

XEROX CORP
Form 10-Q
November 02, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended: September 30, 2011
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____
Commission File Number 001-04471

XEROX CORPORATION
(Exact Name of Registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	16-0468020 (IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue Norwalk, Connecticut (Address of principal executive offices)	06856-4505 (Zip Code)
(203) 968-3000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Class

Outstanding at September 30, 2011

Common Stock, \$1 par value

1,387,053,365 shares

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements, environmental regulations and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; our ability to expand equipment placements and to drive the expanded use of color in printing and copying; development of new products and services; interest rates, cost of borrowing and access to credit markets; our ability to protect our intellectual property rights; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; reliance on third parties for manufacturing of products and provision of services; the risk that we may not realize all of the anticipated benefits from the acquisition of Affiliated Computer Services, Inc.; our ability to recover capital investments; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; and other risks that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011 and our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Xerox 2011 Form 10-Q

2

Table of Contents

XEROX CORPORATION
FORM 10-Q
September 30, 2011
TABLE OF CONTENTS

	Page
<u>Part I — Financial Information</u>	<u>4</u>
Item 1. <u>Financial Statements (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Income</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Capital Resources and Liquidity</u>	<u>38</u>
<u>Financial Risk Management</u>	<u>42</u>
<u>Non-GAAP Financial Measures</u>	<u>42</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>48</u>
<u>Part II — Other Information</u>	<u>48</u>
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>50</u>
<u>Signatures</u>	<u>52</u>
<u>Exhibit Index</u>	<u>53</u>

For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

Xerox 2011 Form 10-Q

3

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues				
Sales	\$1,738	\$1,700	\$5,129	\$5,169
Service, outsourcing and rentals	3,689	3,567	11,052	9,990
Finance income	156	161	481	498
Total Revenues	5,583	5,428	16,662	15,657
Costs and Expenses				
Cost of sales	1,154	1,127	3,383	3,381
Cost of service, outsourcing and rentals	2,545	2,417	7,597	6,647
Equipment financing interest	56	61	176	186
Research, development and engineering expenses	183	189	542	588
Selling, administrative and general expenses	1,109	1,136	3,347	3,398
Restructuring and asset impairment charges	(4)	) 4	(28)	) 210
Acquisition-related costs	—	5	—	68
Amortization of intangible assets	87	85	259	227
Other expenses, net	86	76	268	314
Total Costs and Expenses	5,216	5,100	15,544	15,019
Income before Income Taxes and Equity Income	367	328	1,118	638
Income tax expense	81	98	284	232
Equity in net income of unconsolidated affiliates	43	26	111	52
Net Income	329	256	945	458
Less: Net income attributable to noncontrolling interests	9	6	25	23
Net Income Attributable to Xerox	\$320	\$250	\$920	\$435
Basic Earnings per Share	\$0.23	\$0.18	\$0.65	\$0.32
Diluted Earnings per Share	\$0.22	\$0.17	\$0.63	\$0.32

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Xerox 2011 Form 10-Q

Table of ContentsXEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$785	\$1,211
Accounts receivable, net	3,001	2,826
Billed portion of finance receivables, net	170	198
Finance receivables, net	2,178	2,287
Inventories	1,209	991
Other current assets	1,138	1,126
Total current assets	8,481	8,639
Finance receivables due after one year, net	4,007	4,135
Equipment on operating leases, net	505	530
Land, buildings and equipment, net	1,645	1,671
Investments in affiliates, at equity	1,388	1,291
Intangible assets, net	3,172	3,371
Goodwill	8,786	8,649
Deferred tax assets, long-term	414	540
Other long-term assets	2,143	1,774
Total Assets	\$30,541	\$30,600
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$2,096	\$1,370
Accounts payable	1,811	1,968
Accrued compensation and benefits costs	752	901
Unearned income	375	371
Other current liabilities	1,618	1,807
Total current liabilities	6,652	6,417
Long-term debt	7,099	7,237
Liability to subsidiary trust issuing preferred securities	—	650
Pension and other benefit liabilities	1,748	2,071
Post-retirement medical benefits	885	920
Other long-term liabilities	888	797
Total Liabilities	17,272	18,092
Series A Convertible Preferred Stock	349	349
Common stock	1,425	1,398
Additional paid-in capital	6,788	6,580
Treasury stock, at cost	(309) —
Retained earnings	6,736	6,016
Accumulated other comprehensive loss	(1,886	) (1,988)
Xerox shareholders' equity	12,754	12,006
Noncontrolling interests	166	153
Total Equity	12,920	12,159
Total Liabilities and Equity	\$30,541	\$30,600
Shares of common stock issued	1,424,765	1,397,578
Treasury stock	(37,712) —
Shares of common stock outstanding	1,387,053	1,397,578

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Xerox 2011 Form 10-Q

5

Table of Contents

XEROX CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2011	2010	2011	2010	
Cash Flows from Operating Activities:					
Net income	\$329	\$256	\$945	\$458	
Adjustments required to reconcile net income to cash flows from operating activities:					
Depreciation and amortization	301	284	890	804	
Provision for receivables	45	48	99	141	
Provision for inventory	13	7	32	24	
Net gain on sales of businesses and assets	—	(15	) (8	) (16)
Undistributed equity in net income of unconsolidated affiliates	(43	) (26	) (83	) (35)
Stock-based compensation	29	29	92	86	
Restructuring and asset impairment charges	(4	) 4	(28	) 210	
Payments for restructurings	(42	) (54	) (162	) (148)
Contributions to pension benefit plans	(225	) (142	) (348	) (205)
Increase in accounts receivable and billed portion of finance receivables	(262	) (183	) (548	) (318)
Collections of deferred proceeds from sales of receivables	105	73	287	115	
Increase in inventories	(141	) (113	) (278	) (311)
Increase in equipment on operating leases	(76	) (72	) (205	) (194)
Decrease in finance receivables	74	69	234	270	
Increase in other current and long-term assets	(61	) (56	) (184	) (43)
Increase (decrease) in accounts payable and accrued compensation	181	134	(197	) 321	
Increase (decrease) in other current and long-term liabilities	78	(4	) (97	) (70)
Net change in income tax assets and liabilities	52	76	220	183	
Net change in derivative assets and liabilities	19	73	43	69	
Other operating, net	(6	) (22	) (21	) 78	
Net cash provided by operating activities	366	366	683	1,419	
Cash Flows from Investing Activities:					
Cost of additions to land, buildings and equipment	(80	) (100	) (245	) (234)
Proceeds from sales of land, buildings and equipment	5	15	9	40	
Cost of additions to internal use software	(41	) (45	) (122	) (114)
Acquisitions, net of cash acquired	(51	) (146	) (188	) (1,674)
Net change in escrow and other restricted investments	(1	) 13	(9	) 19	
Other investing, net	1	(3	) 20	1	
Net cash used in investing activities	(167	) (266	) (535	) (1,962)
Cash Flows from Financing Activities:					
Net (payments) proceeds on debt	(101) (150) 602	(2,188)
	—	—	(670) —	

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Payment of liability to subsidiary trust issuing preferred securities

Common stock dividends	(63	) (59	) (182	) (156)
Preferred stock dividends	(6	) (6	) (18	) (9)
Proceeds from issuances of common stock	10	3	41	120	
Excess tax benefits from stock-based compensation	1	2	5	12	
Payments to acquire treasury stock, including fees	(309	) —	(309) —	
Repurchases related to stock-based compensation	(21	) (12	) (27	) (14)
Other financing	(3	) (9	) (15	) (18)
Net cash used in financing activities	(492	) (231	) (573	) (2,253)
Effect of exchange rate changes on cash and cash equivalents	(20	) 24	(1	) (28)
Decrease in cash and cash equivalents	(313	) (107	) (426	) (2,824)
Cash and cash equivalents at beginning of period	1,098	1,082	1,211	3,799	
Cash and Cash Equivalents at End of Period	\$785	\$975	\$785	\$975	

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Xerox 2011 Form 10-Q

6

Table of Contents

XEROX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation

References herein to “we,” “us,” “our,” the “Company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiaries unless the context specifically requires otherwise.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2010 Annual Report to Shareholders, which is incorporated by reference in our 2010 Annual Report on Form 10-K (“2010 Annual Report”), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2010 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income.”

Note 2 – Recent Accounting Pronouncements

Testing Goodwill for Impairment: In September 2011, the FASB issued ASU No. 2011-08, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment, which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for our fiscal year beginning January 1, 2012 and earlier adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2011-08 on our Consolidated financial statements.

Presentation of Comprehensive Income: In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. ASU 2011-05 is effective for our fiscal year beginning January 1, 2012 and must be applied retrospectively. We expect to present comprehensive income in two separate but consecutive statements and we most likely expect to early adopt commencing with our 2011 year-end reporting. Other than the change in presentation, we have determined these changes will not have an impact on our Consolidated Financial Statements.

Fair Value Measurement and Disclosure Requirements: In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) – Fair Value Measurement, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements. ASU 2011-04 is effective for our fiscal year beginning January 1, 2012 and must be applied prospectively. We are currently evaluating the impact

of the adoption of ASU 2011-04 on our Consolidated financial statements.

Receivables: In April 2011, the FASB issued ASU 2011-02 to provide additional guidance on a creditor's determination of whether a restructuring is a troubled debt restructuring. The additional guidance was provided to assist a creditor in determining whether it has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining if a restructuring constitutes a troubled debt restructuring. The update was effective for our

Xerox 2011 Form 10-Q

7

Table of Contents

third quarter beginning July 1, 2011 and did not have a material effect on our financial condition, results of operations or disclosures as renegotiations and modifications of our finance receivables occur on a limited basis.

Note 3 – Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. We report our financial performance based on the following two primary reportable segments – Technology and Services. Our Technology segment includes the sale and support of a broad range of document systems from entry level to high-end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT outsourcing services.

Our Technology segment is centered on strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of document systems and supplies, technical services and product financing. Our products range from:

• “Entry,” which includes A4 devices and desktop printers; to

• “Mid-range,” which includes A3 devices that generally serve workgroup environments in mid to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than \$100K and Light Production 91+ ppm priced at less than \$100K; to

• “High-end,” which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

The Services segment is comprised of three outsourcing service offerings:

• Document Outsourcing (which includes Managed Print Services)

• Business Process Outsourcing

• Information Technology Outsourcing

Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document-intensive business processes through automation and deployment of software application and tools and the management of their printing needs. Document outsourcing also includes revenues from our partner print services offerings. Business process outsourcing services includes service arrangements where we manage a customer’s business activity or process. Information technology outsourcing services include service arrangements where we manage a customer’s IT-related activities, such as application management and application development, data center operations or testing and quality assurance.

The segment classified as Other includes several units, none of which meet the thresholds for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems and non-allocated Corporate items including non-financing interest, as well as other items included in Other expenses, net.

Operating segment revenues and profitability were as follows:

	Three Months Ended September 30, Segment Revenue		Nine Months Ended September 30, Segment Revenue	
	Segment Profit (Loss)	Segment Profit (Loss)	Segment Profit (Loss)	Segment Profit (Loss)
2011				
Technology	\$2,500	\$ 258	\$7,547	\$ 824
Services	2,717	323	7,973	911
Other	366	(86) 1,142	(225
Total	\$5,583	\$ 495	\$16,662	\$ 1,510
2010				

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Technology	\$2,466	\$ 247	\$7,504	\$ 753	
Services	2,554	286	6,926	808	
Other	408	(79) 1,227	(276)
Total	\$5,428	\$ 454	\$15,657	\$ 1,285	

Xerox 2011 Form 10-Q

8

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Reconciliation to Pre-tax Income				
Segment Profit	\$495	\$454	\$1,510	\$1,285
Reconciling items:				
Restructuring and asset impairment charges	4	(4	) 28	(210
Restructuring charges of Fuji Xerox	(1	) (6	) (16	) (33
Acquisition-related costs	—	(5	) —	(68
Amortization of intangible assets	(87	) (85	) (259	) (227
Venezuelan devaluation costs	—	—	—	(21
ACS shareholders litigation settlement	—	—	—	(36
Loss on early extinguishment of liability	—	—	(33) —
Equity in net income of unconsolidated affiliates	(43	) (26	) (111	) (52
Other	(1	) —	(1) —
Pre-tax Income	\$367	\$328	\$1,118	\$638

Note 4 – Acquisitions

In February 2011, we acquired Concept Group, Ltd. for \$43 net of cash acquired. This acquisition expands our reach into the small and mid-size business market in the U.K. Concept Group has nine locations throughout the U.K. and provides document imaging solutions and technical services to more than 3,000 customers.

In April 2011, we acquired Unamic/HCN B.V., the largest privately-owned customer care provider in the Benelux region, for approximately \$55 net of cash acquired. Unamic/HCN's focus on the Dutch-speaking market expands our customer care capabilities in the Netherlands, Belgium, Turkey and Suriname.

In May 2011, we acquired NewField Information Technology, Ltd., a U.K.-based print consultancy and software solution provider, for \$17 net of cash acquired. The acquisition expands our market-leading managed print services portfolio that serves workplaces of any size.

In July 2011, we acquired Education Sales and Marketing, LLC ("ESM"), a leading provider of outsourced enrollment management and student loan default solutions, for approximately \$43 net of cash acquired. The acquisition of ESM enables us to offer a broader range of services to assist post-secondary schools in attracting and retaining the most qualified students while reducing accreditation risk.

In September 2011, we acquired the net assets related to the U.S. operations of Symcor Inc. ("Symcor"). In connection with the acquisition of the net assets, we assumed and took over the operational responsibility for the customer contracts related to this operation. We agreed to pay \$17 for the acquired net assets and the Seller agreed to pay us \$52, which represented the fair value of the liabilities assumed. The payments were made in October 2011 and we received net cash of \$35. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing. We are in the process of determining the purchase price allocation for this acquisition.

We acquired seven additional businesses in 2011 for a total of \$21 in cash as part of our strategy of increasing our U.S. distribution network for small and mid-size businesses. These acquisitions further our strategy of creating a nationwide network of office technology suppliers focused on improving document workflow and office efficiency for small and mid-size businesses.

Summary

The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. Unamic/HCN, NewField IT, ESM and Symcor are included within our Services segment while the acquisitions of office technology suppliers are included within our Technology segment. The purchase prices, for all acquisitions except Symcor, were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

ACS Acquisition

In February 2010, we acquired ACS in a cash-and-stock transaction valued at approximately \$6.5 billion. In addition, we repaid \$1.7 billion of ACS's debt at acquisition and assumed an additional \$0.6 billion of debt. ACS provides business

Xerox 2011 Form 10-Q

9

Table of Contents

process outsourcing and information technology outsourcing services and solutions to commercial and governmental clients worldwide. The operating results of ACS are included in our Services segment from February 6, 2010. The unaudited pro-forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2010. The pro-forma results include the amortization associated with the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for unearned revenue, software and land, buildings and equipment. To better reflect the combined operating results, material non-recurring charges directly attributable to the transaction have been excluded. In addition, the pro-forma results do not include any synergies or other benefits of the acquisition. Accordingly, the unaudited pro-forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010.

	Nine Months Ended September 30, 2010	
	Pro-forma	As Reported
Revenue	\$16,276	\$15,657
Net income – Xerox	421	435
Basic earnings per-share	0.29	0.32
Diluted earnings per-share	0.29	0.32

Note 5 – Receivables, Net

Accounts Receivable Sales Arrangements

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. The agreements involve the sale of entire groups of accounts receivable for cash. In certain instances a portion of the sales proceeds are held back and deferred until collection of the related receivables by the purchaser. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows, because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. These receivables are included in the caption “Other current assets” in the accompanying Condensed Consolidated Balance Sheets and were \$93 and \$90 at September 30, 2011 and December 31, 2010, respectively. Under most of the agreements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material. Accounts receivables sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Accounts receivable sales	\$754	\$574	\$2,303	\$1,586
Deferred proceeds	93	97	290	212
Fees associated with sales	5	3	14	10
Estimated decrease to operating cash flows ⁽¹⁾	(35	) (11	) (29	) (81

⁽¹⁾ Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter and (iii) currency.

Finance Receivables – Allowance for Credit Losses and Credit Quality

Finance receivables include sales-type leases, direct financing leases and installment loans. Our finance receivable portfolios are primarily in the U.S., Canada and Europe. We generally establish customer credit limits and estimate the

allowance for credit losses on a country or geographic basis. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

The following table is a rollforward of the allowance for doubtful finance receivables as well as the related investment in finance receivables:

Xerox 2011 Form 10-Q

10

Table of Contents

	United States	Canada	Europe	Other ⁽³⁾	Total
Allowance for Credit Losses:					
Balance at December 31, 2010	\$ 91	\$37	\$81	\$3	\$212
Provision	7	4	11	—	22
Charge-offs	(10)	(5)	(8)	—	(23)
Recoveries and other ⁽¹⁾	(1)	2	3	—	4
Balance at March 31, 2011	87	38	87	3	215
Provision	1	3	14	—	18
Charge-offs	(6)	(5)	(11)	—	(22)
Recoveries and other ⁽¹⁾	(1)	—	(1)	—	(2)
Balance at June 30, 2011	81	36	89	3	209
Provision	4	1	18	—	23
Charge-offs	(7)	(3)	(19)	—	(29)
Recoveries and other ⁽¹⁾	1	(1)	(5)	—	(5)
Balance September 30, 2011	\$ 79	\$33	\$83	\$3	\$198
Finance receivables as of September 30, 2011 collectively evaluated for impairment ⁽²⁾	\$ 2,943	\$793	\$2,714	\$95	\$6,545
Allowance for Credit Losses:					
Balance at December 31, 2009	\$ 99	\$33	\$87	\$3	\$222
Provision	10	6	17	—	33
Charge-offs	(22)	(6)	(11)	—	(39)
Recoveries and other ⁽¹⁾	1	2	(5)	—	(2)
Balance at March 31, 2010	88	35	88	3	214
Provision	15	6	12	—	33
Charge-offs	(17)	(8)	(19)	—	(44)
Recoveries and other ⁽¹⁾	—	—	(6)	—	(6)
Balance at June 30, 2010	86	33	75	3	197
Provision	13	5	17	—	35
Charge-offs	(9)	(5)	(10)	—	(24)
Recoveries and other ⁽¹⁾	2	2	7	—	11
Balance at September 30, 2010	\$ 92	\$35	\$89	\$3	\$219
Finance receivables as of September 30, 2010 collectively evaluated for impairment ⁽²⁾	\$ 3,184	\$826	\$2,700	\$58	\$6,768

(1) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Total Finance receivables exclude residual values of \$8 and \$13, and the allowance for credit losses of \$198 and \$219 at September 30, 2011 and 2010, respectively.

(3) Includes developing market countries and smaller units.

We evaluate our customers based on the following credit quality indicators:

Investment grade: This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at less than 1%.

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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

Xerox 2011 Form 10-Q

11

Table of Contents

the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.

Substandard: This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees and etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

Credit quality indicators are updated at least annually and the credit quality of any given customer can change during the life of the portfolio. Details about our finance receivables portfolio based on industry and credit quality indicators are as follows:

	September 30, 2011			Total Finance Receivables
	Investment Grade	Non-investment Grade	Substandard	
Finance and Other Services	\$322	\$ 394	\$162	\$878
Government and Education	806	23	5	834
Graphic Arts	119	203	154	476
Industrial	187	82	34	303
Healthcare	125	43	27	195
Other	90	104	63	257
Total United States	1,649	849	445	2,943
Finance and Other Services	142	114	50	306
Government and Education	119	9	4	132
Graphic Arts	35	38	35	108
Industrial	54	40	32	126
Other	72	39	10	121
Total Canada	422	240	131	793
France	244	372	86	702
U.K./Ireland	193	170	56	419
Central ⁽¹⁾	340	508	60	908
Southern ⁽²⁾	242	291	48	581
Nordics ⁽³⁾	62	38	4	104
Total Europe	1,081	1,379	254	2,714
Other	66	23	6	95
Total	\$3,218	\$ 2,491	\$836	\$6,545
	December 31, 2010			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and Other Services	\$360	\$ 401	\$190	\$951
Government and Education	849	21	7	877
Graphic Arts	147	217	156	520
Industrial	206	91	38	335

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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

Xerox 2011 Form 10-Q

12

Table of Contents

Government and Education	127	12	3	142
Graphic Arts	32	35	48	115
Industrial	57	47	30	134
Other	88	47	13	148
Total Canada	454	268	150	872
France	219	374	82	675
U.K./Ireland	206	164	51	421
Central ⁽¹⁾	297	551	65	913
Southern ⁽²⁾	263	237	81	581
Nordics ⁽³⁾	50	63	3	116
Total Europe	1,035	1,389	282	2,706
Other	33	33	—	66
Total	\$3,320	\$2,577	\$924	\$6,821

(1)Switzerland, Germany, Austria, Belgium and Holland.

(2)Italy, Greece, Spain and Portugal.

(3)Sweden, Norway, Denmark and Finland.

The aging of our billed finance receivables is based upon the number of days an invoice is past due and is as follows:

Xerox 2011 Form 10-Q

13

Table of Contents

September 30, 2011

	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and Other Services	\$19	\$4	\$1	\$ 24	\$ 854	\$ 878	\$ 21
Government and Education	22	4	3	29	805	834	35
Graphic Arts	17	2	1	20	456	476	12
Industrial	8	2	1	11	292	303	10
Healthcare	5	2	1	8	187	195	6
Other	7	1	1	9	248	257	12
Total United States	78	15	8	101	2,842	2,943	96
Canada	3	3	1	7	786	793	27
France	2	—	1	3	699	702	18
U.K./Ireland	3	2	3	8	411	419	14
Central ⁽¹⁾	7	3	4	14	894	908	45
Southern ⁽²⁾	17	12	18	47	534	581	115
Nordics ⁽³⁾	1	—	—	1	103	104	—
Total Europe	30	17	26	73	2,641	2,714	192
Other	1	1	—	2	93	95	—
Total	\$112	\$36	\$35	\$ 183	\$ 6,362	\$ 6,545	\$ 315

December 31, 2010

	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and Other Services	\$23	\$5	\$2	\$ 30	\$ 921	\$ 951	\$ 23
Government and Education	26	6	3	35	842	877	40
Graphic Arts	21	3	1	25	495	520	16
Industrial	11	2	1	14	321	335	10
Healthcare	6	2	1	9	205	214	9
Other	8	2	—	10	270	280	8
Total United States	95	20	8	123	3,054	3,177	106
Canada	3	3	1	7	865	872	28
France	1	1	—	2	673	675	5
U.K./Ireland	4	1	1	6	415	421	7
Central ⁽¹⁾	9	2	4	15	898	913	39
Southern ⁽²⁾	32	10	15	57	524	581	99
Nordics ⁽³⁾	1	—	—	1	115	116	2
Total Europe	47	14	20	81	2,625	2,706	152
Other	2	—	—	2	64	66	—
Total	\$147	\$37	\$29	\$ 213	\$ 6,608	\$ 6,821	\$ 286

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

Note 6 – Inventories

The following is a summary of Inventories by major category:

Xerox 2011 Form 10-Q

14

Table of Contents

	September 30, 2011	December 31, 2010
Finished goods	\$1,030	\$858
Work-in-process	74	46
Raw materials	105	87
Total Inventories	\$1,209	\$991

Note 7 – Investment in Affiliates, at Equity

Our equity in net income of our unconsolidated affiliates was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fuji Xerox	\$42	\$23	\$104	\$41
Other investments	1	3	7	11
Total Equity in Net Income of Unconsolidated Affiliates	\$43	\$26	\$111	\$52

Fuji Xerox

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest. Equity income for the nine months ended September 30, 2011 and 2010 includes after-tax restructuring charges of \$16 and \$33, respectively, primarily reflecting Fuji Xerox's continued cost-reduction initiatives.

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Summary of Operations:				
Revenues	\$3,330	\$2,860	\$9,274	\$8,326
Costs and expenses	3,042	2,655	8,584	7,894
Income before income taxes	288	205	690	432
Income tax expense	107	97	231	204
Net Income	181	108	459	228
Less: Net income – noncontrolling interests	1	1	3	3
Net Income – Fuji Xerox	\$180	\$107	\$456	\$225
Weighted Average Rate ⁽¹⁾	77.69	85.79	80.37	89.43

(1) Represents Yen/U.S. Dollar exchange rate used to translate.

Note 8 – Restructuring Programs

Information related to restructuring program activity during the nine months ended September 30, 2011 is outlined below:

Table of Contents

	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Balance December 31, 2010	\$298	\$ 25	\$323
Restructuring provision	32	1	33
Reversals of prior accruals	(55	) (6	) (61
Net current period charges ⁽¹⁾	(23	) (5	) (28
Charges against reserve and currency	(159	) (10	) (169
Balance September 30, 2011	\$116	\$ 10	\$126

(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown. Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Charges against reserve	\$(49	) \$(70	) \$(169	) \$(153
Asset impairment	—	1	—	5
Effects of foreign currency and other non-cash items	7	15	7	—
Cash Payments for Restructurings	\$(42	) \$(54	) \$(162	) \$(148

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Technology	\$(4	) \$2	\$(23	) \$138
Services	(2	) 2	(2	) 47
Other	2	—	(3	) 25
Total Net Restructuring Charges	\$(4	) \$4	\$(28	) \$210

We have identified and approved additional restructuring initiatives of approximately \$30 for the fourth quarter of 2011.

Note 9 – Debt

Xerox Capital Trust I

In May 2011, Xerox Capital Trust I (“Trust I”), our wholly owned subsidiary, redeemed its 8% Preferred Securities due in 2027 of \$650 with funds received from the settlement of our liability to Trust I. The settlement and redemption resulted in a pre-tax loss on extinguishment of debt of \$33 (\$20 after-tax), representing the call premium of approximately \$10 and the write-off of unamortized debt costs and other liability carrying value adjustments of approximately \$23.

Senior Notes

In May 2011, we issued \$300 of Floating Rate Senior Notes due 2014 (the “2014 Floating Rate Notes”) and \$700 of 4.50% Senior Notes due 2021 (the “2021 Senior Notes”). The 2014 Floating Rate Notes were issued at par and the 2021 Senior Notes were issued at 99.246% of par, resulting in aggregate net proceeds for both notes of approximately \$995. The 2014 Floating Rate Notes accrue interest at a rate per annum, reset quarterly, equal to the three-month LIBOR plus 0.820% and are payable quarterly. The 2021 Senior Notes accrued interest at a rate of 4.50% per annum and are

payable semi-annually. As a result of the discount, they have a weighted average effective interest rate of 4.595%. Proceeds from the offering were used to redeem the \$650 Trust I 8% Preferred Securities mentioned above and for general corporate purposes.

Credit Facility

In the second quarter 2011, two lenders to our Credit Facility agreed to extend the maturity date of their portion of the Facility, such that the entire Credit Facility now has a maturity date of April 30, 2013. Prior to this amendment, 10% of the Credit Facility had a maturity date of April 30, 2012.

Xerox 2011 Form 10-Q

16

Table of Contents

Note 10 – Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Interest expense ⁽¹⁾	\$116	\$148	\$367	\$454
Interest income ⁽²⁾	161	165	498	511

(1) Includes Equipment financing interest, as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

Note 11 – Financial Instruments

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

Fair Value Hedges

At September 30, 2011, we did not have any interest rate swaps. At December 31, 2010, pay variable/receive fixed interest rate swaps, with notional amounts of \$950 and net asset fair values of \$11, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2011 or 2010.

Terminated Swaps

During the nine months ended September 30, 2011, we early terminated several interest rate swaps that had been designated as fair value hedges of certain debt instruments. The net proceeds from these terminated swaps were \$27 and are classified in cash flows from operations in the Condensed Consolidated Statements of Cash Flows. These terminated interest rate swaps had an aggregate notional value of \$2,150. The \$27 fair value credit adjustment to debt is being amortized to interest expense over the remaining term of the related notes.

Foreign Exchange Risk Management

We are a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of our business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchase option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

Foreign currency-denominated assets and liabilities

Forecasted purchases and sales in foreign currency

Summary of Foreign Exchange Hedging Positions

At September 30, 2011, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,777, which is reflective of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values as of September 30, 2011:

Xerox 2011 Form 10-Q

17

Table of Contents

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Euro/U.K. Pound Sterling	\$782	\$(5)
U.S. Dollar/Euro	589	20
Japanese Yen/U.S. Dollar	501	13
Japanese Yen/Euro	347	21
Swiss Franc/Euro	236	(4)
U.K. Pound Sterling/U.S. Dollar	218	(5)
U.K. Pound Sterling/Euro	161	—
Canadian Dollar/Euro	146	(1)
Swedish Krona/Euro	96	(1)
U.K. Pound Sterling/Swiss Franc	76	—
Euro/U.S. Dollar	75	—
Mexican Peso/U.S. Dollar	68	(6)
Indian Rupee/U.S. Dollar	66	(3)
Danish Krone/Euro	63	—
U.S. Dollar/Japanese Yen	56	—
Norwegian Krone/Euro	55	(1)
All Other	242	(1)
Total Foreign Exchange Hedging	\$3,777	\$27

⁽¹⁾ Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at September 30, 2011.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. The net asset fair value of these contracts was \$30 and \$18 as of September 30, 2011 and December 31, 2010, respectively.

Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	September 30, 2011	December 31, 2010
<u>Derivatives Designated as Hedging Instruments</u>			
Foreign exchange contracts – forwards	Other current assets	\$39	\$19
	Other current liabilities	(9)	(1)
Interest rate swaps	Other long-term assets	—	11
	Net Designated Asset	\$30	\$29
<u>Derivatives NOT Designated as Hedging Instruments</u>			
Foreign exchange contracts – forwards	Other current assets	\$19	\$26
	Other current liabilities	(22)	(18)
	Net Undesignated Asset	\$(3)	\$8

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Summary of Derivatives	Total Derivative Assets	\$58	\$56	
	Total Derivative Liabilities	(31) (19)
	Net Derivative Asset	\$27	\$37	
Summary of Derivative Instruments Gains (Losses)				

Xerox 2011 Form 10-Q

18

Table of Contents

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).

Xerox 2011 Form 10-Q

19

Table of Contents

Designated Derivative Instruments Gains (Losses)

The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income Three Months Ended September 30,		Hedged Item Gain (Loss) Recognized in Income Three Months Ended September 30,	
		2011	2010	2011	2010
Interest rate contracts	Interest expense	\$—	\$35	\$—	\$(35)

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Derivative Gain (Loss) Recognized in Income Nine Months Ended September 30,		Hedged Item Gain (Loss) Recognized in Income Nine Months Ended September 30,	
		2011	2010	2011	2010
Interest rate contracts	Interest expense	\$16	\$113	\$(16)	\$(113)

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended September 30,		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Three Months Ended September 30,	
	2011	2010		2011	2010
Foreign exchange contracts – forwards	\$43	\$(2)	Cost of sales	\$4	\$7

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30,		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Nine Months Ended September 30,	
	2011	2010		2011	2010
Foreign exchange contracts – forwards	\$19	23	Cost of sales	\$—	18

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or (loss) was included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

At September 30, 2011, net gains of \$40 were recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

Non-designated derivative instruments are primarily instruments used to hedge foreign currency-denominated assets and liabilities. They are not designated as hedges since there is a natural offset for the re-measurement of the underlying foreign currency-denominated asset or liability.

The following table provides a summary of gains (losses) on non-designated derivative instruments:

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Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Foreign exchange contracts forwards	–Other expense – Currency gains (losses), net	\$19	\$(2	) \$3	\$87

During the three months ended September 30, 2011 and 2010, we recorded Currency losses, net of \$10 and \$0, respectively. During the nine months ended September 30, 2011 and 2010, we recorded Currency losses, net of \$11

Xerox 2011 Form 10-Q

20

Table of Contents

and \$20, respectively. Currency losses, net includes the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re-measurement of foreign currency-denominated assets and liabilities.

Note 12 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities measured at fair value on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	September 30, 2011	December 31, 2010
Assets:		
Foreign exchange contracts-forwards	\$58	\$45
Interest rate swaps	—	11
Deferred compensation investments in cash surrender life insurance	68	70
Deferred compensation investments in mutual funds	22	22
Total	\$148	\$148
Liabilities:		
Foreign exchange contracts-forwards	\$31	\$19
Deferred compensation plan liabilities	94	98
Total	\$125	\$117

We utilize the income approach to measure the fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in Company-owned life insurance is reflected at cash surrender value. Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for actively traded investments similar to those held by the plan. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

Summary of Other Financial Assets and Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis were as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$785	\$785	\$1,211	\$1,211
Accounts receivable, net	3,001	3,001	2,826	2,826
Short-term debt	2,096	2,130	1,370	1,396
Long-term debt	7,099	7,606	7,237	7,742
Liability to subsidiary trust issuing preferred securities	—	—	650	670

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short- and Long-term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Xerox 2011 Form 10-Q

21

Table of Contents

Note 13 – Employee Benefit Plans

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Pension Benefits				Retiree Health			
	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Components of Net Periodic Benefit Costs:								
Service cost	\$46	\$45	\$140	\$133	\$2	\$2	\$6	\$6
Interest cost	121	119	360	357	11	13	35	41
Expected return on plan assets	(129)	(118)	(386)	(354)	—	—	—	—
Recognized net actuarial loss	17	18	53	53	—	—	—	—
Amortization of prior service credit	(5)	(6)	(17)	(16)	(10)	(8)	(30)	(21)
Recognized settlement loss	11	9	61	55	—	—	—	—
Net periodic benefit cost	61	67	211	228	3	7	11	26
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:								
Net actuarial loss (gain) ⁽²⁾	—	43	(9)	43	(14)	(9)	(14)	(9)
Prior service cost (credit) ⁽³⁾	—	(17)	—	(17)	—	(31)	—	(31)
Amortization of net prior service credit	5	6	17	16	10	8	30	21
Amortization of net actuarial losses	(28)	(27)	(114)	(108)	—	—	—	—
Total recognized in Other Comprehensive Income ⁽¹⁾	(23)	5	(106)	(66)	(4)	(32)	16	(19)
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$38	\$72	\$105	\$162	\$(1)	\$(25)	\$27	\$7

(1) Amount represents the pre-tax effect included within Other comprehensive income. The amount, net of tax, is included within Note 14, Shareholders' Equity.

(2) Represents adjustments for the actual valuation results based on January 1st plan census data for the U.S.

In 2010, as a result of the renegotiation of the contract with our largest union, we amended our union pension plan for this population to freeze the final average pay formula of the pension plan effective January 1, 2013 and our

(3) 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.

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The following table provides a summary of the components of the Net change in benefit plans included within Other comprehensive income as reported in Note 14, Shareholders' Equity:

(Expense)/benefit	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Other changes in plan assets and benefit obligations	\$27	\$27	\$90	\$85
Income tax	(10	) (9	) (32	) (31
Fuji Xerox changes in defined benefit plans ⁽¹⁾	(11	) (1	) (32	) 32
Currency, net	38	(39	) (2	) 14
Other, net	—	3	(2) —
Net Change in Benefit Plans	\$44	\$(19	) \$22	\$100

(1) Represents our share of Fuji Xerox's benefit plan changes.

Contributions: During the nine months ended September 30, 2011, we made cash contributions of \$348 and \$57 to our defined benefit plans and our other post-retirement benefit plans, respectively. In September 2011, we also elected to make a U.S. pension contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130, to meet our planned level of funding for 2011. We presently anticipate additional cash contributions of \$87 to our defined benefit

Xerox 2011 Form 10-Q

22

Table of Contents

pension plans and \$26 to our other post-retirement benefit plans in 2011 for a total cash contribution of \$435 (\$565 total cash and stock contribution) and \$83, respectively.

Note 14 – Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2010	\$ 1,398	\$ 6,580	\$—	\$ 6,016	\$(1,988)	\$ 12,006	\$ 153	\$ 12,159
Net income	—	—	—	920	—	920	25	945
Translation adjustments	—	—	—	—	67	67	—	67
Changes in benefit plans ⁽¹⁾	—	—	—	—	22	22	—	22
Other unrealized gains, net	—	—	—	—	13	13	—	13
Comprehensive Income						\$ 1,022	\$ 25	\$ 1,047
Cash dividends declared-common stock ⁽³⁾	—	—	—	(182)	—	(182)	—	(182)
Cash dividends declared-preferred stock ⁽⁴⁾	—	—	—	(18)	—	(18)	—	(18)
Contribution of common stock to U.S. pension plan	17	113	—	—	—	130	—	130
Stock option and incentive plans	10	97	—	—	—	107	—	107
Tax loss on stock option and incentive plans, net	—	(2)	—	—	—	(2)	—	(2)
Payments to acquire treasury stock, including fees	—	—	(309)	—	—	(309)	—	(309)
Distributions to noncontrolling interests	—	—	—	—	—	—	(13)	(13)
Other	—	—	—	—	—	—	1	1
Balance at September 30, 2011	\$ 1,425	\$ 6,788	\$(309)	\$ 6,736	\$(1,886)	\$ 12,754	\$ 166	\$ 12,920

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2009	\$ 871	\$ 2,493	\$ 5,674	\$(1,988)	\$ 7,050	\$ 141	\$ 7,191
Net income	—	—	435	—	435	23	458
Translation adjustments	—	—	—	15	15	—	15
Changes in benefit plans ⁽¹⁾	—	—	—	100	100	—	100
Other unrealized gains, net	—	—	—	2	2	—	2
Comprehensive Income					\$ 552	\$ 23	\$ 575
ACS Acquisition ⁽²⁾	490	3,825	—	—	4,315	—	4,315
	—	—	(182)	—	(182)	—	(182)

Cash dividends declared-common stock ⁽³⁾							
Cash dividends declared-preferred stock ⁽⁴⁾	—	—	(15)	—	(15)	—	(15)
Stock option and incentive plans	27	167	—	—	194	—	194
Tax loss on stock option and incentive plans, net	—	(6)	—	—	(6)	—	(6)
Distributions to noncontrolling interests	—	—	—	—	—	(16)	(16)
Balance at September 30, 2010	\$1,388	\$6,479	\$5,912	\$(1,871)	\$11,908	\$148	\$12,056

Xerox 2011 Form 10-Q

23

Table of Contents

- (1) Refer to Note 13, Employee Benefit Plans for additional information.
(2) Refer to Note 4 – Acquisitions for additional information.
(3) Cash dividends declared on common stock of \$0.0425 per share in each quarter of 2011 and 2010.
(4) Cash dividends declared on preferred stock of \$20.00 per share in each quarter of 2011 and 2010 except the first quarter of 2010 which was \$12.22 per share.

Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income attributable to Xerox	\$320	\$250	\$920	\$435
Translation adjustments	(383	) 559	67	15
Changes in benefit plans	44	(19	) 22	100
Other unrealized gains (losses), net	28	(8	) 13	2
Comprehensive Income – Xerox	9	782	1,022	552
Net income attributable to noncontrolling interests	9	6	25	23
Translation adjustments – noncontrolling interests	—	1	—	—
Comprehensive Income – Noncontrolling Interests	9	7	25	23
Total Comprehensive Income	\$18	\$789	\$1,047	\$575
Accumulated Other Comprehensive Loss (“AOCL”)				

	September 30,	December 31,
	2011	2010
Cumulative translation adjustments	\$(768	) \$(835
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(1,145	) (1,167
Other unrealized gains, net	27	14
Total Accumulated Other Comprehensive Loss	\$(1,886	) \$(1,988

- (1) Includes our share of Fuji Xerox – refer to Note 13 for additional information.

Treasury Stock

The following is a summary of the purchases of common stock made during the nine months ending September 30, 2011 under our authorized stock repurchase programs (shares in thousands):

	Shares	Amount
December 31, 2010	—	\$—
Purchases ⁽¹⁾	37,712	309
Cancellations	—	—
September 30, 2011	37,712	\$309

- (1) Includes associated fees of \$1.

Table of Contents

Note 15 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Earnings per Share:				
Net income attributable to Xerox	\$320	\$250	\$920	\$435
Accrued dividends on preferred stock	(6	) (6	) (18	) (15
Adjusted Net Income Available to Common Shareholders	\$314	\$244	\$902	\$420
Weighted-average common shares outstanding	1,396,176	1,387,110	1,398,855	1,301,950
Basic Earnings per Share	\$0.23	\$0.18	\$0.65	\$0.32
Diluted Earnings per Share:				
Net income attributable to Xerox	\$320	\$250	\$920	\$435
Accrued dividends on preferred stock	(6	) (6	) (18	) (15
Interest on Convertible Securities, net	—	—	1	—
Adjusted Net Income Available to Common Shareholders	\$314	\$244	\$903	\$420
Weighted-average common shares outstanding	1,396,176	1,387,110	1,398,855	1,301,950
Common shares issuable with respect to:				
Stock options	7,952	11,691	10,932	11,795
Restricted stock and performance shares	19,578	15,912	19,906	15,036
Convertible securities	1,992	1,992	1,992	—
Adjusted Weighted Average Common Shares Outstanding	1,425,698	1,416,705	1,431,685	1,328,781
Diluted Earnings per Share	\$0.22	\$0.17	\$0.63	\$0.32

The following securities were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive:

Stock options	56,507	70,747	53,527	70,643
Restricted stock and performance shares	23,692	24,147	23,364	25,022
Convertible preferred stock	26,966	26,966	26,966	26,966
Convertible securities	—	—	—	1,992
	107,165	121,860	103,857	124,623
Dividends per common share	\$0.0425	\$0.0425	\$0.1275	\$0.1275

Note 16 – Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes.

We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

Xerox 2011 Form 10-Q

25

Table of Contents

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of September 30, 2011, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately \$1,162 with the decrease from December 31, 2010 balance of approximately \$1,274, primarily related to currency and adjustments from closed cases partially offset by interest. With respect to the unreserved balance of \$1,162, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of September 30, 2011 we had \$249 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$16 and additional letters of credit of approximately \$232, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (“ERISA”). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive (“Class Period”) and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the “Class”). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (“1934 Act”), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company’s common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants’ alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company’s operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company’s common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants’ alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the

defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to 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,

Xerox 2011 Form 10-Q

26

Table of Contents

the defendants filed a motion for summary judgment. Briefing with respect to the motion is complete. The Court has not yet rendered a decision. The parties also filed motions to exclude the testimony of certain expert witnesses. On April 22, 2009, the Court denied plaintiffs' motions to exclude the testimony of two of defendants' expert witnesses. On September 30, 2010, the Court denied plaintiffs' motion to exclude the testimony of another of defendants' expert witnesses. The Court also granted defendants' motion to exclude the testimony of one of plaintiffs' expert witnesses, and granted in part and denied in part defendants' motion to exclude the testimony of plaintiffs' two remaining expert witnesses. The individual defendants and we deny any wrongdoing and are vigorously defending the action. At this time, we do not believe it is reasonably possible that we will incur additional material losses in excess of the amount we have already accrued for this matter. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Other Contingencies

We have issued or provided the following guarantees as of September 30, 2011:

• \$407 for letters of credit issued to i) guarantee our performance under certain services contracts; ii) support certain insurance programs; and iii) support our obligations related to the Brazil tax and labor contingencies.

• \$681 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, require us to provide a surety bond as a guarantee of our performance of contractual obligations.

In general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract; the probability of which we believe is remote. We believe that our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

We have service arrangements where we service third party student loans in the Federal Family Education Loan program ("FFEL") on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At September 30, 2011, we serviced a FFEL portfolio of approximately 4.1 million loans with an outstanding principal balance of approximately \$57.4 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of September 30, 2011, other current liabilities include reserves which we believe to be adequate.

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes.

Throughout this document, references to "we," "our," the "Company," and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand-alone parent company and do not include its

subsidiaries.

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. dollars on revenue and expenses. We refer to this analysis as “currency impact” or “the impact from currency.” This includes translating the most recent financial results of operations using foreign currency of the earliest period presented. Currencies for our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe) are reflected at actual exchange rates for all periods presented, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not

Xerox 2011 Form 10-Q

27

Table of Contents

hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Overview

Results for the three and nine months ended September 30, 2011 include revenue growth and operational improvements. Total revenue of \$5.6 billion and \$16.7 billion for the three and nine months ended September 30, 2011, respectively, reflects an increase of 3% and 6%, respectively, from the prior year. Currency had a 2-percentage point favorable impact for both the three and nine months ended September 30, 2011. In order to provide a clearer comparison of our year-to-date results to the prior year, we are also providing a discussion and analysis on a year-to-date pro-forma basis, where we include ACS's 2010 estimated results from January 1 through February 5 in our historical 2010 results. On a pro-forma¹ basis, total revenue for the nine months ended September 30, 2011 increased 2%, including a 2-percentage point favorable impact from currency. Revenue growth was primarily driven by increased revenues in our Services segment, specifically from document and business process outsourcing. Technology revenues improved in the third quarter 2011 as supply constraints on products and supplies as a result of the natural disaster in Japan in the first quarter 2011 began to dissipate.

Net income attributable to Xerox for the three and nine months ended September 30, 2011 was \$320 million and \$920 million, respectively, and included \$54 million and \$181 million, respectively, of after-tax costs related to amortization of intangibles and other discrete items. Net income attributable to Xerox for the three and nine months ended September 30, 2010 was \$250 million and \$435 million, respectively, and included \$64 million and \$444 million, respectively, of after-tax costs and expenses related to restructuring, amortization of intangibles, acquisition-related costs and other discrete items. The improvement in net income reflects continued operational cost savings from restructuring and productivity improvements.

Cash flow from operations was \$683 million for the nine months ended September 30, 2011. Cash used in investing activities of \$535 million primarily reflects capital expenditures of \$367 million and acquisitions of \$188 million. Cash used in financing activities was \$573 million, which includes the redemption of Xerox Capital Trust's \$650 million preferred securities and the scheduled repayment of \$750 million of Senior Notes, partially offset by the issuance of \$1.0 billion in Senior Notes and additional commercial paper of approximately \$350 million. Financing activities also reflect \$309 million for the repurchase of common stock.

Table of ContentsFinancial Review
Revenues

(in millions)	Three Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,			% of Total Revenue		
	2011	2010	% Change	2011	2010	% Change	Pro-forma ⁽¹⁾	2011	2010			
							% Change					
Equipment sales	\$938	\$907	3 %	\$2,689	\$2,659	1 %	1 %	16 %	17 %			
Annuity revenue	4,645	4,521	3 %	13,973	12,998	8 %	3 %	84 %	83 %			
Total Revenue	\$5,583	\$5,428	3 %	\$16,662	\$15,657	6 %	2 %	100 %	100 %			
Memo: Color ⁽²⁾	\$1,668	\$1,527	9 %	\$4,949	\$4,633	7 %	7 %	30 %	30 %			

Reconciliation to Condensed Consolidated Statements of Income:

Sales	\$1,738	\$1,700		\$5,129	\$5,169							
Less: Supplies, paper and other sales	(800)	(793)		(2,440)	(2,510)							
Equipment Sales	\$938	\$907		\$2,689	\$2,659							
Service, outsourcing and rentals	\$3,689	\$3,567		\$11,052	\$9,990							
Add: Finance income	156	161		481	498							
Add: Supplies, paper and other sales	800	793		2,440	2,510							
Annuity Revenue	\$4,645	\$4,521		\$13,973	\$12,998							

Third quarter 2011 total revenues increased 3% compared to the third quarter 2010, including a 2-percentage point positive impact from currency. Total revenues included the following:

- 3% increase in annuity revenue, including a 2-percentage point positive impact from currency. Annuity revenue is comprised of the following:

- Service, outsourcing and rentals revenue of \$3,689 million increased 3%, including a 2-percentage point positive impact from currency. The increase was primarily driven by growth in document and business process outsourcing revenue in our Services segment.

- Supplies, paper and other sales of \$800 million increased 1% including a 2-percentage point positive impact from currency. A 4% increase in supplies revenue was offset by a 6% decline in paper revenue.

- 3% increase in equipment sales revenue, including a 2-percentage point positive impact from currency. The increase was driven by partial recovery of the Japan related supply constraints as well as continued positive performance in mid-range and high-end color installs. Consistent with prior quarters, price declines were in the range of 5% to 10%.

- 9% increase in color revenue², including a 3-percentage point positive impact from currency, reflects:

- 9% increase in color² annuity revenue, including a 4-percentage point positive impact from currency. The increase was driven by higher color page volumes.

11% increase in color² equipment sales revenue, including a 4-percentage point positive impact from currency. Growth of 40% in mid-range install activity assisted in part by recovery of some of the Japan related supply constraints and 3% in high-end install activity was partially offset by a 3% decline in entry install activity. Total revenues for the nine months ended September 30, 2011 increased 6% compared to the prior year period including a 2-percentage point positive impact from currency. Our 2011 revenues include a full nine months of revenues from ACS, which was acquired on February 5, 2010. On a pro-forma¹ basis, including ACS's estimated 2010 revenues for the period from January 1 through February 5 in our historical 2010 results, total revenue for the nine months ended September 30, 2011 grew 2%, including a 2-percentage point positive impact from currency. Total revenues included the following:

• Annuity revenue increased 8% or 3% on a pro-forma¹ basis including a 2-percentage point positive impact from currency. Annuity revenue is comprised of the following:

Service, outsourcing and rentals revenue of \$11,052 million increased 11% or 4% on a pro-forma¹ basis, including a 2-percentage point positive impact from currency primarily due to growth in business process and document outsourcing revenue in our Services segment partially offset by a year-to-date decline in digital pages of

Xerox 2011 Form 10-Q

29

Table of Contents

approximately 3%.

Supplies, paper and other sales of \$2,440 million decreased 3% or 4% on a pro-forma¹ basis, with a 1-percentage point positive impact from currency. The decrease was primarily driven by a decline in paper sales as supplies revenue recovered in the third quarter 2011 as the impact of supply constraints on supplies sourced from Fuji Xerox dissipated.

Equipment sales revenue increased 1% and included a 2-percentage point positive impact from currency primarily reflecting a decline in install activity in entry products.

- 7% increase in color revenue², including a 3-percentage point positive impact from currency reflecting:

7% increase in color² annuity revenue, with a 3-percentage point positive impact from currency. The increase was driven by higher color page volumes, which increased 9%.

5% increase in color² equipment sales revenue, including a 3-percentage point positive impact from currency. Growth of 25% in mid-range install activity was assisted in part by recovery of some of the Japan related supply constraints and 2% in high-end install activity was partially offset by a 7% decline in entry install activity.

(1) Growth on a pro-forma basis reflects the inclusion of ACS's adjusted results from January 1 through February 5 in 2010. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.

(2) Represents revenues from color devices and is a subset of total revenues and exclude Global Imaging Systems ("GIS") revenues.

An analysis of the change in revenue for each business segment is included in the "Segment Review" section.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Three Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change	Pro-forma ⁽¹⁾ 2010	Pro-forma ⁽¹⁾ Change	
Total Gross Margin	32.7 %	33.6 %	(0.9)pts	33.0 %	34.8 %	(1.8)pts	34.1 %	(1.1)	pts
RD&E as a % of Revenue	3.3 %	3.5 %	0.2 pts	3.3 %	3.8 %	0.5 pts	3.6 %	0.3	pts
SAG as a % of Revenue	19.9 %	20.9 %	1.0 pts	20.1 %	21.7 %	1.6 pts	21.2 %	1.1	pts
Operating Margin ⁽³⁾	9.6 %	9.2 %	0.4 pts	9.7 %	9.3 %	0.4 pts	9.2 %	0.5	pts
Pre-tax Income Margin	6.6 %	6.0 %	0.6 pts	6.7 %	4.1 %	2.6 pts	3.7 %	3.0	pts

Operating Margin

The third quarter 2011 operating margin³ of 9.6% increased 0.4-percentage points as compared to the third quarter of 2010. The increase was due primarily to disciplined cost and expense management.

The operating margin³ for the nine months ended September 30, 2011 of 9.7% increased 0.4-percentage points, or 0.5-percentage points on a pro-forma¹ basis as compared to the prior year period. The increase was due primarily to disciplined cost and expense management combined with a favorable mix impact from the continued growth in Services revenue.

Note: The acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a technology company. As a result, gross margins and SAG for the nine months ended September 30, 2011, are also discussed below on a

pro-forma¹ basis, with ACS's 2010 estimated results from January 1 through February 5 included in our historical 2010 results. See "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for the third quarter 2011 of 32.7% decreased 0.9-percentage points, as compared to the third quarter of 2010. The decrease was driven by the ramping of new services contracts, the line-of-business mix within the Services segment and the higher mix of Services revenue.

Gross margin for nine months ended September 30, 2011 of 33.0% decreased 1.8-percentage points, or 1.1-percentage

Xerox 2011 Form 10-Q

30

Table of Contents

points on a pro-forma¹ basis as compared to the prior year comparable period. The decrease was driven by the ramping of new services contracts, the line of business mix within the Services segment, transaction currency and the higher mix of Services revenue.

Technology gross margin for the third quarter of 2011 decreased 0.6-percentage points as compared to the third quarter 2010, due primarily to a lower supplies margin driven by mix within supplies sales. Price erosion was more than offset by the impact of cost productivities and restructuring savings.

Technology gross margin for the nine months ended September 30, 2011 decreased by 1.1-percentage points as compared to the prior year comparable period due to the negative year-over-year impact of transaction currency as well as the supplies mix and additional freight and logistics costs related to equipment and supplies sourced from Japan.

Services gross margin for the third quarter of 2011 decreased 0.9-percentage points as compared to the third quarter 2010. The decrease is due primarily to the ramping of new services contracts within BPO and ITO as well as line of business mix within the Services segment.

Services gross margin for the nine months ended September 30, 2011 decreased 0.8-percentage points as compared to the prior year comparable period. The decrease is primarily due to the ramping of new services contracts and line of business mix.

Research, Development and Engineering Expenses (“RD&E”)

(in millions)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2011	2010	Change	2011	2010	Change
R&D	\$156	\$157	\$(1)	\$459	\$490	\$(31)
Sustaining engineering	27	32	(5)	83	98	(15)
Total RD&E Expenses	\$183	\$189	\$(6)	\$542	\$588	\$(46)

Third quarter 2011 RD&E as a percent of revenue of 3.3% decreased 0.2-percentage points from the third quarter 2010. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue which historically has a lower RD&E as a percent of revenue.

Third quarter 2011 RD&E of \$183 million was \$6 million lower than the third quarter 2010, reflecting the impact of restructuring and productivity improvements.

RD&E as a percent of revenue for the nine months ended September 30, 2011 of 3.3% decreased 0.5%-percentage points. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue.

RD&E of \$542 million for the nine months ended September 30, 2011, was \$46 million lower reflecting the impact of restructuring and productivity improvements. Innovation is one of our core strengths and we continue to invest at levels that enhance this core strength, particularly in color, software and services. Xerox R&D is strategically coordinated with Fuji Xerox.

Selling, Administrative and General Expenses (“SAG”)

SAG as a percent of revenue of 19.9% decreased 1.0-percentage points from the third quarter 2010. In addition to spending reductions including lower compensation, the decrease was also driven by positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percent of revenue.

SAG as a percent of revenue of 20.1% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma¹ basis for the nine months ended September 30, 2011. In addition to spending reductions and lower compensation, the decrease was also driven by positive mix impact from the continued growth in Services revenue.

SAG expenses of \$1,109 million in the third quarter 2011 were \$27 million lower than the third quarter 2010, including a \$26 million unfavorable impact from currency. SAG expense reflects the following:

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\$15 million decrease in selling expenses, reflecting benefits from restructuring, productivity improvements and a decrease in brand advertising, partially offset by the impact of acquisitions.

\$10 million decrease in general and administrative expenses, reflecting the benefits from restructuring and operational improvements.

\$2 million decrease in bad debt expenses to \$44 million, as improvements in the write-off trends for the U.S. and

Xerox 2011 Form 10-Q

31

Table of Contents

Canada were partially offset by higher write-offs in Europe. 2011 third quarter bad debt expense continues to remain less than one percent of receivables.

SAG expenses of \$3,347 million for the nine months ended September 30, 2011 were \$51 million lower than the prior year period, or \$110 million lower on a pro-forma¹ basis, both including a \$71 million unfavorable impact from currency. The pro-forma SAG expense increase reflects the following:

• \$20 million increase in selling expenses reflecting the impact of acquisitions partially offset by the benefits from restructuring and productivity improvements.

• \$28 million decrease in general and administrative expenses primarily reflecting the benefits from restructuring and operational improvements.

• \$43 million decrease in bad debt expenses to \$105 million, reflecting a favorable write-off trend as compared to the prior year.

Restructuring and Asset Impairment Charges

During the third quarter 2011, we recorded net restructuring and asset impairment credits of \$4 million, primarily resulting from net reversals and changes in estimated reserve from prior period initiatives. During the third quarter 2010, we recorded \$4 million of net restructuring and asset impairment charges for actions primarily in North America.

During the nine months ended September 30, 2011, we recorded net restructuring and asset impairment credits of \$28 million, primarily resulting from net reversals and changes in estimated reserves from prior period initiatives.

We recorded \$210 million of net restructuring and asset impairment charges for the nine months ended September 30, 2010, which included \$206 million of severance costs, lease termination and asset impairment charges of \$22 million and \$18 million of net reversals primarily due to changes in estimated reserves from prior year initiatives.

The restructuring reserve balance as of September 30, 2011 for all programs was \$126 million, of which approximately \$119 million is expected to be spent over the next twelve months. Refer to Note 8, Restructuring Programs, in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

We have identified and approved additional restructuring initiatives of approximately \$30 million for the fourth quarter of 2011.

Acquisition Related Costs

Costs of \$5 million and \$68 million were incurred in the three and nine months ended September 30, 2010, respectively, in

connection with our acquisition of ACS. These costs include \$1 million and \$54 million, respectively, of transaction costs which represent external costs directly related to completing the acquisition of ACS. The remainder of the acquisition-related costs represents external incremental costs directly related to the integration of ACS and Xerox.

Amortization of Intangible Assets

During the three and nine months ended September 30, 2011, we recorded \$87 million and \$259 million, respectively, of expense related to the amortization of intangible assets, which is \$2 million and \$32 million higher than the prior year periods, respectively. The increase for the 2011 year-to-date period primarily reflects the additional month of amortization of intangibles associated with our acquisition of ACS as well as the full year-to-date impact of amortization of intangibles associated with acquisitions from the prior year.

Worldwide Employment

Worldwide employment of 134,200 at September 30, 2011 decreased approximately 2,300 from December 31, 2010, primarily due to restructuring related actions that more than offset the impact of acquisitions.

Table of Contents

Other Expenses, Net

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Non-financing interest expense	\$60	\$87	\$191	\$268
Interest income	(5	) (4	) (17	) (13
Gains on sales of businesses and assets	—	(15	) (8	) (16
Currency losses, net	10	—	11	20
ACS shareholders litigation settlement	—	—	—	36
Litigation matters	3	2	15	3
Loss on early extinguishment of liability	—	—	33	—
All other expenses, net	18	6	43	16
Total Other Expenses, Net	\$86	\$76	\$268	\$314

Non-Financing Interest Expense: Non-financing interest expense for the three and nine months ended September 30, 2011 of \$60 million and \$191 million, respectively, was \$27 million and \$77 million lower than prior year comparable periods, respectively. The decreases in interest expense reflects a lower average debt balance due to the repayments of Senior Notes, as well as the benefit of lower borrowing costs achieved as a result of utilizing the commercial paper program and the issuance of \$1.0 billion Senior Notes in the second quarter 2011.

Gains on Sales of Businesses and Assets: Third quarter 2010 gains on sales of businesses and assets of \$15 million was related primarily to the sale of a facility in Latin America.

Currency Losses, Net: During the third quarter 2011 currency losses of \$10 million were primarily due to the significant movement in exchange rates during the quarter among the U.S. Dollar, Euro, Yen and several developing market currencies. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the dollar for our products. As a result of this devaluation, we recorded a currency loss of \$21 million in the first quarter of 2010 for the re-measurement of our net Bolivar denominated monetary assets.

ACS Shareholders Litigation Settlement: The nine months ended September 30, 2010 includes expense of \$36 million reflecting the settlement of claims by ACS shareholders arising out of Xerox's acquisition of ACS in 2010, net of insurance proceeds.

Litigation Matters: Litigation matters for the three and nine months ended September 30, 2011 include charges related to probable losses on various legal matters, none of which were individually material.

Loss on Early Extinguishment of Liability: In May 2011, Xerox Capital Trust I, our wholly-owned subsidiary trust, redeemed its \$650 million 8% Preferred Securities due in 2027. The redemption resulted in a pre-tax loss of \$33 million (\$20 million after-tax) representing the call premium of approximately \$10 million as well as the write-off of unamortized debt costs and other liability carrying value adjustments of \$23 million. Refer to Note 9, Debt in the Condensed Consolidated Financial Statements for additional information.

All Other Expenses, Net: All other expenses, net for the three and nine months ended September 30, 2011 increased \$12 million and \$27 million, respectively, driven in part by higher interest expense on the Brazil tax and labor contingencies as well as higher fees associated with the sale of receivables.

Income Taxes

The effective tax rate for the three and nine months ended September 30, 2011 was 22.1% and 25.4%, respectively. On an adjusted basis³ the tax rate for the three and nine months ended September 30, 2011 was 25.1% and 28.0%, respectively. The adjusted tax rate for the three and nine months was lower than the U.S. statutory rate primarily due to the geographical mix of profits as well as a higher foreign tax credit benefit as a result of our decision to repatriate current year income from certain non-U.S. subsidiaries.

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The effective tax rate for the three and nine months ended September 30, 2010 was 29.9% and 36.4%, respectively. On an adjusted basis³ the tax rate for the three and nine months ended September 30, 2010 was 31.8% and 31.9%, respectively. The adjusted tax rate for the three and nine months was lower than the U.S. statutory rate primarily due to the net tax benefits

Xerox 2011 Form 10-Q

33

Table of Contents

from the geographical mix of income before taxes and the related tax rates in these jurisdictions as well as the settlement and re-measurement of certain previously unrecognized tax benefits. These benefits were partially offset by the incremental U.S. tax cost on foreign income.

Xerox operations are widely dispersed. The statutory tax rate in most non U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full year estimated effective tax rate includes a benefit of approximately 9 percentage points from these non U.S. operations which is comparable to 2010.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable. We anticipate that our effective tax rate for the fourth quarter 2011 will be approximately 29.0%, excluding the effects of intangibles amortization and discrete events.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Total equity in net income of unconsolidated affiliates	\$43	\$26	\$111	\$52
Fuji Xerox after-tax restructuring costs	1	6	16	33

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox. The increase in equity income for the three and nine months ended September 30, 2011 was due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements as well as the strengthening of the Yen.

Japan

We continue to monitor and evaluate potential impacts in 2011 as a result of the natural disaster in Japan in the first quarter 2011.

During the third quarter 2011, the impact on supply constraints for products and supplies sourced from FX began to dissipate as production levels began to recover and return to normal. Significant progress was made in reducing our backlog and we are expected to return to normal levels of backlog in the fourth quarter 2011. We do not expect the supply impacts from this natural disaster in Japan to be a significant factor in the fourth quarter 2011.

Net Income

Third quarter 2011 net income attributable to Xerox was \$320 million, or \$0.22 per diluted share. On an adjusted basis³ net income attributable to Xerox was \$374 million, or \$0.26 per diluted share, and included adjustments for the amortization of intangible assets.

Third quarter 2010 net income attributable to Xerox was \$250 million, or \$0.17 per diluted share. On an adjusted basis³, net income attributable to Xerox was \$314 million, or \$0.22 per diluted share.

Net income attributable to Xerox for the nine months ended September 30, 2011 was \$920 million, or \$0.63 per diluted share. On an adjusted basis³, net income attributable to Xerox was \$1,101 million, or \$0.76 per diluted share, and included adjustments for the amortization of intangible assets and the loss on early extinguishment of liability.

Net income attributable to Xerox for the nine months ended September 30, 2010 was \$435 million, or \$0.32 per diluted share. On an adjusted basis³, net income attributable to Xerox was \$879 million, or \$0.65 per diluted share.

Refer to the Net Income and EPS reconciliation table in the Non-GAAP Financial Measures section for the adjustments to net income.

Table of Contents

Segment Review

(in millions)	Three Months Ended September 30,					Nine Months Ended September 30,				
	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin		Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin	
2011										
Technology	\$2,500	45	% \$ 258	10.3	%	\$7,547	45	% \$ 824	10.9	%
Services	2,717	49	% 323	11.9	%	7,973	48	% 911	11.4	%
Other	366	6	% (86)	(23.5)	%	1,142	7	% (225)	(19.7)	%
Total	\$5,583	100	% \$ 495	8.9	%	\$16,662	100	% \$ 1,510	9.1	%
2010										
Technology	\$2,466	45	% \$ 247	10.0	%	\$7,504	48	% \$ 753	10.0	%
Services	2,554	47	% 286	11.2	%	6,926	44	% 808	11.7	%
Other	408	8	% (79)	(19.4)	%	1,227	8	% (276)	(22.5)	%
Total	\$5,428	100	% \$ 454	8.4	%	\$15,657	100	% \$ 1,285	8.2	%
2010 Pro-forma ⁽¹⁾										
Technology						\$7,504	46	% \$ 753	10.0	%
Services						7,545	46	% 842	11.2	%
Other						1,227	8	% (287)	(23.4)	%
Total						\$16,276	100	% \$ 1,308	8.0	%

Technology

Our Technology segment includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Technology segment represents our pre-ACS acquisition equipment-related business exclusive of our document outsourcing business, which was integrated into the Services segment together with the acquired ACS outsourcing businesses – business process outsourcing and information technology outsourcing.

Revenue

(in millions)	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2011	2010			2011	2010		
Equipment sales	\$798	\$805	(1	)%	\$2,311	\$2,351	(2)%
Annuity revenue	1,702	1,661	2	%	5,236	5,153	2	%
Total Revenue	\$2,500	\$2,466	1	%	\$7,547	\$7,504	1	%

Third quarter 2011 Technology revenue of \$2,500 million increased 1% compared to third quarter 2010 and included a

2-percentage point positive impact from currency. Technology revenue included the following:

1% decrease in equipment sales revenue with a 2-percentage point positive impact from currency. This decrease was driven by a decline in entry installs which was only partially offset by continued positive performance in mid-range and high-end color installs. Consistent with prior quarters, price declines were in the range of 5% to 10%. Technology revenue excludes sales in our document outsourcing offerings. As noted in the Revenues section above, combined with our Services-related equipment sales revenue, total company equipment sales increased 3% from third quarter 2010.

2% increase in annuity revenue with a 3-percentage point positive impact from currency. The supplies revenue increase was offset by a decline in pages, while revenue per page continued to increase.

Technology revenue mix is 22% entry, 58% mid-range and 20% high-end.

Technology revenue for the nine months ended September 30, 2011 of \$7,547 million increased 1% compared to prior year and included a 3-percentage point positive impact from currency. Technology revenue included the following:

2% decrease in equipment sales revenue with a 2-percentage point positive impact from currency. The decrease in revenue was driven by a decline in entry installs, which were only partially offset by install growth in mid-range products.

2% increase in annuity revenue with 3-percentage point positive impact from currency. The supplies revenue increase was offset by a decline in pages .

Xerox 2011 Form 10-Q

35

Table of Contents

Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin

Third quarter 2011 Technology segment margin of 10.3% increased 0.3-percentage points from third quarter 2010. Lower cost and expense from restructuring savings in addition to an increase in equity in net income from unconsolidated affiliates more than offset the gross margin decline.

Technology segment margin for the nine months ended September 30, 2011 of 10.9% increased 0.9-percentage points from prior year period. Lower cost and expense from restructuring savings in addition to an increase in equity in net income from unconsolidated affiliates more than offset the gross margin decline.

Installs

Entry

Installs for the third quarter 2011:

11% decrease in total black-and-white and color multifunction devices and color printers driven by a combination of continued higher backlog and timing of product introductions.

Installs for the nine months ended September 30, 2011 decreased 7% driven by:

• A decline in sales to OEM partners.

• A decline in developing markets due in part to a very strong 2010 in which installs increased significantly.

Mid-Range

Installs for the third quarter 2011:

40% increase in installs of mid-range color devices partially driven by recovery of some of the Japan related constraints. Growth was strong in all geographies and was driven by demand for the Xerox Color 550/560 and WorkCentre® 7545/7556. Growth in these products has enabled market share gains in the fastest growing segment of the office color market.

6% decrease in installs of mid-range black-and-white devices driven by declines in Europe.

Installs for the nine months ended September 30, 2011:

25% increase in installs of mid-range color devices driven primarily by demand for new products, such as the Xerox Color 550/560, WorkCentre® 7545/7556 and WorkCentre® 7120.

1% increase in installs of mid-range black-and-white devices as prior period growth was partially offset by declines in Europe during the third quarter 2011.

High-End

Installs for the third quarter 2011:

3% increase in installs of high-end color systems driven by continued growth of the Xerox Color 800 and 1000 and the iGen, which continues to enable market share growth in the fastest growing segment of the Production market.

This growth was partially offset by a decline in the Entry Production Color products. Two new products were recently announced that will improve our future competitiveness in the Entry Production Color product category.

8% decrease in installs of high-end black-and-white systems.

Installs for the nine months ended September 30, 2011:

2% increase in installs of high-end color systems reflecting strong demand for the Xerox Color 800 and 1000 and iGen.

6% decrease in installs of high-end black-and-white systems driven by declines across most product areas.

Install activity percentages include installations for Document Outsourcing and the Xerox-branded product shipments to GIS. Descriptions of “Entry”, “Mid-range” and “High-end” are defined in Note 3, Segment Reporting, in the Condensed Consolidated Financial Statements.

Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”). The DO business included within the Services segment essentially represents Xerox’s pre-ACS acquisition outsourcing business, as ACS’s outsourcing business is reported as BPO and ITO revenue.

Xerox 2011 Form 10-Q

36

Table of Contents

Revenue (in millions)	Three Months Ended September 30,			Nine Months Ended September 30,			Pro-forma Change ⁽¹⁾	
	2011	2010	Change	2011	2010 ⁽⁴⁾	Change	%	%
Document Outsourcing	895	796	12 %	2,620	2,407	9 %	9 %	%
Business Processing Outsourcing	1,510	1,424	6 %	4,438	3,634	22 %	8 %	%
Information Technology Outsourcing	342	341	— %	989	892	11 %	(3 %))%
Less: Intra-segment Elimination	(30	) (7	) *	(74	) (7) *	*	*
Total Services Revenue	2,717	2,554	6 %	7,973	6,926	15 %	6 %	%

* Percent not meaningful.

Third quarter 2011 Services revenue of \$2,717 million increased 6% and included a 1-percentage point positive impact from currency.

DO delivered growth of 12%, including a 3-percentage point positive impact from currency, and represented 33% of total Services revenue. Growth was driven by new signings. DO revenue includes revenues from our partner print services offerings.

BPO delivered growth of 6% and represented 55% of total Services revenue. Consistent with our strategy to expand our services offerings through tuck-in acquisitions, BPO growth was driven by recent acquisitions. In addition, the human resource services, customer care, transportation solutions and the healthcare payer services businesses contributed to growth.

ITO revenue was flat in comparison to third quarter 2010 and represented 12% of total Services revenue.

Note: The year-to-date results for the Services segment are discussed below on a pro-forma¹ basis, with ACS's 2010 estimated results from January 1 through February 5 included in our historical 2010 results.

Services revenue for the nine months ended September 30, 2011 of \$7,973 million increased 15% or 6% on a pro-forma¹ basis. Currency had a 2-percentage point positive impact on total revenues.

BPO revenue had strong pro-forma¹ revenue growth of 8% and represented 55% of total Services revenue. BPO growth was driven by recent acquisitions. In addition, healthcare services, customer care, transportation solutions and the healthcare payer services businesses contributed to growth.

ITO revenue on a pro-forma¹ basis declined 3% and represented 12% of total Services revenue. The decline in ITO revenue was driven by lower third-party equipment and software sales which were only partially offset by growth in new commercial business.

DO revenue increased 9%, including a 3-percentage points positive impact from currency, and represented 33% of total Services revenue. The increase reflects an improving trend from 2010. DO revenue includes revenues from our partner print services offerings.

Segment Margin

Third quarter 2011 Services segment margin of 11.9% increased 0.7-percentage points from third quarter 2010. Lower cost and expense from productivity and restructuring savings more than offset the gross margin decline.

Services segment margin for the nine months ended September 30, 2011 of 11.4% decreased 0.3-percentage points, or increased 0.2-percentage points on a pro-forma¹ basis, from the prior year period primarily driven by DO revenue growth as well as lower costs and expenses from restructuring and synergy savings.

Metrics

Pipeline

Our total services sales pipeline, including synergy opportunities, grew 5% over the third quarter 2010. This sales pipeline includes the Total Contract Value (“TCV”) of new business opportunities that potentially could be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of \$100 million.

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts.

Xerox 2011 Form 10-Q

37

Table of Contents

Signings were as follows:

(in billions)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
BPO	\$2.3	\$5.3
DO	1.0	3.3
ITO	0.6	1.8
Total Signings	\$3.9	\$10.4

Signings increased 33% from the third quarter 2010, driven by strong growth across all three service offerings. Signings decreased 9% on a trailing twelve month basis as compared to the comparable prior year period driven by the cyclical nature of large deals. Signings continue to trend positively, increasing sequentially for the second straight quarter. TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Other

Revenue

Third quarter 2011 Other segment revenue of \$366 million decreased 10%, including a 3-percentage point positive impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by an increase in network integration and electronic presentation systems.

Other segment revenue for the nine months ended September 30, 2011 of \$1,142 million decreased 7%, including 2-percentage points positive impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by higher licensing revenue and an increase in network integration and electronic presentation systems revenue.

Paper comprised approximately 60% of the 2011 and 2010 Other segment revenue.

Segment Margin

Third quarter 2011 Other segment loss of \$86 million, increased \$7 million from third quarter 2010, primarily driven by the revenue declines referenced above and partially offset by a decline in SAG expense.

Other segment loss of \$225 million for the nine months ended September 30, 2011, improved \$51 million from the prior year period, primarily driven by lower non-financing interest expense and SAG expense partially offset by the decline in revenues.

Results are discussed primarily on a pro-forma basis and include ACS's estimated results from January 1 through (1) February 5 in 2010. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.

(2) Color revenues represent a subset of total revenues and exclude Global Imaging Systems, Inc. ("GIS").

(3) See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

(4) 2010 BPO was adjusted to include historic Xerox BPO services.

Table of Contents

Capital Resources and Liquidity

Cash Flow Analysis

The following table summarizes our cash and cash equivalents:

(in millions)	Nine Months Ended September		Change
	30, 2011	2010	
Net cash provided by operating activities	\$683	\$1,419	\$(736)
Net cash used in investing activities	(535)	(1,962)	1,427
Net cash used in financing activities	(573)	(2,253)	1,680
Effect of exchange rate changes on cash and cash equivalents	(1)	(28)	27
Decrease in cash and cash equivalents	(426)	(2,824)	2,398
Cash and cash equivalents at beginning of period	1,211	3,799	(2,588)
Cash and Cash Equivalents at End of Period	\$785	\$975	\$(190)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$683 million in the nine months ended September 30, 2011. The \$736 million decrease in cash from the nine months ended September 30, 2010 was primarily due to the following:

\$518 million decrease due to lower accounts payable and accrued compensation primarily related to the timing of payments, as well as lower inventory and other spending.

\$143 million decrease due to higher contributions to our defined pension benefit plans.

\$107 million decrease as a result of up-front costs and other customer related spending associated primarily with new services contracts.

\$58 million decrease due to a lower benefit from accounts receivable sales partially offset by improved collections.

\$36 million decrease due to a lower net reduction of finance receivables.

\$26 million decrease in derivatives primarily due to the absence of proceeds from the early termination of certain interest rate swaps.

\$16 million decrease due to higher net tax payments.

\$14 million decrease due to higher restructuring payments associated with previously reported actions.

\$109 million increase due to the absence of cash outflows from acquisition-related costs.

\$33 million increase as a result of lower inventory levels reflecting focused supply chain actions.

In September 2011, we elected to make a U.S. pension contribution of 16.6 million shares of our common stock, with an aggregate value of approximately \$130 million, to meet our planned level of funding for 2011.

Cash Flows from Investing Activities

Net cash used in investing activities was \$535 million for the nine months ended September 30, 2011. The \$1,427 million decrease in the use of cash from the nine months ended September 30, 2010 was primarily due to the following:

\$1,486 million decrease primarily due to the 2011 acquisitions of Unamic/HCN B.V. for \$55 million, Concept Group for \$43 million, ESM for \$43 million, NewField IT for \$17 million and seven smaller acquisitions for an aggregate of \$21 million, as compared to the 2010 acquisitions of ACS for \$1,495 million, ExcellerateHRO, LLP for \$125 million, IBS for \$29 million and Georgia Duplication Products for \$21 million in 2010.

\$21 million increase due to lower cash proceeds from asset sales.

\$19 million increase due to higher capital expenditures (including internal use software).

Cash Flows from Financing Activities

Net cash used in financing activities was \$573 million for the nine months ended September 30, 2011. The \$1,680 million decrease in the use of cash from the nine months ended September 30, 2010 was primarily due to the following:

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\$2,790 million decrease from net debt activity. 2011 reflects proceeds of \$1 billion from the issuance of Senior Notes and net proceeds of \$351 million on Commercial Paper offset by the repayment of \$750 million for Senior Notes due in 2011. 2010 reflects the repayments of \$1,733 million of ACS's debt on the acquisition date and \$950 million of Senior Notes, net payments of \$87 million on other debt and \$14 million of debt issuance costs for the bridge loan facility commitment, which was terminated in December 2009. These payments were offset by net proceeds of \$602 million from borrowings under the Credit Facility.

\$670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with their

Xerox 2011 Form 10-Q

39

Table of Contents

redemption of preferred securities.

\$309 million increase resulting from the resumption of our share repurchase program.

- \$79 million increase due to lower proceeds from the issuance of common stock. 2010 reflects a higher level of exercise of stock options issued under the former ACS plans.

\$26 million increase reflecting dividends on an increased number of outstanding shares as a result of the acquisition of ACS in 2010.

\$13 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Customer Financing Activities

The following represents our Total finance assets, net associated with our lease and finance operations:

(in millions)	September 30, 2011	Balance at December 31, 2010
Total Finance receivables, net ⁽¹⁾	\$6,355	\$6,620
Equipment on operating leases, net	505	530
Total Finance Assets, net	\$6,860	\$7,150

⁽¹⁾ Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.

The decrease of \$290 million in Total finance assets, net includes favorable currency of \$42 million.

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation; therefore, we maintain a certain level of debt (that we refer to as financing debt) to support our investment in these lease contracts, which are reflected in Total Finance assets, net. For this financing aspect of our business, we maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets. Based on this leverage, the following represents the breakdown of total debt between financing debt and core debt:

(in millions)	September 30, 2011	December 31, 2010
Financing debt ⁽¹⁾	\$6,003	\$6,256
Core debt	3,192	2,351
Total Debt	\$9,195	\$8,607

Financing debt includes \$5,561 million and \$5,793 million as of September 30, 2011 and December 31, 2010, ⁽¹⁾respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases. The following summarizes our debt:

(in millions)	September 30, 2011	December 31, 2010
Principal debt balance ⁽¹⁾	\$8,997	\$8,380
Net unamortized discount	(7)	(1)
Fair value adjustments	205	228
Total Debt	9,195	8,607
Less: Current maturities and short-term debt	(2,096)	(1,370)
Total Long-term Debt	\$7,099	\$7,237

- (1) Includes Commercial Paper of \$651 million and \$300 million as of September 30, 2011 and December 31, 2010, respectively. September 2011 balance also includes \$650 million in debt resulting from the restructuring of the Xerox Capital Trust I preferred securities.

Sales of Accounts Receivable

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivables without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. Accounts receivables sales were as follows:

Xerox 2011 Form 10-Q

40

Table of Contents

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Accounts receivable sales	\$754	\$574	\$2,303	\$1,586
Deferred proceeds	93	97	290	212
Fees associated with sales	5	3	14	10
Estimated decrease to operating cash flows ⁽¹⁾	(35	) (11	) (29	) (81

(1) Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter, and (iii) currency.

Refer to Note 5, Receivables, Net in the Condensed Consolidated Financial Statements for additional information.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and access to capital markets. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access to financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following is a discussion of our liquidity position as of September 30, 2011:

As of September 30, 2011, total cash and cash equivalents were \$785 million, borrowings under our Commercial Paper Programs were \$651 million and there were no outstanding borrowings or letters of credit under our \$2 billion Credit Facility.

Cash flows from operations were \$683 million for the nine months ended September 30, 2011, and we expect full year cash flow from operations to be in the range of \$2.0 billion to \$2.3 billion. Over the past two years we have consistently delivered strong fourth quarter and full year cash flow from operations, driven by the strength of our annuity based revenue model. Cash flows from operations were \$2.7 billion and \$2.2 billion for the years ended December 31, 2010 and 2009, respectively and \$1.3 billion and \$1.0 billion for the fourth quarter 2010 and 2009, respectively.

Our principal debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows (in millions):

Year	Amount
Q4 2011	\$ 665
2012	1,432
2013	422
2014	1,075
2015	1,251
2016	950
2017	501
2018	1,001
2019	650
2020 and thereafter	1,050
Total	\$ 8,997

Treasury Stock

In July 2011, we resumed our stock repurchase program previously authorized by our Board of Director's. During the third quarter 2011 we repurchased 37.7 million shares for an aggregate cost of \$309 million, including fees. Through November 1, 2011, we repurchased an additional 24.1 million shares at an aggregate cost of \$181 million, including fees, for a cumulative total of 61.8 million shares at a cost of \$490 million, including fees.

Xerox 2011 Form 10-Q

41

Table of Contents

Financial Risk Management

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Yen, Euro and Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 11 – Financial Instruments – for further discussion and information on our financial risk management strategies.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (“GAAP”). In addition, we have discussed the non-GAAP measures described below. A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP.

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects. For our 2011 reporting year, adjustments are expected to be limited to the amortization of intangible assets and other discrete items that occur during the year.

Net income and Earnings per share (“EPS”)

Effective tax rate

Operating income margin

The above have been adjusted for the following items:

Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 only): Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and

Xerox 2011 Form 10-Q

42

Table of Contents

do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.

Acquisition-related costs (2010 only): We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition-related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.

Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

Other discrete, unusual or infrequent costs and expenses: In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of these items on our results of operations for the period: 1) Loss on early extinguishment of liability (Q2 2011), 2) Venezuela devaluation costs (Q1 2010), 3) Medicare subsidy tax law change (income tax effect only)(Q1 2010) and 4) ACS shareholder's litigation settlement (Q2 2010). We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

In addition to the above excluded items, operating income and margin also excludes other expenses, net. Other expenses, net is primarily composed of non-financing interest expense.

Pro-forma Basis

To better understand the trends in our business, we discuss our year-to-date 2011 operating results by comparing them against adjusted year-to-date 2010 results which include ACS historical results for the comparable period.

Accordingly, we have included ACS's 2010 estimated results for the period, January 1 through February 5, 2010 in our reported 2010 results in order to provide a full-year comparison of results for 2011 to 2010. We refer to comparisons against these adjusted 2010 results as "pro-forma" basis comparisons. ACS's 2010 historical results for the period January 1 through February 5, 2010 have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition. We believe comparisons on a pro-forma basis provide an enhanced assessment than the actual comparisons given the size and nature of the ACS acquisition. In addition, the acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a Technology company. We believe the pro-forma basis comparisons provide investors with a better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company's operations.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, the following non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following tables:

Xerox 2011 Form 10-Q

43

Table of Contents

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Three Months Ended September 30, 2011(1)		Three Months Ended September 30, 2010	
	Net Income	EPS	Net Income	EPS
As Reported	\$320	\$0.22	\$250	\$0.17
Adjustments:				
Amortization of intangible assets	54	0.04	53	0.04
Xerox and Fuji Xerox restructuring charges			8	0.01
ACS acquisition-related costs			3	—
Adjusted	\$374	\$0.26	\$314	\$0.22
Weighted average shares for adjusted EPS ⁽²⁾	1,453		1,444	

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

Average shares for the calculation of adjusted EPS for the third quarter 2011 were

1,453 million and include 27 million of shares associated with the Series A convertible preferred stock.

(2) Accordingly, the quarterly dividend of \$6 million is excluded. Third quarter 2010 shares of 1,444 million also include 27 million shares associated with the Series A convertible preferred stock and the quarterly dividend of \$6 million is excluded. We evaluate the dilutive effect of the Series A convertible preferred stock on an “if-converted” basis.

(in millions; except per share amounts)	Nine Months Ended September 30, 2011(1)		Nine Months Ended September 30, 2010	
	Net Income	EPS	Net Income	EPS
As Reported	\$920	\$0.63	\$435	0.32
Adjustments:				
Amortization of intangible assets	161	0.11	141	0.10
Loss on early extinguishment of liability	20	0.02	—	—
Xerox and Fuji Xerox restructuring charges			177	0.13
ACS acquisition-related costs			53	0.04
ACS shareholders’ litigation settlement			36	0.03
Venezuela devaluation costs			21	0.02
Medicare subsidy tax law change			16	0.01
Adjusted	\$1,101	\$0.76	\$879	\$0.65
Weighted average shares for adjusted EPS ⁽²⁾	1,459		1,355	

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

Average shares for the calculation of adjusted EPS for the year-to-date period were 1,459 million and include 27 million shares associated with the Series A convertible preferred stock and therefore the year-to-date dividends of \$18 are excluded. The 2010 year-to-date period were 1,355 million and include 24 million shares, which

(2) represents a pro-rata portion of the 27 million shares associated with the Series A convertible preferred stock.

Accordingly, the year-to-date dividends of \$15 million associated with those shares are excluded from adjusted net income. Each period we evaluate the dilutive effect of the Series A convertible preferred stock on an “if-converted” basis.

Effective Tax reconciliation:

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(in millions)	Three Months Ended September 30, 2011(1)				Three Months Ended September 30, 2010			
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	%	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	%
As Reported	\$367	\$ 81	22.1	%	\$328	\$ 98	29.9	%
Adjustments:								
Amortization of intangible assets	87	33			85	32		
Xerox restructuring charge					4	2		
ACS acquisition-related costs					5	2		
Adjusted	\$454	\$ 114	25.1	%	\$422	\$ 134	31.8	%

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

Xerox 2011 Form 10-Q

44

Table of Contents

(in millions)	Nine Months Ended September 30, 2011(1)				Nine Months Ended September 30, 2010			
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	%	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	%
As Reported	\$1,118	\$ 284	25.4	%	\$638	\$ 232	36.4	%
Adjustments:								
Amortization of intangible assets	259	98			227	86		
Loss on early extinguishment of liability	33	13			—	—		
Xerox restructuring charge					210	66		
ACS acquisition-related costs					68	15		
Venezuela devaluation costs					21	—		
Medicare subsidy tax law change					—	(16)		
ACS shareholders' litigation settlement					36	—		
Adjusted	\$1,410	\$ 395	28.0	%	\$1,200	\$ 383	31.9	%

(1) For 2011, we are only adjusting for Amortization of intangible assets and the loss on early extinguishment of liability.

Operating Income / Margin reconciliation:

(in millions)	Three Months Ended September 30, 2011				Three Months Ended September 30, 2010			
	Profit	Revenue	Margin	%	Profit	Revenue	Margin	%
Reported Pre-tax Income	\$367	\$5,583	6.6	%	\$328	\$5,428	6.0	%
Adjustments:								
Xerox restructuring (credit) charge	(4)				4			
ACS acquisition-related costs	—				5			
Amortization of intangible assets	87				85			
Other expenses, net	86				76			
Adjusted Operating	\$536	\$5,583	9.6	%	\$498	\$5,428	9.2	%
Fuji Xerox restructuring charge	1				6			
Equity in net income of unconsolidated affiliates	43				26			
Other expenses, net*	(85)				(76)			
Segment Profit/Revenue	\$495	\$5,583	8.9	%	\$454	\$5,428	8.4	%

*Includes rounding adjustments.

Xerox 2011 Form 10-Q

Table of Contents

(in millions)	Nine Months Ended September 30, 2011				Nine Months Ended September 30, 2010			
	Profit	Revenue	Margin		Profit	Revenue	Margin	
Reported Pre-tax Income	\$1,118	\$16,662	6.7	%	\$638	\$15,657	4.1	%
Adjustments:								
Xerox restructuring (credit) charge	(28	)			210			
ACS acquisition-related costs	—				68			
Amortization of intangible assets	259				227			
Other expenses, net	268				314			
Adjusted Operating	\$1,617	\$16,662	9.7	%	\$1,457	\$15,657	9.3	%
Fuji Xerox restructuring charge	16				33			
Equity in net income of unconsolidated affiliates	111				52			
Loss on early extinguishment of liability	33				—			
ACS shareholders' litigation settlement	—				36			
Venezuela devaluation costs	—				21			
Other expenses, net*	(267	)			(314)		
Segment Profit/Revenue	\$1,510	\$16,662	9.1	%	\$1,285	\$15,657	8.2	%

*Includes rounding adjustments.

Xerox 2011 Form 10-Q

46

Table of Contents

Pro-forma:

(in millions)	Nine Months Ended September 30,			Change		Pro-forma Change	
	As Reported 2011	As Reported 2010	Pro-forma 2010 ⁽¹⁾				
Total Xerox Revenue:							
Equipment sales	\$2,689	\$2,659	\$2,659	1	%	1	%
Supplies, paper and other Sales	2,440	2,510	2,535	(3)	)%	(4))%
Service, outsourcing and rentals	5,129	5,169	5,194	(1)	)%	(1))%
Finance income	11,052	9,990	10,584	11	%	4	%
Total Revenues	481	498	498	(3)	)%	(3))%
Service, outsourcing and rentals	\$16,662	\$15,657	\$16,276	6	%	2	%
Add: Finance income	\$11,052	\$9,990	\$10,584	11	%	4	%
Add: Supplies, paper and other sales	481	498	498				
Annuity Revenue	2,440	2,510	2,535				
Gross Profit:	\$13,973	\$12,998	\$13,617	8	%	3	%
Sales	\$1,746	\$1,788	\$1,789				
Service, outsourcing and rentals	3,455	3,343	3,445				
Finance income	305	312	312				
Total	\$5,506	\$5,443	\$5,546				
Gross Margin:							
Sales	34.0	% 34.6	% 34.4	% (0.6	) pts	(0.4	) pts
Service, outsourcing and rentals	31.3	% 33.5	% 32.5	% (2.2	) pts	(1.2	) pts
Finance income	63.4	% 62.7	% 62.7	% 0.7	pts	0.7	pts
Total	33.0	% 34.8	% 34.1	% (1.8	) pts	(1.1	) pts
RD&E	\$542	\$588	\$588				
RD&E % Revenue	3.3	% 3.8	% 3.6	% (0.5	) pts	(0.3	) pts
SAG	\$3,347	\$3,398	\$3,457				
SAG % Revenue	20.1	% 21.7	% 21.2	% (1.6	) pts	(1.1	) pts
Adjusted Operating Profit	\$1,617	\$1,457	\$1,501				
Adjusting Operating Margin	9.7	% 9.3	% 9.2	% 0.4	pts	0.5	pts
Services Segment							
Document Outsourcing	\$2,620	\$2,407	\$2,407	9	%	—9	%
Business Processing Outsourcing ⁽²⁾	4,438	3,634	4,125	22	%	—8	%
Information Technology Outsourcing	989	892	1,020	11	%	—(3))%
Less: Intra-Segment Eliminations	(74	) (7	) (7) *		—*	
Total Revenue – Services	\$7,973	\$6,926	\$7,545	15	%	6	%
Segment Profit – Services	\$911	\$808	\$842	13	%	—8	%
Segment Margin – Services	11.4	% 11.7	% 11.2	% (0.3	) pts	0.2	pts

* Percent change not meaningful.

Pro-forma reflects ACS's 2010 estimated results from January 1 through February 5, adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.

(2)2010 BPO was adjusted to include historic Xerox BPO services.

Xerox 2011 Form 10-Q

47

Table of Contents

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption “Financial Risk Management” of this Quarterly Report on Form 10-Q is hereby incorporated by reference in answer to this Item.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company’s management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms relating to Xerox Corporation, including our consolidated subsidiaries, and was accumulated and communicated to the Company’s management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(a) Changes in Internal Controls

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 16-Contingencies contained in the “Notes to Condensed Consolidated Financial Statements” of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A — RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our 2010 Annual Report. The Risk Factors remain applicable from our 2010 Annual Report, with the exception of the following changes:

Our significant debt could adversely affect our financial health and pose challenges for conducting our business.

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. As of September 30, 2011, we had \$9.2 billion of total debt. The total value of financing activities, shown on the balance sheet as Finance receivables and Equipment on operating lease, was \$6.9 billion at September 30, 2011. The total cash and cash equivalents was \$0.8 billion at September 30, 2011. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels such as the incurrence of debt to partially fund acquisitions, these related risks

could increase.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements and to repay maturing debt and other obligations. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Xerox 2011 Form 10-Q

48

Table of Contents

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets, securitizations and funding from third parties. As of September 30, 2011, total cash and cash equivalents was \$0.8 billion, and our borrowing capacity under our Credit Facility was \$2.0 billion, reflecting no outstanding borrowings or letters of credit. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets, secured borrowings, securitizations and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on the creation of liens. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments.

At September 30, 2011, we were in compliance with the covenants and other provisions of the Credit Facility and the senior notes. Any failure to be in compliance with any material provision or covenant of the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2011

During the quarter ended September 30, 2011, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Semi-Annual Directors Fees

(a) Securities issued on July 15, 2011: Registrant issued 58,185 deferred stock units (“DSUs”), representing the right to receive shares of Common stock, par value \$1 per share, at a future date.

No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Glenn

(b) A. Britt, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of \$10.055 per DSU (aggregate price \$585,050), based upon the market value on the date of issuance, in payment of the semi-annual Director's fees pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Dividend Equivalent

(a) Securities issued on July 31, 2011: Registrant issued 1,941 deferred stock units (“DSUs”), representing the right to receive shares of Common stock, par value \$1 per share, at a future date.

No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Glenn

(b) A. Britt, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of \$10.38 per DSU (aggregate price \$20,148), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.

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(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2011
Repurchases of Xerox Common Stock, par value \$1.00 per share include the following:

Xerox 2011 Form 10-Q

49

Table of Contents

Board Authorized Share Repurchase Programs:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Approximate Dollar Value of Share That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 1 through 31	861,000	\$9.91	861,000	\$1,550,819,311
August 1 through 31	20,064,900	8.49	20,064,900	1,380,403,138
September 1 through 30	16,786,100	7.70	16,786,100	1,251,175,004
Total	37,712,000		37,712,000	

(1) Exclusive of fees and costs.

Of the cumulative \$4.5 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately \$3.3 billion has been used through September 30, 2011.

(2) Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs⁽¹⁾:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
July 1 through 31	1,963,818	\$10.71	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	86,055	8.11	n/a	n/a
Total	2,049,873			

These repurchases are made under a provision in our restricted stock compensation programs for the indirect (1) 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.

Table of Contents

ITEM 6 — EXHIBITS

- 3(a) Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on November 7, 2003, as amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19, 2004, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008. Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010.
- Incorporated by reference to Exhibit 3.1 to Registrant’s Current Report on Form 8-K dated February 5, 2010.
- 3(b) By-Laws of Registrant, as amended through May 21, 2009.
- Incorporated by reference to Exhibit 3(b) to Registrant’s Current Report on Form 8-K dated May 21, 2009.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31(a) Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31(b) Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 32 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.INS XBRL Instance Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.
- 101.SCH XBRL Taxonomy Extension Schema Linkbase.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XEROX CORPORATION
(Registrant)

By: /S/ GARY R. KABURECK
Gary R. Kabureck
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 2, 2011

Xerox 2011 Form 10-Q
52

Table of Contents

EXHIBIT INDEX

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on November 7, 2003, as amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19, 2004, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008. Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010.
	Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated February 5, 2010.
3(b)	By-Laws of Registrant, as amended through May 21, 2009.
	Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K dated May 21, 2009.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.