	8	1	—	9	257	266	4
Total United States	75	16	5	96	2,897	2,993	66
Canada	3	2	1	6	819	825	27
France	1	1	1	3	689	692	16
U.K./Ireland	3	2	3	8	409	417	4
Central ⁽¹⁾	7	2	3	12	869	881	46
Southern ⁽²⁾	31	4	13	48	490	538	82
Nordics ⁽³⁾	1	—	—	1	101	102	—
Total Europe	43	9	20	72	2,558	2,630	148
Other	2	1	—	3	105	108	—
Total	\$123	\$28	\$26	\$177	\$6,379	\$6,556	\$241

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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 5 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	December 31,	
	2011	2010
Finished goods	\$ 866	\$ 858
Work-in-process	58	46
Raw materials	97	87
Total Inventories	\$ 1,021	\$ 991

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. 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 \$39, \$31 and \$52 in inventory write-down charges for the years ended December 31, 2011, 2010 and 2009, respectively.

Equipment on operating leases and the related accumulated depreciation were as follows:

	December 31,	
	2011	2010
Equipment on operating leases	\$ 1,556	\$ 1,561
Accumulated depreciation	(1,023)	(1,031)
Equipment on Operating Leases, Net	\$ 533	\$ 530

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 \$294, \$313 and \$329 for the years ended December 31, 2011, 2010 and 2009, 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:

2012	2013	2014	2015	2016	Thereafter
\$392	\$295	\$199	\$113	\$59	\$23

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2011, 2010 and 2009 amounted to \$154, \$133 and \$125, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net were as follows:

	Estimated Useful Lives (Years)	December 31,	
		2011	2010
Land		\$60	\$63
Buildings and building equipment	25 to 50	1,121	1,133
Leasehold improvements	Varies	461	455
Plant machinery	5 to 12	1,557	1,607
Office furniture and equipment	3 to 15	1,470	1,306
Other	4 to 20	99	115
Construction in progress		93	67
Subtotal		4,861	4,746
Accumulated depreciation		(3,249)	(3,075)
Land, Buildings and Equipment, Net		\$1,612	\$1,671

Depreciation expense and operating lease rent expense were as follows:

	Year Ended December 31,		
	2011	2010	2009
Depreciation expense	\$ 405	\$ 379	\$ 247
Operating lease rent expense ⁽¹⁾	681	632	267

⁽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, 2011 were as follows:

2012	2013	2014	2015	2016	Thereafter
\$637	\$503	\$296	\$168	\$83	\$103

We have an information management contract with HP Enterprise Services ("HPES") which runs through 2014. Services provided under this contract include support for European mainframe system processing, as well as workplace, service desk and voice and data network management. We can terminate the contract for convenience without paying a termination fee by providing 60 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. We also have several agreements for similar services with other third-party providers. These contracts have various terms through 2016 and include desktop services, voice and data network-related services, mainframe application, development and support and mid-range applications processing and support. Payments for our outsourced information management services, which are primarily recorded in selling, administrative and general expenses, were \$82, \$142 and \$224 for the years ended December 31, 2011, 2010 and 2009, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 7 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

	December 31,	
	2011	2010
Fuji Xerox	\$1,334	\$ 1,217
All other equity investments	61	74
Investments in Affiliates, at Equity	\$1,395	\$ 1,291

Our equity in net income of our unconsolidated affiliates was as follows:

	Year Ended December 31,		
	2011	2010	2009
Fuji Xerox	\$ 137	\$ 63	\$ 30
Other investments	12	15	11
Total Equity in Net Income of Unconsolidated Affiliates	\$ 149	\$ 78	\$ 41

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 \$1,334 at December 31, 2011 differs from our implied 25% interest in the underlying net assets, or \$1,451, 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 from that implied by our 25% ownership interest. Equity income for the three years ended December 31, 2011 include after-tax restructuring charges of \$19, \$38 and \$46, respectively, primarily reflecting Fuji Xerox's continued cost-reduction initiatives.

Condensed financial data of Fuji Xerox were as follows:

	Year Ended December 31,		
	2011	2010	2009
Summary of Operations			
Revenues	\$ 12,367	\$11,276	\$ 9,998
Costs and expenses	11,464	10,659	9,781
Income before income taxes	903	617	217
Income tax expense	312	291	67
Net Income	591	326	150
Less: Net income – noncontrolling interests	5	5	1
Net Income – Fuji Xerox	\$ 586	\$ 321	\$ 149

(continued)	Year Ended December 31,		
	2011	2010	2009
Balance Sheet			
Assets:			
Current assets	\$ 5,056	\$ 4,884	\$ 4,111
Long-term assets	6,064	5,978	5,457
Total Assets	\$ 11,120	\$10,862	\$ 9,568
Liabilities and Equity:			
Current liabilities	\$ 3,772	\$ 3,534	\$ 2,643
Long-term debt	817	1,260	1,368
Other long-term liabilities	700	707	1,104
Noncontrolling interests	25	22	19
Fuji Xerox shareholders' equity	5,806	5,339	4,434
Total Liabilities and Equity	\$11,120	\$10,862	\$ 9,568

Yen/U.S. Dollar exchange rates used to translate are as follows:

Financial Statement	Exchange Basis	2011	2010	2009
Summary of Operations	Weighted Average Rate	79.61	87.64	93.51
Balance Sheet	Year-End Rate	77.62	81.66	92.46

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 our patent portfolio in exchange for access to their 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 negotiated 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 were as follows:

	Year Ended December 31,		
	2011	2010	2009
Dividends received from Fuji Xerox	\$ 58	\$ 36	\$ 10
Royalty revenue earned	128	116	106
Inventory purchases from Fuji Xerox	2,180	2,098	1,590
Inventory sales to Fuji Xerox	151	147	133
R&D payments received from Fuji Xerox	2	1	3
R&D payments paid to Fuji Xerox	21	30	33

As of December 31, 2011 and 2010, net amounts due to Fuji Xerox were \$105 and \$109, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

	Year Ended December 31,			Total
	Technology	Services	Other	
Balance at December 31, 2008	\$ 2,246	\$ 929	\$ 7	\$ 3,182
Foreign currency translation	61	60	1	122
Acquisitions:				
ComDoc	106	—	—	106
Other	12	—	—	12
Balance at December 31, 2009	\$ 2,425	\$ 989	\$ 8	\$ 3,422
Foreign currency translation	(25)	(22)	—	(47)
Acquisitions:				
ACS	—	5,127	—	5,127
EHRO	—	77	—	77
TMS	—	35	—	35
IBS	14	—	—	14
Other	11	10	—	21
Balance at December 31, 2010	\$ 2,425	\$ 6,216	\$ 8	\$ 8,649
Foreign currency translation	(6)	(28)	—	(34)
Acquisitions:				
Unamic/HCN	—	43	—	43
Breakaway	—	33	—	33
ESM	—	28	—	28
Concept Group	26	—	—	26
MBM	20	—	—	20
Other	17	21	—	38
Balance at December 31, 2011	\$ 2,482	\$ 6,313	\$ 8	\$ 8,803

Intangible Assets, Net

Intangible assets primarily relate to the Services operating segment. Intangible assets were comprised of the following:

	Weighted Average Amortization Years	December 31, 2011			December 31, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	12	\$ 3,522	\$ 751	\$ 2,771	\$ 3,487	\$ 464	\$ 3,023
Distribution network	25	123	59	64	123	54	69
Trademarks ⁽¹⁾	20	238	47	191	325	59	266
Technology, patents and non-compete ⁽¹⁾	4	29	13	16	47	34	13
Total Intangible Assets		\$ 3,912	\$ 870	\$ 3,042	\$ 3,982	\$ 611	\$ 3,371

⁽¹⁾ Includes \$10 and \$5 of indefinite-lived assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was \$401, \$316 and \$64 for the years ended December 31, 2011, 2010 and 2009, respectively. Amortization expense for 2011 includes \$52 for the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision

to discontinue its use and transition our services business to the “Xerox Services” trade name.

Excluding the impact of additional acquisitions, amortization expense is expected to approximate \$329 in 2012, \$328 in 2013, \$326 in 2014, \$324 in 2015 and \$324 in 2016.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 9 – Restructuring and Asset Impairment Charges

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 consist of severance actions and impact all major geographies and segments. Management continues to evaluate our

business; therefore, in future years, there may be additional provisions for new plan initiatives, as well as changes in previously recorded estimates, as payments are made or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets sold, abandoned or made obsolete as a result of these programs.

A summary of our restructuring program activity during the three years ended December 31, 2011 is as follows:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance at December 31, 2008	\$ 320	\$ 32	\$ —	\$ 352
Restructuring provision	28	9	—	37
Reversals of prior accruals	(39)	(6)	—	(45)
Net current period charges ⁽²⁾	(11)	3	—	(8)
Charges against reserve and currency	(255)	(15)	—	(270)
Balance at December 31, 2009	54	20	—	74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	—	(41)
Net current period charges ⁽²⁾	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance at December 31, 2010	298	25	—	323
Restructuring provision	98	1	5	104
Reversals of prior accruals	(65)	(6)	—	(71)
Net current period charges ⁽²⁾	33	(5)	5	33
Charges against reserve and currency	(215)	(13)	(5)	(233)
Balance at December 31, 2011	\$ 116	\$ 7	\$ —	\$ 123

⁽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:

	Year Ended December 31,		
	2011	2010	2009
Charges against reserve	\$ (233)	\$ (234)	\$ (270)
Asset impairment	5	26	—
Effects of foreign currency and other non-cash items	10	(5)	—
Restructuring Cash Payments	\$ (218)	\$ (213)	\$ (270)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Year Ended December 31,		
	2011	2010	2009
Technology	\$ 23	\$ 325	\$ (5)
Services	12	104	(2)
Other	(2)	54	(1)
Total Net Restructuring Charges	\$ 33	\$ 483	\$ (8)

2012 Plan

To date, we have identified and approved additional restructuring initiatives of approximately \$25 for the first quarter of 2012. These actions are expected to impact all geographies and segments with approximately equal focus on SAG reductions, gross margin improvements and optimization of RD&E investments.

2011 Activity

During 2011, we recorded \$33 of net restructuring and asset impairment charges, which included the following:

- \$98 of severance costs related to headcount reductions of approximately 3,900 employees, primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- \$1 for lease termination costs.
- \$5 of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.

The above charges were partially offset by \$71 of net reversals for changes in estimated reserves from prior-period initiatives.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The restructuring reserve balance as of December 31, 2011 for all programs was \$123, of which approximately \$116 is expected to be spent over the next 12 months.

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 as a result of our 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 continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but no longer have any direct or local operations in Venezuela.

The above charges were partially offset by \$41 of net reversals for changes in estimated reserves from prior-period initiatives.

2009 Activity

Restructuring activity was minimal in 2009 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

Note 10 – Supplementary Financial Information

The components of other current and long-term assets and liabilities were as follows:

	December 31,	
	2011	2010
Other Current Assets		
Deferred taxes and income taxes receivable	\$ 261	\$ 345
Royalties, license fees and software maintenance	143	155
Restricted cash	97	91
Prepaid expenses	147	133
Derivative instruments	58	45
Deferred purchase price from sale of receivables	97	90
Advances and deposits	28	23
Other	227	244
Total Other Current Assets	\$ 1,058	\$ 1,126

(continued)	December 31,	
	2011	2010
Other Current Liabilities		
Deferred taxes and income taxes payable	\$ 83	\$ 59
Other taxes payable	150	177
Interest payable	84	122
Restructuring reserves	116	309
Derivative instruments	31	19
Product warranties	15	17
Dividends payable	74	74
Distributor and reseller rebates/commissions	112	105
Other	966	925
Total Other Current Liabilities	\$ 1,631	\$ 1,807
Other Long-Term Assets		
Prepaid pension costs	\$ 76	\$ 92
Net investment in discontinued operations ⁽¹⁾	204	224
Internal use software, net	545	468
Product software, net	256	145
Restricted cash	246	280
Debt issuance costs, net	38	42
Customer contract costs, net	294	134
Derivative instruments	—	11
Deferred compensation plan investments	92	92
Other	365	286
Total Other Long-Term Assets	\$ 2,116	\$ 1,774
Other Long-Term Liabilities		
Deferred and other tax liabilities	\$ 290	\$ 200
Environmental reserves	16	20
Unearned income	82	36
Restructuring reserves	7	14
Other	466	527
Total Other Long-Term Liabilities	\$ 861	\$ 797

⁽¹⁾ At December 31, 2011, our net investment in discontinued operations primarily consisted of a \$225 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. In 2011, the performance-based instrument was pledged as security for our future funding obligations to our U.K. Pension Plan for salaried employees.

Note 11 – Debt

Short-term borrowings were as follows:

	December 31,	
	2011	2010
Commercial paper	\$ 100	\$ 300
Current maturities of long-term debt	1,445	1,070
Total Short-Term Debt	\$ 1,545	\$ 1,370

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The weighted-average interest rate for commercial paper at December 31, 2011, including issuance costs, was 0.71 percent and had maturities ranging from three to 48 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 was as follows:

	December 31,		
	Weighted Average Interest Rates at December 31, 2011 ⁽²⁾	2011	2010
Xerox Corporation			
Notes due 2011	—%	\$ —	\$ 1
Senior Notes due 2011	—%	—	750
Senior Notes due 2012	5.59%	1,100	1,100
Senior Notes due 2013	5.65%	400	400
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	750
Floating Rate Notes due 2014	1.28%	300	—
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
Notes due 2018	0.57%	1	—
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.66%	650	650
Senior Notes due 2021	4.59%	700	—
Zero Coupon Notes due 2023	5.71%	301	283
Senior Notes due 2039	6.78%	350	350
Subtotal – Xerox Corporation		\$ 8,021	\$ 7,753
Subsidiary Companies			
Senior Notes due 2015	4.25%	250	250
Borrowings secured by other assets	5.59%	76	75
Other	2.14%	3	2
Subtotal – Subsidiary Companies		\$ 329	\$ 327
Principal Debt Balance		8,350	8,080
Unamortized discount		(7)	(1)
Fair value adjustments ⁽¹⁾		190	228
Less: current maturities		(1,445)	(1,070)
Total Long-Term Debt		\$ 7,088	\$ 7,237

⁽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:

2012 ⁽¹⁾	2013	2014	2015	2016	Thereafter	Total
\$1,445	\$425	\$1,078	\$1,252	\$951	\$3,199	\$8,350

⁽¹⁾ Quarterly total debt maturities for 2012 are \$12, \$1,114, \$310 and \$9 for the first, second, third and fourth quarters, respectively. 2012 maturities also includes our puttable 5.71% Zero Coupon Notes due 2023. In February 2012, we completed an exchange of the 5.71% Zero Coupon Notes due 2023 for approximately \$363 of our 4.50% Senior Notes due 2021. Refer to Note 21 – Subsequent Events for additional information regarding this debt exchange.

Commercial Paper

In 2010, we initiated a commercial paper (“CP”) program in the U.S. Aggregate CP and Credit Facility borrowings may not exceed \$2.0 billion outstanding at any time. Under the company’s current private placement CP program, we may issue CP up to a maximum amount of \$2.0 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. At December 31, 2011, we had \$100 par value CP Notes outstanding.

Credit Facility

In 2011, we refinanced our \$2.0 billion unsecured revolving Credit Facility that was executed in 2007 (the “2007 Credit Facility”). The new \$2.0 billion Credit Facility is a five-year commitment maturing in 2016 with a group of lenders. A majority of the lenders that participated in the 2007 Credit Facility are participating in the new Credit Facility. The new Credit Facility contains a \$300 letter of credit sub-facility, and also includes an accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed \$2.75 billion. We have the right to request a one-year extension on each of the first and second anniversary dates.

We deferred \$7 of debt issuance costs in connection with this refinancing, which includes approximately \$2 of unamortized deferred debt issue costs associated with those lenders from the 2007 Credit Facility that elected to participate in the new Credit Facility. The write-off of debt issuance costs associated with those lenders that did not elect to participate in the new Credit Facility was not material.

The Credit Facility provides a backstop to our \$2.0 billion commercial paper program. Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes.

At December 31, 2011 we had no outstanding borrowings or letters of credit under the Credit Facility.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. 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 0.10% and 0.75% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 1.00% and 1.75% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2011, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.375% and 1.375%, 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 termination of the lenders' commitments to lend 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

Current Year

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 three-month LIBOR plus 0.820% payable quarterly. The 2021 Senior Notes accrue interest

at a rate of 4.50% per annum payable semiannually. 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 below and for general corporate purposes. In conjunction with the issuance of these Senior Notes, debt issuance costs of \$7 were deferred.

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. The redemption resulted in a pre-tax loss of \$33 (\$20 after-tax), representing the call premium of approximately \$10 as well as the write-off of unamortized debt costs and other liability carrying value adjustments of approximately \$23.

Interest

Interest paid on our short-term debt, long-term debt and liability to subsidiary trust issuing preferred securities amounted to \$538, \$586 and \$531 for the years ended December 31, 2011, 2010 and 2009, respectively.

Interest expense and interest income were as follows:

	Year Ended December 31,		
	2011	2010	2009
Interest expense ⁽¹⁾	\$ 478	\$ 592	\$ 527
Interest income ⁽²⁾	653	679	734

⁽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 7:1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net (payments) proceeds on debt as shown on the Consolidated Statements of Cash Flows were as follows:

	Year Ended December 31,		
	2011	2010	2009
Net proceeds (payments) on short-term debt	\$ (200)	\$ 300	\$ (61)
Net payments on Credit Facility	—	—	(246)
Net proceeds from issuance of long-term debt	1,000	—	2,725
Net payments on long-term debt	(751)	(3,357)	(1,495)
Net Proceeds (Payments) on Other Debt	\$ 49	\$ (3,057)	\$ 923

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 12 – 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: At December 31, 2011, we did not have any interest rate swaps outstanding. 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 period from 2004 to 2011, we early-terminated 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 2011, 2010 and 2009, the amortization of these fair value adjustments reduced interest expense by \$53, \$28 and \$17, respectively, and we expect to record a net decrease in interest expense of \$190 in future years through 2018.

Foreign Exchange Risk Management

As a global company, we are 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 December 31, 2011, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,444, which is typical 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 December 31, 2011:

Currencies Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Japanese Yen/U.S. Dollar	\$ 634	\$ 5
U.S. Dollar/Euro	563	17
Japanese Yen/Euro	450	24
Euro/U.K. Pound Sterling	406	(5)
U.K. Pound Sterling/Euro	244	2
U.K. Pound Sterling/U.S. Dollar	217	(8)
Swiss Franc/Euro	172	2
Canadian Dollar/Euro	168	(1)
U.S. Dollar/Japanese Yen	94	—
Swedish Krona/Euro	86	2
Mexican Peso/U.S. Dollar	60	(5)
Indian Rupee/U.S. Dollar	47	(5)
All Other	303	(1)
Total Foreign Exchange Hedging	\$3,444	\$ 27

⁽¹⁾ Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 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 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 \$26 and \$18 as of December 31, 2011 and December 31, 2010, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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	December 31,	
		2011	2010
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 37	\$ 19
	Other current liabilities	(11)	(1)
Interest rate swaps	Other long-term assets	—	11
	Net Designated Asset	\$ 26	\$ 29
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 21	\$ 26
	Other current liabilities	(20)	(18)
	Net Undesignated Asset	\$ 1	\$ 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 (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:

Derivative in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Years Ended December 31,					
		Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2011	2010	2009	2011	2010	2009
Interest rate contracts	Interest expense	\$ 15	\$ 99	\$(18)	\$(15)	\$(99)	\$ 18

Derivatives in Cash Flow Hedging Relationships	Year Ended December 31,							
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Gain (Loss) Reclassified from AOCI to Income (Effective Portion)				
		2011	2010	2009	2011	2010	2009	
Foreign exchange contracts – forwards		\$30	\$46	\$(1)	Cost of sales	\$14	\$28	\$(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) were 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 December 31, 2011, net gains of \$26 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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)	Year Ended December 31,		
		2011	2010	2009
Foreign exchange contracts – forwards	Other expense – Currency gains (losses), net	\$ 33	\$ 113	\$ 49

During the three years ended December 31, 2011, we recorded Currency losses, net of \$12, \$11 and \$26, 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.

Accumulated Other Comprehensive Loss (“AOCL”)

Refer to Note 19 – Comprehensive Income “Accumulated Other Comprehensive Loss” section in for the activity associated with all of our designated cash flow hedges (interest rate and foreign currency).

Note 13 – 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.

	December 31,	
	2011	2010
Assets:		
Foreign exchange contracts-forwards	\$ 58	\$ 45
Interest rate swaps	—	11
Deferred compensation investments in cash surrender life insurance	69	70
Deferred compensation investments in mutual funds	23	22
Total	\$150	\$148
Liabilities:		
Foreign exchange contracts-forwards	\$ 31	\$ 19
Deferred compensation plan liabilities	97	98
Total	\$128	\$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:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$902	\$902	\$1,211	\$1,211
Accounts receivable, net	2,600	2,600	2,826	2,826
Short-term debt	1,545	1,629	1,370	1,396
Long-term debt	7,088	7,571	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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 14 – 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 post-retirement benefit plans.

	Pension Benefits		Retiree Health	
	2011	2010	2011	2010
Change in Benefit Obligation:				
Benefit obligation, January 1	\$ 9,731	\$ 9,194	\$ 1,006	\$ 1,102
Service cost	186	178	8	8
Interest cost	612	575	47	54
Plan participants' contributions	10	11	33	26
Plan amendments ⁽³⁾	(2)	(19)	(4)	(86)
Actuarial loss	916	477	26	13
Acquisitions ⁽²⁾	—	140	—	1
Currency exchange rate changes	(85)	(154)	(3)	6
Curtailments	—	(1)	—	—
Benefits paid/settlements	(870)	(670)	(106)	(118)
Other	7	—	—	—
Benefit Obligation, December 31	\$10,505	\$ 9,731	\$ 1,007	\$ 1,006
Change in Plan Assets:				
Fair value of plan assets, January 1	7,940	\$ 7,561	\$ —	\$ —
Actual return on plan assets	694	846	—	—
Employer contribution	556	237	73	92
Plan participants' contributions	10	11	33	26
Acquisitions ⁽²⁾	—	107	—	—
Currency exchange rate changes	(57)	(144)	—	—
Benefits paid/settlements	(870)	(669)	(106)	(118)
Other	4	(9)	—	—
Fair Value of Plan Assets, December 31	\$ 8,277	\$ 7,940	\$ —	\$ —
Net Funded Status at December 31⁽¹⁾	\$(2,228)	\$ (1,791)	\$(1,007)	\$ (1,006)
Amounts Recognized in the Consolidated Balance Sheets:				
Other long-term assets	\$ 76	\$ 92	\$ —	\$ —
Accrued compensation and benefit costs	(45)	(44)	(82)	(86)
Pension and other benefit liabilities	(2,259)	(1,839)	—	—
Post-retirement medical benefits	—	—	(925)	(920)
Net Amounts Recognized	\$(2,228)	\$ (1,791)	\$(1,007)	\$ (1,006)

⁽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 at December 31:

	Pension Benefits		Retiree Health	
	2011	2010	2011	2010
Net actuarial loss	\$ 2,552	\$ 1,867	\$ 70	\$ 54
Prior service (credit)	(37)	(167)	(163)	(200)
Total Pre-tax Loss (Gain)	\$ 2,515	\$ 1,700	\$ (93)	\$ (146)

The Accumulated benefit obligation for all defined benefit pension plans was \$10,134 and \$9,256 at December 31, 2011 and 2010, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	December 31, 2011			December 31, 2010		
	Underfunded	Unfunded	Total	Underfunded	Unfunded	Total
Projected benefit obligation	\$ 8,733	\$ 772	\$ 9,505	\$ 5,001	\$ 725	\$ 5,726
Accumulated benefit obligation	8,418	760	9,178	4,826	707	5,533
Fair value of plan assets	7,204	—	7,204	3,883	—	3,883

Most of our defined benefit pension plans generally provide employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provide a benefit at the greater of (i) the 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).

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Year Ended December 31,					
	Pension Benefits			Retiree Health		
	2011	2010	2009	2011	2010	2009
Components of Net Periodic Benefit Costs:						
Service cost	\$ 186	\$ 178	\$ 173	\$ 8	\$ 8	\$ 7
Interest cost ⁽¹⁾	612	575	508	47	54	60
Expected return on plan assets ⁽²⁾	(647)	(570)	(523)	—	—	—
Recognized net actuarial loss	72	71	25	—	—	—
Amortization of prior service credit	(23)	(22)	(21)	(41)	(30)	(41)
Recognized settlement loss	84	72	70	—	—	—
Recognized curtailment gain	(107)	—	—	—	—	—
Defined Benefit Plans	177	304	232	14	32	26
Defined contribution plans	66	51	38	—	—	—
Net periodic benefit cost	243	355	270	14	32	26
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:						
Net actuarial loss	852	198	8	25	13	126
Prior service (credit)	(2)	(19)	—	(3)	(86)	1
Amortization of net actuarial (loss)	(153)	(143)	(95)	—	—	—
Amortization of net prior service credit	23	22	21	41	30	41
Curtailment gain – recognition of net prior service credit	107	—	—	—	—	—
Total recognized in Other Comprehensive Income	827	58	(66)	63	(43)	168
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$1,070	\$ 413	\$ 204	\$ 77	\$ (11)	\$ 194

⁽¹⁾ Interest cost includes interest expense on non-TRA obligations of \$388, \$381 and \$390 and interest expense directly allocated to TRA participant accounts of \$224, \$194 and \$118 for the years ended December 31, 2011, 2010 and 2009, respectively.

⁽²⁾ Expected return on plan assets includes expected investment income on non-TRA assets of \$423, \$376 and \$405 and actual investment income on TRA assets of \$224, \$194 and \$118 for the years ended December 31, 2011, 2010 and 2009, respectively.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 \$108 and \$(23), respectively, excluding amounts that may be recognized through settlement losses. 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 \$1 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 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 a cash balance service credit was expected to continue post-December 31, 2012. The 2011 amendments fully freeze any further benefit and service accruals after December 31, 2012 for all of these plans, including the non-qualified plans. As a result of these plan amendments, we recognized a pre-tax curtailment gain of \$107 (\$66 after-tax). The gain represents the recognition of deferred gains from other prior-year amendments (“prior service credits”) as a result of the discontinuation of any future benefit or service accrual period. The amendments are not expected to materially impact 2012 pension expense.

In 2011, the Canadian Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue to receive the benefit of future salary increases to the extent applicable; therefore, the amendment does not result in a material change to the projected benefit obligation at the re-measurement date, December 31, 2011.

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 was effective January 1, 2011. The Company instead decided to 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 reduced 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.

Plan Assets

Current Allocation

As of the 2011 and 2010 measurement dates, the global pension plan assets were \$8.3 billion and \$7.9 billion, respectively. These assets were invested among several asset classes. Our common stock represents approximately \$50 or 0.6% of total plan assets at December 31, 2011.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following table presents the defined benefit plans assets measured at fair value at December 31, 2011 and the basis for that measurement:

Asset Class	Valuation Based on:			Total Fair Value December 31, 2011	% of Total
	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Cash and Cash Equivalents	\$ 578	\$ —	\$ —	\$ 578	7%
Equity Securities:					
U.S. Large Cap	511	50	—	561	7%
Xerox Common Stock	50	—	—	50	1%
U.S. Mid Cap	90	—	—	90	1%
U.S. Small Cap	83	89	—	172	2%
International Developed	1,209	481	—	1,690	21%
Emerging Markets	297	54	—	351	4%
Global Equity	7	17	—	24	—%
Total Equity Securities	2,247	691	—	2,938	36%
Debt Securities:					
U.S. Treasury Securities	9	416	—	425	5%
Debt Security Issued by Government Agency	64	1,407	—	1,471	18%
Corporate Bonds	150	1,470	—	1,620	20%
Asset-Backed Securities	2	61	—	63	—%
Total Debt Securities	225	3,354	—	3,579	43%
Common/Collective Trust	3	—	—	3	—%
Derivatives:					
Interest Rate Contracts	18	103	—	121	1%
Foreign Exchange Contracts	14	(1)	—	13	—%
Equity Contracts	23	—	—	23	—%
Other Contracts	64	—	—	64	1%
Total Derivatives	119	102	—	221	2%
Hedge Funds	—	—	3	3	—%
Real Estate	67	132	352	551	7%
Private Equity/Venture Capital	—	—	318	318	4%
Guaranteed Insurance Contracts	—	—	116	116	1%
Other ⁽¹⁾	(48)	18	—	(30)	—%
Total Defined Benefit Plans Assets	\$3,191	\$4,297	\$ 789	\$ 8,277	100%

⁽¹⁾ Other Level 1 assets include net non-financial liabilities of \$(54) such as due to/from broker, interest receivables and accrued expenses.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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:			Total Fair Value December 31, 2010	% of Total
	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
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	—%
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 ⁽¹⁾	34	49	(1)	82	—%
Total Defined Benefit Plans Assets	\$ 3,596	\$ 3,662	\$ 682	\$ 7,940	100%

⁽¹⁾ Other Level 1 assets include net non-financial assets of \$27 such as due to/from broker, interest receivables and accrued expenses.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following table represents a rollforward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)					Total
	Real Estate	Private Equity/Venture Capital	Guaranteed Insurance Contracts	Hedge Funds	Other	
December 31, 2009	\$ 237	\$ 286	\$ 130	\$ 4	\$ —	\$ 657
Purchases	41	30	1	—	—	72
Sales	(34)	(38)	(13)	—	—	(85)
Net transfers in from Level 1	—	—	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	275	307	97	4	(1)	682
Purchases	69	30	3	—	—	102
Sales	(6)	(61)	(3)	(1)	—	(71)
Net transfers in from Level 1	2	—	12	—	—	14
Net transfers in from Level 2	—	—	9	—	—	9
Realized gains (losses)	—	46	(1)	—	—	45
Unrealized gains (losses)	18	(4)	(4)	—	—	10
Currency translation	(4)	—	(3)	—	—	(7)
Other	(2)	—	6	—	1	5
December 31, 2011	\$ 352	\$ 318	\$ 116	\$ 3	\$ —	\$ 789

Our pension plan assets and benefit obligations at December 31, 2011 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S. funded	\$ 3.3	\$ 4.3	\$ (1.0)
U.S. unfunded	—	0.3	(0.3)
Total U.S.	\$ 3.3	\$ 4.6	\$ (1.3)
U.K.	3.0	3.3	(0.3)
Canada	0.6	0.8	(0.2)
Other funded	1.4	1.3	0.1
Other unfunded	—	0.5	(0.5)
Total	\$ 8.3	\$ 10.5	\$ (2.2)

Investment Strategy

The target asset allocations for our worldwide plans were:

	2011	2010
Equity investments	41%	42%
Fixed-income investments	45%	45%
Real estate	7%	7%
Private equity	4%	4%
Other	3%	2%
Total Investment Strategy	100%	100%

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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, and may include Company stock. 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

In 2011, we made cash contributions of \$426 and \$73 to our defined benefit pension plans and our retiree health benefit plans, respectively. We also elected to make a contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2011. Accordingly, total contributions to our defined benefit pension plans were \$556 in 2011.

In 2012 we expect, based on current actuarial calculations, to make contributions of approximately \$560 to our defined benefit pension plans and \$80 to our retiree health benefit plans. Contributions to our defined benefit pension plans may include shares of our common stock in lieu of cash, depending on our cash requirements during the year.

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
2012	\$ 781	\$ 80
2013	640	83
2014	627	82
2015	654	81
2016	664	80
Years 2017–2021	3,426	372

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits			Retiree Health		
	2011	2010	2009	2011	2010	2009
Discount rate	4.7%	5.2%	5.7%	4.5%	4.9%	5.4%
Rate of compensation increase	3.1%	3.1%	3.6%	n/a ⁽¹⁾	n/a ⁽¹⁾	n/a ⁽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			
	2012	2011	2010	2009	2012	2011	2010	2009
Discount rate	4.7%	5.2%	5.7%	6.3%	4.5%	4.9%	5.4%	6.3%
Expected return on plan assets	6.9%	7.2%	7.3%	7.4%	n/a ⁽¹⁾	n/a ⁽¹⁾	n/a ⁽¹⁾	n/a ⁽¹⁾
Rate of compensation increase	3.1%	3.1%	3.6%	3.9%	n/a ⁽²⁾	n/a ⁽²⁾	n/a ⁽²⁾	n/a ⁽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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Assumed healthcare cost trend rates were as follows:

	December 31,	
	2011	2010
Healthcare cost trend rate assumed for next year	8.5%	9.0%
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 healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1-percentage point change in assumed healthcare cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	\$ 5	\$ (4)
Effect on post-retirement benefit obligation	89	(72)

Note 15 – Income and Other Taxes

Income before income taxes (“pre-tax income”) was as follows:

	Year Ended December 31,		
	2011	2010	2009
Domestic income	\$ 917	\$433	\$ 45
Foreign income	648	382	582
Income before Income Taxes	\$ 1,565	\$815	\$627

Provisions (benefits) for income taxes were as follows:

	Year Ended December 31,		
	2011	2010	2009
Federal Income Taxes			
Current	\$ 52	\$ 153	\$ (50)
Deferred	134	(17)	109
Foreign Income Taxes			
Current	103	59	84
Deferred	38	8	11
State Income Taxes			
Current	28	46	(2)
Deferred	31	7	—
Total Provisions (Benefits)	\$ 386	\$ 256	\$ 152

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

	Year Ended December 31,		
	2011	2010	2009
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	2.0%	6.3%	3.2%
Effect of tax law changes	0.2%	(0.2)%	—%
Change in valuation allowance for deferred tax assets	(0.3)%	2.6%	(1.7)%
State taxes, net of federal benefit	2.4%	2.0%	(0.2)%
Audit and other tax return adjustments	(1.0)%	(3.6)%	(8.7)%
Tax-exempt income, credits and incentives	(3.1)%	(3.9)%	(4.7)%
Foreign rate differential adjusted for U.S. taxation of foreign profits ⁽¹⁾	(10.4)%	(6.7)%	0.5%
Other	(0.1)%	(0.1)%	0.8%
Effective Income Tax Rate	24.7%	31.4%	24.2%

⁽¹⁾ The “U.S. taxation of foreign profits” represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, we paid a total of \$94, \$49 and \$78 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2011, 2010 and 2009, respectively.

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
	2011	2010	2009
Pre-tax income	\$ 386	\$256	\$152
Common shareholders’ equity:			
Changes in defined benefit plans	(277)	12	(61)
Stock option and incentive plans, net	1	(6)	21
Cash flow hedges	3	5	—
Translation adjustments	2	6	(13)
Total Income Tax Expense (Benefit)	\$ 115	\$273	\$ 99

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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, 2011, 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:

	2011	2010	2009
Balance at January 1	\$ 186	\$ 148	\$ 170
Additions from acquisitions	—	46	—
Additions related to current year	43	38	6
Additions related to prior years' positions	38	24	27
Reductions related to prior years' positions	(17)	(16)	(33)
Settlements with taxing authorities ⁽¹⁾	(14)	(19)	(7)
Reductions related to lapse of statute of limitations	(8)	(35)	(29)
Currency	(3)	—	14
Balance at December 31	\$ 225	\$ 186	\$ 148

⁽¹⁾ Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2011, 2010 and 2009 are \$36, \$39 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 \$28, \$31 and \$13 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2011, 2010 and 2009, 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, 2011 was approximately \$8 billion. These earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. We do not believe it is practical to calculate the potential deferred tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable. 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 were as follows:

	December 31,	
	2011	2010
Deferred Tax Assets		
Research and development	\$ 876	\$ 855
Post-retirement medical benefits	368	373
Depreciation	224	200
Net operating losses	637	634
Other operating reserves	95	194
Tax credit carryforwards	379	409
Deferred compensation	306	340
Allowance for doubtful accounts	93	97
Restructuring reserves	29	78
Pension	547	437
Other	168	156
Subtotal	3,722	3,773
Valuation allowance	(677)	(735)
Total	\$ 3,045	\$ 3,038
Deferred Tax Liabilities		
Unearned income and installment sales	\$ 1,016	\$ 1,025
Intangibles and goodwill	1,227	1,229
Other	13	54
Total	\$ 2,256	\$ 2,308
Total Deferred Taxes, Net	\$ 789	\$ 730

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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, 2011 and 2010 amounted to \$229 and \$298, 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, 2011 and 2010 was a decrease of \$58 and an increase of \$63, 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, 2011, we had tax credit carryforwards of \$379 available to offset future income taxes, of which \$102 are available to carry forward indefinitely while the remaining \$277 will expire 2012 through 2028 if not utilized. We also had net operating loss carryforwards for income tax purposes of \$1.1 billion that will expire 2012 through 2032, if not utilized, and \$2.5 billion available to offset future taxable income indefinitely.

Note 16 – Contingencies and Litigation

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, 2011, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,120 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 and new cases. With respect to the unreserved balance of \$1,120, 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, 2011 we had \$240 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 \$237, 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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 refile. 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.

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, 2011, 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.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

- 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 the 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 indemnities 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 (such as those related to "clawback" provisions in certain compensation arrangements) 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 of the equipment 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, 2011 were \$30, \$33 and \$34, respectively. Total product warranty liabilities as of December 31, 2011 and 2010 were \$16 and \$18, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2011:

- \$445 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.
- \$788 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, 2011, we serviced an FFEL portfolio of approximately 4.0 million loans with an outstanding principal balance of approximately \$56.6 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of December 31, 2011, other current liabilities include reserves which we believe to be adequate. At December 31, 2011, other current liabilities include reserves of approximately \$1.0 for losses on defaulted loans purchased.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 17 – 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% 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 which is a 25% premium over \$8.90, the average closing price of Xerox common stock over the seven-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 18 – Shareholders' Equity

Preferred Stock

As of December 31, 2011, we had one class of preferred stock outstanding. See Note 17 – 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, \$1.00 par value per share. At December 31, 2011, 150 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 two 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 additional information), we issued 489,802 thousand shares of common stock to holders of ACS Class A and Class B common stock.

Treasury Stock

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2011 (shares in thousands):

Authorized share repurchase programs	\$4,500
Share repurchase cost	\$3,641
Share repurchase fees	\$ 6
Number of shares repurchased	282,036

In January 2012, the Board of Directors authorized an additional \$500 million in share repurchase, bringing the total authorization to \$5 billion.

The following table reflects the changes in Common and Treasury stock shares (shares in thousand):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2008	864,777	—
Stock-based compensation plans, net	4,604	—
Balance at December 31, 2009	869,381	—
Stock-based compensation plans, net	37,018	—
ACS acquisition ⁽¹⁾	489,802	—
Other	1,377	—
Balance at December 31, 2010	1,397,578	—
Stock-based compensation plans, net	11,027	—
Contributions to U.S. pension plan ⁽²⁾	16,645	—
Acquisition of Treasury stock	—	87,943
Cancellation of Treasury stock	(72,435)	(72,435)
Other	34	—
Balance at December 31, 2011	1,352,849	15,508

⁽¹⁾ Refer to Note 3 – Acquisitions for additional information.

⁽²⁾ Refer to Note 14 – Employee Benefits Plans for additional information.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

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. As more fully discussed below, at December 31, 2011 there was an aggregate of \$209 of unrecognized stock-based compensation related to all of our equity-based compensation programs which will be expensed over the next two years.

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, 2011 and 2010, 31 million and 30 million shares, respectively, were available for grant of awards.

	2011		2010		2009	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested Restricted Stock Units						
Outstanding at January 1	32,431	\$ 8.68	25,127	\$ 10.18	14,037	\$ 15.43
Granted	8,035	10.66	11,845	8.56	15,268	6.69
Vested	(5,225)	11.64	(3,671)	18.22	(3,764)	15.17
Cancelled	(1,457)	8.57	(870)	10.36	(414)	13.94
Outstanding at December 31	33,784	8.70	32,431	8.68	25,127	10.18

At December 31, 2011, the aggregate intrinsic value of RSUs outstanding was \$269. The total intrinsic value and actual tax benefit realized for the tax deductions for vested RSUs were as follows:

	Year Ended December 31,		
	2011	2010	2009
Vested Restricted Stock Units			
Total intrinsic value of vested RSUs	\$56	\$31	\$19
Tax benefit realized for vested RSUs tax deductions	22	10	6

At December 31, 2011, there was \$124 of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized ratably over a remaining weighted-average contractual term of 1.3 years.

Stock-based compensation expense was as follows:

	Year Ended December 31,		
	2011	2010	2009
Stock-based compensation expense, pre-tax	\$123	\$123	\$85
Income tax benefit recognized in earnings	47	47	33

Restricted Stock Units: Compensation expense is based upon the grant date market price for most awards. The primary grant in 2009 had a market-based condition and therefore the grant date price was based on a Monte Carlo simulation. Compensation 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 is presented below (shares in thousands):

Performance Shares: We grant officers and selected executives PSs that vest contingent upon meeting pre-determined Revenue, 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 annual actual results for revenue exceed the stated targets and 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 cannot 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 ending February 2013 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).

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

A summary of the activity for PSs is presented below (shares in thousands):

Nonvested Restricted Stock Units	2011		2010		2009	
	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	7,771	\$ 9.78	4,874	\$ 15.49	7,378	\$ 15.39
Granted	4,852	10.42	5,364	8.10	718	15.17
Vested	(1,587)	12.84	(1,566)	18.48	(3,075)	15.17
Cancelled	(1,273)	12.79	(901)	15.51	(147)	15.52
Outstanding at December 31	9,763	9.21	7,771	9.78	4,874	15.49

At December 31, 2011, the aggregate intrinsic value of PSs outstanding was \$78. The total intrinsic value of PSs and the actual tax benefit realized for the tax deductions for vested PSs were as follows:

Vested Performance Shares	Year Ended December 31,		
	2011	2010	2009
Total intrinsic value of vested PSs	\$17	\$12	\$15
Tax benefit realized for vested PSs tax deductions	6	5	6

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, 2011, there was \$62 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 1.9 years.

Stock options

Employee Stock Options: With the exception of the conversion of ACS options 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 10 years from the date of grant.

ACS Acquisition: In connection with the acquisition of ACS (see Note 3 – Acquisitions for additional 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 pre-existing change-in-control provisions, and was recorded as part of the acquisition fair value. The remaining \$54 is associated with ACS options issued in August 2009 which did not fully vest and become exercisable upon the acquisition, but continue to vest according to specified vesting schedules and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from the date of grant. 42,136 thousand Xerox options issued upon this conversion remain outstanding at December 31, 2011.

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 – in years	0.75	4.2

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

The following table provides information relating to the status of, and changes in, outstanding stock options (stock options in thousands):

	2011		2010		2009	
	Stock Options	Weighted Average Option Price	Stock Options	Weighted Average Option Price	Stock Options	Weighted Average Option Price
Employee Stock Options						
Outstanding at January 1	71,038	\$8.00	28,363	\$10.13	45,185	\$15.49
Granted – ACS acquisition	—	—	96,662	6.79	—	—
Canceled/Expired	(14,889)	8.38	(2,735)	7.33	(16,676)	24.68
Exercised	(6,079)	8.21	(51,252)	6.92	(146)	5.88
Outstanding at December 31	50,070	6.98	71,038	8.00	28,363	10.13
Exercisable at December 31	39,987	7.14	57,985	8.38	28,363	10.13

As of December 31, 2011, there was \$23 of total unrecognized compensation cost related to nonvested stock options. This cost is expected to be recognized ratably over a remaining weighted-average vesting period of 2.6 years.

Information relating to options outstanding and exercisable at December 31, 2011 was as follows:

	Options Outstanding	Options Exercisable
Aggregate intrinsic value	\$119	\$102
Weighted-average remaining contractual life in years	4.3	3.5

The following table provides information relating to stock option exercises:

	Year Ended December 31,		
	2011	2010	2009
Total intrinsic value of stock options	\$18	\$155	\$—
Cash received	44	183	1
Tax benefit realized for stock option tax deductions	7	56	—

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 19 – Comprehensive Income

Other Comprehensive Income is composed of the following:

	Year Ended December 31,					
	2011		2010		2009	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments (Losses) Gains	\$ (103)	\$ (105)	\$ (29)	\$ (35)	\$ 583	\$ 596
Unrealized Gains (Losses):						
Changes in fair value of cash flow hedges – gains (losses)	30	22	46	31	(1)	(1)
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(14)	(9)	(28)	(18)	2	2
Other	(1)	(1)	(1)	(1)	1	1
Net unrealized gains (losses)	15	12	17	12	2	2
Defined Benefit Plans (Losses) Gains:						
Actuarial/Prior service (losses) gains	(872)	(607)	(106)	(191)	(135)	(54)
Actuarial/Prior service amortization ⁽²⁾	89	60	91	164	33	13
Curtailment gain – recognition of prior service credit	(107)	(66)	—	—	—	—
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	(31)	(31)	28	28	(36)	(36)
Other ⁽⁴⁾	8	8	22	22	(92)	(92)
Change in defined benefit plans (losses) gains	(913)	(636)	35	23	(230)	(169)
Other Comprehensive (Loss) Income, Net	(1,001)	(729)	23	—	355	429
Less: Other comprehensive (loss) income attributable to noncontrolling interests	(1)	(1)	—	—	1	1
Other Comprehensive (Loss) Income Attributable to Xerox	\$(1,000)	(728)	23	—	354	428

⁽¹⁾ Reclassified to Cost of sales – refer to Note 12 – Financial Instruments for additional information regarding our cash flow hedges.

⁽²⁾ Reclassified to Total Net Periodic Benefit Cost – refer to Note 14 – Employee Benefit Plans for additional information.

⁽³⁾ Represents our share of Fuji Xerox’s benefit plan changes.

⁽⁴⁾ Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

Accumulated Other Comprehensive Loss (“AOCL”)

AOCL is composed of the following:

	December 31,		
	2011	2010	2009
Cumulative translation adjustments	\$ (939)	\$ (835)	\$ (800)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(1,803)	(1,167)	(1,190)
Other unrealized gains, net	26	14	2
Total Accumulated Other Comprehensive Loss	\$(2,716)	\$(1,988)	\$(1,988)

⁽¹⁾ Includes our share of Fuji Xerox.

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 20 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Year Ended December 31,		
	2011	2010	2009
Basic Earnings per Share:			
Net income attributable to Xerox	\$ 1,295	\$ 606	\$ 485
Accrued dividends on preferred stock	(24)	(21)	—
Adjusted Net Income Available to Common Shareholders	\$ 1,271	\$ 585	\$ 485
Weighted-average common shares outstanding	1,388,096	1,323,431	869,979
Basic Earnings per Share	\$ 0.92	\$ 0.44	\$0.56
Diluted Earnings per Share:			
Net income attributable to Xerox	\$ 1,295	\$ 606	\$ 485
Accrued dividends on preferred stock	—	(21)	—
Interest on Convertible Securities, net	1	—	1
Adjusted Net Income Available to Common Shareholders	\$ 1,296	\$ 585	\$ 486
Weighted-average common shares outstanding	1,388,096	1,323,431	869,979
Common shares issuable with respect to:			
Stock options	9,727	13,497	462
Restricted stock and performance shares	16,993	13,800	7,087
Convertible preferred stock	26,966	—	—
Convertible securities	1,992	—	1,992
Adjusted Weighted-Average Common Shares Outstanding	1,443,774	1,350,728	879,520
Diluted Earnings per Share	\$ 0.90	\$ 0.43	\$0.55
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	40,343	57,541	27,901
Restricted stock and performance shares	26,018	25,983	22,574
Convertible preferred stock	—	26,966	—
Convertible securities	—	1,992	—
	66,361	112,482	50,475
Dividends per Common Share	\$ 0.17	\$ 0.17	\$0.17

Notes to the Consolidated Financial Statements

(in millions, except per-share data and where otherwise noted)

Note 21 – Subsequent Events

Debt Exchange

In February 2012, we completed an exchange of our 5.71% Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of \$303, for approximately \$363 of our 4.50% Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.50% Senior Notes due 2021 from \$700 to \$1,063. The exchange was conducted to retire high-interest, long-dated debt in a favorable interest rate environment. The debt exchange was accounted for as a non-revolving debt modification and, therefore, it did not result in any gain or loss. The difference between the book value of our Zero Coupon Notes and the principal value of the Senior Notes issued in exchange will be accreted over the remaining term of the Senior Notes. Upfront fees paid to third parties in relation to the exchange were not material and were expensed as incurred.

In February 2012, we acquired RK Dixon, a leading provider of IT services, copiers, printers and managed print services, for approximately \$58. The acquisition furthers our coverage of Central Illinois and Eastern Iowa, building on our strategy to create a nationwide network of locally based companies focused on customers' needs to improve business performance through efficiencies. We are in the process of determining the purchase price allocation.

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.



Ursula M. Burns
Chief Executive Officer



Luca Maestri
Chief Financial Officer



Gary R. Kabureck
Chief Accounting Officer

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, 2011.

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, comprehensive income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, 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.



PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2012

Quarterly Results of Operations (Unaudited)

(in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2011					
Revenues	\$ 5,465	\$ 5,614	\$ 5,583	\$ 5,964	\$ 22,626
Costs and Expenses	5,115	5,213	5,216	5,517	21,061
Income before Income Taxes and Equity Income	350	401	367	447	1,565
Income tax expenses	95	108	81	102	386
Equity in net income of unconsolidated affiliates	34	34	43	38	149
Net Income	289	327	329	383	1,328
Less: Net income – noncontrolling interests	8	8	9	8	33
Net Income Attributable to Xerox	\$ 281	\$ 319	\$ 320	\$ 375	\$ 1,295
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.22	\$ 0.23	\$ 0.27	\$ 0.92
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.22	0.26	0.90
2010					
Revenues	\$ 4,721	\$ 5,508	\$ 5,428	\$ 5,976	\$ 21,633
Costs and Expenses	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	22	112	98	24	256
Equity in net (loss) income of unconsolidated affiliates	(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 (Loss) Earnings per Share ⁽¹⁾	\$ (0.04)	\$ 0.16	\$ 0.18	\$ 0.12	\$ 0.44
Diluted (Loss) Earnings per Share ⁽¹⁾	(0.04)	0.16	0.17	0.12	0.43

⁽¹⁾ 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

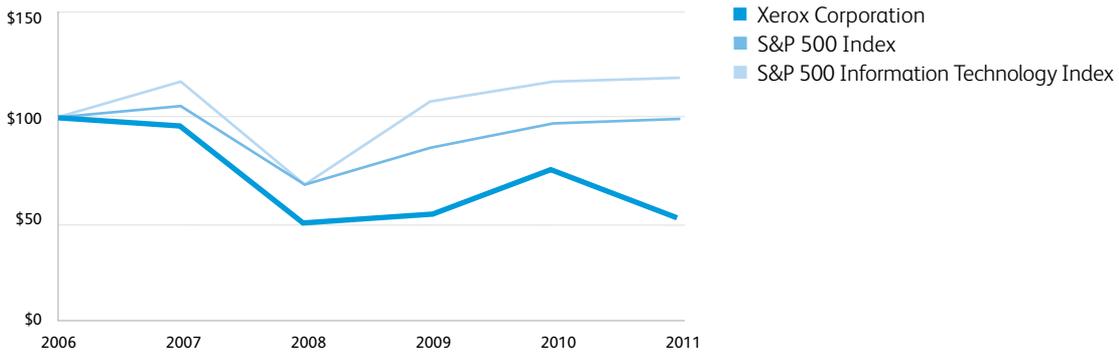
(in millions, except per-share data)

	2011	2010 ⁽¹⁾	2009	2008	2007
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.92	\$ 0.44	\$ 0.56	\$ 0.26	\$ 1.21
Diluted	0.90	0.43	0.55	0.26	1.19
Earnings					
Basic	0.92	0.44	0.56	0.26	1.21
Diluted	0.90	0.43	0.55	0.26	1.19
Common stock dividends declared	0.17	0.17	0.17	0.17	0.0425
Operations					
Revenues	\$ 22,626	\$ 21,633	\$ 15,179	\$ 17,608	\$ 17,228
Sales	7,126	7,234	6,646	8,325	8,192
Service, outsourcing and rentals	14,868	13,739	7,820	8,485	8,214
Finance income	632	660	713	798	822
Income from continuing operations	1,328	637	516	265	1,165
Income from continuing operations – Xerox	1,295	606	485	230	1,135
Net income	1,328	637	516	265	1,165
Net income – Xerox	1,295	606	485	230	1,135
Financial Position					
Working capital	\$ 1,531	\$ 2,222	\$ 5,270	\$ 2,700	\$ 4,463
Total Assets	30,116	30,600	24,032	22,447	23,543
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,545	1,370	988	1,610	525
Long-term debt	7,088	7,237	8,276	6,774	6,939
Total Debt	8,633	8,607	9,264	8,384	7,464
Liability to subsidiary trust issuing preferred securities	—	650	649	648	632
Series A convertible preferred stock	349	349	—	—	—
Xerox shareholders' equity	11,876	12,006	7,050	6,238	8,588
Noncontrolling interests	149	153	141	120	103
Total Consolidated Capitalization	\$ 21,007	\$ 21,765	\$ 17,104	\$ 15,390	\$ 16,787
Selected Data and Ratios					
Common shareholders of record at year-end	41,982	43,383	44,792	46,541	48,261
Book value per common share	\$ 8.78	\$ 8.59	\$ 8.11	\$ 7.21	\$ 9.36
Year-end common stock market price	\$ 7.96	\$ 11.52	\$ 8.46	\$ 7.97	\$ 16.19
Employees at year-end	139,700	136,500	53,600	57,100	57,400
Gross margin	32.8%	34.4%	39.7%	38.9%	40.3%
Sales gross margin	34.1%	34.5%	33.9%	33.7%	35.9%
Service, outsourcing and rentals gross margin	30.9%	33.1%	42.6%	41.9%	42.7%
Finance gross margin	63.4%	62.7%	62.0%	61.8%	61.6%

⁽¹⁾ 2010 results include the acquisition of ACS.

Performance Graph

Comparison of Cumulative Five-Year Total Return



Total Return to Shareholders

(Includes reinvestment of dividends)	Year Ended December 31,					
	2006	2007	2008	2009	2010	2011
Xerox Corporation	\$100.00	\$ 95.77	\$47.85	\$ 52.15	\$ 72.26	\$ 50.91
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
S&P 500 Information Technology Index	100.00	116.31	66.13	106.95	117.85	120.69

Source: Standard & Poor's Investment Services.

Notes: Graph assumes \$100 invested on December 31, 2006 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
2011				
High	\$ 11.71	\$ 10.88	\$ 10.71	\$ 8.57
Low	9.87	9.40	6.97	6.72
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
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

* Prices as of close of business.

Officers

Ursula M. Burns

Chairman and Chief Executive Officer

Lynn R. Blodgett

Executive Vice President
President,
Xerox Services

James A. Firestone

Executive Vice President
President, Corporate Operations

Luca Maestri

Executive Vice President
Chief Financial Officer

Armando Zagalo de Lima

Executive Vice President
President,
Xerox Technology

Don H. Liu

Senior Vice President
General Counsel and Secretary

Thomas J. Maddison

Senior Vice President
Chief Human Resources Officer

David Amoriell

Vice President
Chief Operating Officer,
Transportation, Central and Local Government
Xerox Services

Willem Appelo

Vice President
President, Global Delivery Group
Xerox Technology

Thomas Blodgett

Vice President
Chief Operating Officer, Europe
Xerox Services

David Bywater

Vice President
Chief Operating Officer, State Government
Xerox Services

Christa B. Carone

Vice President
Chief Marketing Officer

Richard F. Cerrone

Vice President
Vice President, Acquisition Transition Office
Xerox Technology

M. Stephen Cronin

Vice President
President, Large Enterprise Operations
Xerox Technology

Richard M. Dastin

Vice President
President, Enterprise Business Group
Xerox Technology

Kathleen S. Fanning

Vice President
Vice President, Worldwide Tax

Michael R. Festa

Vice President
Chief Financial Officer
Xerox Services

Jacques H. Guers

Vice President
President, Xerox Europe
Xerox Technology

Connie Harvey

Vice President
Chief Operating Officer, Commercial Services
Xerox Services

Jeffrey Jacobson

Vice President
President, Graphic Communications Operations
Xerox Technology

Gary R. Kabureck

Vice President
Chief Accounting Officer

Kevin Kyser

Vice President
Chief Operating Officer,
Information Technology Outsourcing
Xerox Services

James H. Lesko

Vice President
Vice President, Investor Relations

Joseph H. Mancini Jr.

Vice President
Chief Financial Officer
Xerox Technology

John E. McDermott

Vice President
President, Strategy, Business Process Architecture
and Change Management
Xerox Technology

Ivy Thomas McKinney

Vice President
Deputy General Counsel and Chief Ethics Officer

Shaun W. Pantling

Vice President
President, Europe Client Operations
Xerox Technology

Russell M. Peacock

Vice President
President, Global Imaging Systems and Xerox Canada
Xerox Technology

Rhonda L. Seegal

Vice President
Treasurer

Hervé Tessler

Vice President
President, Developing Markets Operations
Xerox Technology

Sophie V. Vandebroek

Vice President
Chief Technology Officer and
President, Xerox Innovation Group

Leslie F. Varon

Vice President
Vice President, Finance and Corporate Controller

Ann Vezina

Vice President
Chief Operating Officer,
Enterprise Business Process Outsourcing
Xerox Services

Kevin M. Warren

Vice President
President, U.S. Client Operations
Xerox Technology

Douraid Zaghouani

Vice President
President, Channel Partner Operations
Xerox Technology

Carol J. Zierhoffer

Vice President
Chief Information Officer

Douglas H. Marshall

Assistant Secretary

Carol A. McFate

Assistant Treasurer
Chief Investment Officer

Shareholder Information

For investor information, including comprehensive earnings releases: www.xerox.com/investor or call 888.979.8378.

For shareholder services: call 800.828.6396 (TDD: 800.368.0328) or 781.575.3222; or write to Computershare Trust Company, N.A. P.O. Box 43078 Providence, RI 02940-3078; or use e-mail available at www.computershare.com.

Annual Meeting

Thursday, May 24, 2012, 9:00 a.m. EDT
Dolce Norwalk
32 Weed Avenue
Norwalk, Connecticut 06850
Proxy material mailed on April 10, 2012 to shareholders of record March 26, 2012.

Investor Contacts

Jennifer Horsley
jennifer.horsley@xerox.com

Joseph Ketchum
joseph.ketchum@xerox.com

This annual report is also available online at www.xerox.com/investor.

Electronic Delivery Enrollment

Xerox offers shareholders the convenience of electronic delivery including:

- Immediate receipt of the Proxy Statement and Annual Report
- Online proxy voting.

Registered Shareholders, visit

<http://www.eTree.com/Xerox>

You are a registered shareholder if you have your stock certificate in your possession or if the shares are being held by our transfer agent, Computershare.

Beneficial Shareholders, visit

<http://enroll.icsdelivery.com/xrx>

You are a beneficial shareholder if you maintain your position in Xerox within a brokerage account.

How to Reach Us

Xerox Corporation
45 Glover Avenue
Norwalk, CT 06856-4505
United States
203.968.3000
www.xerox.com

Xerox Europe
Riverview
Oxford Road
Uxbridge
Middlesex
United Kingdom
UB8 1HS
+44.1895.251133

Fuji Xerox Co., Ltd.
Tokyo Midtown West
9-7-3, Akasaka
Minato-ku, Tokyo 107-0052
Japan
+81.3.6271.5111

Products and Services
www.xerox.com or by phone:
800.ASK.XEROX (800.275.9376)

Additional Information

The Xerox Foundation
203.849.2478
Evelyn Shockley, Manager

Diversity Programs and EEO-1 Reports
585.423.6157
www.xerox.com/diversity

Minority and Women-Owned Business Suppliers
585.422.9531
www.xerox.com/supplierdiversity

Ethics Helpline
866.XRX.0001 North America;
International numbers and
Web submission tool on www.xerox.com/ethics
e-mail: ethics@xerox.com

Environment, Health and Safety Progress Report
800.828.6571, prompts 1, 3
www.xerox.com/environment

Global Citizenship
www.xerox.com/citizenship
e-mail: citizenship@xerox.com

Governance
www.xerox.com/governance

Questions from Students and Educators
e-mail: nancy.dempsey@xerox.com

Xerox Innovation
www.xerox.com/innovation

Independent Auditors
PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, CT 06901
203.539.3000

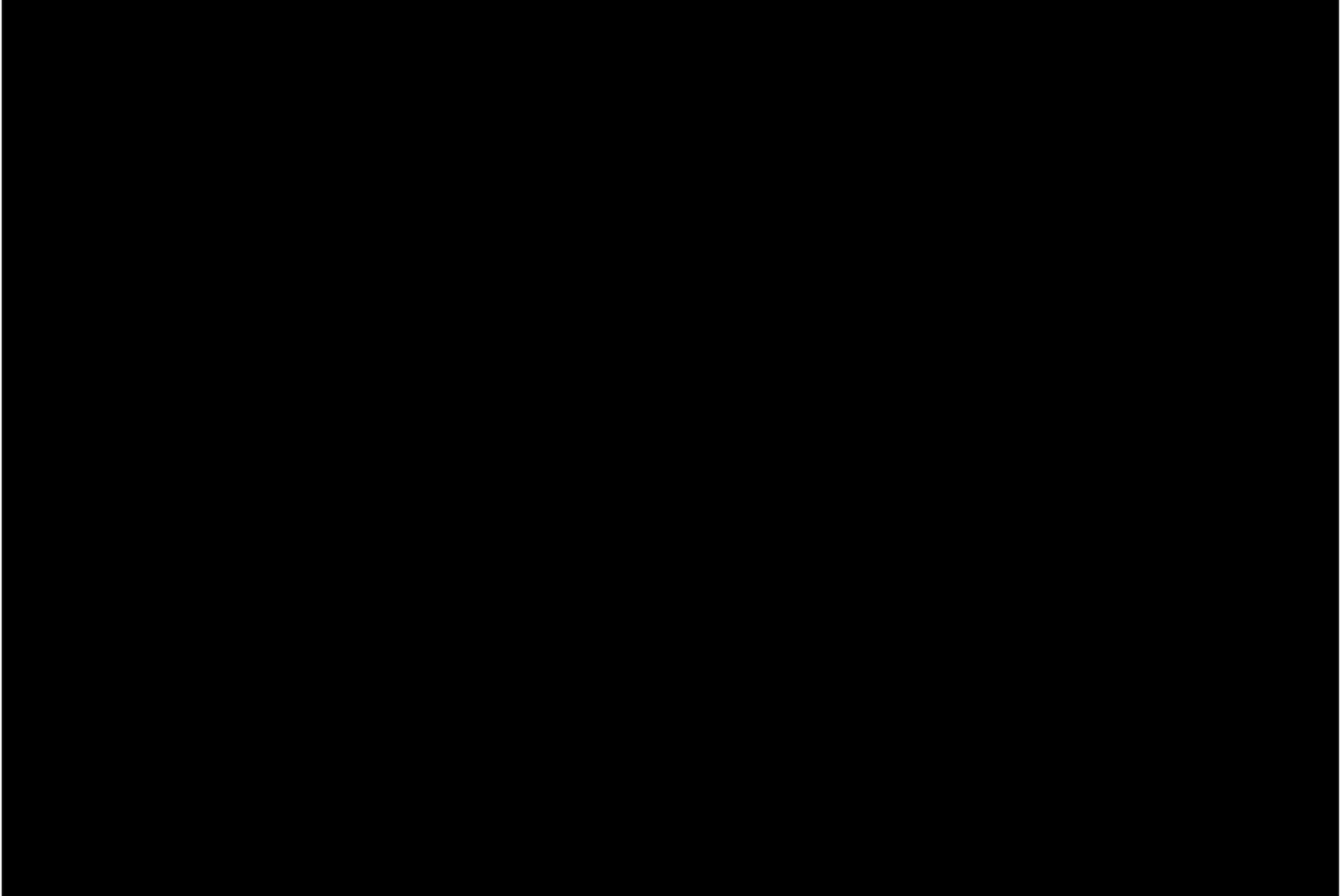
Xerox Corporation
45 Glover Avenue
P.O. Box 4505
Norwalk, CT 06856-4505
United States
203-968-3000
www.xerox.com



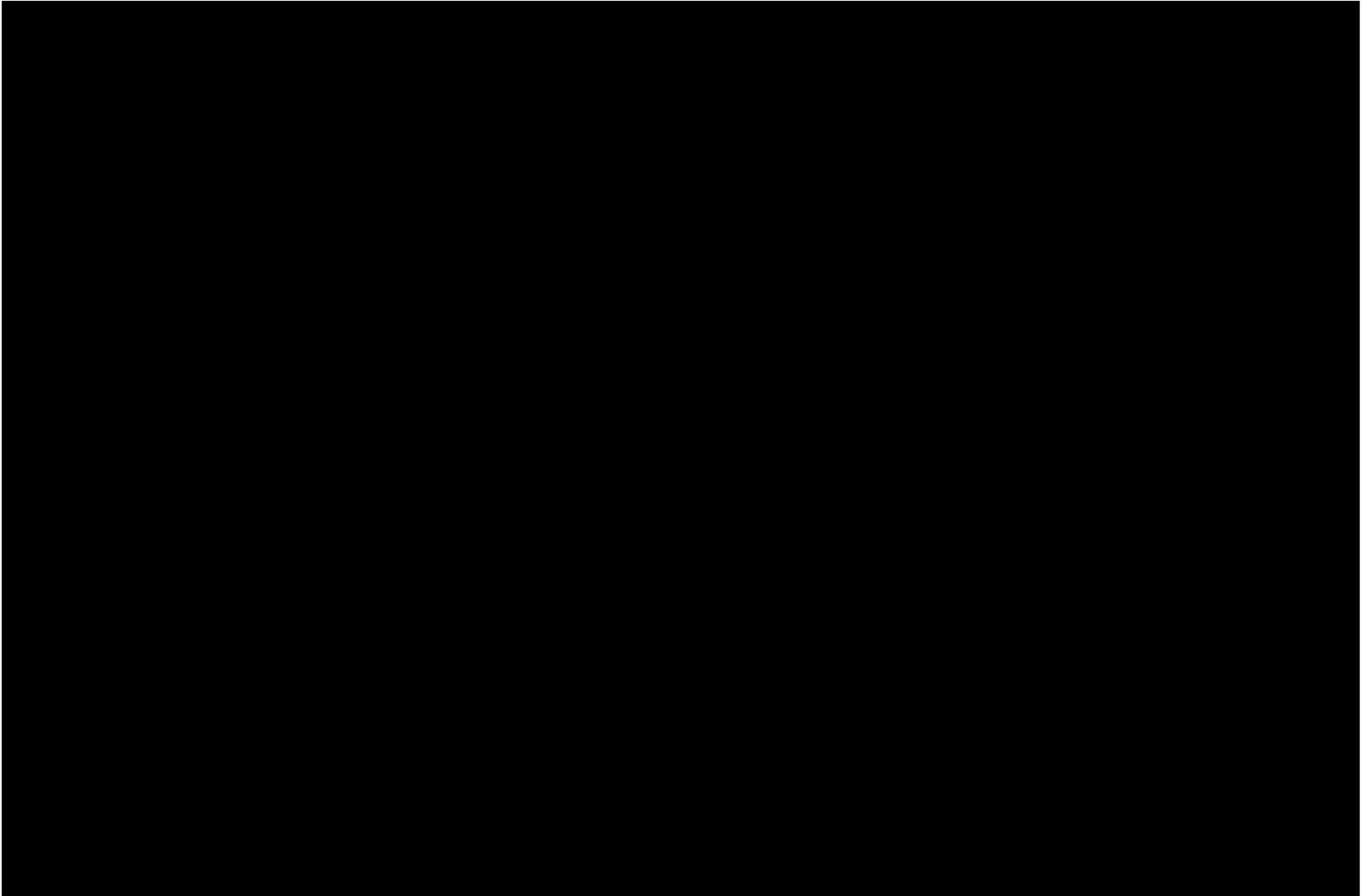
Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed

The following Work Breakdown Schedule
(pages 1-74) has been redacted.

**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



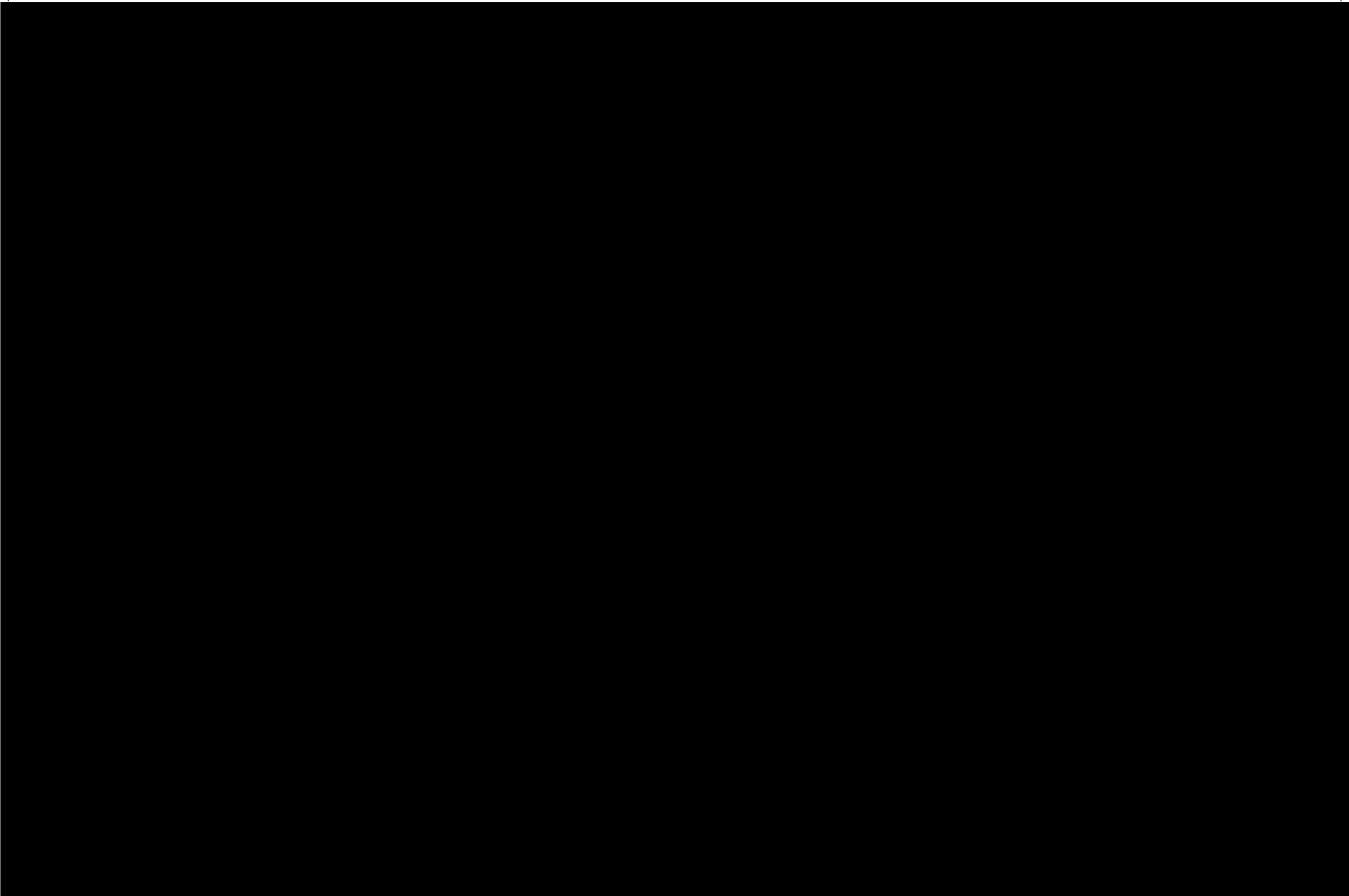
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



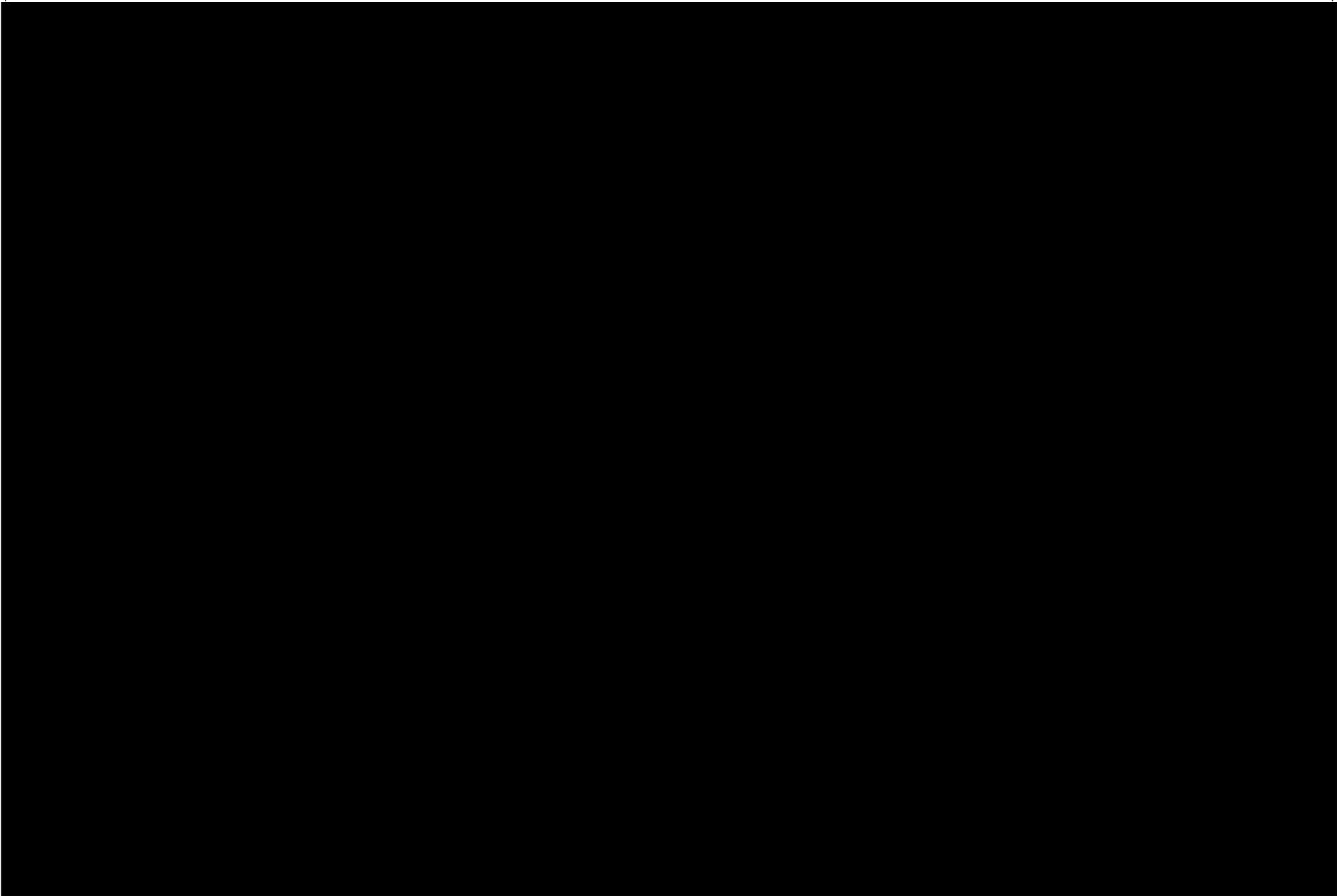
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



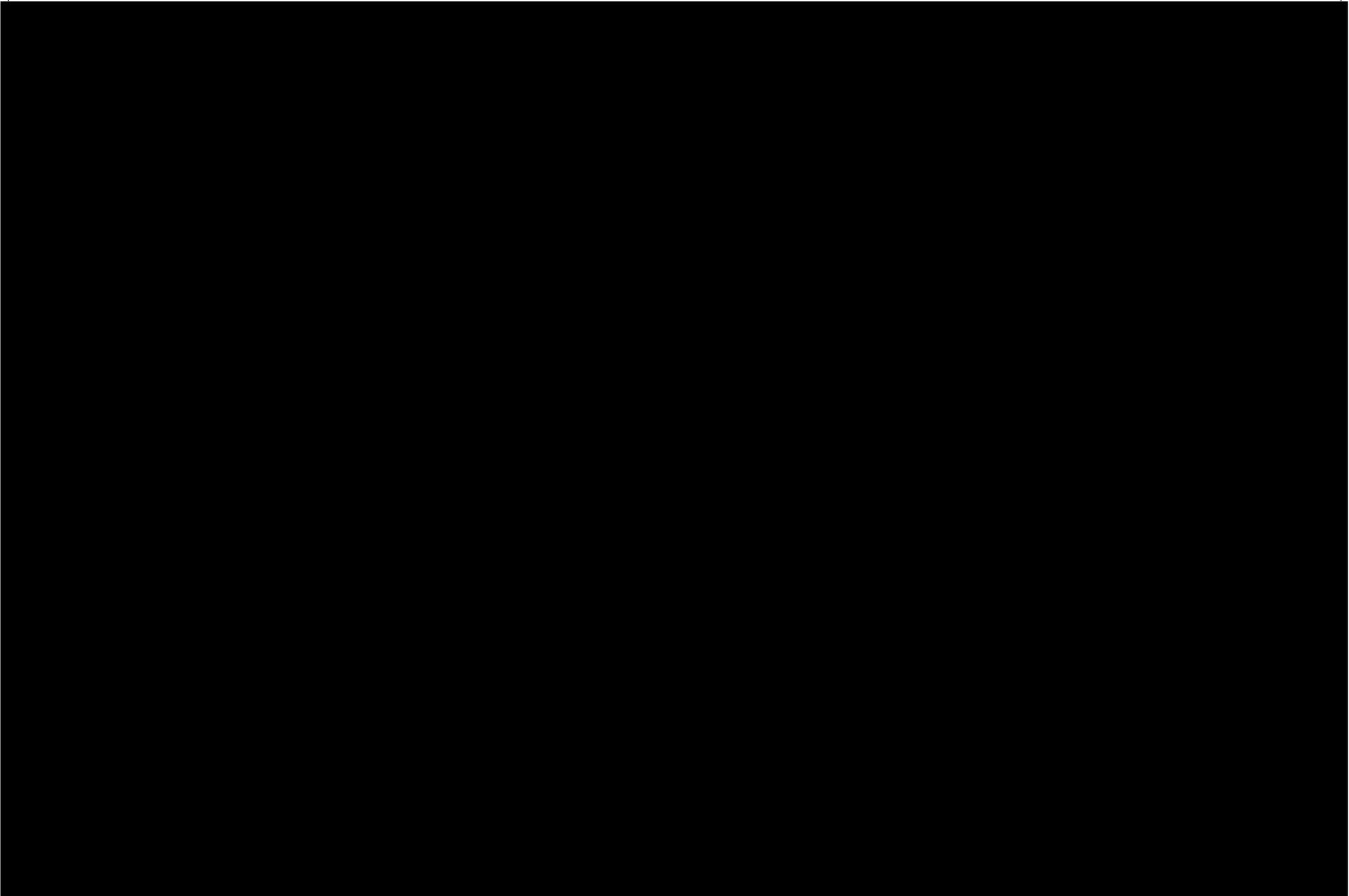
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



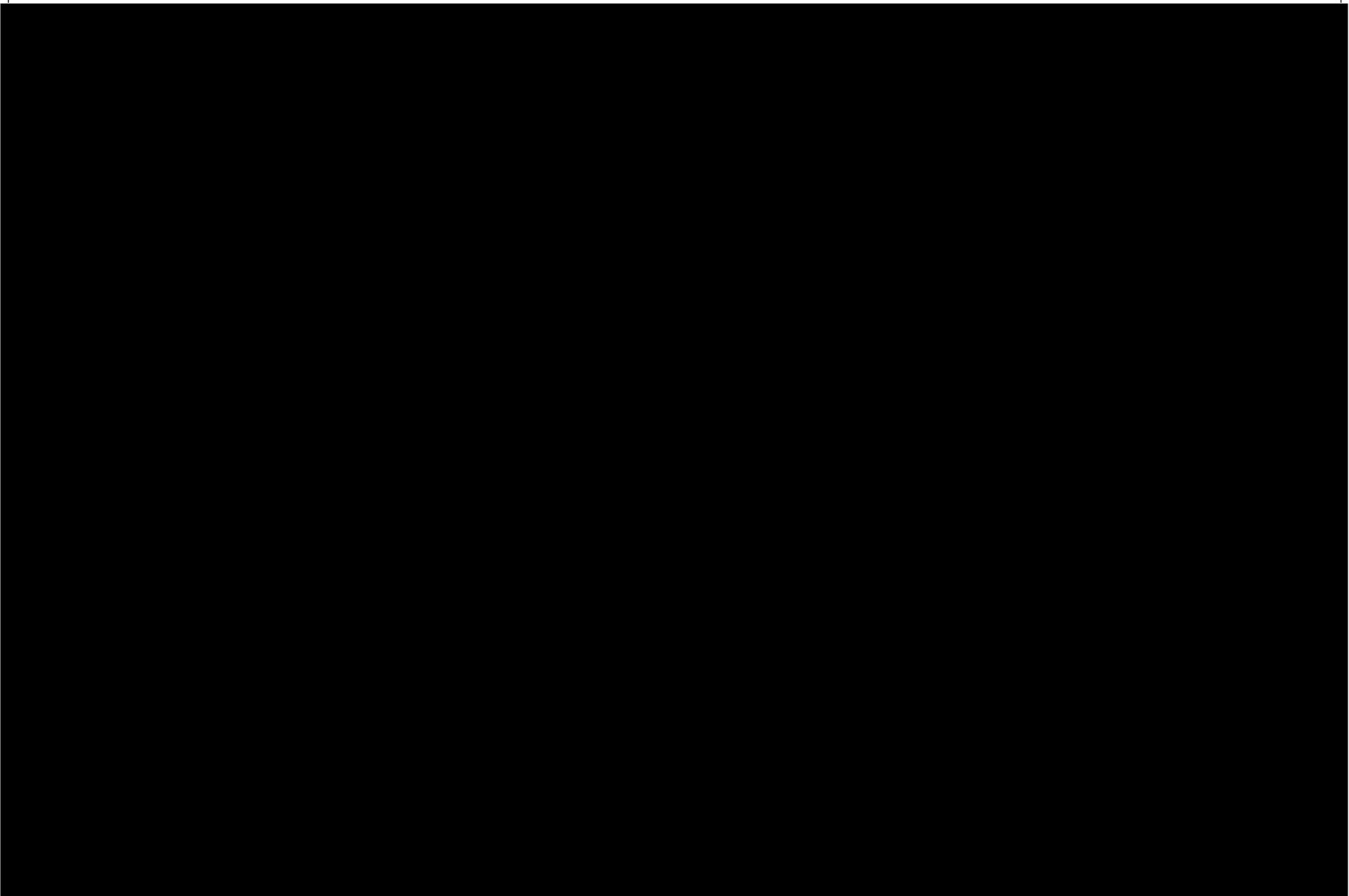
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



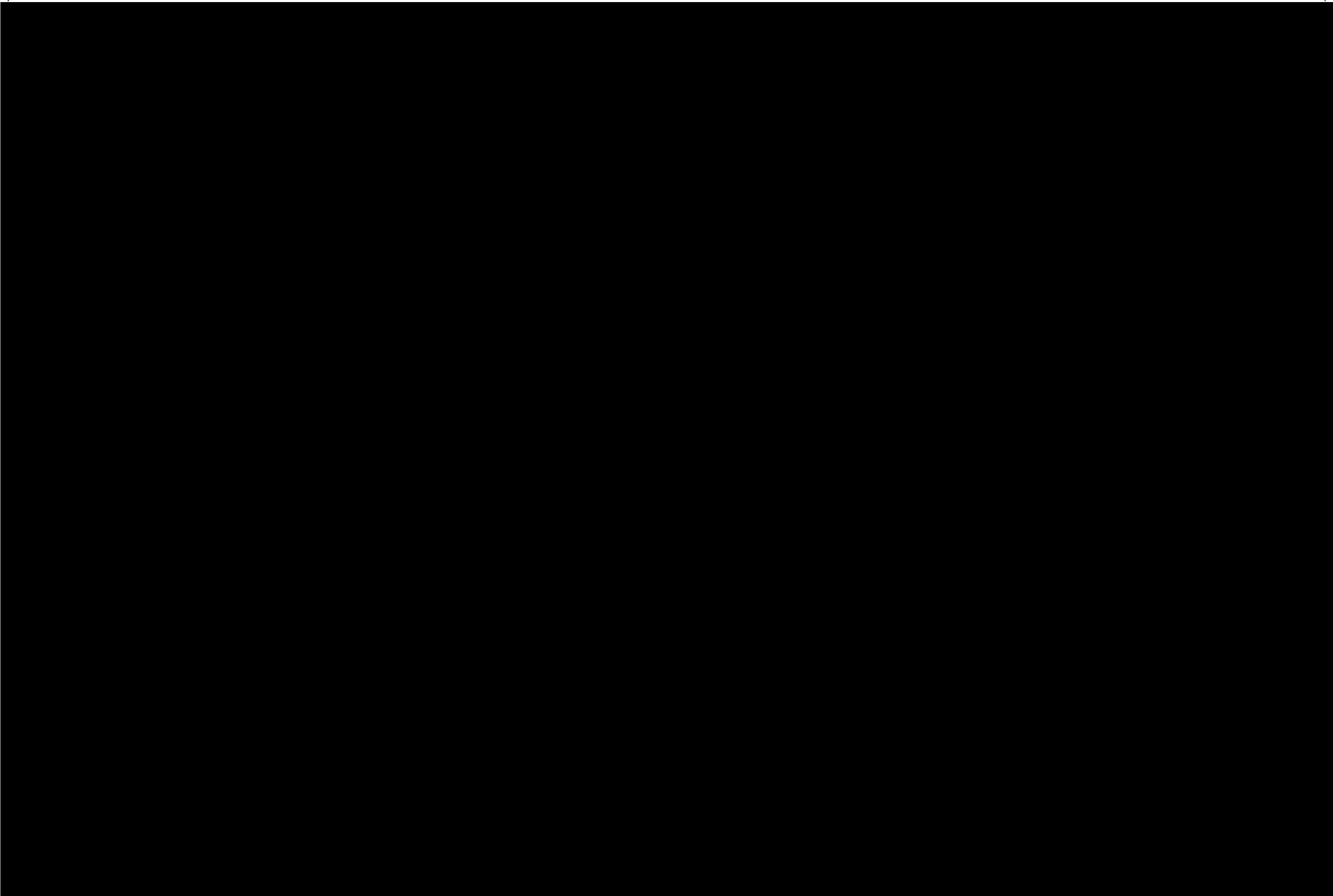
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



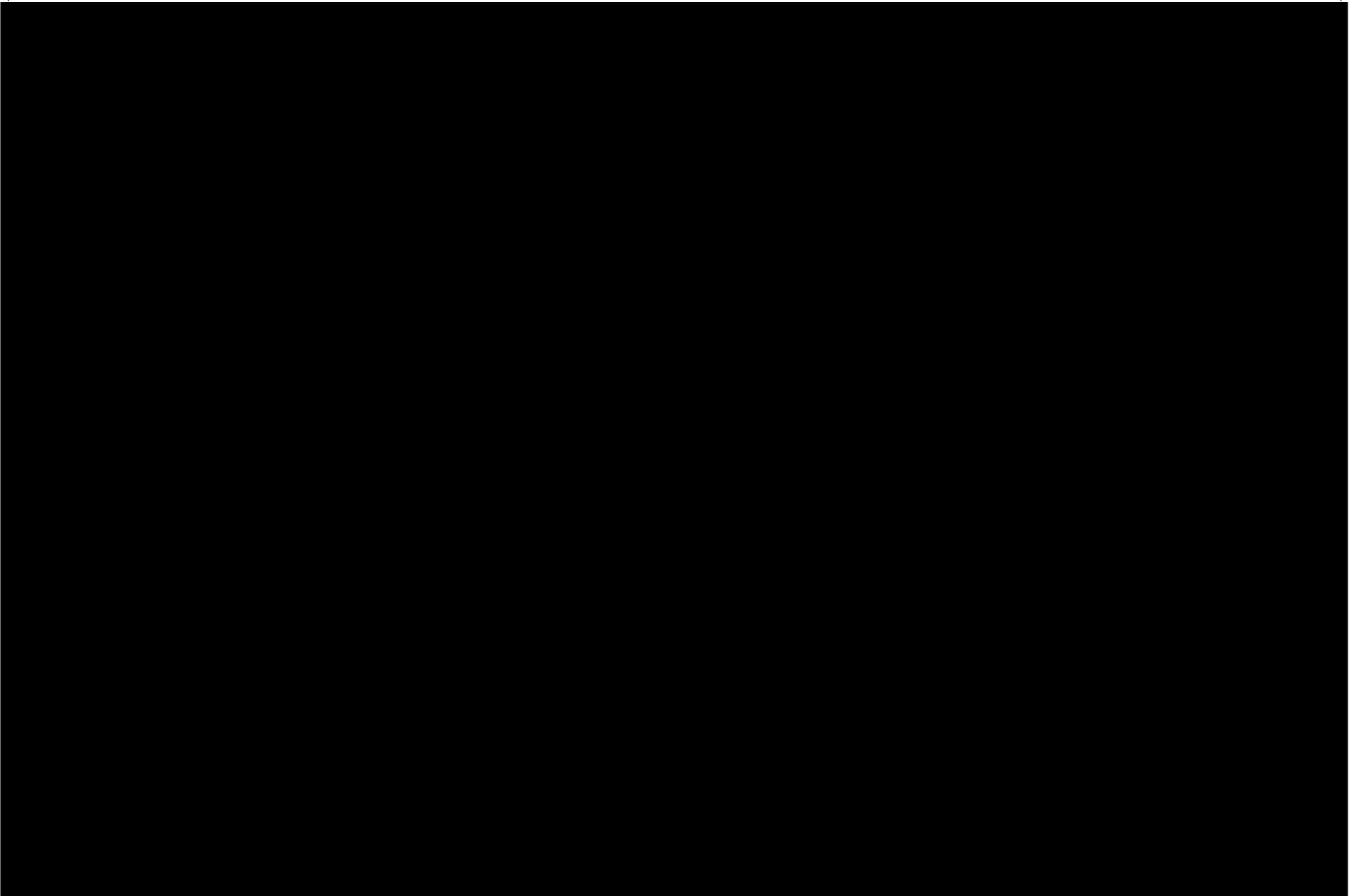
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



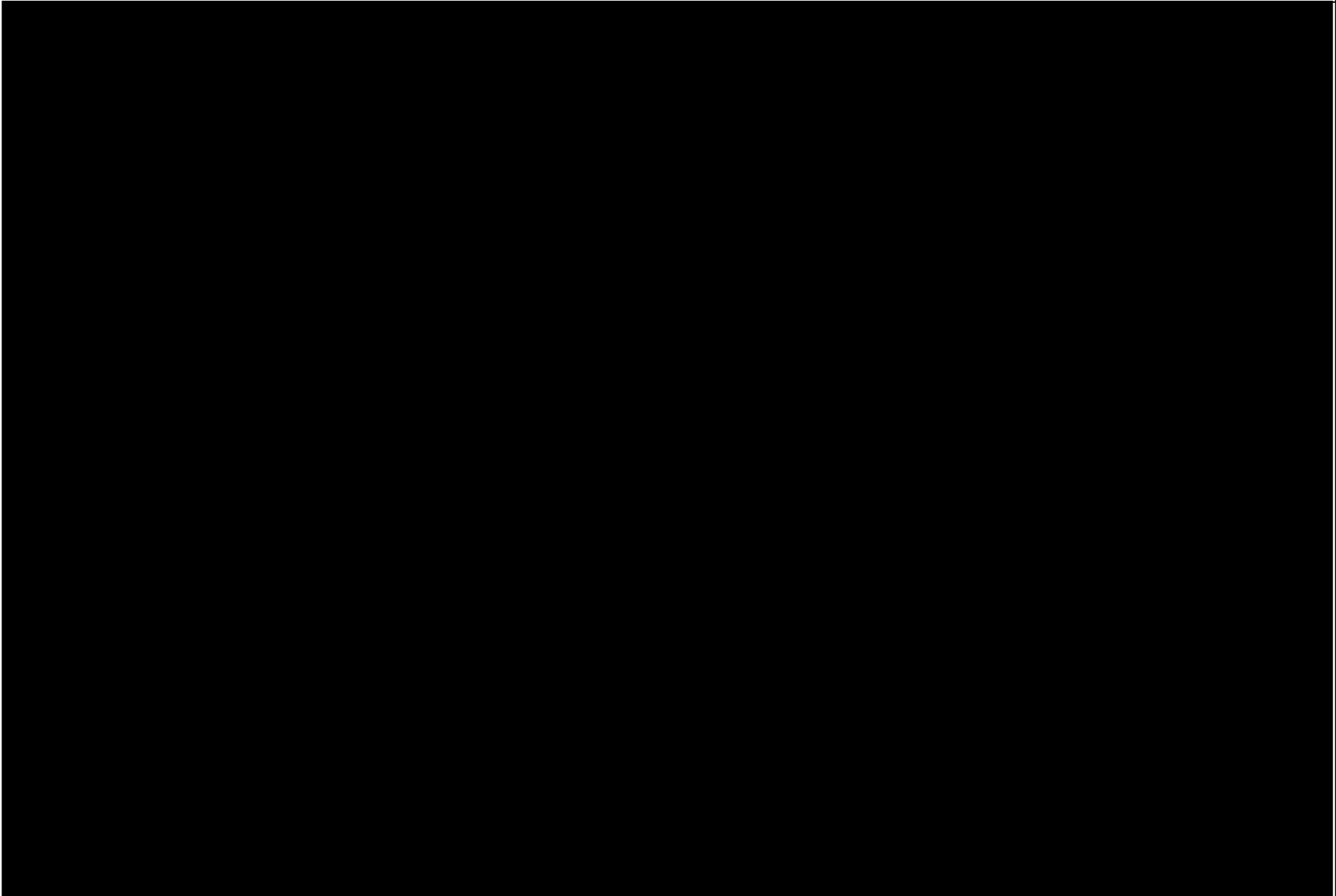
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



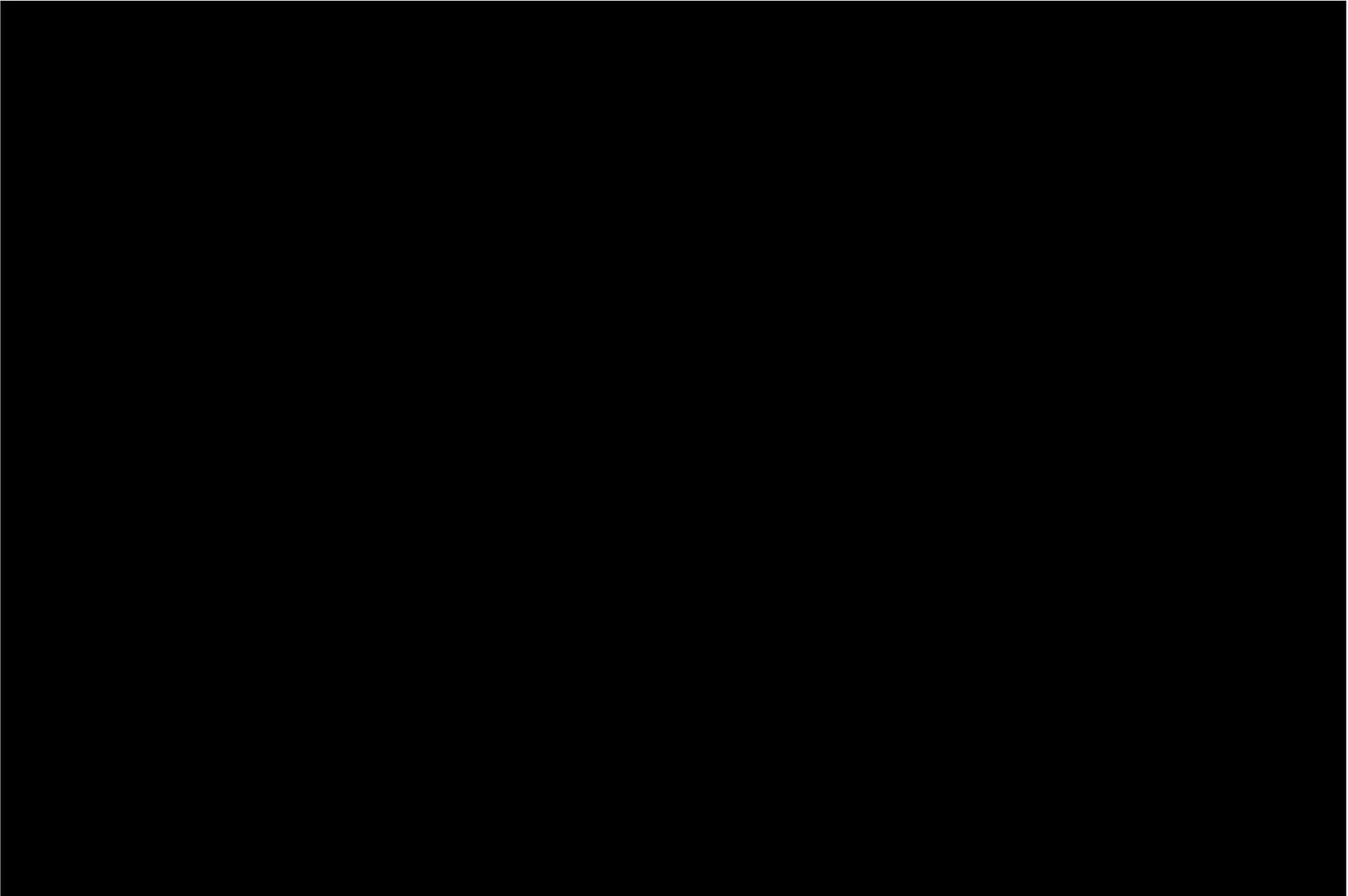
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



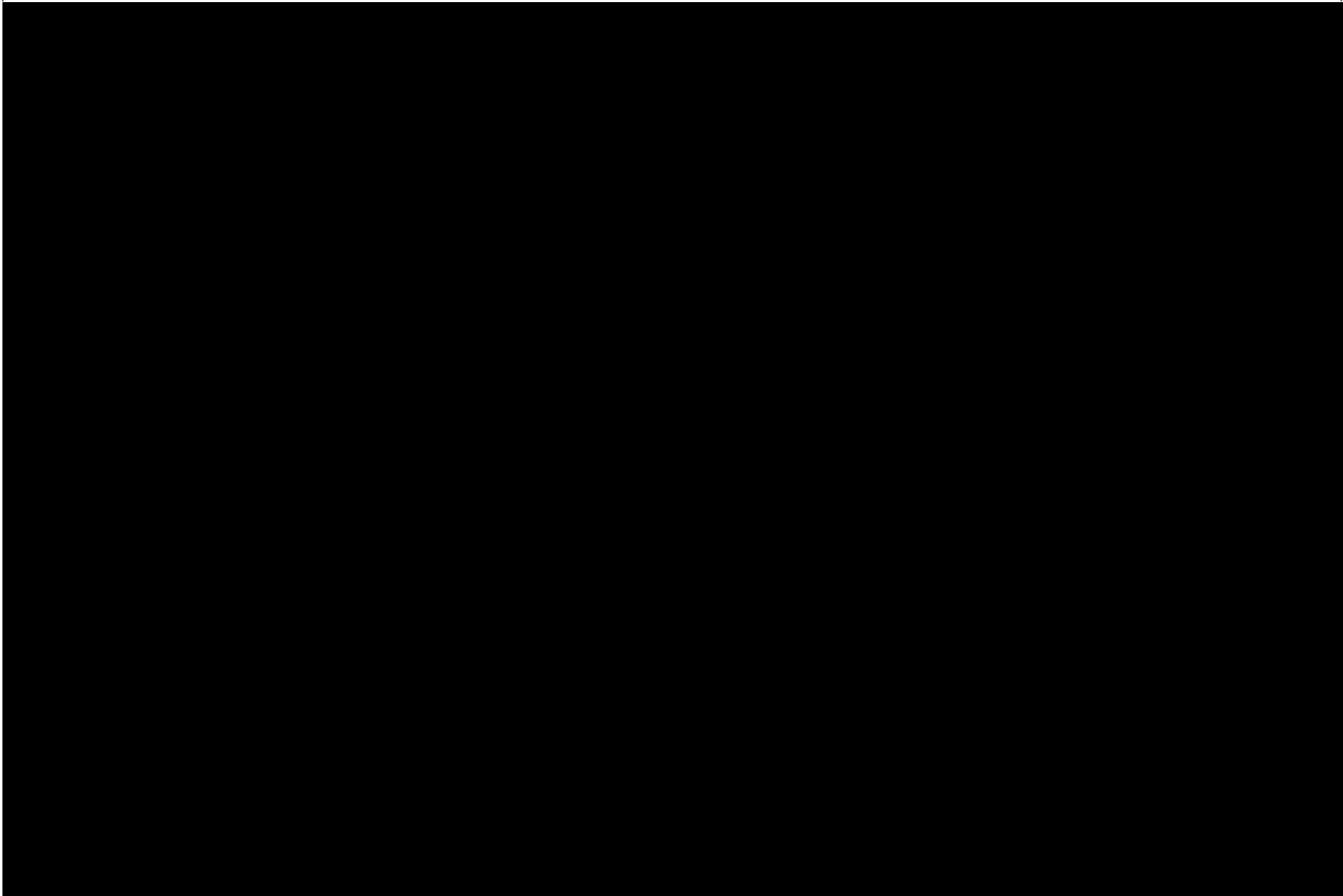
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



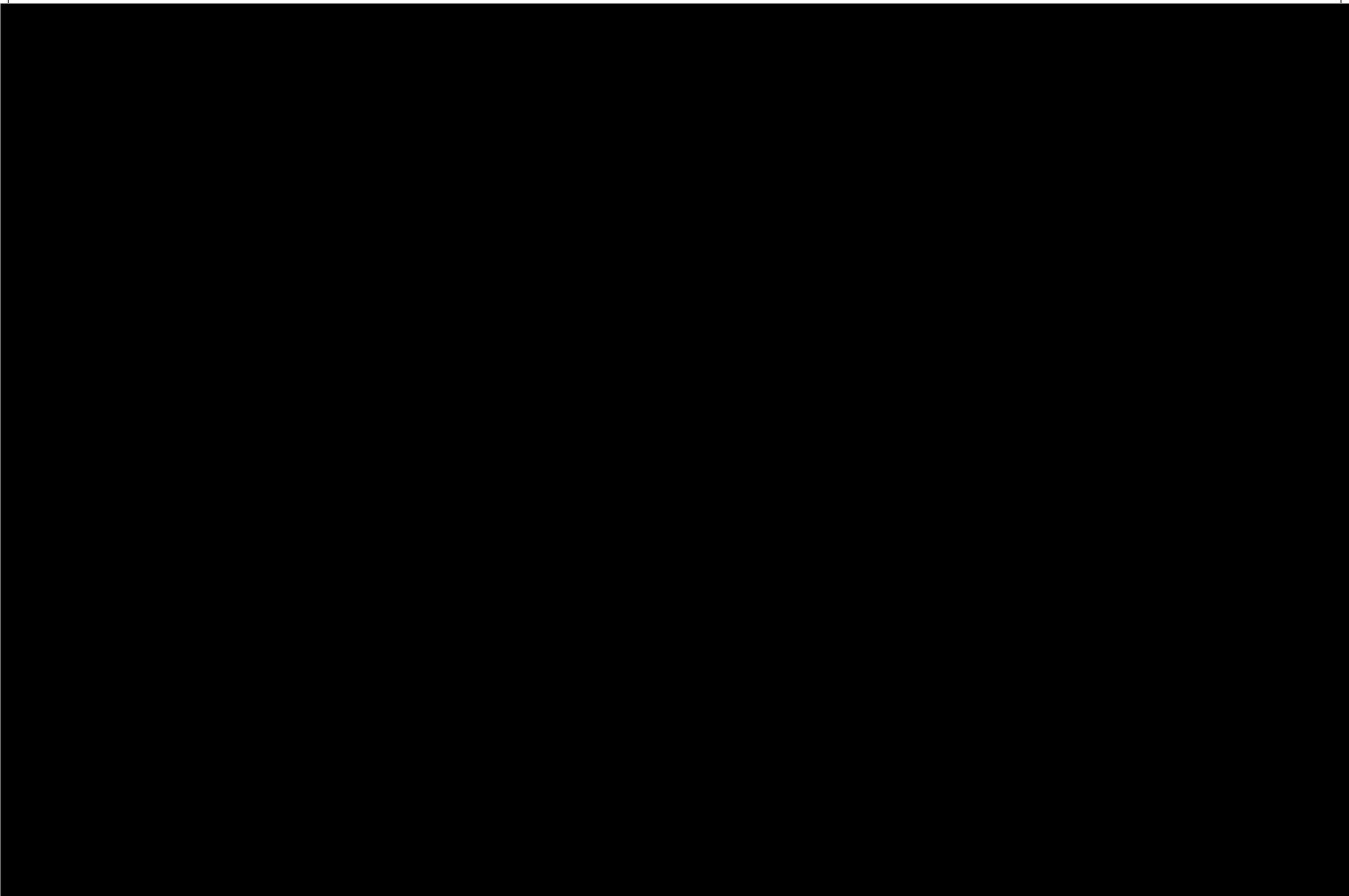
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



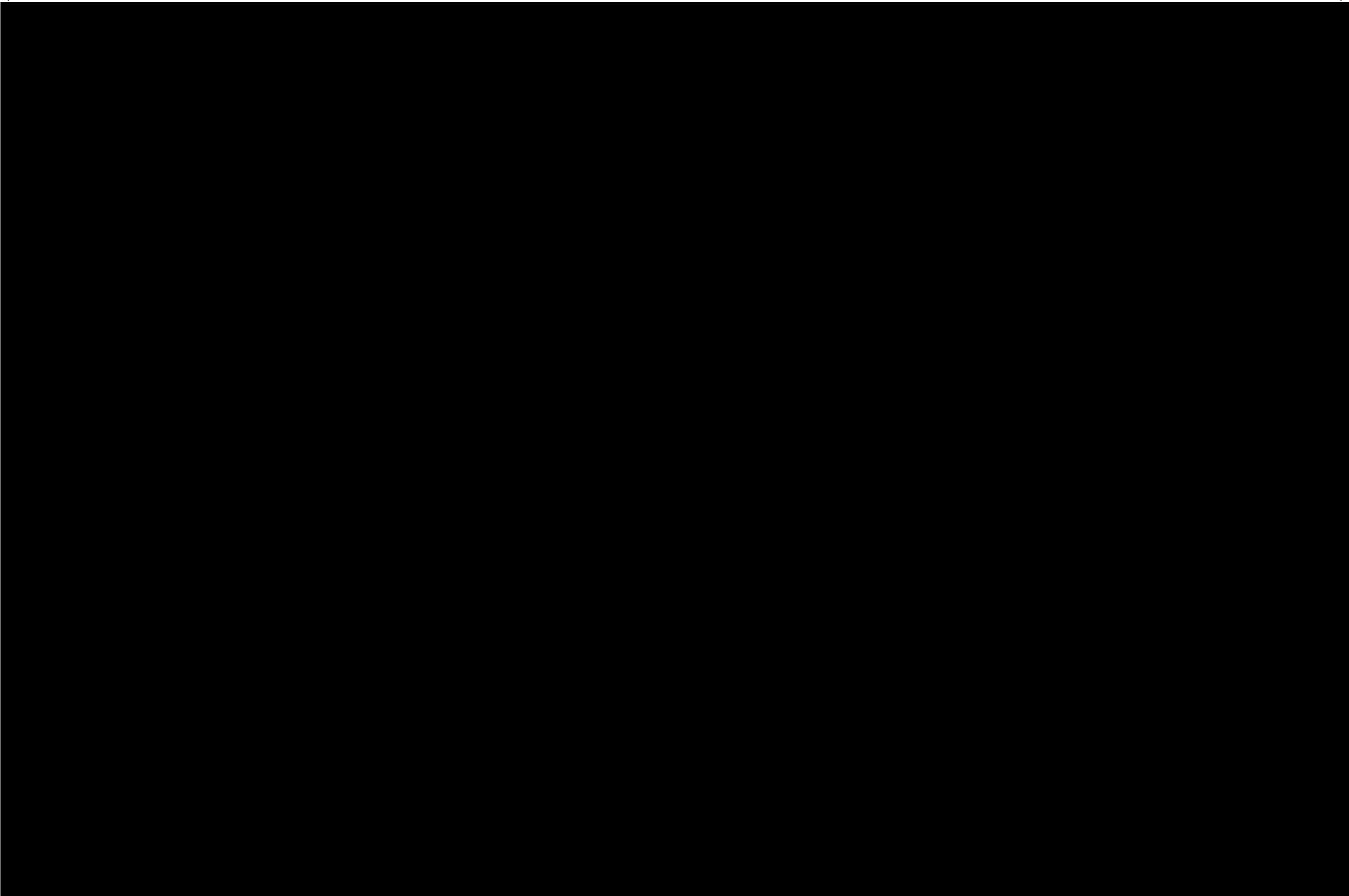
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



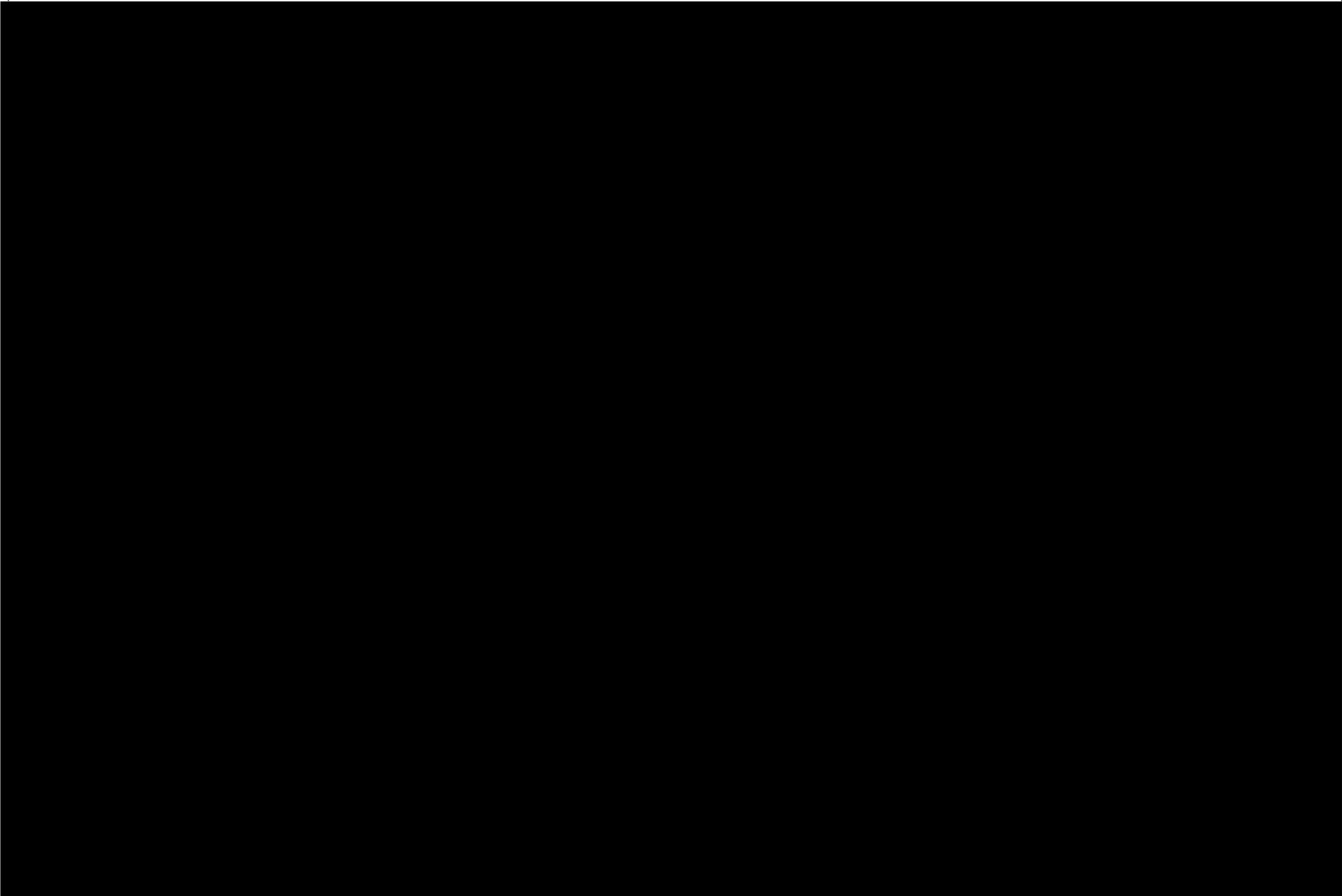
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



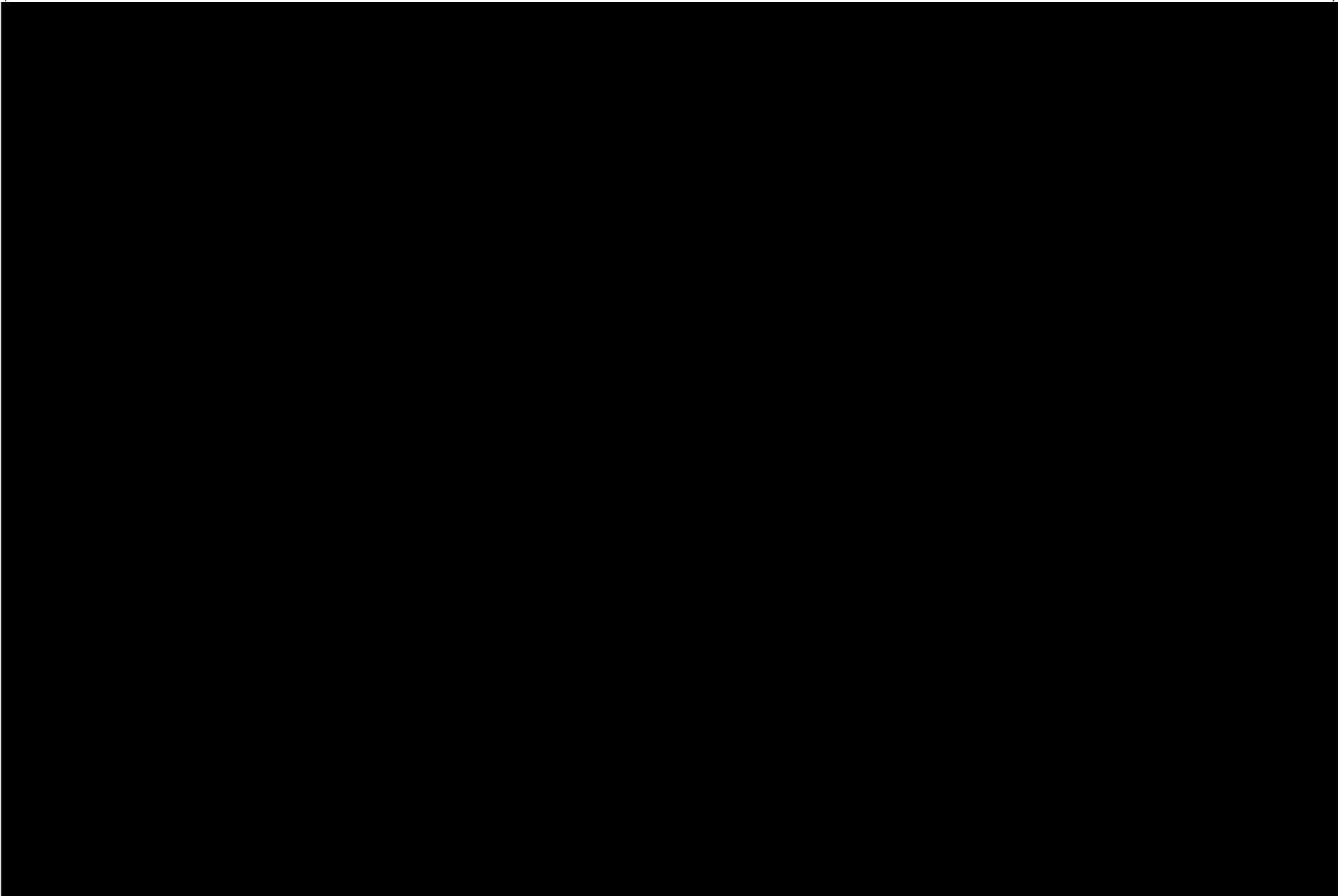
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



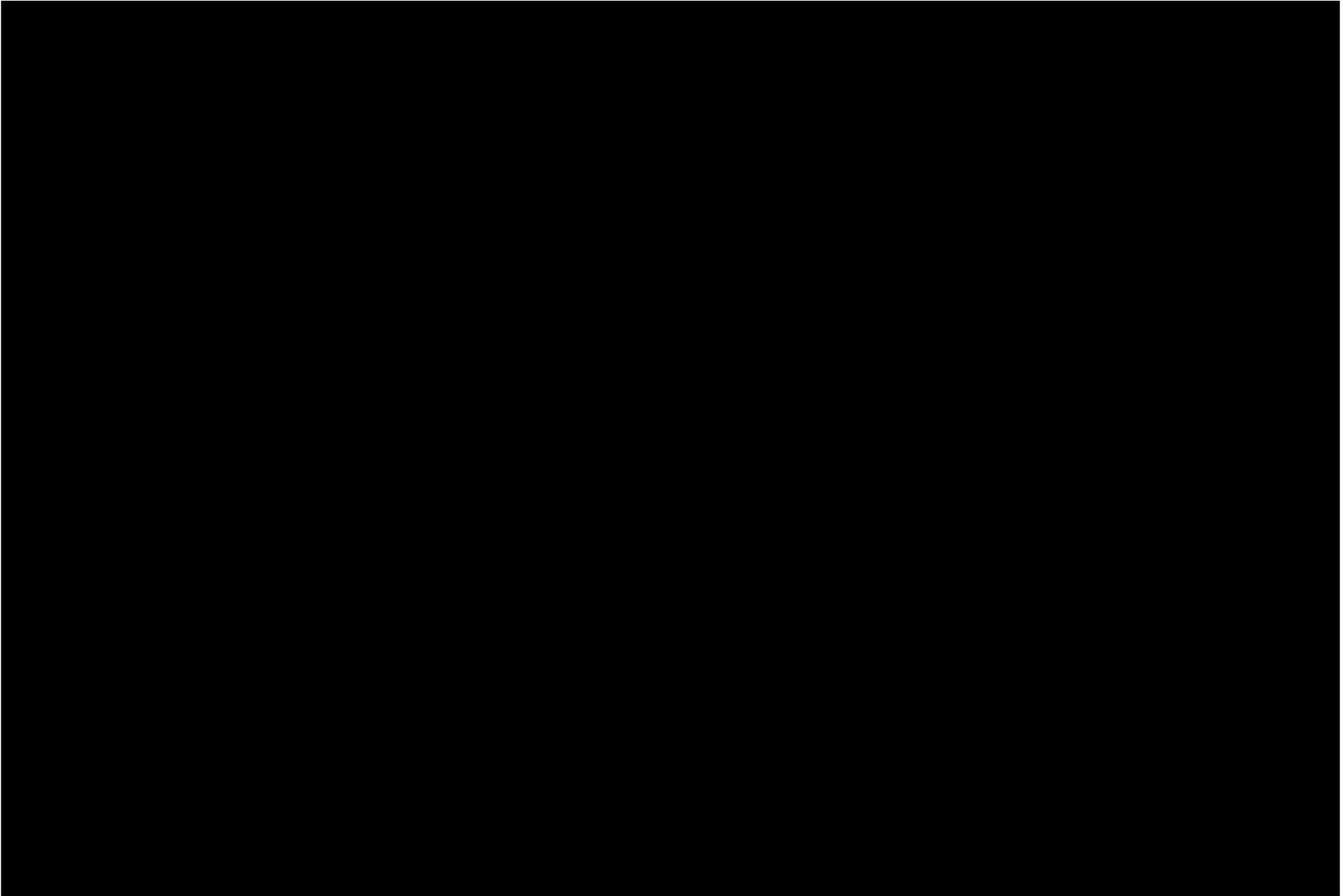
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



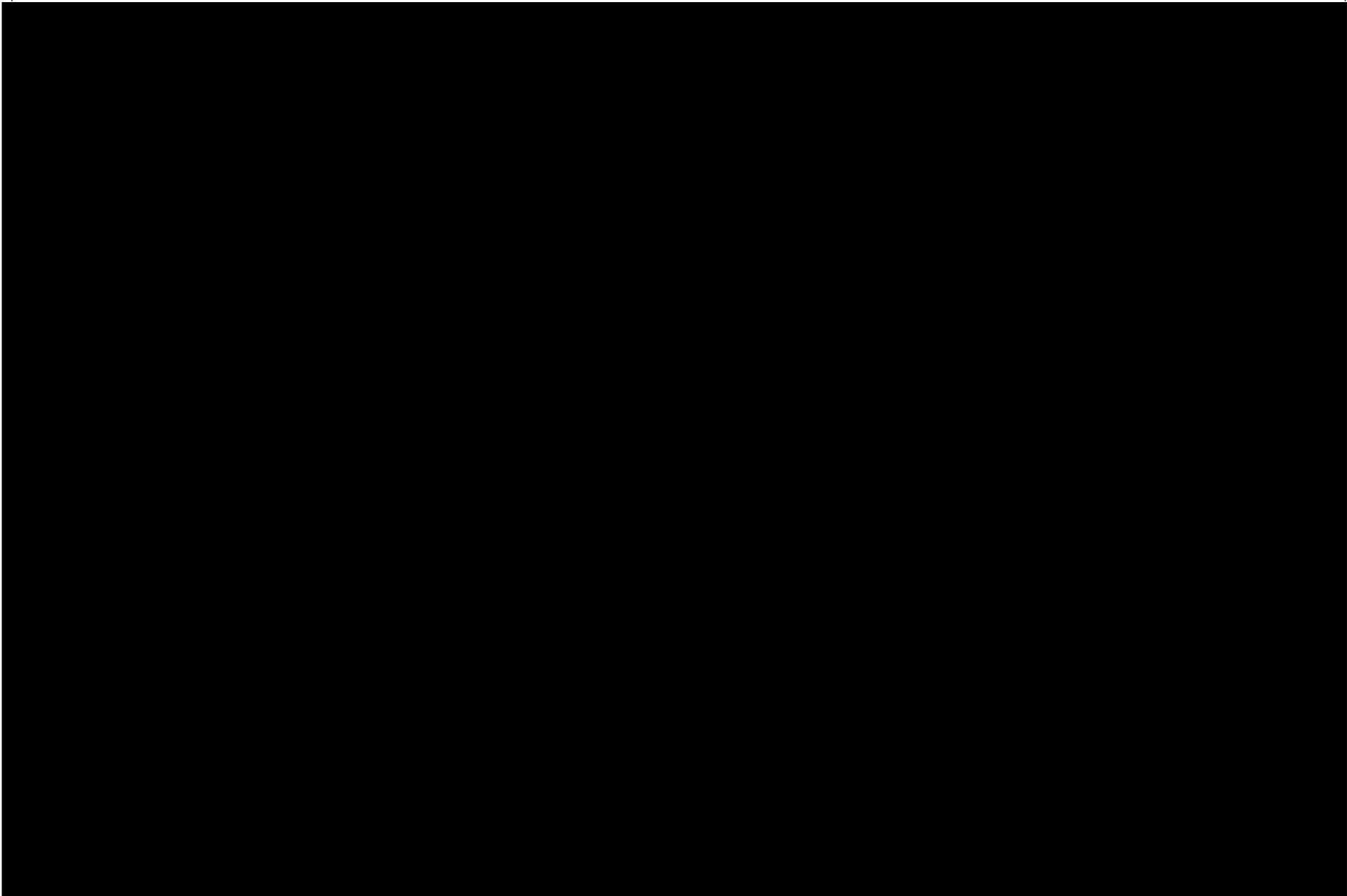
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



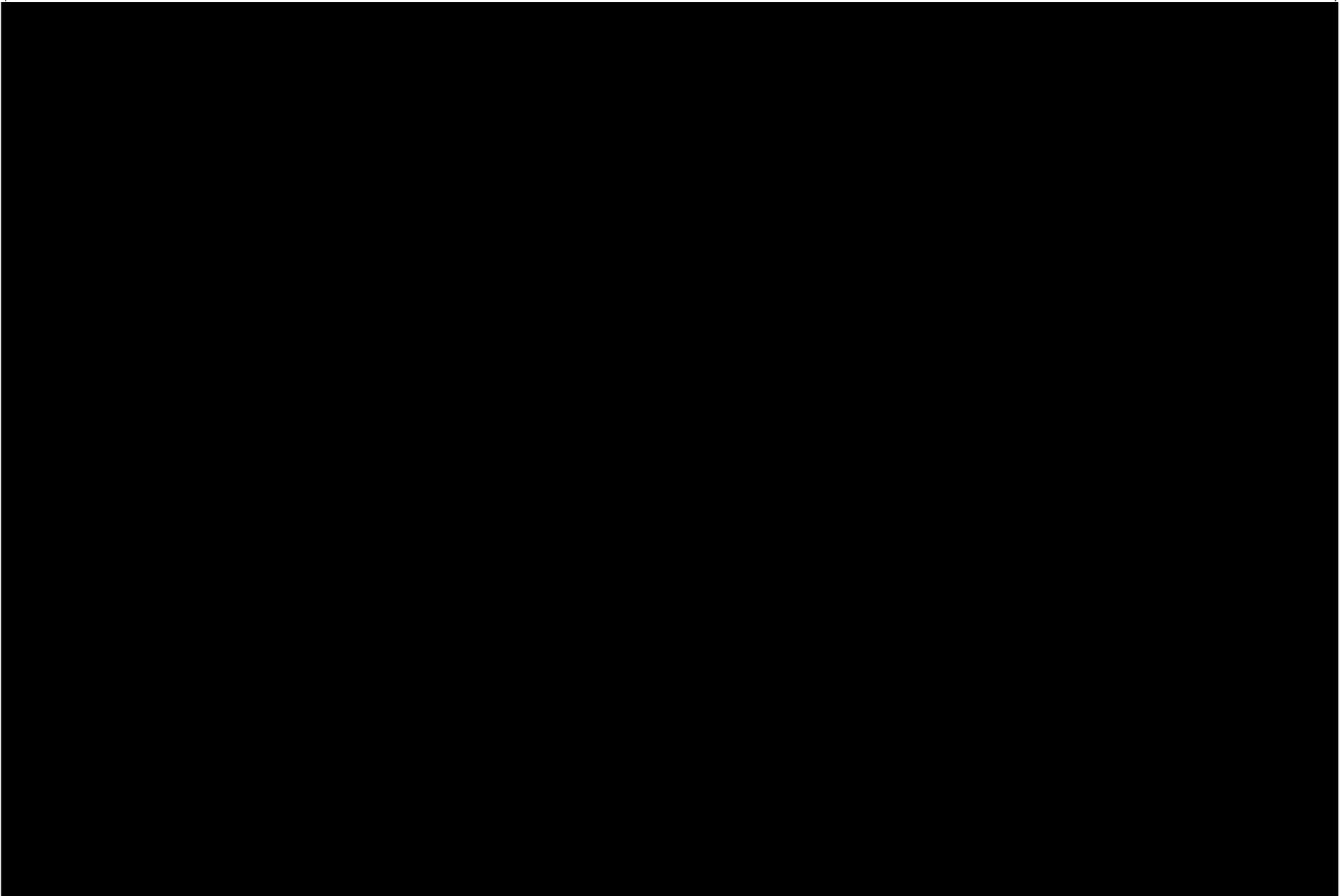
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



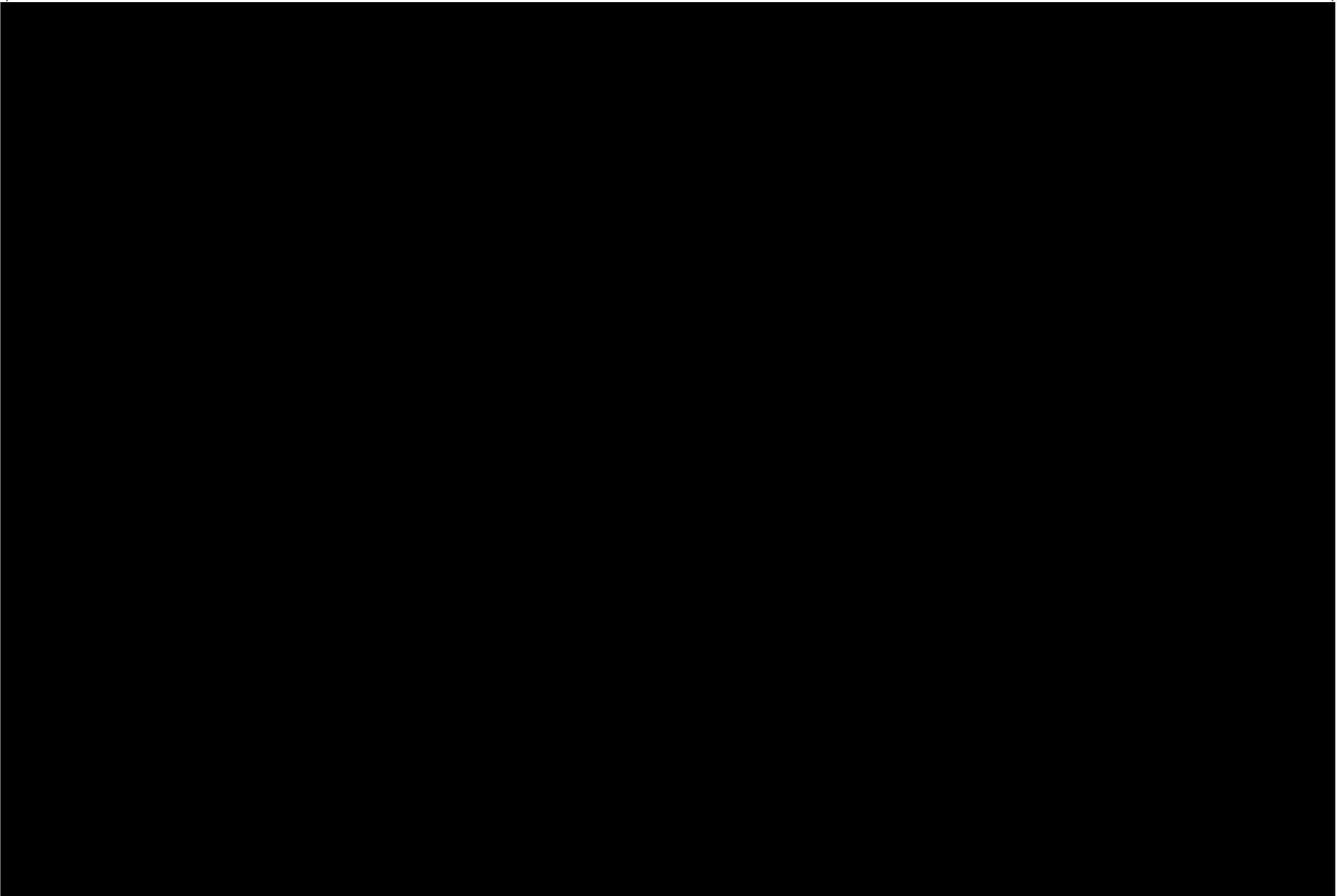
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



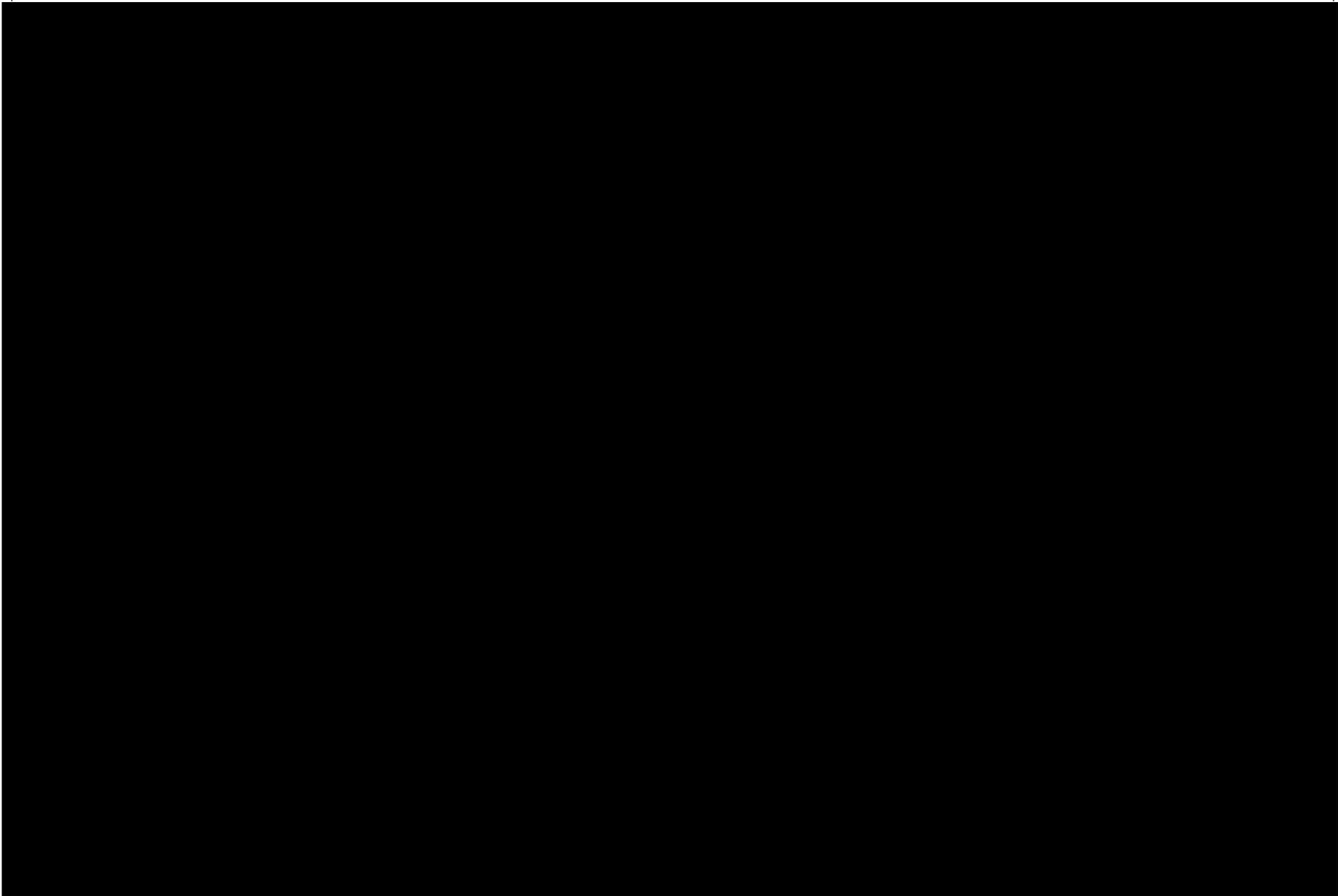
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



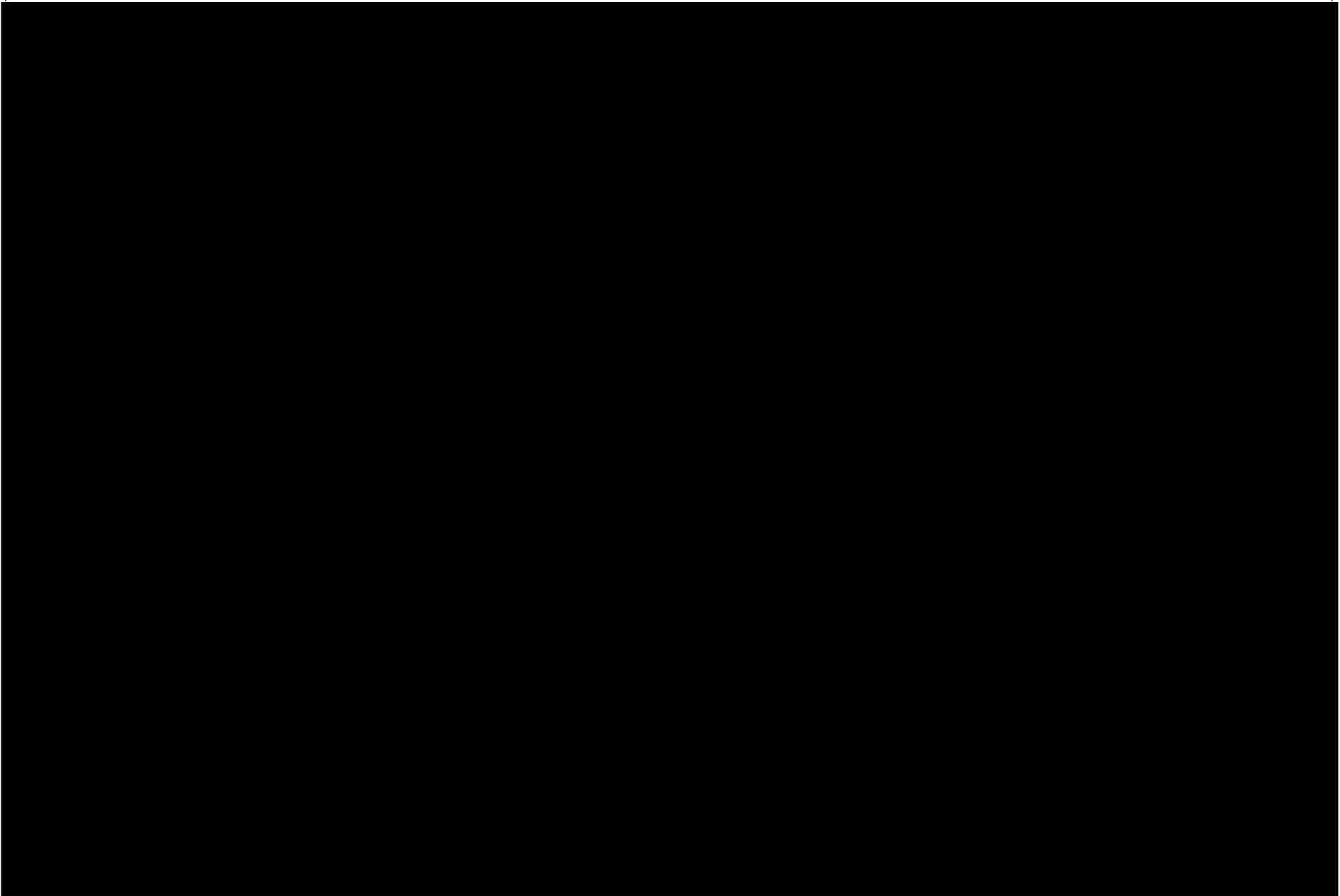
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



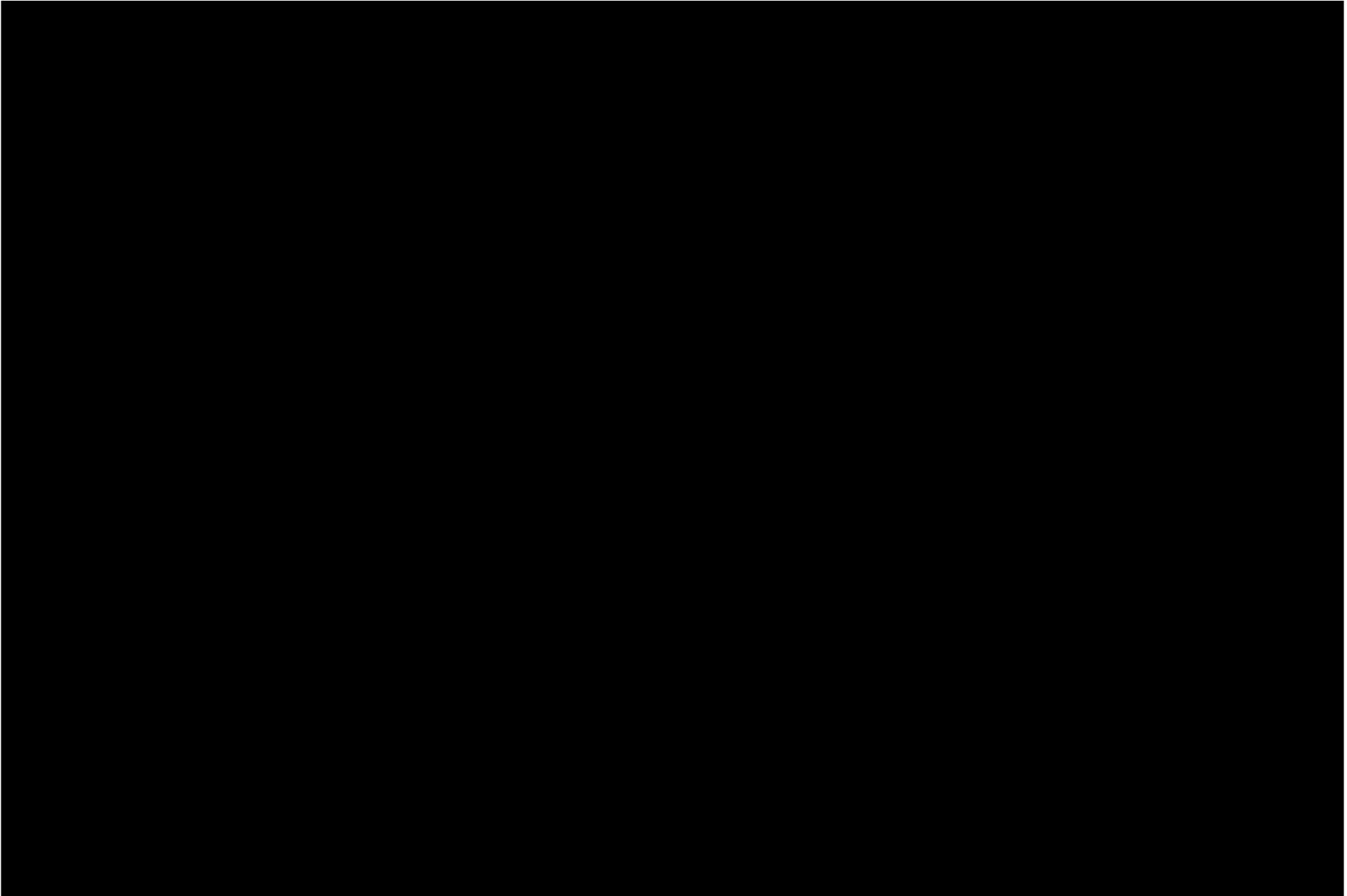
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



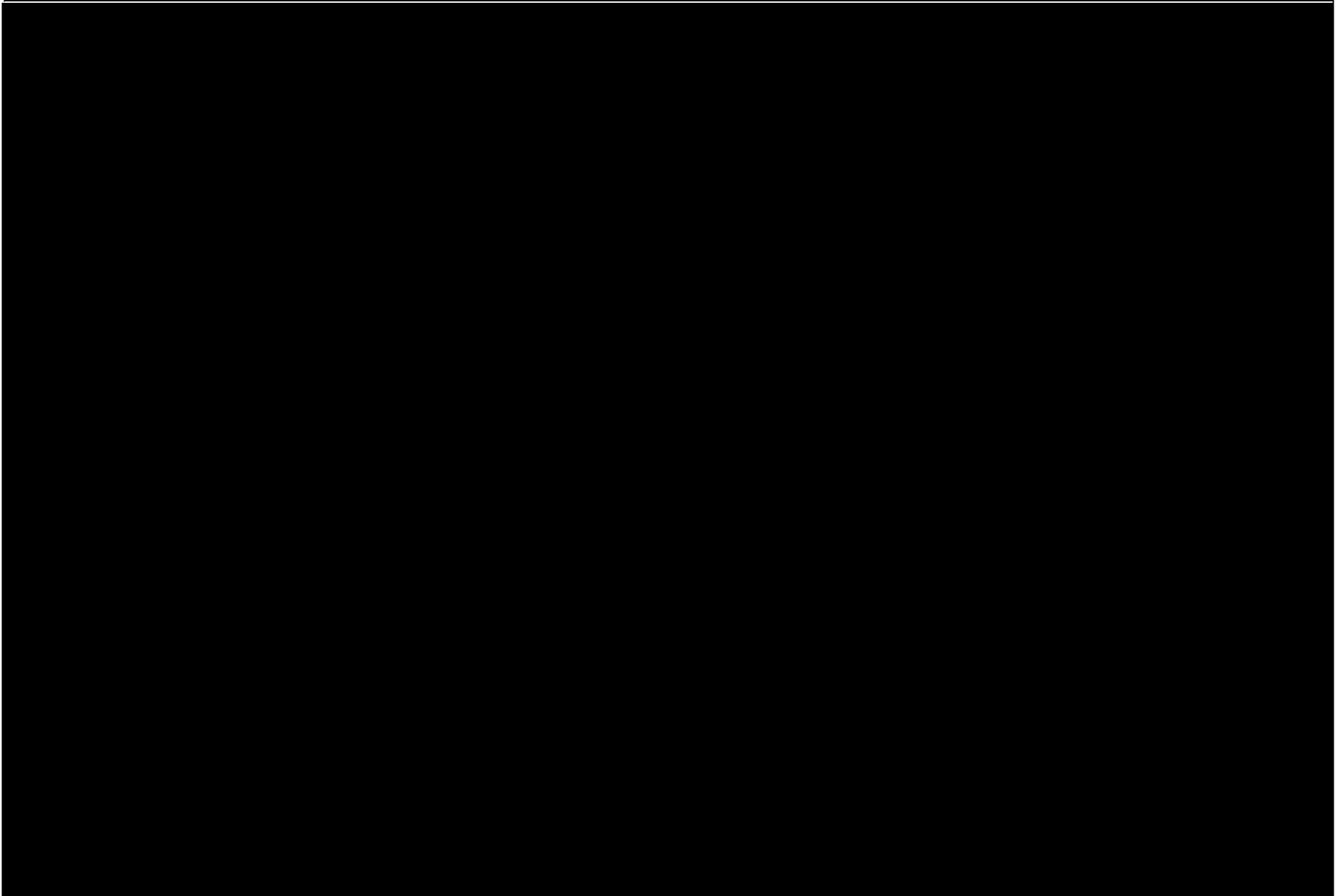
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



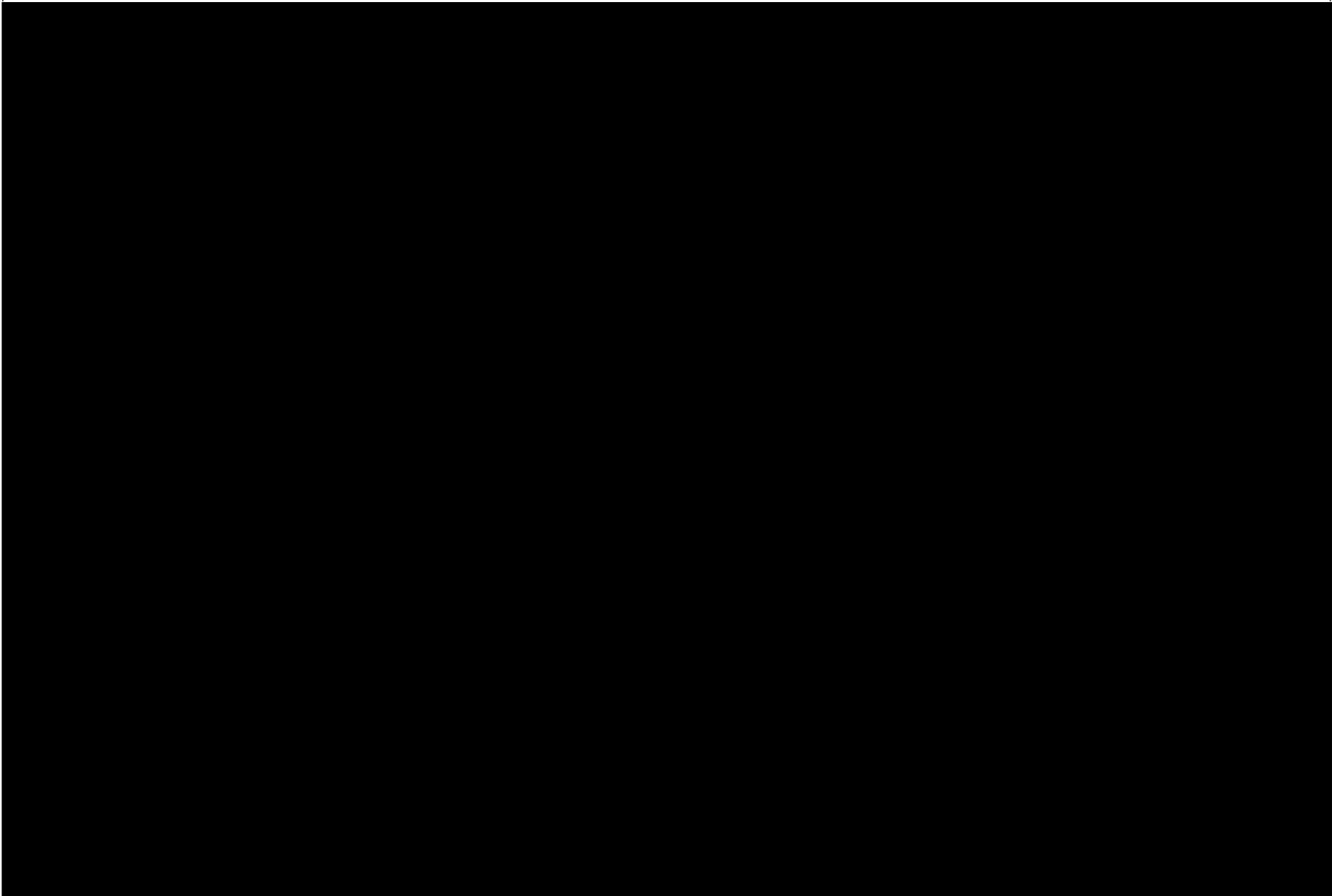
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



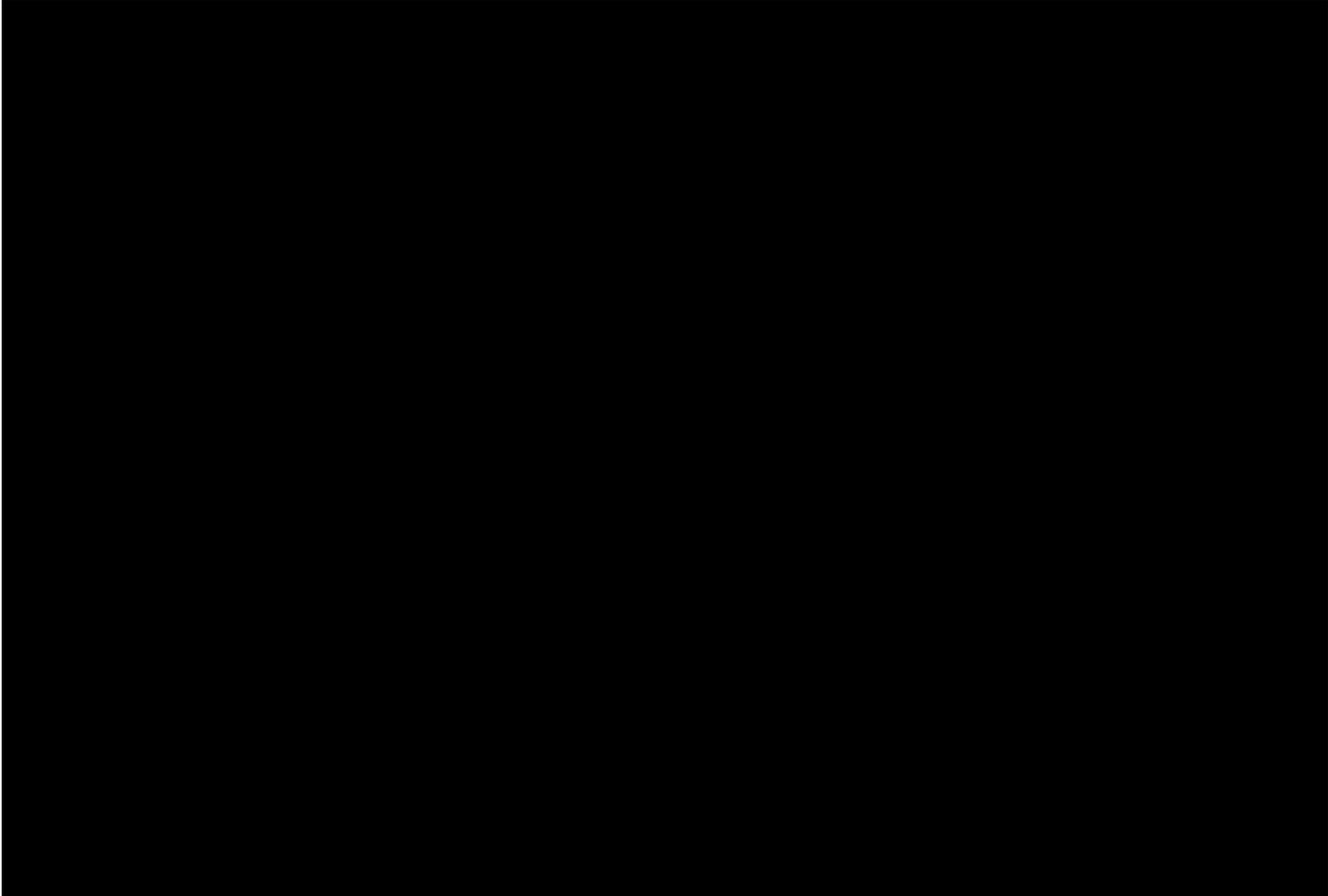
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



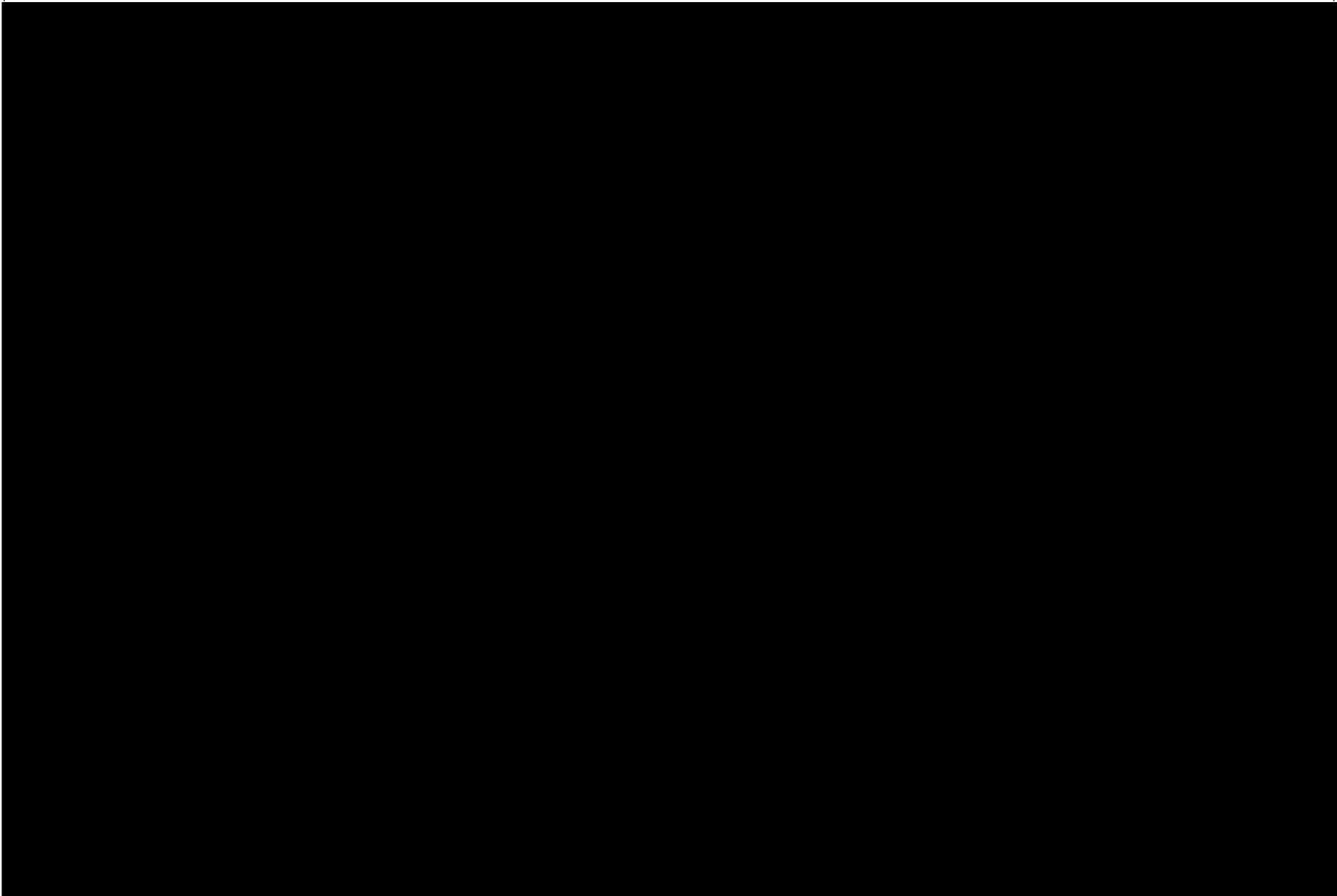
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



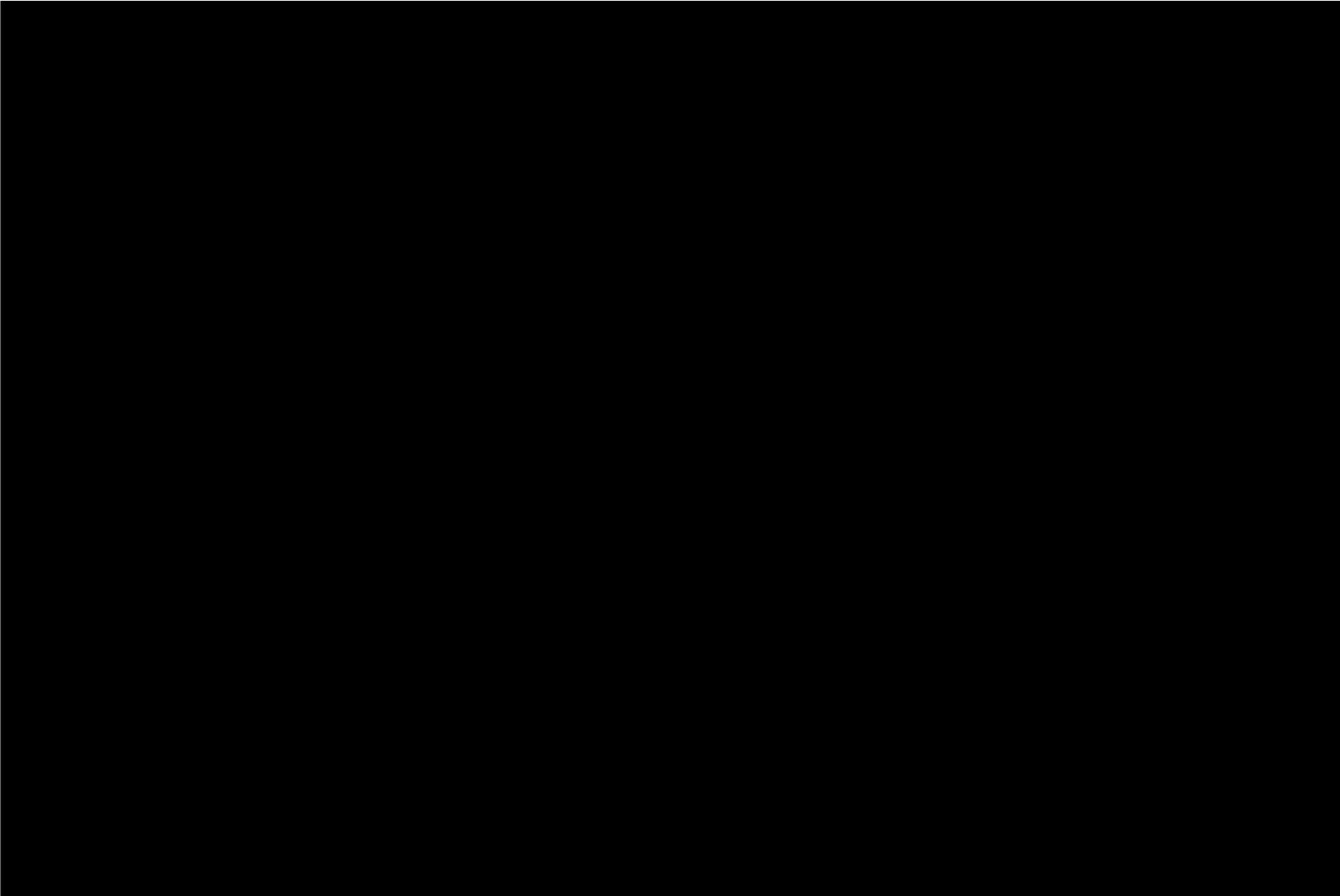
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



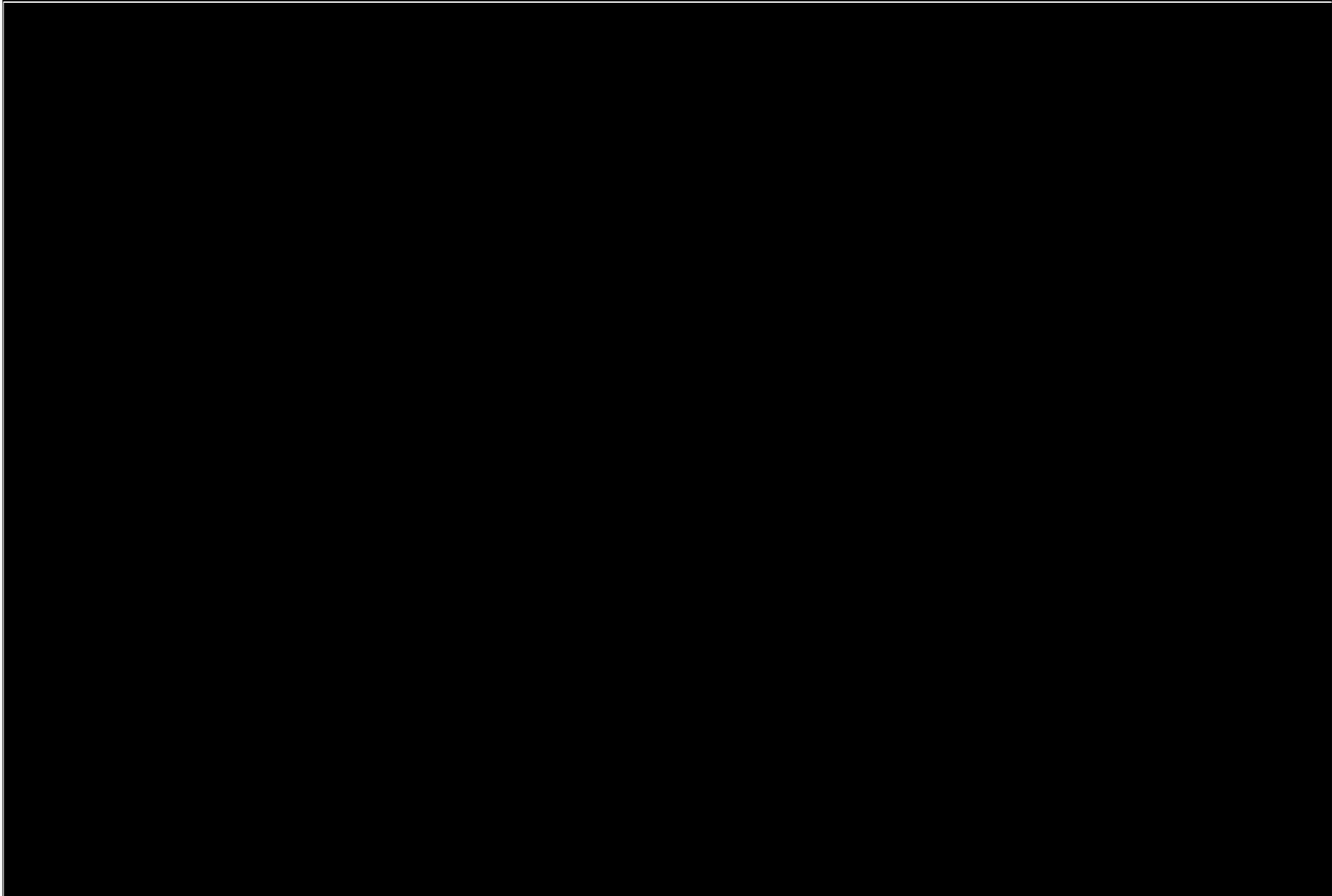
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



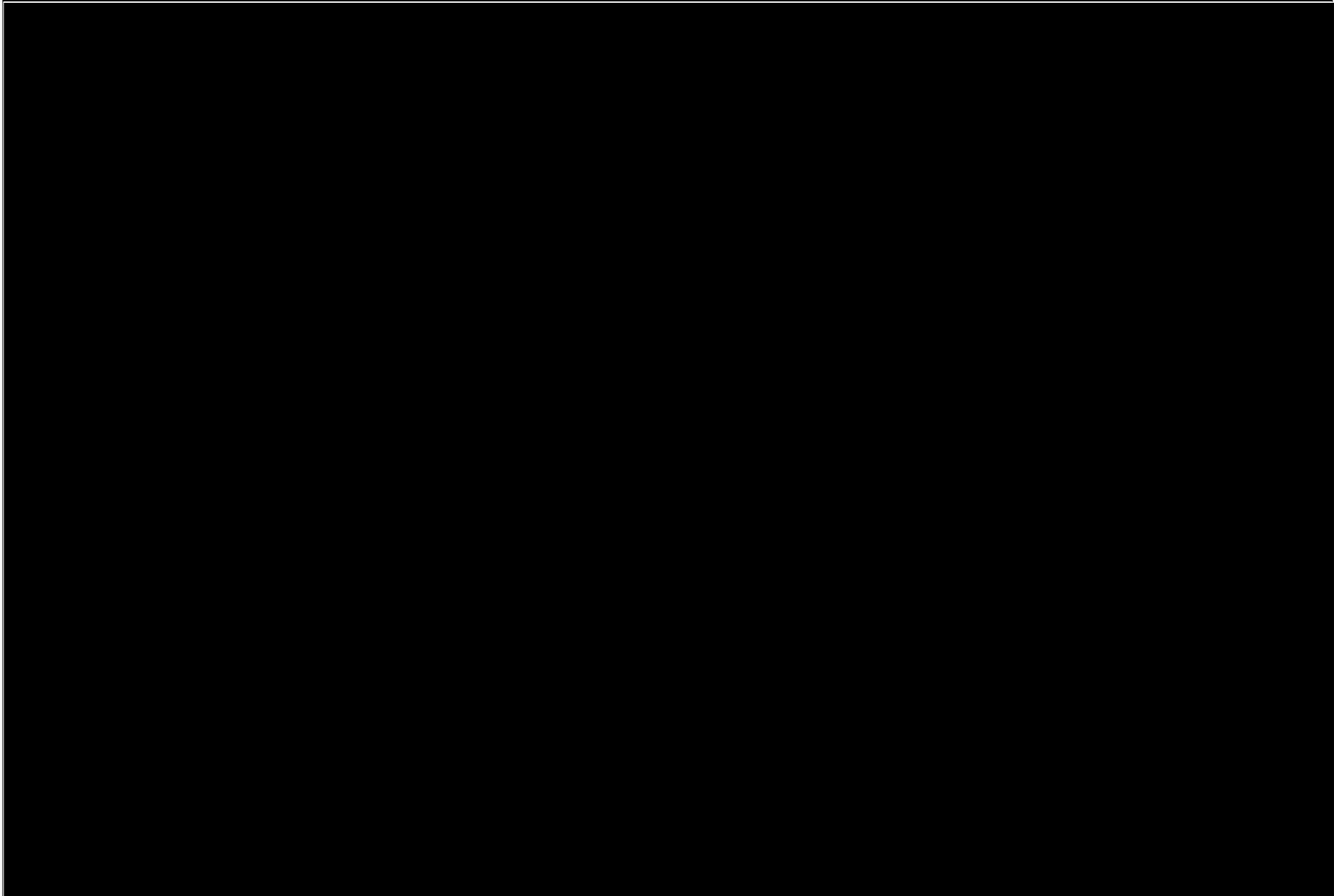
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



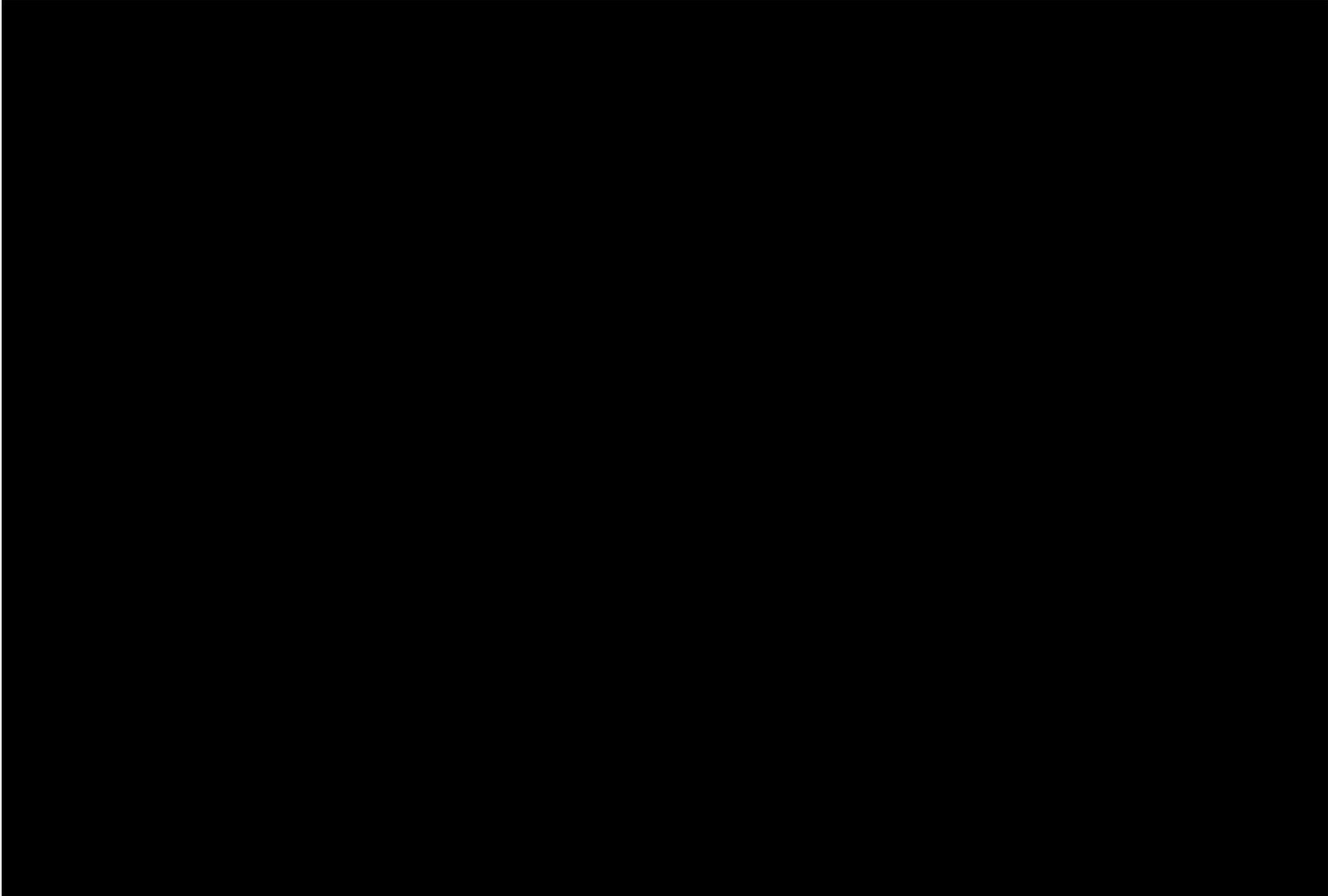
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



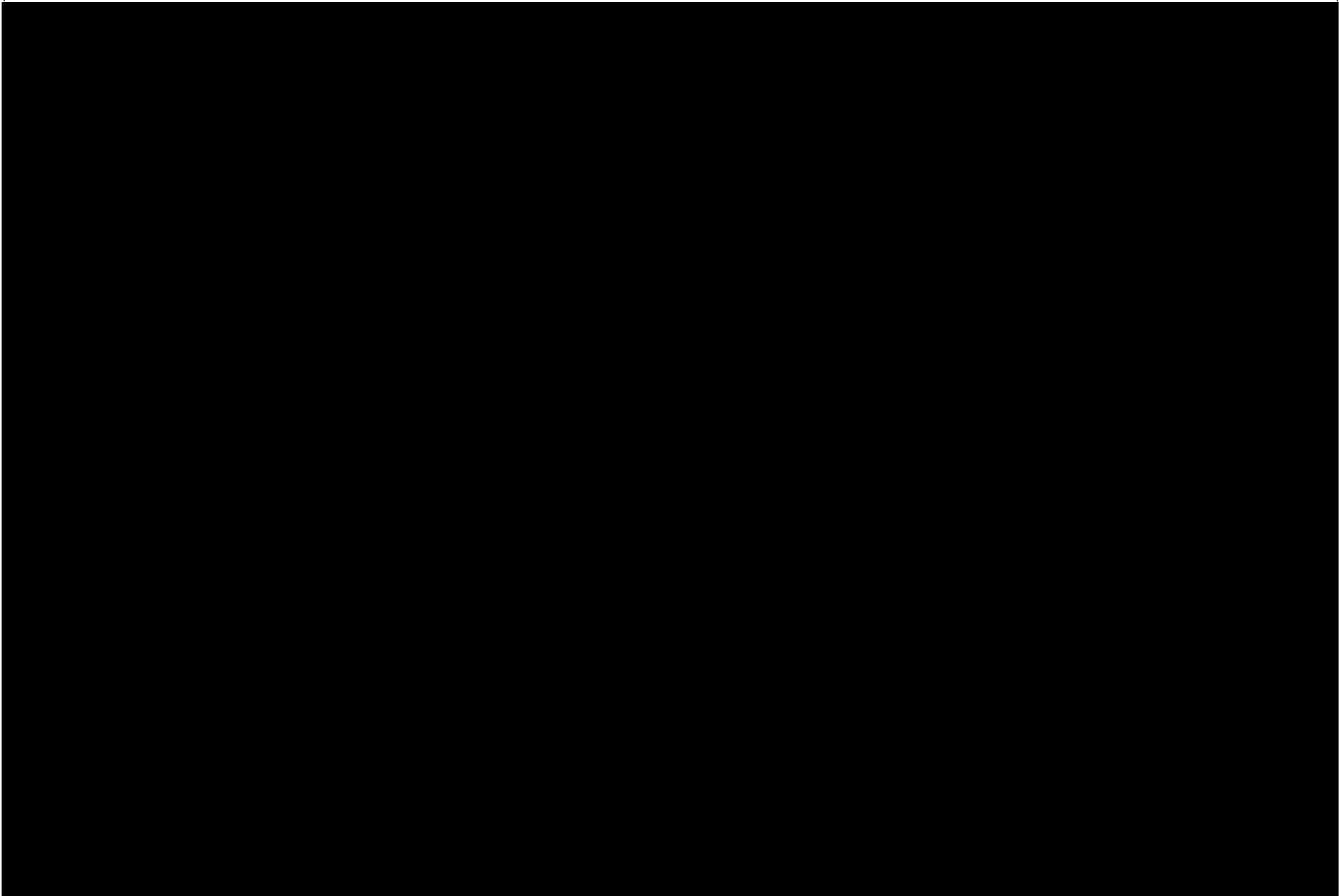
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



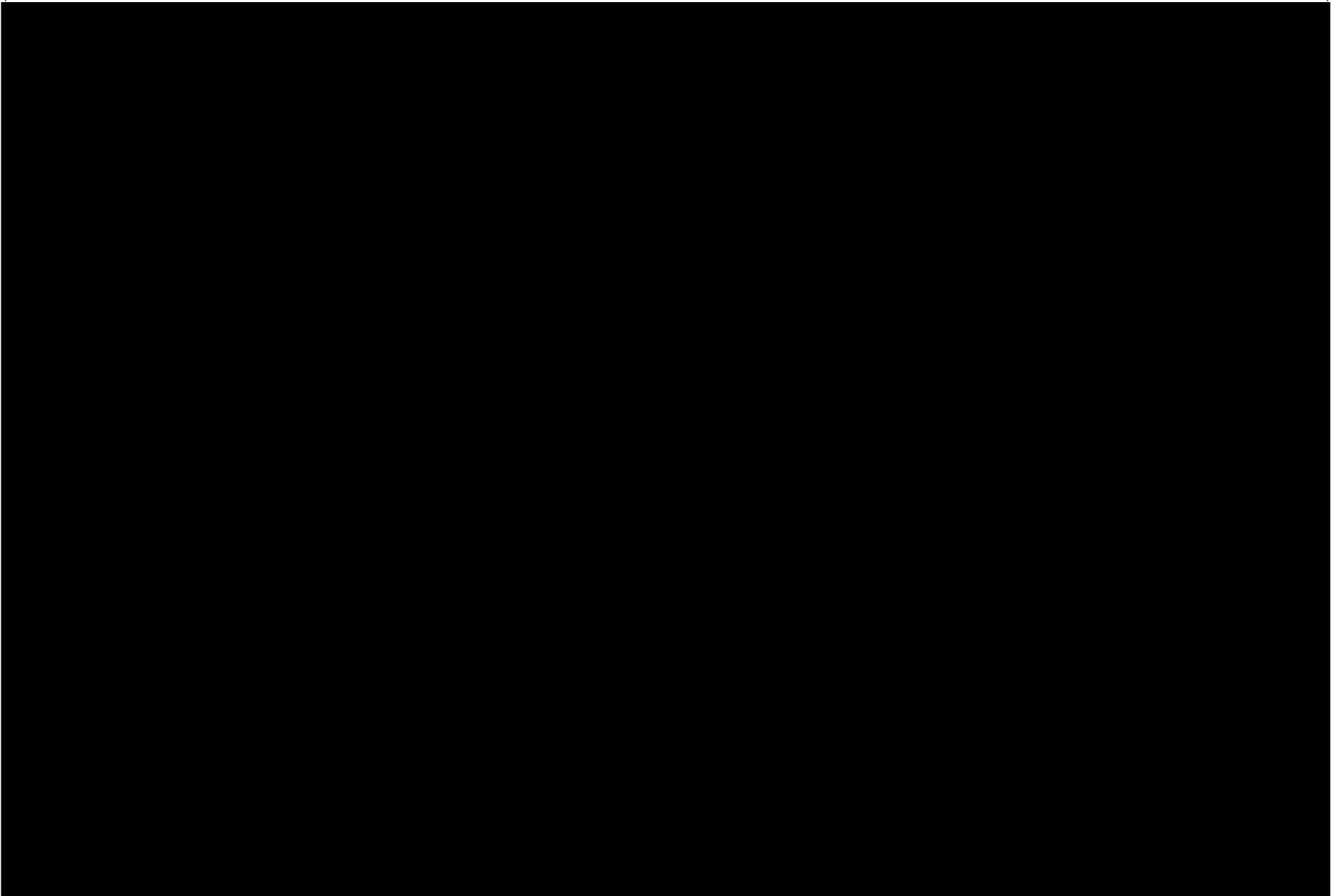
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



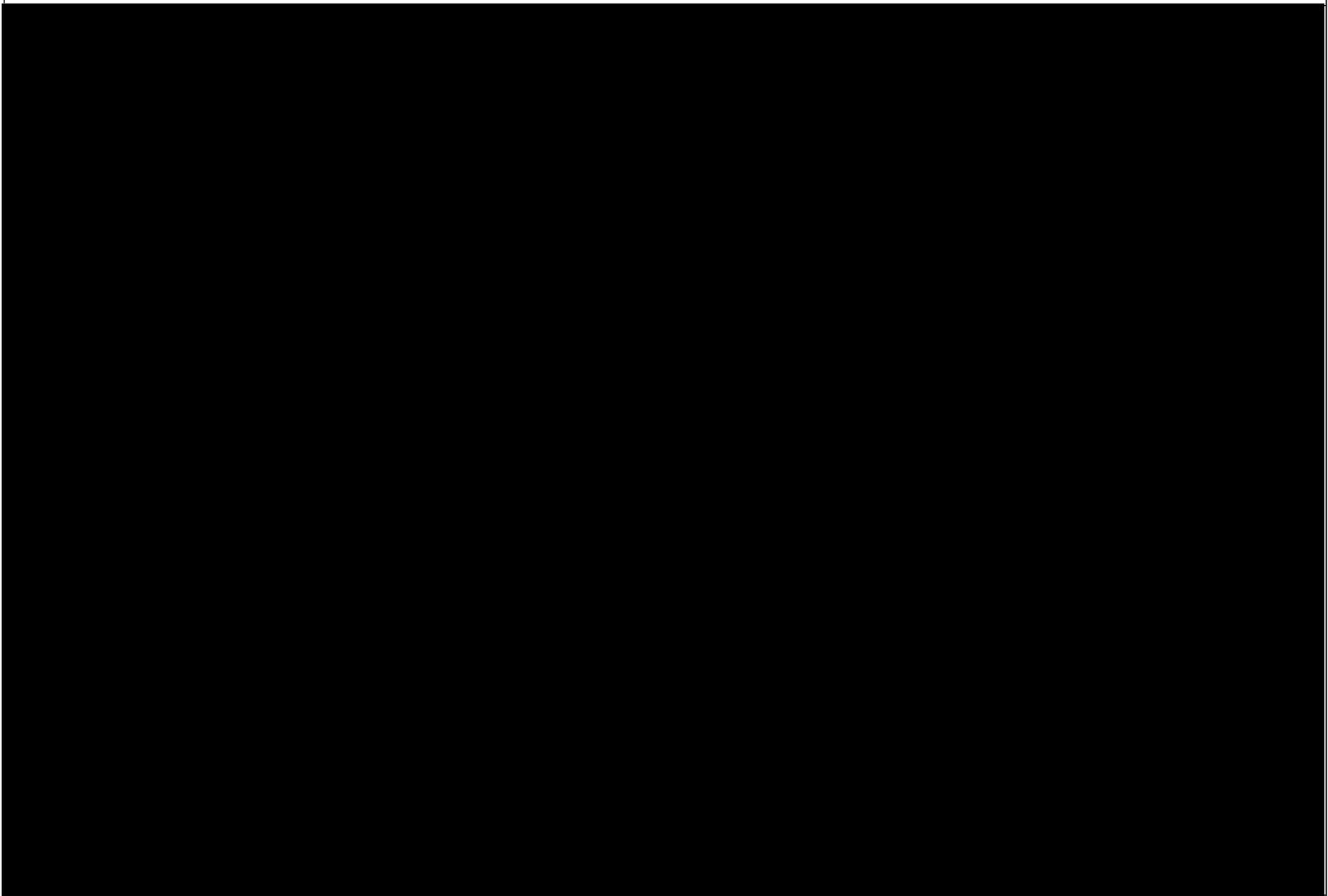
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



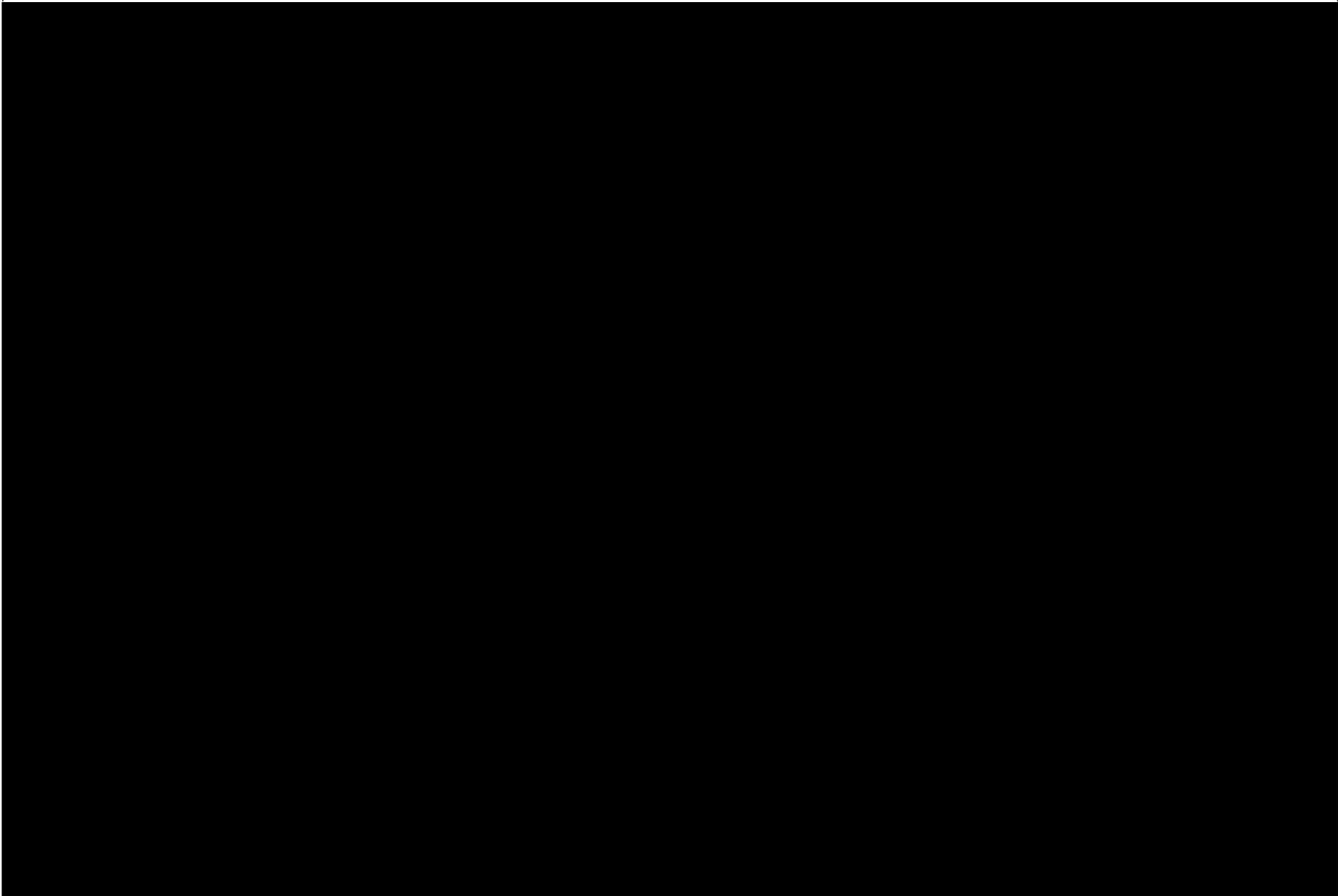
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



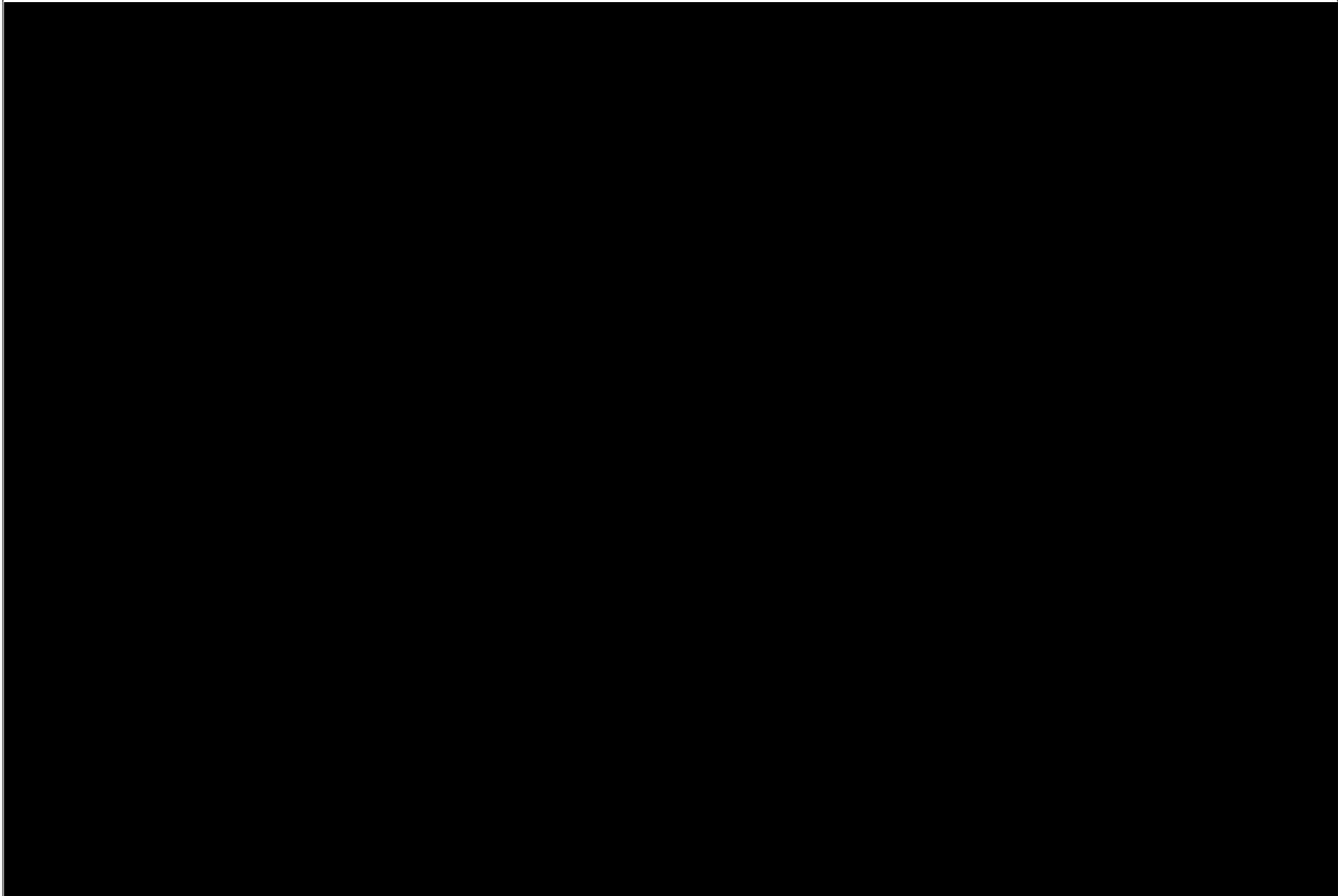
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



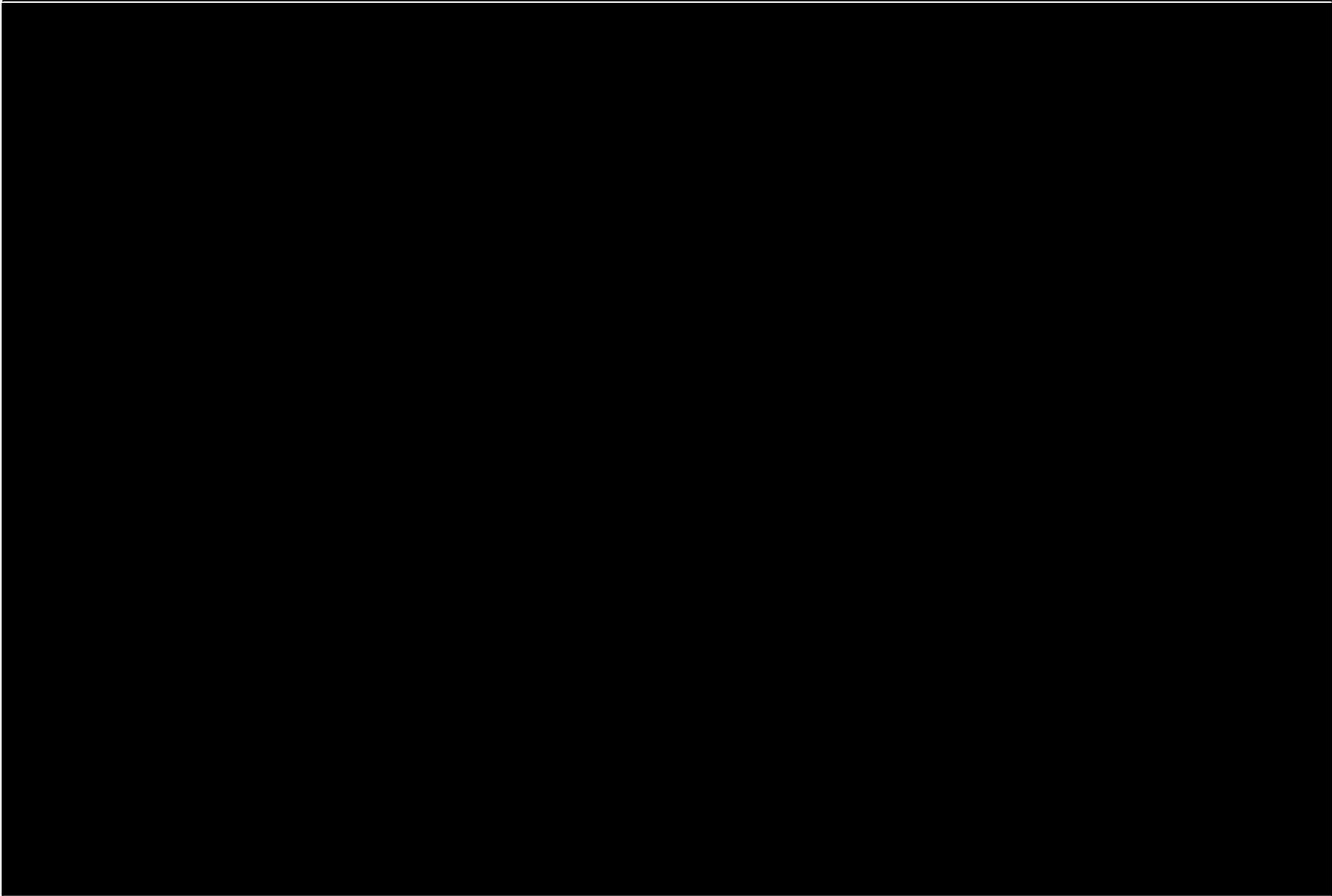
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



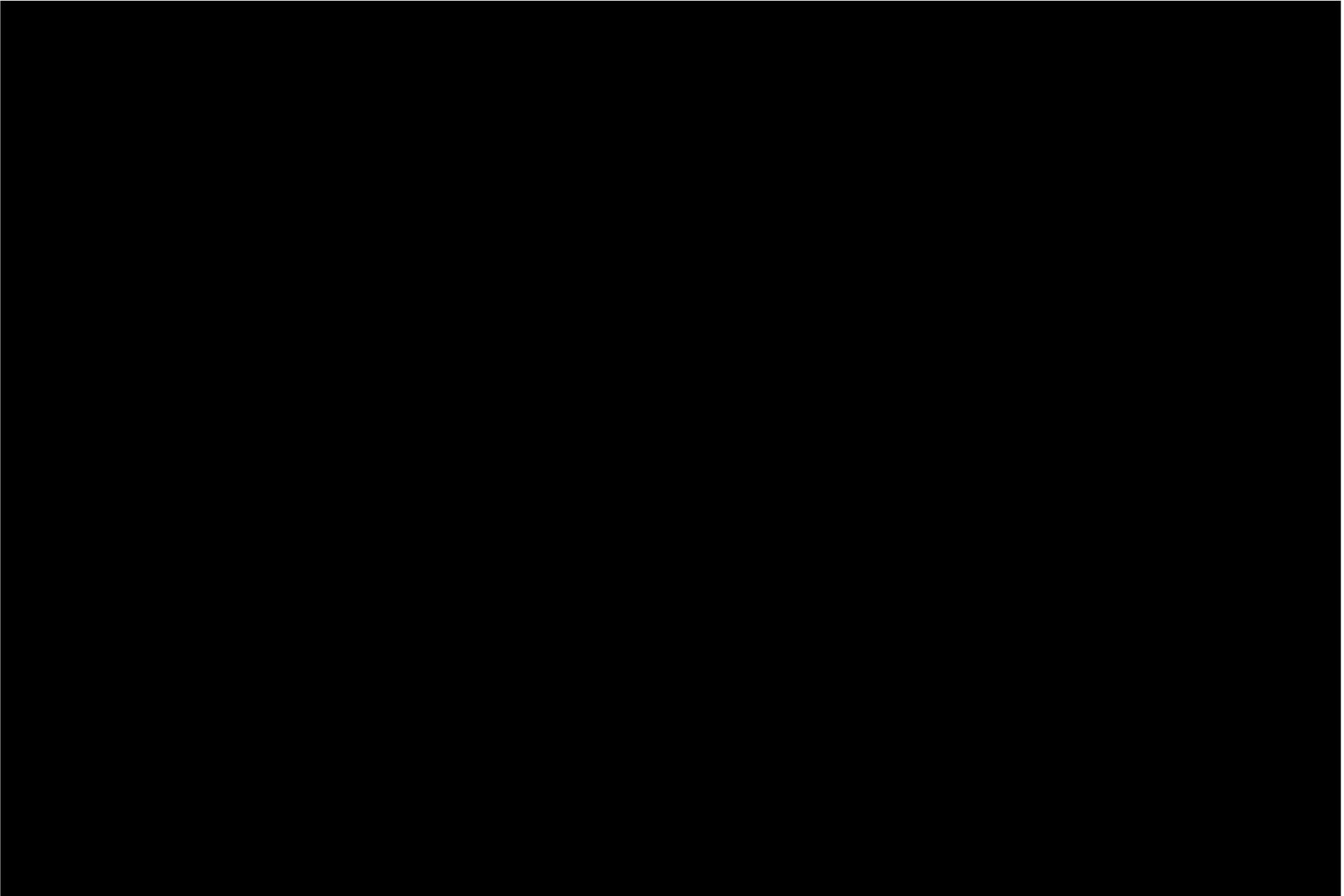
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



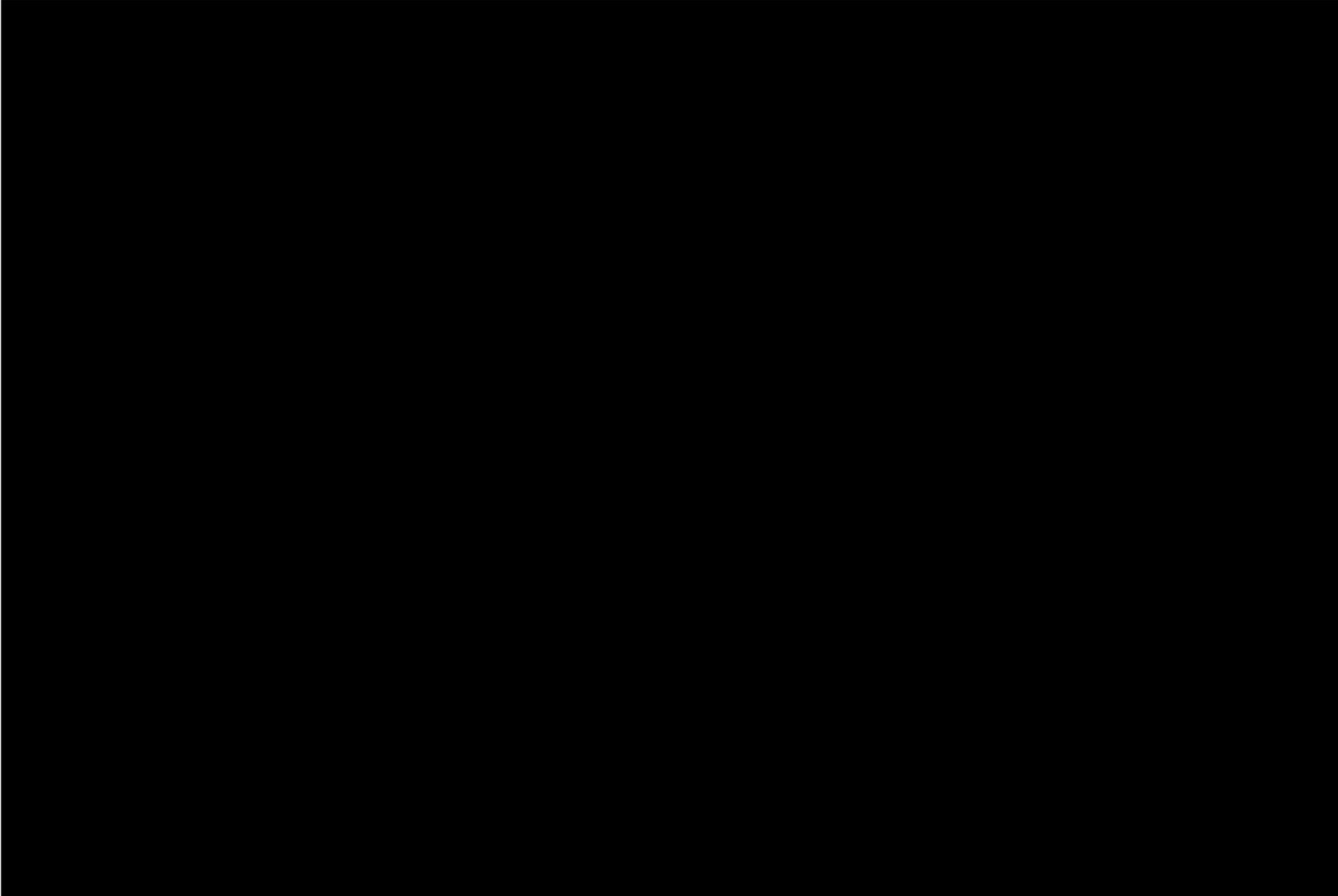
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



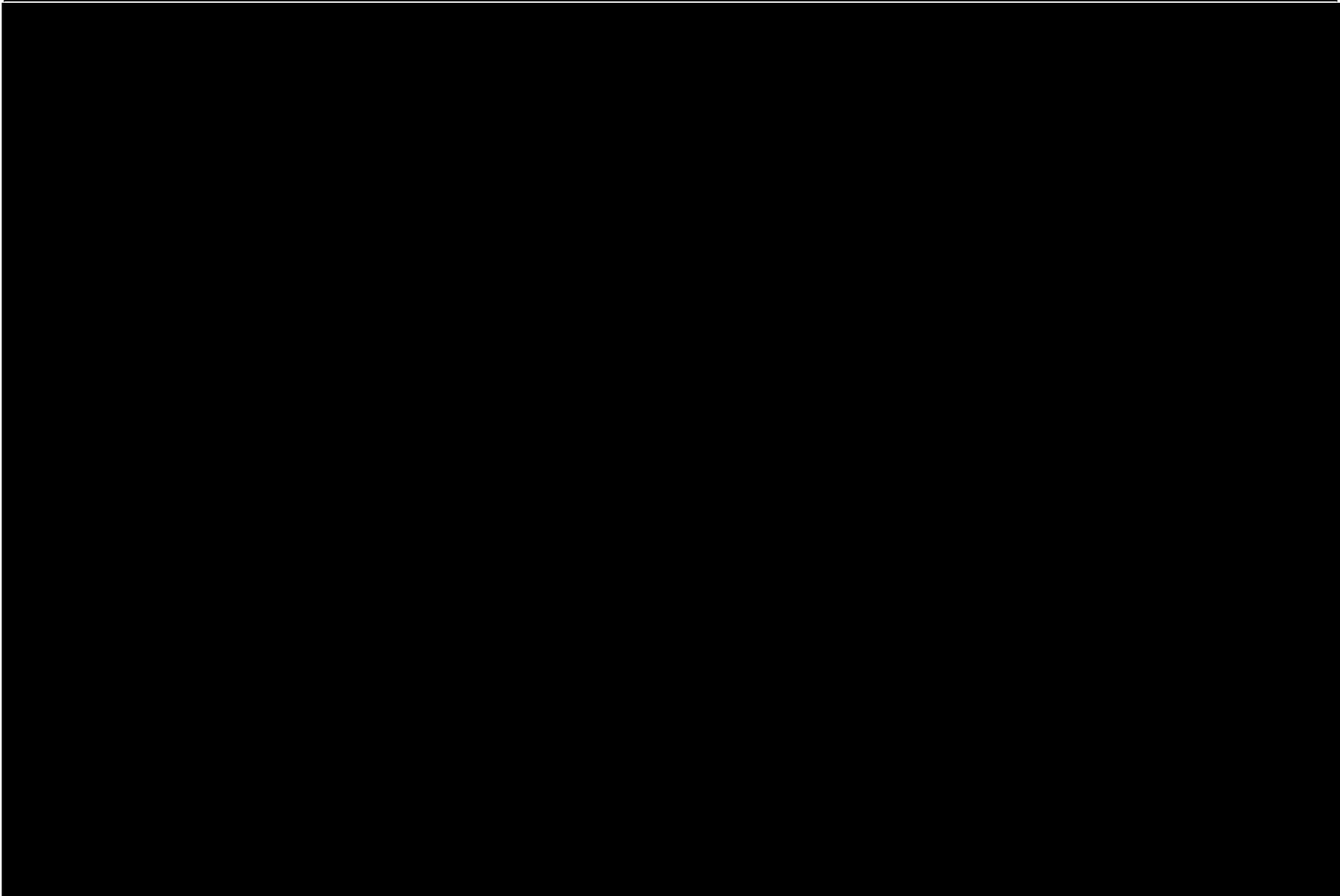
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



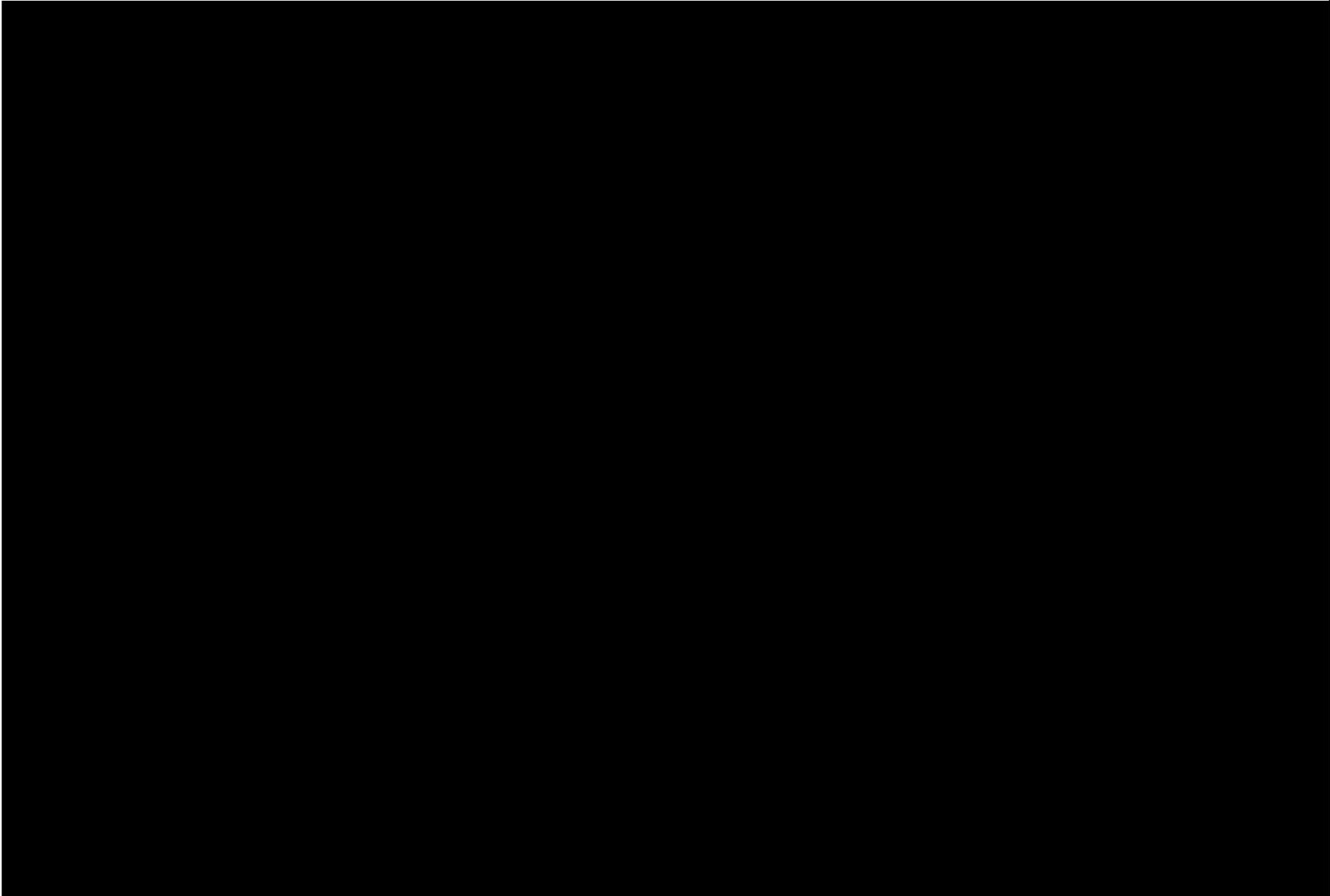
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



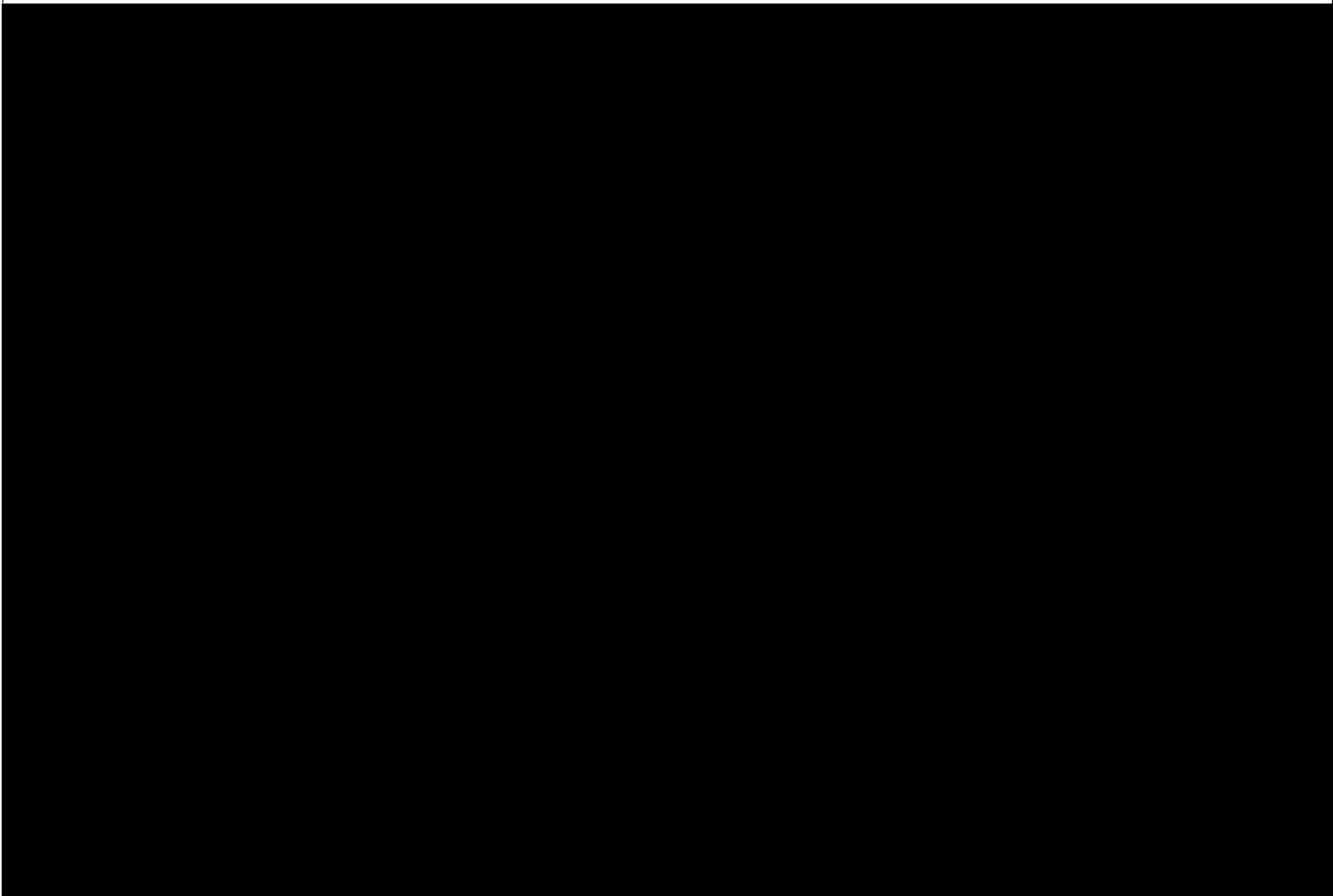
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



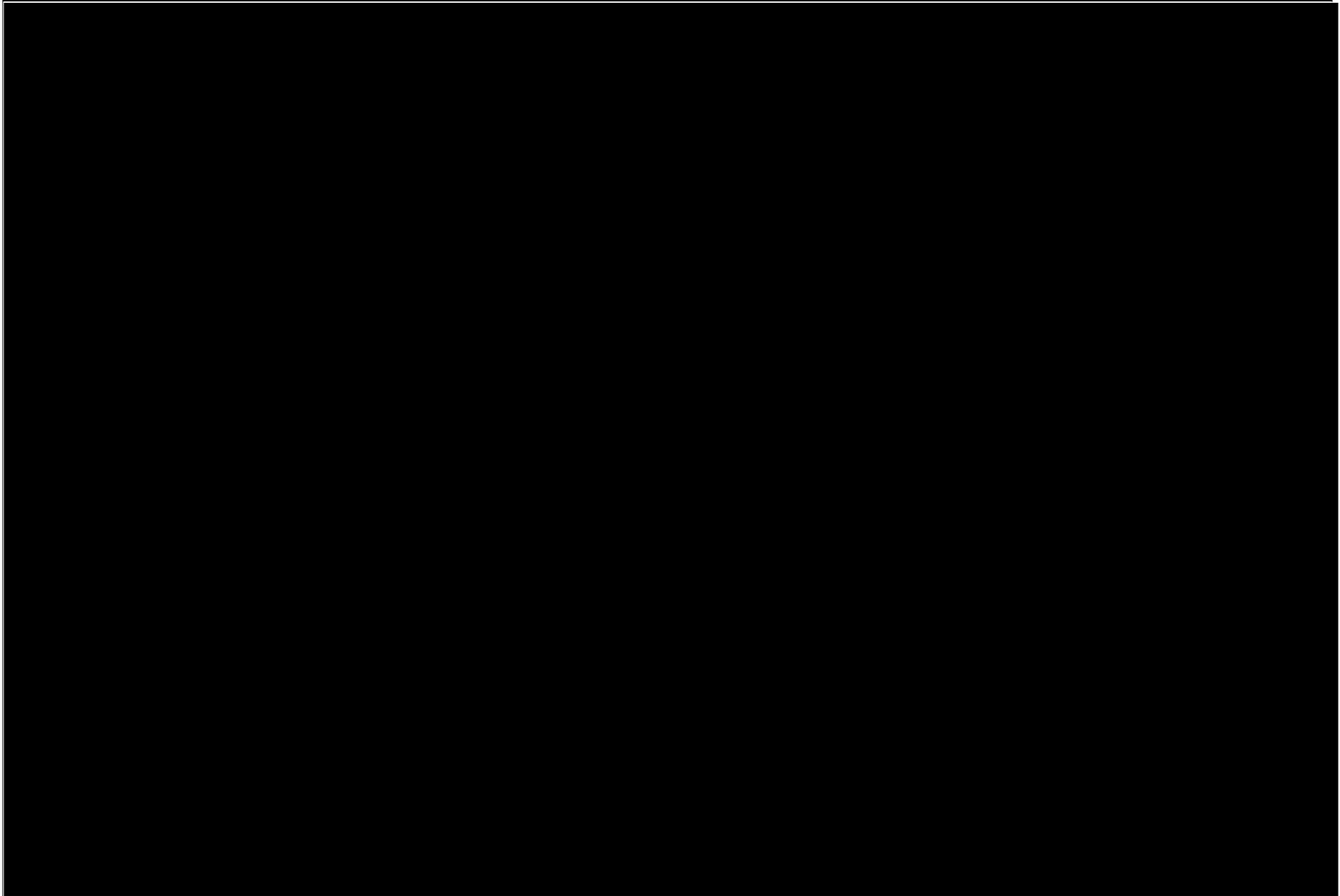
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



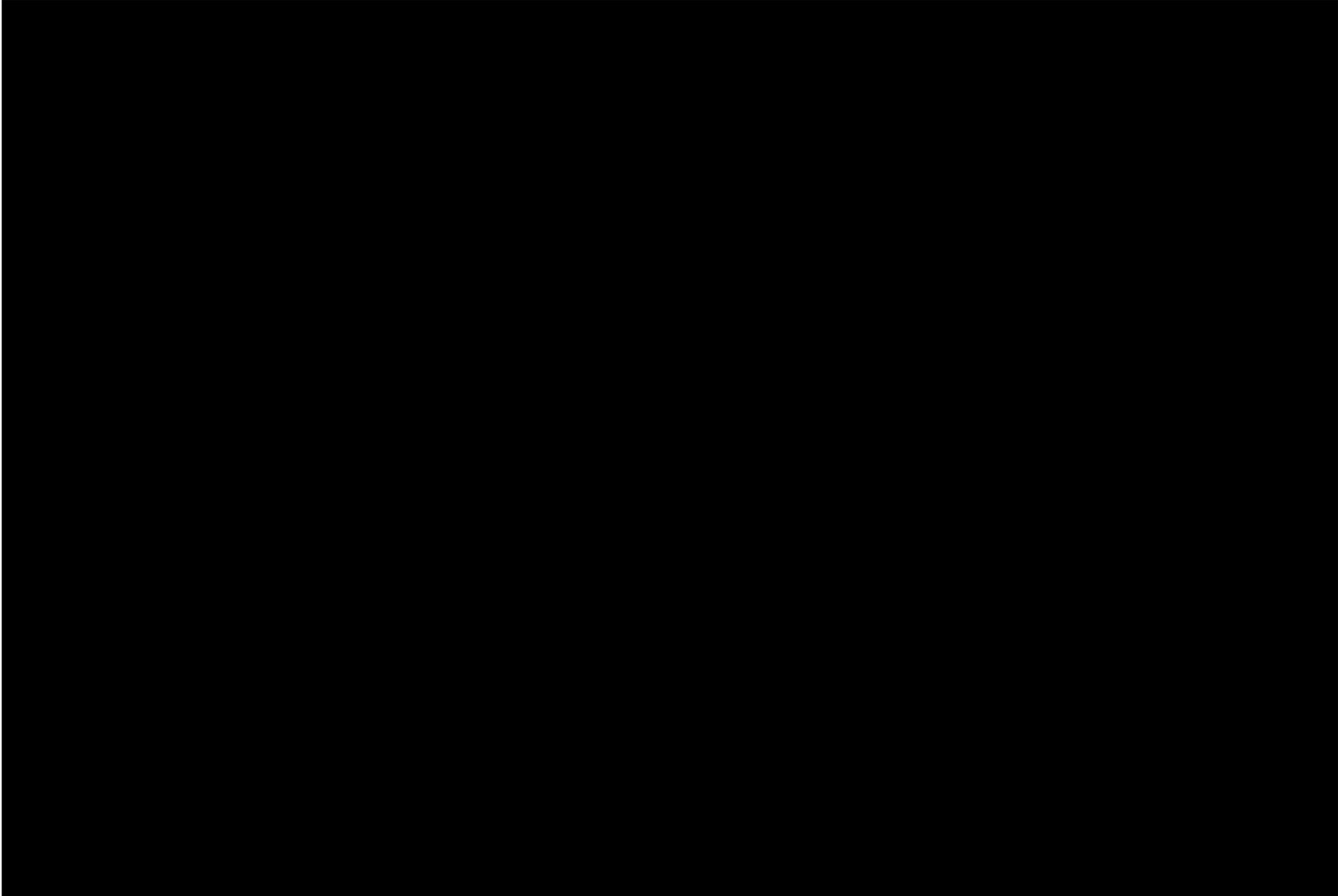
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



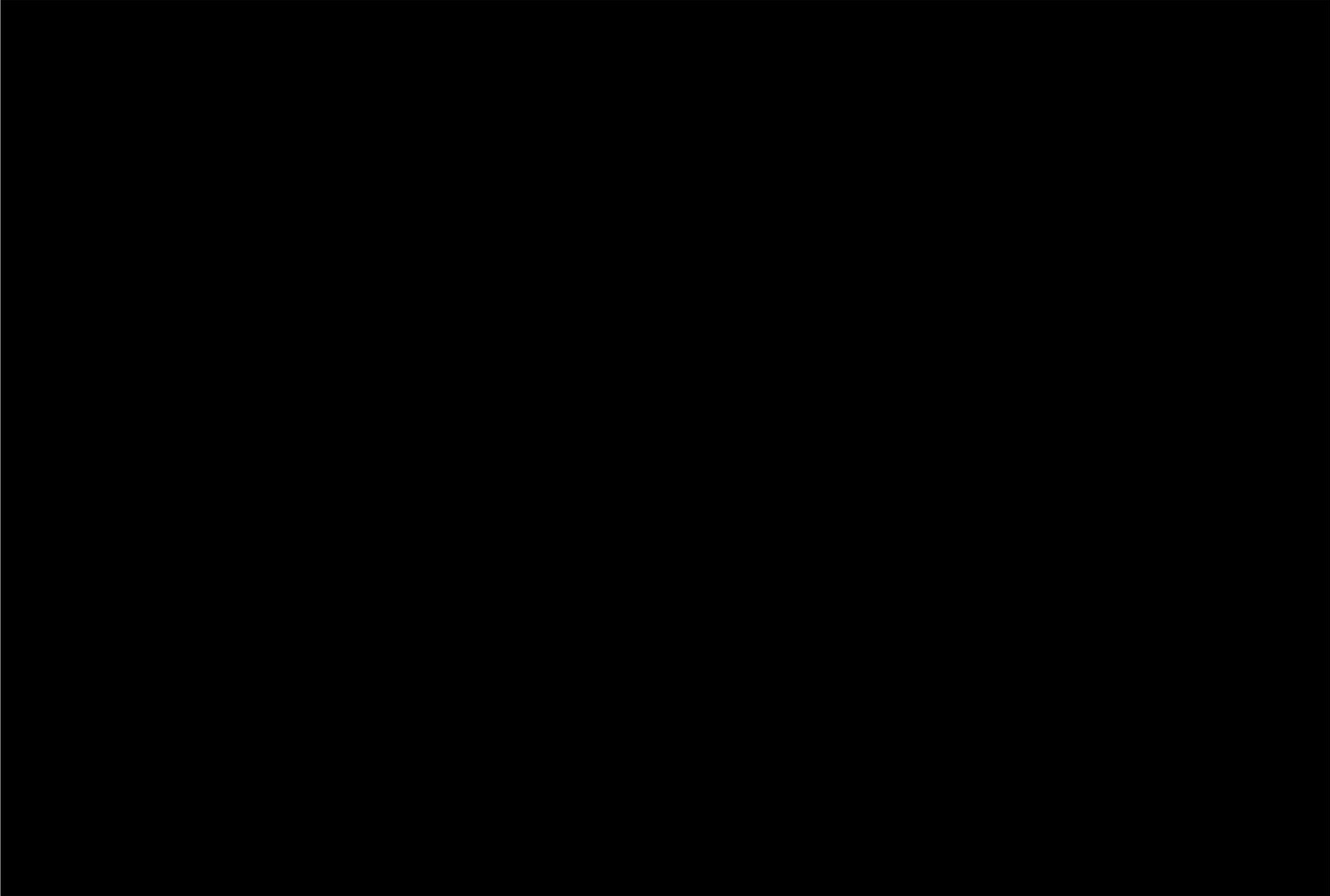
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



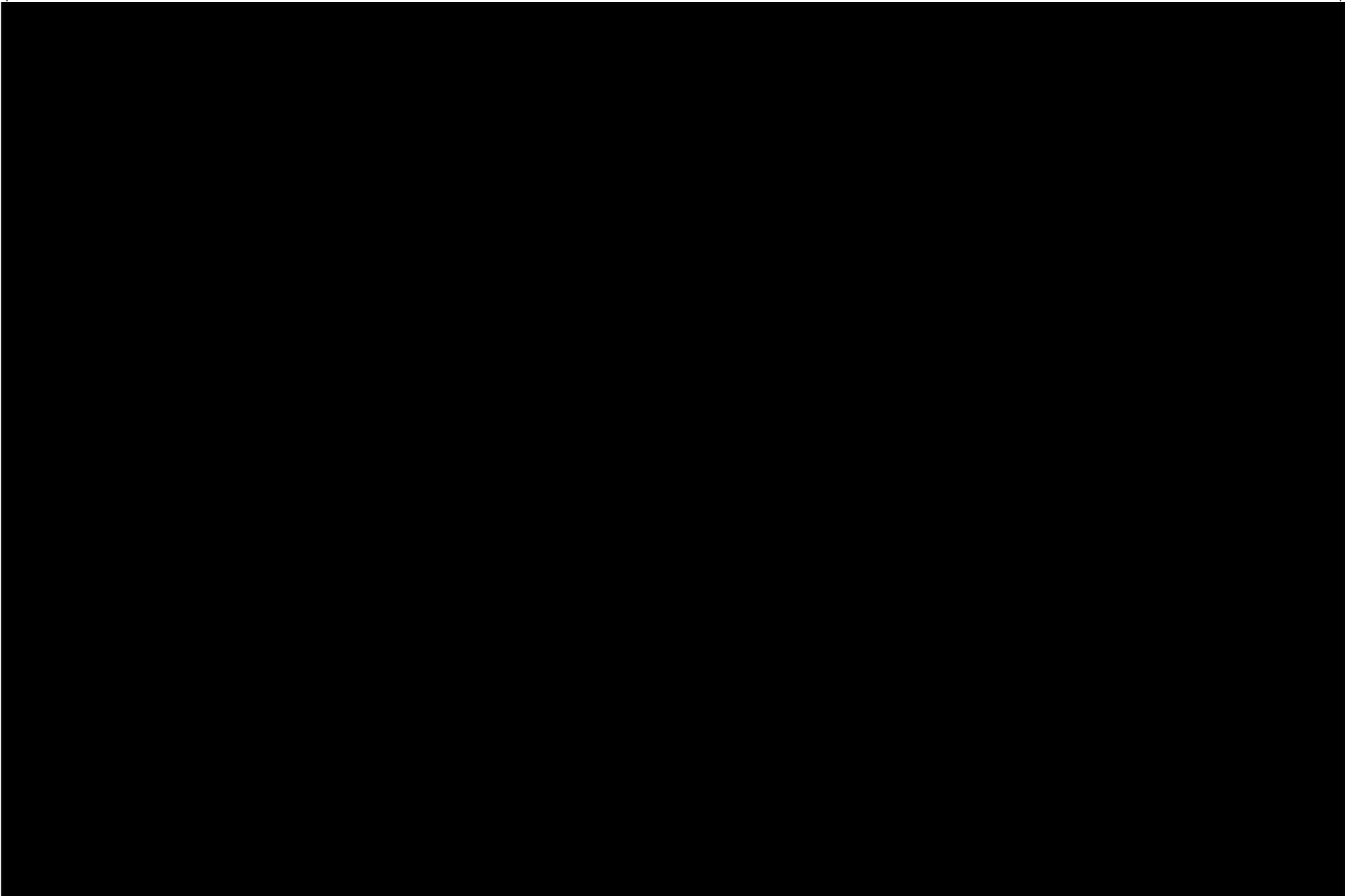
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



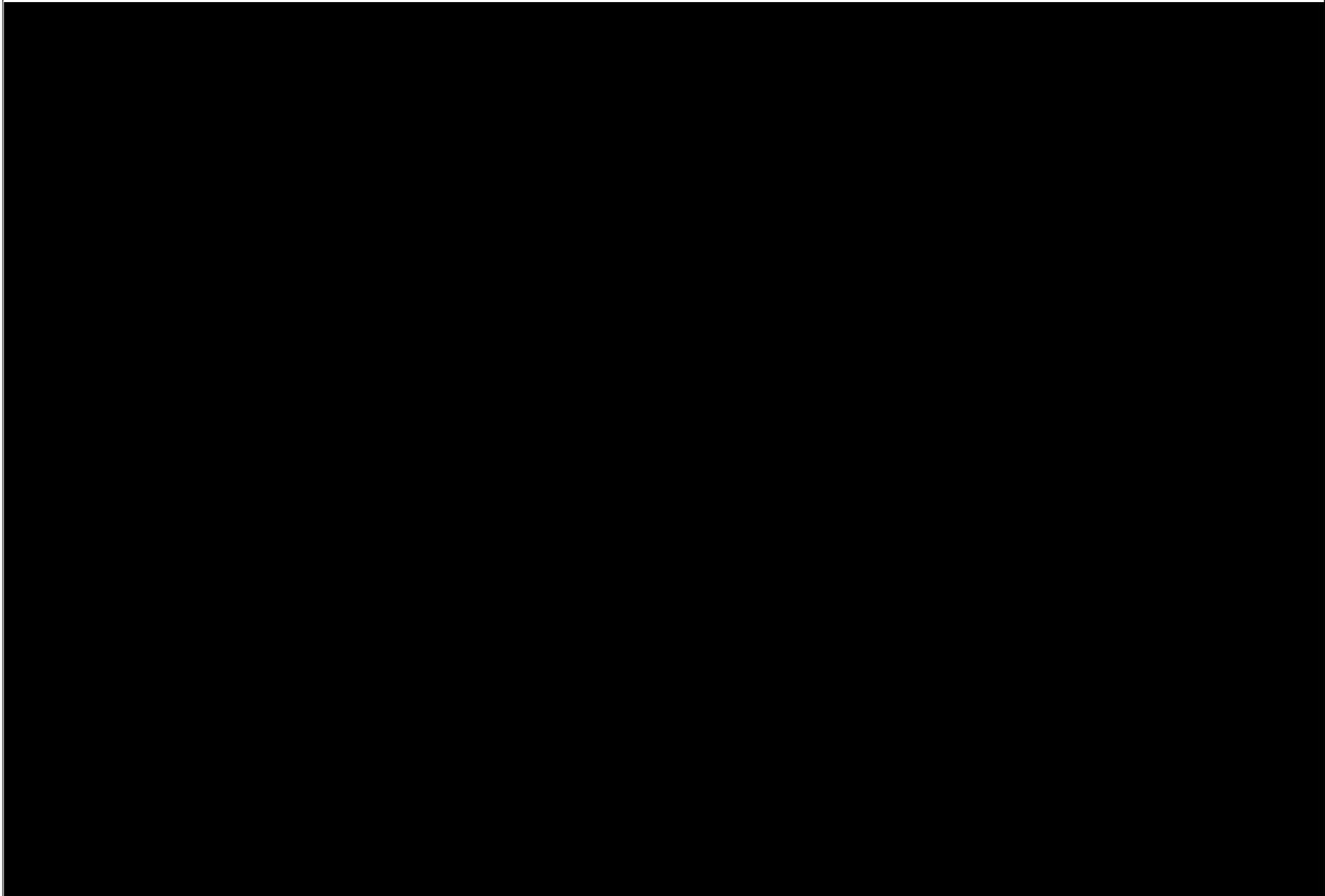
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



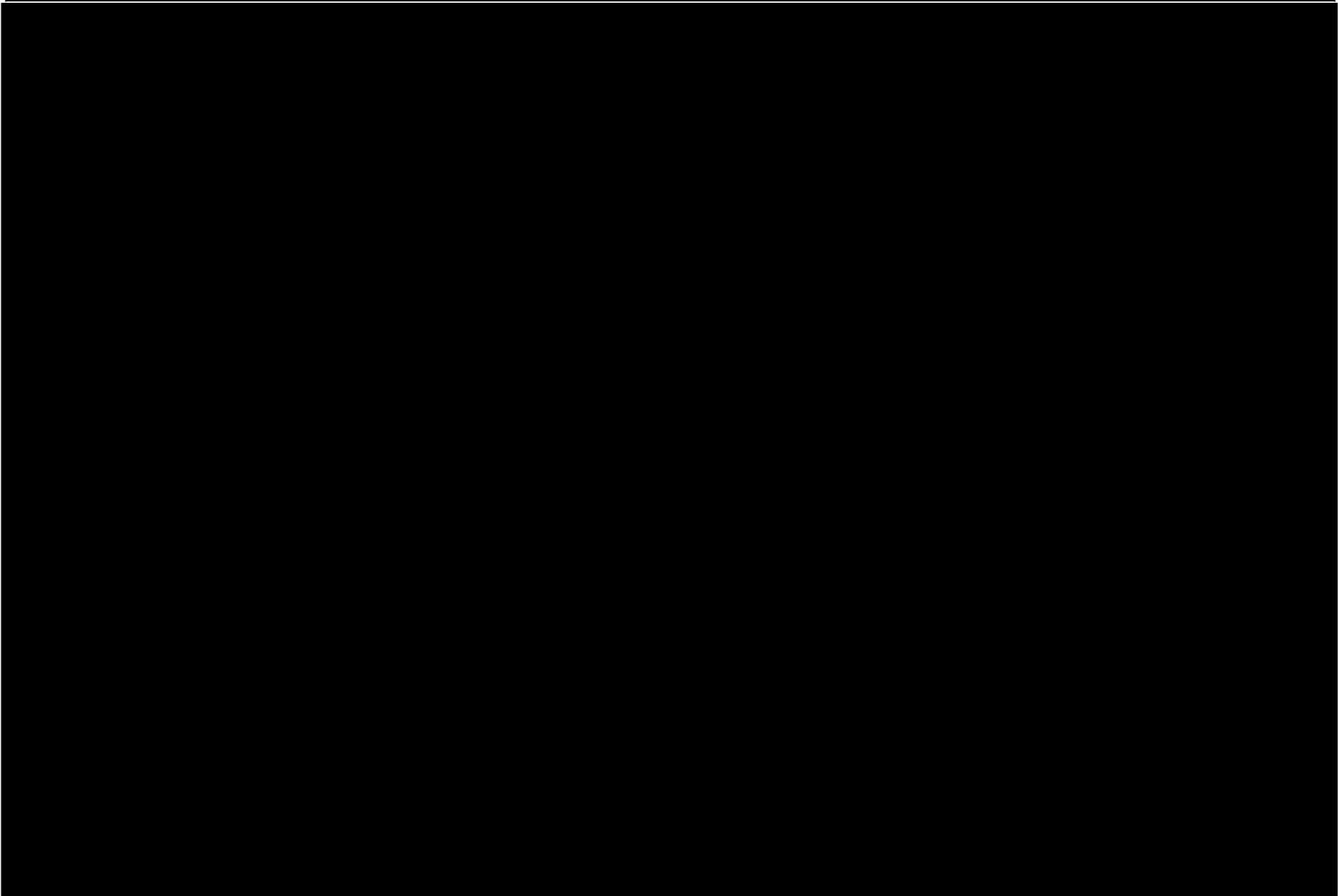
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



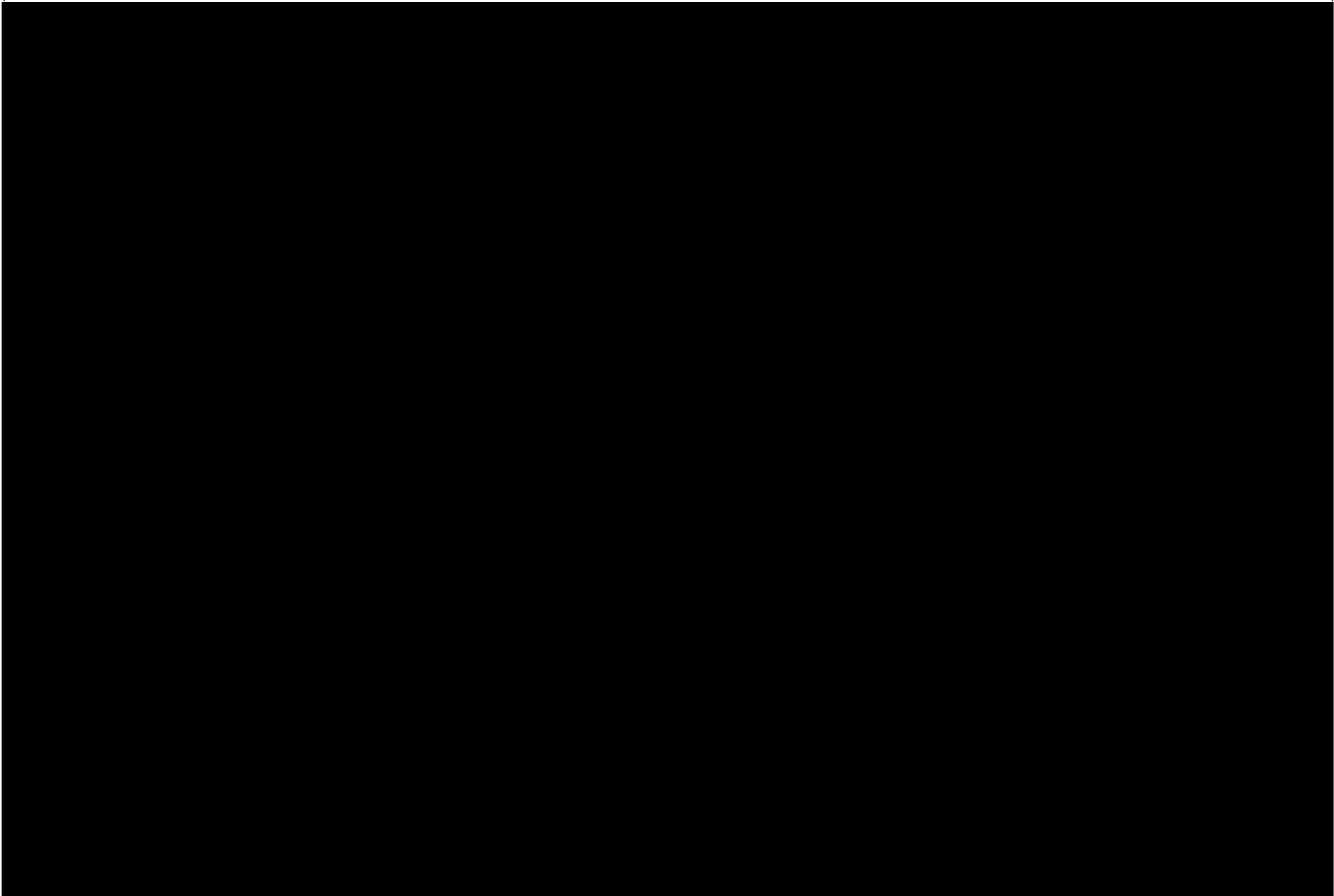
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



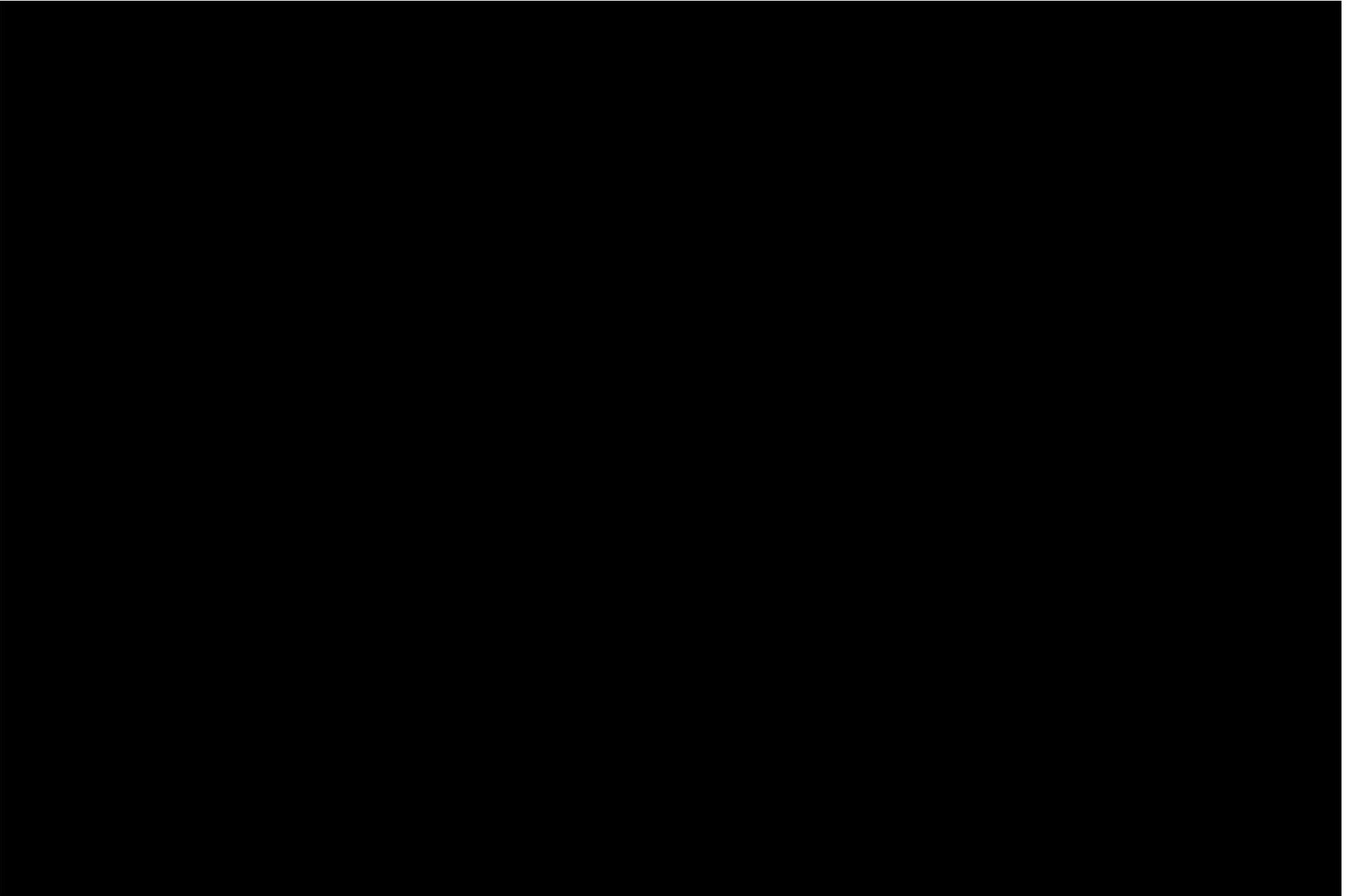
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



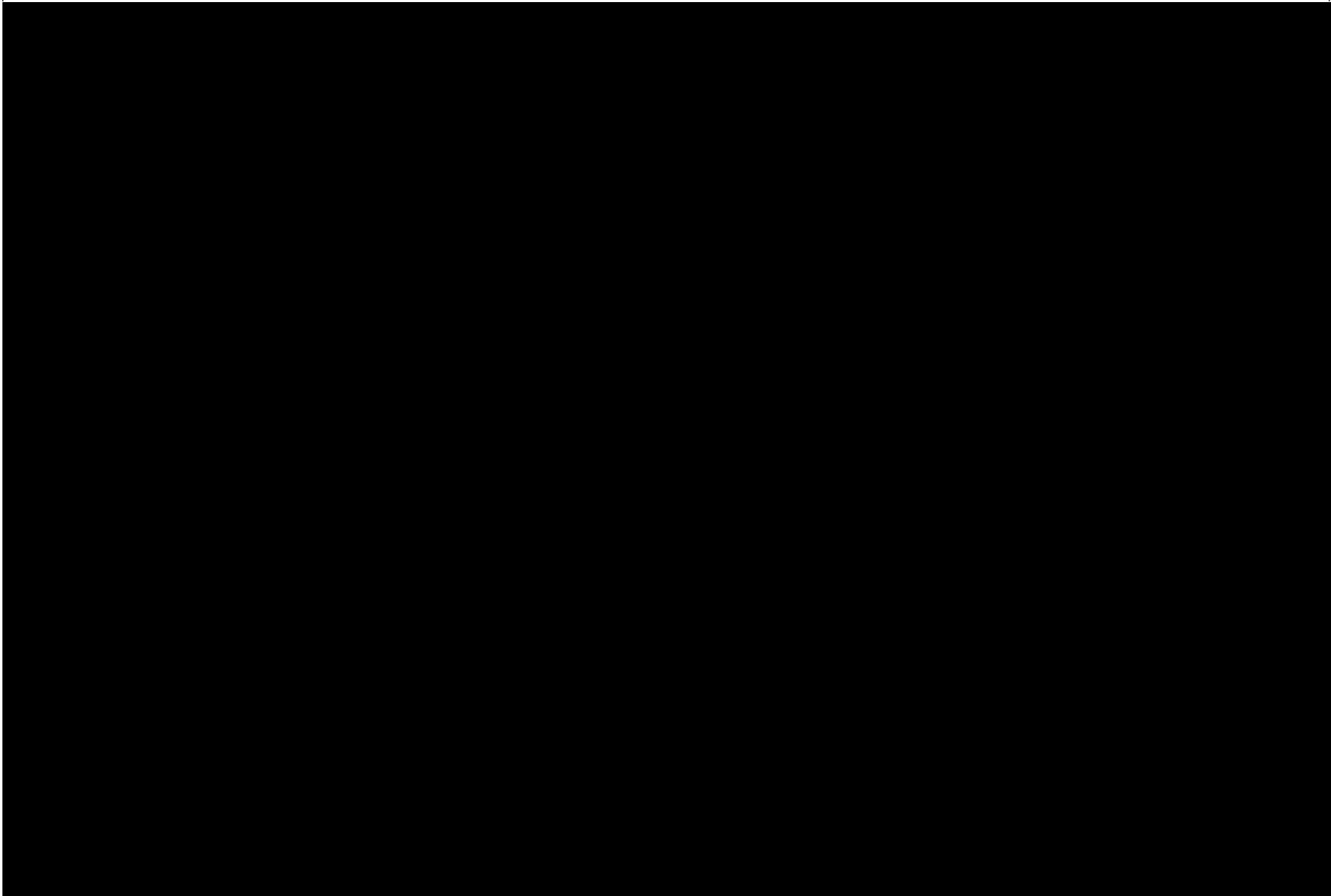
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



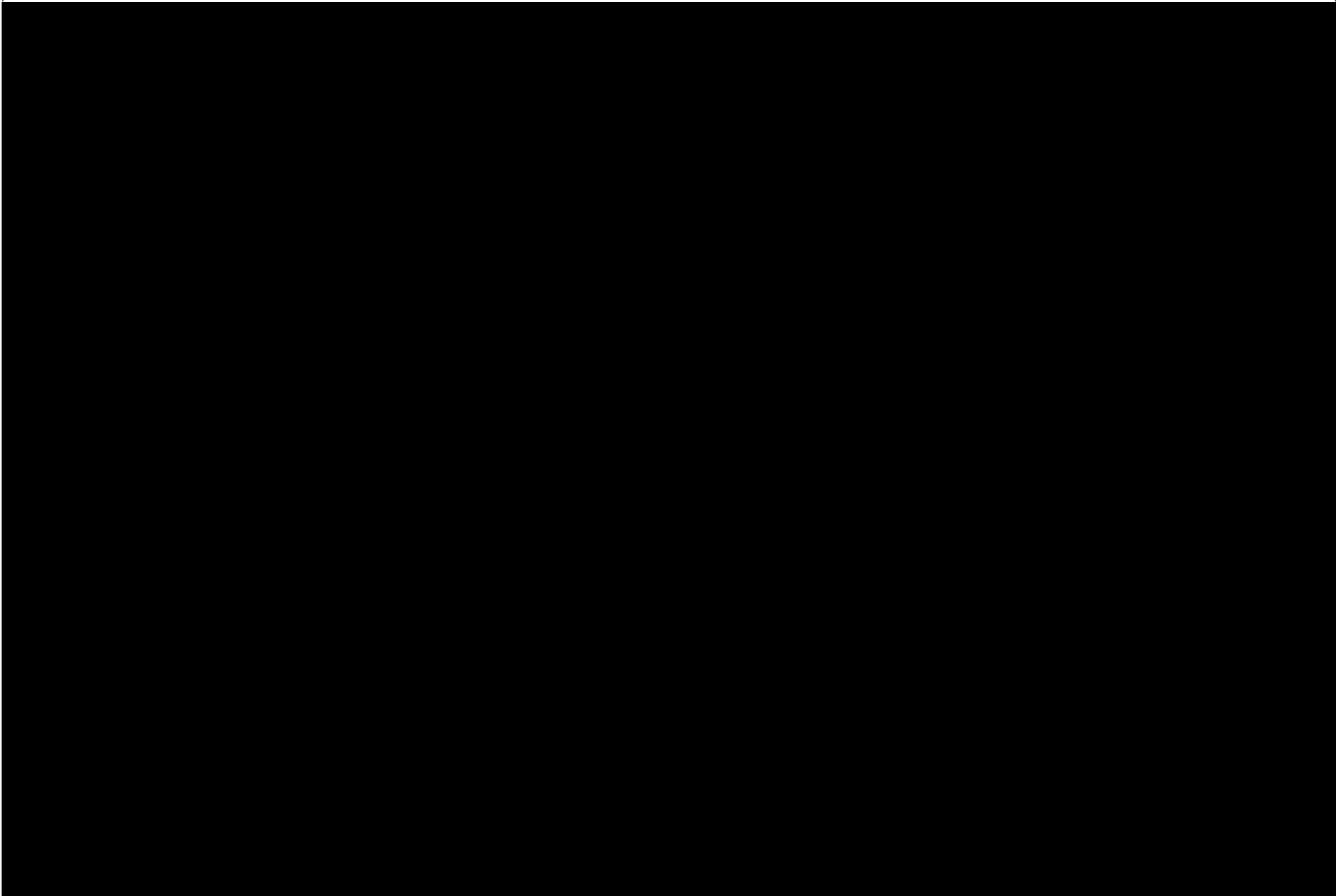
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



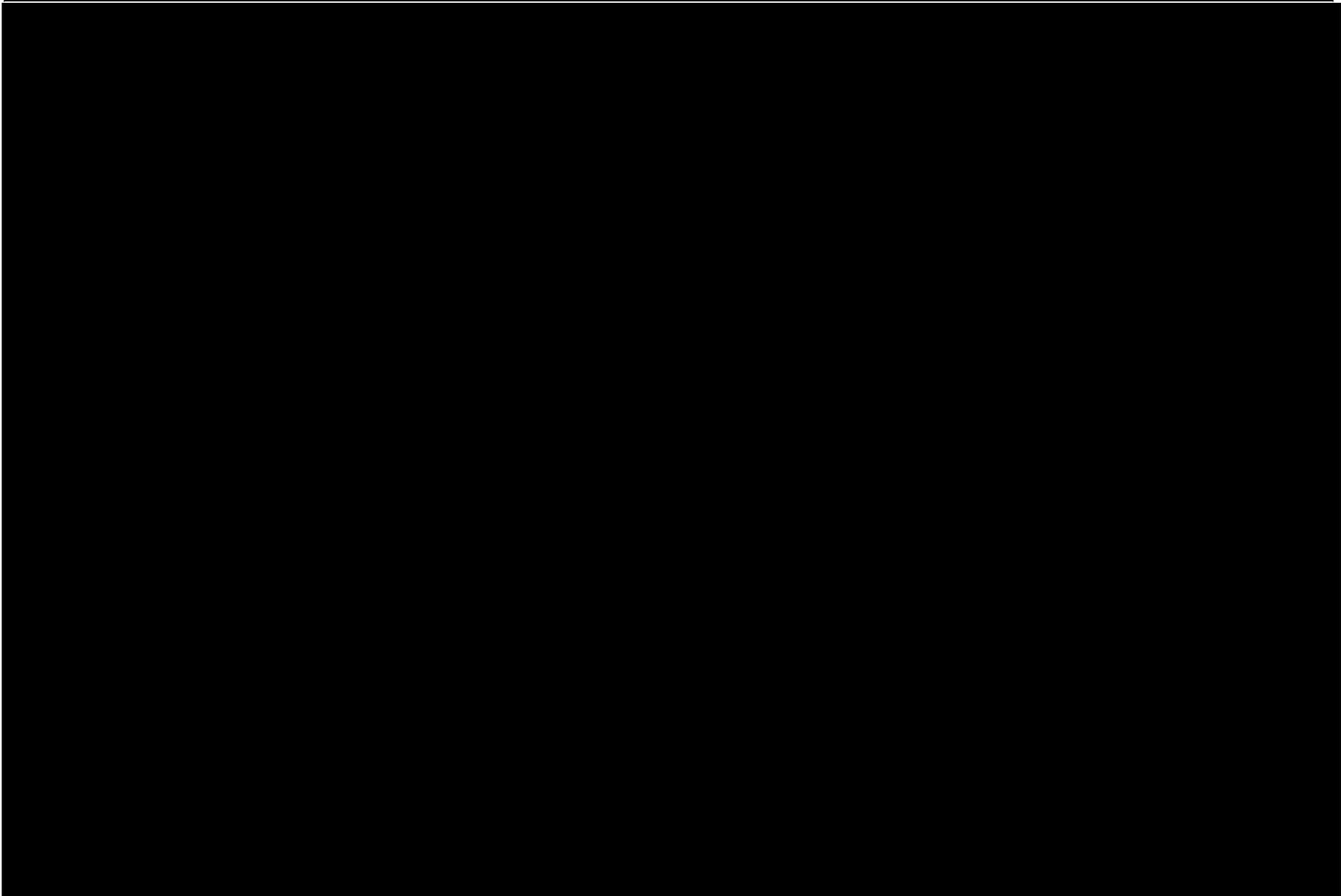
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



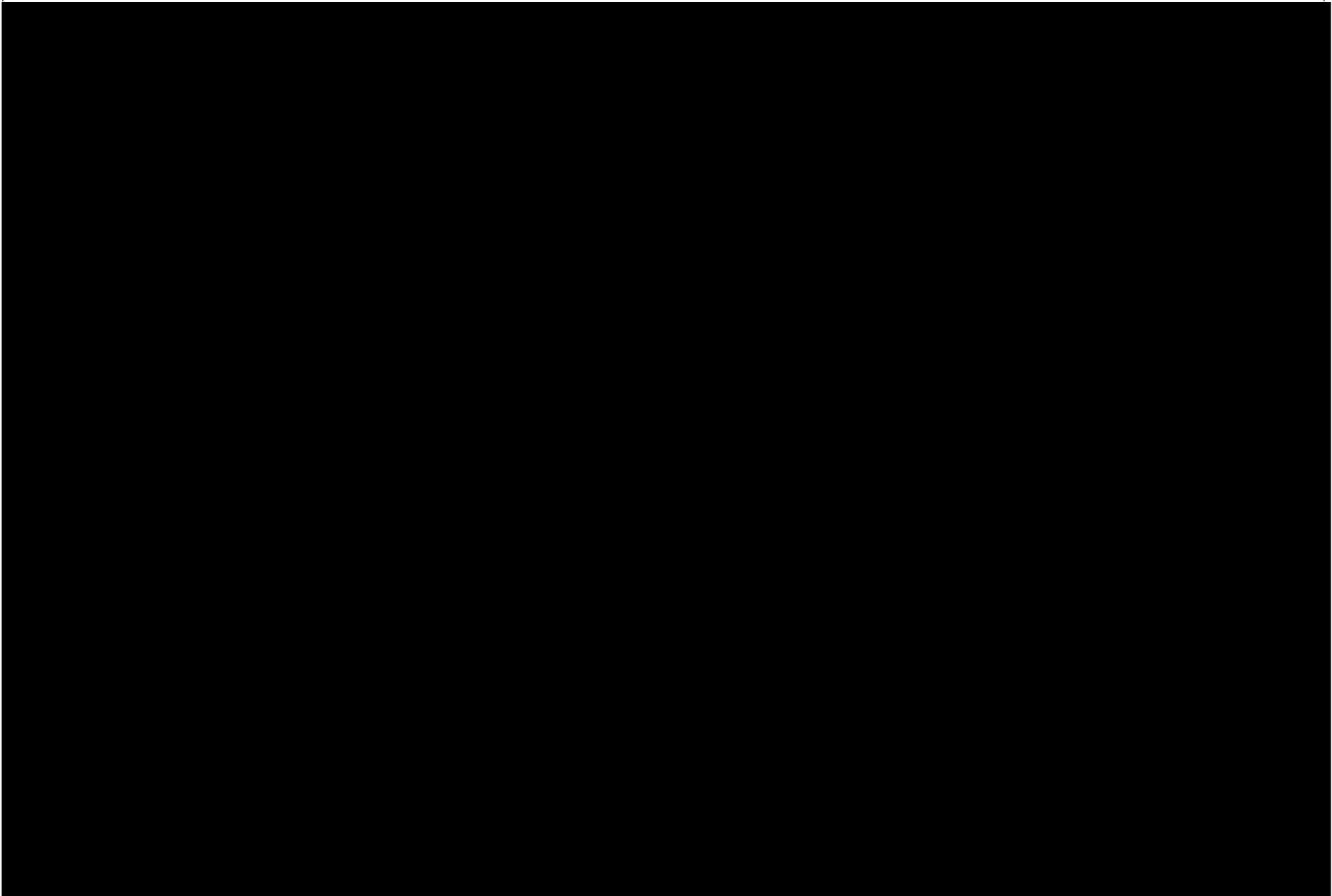
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



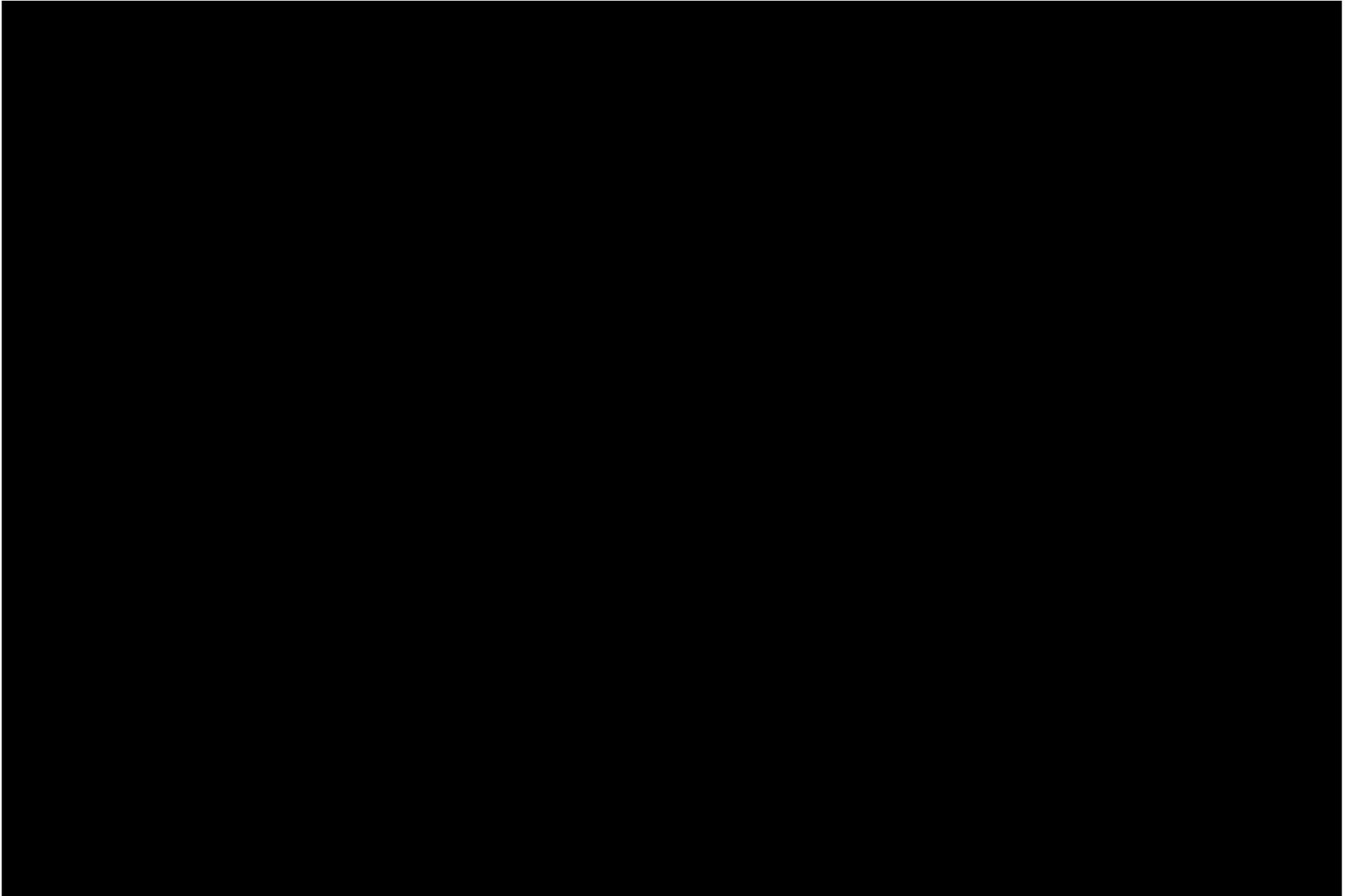
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



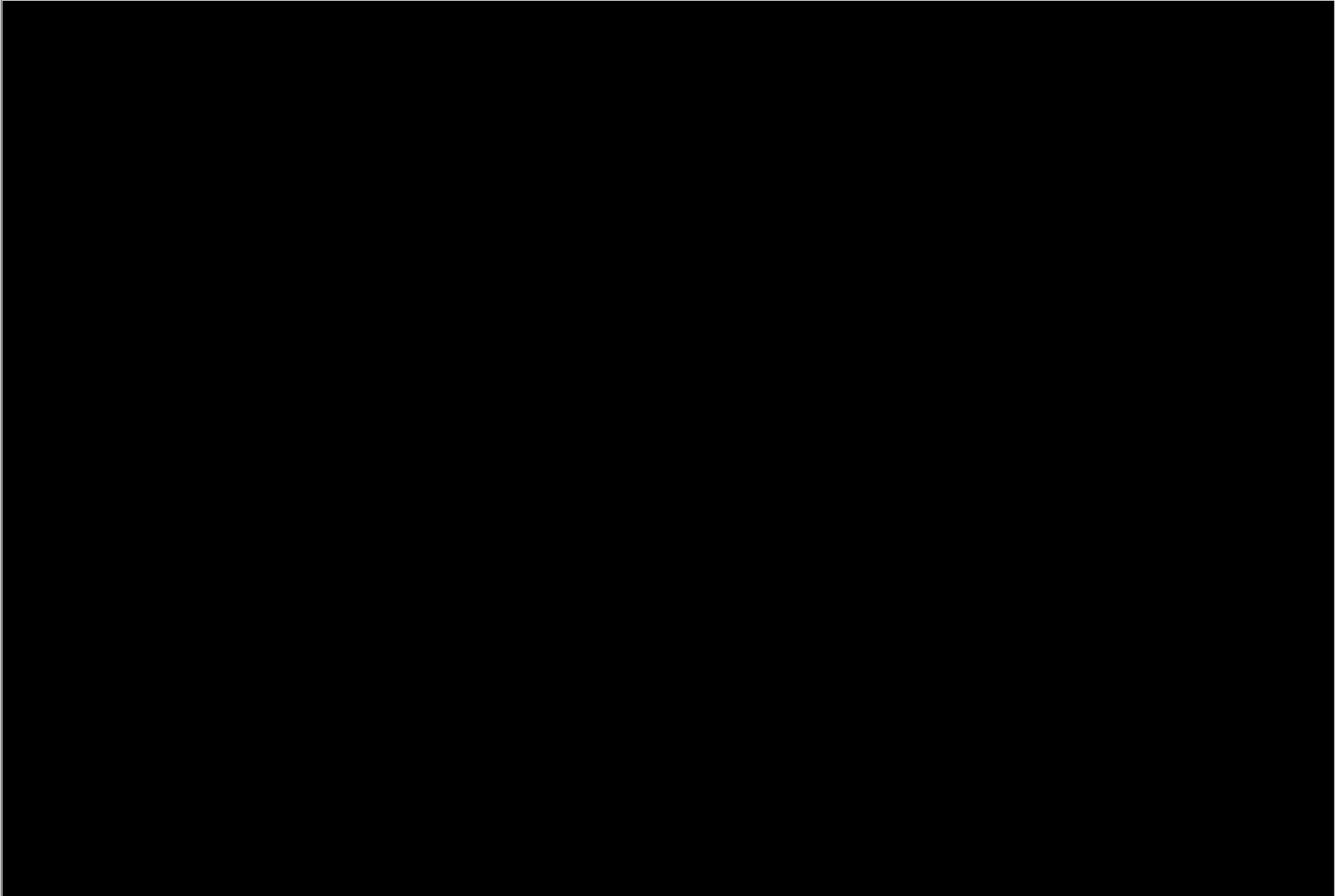
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



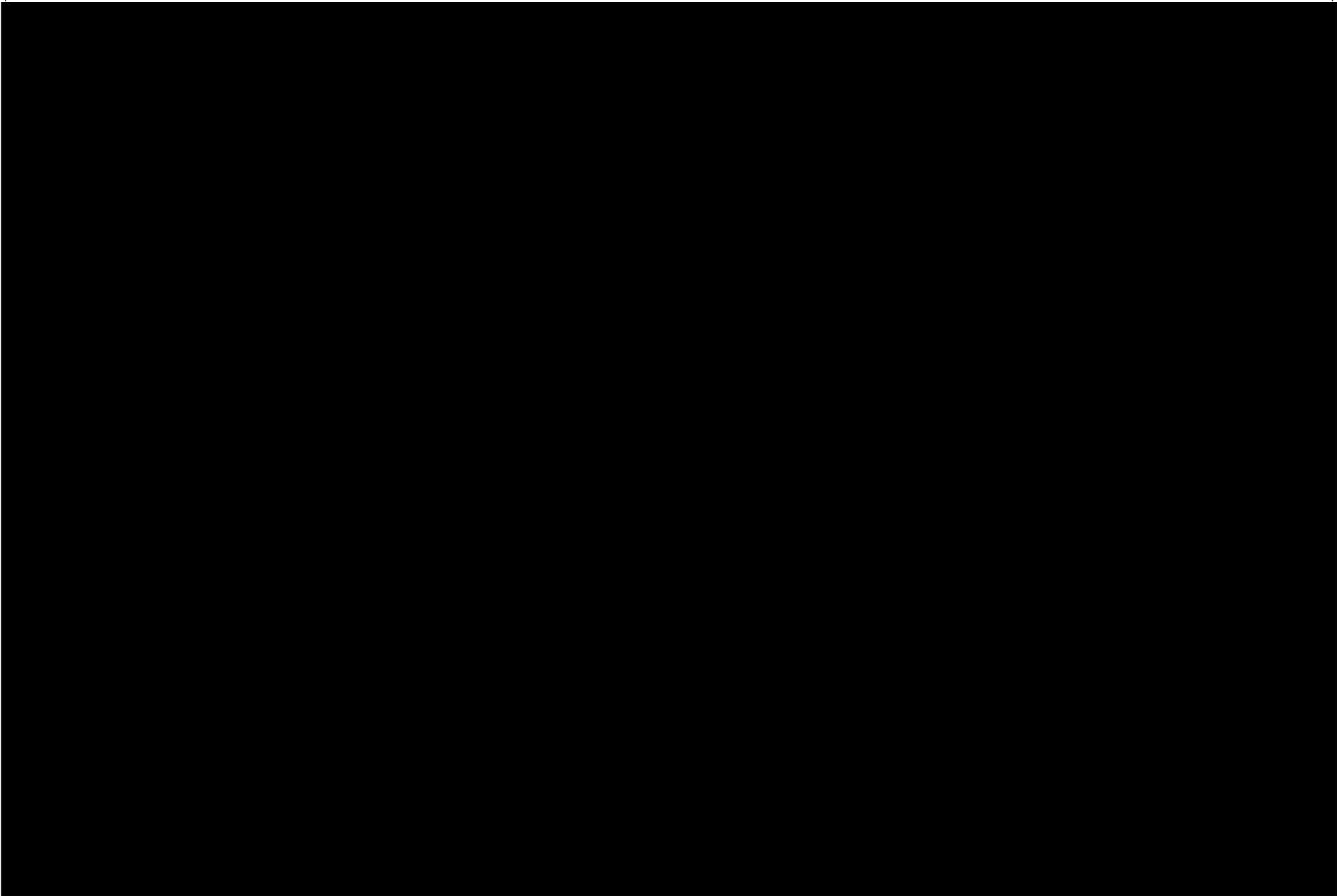
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



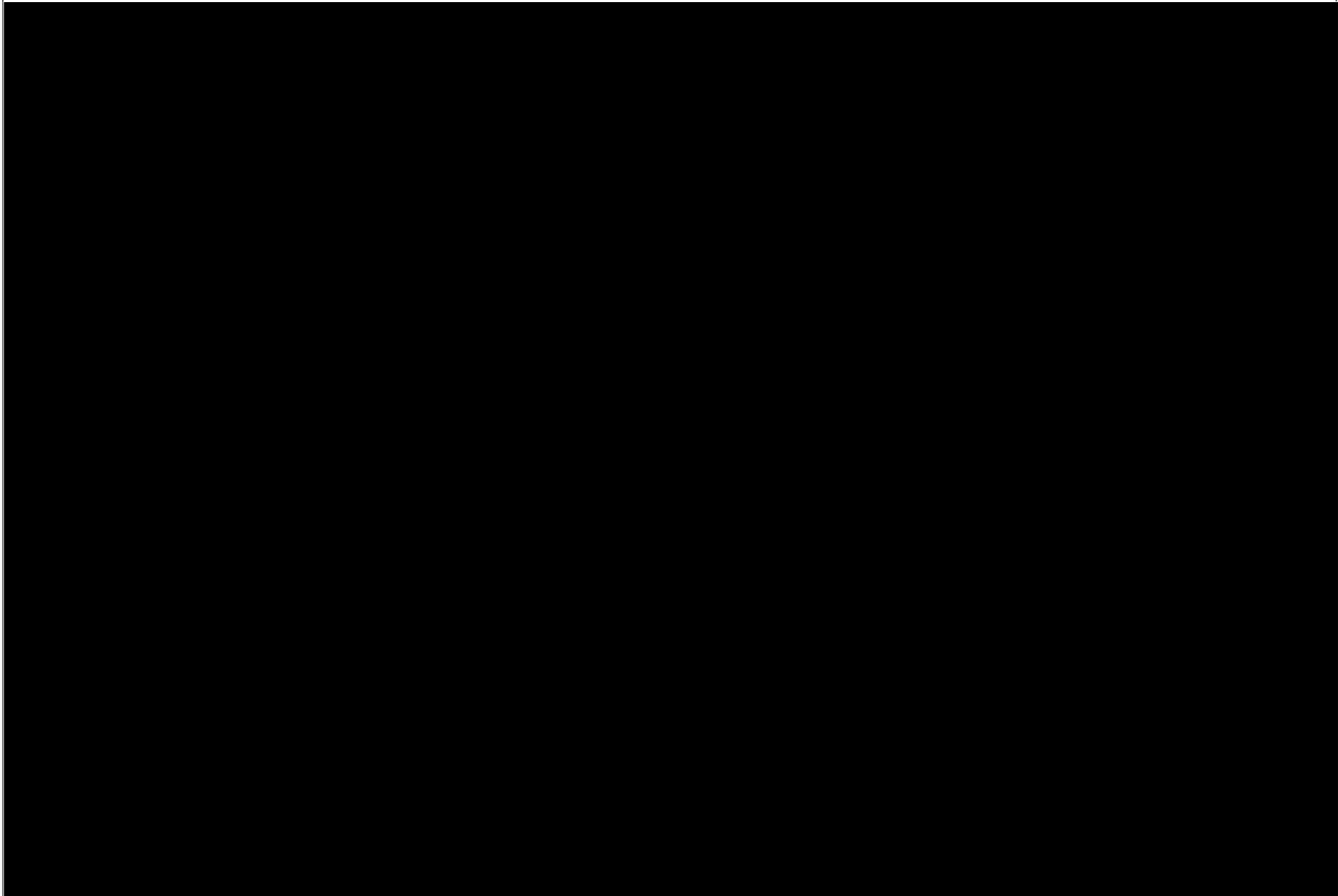
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



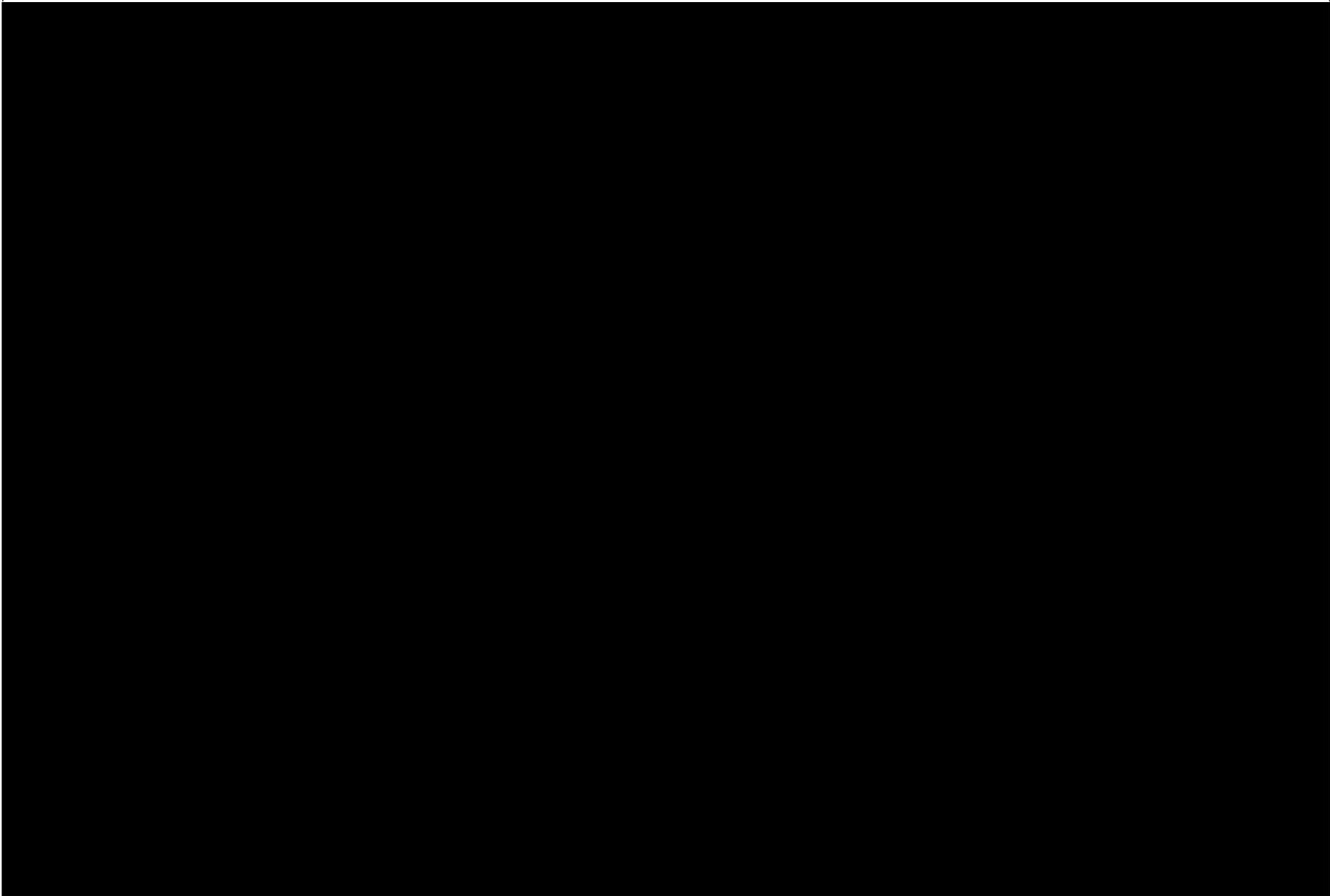
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



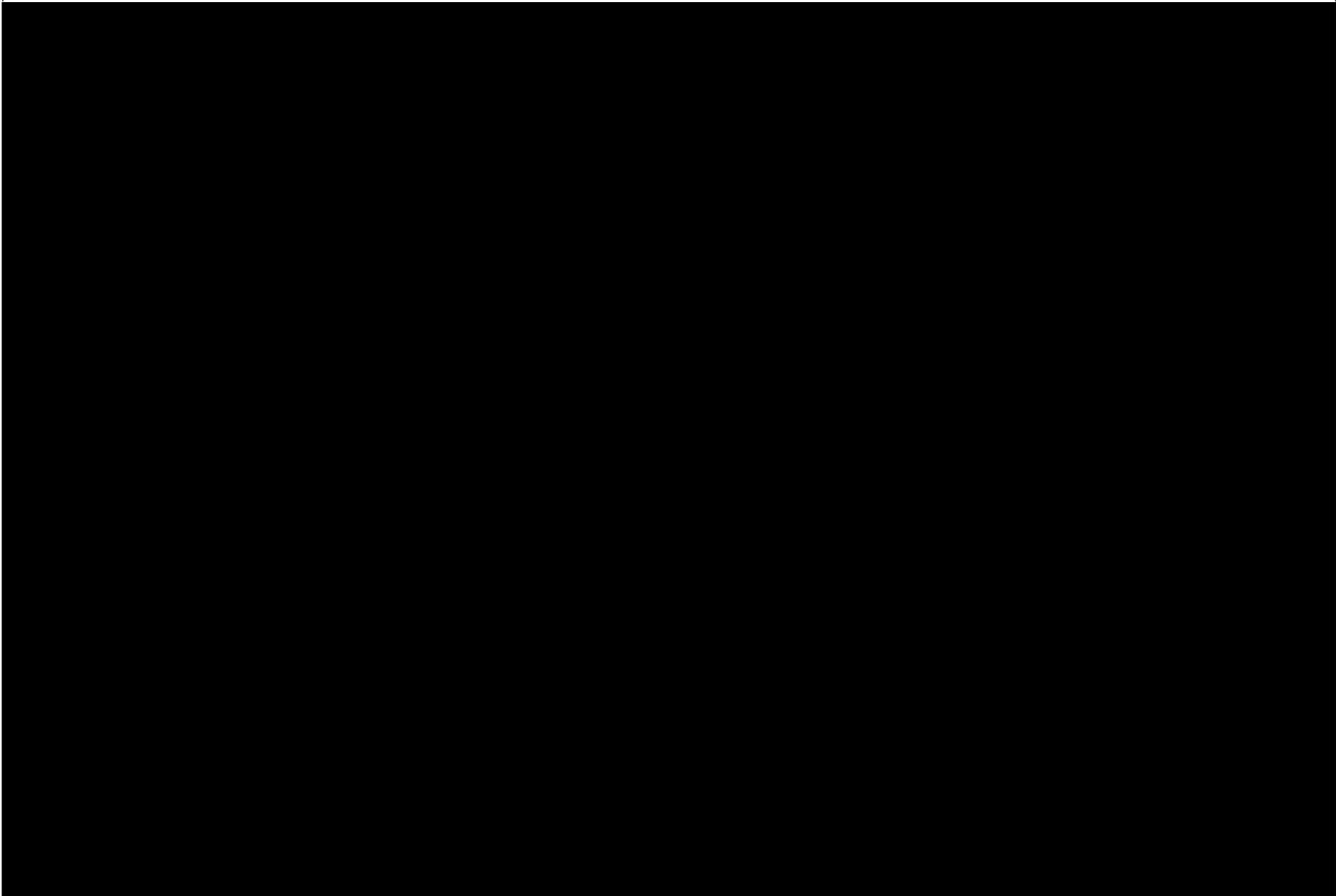
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



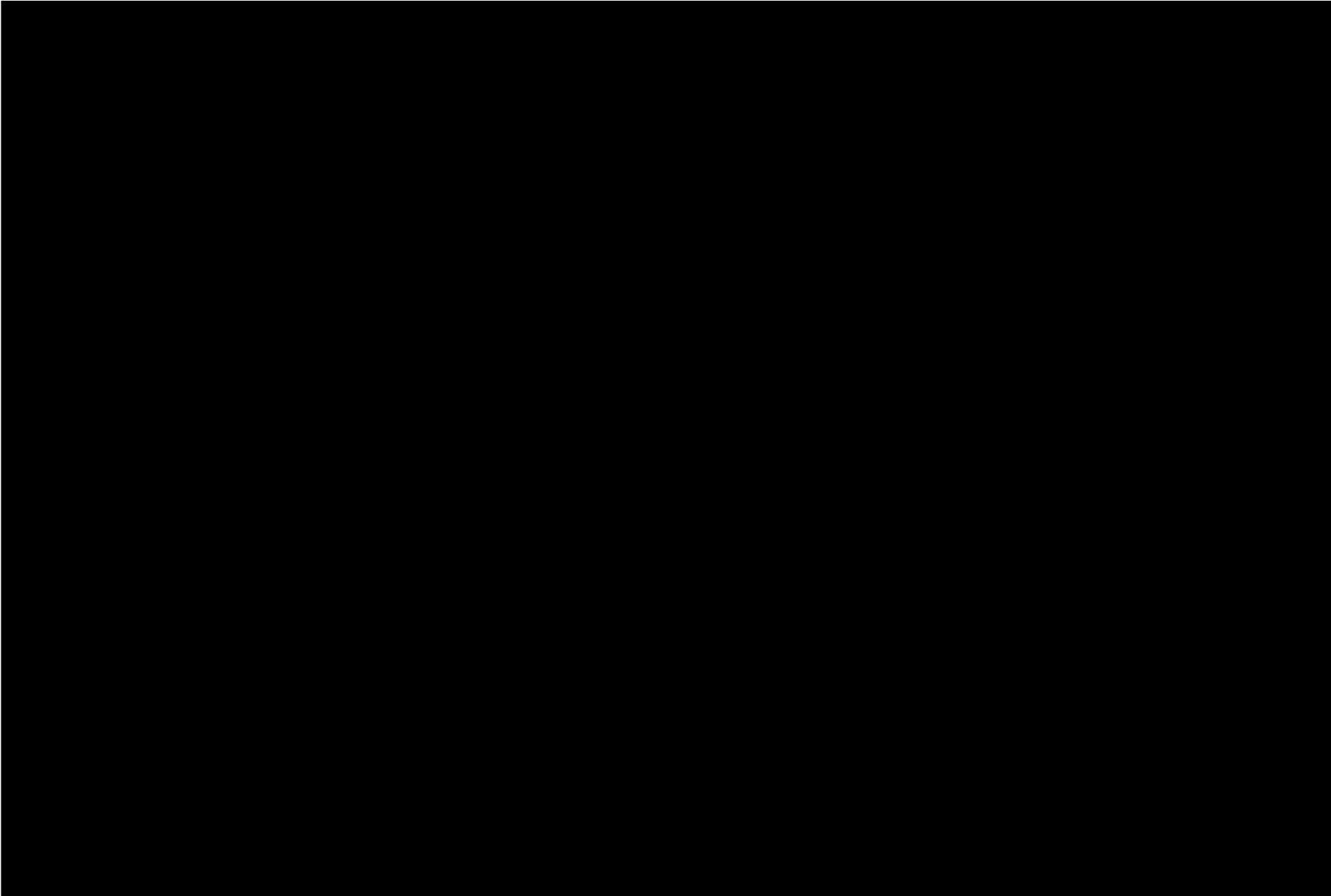
**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**



**Vermont Pharmacy Benefit Management System (PBMS) Project
Implementation Work Breakdown Schedule – Detailed**

