XEROX CORP
Form 10-Q
August 01, 2014

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: June 30, 2014

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	16-0468020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue Norwalk, Connecticut	06856-4505
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 June 30, 2014
Common Stock, $1 par value	1,153,152,810 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 and the relocation of our service delivery centers; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk in the hiring and retention of qualified personnel; 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 our Services business could be adversely affected if we are unsuccessful in managing the start-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; service interruptions; interest rates, cost of borrowing and access to credit markets; reliance on third parties, including subcontractors, 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, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and our 2013 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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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 June 30,		Six Months Ended June 30,	
(in millions, except per-share data)	2014	2013	2014	2013
Revenues				
Sales	$1,359	$1,454	$2,630	$2,747
Outsourcing, maintenance and rentals	3,835	3,823	7,574	7,605
Financing	98	114	198	231
Total Revenues	5,292	5,391	10,402	10,583
Costs and Expenses				
Cost of sales	847	934	1,637	1,749
Cost of outsourcing, maintenance and rentals	2,781	2,718	5,520	5,467
Cost of financing	36	42	72	85
Research, development and engineering expenses	142	149	286	303
Selling, administrative and general expenses	972	1,041	1,932	2,080
Restructuring and asset impairment charges	38	33	65	25
Amortization of intangible assets	84	83	168	166
Other expenses, net	68	59	107	76
Total Costs and Expenses	4,968	5,059	9,787	9,951
Income before Income Taxes and Equity Income	324	332	615	632
Income tax expense	81	68	130	118
Equity in net income of unconsolidated affiliates	33	36	75	83
Income from Continuing Operations	276	300	560	597
Loss from discontinued operations, net of tax	(4)	(23)	(2)	(20)
Net Income	272	277	558	577
Less: Net income attributable to noncontrolling interests	6	6	11	10
Net Income Attributable to Xerox	$266	$271	$547	$567
Amounts Attributable to Xerox:				
Net income from continuing operations	$270	$294	$549	$587
Net loss from discontinued operations	(4)	(23)	(2)	(20)
Net Income Attributable to Xerox	$266	$271	$547	$567
Basic Earnings per Share:				
Continuing operations	$0.22	$0.24	$0.46	$0.47
Discontinued operations	—	(0.02)	—	(0.02)
Total Basic Earnings per Share	$0.22	$0.22	$0.46	$0.45
Diluted Earnings per Share:				
Continuing operations	$0.22	$0.23	$0.45	$0.46
Discontinued operations	—	(0.02)	—	(0.02)
Total Diluted Earnings per Share	$0.22	$0.21	$0.45	$0.44

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 June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Net income	$272	$277	$558	$577
Less: Net income attributable to noncontrolling interests	6	6	11	10
Net Income Attributable to Xerox	266	271	547	567
Other Comprehensive Income (Loss), Net[1]:				
Translation adjustments, net	92	(84)	91	(447)
Unrealized gains (losses), net	15	1	41	(7)
Changes in defined benefit plans, net	(70)	56	(154)	159
Other Comprehensive Income (Loss), Net	37	(27)	(22)	(295)
Less: Other comprehensive income, net attributable to noncontrolling interests	1	—	1	—
Other Comprehensive Income (Loss), Net Attributable to Xerox	36	(27)	(23)	(295)
Comprehensive Income, Net	309	250	536	282
Less: Comprehensive income, net attributable to noncontrolling interests	7	6	12	10
Comprehensive Income, Net Attributable to Xerox	$302	$244	$524	$272

(1) Refer to Note 16 - Other Comprehensive Income for gross components of Other Comprehensive Income, reclassification adjustments out of Accumulated Other Comprehensive Loss 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)	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$1,007	$1,764
Accounts receivable, net	3,097	2,929
Billed portion of finance receivables, net	127	113
Finance receivables, net	1,497	1,500
Inventories	1,077	998
Other current assets	1,174	1,207
Total current assets	7,979	8,511
Finance receivables due after one year, net	2,826	2,917
Equipment on operating leases, net	535	559
Land, buildings and equipment, net	1,433	1,466
Investments in affiliates, at equity	1,403	1,285
Intangible assets, net	2,388	2,503
Goodwill	9,431	9,205
Other long-term assets	2,513	2,590
Total Assets	$28,508	$29,036
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$1,355	$1,117
Accounts payable	1,597	1,626
Accrued compensation and benefits costs	705	734
Unearned income	524	496
Other current liabilities	1,509	1,713
Total current liabilities	5,690	5,686
Long-term debt	6,354	6,904
Pension and other benefit liabilities	2,353	2,136
Post-retirement medical benefits	764	785
Other long-term liabilities	593	757
Total Liabilities	15,754	16,268
Series A Convertible Preferred Stock	349	349
Common stock	1,165	1,210
Additional paid-in capital	4,846	5,282
Treasury stock, at cost	(148)	(252)
Retained earnings	9,226	8,839
Accumulated other comprehensive loss	(2,802)	(2,779)
Xerox shareholders' equity	12,287	12,300
Noncontrolling interests	118	119
Total Equity	12,405	12,419
Total Liabilities and Equity	$28,508	$29,036
Shares of common stock issued	1,165,234	1,210,321
Treasury stock	(12,081)	(22,001)
Shares of common stock outstanding	1,153,153	1,188,320

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Cash Flows from Operating Activities:				
Net income	$272	$277	$558	$577
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	376	343	721	672
Provision for receivables	22	33	38	59
Provision for inventory	4	3	14	12
Net loss (gain) on sales of businesses and assets	1	10	(29)	10
Undistributed equity in net income of unconsolidated affiliates	2	3	(40)	(44)
Stock-based compensation	24	28	50	59
Restructuring and asset impairment charges	38	33	65	25
Payments for restructurings	(36)	(35)	(72)	(73)
Contributions to defined benefit pension plans	(68)	(53)	(105)	(98)
Increase in accounts receivable and billed portion of finance receivables	(150)	(139)	(389)	(502)
Collections of deferred proceeds from sales of receivables	106	116	226	231
Increase in inventories	(43)	(34)	(103)	(141)
Increase in equipment on operating leases	(66)	(69)	(123)	(128)
Decrease in finance receivables	18	23	54	119
Collections on beneficial interest from sales of finance receivables	21	25	42	27
Increase in other current and long-term assets	(24)	(19)	(118)	(120)
(Decrease) increase in accounts payable and accrued compensation	(96)	32	(88)	(62)
Decrease in other current and long-term liabilities	(82)	(45)	(108)	(111)
Net change in income tax assets and liabilities	43	22	72	39
Net change in derivative assets and liabilities	(20)	6	(21)	(41)
Other operating, net	(17)	(27)	(33)	(64)
Net cash provided by operating activities	325	533	611	446
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(102)	(84)	(186)	(169)
Proceeds from sales of land, buildings and equipment	2	8	35	11
Cost of additions to internal use software	(21)	(23)	(40)	(45)
Proceeds from sale of businesses	15	11	15	11
Acquisitions, net of cash acquired	(227)	(78)	(281)	(131)
Other investing, net	7	2	11	6
Net cash used in investing activities	(326)	(164)	(446)	(317)
Cash Flows from Financing Activities:				
Net payments on debt	(299)	(378)	(295)	(321)

Common stock dividends	(73)	(72)	(141)	(124)
Preferred stock dividends	(6)	(6)	(12)	(12)
Proceeds from issuances of common stock	19	31	39	53
Excess tax benefits from stock-based compensation	3	—	6	1
Payments to acquire treasury stock, including fees	(204)	—	(479)	(10)
Repurchases related to stock-based compensation	—	—	(1)	(10)
Distributions to noncontrolling interests	(1)	(2)	(17)	(5)
Other financing	—	(3)	(10)	(3)
Net cash used in financing activities	(561)	(430)	(910)	(431)
Effect of exchange rate changes on cash and cash equivalents	2	(3)	(12)	(15)
Decrease in cash and cash equivalents	(560)	(64)	(757)	(317)
Cash and cash equivalents at beginning of period	1,567	993	1,764	1,246
Cash and Cash Equivalents at End of Period	$1,007	$929	$1,007	$929

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 suggests otherwise.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2013 Annual Report on Form 10-K (2013 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 2013 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.”

In the second quarter 2014, we completed the sale of our Truckload Management Services business. Results from this business are reported as discontinued operations and all prior periods have been reclassified to reflect this change. Refer to Note 5 - Divestitures for additional information regarding discontinued operations.

Note 2 – Recent Accounting Pronouncements

Except for the Accounting Standard Updates (ASU's) discussed below, the new ASU's issued by the FASB during the last year did not have any significant impact on the Company.

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. This update was effective prospectively for our fiscal year beginning January 1, 2014, and did not have nor is it expected to have a material impact on our financial condition, results of operations or cash flows.

Income Taxes: In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward, exists. This update was effective prospectively for our fiscal year beginning January 1, 2014. Upon adoption of this standard, we reclassified approximately $180 of liabilities for unrecognized tax benefits against deferred tax assets.

Service Concession Arrangements: In January 2014, the FASB issued ASU 2014-05, Service Concession Arrangements (Topic 853). This update specifies that an entity should not account for a service concession arrangement within the scope of this update as a lease in accordance with Topic 840, Leases. The update does not provide specific accounting guidance for various aspects of service concession arrangements but rather indicates that an entity should refer to other Topics as applicable to account for various aspects of a service concession arrangement. The update is effective for our fiscal year beginning January 1, 2015. The adoption of this standard is not expected to have a material effect on our financial condition, results of operation or cash flows.

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Discontinued Operations: In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The update changes the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Examples include a disposal of a major geographic area, a major line of business or a major equity method investment.

Additionally, the update requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This update is effective prospectively for our fiscal year beginning January 1, 2015 and early adoption is permitted. The standard primarily involves presentation and disclosure and therefore is not expected to have a material impact on our financial condition, results of operations or cash flows.

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014- 09 is effective for our fiscal year beginning January 1, 2017 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

Stock Compensation: In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share- Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for our fiscal year beginning January 1, 2016 and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operation or cash flows.

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)

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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 includes paper sales in our developing market countries, Wide Format Systems, licensing revenues, Global Imaging Systems network integration solutions and electronic presentation systems, non-allocated corporate items including non-financing interest, and other items included in Other expenses, net.
Operating segment revenues and profitability were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	Segment Revenue	Segment Profit (Loss)	Segment Revenue	Segment Profit(Loss)
2014				
Services	$2,992	$257	$5,904	$ 507
Document Technology	2,125	306	4,170	556
Other	175	(76)	328	(127)
Total	$5,292	$487	$10,402	$ 936
2013				
Services	$2,946	$301	$5,855	$ 573
Document Technology	2,263	244	4,398	431
Other	182	(61)	330	(131)
Total	$5,391	$484	$10,583	$ 873

	Three Months Ended June 30,		Six Months Ended June 30,	
Reconciliation to Pre-tax Income	2014	2013	2014	2013
Segment Profit	$487	$484	$936	$873
Reconciling items:				
Restructuring and related costs[1]	(45)	(33)	(75)	(25)
Restructuring charges of Fuji Xerox	1	(1)	(2)	(5)
Amortization of intangible assets	(84)	(83)	(168)	(166)
Litigation matters (Q1 2013 only)	—	—	—	37
Equity in net income of unconsolidated affiliates	(33)	(36)	(75)	(83)
Other	(2)	1	(1)	1
Pre-tax Income	$324	$332	$615	$632

(1) Includes Restructuring and asset impairment charges of $38 and $65 for the three and six months ended June 30, 2014, respectively, and Business transformation costs of $7 and $10 for the three and six months ended June 30, 2014, respectively. Business transformation costs represent incremental costs incurred directly in support of our business transformation and restructuring initiatives such as compensation costs for overlapping staff, consulting costs and training costs.

Note 4 – Acquisitions

In May 2014, we acquired ISG Holdings, Inc. (ISG) for approximately $225 in cash. The acquisition of ISG enhances our Services segment by providing a comprehensive workers' compensation suite of offerings to the property and casualty sector. In addition, the acquisition expands our services to property and casualty insurance carriers, third-party administrators, managed care services providers, governments and self-administered employers who require comprehensive reviews of medical bills and implementation of care management plans stemming from workers’ compensation claims.

In January 2014, we acquired Invoco Holding GmbH (Invoco), a German company, for approximately $54 (€40 million) in cash. The acquisition of Invoco expands our European customer care services and provides our global customers immediate access to German-language customer care services and provides Invoco's existing customers access to our broad business process outsourcing capabilities.

ISG and Invoco are included in our Services segment. Additionally, our services segment acquired one additional business for approximately $2 in cash during the six months ended June 30, 2014.

The operating results of these acquisitions are not material to our financial statements and are included within our results from their acquisition dates. The purchase prices were allocated primarily to intangible assets and goodwill based on third-party valuations and management’s estimates.

Note 5 – Divestitures

In May 2014, we sold our Truckload Management Services (TMS) business for $15 and recorded a net pre-tax loss on disposal of $1. TMS provided document capture and submission solutions as well as campaign management, media buying and digital marketing services to the long haul trucking and transportation industry. As a result of this transaction we reported this business as a Discontinued Operation and reclassified its results from the Services segment to Discontinued Operations in the second quarter 2014.

In 2013, in connection with our decision to exit from the Paper distribution business, we completed the sale of our North American and European Paper businesses. As a result of these transactions, we reported these paper-related operations as Discontinued Operations and reclassified their results from the Other segment to Discontinued Operations in 2013. We recorded a net pre-tax loss on disposal of $25 in 2013 for the disposition of these businesses - $23 in second quarter and $2 in the fourth quarter. In 2014, we recorded net income of $1 in Discontinued Operations primarily representing adjustments of amounts previously recorded for the loss on disposal due to changes in estimates.

Summarized financial information for our Discontinued Operations related to the Paper and TMS businesses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$7	$144	$17	$308
Income from operations	$—	$2	$—	$7
Loss on disposal	(2)	(23)	—	(23)
Net Loss Before Income Taxes	(2)	(21)	—	(16)
Income tax expense	2	2	2	4
Loss From Discontinued Operations, Net of Tax	$(4)	$(23)	$(2)	$(20)

Note 6 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	June 30, 2014	December 31, 2013
Amounts billed or billable	$2,828	$2,651
Unbilled amounts	371	390
Allowance for doubtful accounts	(102)	(112)
Accounts Receivable, Net	$3,097	$2,929

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 June 30, 2014 and December 31, 2013 were approximately $1,050 and $1,054, 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 receivable 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 receivable sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the 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 $121 at June 30, 2014 and December 31, 2013, 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, $695 and $723 remained uncollected as of June 30, 2014 and December 31, 2013, respectively. Accounts receivable sales were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Accounts receivable sales	$726	$919	$1,548	$1,773
Deferred proceeds	96	144	220	259
Loss on sales of accounts receivable	4	5	8	9
Estimated (decrease) increase to operating cash flows[1]	(31)	17	(20)	33

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(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.

Note 7 - Finance Receivables, Net

Sale of Finance Receivables

In the third and fourth quarters of 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities for cash proceeds and beneficial interests. The transfers met the requirements for derecognition according to ASC Topic 860, Transfers and Servicing and therefore were accounted for as sales with derecognition of the associated lease receivables. There were no finance receivable transfers in the six months ending June 30, 2014 and 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables. The following is a summary of our prior sales activity:

	Year Ended December 31,	
(in millions)	2013	2012
Net carrying value (NCV) sold	$676	$682
Allowance included in NCV	17	18
Cash proceeds received	635	630
Beneficial interests received	86	101
Pre-tax gain on sales	40	44
Net fees and expenses	5	5

The principal value of the finance receivables derecognized from our balance sheet was $766 and $1,006 at June 30, 2014 and December 31, 2013, respectively (sales value of approximately $834 and $1,098, respectively).

Summary

The lease portfolios transferred and sold were all from our Document Technology segment and the gains on these sales were reported in Financing revenues within the Document Technology segment. The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests which were $112 and $150 at June 30, 2014 and December 31, 2013, respectively, and are included in Other current assets and Other long-term assets in the accompanying Condensed Consolidated Balance Sheets. Beneficial interests of $92 and $124 at June 30, 2014 and December 31, 2013, respectively, are held by bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We report collections on the beneficial interests 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 their weighted average lives of less than 2 years.

The net impact from the sales of finance receivables on operating cash flows is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Impact from prior sales of finance receivables[(1)]	$(137)	$(83)	$(286)	$(174)
Collections on beneficial interest	25	25	51	27
Estimated Decrease to Operating Cash Flows	$(112)	$(58)	$(235)	$(147)

(1) Represents cash that would have been collected had we not sold finance receivables.

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, 2013	$45	$22	$81	$6	$154
Provision	3	2	7	3	15
Charge-offs	(1)	(4)	(5)	(2)	(12)
Recoveries and other[(1)]	1	—	—	—	1
Balance at March 31, 2014	$48	$20	$83	$7	$158
Provision	1	2	11	1	15
Charge-offs	—	(4)	(8)	1	(11)
Recoveries and other[(1)]	—	2	—	—	2
Balance at June 30, 2014	$49	$20	$86	$9	$164
Finance receivables as of June 30, 2014 collectively evaluated for impairment[(2)]	$1,684	$421	$2,170	$339	$4,614
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
Provision	6	3	10	2	21
Charge-offs	(2)	(3)	(14)	(1)	(20)
Recoveries and other[(1)]	(1)	—	2	—	1
Balance at June 30, 2013	$54	$29	$74	$5	$162
Finance receivables as of June 30, 2013 collectively evaluated for impairment[(2)]	$2,010	$713	$2,271	$230	$5,224

(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 $0 and $1, and the allowance for credit losses of $164 and $162 at June 30, 2014 and 2013, 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, 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:

	June 30, 2014				December 31, 2013			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	$189	$ 123	$53	$365	$189	$ 102	$34	$325
Government and education	614	8	4	626	656	12	3	671
Graphic arts	138	74	99	311	142	59	108	309
Industrial	96	33	16	145	92	28	15	135
Healthcare	71	26	21	118	74	25	16	115
Other	57	33	29	119	55	27	29	111
Total United States	1,165	297	222	1,684	1,208	253	205	1,666
Finance and other services	48	23	12	83	46	18	11	75
Government and education	87	9	2	98	96	9	1	106
Graphic arts	56	53	40	149	56	52	48	156
Industrial	23	13	5	41	23	12	6	41
Other	33	13	4	50	29	9	5	43
Total Canada(1)	247	111	63	421	250	100	71	421
France	281	307	129	717	282	314	122	718
U.K./Ireland	202	163	38	403	199	171	42	412
Central(2)	249	368	37	654	287	394	43	724

Southern[3]	78	186	48	312	102	187	58	347
Nordics[4]	27	56	1	84	46	42	3	91
Total Europe	837	1,080	253	2,170	916	1,108	268	2,292
Other	207	109	23	339	226	69	9	304
Total	$2,456	$ 1,597	$561	$4,614	$2,600	$ 1,530	$553	$4,683

(1) Historically, the Company had included certain Canadian customers with graphic arts activity in their industry sector. In 2014, these customers were reclassified to Graphic Arts to better reflect their primary business activity. The December 31, 2013 amounts have been revised to reclassify $33 of graphic arts customers from Finance and Other Services and to reclassify $38 from Industrial to be consistent with the June 30, 2014 presentation.
(2) Switzerland, Germany, Austria, Belgium and Holland.
(3) Italy, Greece, Spain and Portugal.
(4) 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:

	June 30, 2014						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$9	$2	$1	$12	$353	$365	$11
Government and education	18	4	2	24	602	626	23
Graphic arts	15	1	1	17	294	311	9
Industrial	4	1	1	6	139	145	7
Healthcare	4	1	—	5	113	118	4
Other	4	1	—	5	114	119	3
Total United States	54	10	5	69	1,615	1,684	57
Canada	3	2	2	7	414	421	20
France	1	2	3	6	711	717	41
U.K./Ireland	—	2	—	2	401	403	1
Central(1)	5	2	1	8	646	654	20
Southern(2)	21	6	6	33	279	312	26
Nordics(3)	1	—	—	1	83	84	4
Total Europe	28	12	10	50	2,120	2,170	92
Other	8	1	—	9	330	339	—
Total	$93	$25	$17	$135	$4,479	$4,614	$169

	December 31, 2013						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$7	$2	$1	$10	$315	$325	$12
Government and education	17	4	3	24	647	671	34
Graphic arts	12	1	—	13	296	309	5
Industrial	3	1	1	5	130	135	6
Healthcare	3	1	—	4	111	115	5
Other	3	1	—	4	107	111	3
Total United States	45	10	5	60	1,606	1,666	65
Canada	4	3	3	10	411	421	19
France	—	—	—	—	718	718	40
U.K./Ireland	1	1	—	2	410	412	2
Central(1)	3	2	3	8	716	724	23
Southern(2)	21	5	7	33	314	347	45
Nordics(3)	2	—	—	2	89	91	—
Total Europe	27	8	10	45	2,247	2,292	110
Other	8	1	—	9	295	304	—
Total	$84	$22	$18	$124	$4,559	$4,683	$194

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

Note 8 – Inventories

The following is a summary of Inventories by major category:

	June 30, 2014	December 31, 2013
Finished goods	$902	$837
Work-in-process	68	60
Raw materials	107	101
Total Inventories	$1,077	$998

Note 9 – Investment in Affiliates, at Equity

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Fuji Xerox	$31	$33	$70	$77
Other investments	2	3	5	6
Total Equity in Net Income of Unconsolidated Affiliates	$33	$36	$75	$83

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Summary of Operations:				
Revenues	$2,707	$2,716	$5,728	$5,744
Costs and expenses	2,510	2,506	5,311	5,290
Income before income taxes	197	210	417	454
Income tax expense	67	64	125	125
Net Income	130	146	292	329
Less: Net income – noncontrolling interests	1	2	2	3
Net Income – Fuji Xerox	$129	$144	$290	$326
Weighted Average Exchange Rate[(1)]	102.13	98.56	102.41	95.45

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

Note 10 – Restructuring Programs

During the six months ended June 30, 2014, we recorded net restructuring and asset impairment charges of $65, which included approximately $69 of severance costs related to headcount reductions of approximately 2,200 employees worldwide, $2 of lease cancellations and $7 of asset impairments. These costs were offset by $13 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives.

Information related to restructuring program activity during the six months ended June 30, 2014 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments[2]	Total
Balance at December 31, 2013	$109	$7	$—	$116
Provision	69	2	7	78
Reversals	(11)	(2)	—	(13)
Net Current Period Charges[1]	58	—	7	65
Charges against reserve and currency	(71)	(3)	(7)	(81)
Balance at June 30, 2014	$96	$4	$—	$100

(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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Charges against reserve	$(40)	$(36)	$(81)	$(73)
Asset impairments	3	—	7	—
Effects of foreign currency and other non-cash items	1	1	2	—
Restructuring Cash Payments	$(36)	$(35)	$(72)	$(73)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Services	$4	$10	$14	$8
Document Technology	26	23	42	17
Other	8	—	9	—
Total Net Restructuring Charges	$38	$33	$65	$25

Note 11 – Debt

Senior Notes

In May 2014, we issued $400 of 2.8% Senior Notes due 2020 (the "2020 Senior Notes") at 99.956% of par and $300 of 3.8% Senior Notes due 2024 (the "2024 Senior Notes") at 99.669% of par, resulting in aggregate net proceeds of approximately $700. Interest on the Senior Notes are payable semi-annually. In connection with the issuances of these Senior Notes, debt issuance costs of approximately $5 were deferred. The proceeds were used for general corporate purposes which included repayment of a portion of our outstanding borrowings.

Credit facility

On March 18, 2014, we entered into an Amended and Restated Credit Agreement that extended the maturity date of our $2.0 billion unsecured revolving Credit Facility to March 18, 2019 from December 2016. The amendment also included modest improvements in pricing and minor changes in the composition of the group of lenders. The amended and restated Credit Facility retains certain provisions from the existing Credit Facility including the $300 letter of credit sub-facility and the accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed $2.75 billion. We also have the right to request a one year extension on each of the first and second anniversary of the amendment date.

We deferred $7 of debt issuance costs in connection with this amendment, which includes approximately $4 of unamortized deferred debt issue costs associated with the existing Credit Facility. The write-off of debt issuance costs associated with lenders that reduced their participation in the amended and restated Credit Facility was not material.

At June 30, 2014, we had no outstanding borrowings or letters of credit under our Credit Facility.

Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense[(1)]	$96	$104	$196	$208
Interest income[(2)]	101	118	203	237

(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 Payments on Debt

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

	Six Months Ended June 30,	
	2014	2013
Net proceeds (payments) on short-term debt	$45	$(348)
Proceeds from issuance of long-term debt	741	35
Payments on long-term debt[(1)]	(1,081)	(8)
Net Payments on Debt	$(295)	$(321)

(1) Includes current maturities.

Note 12 – 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

As of June 30, 2014, pay variable/receive fixed interest rate swaps with notional amounts of $300 and net asset fair value of $2 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 2014. We did not have any interest rate swaps outstanding at December 31, 2013.

The following is a summary of our fair value hedges at June 30, 2014:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Note 2021	2014	$300	$2	2.42 %	4.5 %	Libor	2021

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 purchased option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

- Foreign currency-denominated assets and liabilities
- Forecasted purchases and sales in foreign currency

Summary of Foreign Exchange Hedging Positions

At June 30, 2014, we had outstanding forward exchange and purchased option contracts with gross notional values of $3,118, which is reflective of the amounts that are normally outstanding at any point during the year. Approximately 71% of these contracts mature within three months, 21% in three to six months and 8% in six to twelve months.

The following is a summary of the primary hedging positions and corresponding fair values as of June 30, 2014:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[1]
Euro/U.K. Pound Sterling	$	