XEROX CORP
Form 10-Q
May 01, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2013

OR

o 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	06856-4505
(Address of principal executive offices)	(Zip Code)

(203) 968-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Class	Outstanding at March 31, 2013
Common Stock, $1 par value	1,227,902,772 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; actions of competitors; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; our ability to recover capital investments; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that our Services business could be adversely affected if we are unsuccessful in managing the ramp-up of new contracts; development of new products and services; our ability to protect our intellectual property rights; our ability to expand equipment placements; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; interest rates, cost of borrowing and access to credit markets; reliance on third parties for manufacturing of products and provision of services; our ability to drive the expanded use of color in printing and copying; the outcome of litigation and regulatory proceedings to which we may be a party; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q and our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

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March 31, 2013
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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
(in millions, except per-share data)	2013	2012
Revenues		
Sales	$1,446	$1,588
Outsourcing, maintenance and rentals	3,793	3,767
Financing	117	148
Total Revenues	5,356	5,503
Costs and Expenses		
Cost of sales	948	1,052
Cost of outsourcing, maintenance and rentals	2,758	2,690
Cost of financing	43	53
Research, development and engineering expenses	154	173
Selling, administrative and general expenses	1,057	1,068
Restructuring and asset impairment charges	(7)	17
Amortization of intangible assets	83	82
Other expenses, net	15	55
Total Costs and Expenses	5,051	5,190
Income before Income Taxes and Equity Income	305	313
Income tax expense	52	77
Equity in net income of unconsolidated affiliates	47	40
Net Income	300	276
Less: Net income attributable to noncontrolling interests	4	7
Net Income Attributable to Xerox	$296	$269
Basic Earnings per Share	$0.24	$0.20
Diluted Earnings per Share	$0.23	$0.19

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(in millions)	2013	2012
Net income	$300	$276
Less: Net income attributable to noncontrolling interest	4	7
Net Income Attributable to Xerox	296	269
Other Comprehensive (Loss) Income, Net[1]:		
Translation adjustments, net	(363)	160
Unrealized losses, net	(8)	(43)
Changes in defined benefit plans, net	103	(54)
Other Comprehensive (Loss) Income, Net	(268)	63
Less: Other comprehensive income, net attributable to noncontrolling interests	—	1
Other Comprehensive (Loss) Income, Net Attributable to Xerox	(268)	62
Comprehensive Income, Net	32	339
Less: Comprehensive income, net attributable to noncontrolling interests	4	8
Comprehensive Income, Net Attributable to Xerox	$28	$331

(1) Refer to Note 15 - Other Comprehensive Income for gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and related tax effects.

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

XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	March 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$993	$1,246
Accounts receivable, net	3,065	2,866
Billed portion of finance receivables, net	150	152
Finance receivables, net	1,741	1,836
Inventories	1,096	1,011
Other current assets	1,215	1,162
Total current assets	8,260	8,273
Finance receivables due after one year, net	3,213	3,325
Equipment on operating leases, net	520	535
Land, buildings and equipment, net	1,523	1,556
Investments in affiliates, at equity	1,332	1,381
Intangible assets, net	2,724	2,783
Goodwill	8,993	9,062
Deferred tax assets, long-term	697	763
Other long-term assets	2,303	2,337
Total Assets	$29,565	$30,015
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$1,107	$1,042
Accounts payable	1,656	1,913
Accrued compensation and benefits costs	786	741
Unearned income	448	438
Other current liabilities	1,630	1,776
Total current liabilities	5,627	5,910
Long-term debt	7,432	7,447
Pension and other benefit liabilities	2,876	2,958
Post-retirement medical benefits	894	909
Other long-term liabilities	741	778
Total Liabilities	17,570	18,002
Series A Convertible Preferred Stock	349	349
Common stock	1,228	1,239
Additional paid-in capital	5,560	5,622
Treasury stock, at cost	—	(104)
Retained earnings	8,208	7,991
Accumulated other comprehensive loss	(3,495)	(3,227)
Xerox shareholders' equity	11,501	11,521
Noncontrolling interests	145	143
Total Equity	11,646	11,664
Total Liabilities and Equity	$29,565	$30,015
Shares of common stock issued	1,227,903	1,238,696
Treasury stock	—	(14,924)
Shares of common stock outstanding	1,227,903	1,223,772

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net income	$300	$276
Adjustments required to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	329	313
Provision for receivables	26	27
Provision for inventory	9	10
Undistributed equity in net income of unconsolidated affiliates	(47)	(31)
Stock-based compensation	31	31
Restructuring and asset impairment charges	(7)	17
Payments for restructurings	(38)	(39)
Contributions to defined benefit pension plans	(45)	(79)
Increase in accounts receivable and billed portion of finance receivables	(363)	(452)
Collections of deferred proceeds from sales of receivables	115	96
Increase in inventories	(107)	(34)
Increase in equipment on operating leases	(59)	(67)
Decrease in finance receivables	96	164
Increase in other current and long-term assets	(99)	(101)
Decrease in accounts payable and accrued compensation	(94)	(144)
Decrease in other current and long-term liabilities	(66)	(35)
Net change in income tax assets and liabilities	17	43
Net change in derivative assets and liabilities	(47)	21
Other operating, net	(38)	(31)
Net cash used in operating activities	(87)	(15)
Cash Flows from Investing Activities:		
Cost of additions to land, buildings and equipment	(85)	(91)
Proceeds from sales of land, buildings and equipment	3	4
Cost of additions to internal use software	(22)	(37)
Acquisitions, net of cash acquired	(53)	(87)
Other investing, net	4	(3)
Net cash used in investing activities	(153)	(214)
Cash Flows from Financing Activities:		
Net proceeds on debt	57	998
Common stock dividends	(52)	(57)
Preferred stock dividends	(6)	(6)
Proceeds from issuances of common stock	22	7
Excess tax benefits from stock-based compensation	1	—
Payments to acquire treasury stock, including fees	(10)	(50)
Repurchases related to stock-based compensation	(10)	—
Distributions to noncontrolling interests	(3)	(57)
Net cash (used in) provided by financing activities	(1)	835
Effect of exchange rate changes on cash and cash equivalents	(12)	6

(Decrease) increase in cash and cash equivalents	(253)	612
Cash and cash equivalents at beginning of period	1,246	902
Cash and Cash Equivalents at End of Period	$993	$1,514

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

XEROX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation
References herein to “we,” “us,” “our,” the “Company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiari 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 2012 Annual Report to Shareholders, which is incorporated by reference in our 2012 Annual Report on Form 10-K (2012 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 2012 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. These adjustments consist of normal recurring items. 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
Presentation of Comprehensive Income: In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide additional information about the amounts reclassified out of Accumulated Other Comprehensive Income by component. This update was effective for us beginning January 1, 2013 and the additional information required by this ASU is included in Note 15 - Other Comprehensive Income.
Balance Sheet Offsetting: In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the Balance Sheet and instruments and transactions subject to an agreement similar to a master netting arrangement to enable users of their financial statements to understand the effects of offsetting and related arrangements on their financial position. In January 2013, the FASB issued ASU 2013-01 which limited the scope of this guidance to derivatives, repurchase type agreements and securities borrowing and lending transactions. The guidance from these updates was effective for our fiscal year beginning January 1, 2013. We currently report our derivative assets and liabilities on a gross basis in the Balance Sheet and none of our derivative instruments are subject to a master netting agreement. Accordingly, no additional disclosures were required upon adoption of these ASU's.
Cumulative Translation Adjustments: In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." The objective of ASU 2013-05 is to resolve the diversity in practice regarding the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. We do not anticipate that the adoption of this standard will have a material impact on our financial condition or results of operations.

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 – Services and Document Technology. Our Services segment operations involve delivery of a broad range of services including business process, document and IT outsourcing. Our Document Technology segment includes the sale and support of a broad range of document systems from entry level to high-end.

The Services segment is comprised of three outsourcing service offerings:

- Business Process Outsourcing (BPO)
- Document Outsourcing (which includes Managed Print Services) (DO)
- Information Technology Outsourcing (ITO)

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

Our Document Technology segment includes the sale of products that share common technology, manufacturing and product platforms. Our products groupings range from:

- “Entry,” which includes A4 devices and desktop printers; to
- “Mid-range,” which includes A3 devices that generally serve workgroup environments in midsize to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ ppm priced at less than $100K; to
- “High-end,” which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

Customers range from small and mid-sized businesses to large enterprises. Customers also include graphic communication enterprises as well as channel partners including distributors and resellers. Segment revenues reflect the sale of document systems and supplies, technical services and product financing.

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

Operating segment revenues and profitability were as follows:

	Three Months Ended March 31, Segment Revenue	Segment Profit (Loss)
2013		
Services	$2,920	$ 273
Document Technology	2,135	187
Other	301	(65)
Total	$5,356	$ 395
2012		
Services	$2,821	$ 263
Document Technology	2,338	245
Other	344	(52)
Total	$5,503	$ 456

	Three Months Ended March 31,	
Reconciliation to Pre-tax Income	2013	2012
Segment Profit	$395	$456
Reconciling items:		
Restructuring and asset impairment charges	7	(17)
Restructuring charges of Fuji Xerox	(4)	(4)
Amortization of intangible assets	(83)	(82)
Litigation matters (Q1 2013 only)	37	—
Equity in net income of unconsolidated affiliates	(47)	(40)
Pre-tax Income	$305	$313

Note 4 – Acquisitions

In February 2013, we acquired Impika, a leader in the design, manufacture and sale of production inkjet printing solutions used for industrial, commercial, security, label and package printing for approximately $53 in cash. Impika, which is based in Aubagne, France, offers a portfolio of aqueous (water-based) inkjet presses based on proprietary technology. Through the addition of Impika's aqueous technology to our offerings, we expect to go to market with the industry's broadest range of digital presses, strengthening our leadership in digital color production printing. Impika is included in our Document Technology segment.

The operating results of this acquisition are not material to our financial statements and are included within our results from the respective acquisition date. The purchase price was allocated primarily to intangible assets and goodwill based on third-party valuations and management’s estimates.

Note 5 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	March 31, 2013	December 31, 2012
Amounts billed or billable	$2,825	$2,639
Unbilled amounts	349	335
Allowance for doubtful accounts	(109)	(108)
Accounts Receivable, Net	$3,065	$2,866

Unbilled amounts include amounts associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at March 31, 2013 and December 31, 2012 were approximately $1,027 and $1,049, respectively.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable without recourse to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivables for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the 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. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in the caption “Other current assets” in the accompanying Condensed Consolidated Balance Sheets and were $115 and $116 at March 31, 2013 and December 31, 2012, respectively.

Under most of the arrangements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Of the accounts receivable sold and derecognized from our balance sheet, $768 and $766 remained uncollected as of March 31, 2013 and December 31, 2012, respectively. Accounts receivables sales were as follows:

	Three Months Ended March 31,	
	2013	2012
Accounts receivable sales	$854	$875
Deferred proceeds	115	147
Loss on sales of accounts receivable	4	6
Estimated increase (decrease) to operating cash flows[1]	16	(68)

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

Note 6 - Finance Receivables, Net

Sale of Finance Receivables

In 2012, we sold our entire interest in a group of U.S. lease finance receivables from our Document Technology segment with a net carrying value of $682 to a third-party financial institution for cash proceeds of $630 and a beneficial interest from the purchaser of $101. As of March 31, 2013, the principal value of the receivables sold and derecognized from our balance sheet was $575 (sales value of approximately $633).

The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interest of which $42 and $61 is included in “Other current assets” and “Other long-term assets”, respectively, in the accompanying Condensed Consolidated Balance Sheets at March 31, 2013. The beneficial interest is held by a bankruptcy-remote subsidiary and therefore is not available to satisfy any of our creditor obligations. We report collections on the beneficial interest as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity and the associated interest rate risk is de minimis considering it has a weighted average life of less than 2 years. Collections on the beneficial interest were approximately $2 for the three months ended March 31, 2013.

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:

Allowance for Credit Losses:	United States	Canada	Europe	Other[3]	Total
Balance at December 31, 2012	$50	$31	$85	$4	$170
Provision	2	2	9	—	13
Charge-offs	(2)	(4)	(15)	—	(21)
Recoveries and other[1]	1	—	(3)	—	(2)
Balance at March 31, 2013	51	29	76	4	160
Finance receivables as of March 31, 2013 collectively evaluated for impairment[2]	$1,991	$756	$2,304	$211	$5,262
Balance at December 31, 2011	$75	$33	$91	$2	$201
Provision	2	1	12	—	15
Charge-offs	(4)	(3)	(12)	—	(19)
Recoveries and other[1]	1	2	2	1	6
Balance at March 31, 2012	74	33	93	3	203
Finance receivables as of March 31, 2012 collectively evaluated for impairment[2]	$2,889	$829	$2,614	$136	$6,468

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

(2) Total Finance receivables exclude residual values of $2 and $5, and the allowance for credit losses of $160 and $203 at March 31, 2013 and 2012, respectively.

(3) Includes developing market countries and smaller units.

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

- Investment grade: This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at less than 1%.
- Non-investment grade: This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain on 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 status 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:

	March 31, 2013				December 31, 2012			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	$259	$ 150	$65	$474	$252	$ 147	$59	$458
Government and education	722	15	5	742	750	15	4	769
Graphic arts	103	80	123	306	92	90	137	319
Industrial	113	40	16	169	115	31	17	163
Healthcare	105	26	21	152	109	37	14	160
Other	72	33	43	148	70	39	34	143
Total United States	1,374	344	273	1,991	1,388	359	265	2,012
Finance and other services	140	111	35	286	151	116	40	307
Government and education	109	11	2	122	117	10	2	129
Graphic arts	38	33	27	98	37	34	30	101
Industrial	65	40	24	129	66	40	29	135
Other	71	39	11	121	75	43	11	129
Total Canada	423	234	99	756	446	243	112	801
France	266	286	121	673	274	294	134	702
U.K./Ireland	194	142	46	382	215	155	50	420
Central[1]	283	426	48	757	315	445	56	816
Southern[2]	127	209	68	404	139	230	73	442
Nordics[3]	45	40	3	88	49	36	9	94
Total Europe	915	1,103	286	2,304	992	1,160	322	2,474
Other	160	45	6	211	148	39	7	194
Total	$2,872	$ 1,726	$664	$5,262	$2,974	$ 1,801	$706	$5,481

(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

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

	March 31, 2013						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and other services	$12	$2	$1	$15	$459	$474	$12
Government and education	20	5	3	28	714	742	31
Graphic arts	15	1	—	16	290	306	6
Industrial	5	1	1	7	162	169	6
Healthcare	4	1	1	6	146	152	6
Other	5	1	—	6	142	148	4
Total United States	61	11	6	78	1,913	1,991	65
Canada	4	3	1	8	748	756	30
France	8	1	3	12	661	673	50
U.K./Ireland	(1)	1	2	2	380	382	6
Central[(1)]	3	3	4	10	747	757	28
Southern[(2)]	24	5	13	42	362	404	65
Nordics[(3)]	1	—	—	1	87	88	—
Total Europe	35	10	22	67	2,237	2,304	149
Other	5	1	1	7	204	211	—
Total	$105	$25	$30	$160	$5,102	$5,262	$244

	December 31, 2012						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and other services	$12	$3	$2	$17	$441	$458	$18
Government and education	21	5	3	29	740	769	42
Graphic arts	16	1	1	18	301	319	12
Industrial	5	2	1	8	155	163	6
Healthcare	6	2	1	9	151	160	9
Other	5	1	1	7	136	143	6
Total United States	65	14	9	88	1,924	2,012	93
Canada	2	3	2	7	794	801	30
France	—	5	1	6	696	702	22
U.K./Ireland	2	—	2	4	416	420	2
Central[(1)]	3	2	4	9	807	816	30
Southern[(2)]	20	8	14	42	400	442	72
Nordics[(3)]	1	—	—	1	93	94	—
Total Europe	26	15	21	62	2,412	2,474	126
Other	2	1	—	3	191	194	—
Total	$95	$33	$32	$160	$5,321	$5,481	$249

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(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

Note 7 – Inventories

The following is a summary of Inventories by major category:

	March 31, 2013	December 31, 2012
Finished goods	$904	$844
Work-in-process	69	61
Raw materials	123	106
Total Inventories	$1,096	$1,011

Note 8 – Investment in Affiliates, at Equity

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

	Three Months Ended March 31,	
	2013	2012
Fuji Xerox	$44	$37
Other investments	3	3
Total Equity in Net Income of Unconsolidated Affiliates	$47	$40

Fuji Xerox

Equity in net income of Fuji Xerox is affected by certain adjustments required to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest.

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended March 31,	
	2013	2012
Summary of Operations:		
Revenues	$3,028	$3,330
Costs and expenses	2,784	3,084
Income before income taxes	244	246
Income tax expense	61	97
Net Income	183	149
Less: Net income – noncontrolling interests	1	1
Net Income – Fuji Xerox	$182	$148
Weighted Average Exchange Rate(1)	92.64	79.72

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

Note 9 – Restructuring Programs

During the three months ended March 31, 2013, we recorded net restructuring credits of $7, primarily resulting from reversals for changes in estimated reserves from prior period initiatives.

Information related to restructuring program activity during the three months ended March 31, 2013 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments[2]	Total
Balance December 31, 2012	$123	$7	$—	$130
Restructuring provision	1	—	—	1
Reversals of prior accruals	(8)	—	—	(8)
Net current period credits[1]	(7)	—	—	(7)
Charges against reserve and currency	(36)	(1)	—	(37)
Balance at March 31, 2013	$80	$6	$—	$86

(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown.

(2) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Charges against reserve	$(37)	$(39)
Asset impairment	—	2
Effects of foreign currency and other non-cash items	(1)	(2)
Restructuring Cash Payments	$(38)	$(39)

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Services	$(2)	$3
Document Technology	(5)	17
Other	—	(3)
Total Net Restructuring Charges	$(7)	$17

We expect to incur additional restructuring charges of approximately $35 in the second quarter of 2013 for actions and initiatives which have not yet been finalized.

Note 10 – Debt

Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended March 31,	
	2013	2012
Interest expense[(1)]	$104	$109
Interest income[(2)]	120	151

(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.

Net Proceeds (Payments) on Debt

Net proceeds on debt as shown on the Condensed Consolidated Statements of Cash Flows was as follows:

	Three Months Ended March 31,	
	2013	2012
Net proceeds (payments) on short-term debt	$36	$(97)
Proceeds from issuance of long-term debt	25	1,404
Payments on long-term debt	(4)	(309)
Net Proceeds on Debt	$57	$998

Note 11 – Financial Instruments

Interest Rate Risk Management

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

At March 31, 2013 and December 31, 2012, we did not have any interest rate swaps outstanding.

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 March 31, 2013, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,238, which is reflective of the amounts that are normally outstanding at any point during the year. Approximately 72% of these contracts mature within three months, 16% in three to six months and 12% in six to twelve months.

The following is a summary of the primary hedging positions and corresponding fair values as of March 31, 2013:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[1]
U.S. Dollar/Euro	$493	$11
Japanese Yen/U.S. Dollar	486	(37)
Japanese Yen/Euro	359	(17)
Euro/U.K. Pound Sterling	183	(3)
U.K. Pound Sterling/Euro	149	3
Canadian Dollar/Euro	98	—
Mexican Peso/U.S. Dollar	72	3
Euro/U.S. Dollar	51	(1)
Indian Rupee/U.S. Dollar	51	2
Philippine Peso/U.S. Dollar	39	—
Euro/Peruvian Nuevo Sol	23	(1)
U.S. Dollar/Canadian Dollar	22	—
Euro/Swiss Franc	22	—
Swedish Krona/Euro	22	—
All Other	168	—
Total Foreign Exchange Hedging	$2,238	$(40)

(1) Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at March 31, 2013.

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 liability fair value of these contracts was $48 as of both March 31, 2013 and December 31, 2012.

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	March 31, 2013	December 31, 2012
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$11	$3
	Other current liabilities	(59)	(51)
	Net Designated Derivative Liability	$(48)	$(48)
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$14	$8
	Other current liabilities	(6)	(31)
	Net Undesignated Derivative Asset (Liability)	$8	$(23)
Summary of Derivatives	Total Derivative Assets	$25	$11
	Total Derivative Liabilities	(65)	(82)
	Net Derivative Liability	$(40)	$(71)

Summary of Derivative Instruments Gains (Losses)
Derivative gains and (losses) affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and (losses).
Designated Derivative Instruments Gains (Losses)
The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended March 31,		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Three Months Ended March 31,	
	2013	2012		2013	2012
Foreign exchange contracts – forwards	$(34)	$(44)	Cost of sales	$(17)	$16

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 March 31, 2013, net after-tax losses of $45 were recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

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

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended March 31, 2013	2012
Foreign exchange contracts – forwards	Other expense – Currency losses, net	$(15)	$(18)

During the three months ended March 31, 2013 and 2012, we recorded Total currency gains, net of $4 and $0, respectively. Currency gains, 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.

	March 31, 2013	December 31, 2012
Assets:		
Foreign exchange contracts-forwards	$25	$11
Deferred compensation investments in cash surrender life insurance	80	77
Deferred compensation investments in mutual funds	25	23
Total	$130	$111
Liabilities:		
Foreign exchange contracts-forwards	$65	$82
Deferred compensation plan liabilities	113	110
Total	$178	$192

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:

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$993	$993	$1,246	$1,246
Accounts receivable, net	3,065	3,065	2,866	2,866
Short-term debt	1,107	1,104	1,042	1,051
Long-term debt	7,432	8,013	7,447	8,040

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

Note 13 – Employee Benefit Plans
The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Pension Benefits				Retiree Health	
	U.S. Plans		Non-U.S. Plans			
	Three Months Ended March 31,				Three Months Ended March 31,	
	2013	2012	2013	2012	2013	2012
Components of Net Periodic Benefit Costs:						
Service cost	$2	$30	$22	$21	$2	$2
Interest cost	37	47	64	68	9	11
Expected return on plan assets	(44)	(53)	(77)	(76)	—	—
Recognized net actuarial loss	7	14	19	13	1	—
Amortization of prior service credit	—	(6)	—	—	(11)	(10)
Recognized settlement loss	48	16	—	—	—	—
Defined Benefit Plans	50	48	28	26	1	3
Defined contribution plans	19	8	7	8	—	—
Net Periodic Benefit Cost	69	56	35	34	1	3
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:						
Net actuarial gain	—	—	—	(1)	—	—
Amortization of prior service credit	—	6	—	—	11	10
	(55)	(30)	(19)	(13)	(1)	—

Amortization of net actuarial loss						
Total Recognized in Other Comprehensive Income[1]	(55)	(24)	(19)	(14)	10	10
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$14	$32	$16	$20	$11	$13

(1) Amounts represent the pre-tax effect included within Other comprehensive income. Refer to Note 15 - Other Comprehensive Income for related tax effects and the after-tax amounts.

Contributions: During the three months ended March 31, 2013, we made cash contributions of $45 ($7 U.S. and $38 Non-U.S.) and $22 to our defined benefit pension plans and retiree health benefit plans, respectively. We presently anticipate additional cash contributions of $150 ($19 U.S. and $131 Non-U.S.) to our defined benefit pension plans and $58 to our retiree health benefit plans in 2013 for total full-year cash contributions of approximately $195 ($26 U.S. and $169 Non-U.S.) and $80, respectively.

Note 14 – Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[1]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2012	$1,239	$5,622	$(104)	$7,991	$(3,227)	$11,521	$143	$11,664
Comprehensive income (loss), net	—	—	—	296	(268)	28	4	32
Cash dividends declared-common stock[2]	—	—	—	(73)	—	(73)	—	(73)
Cash dividends declared - preferred stock[3]	—	—	—	(6)	—	(6)	—	(6)
Stock option and incentive plans, net	5	36	—	—	—	41	—	41
Payments to acquire treasury stock, including fees	—	—	(10)	—	—	(10)	—	(10)
Cancellation of treasury stock	(16)	(98)	114	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(2)	(2)
Balance at March 31, 2013	$1,228	$5,560	$—	$8,208	$(3,495)	$11,501	$145	$11,646

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[1]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2011	$1,353	$6,317	$(124)	$7,046	$(2,716)	$11,876	$149	$12,025
Comprehensive income, net	—	—	—	269	62	331	8	339
Cash dividends declared-common stock[2]	—	—	—	(59)	—	(59)	—	(59)
Cash dividends declared-preferred stock[3]	—	—	—	(6)	—	(6)	—	(6)
Contribution of common stock to U.S. pension plan[4]	15	115	—	—	—	130	—	130

Stock option and incentive plans, net	1	36	—	—	—	37	—	37
Payments to acquire treasury stock, including fees	—	—	(50)	—	—	(50)	—	(50)
Cancellation of treasury stock	(21)	(150)	171	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(25)	(25)
Balance at March 31, 2012	$1,348	$6,318	$(3)	$7,250	$(2,654)	$12,259	$132	$12,391

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(1) Refer to Note 15 - Other Comprehensive Income for components of AOCL.
(2) Cash dividends declared on common stock of $0.0575 per share in the first quarter of 2013 and $0.0425 per share in first quarter of 2012.
(3) Cash dividends declared on preferred stock of $20.00 per share in the first quarter of 2013 and 2012.
(4) Refer to Note 13 - Employee Benefit Plans for additional information.

Treasury Stock

The following is a summary of the purchases of common stock made during the three months ended March 31, 2013 under our authorized stock repurchase programs (shares in thousands):

	Shares	Amount
December 31, 2012	14,924	$104
Purchases [1]	1,360	10
Cancellations	(16,284)	(114)
March 31, 2013	—	$—

(1) Includes associated fees.

Note 15 - Other Comprehensive Income

Other Comprehensive Income is comprised of the following:

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments (Losses) Gains	$(363)	$(363)	$153	$160
Unrealized (Losses) Gains:				
Changes in fair value of cash flow hedges - losses	(34)	(22)	(44)	(31)
Changes in cash flow hedges reclassed to earnings[1]	17	12	(16)	(12)
Other	2	2	—	—
Net Unrealized Losses	(15)	(8)	(60)	(43)
Defined Benefit Plans Gains (Losses):				
Net actuarial gain	—	—	1	1
Prior service amortization[2]	(11)	(7)	(16)	(10)
Actuarial loss amortization[2]	75	49	43	29
Fuji Xerox changes in defined benefit plans, net[3]	(16)	(16)	(30)	(30)
Other[4]	77	77	(43)	(44)
Change in Defined Benefit Plans Gains (Losses)	125	103	(45)	(54