

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2012
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: _____ to: _____

Commission File Number 001-04471



XEROX CORPORATION

(Exact Name of Registrant as specified in its charter)

New York

(State of incorporation)

**P.O. Box 4505, 45 Glover Avenue,
Norwalk, Connecticut 06856-4505**

(Address of principal executive offices)

16-0468020

(IRS Employer Identification No.)

(203) 968-3000

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$1 par value	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2012 was \$10,287,686,280.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Outstanding at January 31, 2013</u>
Common Stock, \$1 par value	1,223,836,871

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

<u>Document</u>	<u>Part of Form 10-K in which Incorporated</u>
Xerox Corporation 2012 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2013 Annual Meeting of Shareholders and Proxy Statement (to be filed no later than 120 days after the close of the fiscal year covered by this report on Form 10-K)	III

FORWARD-LOOKING STATEMENTS

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K, which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; actions of competitors; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; our ability to recover capital investments; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk that our Services business could be adversely affected if we are unsuccessful in managing the ramp-up of new contracts; development of new products and services; our ability to protect our intellectual property rights; our ability to expand equipment placements; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; interest rates, cost of borrowing and access to credit markets; reliance on third parties for manufacturing of products and provision of services; our ability to drive the expanded use of color in printing and copying; the outcome of litigation and regulatory proceedings to which we may be a party; and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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PART I

ITEM 1. BUSINESS OVERVIEW

Xerox is the world's leading enterprise for business process and document management. We provide services, technology and expertise to enable our customers - from small businesses to large global enterprises - to focus on their core business and operate more effectively. The key areas in which we help businesses are:

Business Process Outsourcing: We are the largest worldwide diversified business process outsourcing company with an expertise in managing transaction-intensive processes. This includes services which support all enterprises through offerings such as customer care, finance and accounting and human resources, as well as vertically focused offerings in areas such as healthcare, transportation, retail and telecommunications, among others.

Information Technology Outsourcing: We specialize in designing, developing and delivering effective IT solutions that leverage our secure data centers, help desks and managed storage facilities around the world to provide a reliable IT infrastructure.

Document Technology and Document Outsourcing: Our document technology products and solutions support the work processes of our customers and provide them an efficient, cost effective printing and communications infrastructure. Our managed print services offering helps customers optimize the use of document systems across small businesses or large global enterprises.

We are a leader in a large, diverse and growing market estimated at over \$600 billion. The global **business process outsourcing** and **information technology outsourcing** markets are estimated at roughly \$250 billion each. These markets are very broad, encompassing horizontal business processes as well as industry specific-processes. The **document management** market is estimated at roughly \$130 billion. This market is comprised of the document systems, software, solutions and services that our customers have relied on for years to help run their businesses and reduce their costs. Xerox led the establishment of the managed print services market and continues as the industry leader today.

These market estimates are calculated by leveraging third party forecasts from firms such as Gartner and NelsonHall in conjunction with our assumptions about our markets.

Our Strategy and Business Model

We are well-positioned to lead in the markets in which we participate. At the heart of our strategy is the creation of sustained shareholder value through EPS growth and strong cash flow.

Our core strengths which drive our strategy include:

- **Our Brand** - We have a well-recognized and respected brand that is known by businesses worldwide for delivering industry-leading document technology, services and solutions. It continues to be ranked in the top percentile of the most valuable global brands.
- **Global Presence** - Our geographic footprint spans 160 countries and allows us to serve customers of all sizes to deliver superior technology and services regardless of complexity or number of customer locations.
- **Renowned Innovation** - We have a history of innovation and, with more than 11,500 active U.S. patents and five global research centers, we continue to lead the document technology industry and to take our technology into new service areas. See the "Innovation and RD&E" section for additional information about our renowned innovation.

- **Operational Excellence** - We have an operational excellence model that leverages our global delivery capabilities, production model, incentive-based compensation process, proprietary systems and financial discipline to deliver productivity and lower costs for our customers and for our business.

We use our core strengths and market opportunities to grow our businesses by executing on the following growth drivers:

- **Expand Globally** - We leverage our global presence and customer relationships to expand our BPO and ITO services internationally. The majority of our BPO and ITO revenues are currently derived from services provided to customers in the United States. In addition, we will continue to grow globally through acquisitions. Three of our 2012 acquisitions were made outside of the United States.
- **Capitalize on Advantaged Verticals** - Within our Services and Document Technology segments, we serve verticals in which we have deep expertise resulting from years of experience, strong customer relationships, large scale and our renowned innovation. Capitalizing on the opportunities that these strengths provide us will continue to be key to growth.

An example of an advantaged vertical is healthcare, where we have built a \$2 billion business that touches every aspect of the industry - government, provider, payer, employer and pharma. In addition, we apply our innovation to differentiate our offerings. As a result, we are positioned to capitalize on current industry trends, including the changes presented by health reform. We also view transportation, wireless communications and graphic communications, among others, as advantaged verticals in which we have a leading position, strong capabilities and attractive market opportunities.

- **Disciplined Management of Portfolio** - Xerox has the most broad and diverse set of offerings in the Services segment and the most complete product portfolio in the Document Technology business. Our acquisitions are targeted at businesses that will increase our Services capabilities, position us in attractive Services segments and provide us with a greater global presence. We will continue to focus on managing our portfolio to maximize profitable growth.
- **Leverage Document Technology Leadership** - Xerox is the market share leader in the Document Technology market. We led the establishment of the managed print services ("MPS") market and we continue to lead this area of market growth. Our MPS offerings continue to expand and now consist of a continuum of offerings that serve large enterprise down through small and mid-size businesses. In addition, we leverage our leadership in Document Technology to help grow our business process outsourcing and IT outsourcing businesses.
- **Expand Customer Relationships** - We expand customer relationships through a strategy of "penetrate and radiate". As we establish relationships, we prove our capabilities and then work with the customer to determine other areas where we can improve their operations and drive down costs by managing non-core parts of their business. Our wide array of Services offerings enables us to do this effectively and results in a win-win for Xerox and our customers.
- **Invest in New Services** - Our Services acquisitions are a key element of our strategy. We target companies that provide new capabilities, offer access to adjacent services areas or expand our geographic presence. We will continue to invest in new services to grow our business profitably.

Annuity-Based Business Model

Through our annuity-based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 84 percent of our 2012 total revenue was annuity-based revenue that includes contracted services equipment maintenance, consumable supplies and financing, among other elements. The remaining 16 percent of our revenue comes from equipment sales, either from lease agreements that qualify as sales for accounting purposes or outright cash sales.

Our strategy and business model fundamentals translate into the following 2013 priorities:

- Managing our Services business for growth;
- Maintaining our leadership in document Technology;
- Managing our business with a focus on operational excellence; and
- Delivering strong cash flow and returning value to shareholders.

Acquisitions

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

In July 2012 we acquired:

- **Wireless Data Services (“WDS”)**, a telecommunications technical support and consultancy firm headquartered in the U.K. WDS uses a proprietary cloud-based platform called GlobalMine™ to capture, analyze and manage millions of technical support interactions across thousands of different types of mobile devices.
- **Lateral Data**, a leading e-discovery technology provider based in the United States. Lateral Data's flagship software, Viewpoint™, brings simplicity and affordability to e-discovery by enabling corporate legal departments and law firms to manage the entire e-discovery lifecycle using a single, in-house solution.

In January 2012 we acquired:

- **LaserNetworks Inc.**, a provider of MPS solutions that include print device tracking, centralized service and supply management and document routing. LaserNetworks is headquartered in Canada.
- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our business process outsourcing capabilities across Europe.

Additionally, we made the following acquisitions consistent with our strategy to expand distribution to under-penetrated markets:

- In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, printers and MPS, with locations in seven cities in Iowa and Illinois.
- In addition, we enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Innovation and RD&E

Xerox has a rich heritage of innovation that continues to be a core strength of the company as well as a competitive differentiator. The Company's investments in innovation align with its growth opportunities in areas like business services, color printing and customized communication. Our overall aim is to create value for our customers, for our shareholders and for our people by influencing the future in certain key areas. Our research work can be categorized under four themes:

- **Implementing Agile Business Processes:** To enable true business process agility, our research aims to automate business processes via flexible platforms that run on robust and scalable infrastructures. Automation of business processes benefits from our research on image, video and natural language processing coupled with machine learning. Application of these methods to business processes enables technology to perform tasks that today are performed manually by workers, thus enhancing worker productivity.
- **Harvesting Knowledge from Information:** Information comes in two forms: structured, where the content sits tidily in searchable indices or in limiting databases; or unstructured, where content can be anything from photos, videos, hand-written forms, emails, etc. Unstructured information has endless growth and creates a need for businesses to be more effective in mining context from content. This is a key research area for us - making sense of unstructured information using natural language processing and semantic analysis. We explore how to better analyze information for human use by better understanding contextual detail on how the content has been created and used. We are also developing proprietary methods for predictive analytics applied to business processes.
- **Delivering the Value of Personalization:** Our research leads to technologies that improve the efficiency, economics and relevancy of business communications and printing applications. We research methods to create affordable ubiquitous color printing, leveraging our solid ink printing technology. We are also exploring ways to expand the application space of digital printing to cover new applications such as packaging printing and printing directly on mediums that go far beyond paper, like food and clothing.
- **Enabling the Sustainable Enterprise:** Our research also focuses on developing technologies that minimize the environmental impact of document systems and business processes. An example is how we are continually working on lowering the operating and standby power of our printing systems by using new materials and print processes.

Within this framework, one particular area of focus is data analytics - simplifying complex data to turn it into actionable knowledge - helping our customers drive operational efficiencies, guide decisions, yield new insights and help predict what is next. The following are a few ways in which we are achieving this:

- **Digital Nurse Assistant: improving the quality of healthcare and enhancing service to individuals**
With the overload of information and data in the workplace, often more time is spent wading through data than focusing on the task at hand. When information can be intelligently aggregated and grouped, time can be saved. In healthcare, nurses sometimes spend 75 percent of their day coordinating documents. One of the innovations we developed, Digital Nurse Assistant, collects and categorizes all patient information into a simple, touch-screen dashboard. This means that critical patient information is not in a computer or in a file somewhere, it's in the hands of the people who need it.
- **Mining Mobile Information**
GlobalMine™, a proprietary cloud based platform, captures, analyzes, and manages millions of technical support interactions across thousands of different mobile device types. This data helps telecommunications clients react, in real time, to any systems issues or customer satisfaction problems that their customers may be experiencing with their devices or service.

- **Making Transportation Information and Data Meaningful**

The millions of commuters who take public transportation also provide critical data about their daily habits and that can be used to optimize service and save money for cities. Xerox analytics use this information to provide cities with structured data, which becomes the basis for schedule and infrastructure improvements that are responsive to what their passengers need. This has resulted in increased ridership and lower costs in the cities in which it has been implemented.

Global Research Centers

We have five global research centers that have unique areas of focus and are places where creativity and entrepreneurship are truly valued and leadership has empowered employees to deliver, resulting in leading-edge research and high-impact innovations that make a difference in the world. Our research centers are as follows:

- **Palo Alto Research Center ("PARC")** - Located in Palo Alto California, PARC is a wholly owned subsidiary of Xerox that is focused on areas of innovation on behalf of Xerox in areas that include content-centric networking, intelligent mobile computing and intelligent automation. PARC also leverages its heritage as the birthplace of modern technologies to provide research and development for non-competitive businesses in areas that include UV-LEDs and ethnography services.
- **Xerox Research Centre of Canada ("XRCC")** - Located in Mississauga, Ontario Canada, XRCC is Xerox's materials research center with a focus on imaging and consumable materials, such as toner and inks, for our document technology.
- **Xerox Research Center Webster ("XRCW")** - Located in Webster New York, XRCW focuses on system design, imaging, computing and marking science. In addition, XRCW is now focused on innovation to help the healthcare industry.
- **Xerox Research Centre Europe ("XRCE")** - Located in Grenoble France, XRCE research differentiates Xerox business process service offerings. The center focuses on image, text and data analytics, business process modeling and the study and understanding of work practices.
- **Xerox Research Center India ("XRCI")** - Located in Chennai India, XRCI focuses on unique innovation opportunities that emerge in and best serve developing markets. As Xerox's newest research lab, XRCI has a broad mandate to foster innovation across the Company's document technology and business process services offerings.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest). We have aligned our R&D investment portfolio with our growth initiatives, including enhancing customer value by building on our Services leadership as well as accelerating our color leadership.

Our total research, development and engineering expenses (including sustaining engineering expenses, which are the hardware engineering and software development costs incurred after we launch a product) totaled \$655 million in 2012, \$721 million in 2011 and \$781 million in 2010. Fuji Xerox R&D expenses were \$860 million in 2012, \$880 million in 2011 and \$821 million in 2010.

Segment Information

Our reportable segments are Services, Document Technology and Other. We present operating segment financial information in Note 2 - Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. We have a very broad and diverse base of customers by both geography and industry, ranging from small and midsize businesses ("SMBs") to graphic communications companies, governmental entities, educational institutions and Fortune 1000 corporate accounts. None of our business segments depends upon a single customer, or a few customers, the loss of which would have a material adverse effect on our business.

Revenues by Business Segment

Our Services segment is the largest segment within the company, with \$11,528 million in revenue in 2012, representing 52 percent of total revenue. The Document Technology segment contributed \$9,462 million in revenue, representing approximately 42 percent of total revenue, while the Other segment represented \$1,400 million in revenue representing approximately 6 percent of total revenue.

Services Segment

Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Information Technology Outsourcing ("ITO") and Document Outsourcing ("DO"). We provide non-core, mission-critical services that our clients need to run their day-to-day business. These services help our clients simplify the way work gets done, giving them more time and resources to allocate to their core operations, respond rapidly to changing technologies and reduce expenses associated with their business processes and information technology support.

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with an expertise in transaction-intensive offerings tailored for several industries. BPO represented 57 percent of our total Services segment revenue in 2012. Our services include:

- **Government Healthcare Solutions:** This business serves state and federal-funded government healthcare programs. We provide a broad range of solutions, from processing Medicaid claims to pharmacy benefits management, clinical program management, supporting health information exchanges, eligibility application processing and determination, delivering public and private health benefit exchange services and care and quality management. We have been delivering these systems since 1971 and we apply our deep knowledge of the Medicaid system, along with technological advances, to simplify and automate transactional-intensive processes. As a result, we are uniquely positioned to capitalize on the opportunities that health care reform is presenting.
- **Healthcare Payer and Pharma:** We deliver administrative efficiencies to our healthcare payer clients through our scalable and flexible transactional business solutions, which encompass both our global delivery model and domestic payer service centers. Services include data capture, claims processing, customer care, recovery services and healthcare communications. No competitor has offerings in all of these areas.
- **Healthcare Provider Solutions:** We provide consulting solutions, revenue cycle management and application services that are customized to meet the varying and changing needs of healthcare providers. We serve every large health system in the United States, with contracts in all 50 states. We also help our clients improve care through an analytics solution designed to provide clinical staff information.
- **Human Resources Services ("HRS"):** From actuarial expertise to full range of human resources consulting - from employee service centers to learning, retirement, health and welfare services - HRS delivers game-changing, innovative solutions that enable our clients to focus on their business. We differentiate ourselves around two themes of innovation: engagement and enablement. We help HR departments engage employees as individuals by communicating to them with personalized messages and enabling employees to get smarter about managing their own health, wealth and career outcomes.

- **Financial Services:** We provide finance and accounting services for any industry - from accounting to billing to procurement to accounts payable and receivable to tax management. In addition, we provide outsourcing of financial aid and enrollment office operations for colleges and universities and back-room functions such as customer services, transaction processing and mailroom operations for the financial services industry. We have a deep understanding of what drives the customer and we move beyond simply driving down costs.
- **Customer Care:** Xerox is the largest domestic customer care provider to the Wireless Telecom industry. We have years of experience in providing customer care services that improve our customers' productivity, efficiency and customer retention in telecommunications as well as a variety of other industries. Our customer care offerings include: customer service, sales, technical support, transaction processing, fulfillment and managed mobility services, among others.
- **Retail, Travel and Insurance:** We provide technology-based transactional services for retail, travel and non-healthcare insurance companies. We handle their data entry, mailrooms, imaging input and hosting, call centers and help desk with targeted industry focus.
- **Transportation Solutions:** We provide revenue-generating solutions in over 30 countries. Our solutions include fare collection, toll and parking solutions, and monitoring of red light cameras. We differentiate through the breadth of our offerings and innovative technology. For example, we developed dynamic pricing algorithms, which will be used in the new Los Angeles ExpressPark program. This program will create a new pricing system designed to relieve traffic congestion, reduce air pollution and improve the efficiency of downtown LA's transit operations.
- **Government Solutions:** We support our government clients with solutions for child support payment processing, tax and revenue systems, eligibility systems and services, electronic payments transfer, electronic payment cards and unclaimed property services, among others. Our competitive advantage is our depth of local expertise while at the same time having the scale required to deliver and manage multiple programs for federal, state, county and town governments.

Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Our secure data centers, help desks and managed storage facilities around the world provide a reliable IT infrastructure that minimizes the risk of disruption to our clients' daily operations. ITO represented 12 percent of our total Services segment revenue in 2012.

We provide our ITO services across several verticals. Our ITO services include:

- **Mainframe and Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services. We provide a 24/7 support organization that maintains a unified set of tools and processes to support our clients' IT environments, including systems administration, database administration, systems monitoring, batch processing, data backup and capacity planning.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **Desktop Outsourcing:** Our desktop services provide our clients with a comprehensive approach to managing their end-user platforms and devices. We design and execute desktop management strategies that address and resolve issues such as enterprise bandwidth constraints, unstable computing environments, areas of insecurity and unavailable network resources.

- **Cloud Services:** Our cloud services solutions cover the full range from infrastructure, mobility, collaboration and platform. We designed our solutions to quickly scale up or down and fit different business needs. These solutions are delivered through our cloud-based, multi-tenant infrastructure with compliance, monitoring and performance transparency built in.

In addition, we provide Remote Infrastructure Management, Help Desk/Service Desk Management, Managed Storage, Utility Computing, Disaster Recovery and Security Services.

Document Outsourcing

We are the industry leader in document outsourcing services, with more than 20 years experience and 15,000 business professionals across 160 countries. We help companies optimize their printing infrastructure and simplify their communication and business processes to grow revenue, reduce costs and operate more efficiently. DO represented 31 percent of our total Services segment revenue in 2012. Our two primary offerings within Document Outsourcing are Managed Print Services and Communication and Marketing Services.

- **Managed Print Services ("MPS"):** Xerox MPS optimizes, rationalizes and manages the operations of Xerox and non-Xerox print devices, driving efficiencies that can save clients up to 30 percent on their document-related costs. We provide the most comprehensive portfolio of MPS services in the industry, supporting small-and midsize businesses up through large global enterprises.

The key factors that differentiate us include our commitment to innovation and technology, including our cloud-based connectivity and integrated suite of software tools, as well as our global direct and channel partner coverage and certification programs. In addition, the industry's broadest portfolio of printing products sets us apart from our competition. We are recognized as an industry leader by several major analyst companies, including Gartner, IDC, Quocirca and Forrester.

We also partner with industry leaders to enhance our solutions. As an example, we recently selected Cisco's Unified Computing System ("UCS") to support our network of cloud-based MPS delivery centers around the world and speed up the connection between data servers and the more than one million Xerox and non-Xerox print devices we manage. As a result, customers experience a faster, more reliable delivery of MPS applications and we stay ahead of their needs by utilizing the data we collect to continually recommend new ways to simplify the way they work with both paper and digital documents.

The Xerox MPS continuum complements and provides opportunities to expand existing BPO and ITO services. Within BPO accounts, Xerox MPS helps to improve workflow and enhance employee productivity. In ITO accounts, MPS complements the client IT services that we are currently managing and positions Xerox as a complete IT services provider.

- **Communication & Marketing Services ("CMS"):** CMS delivers end-to-end outsourcing for design, communications, marketing, logistics and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through traditional routes, such as print, but also through a growing number of multimedia channels including SMS, Web, email and mobile media.

We help our clients identify how their customers want to be engaged, tailor their content, translate it, personalize their communication, decide on the appropriate channel, execute on campaigns and measure the resulting success.

Our advantage results from the breadth of our capabilities and our service-orientated approach that provides a single, seamless service for all communication and marketing logistics.

Document Technology Segment

Document Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (that which is not related to document outsourcing contracts). Our Document Technology business is centered around strategic product groups that share common technology, manufacturing and product platforms.

Our strategic product groups are as follows:

Entry

Entry comprises products sold primarily to small and midsize businesses through a worldwide network of independent resellers and online merchants. Our entry products represented 22 percent of our total Document Technology segment revenue in 2012. It includes desktop monochrome and color printers and multifunction printers ("MFPs") ranging from small personal devices to larger workgroup printers designed to serve the needs of demanding office users. In 2012, we continued to build on our position in the market by:

- Making high-quality desktop color more affordable and easier to use for all businesses;
- Expanding our channel reach, partner programs and capacity to support the needs of small to midsize businesses in our customers' preferred buying locations; and
- Launching products and solutions that help individuals, small work teams, large workgroups or whole departments achieve their business goals.

In 2012, we added the following products:

- **ColorQube® family multifunction printers:** Based on Xerox solid ink technology, the ColorQube 8700 and ColorQube 8900 multifunction printers provide cost savings and color quality for small and midsize businesses. In addition, they have the ability to expand into a floor device with extra paper capacity and helpful finishing options.
- **WorkCentre® 3315 and WorkCentre® 3325:** These high-performance monochrome products feature a print speed of up to 37 pages per minute and a first-page-out time of 6.5 seconds. The WorkCentre 3325 also comes standard with internal Wi-Fi connectivity and the latest security features. Both devices feature a small footprint, allowing for easy integration within customer work environments.
- **Phaser® 7100 Color Printer:** This printer produces exceptional print quality on a wide variety of media - including oversize paper. The Phaser 7100 can be used either on a desktop or as a floor device with print speeds of up to 30 pages per minute and simple printer management with CentreWare Internet service.
- **The WorkCentre® 6605 and Phaser® 6600 printers:** These devices provide vibrant color output for smaller businesses and feature Print resolution of up to 600 X 600 X 4 dpi and color and black-and-white print speeds of up to 36 ppm.

Mid-range

Mid-range comprises products sold to enterprises of all sizes, principally through dedicated Xerox-branded partners and our direct sales force, indirect multi-branded channel partners and resellers worldwide. Our mid-range products represented 58 percent of our total Document Technology segment revenue in 2012. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features. In 2012, our mid-range business continued to build on our position in the market by:

- Making high-quality color more affordable and easier to use for small and mid-size businesses and large enterprises;
- Expanding our channel reach, partner programs and capacity to support the needs of the SMB market; and
- Offering a complete range of services and solutions in partnership with independent software partners that allow our customers to analyze, streamline, automate, secure and track document workflows.

The breadth of our Mid-range product portfolio is unmatched. These products include:

- **Xerox WorkCentre® 7525, 7530, and 7535:** These multifunction printers are equipped with features to help small and midsize businesses boost productivity and meet their sustainability goals. They offer speeds up to 25, 30 and 35 ppm color and black-and-white. The MFPs, which can print, copy, scan, fax and email, include advanced document management and workflow tools to make office work easier and also offer unparalleled ease of use and security features. In addition, the Hi-Q LED print engine technology consumes less energy and space and produces less noise, while printing resolutions of 1200 x 2400 dpi.
- **Xerox ColorQube® 9301/9302/9303:** The ColorQube™ 9300 Series combines Xerox's solid ink innovation with our legacy of advanced multifunction product leadership. This results in a multifunction printer that produces vivid color quality that is affordable and produces significantly less printing waste versus comparable color laser devices. The device copies and prints at speeds up to 55 ppm color and 60 ppm black-and-white, while increasing productivity even further with speeds up to 85 ppm in Fast Color mode for draft or short-life documents.
- **Xerox WorkCentre® 5325/5330/5335:** The highly modular WorkCentre 5300 series black-and-white MFP serves both small and midsize businesses as well as enterprise office environments. Its customizable workflow solutions help customers in document-intensive industries such as legal, health care and financial make their daily tasks more efficient.
- **Xerox D95/110/125 Copier/Printer:** This device offers production print, copy, scan and advanced finishing capabilities for pay-for-print shops and centralized reprographic departments in addition to education, healthcare and many other industries. With industry leading speeds of up to 125 ppm, this D95/110/125 Copier/Printer helps customers increase productivity and reduce costs.

High-end

Our High-end digital color and monochrome solutions are designed for customers in the graphic communications industry and for large enterprises. Our high-end products comprised 20 percent of our total Document Technology segment revenue in 2012. These devices enable digital on-demand printing, full-color printing and enterprise printing. We continue to expand our portfolio of cut sheet and continuous feed offerings in both toner and inkjet products. Our hardware and our integrated solutions such as automated in-line finishing result in “touch less” workflows (with little to no manual processing or human intervention) allow Xerox customers to produce more jobs and grow their business.

For more than two decades, Xerox has delivered innovative technologies that have revolutionized the production printing industry, maintaining our position as the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2012 with the launches of:

- **Xerox iGen® 150:** In May at drupa, we introduced our latest iGen product. The iGen 150 builds on the capabilities of the iGen4 with a number of new feature sets. The fastest cut sheet product in the production color fleet prints at 150 A4 ppm. In addition, we included a new 26” internal stacker to maximize output of the largest sheet size in the industry. A number of automated color management tools help enable productivity and our latest finishing solution, Integrated Plus, makes the production of booklets simpler.
- **Xerox Nuvera® 157 & 314:** At Graph Expo in October, we introduced the latest members of the Xerox Nuvera family, the Xerox Nuvera 157 and tandem engine 314 black-and-white production products. These products build on the success of the Nuvera family and offer new speed levels and functionality. The top speed of the single engine is increased to 157 ppm and to 314 images per minute in the tandem configuration. These devices also contain a new production stacking system that delivers neat output stacks at waist level that can be unloaded as the engine continues to print.
- **FreeFlow® Digital Workflow:** Our FreeFlow digital workflow is a collection of software technology solutions that our customers can use to improve all aspects of their processes, from content creation and management to production and fulfillment. Our digital technology combined with total document solutions and services that enable personalization and printing on demand, delivers value that improves our customers' business results.

Other Segment

The Other segment primarily includes revenue from paper sales, wide-format systems, network integration solutions and electronic presentation systems from Global Imaging Systems. Paper comprised approximately 59 percent of the revenues in the Other segment in 2012.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 34 percent of our revenue is generated by customers outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand our Services business in Europe and developing markets.

In 2012, our revenues by geography were as follows: United States: \$14,701 million (66% of total revenue), Europe: \$5,111 million (23% of total revenue) and Other areas: \$2,578 million (11% of total revenue). Revenues by geography are based on the location of the unit reporting the revenue and includes export sales.

Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,215 U.S. utility patents in 2012. On that basis, we would rank 20th on the list of companies that were awarded the most U.S. patents during the year. Including our research partner Fuji Xerox, we were awarded about 1,900 U.S. utility patents in 2012. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2012, we held more than 11,500 U.S. design and utility patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated or circumvented, or may not provide significant competitive advantages.

In the U.S., we are party to numerous patent-licensing agreements and, in a majority of them, we license or assign our patents to others in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2012, we added 11 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in all 11 of the agreements. We are also a party to a number of cross-licensing agreements with companies that hold substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett-Packard, Océ, Sharp, Samsung, Seiko Epson and Toshiba TEC. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 500 U.S. trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every 10 years. We vigorously enforce and protect our trademarks.

Marketing and Distribution

We operate in over 160 countries worldwide and provide the industry's broadest portfolio of document technology, services and software, and the most diverse array of business processes and IT outsourcing support through a variety of distribution channels around the world. We manage our business based on the principal segments described earlier. We have organized the marketing, selling and distribution of our products and services by geography, channel type and line of business.

We go to market with a Services-led approach and sell our products and services directly to customers through our world-wide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web. In addition, our wholly-owned subsidiary, Global Imaging Systems ("GIS"), an office technology dealer which is comprised of regional core companies in the United States, sells and services document management systems, network integration devices and electronic presentation systems.

For small and mid-size business, we continued to expand our distribution in 2012 as GIS acquired four companies. Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands.

In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, and related non-U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties distributing our products in Sudan and Syria. Sudan and Syria, among others, have been designated as state sponsors of terrorism by the U.S. Department of State and are subject to U.S. economic sanctions. We maintain an export and sanctions compliance program and believe that we have been and are in compliance with U.S. laws and government regulations for these countries. We have no assets, liabilities or operations in these countries other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan and Syria in August 2006. Now, Xerox has only legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2012, total Xerox revenues of \$22.4 billion included less than \$35 thousand attributable to Sudan and Syria.

Competition

Although we encounter competition in all areas of our business, we are the leader or among the leaders in each of our principal business segments. We compete on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support.

In the Services business, our larger competitors include Accenture, Aon, Computer Sciences Corporation, Convergys, Dell, Genpact, Hewlett-Packard, IBM and Teletech. In addition, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

In the Document Technology business, our larger competitors include Canon, Hewlett-Packard, Kodak, Konica Minolta, Lexmark, and Ricoh.

Our brand recognition, positive reputation for business process and document management, innovative technology and service delivery are our competitive advantages. This combined with our breadth of product offerings, global distribution channels, and customer relationships positions us as a strong competitor going forward.

Global Employment

Globally, we have approximately 147,600 direct employees, including approximately 7,100 sales professionals, approximately 11,300 technical service employees and approximately 100,000 employees serving our customers through on-site operations or off-site delivery centers.

Customer Financing

We finance a large portion of our direct channel customer purchases of Xerox equipment through bundled lease agreements. Financing facilitates customer acquisition of Xerox technology and enhances our value proposition, while providing Xerox an attractive gross margin and a reasonable return on our investment in this business. Additionally, because we primarily finance our own products and have a long history of providing financing to our customers, we are able to minimize much of the risk normally associated with a finance business.

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand, proceeds from capital market offerings and the sale of selected U.S. finance receivables. At December 31, 2012, we had \$5.3 billion of finance receivables and \$0.5 billion of equipment on operating leases, or Total Finance assets of \$5.8 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in a significant portion of our \$8.5 billion of debt being associated with our financing business.

Manufacturing and Supply

Our manufacturing and distribution facilities are located around the world. The company's largest manufacturing site is in Webster, NY, where we produce fusers, photoreceptors, Xerox iGen and Nuvera[®] systems, components, consumables and other products. We also have an EA Toner plant located in Webster. Our other primary manufacturing operations are located in: Dundalk, Ireland, for our High-end production products and consumables; and Wilsonville, OR, for solid ink products, consumable supplies and components for our Mid-range and Entry products. We also have a facility in Venray, Netherlands, which handles supplies manufacturing and supply chain management for the Eastern Hemisphere.

Our master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Mid-range and Entry businesses, continues through 2014. We also acquire products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements.

We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. Refer to Note 8 - Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2012 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

Our global services production model is one of our key competitive advantages. We have approximately 120 Strategic Delivery Centers located around the world including India, Mexico, Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. These locations are comprised of Customer Care Centers, Mega IT Data Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. Our global production model is enabled by the use of proprietary technology, which allows us to securely distribute client transactions within data privacy limits across a global workforce. This global production model allows us to leverage lower-cost production locations, consistent methodology and processes and time zone advantages.

Fuji Xerox

Fuji Xerox is an unconsolidated entity in which we own a 25 percent interest and FUJIFILM Holdings Corporation ("FujiFilm") owns a 75 percent interest. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong, other areas of the Pacific Rim, Australia and New Zealand. We retain significant rights as a minority shareholder. Our technology licensing agreements with Fuji Xerox ensure that the two companies retain uninterrupted access to each other's portfolio of patents, technology and products.

International Operations

We are incorporating by reference the financial measures by geographical area for 2012, 2011 and 2010 that are included in Note 2 - Segment Reporting in the Consolidated Financial Statements in our 2012 Annual Report. See also the risk factor entitled "Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes" in Part I, Item 1A of our 2012 Form 10-K.

Backlog

Backlog, or the value of unfilled orders, is not a meaningful indicator of future business prospects because of the significant proportion of our revenue that follows contract signing and/or equipment installation, the large volume of products we deliver from shelf inventories and the shortening of product life cycles.

Seasonality

Our technology revenues are affected by such factors as the introduction of new products, the length of sales cycles and the seasonality of technology purchases. These factors have historically resulted in lower revenue in the first quarter and the third quarter.

Other Information

Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505. Our telephone number is (203) 968-3000.

In the Investor Information section of our Internet website, you will find our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the Securities and Exchange Commission.

Our Internet address is www.xerox.com.

ITEM 1A. RISK FACTORS

Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes.

A significant portion of our revenues are generated from operations outside the United States. In addition, we maintain significant operations and acquire or manufacture many of our products and/or their components, outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates - particularly the Japanese Yen to U.S. Dollar and Japanese Yen to Euro exchange rates, as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.

We face significant competition and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. Our competitors range from large international companies to relatively small firms. Some of the large international companies have significant financial resources and compete with us globally to provide document processing products and services and/or business process services in each of the markets we serve. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve and to expand into additional market segments. To remain competitive, we must develop services, applications and new products; periodically enhance our existing offerings and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our profitability is dependent upon our ability to obtain adequate pricing for our products and services and to improve our cost structure.

Our success depends on our ability to obtain adequate pricing for our services and products and which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our services and products may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our services and products, it could materially adversely affect our results of operations and financial condition.

We continually review our operations with a view towards reducing our cost structure, including but not limited to reducing employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We from time to time engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions, it could materially adversely affect our results of operations and financial condition.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as Lean Six Sigma, the level of pricing pressures on our services and products, the proportion of high-end as opposed to low-end equipment sales, the trend in our post-sale revenue growth and our ability to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve productivity improvements through design efficiency, supplier and manufacturing cost improvements and information technology initiatives, our ability to offset labor cost inflation, potential materials cost increases and competitive price pressures would be impaired, all of which could materially adversely affect our results of operations and financial condition.

For our services contracts, we rely to a significant extent on third-party providers, such as subcontractors, a relatively small number of primary software vendors, utility providers and network providers; if they cannot deliver or perform as expected or if our relationships with them are terminated or otherwise change, our business, results of operations and financial condition could be materially adversely affected.

Our ability to service our customers and clients and deliver and implement solutions depends to a large extent on third-party providers such as subcontractors, a relatively small number of primary software vendors and utility providers and network providers meeting their obligations to us and our expectations in a timely, quality manner. Our business, revenues, profitability and cash flows could be materially and adversely affected and we might incur significant additional liabilities if these third-party providers do not meet these obligations or our expectations or if they terminate or refuse to renew their relationships with us or were to offer their products to us with less advantageous prices and other terms than we previously had. In addition, a number of our facilities are located in jurisdictions outside of the United States where the provision of utility services, including electricity and water, may not be consistently reliable and, while there are backup systems in many of our operating facilities, an extended outage of utility or network services could have a material adverse effect on our operations, revenues, cash flow and profitability.

Our ability to recover capital investments in connection with our contracts is subject to risk.

In order to attract and retain large outsourcing contracts, we sometimes make significant capital investments to enable us to perform our services under the contracts, such as purchases of information technology equipment and costs incurred to develop and implement software. The net book value of such assets recorded, including a portion of our intangible assets, could be impaired, and our earnings and cash flow could be materially adversely affected in the event of the early termination of all or a part of such a contract or a reduction in volumes and services thereunder for reasons such as, among other things, a customer's or client's merger or acquisition, divestiture of assets or businesses, business failure or deterioration, or a customer's or client's exercise of contract termination rights.

Our government contracts are subject to termination rights, audits and investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts.

A significant portion of our revenues are derived from contracts with U.S. federal, state and local governments and their agencies, as well as international governments and their agencies. Governments and their agencies may have the right to terminate many of these contracts at any time without cause. These contracts, upon their expiration or termination, are typically subject to a bidding process in which Xerox may not be successful. Also, our contracts with governmental entities are generally subject to the approval of annual appropriations by the United States Congress or other legislative/governing bodies to fund the expenditures of the governmental entities under those contracts. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government finds that we improperly charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. If the government discovers improper or illegal activities in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, the negative publicity that arises from findings in such audits, investigations or the penalties or sanctions therefore could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our services business could be adversely affected if we are unsuccessful in managing the ramp-up of new contracts.

In order for our services business to continue its growth, we must successfully manage the ramp-up of services related to new contracts. If a client is not satisfied with the quality of work performed by us or a subcontractor, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. We could also trigger contractual credits to clients or a contractual default. Failure to properly transition new clients to our systems, properly budget transition costs or accurately estimate new contract operational costs could result in delays in our contract performance, trigger service level penalties, impair fixed or intangible assets or result in contract profit margins that do not meet our expectations or our historical profit margins.

If we fail to successfully develop new products, technologies and service offerings and protect our intellectual property rights, we may be unable to retain current customers and gain new customers and our revenues would decline.

The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. In developing these new technologies and products, we rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. However, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect our competitive position. In addition, some of our products rely on technologies developed by third parties. We may not be able to obtain or to continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and newly enacted regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers' needs through the development of new products, technologies and service offerings or if we fail to adequately protect our intellectual property rights or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our operating results may be negatively impacted by lower equipment placements and usage trends.

Our ability to maintain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be further enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, enterprise managed print services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct and indirect sales productivity and expand our indirect distribution channels in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix of color pages, equipment utilization and color adoption, as well as our ability to retain a high level of supplies sales in unbundled contracts. Equipment placements typically occur through leases with original terms of three to five years. There will be a lag between the increase in equipment placement and an increase in post sale revenues. The ability to grow our customers' usage of our products may continue to be adversely impacted by the movement toward distributed printing and electronic substitutes and the impact of lower equipment placements in prior periods. If we are unable to maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

We are subject to United States and foreign jurisdiction laws relating to individually identifiable information, and failure to comply with those laws, whether or not inadvertent, could subject us to legal actions and negatively impact our operations.

We receive, process, transmit and store information relating to identifiable individuals, both in our role as a service provider and as an employer. As a result, we are subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations designed to protect individually identifiable information, including social security numbers and financial and health information, as well as laws that regulate how we can obtain and use such information. For example, in 1996, Congress passed the Health Insurance Portability and Accountability Act and as required therein, the Department of Health and Human Services established regulations governing, among other things, the privacy, security and electronic transmission of individually identifiable health information. We have taken measures to comply with each of those regulations on or before the required dates. Another example is the European Union Directive on Data Protection, entitled "Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data." We have also taken steps to address the requirements of that Directive. Other United States (both federal and state) and foreign jurisdiction laws apply to the processing of individually identifiable information as well and additional legislation may be enacted at any time. Failure to comply with these types of laws may subject us to, among other things, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process information and allegations by our customers and clients that we have not performed our contractual obligations, any of which may have a material adverse effect on our profitability and cash flow.

We are subject to breach of our security systems.

We have implemented security systems with the intent of maintaining the physical security of our facilities and protecting our, our customers', clients' and suppliers' confidential information and information related to identifiable individuals against unauthorized access through our information systems or by other electronic transmission or through the misdirection, theft or loss of physical media. These include, for example, the appropriate encryption of information. Despite such efforts, we are subject to breach of security systems which may result in unauthorized access to our facilities and/or the information we are trying to protect. If unauthorized parties gain physical access to one of our facilities or electronic access to our information systems or such information is misdirected, lost or stolen during transmission or transport, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers and clients that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow.

Our ability to fund our customer financing activities at economically competitive levels depends on our ability to borrow and the cost of borrowing in the credit markets.

The long-term viability and profitability of our customer financing activities is dependent, in part, on our ability to borrow and the cost of borrowing in the credit markets. This ability and cost, in turn, is dependent on our credit ratings and is subject to credit market volatility. We primarily fund our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings, sales and securitizations of finance receivables and commercial paper borrowings. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

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

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels, these related risks could increase.

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

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets and funding from third parties. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). At December 31, 2012, we were in full compliance with the covenants and other provisions of the Credit Facility. Failure to comply with material provisions of or covenants in the Credit Facility could have a material adverse effect on our liquidity, results of operations and financial condition.

We have outsourced a significant portion of our overall worldwide manufacturing operations and face the risks associated with relying on third-party manufacturers and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing operations to third parties and various service providers. To the extent that we rely on third-party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming similar third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage our relationships with our customers and reduce our market share, all of which could materially adversely affect our results of operations and financial condition.

We need to develop and expand the use of color printing and copying.

Increasing the proportion of pages that are printed in color and transitioning color pages currently produced on offset devices to Xerox technology represent key growth opportunities. A significant part of our strategy and ultimate success in this changing market is our ability to develop and market technology that produces color prints and copies quickly, easily, with high quality and at reduced cost. Our future success in executing on this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market, as well as the pace of color adoption by our existing and prospective customers. If we are unable to develop and market advanced and competitive color technologies or the pace of color adoption by our existing and prospective customers is less than anticipated, or the price of color pages declines at a greater rate and faster pace than we anticipate, we may be unable to capture these opportunities and it could materially adversely affect our results of operations and financial condition.

Our business, results of operations and financial condition may be negatively impacted by legal and regulatory matters.

We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act ("ERISA"), as discussed in the "Contingencies" note in the Consolidated Financial Statements. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted or are expected to adopt restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition. Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products and other environmentally related programs impacting products and operations, such as those associated with climate change accords, agreements and regulations. For example, the European Union's Energy-Related Products Directive ("ERP") is expected to lead to the adoption of "implementing measures" intended to require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. It is possible that some or all of our products may be required to comply with ERP implementing measures. Another example is the European Union "REACH" Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that requires parties throughout the supply chain to register, assess and disclose information regarding many chemicals in their products. Depending on the types, applications, forms and uses of chemical substances in various products, REACH could lead to restrictions and/or bans on certain chemical usage. Xerox continues its efforts toward monitoring and evaluating the applicability of these and numerous other regulatory initiatives in an effort to develop compliance strategies. As these and similar initiatives and programs become regulatory requirements throughout the world and/or are adopted as public or private procurement requirements, we must comply or potentially face market access limitations that could have a material adverse effect on our operations and financial condition. Similarly, environmentally driven procurement requirements voluntarily adopted by customers in the marketplace (e.g., U.S. EPA EnergyStar) are constantly evolving and becoming more stringent, presenting further market access challenges if our products fail to comply.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We own several manufacturing, engineering and research facilities and lease other facilities. Our principal manufacturing and engineering facilities, located in New York, California, Oklahoma, Oregon, Canada, U.K., Ireland and the Netherlands, are used primarily by the Document Technology Segment. Our principal research facilities are located in California, New York, Canada, France and India. The research activities in our principal research centers benefit all of our operating segments. We lease and own several facilities worldwide to support our Services segment with larger concentrations of space in Texas, Kentucky, New Jersey, California, Mexico, Philippines, Jamaica and India. Our Corporate Headquarters is a leased facility located in Norwalk, Connecticut.

As a result of implementing our restructuring programs, (refer to Note 10 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements in our 2012 Annual Report, incorporated by reference), several leased and owned properties became surplus. We are obligated to maintain our leased surplus properties through required contractual periods. As of December 31, 2012, we have two remaining properties in surplus in Monrovia, California and Rampur, India. The facility in Monrovia has been subleased and the facility in Rampur has been sold pending receipt of a final 50% cash deferred payment.

We acquired approximately 23 leased properties totaling approximately 378,000 square feet in 2012 through mergers and acquisitions.

We also own or lease numerous facilities globally, which house general offices, sales offices, service locations, data centers, call centers and distributions centers. It is our opinion that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform their functions. We believe that our current facilities are suitable and adequate for our current businesses.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the "Contingencies" note in the Consolidated Financial Statements, of the Xerox Corporation 2012 Annual Report is hereby incorporated by reference.

Part II

ITEM 5 — MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

The information set forth under the following captions of the Xerox Corporation 2012 Annual Report to Shareholders is hereby incorporated by reference:

- Stock Exchange Information
- Xerox Common Stock Prices and Dividends
- Five Years in Review - Common Shareholders of Record at Year-End
- Performance Graph

(a) Sales of Unregistered Securities During the Quarter Ended December 31, 2012

During the quarter ended December 31, 2012, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the "Act").

Dividend Equivalent

- (a) Securities issued on October 31, 2012: Registrant issued 4,139 deferred stock units ("DSUs"), representing the right to receive shares of Common stock, par value \$1 per share, at a future date.
- (b) No underwriters participated. The shares were issued to each of the non-employee Directors and one retired Director of Registrant: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese, Sara Martinez Tucker and Mary Agnes Wilderotter.
- (c) The DSUs were issued at a deemed purchase price of \$7.315 per DSU (aggregate price \$30,277), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.
- (d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2012

Repurchases of Xerox Common Stock, par value \$1 per share include the following:

Board Authorized Share Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Approximate Dollar Value of Share That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1 through 31	13,044,987	\$ 7.26	13,044,987	\$ 548,454,665
November 1 through 30	20,999,340	6.44	20,999,340	1,413,120,094
December 1 through 31	14,924,318	6.95	14,924,318	1,309,348,335
Total	48,968,645		48,968,645	

(1) Exclusive of fees and costs.

(2) In October 2012, the Board of Directors authorized an additional \$1 billion in share repurchase. Of the cumulative \$6.0 billion of share repurchase authority granted by our Board of Directors, exclusive of fees and expenses, approximately \$4.7 billion has been used through December 31, 2012. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs⁽¹⁾:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
October 1 through 31	24,343	\$ 7.35	n/a	n/a
November 1 through 30	—	—	n/a	n/a
December 1 through 31	8,078	6.81	n/a	n/a
Total	<u>32,421</u>			

(1) These repurchases are made under a provision in our restricted stock compensation programs for the indirect repurchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

(2) Exclusive of fees and costs.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2012, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2012 Annual Report to Shareholders, is incorporated by reference in this Form 10-K.

Revenues

Income from continuing operations

Per-share data:

- Income from continuing operations - Basic and Diluted
- Earnings - Basic and Diluted

Common stock dividends

Total assets

Long-term debt

Liability to subsidiary trust issuing preferred securities

Series A convertible preferred stock

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Xerox Corporation 2012 Annual Report is hereby incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption "Financial Risk Management," in the Xerox Corporation 2012 Annual Report is hereby incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, included in the Xerox Corporation 2012 Annual Report, are incorporated by reference in this Form 10-K. With the exception of the aforementioned information and the information incorporated in Items 1, 3, 5, 6, 7, 7A and 8, the Xerox Corporation 2012 Annual Report is not to be deemed filed as part of this Form 10-K.

The quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" of the Xerox Corporation 2012 Annual Report is incorporated by reference in this Annual Report on Form 10-K.

The financial statement schedule required herein is filed as referenced in Item 15 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of December 31, 2012, our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and was accumulated and communicated to the Company's Management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2012 Annual Report to Shareholders which is incorporated by reference in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Principal Accounting Officer

On February 19, 2013, Registrant was informed that its Principal Accounting Officer, Gary R. Kabureck, will retire as Vice President and Chief Accounting Officer of Xerox Corporation effective March 31, 2013. Kabureck is a 28 year employee of Xerox. He will become a Board Member of the International Accounting Standards Board.

Effective April 1, 2013, Joseph H. Mancini, Jr. will become Vice President and Chief Accounting Officer of Xerox Corporation and will become Registrant's Principal Accounting Officer. A 23 year employee of Xerox, Mancini has held a number of senior finance roles including leading Xerox's mergers & acquisitions organization and serving as

Chief Financial Officer for Xerox's Document Technology business.

Executive Compensation

On February 20, 2013, the Compensation Committee of the Board of Directors of the Company took the following actions:

2012 and 2013 Annual Performance Incentive Plan (APIP)

The Compensation Committee approved the payments of cash awards under the Xerox 2004 Performance Incentive Plan ("2004 PIP"), as amended, for 2012 APIP. The measures on which awards are based for the 2012 fiscal year are set out on Exhibit 10(e)(16) attached hereto. The Compensation Committee approved the payment of cash awards under the 2004 PIP for fiscal year 2012 to Ursula M. Burns, Chairman and Chief Executive Officer of the Company; Luca Maestri, Chief Financial Officer; and certain other officers, including Lynn R. Blodgett, Armando Zagalo de Lima and James A. Firestone, our next three most highly compensated executive officers for fiscal year 2012 (collectively, the "Named Executive Officers"). The Compensation Committee approved a cash award of \$1,072,500 to Ms. Burns, \$544,440 to Mr. Maestri, \$663,000 to Mr. Blodgett, \$454,282 to Mr. Zagalo de Lima, and \$464,100 to Mr. Firestone.

The Compensation Committee approved the measures for APIP awards for fiscal year 2013, which are set out on Exhibit 10(e)(23) attached hereto.

Other Compensation Actions

Effective January 1, 2013, the Compensation Committee increased Ms. Burns' annual incentive target amount from 150% to 200% of base salary based on a review of peer group proxy data.

Effective August 1, 2013, the Compensation Committee approved the following with respect to Mr. Zagalo de Lima's compensation as he transitions off an international assignment: 1) set the annualized base salary for Mr. Zagalo de Lima at \$750,000 from €517,000 (approximately \$690,600 at the exchange rate as of February 15, 2013 of \$1.3359/€1) based on the significant increase in his 2012 responsibilities, a review of internal pay data and the decrease in exchange rates since he was initially transferred to the U.S. Mr. Zagalo de Lima's base salary will now be denominated in U.S. dollars; 2) provided a transition allowance of \$182,000 for 2013 and \$90,000 for 2014; and 3) changed his pension formula benefit to include 100% of his target bonus (previously 70%) for retirement at age 55 or later (previously age 58 or later).

2010 E-LTIP Awards

The Compensation Committee determined that 149.80% of the performance shares granted under the 2010 Executive Long-Term Incentive Program ("2010 E-LTIP") was earned based on the Company's three-year cumulative targets established for Earnings Per Share and Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(8). The total number of shares earned for the three-year cumulative performance period ended December 31, 2012 that shall vest on July 1, 2013 for each Named Executive Officer is as follows: Ms. Burns, 1,409,663 shares; Mr. Blodgett, 375,923 shares; Mr. Zagalo de Lima, 281,939 shares; and Mr. Firestone, 375,923 shares. Included in these share amounts are shares that were previously earned for 2010 and 2011 annual performance, as previously disclosed in our 2010 Form 10-K and 2011 Form 10-K.

2011 E-LTIP Awards

The Compensation Committee determined that no performance shares granted under the 2011 Executive Long-Term Incentive Program ("2011 E-LTIP") were earned based on the Company's 2012 performance against the annual targets established for Earnings Per Share, Core Cash Flow from Operations and Revenue Growth. A description of the targets is set out on Exhibit 10(e)(13).

2012 E-LTIP Awards

The Compensation Committee determined that 13.33% of the performance shares granted under the 2012 Executive Long-Term Incentive Program ("2012 E-LTIP") was earned based on the Company's 2012 performance against the annual targets established for Earnings Per Share, Operating Cash Flow and Revenue Growth. A description of the targets is set out on Exhibit 10(e)(17). The number of shares earned for 2012 for each Named Executive Officer is as follows: Ms. Burns, 131,300 shares; Mr. Maestri, 50,826 shares*; Mr. Blodgett, 50,826 shares; Mr. Zagalo de Lima, 42,355 shares; and Mr. Firestone, 42,355 shares. Earned shares vest three years from their grant date.

ACS Performance Shares

In connection with the acquisition of ACS, Mr. Blodgett received a special one-time grant of performance shares that vested over a three-year period contingent upon ACS meeting pre-determined annual targets for Earnings Before Interest and Taxes. The aggregate number of shares that could be delivered based on achievement of the targets was determined on the grant date and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of previously awarded stock options (maximum). The Compensation Committee determined that no shares were earned for 2012 based on ACS's performance against the 2012 stated target. All previously earned shares are now fully vested.

2013 E-LTIP Awards

2013 E-LTIP awards made to Named Executive Officers reflect their leadership role in the Company, their historical and expected future contributions, and competitive award levels. The purpose of the 2013 E-LTIP is to provide the necessary incentives to retain and reward executives for sustained performance improvements over the next three-year period. Awards under the 2013 E-LTIP for Named Executive Officers are comprised entirely of performance shares that may be earned based on achieving performance targets between threshold and maximum as determined by the Compensation Committee. All performance shares that are earned will vest in 2016. Named Executive Officers who retire, are involuntarily terminated (without cause) or voluntarily terminate due to a reduction in force prior to the end of the three-year performance cycle will vest in a portion of the performance shares earned on a pro rata basis.

Performance metrics for the 2013 E-LTIP are Adjusted Earnings Per Share (weighted 40%), Adjusted Operating Cash Flow (weighted 40%) and Revenue Growth (weighted 20%). These metrics are defined in Exhibit 10(e)(24) attached hereto. The Compensation Committee has established three-year cumulative targets for Adjusted Earnings Per Share, Adjusted Operating Cash Flow and Revenue Growth. Based on actual performance versus targets, the number of performance shares earned by Named Executive Officers under the 2013 E-LTIP will range from 0% to 150% of the initial number of shares subject to the grant. The form of award agreement pursuant to which such grants will be made is attached hereto as Exhibit 10(e)(25).

Named Executive Officers in the 2013 E-LTIP are subject to meaningful ownership requirements and mandatory share holding requirements of 50% of the net vested shares until their ownership requirements have been met.

*In January 2013, Mr. Maestri announced his intention to step down from his position of Executive Vice President and Chief Financial Officer on February 28, 2013; accordingly, all earned shares under his E-LTIP awards will be cancelled effective February 28, 2013.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding directors is incorporated herein by reference to the section entitled "Proposal 1 - Election of Directors" in our definitive Proxy Statement ("2013 Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our Annual Meeting of Stockholders to be held on May 21, 2013. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2012.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2013 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled "Committee Functions, Membership and Meetings" in the section entitled "Proposal 1 - Election of Directors" in our 2013 Proxy Statement.

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer and principal accounting officer. The Finance Code of Conduct can be found on our website at: <http://www.xerox.com/investor> and then clicking on Corporate Governance.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions.

Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Xerox Officer Since
Ursula M. Burns*	54	Chairman of the Board and Chief Executive Officer	2010	1997
Lynn R. Blodgett	58	Executive Vice President; President, Services Business	2012	2010
James A. Firestone	58	Executive Vice President; President, Corporate Operations	2008	1998
Luca Maestri	49	Executive Vice President; Chief Financial Officer	2011	2011
Armando Zagalo de Lima	54	Executive Vice President; President, Technology Business	2012	2000
Don H. Liu	51	Senior Vice President, General Counsel and Secretary	2007	2007
Thomas J. Maddison	49	Senior Vice President, Human Resources	2010	2010
Gary R. Kabureck	59	Vice President and Chief Accounting Officer	2003	2000
Leslie F. Varon	56	Vice President, Finance and Corporate Controller	2010	2001

* Member of Xerox Board of Directors

Each officer named above, with the exception of Lynn R. Blodgett and Luca Maestri, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 2010 through our acquisition of Affiliated Computer Services, Inc. ("ACS"), Mr. Blodgett was President and Chief Executive Officer of ACS since 2006. Prior to that he served as Executive Vice President and Chief Operating Officer of ACS from 2005-2006 and before that he served as Executive Vice President and Group President - Commercial Solutions of ACS since July 1999.

Prior to joining Xerox in 2011, Mr. Maestri was with Nokia Siemens Networks where he was Chief Financial Officer from 2008 to 2011. Prior to that, he had a 20-year career with General Motors Corporation, where he served as Chief Financial Officer of GM Europe and GM Brazil, was executive-in-charge of the Fiat Alliance for GM Europe in Switzerland and held several executive finance positions with General Motors Corporation in Europe and Asia Pacific.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions under "Proposal 1-Election of Directors" in our 2013 definitive Proxy Statement is incorporated herein by reference: "Compensation Discussion and Analysis", "Summary Compensation Table", "Grants of Plan-Based Awards in 2012", "Outstanding Equity Awards at 2012 Fiscal Year-End", "Option Exercises and Stock Vested in 2012", "Pension Benefits for the 2012 Fiscal Year", "Nonqualified Deferred Compensation", "Potential Payments upon Termination or Change in Control", "Summary of Director Annual Compensation" and "Compensation Committee". The information included under the heading "Compensation Committee Report" in our 2013 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be "soliciting material" or to be "filed" with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled "Ownership of Company Securities," and "Equity Compensation Plan Information" under "Proposal 1- Election of Directors" in our 2013 definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled "Certain Relationships and Related Person Transactions" under "Proposal 1- Election of Directors" in our 2013 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled "Corporate Governance" and "Director Independence" in the section entitled "Proposal 1 - Election of Directors" in our 2013 definitive Proxy Statement.

ITEM 14. PRINCIPAL AUDITOR FEES AND SERVICES

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled "Proposal 2 - Ratification of Election of Independent Registered Public Accounting Firm" in our 2013 definitive Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) (1) Index to Financial Statements and Financial Statement Schedule, incorporated by reference or filed as part of this report:
- Report of Independent Registered Public Accounting Firm;
 - Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2012;
 - Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2012;
 - Consolidated Balance Sheets as of December 31, 2012 and 2011;
 - Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2012;
 - Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2012;
 - Notes to the Consolidated Financial Statements;
 - Report of Independent Registered Public Accounting Firm on Financial Statement Schedule;
 - Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 2012; and
 - All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.
- (2) Supplementary Data:
- Quarterly Results of Operations (unaudited); and
 - Five Years in Review.
- (3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.
- (b) The management contracts or compensatory plans or arrangements listed in the "Index of Exhibits" that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2013 Proxy Statement are preceded by an asterisk (*).

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XEROX CORPORATION

/s/ URSULA M. BURNS

Ursula M. Burns
Chairman of the Board and
Chief Executive Officer
February 21, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

February 21, 2013

Signature	Title
<i>Principal Executive Officer:</i> <u>/s/ URSULA M. BURNS</u> Ursula M. Burns	Chairman of the Board, Chief Executive Officer and Director
<i>Principal Financial Officer:</i> <u>/s/ LUCA MAESTRI</u> Luca Maestri	Executive Vice President and Chief Financial Officer
<i>Principal Accounting Officer:</i> <u>/s/ GARY R. KABURECK</u> Gary R. Kabureck	Vice President and Chief Accounting Officer
<u>/s/ GLENN A. BRITT</u> Glenn A. Britt	Director
<u>/s/ RICHARD J. HARRINGTON</u> Richard J. Harrington	Director
<u>/s/ WILLIAM CURT HUNTER</u> William Curt Hunter	Director
<u>/s/ ROBERT J. KEEGAN</u> Robert J. Keegan	Director
<u>/s/ ROBERT A. McDONALD</u> Robert A. McDonald	Director
<u>/s/ CHARLES PRINCE</u> Charles Prince	Director
<u>/s/ ANN N. REESE</u> Ann N. Reese	Director
<u>/s/ SARA MARTINEZ TUCKER</u> Sara Martinez Tucker	Director
<u>/s/ MARY AGNES WILDEROTTER</u> Mary Agnes Wilderotter	Director

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of Xerox Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 21, 2013 appearing in the 2012 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(1) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 21, 2013

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
For the three years ended December 31, 2012

(in millions)	Balance at beginning of period	Additions charged to bad debt provision ⁽¹⁾	Amounts (credited) charged to other income statement accounts ⁽¹⁾	Deductions and other, net of recoveries ⁽²⁾	Balance at end of period
2012					
Allowance for Losses on:					
Accounts Receivable	\$ 102	\$ 45	\$ 2	\$ (41)	\$ 108
Finance Receivables	201	75	5	(111)	170
	<u>\$ 303</u>	<u>\$ 120</u>	<u>\$ 7</u>	<u>\$ (152)</u>	<u>\$ 278</u>
2011					
Allowance for Losses on:					
Accounts Receivable	\$ 112	\$ 57	\$ (1)	\$ (66)	\$ 102
Finance Receivables	212	100	(2)	(109)	201
	<u>\$ 324</u>	<u>\$ 157</u>	<u>\$ (3)</u>	<u>\$ (175)</u>	<u>\$ 303</u>
2010					
Allowance for Losses on:					
Accounts Receivable	\$ 148	\$ 60	\$ (14)	\$ (82)	\$ 112
Finance Receivables	222	128	6	(144)	212
	<u>\$ 370</u>	<u>\$ 188</u>	<u>\$ (8)</u>	<u>\$ (226)</u>	<u>\$ 324</u>

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Deductions and other, net of recoveries primarily relates to receivable write-offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

INDEX OF EXHIBITS
Document and Location

- 3(a) Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on February 21, 2013.
- 3(b) By-Laws of Registrant, as amended through May 21, 2009.

Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K dated May 21, 2009 (filed May 28, 2009). See SEC File Number 001-04471.
- 4(a)(1) Indenture dated as of December 1, 1991, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "December 1991 Indenture").

Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement Nos. 33-44597, 33-49177 and 33-54629. See SEC File Number 001-04471.
- 4(a)(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.

Incorporated by reference to Exhibit 4(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001. See SEC File Number 001-04471.
- 4(a)(3) Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust Company, as prior trustee, Citibank, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the December 1991 Indenture.

Incorporated by reference to Exhibit 4(a)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.
- 4(b)(1) Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "June 25, 2003 Indenture").

Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated June 25, 2003. See SEC File Number 001-04471.
- 4(b)(2) Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.

Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006. See SEC File Number 001-04471.
- 4(b)(3) Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.

Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006. See SEC File Number 001-04471.
- 4(b)(4) Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.

Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471.
- 4(c) Form of Credit Agreement dated as of December 16, 2011 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and BNP Paribas Securities Corp. as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").

Incorporated by reference to Exhibit 4(d) to Registrant's Current Report on Form 8-K dated December 16, 2011. See SEC File Number 001-04471.

- 4(d) Form of Indenture dated as of December 4, 2009 between Xerox Corporation and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities.
- Incorporated by reference to Exhibit 4(b)(5) to Post-Effective Amendment No. 1 to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471.
- 4(e)(1) Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. ("ACS") as Issuer and The Bank of New York Trust Company, N.A. as Trustee (the "June 6, 2005 Indenture").
- Incorporated by reference to Exhibit 4.1 to ACS's Current Report on Form 8-K, filed June 6, 2005. See SEC File Number 001-12665.
- 4(e)(2) Second Supplemental Indenture, dated as of June 6, 2005, to the June 6, 2005 Indenture.
- Incorporated by reference to Exhibit 4.3 to ACS's Current Report on Form 8-K, filed June 6, 2005. See SEC File Number 001-12665.
- 4(e)(3) Third Supplemental Indenture, dated as of February 5, 2010, to the June 6, 2005 Indenture between Boulder Acquisition Corp., the successor to ACS, and The Bank of New York Trust Company, N.A.
- Incorporated by reference to Exhibit 4(j)(4) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.
- 4(f) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
- 10 The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2013 Proxy Statement are preceded by an asterisk (*).
- *10(a)(1) Registrant's Form of Separation Agreement (with salary continuance) - February 2010.
- Incorporated by reference to Exhibit 10(a)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.
- *10(a)(2) Registrant's Form of Separation Agreement (without salary continuance) - February 2010.
- Incorporated by reference to Exhibit 10(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.
- *10(b)(1) Registrant's 1991 Long-Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
- Incorporated by reference to Exhibit 10(b)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(b)(2) Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
- Incorporated by reference to Exhibit 10(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(b)(3) Amendment dated December 4, 2007 to 1991 LTIP.
- Incorporated by reference to Exhibit 10(b)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- 10(c)(1) Registrant's 1996 Non-employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
- Incorporated by reference to Exhibit 10(c)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- 10(c)(2) Amendment dated December 5, 2007 to 1996 NDSOP.

Incorporated by reference to Exhibit 10(c)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

10(d)(1) Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED").

Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

10(d)(2) Form of Agreement under 2004 ECPNED.

Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.

10(d)(3) Form of Grant Summary under 2004 ECPNED.

Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.

10(d)(4) Form of DSU Deferral under 2004 ECPNED.

Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.

10(d)(5) Amendment dated December 5, 2007 to 2004 ECPNED.

Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

*10(e)(1) Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 6, 2005 ("2004 PIP").

Incorporated by reference to Exhibit 10(e)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. See SEC File Number 001-04471.

*10(e)(2) Form of Amendment to Agreements under 2004 PIP.

Incorporated by reference to Exhibit 10(e)(7) to Registrant's Current Report on Form 8-K dated May 19, 2005. See SEC File Number 001-04471.

*10(e)(3) Registrant's 2004 Performance Incentive Plan, as amended and restated as of February 15, 2007 ("2007 PIP").

Incorporated by reference to Exhibit 10(e)(10) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. See SEC File Number 001-04471.

*10(e)(4) Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007-2 PIP").

Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

*10(e)(5) Amendment dated December 4, 2007 to 2007-2 PIP.

Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

*10(e)(6) Amendment No. 1 dated December 17, 2008 to 2007-2 PIP.

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.

*10(e)(7) Amendment No. 2 dated February 16, 2009 to 2007-2 PIP.

Incorporated by reference to Exhibit 10(e)(23) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. See SEC File Number 001-04471.

*10(e)(8) Performance Elements for 2010 Executive Long-Term Incentive Program ("2010 ELTIP").

Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.

*10(e)(9) Form of Executive Long-Term Incentive Program Award Agreement under 2010 ELTIP.

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.

*10(e)(10) Form of Executive Long-Term Incentive Program Award Summary under 2010 ELTIP.

Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.

*10(e)(11) Registrant's 2004 Performance Incentive Plan, as amended and restated May 20, 2010.

Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8-K dated May 20, 2010. See SEC File Number 001-04471.

*10(e)(12) Annual Performance Incentive Plan for 2011

Incorporated by reference to Exhibit 10(e)(16) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

*10(e)(13) Performance Elements for 2011 Executive Long-Term Incentive Program ("2011 ELTIP")

Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.

*10(e)(14) Form of Executive Long-Term Incentive Award under 2011 ELTIP

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.

*10(e)(15) Form of Executive Long-Term Incentive Program Award Summary under 2011 ELTIP

Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.

*10(e)(16) Annual Performance Incentive Plan for 2012.

*10(e)(17) Performance Elements for 2012 Executive Long-Term Incentive Program ("2012 ELTIP").

Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

*10(e)(18) Form of Executive Long-Term Incentive Award under 2012 ELTIP (Performance Shares).

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

*10(e)(19) Form of Executive Long-Term Incentive Program Award Summary under 2012 ELTIP (Performance Shares).

Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

*10(e)(20) Form of Executive Long-Term Incentive Program Restricted Stock Unit Retention Award Summary under 2012 ELTIP.

Incorporated by reference to Exhibit 10(e)(24) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

*10(e)(21) Form of Restricted Stock Unit Retention Award under 2012 ELTIP.

Incorporated by reference to Exhibit 10(e)(25) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.

- *10(e)(22) Registrant's 2004 Performance Incentive Plan, as amended and restated as of May 24, 2012.
Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. See SEC File Number 001-04471.
- *10(e)(23) Annual Performance Incentive Plan for 2013.
- *10(e)(24) Performance Elements for 2013 Executive Long-Term Incentive Program ("2013 ELTIP").
- *10(e)(25) Form of Executive Long-Term Incentive Award under 2013 ELTIP (Performance Shares).
- *10(e)(26) Form of Executive Long-Term Incentive Program Award Summary under 2013 ELTIP (Performance Shares).
- *10(e)(27) Form of Executive Long-Term Incentive Program Restricted Stock Unit Retention Award Summary under 2013 ELTIP.
Incorporated by reference to Exhibit 10(e)(24) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(e)(28) Form of Restricted Stock Unit Retention Award under 2013 ELTIP.
Incorporated by reference to Exhibit 10(e)(25) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See SEC File Number 001-04471.
- *10(f) [Reserved]
- *10(g)(1) 2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP").
Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(g)(2) Amendment dated December 4, 2007 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(g)(3) Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.
- *10(g)(4) Amendment No. 2 dated April 28, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- *10(g)(5) Amendment No. 3 dated December 7, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(5) to Registrant's Current Report on Form 8-K dated December 7, 2011. See SEC File Number 001-04471.
- 10(h) 1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002.
Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. See SEC File Number 001-04471.
- 10(i) [Reserved]
- *10(j)(1) Registrant's Universal Life Plan effective July 1, 2003.
Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. See SEC File Number 001-04471.
- *10(j)(2) Amendment No. 3 to Registrant's Universal Life Plan.

Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2006. See SEC File Number 001-04471.

*10(j)(3) Amendment No. 4 dated September 28, 2009 to Registrant's Universal Life Plan.

Incorporated by reference to Exhibit 10(j)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009. See SEC File Number 001-04471.

*10(j)(4) Amendment No. 5 dated May 6, 2011 to Registrant's Universal Life Plan.

Incorporated by reference to Exhibit 10(j)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.

10(k)(1) Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD").

Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

10(k)(2) Amendment dated December 5, 2007 to DCPD.

Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.

10(k)(3) Amendment No. 2 dated May 17, 2010 to DCPD.

Incorporated by reference to Exhibit 10(k)(3) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010. See SEC File Number 001-04471.

*10(l) Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004.

Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004. See SEC File Number 001-04471.

10(m) Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.

Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. See SEC File Number 001-04471.

*10(n) Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.

Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.

10(o) 2006 Technology Agreement, effective as of April 1, 2006, by and between Registrant and Fuji Xerox Co., Ltd.

Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated March 9, 2006. See SEC File Number 001-04471.**

*10(p) Form of Severance Agreement entered into with various executive officers, effective October 2010.

Incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.

*10(q) Senior Executive Agreement dated September 27, 2009 among ACS, Registrant and Lynn Blodgett.

Incorporated by reference to Exhibit 10.2 to ACS's Current Report on Form 8-K dated September 27, 2009. See SEC File Number 001-12665.

*10(r)(1) Affiliated Computer Services, Inc. ("ACS") 1997 Stock Incentive Plan ("ACS 1997 SIP")

Incorporated by reference to Appendix D to ACS's Joint Proxy Statement on Schedule 14A, filed November 14, 1997. See SEC File Number 001-12665.

*10(r)(2) Amendment No. 1 dated October 28, 2004 to ACS 1997 SIP.

Incorporated by reference to Exhibit 4.6 to ACS's Registration Statement on Form S-8, filed December 6, 2005. See SEC File Number 001-12665.

- *10(s) ACS Amended and Restated 2007 Equity Incentive Plan.
Incorporated by reference to Exhibit 10.1 to ACS's Current Report on Form 8-K filed August 21, 2009. See SEC File Number 001-12665.
- *10(t) ACS Senior Executive Annual Incentive Plan.
Incorporated by reference to Exhibit A to ACS's Proxy Statement on Schedule 14A, filed April 14, 2009. See SEC File Number 001-12665.
- *10(u) ACS 401(k) Supplemental Plan, effective as of July 1, 2000, as amended.
Incorporated by reference to Exhibit 10.15 to ACS's Annual Report on Form 10-K for the fiscal year ended June 30, 2004. See SEC File Number 001-12665.
- *10(v) ACS Executive Benefit Plan, effective as of January 1, 2002, as amended.
Incorporated by reference to Exhibit 10.15 to ACS's Annual Report on Form 10-K for the fiscal year ended June 30, 2005. See SEC File Number 001-12665.
- *10(w) Letter Agreement dated December 20, 2010 between Registrant and Luca Maestri, Executive Vice President and Chief Financial Officer of Registrant.
Incorporated by reference to Exhibit 10(cc) to Registrant's Current Report on Form 8-K dated January 25, 2011. See SEC File Number 001-04471.
- *10(x) Master Plan Amendment dated May 2, 2011 to Registrant-Sponsored Benefit Plans.
Incorporated by reference to Exhibit 10(bb) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- 12 Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 13 Registrant's 2012 Annual Report to Shareholders.
- 21 Subsidiaries of Registrant.
- 23 Consent of PricewaterhouseCoopers LLP.
- 31(a) Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31(b) Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 32 Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.INS XBRL Instance Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.
- 101.SCH XBRL Taxonomy Extension Schema Linkbase.

***Pursuant to the Freedom of Information Act and/or a request for confidential treatment filed with the Securities and Exchange Commission under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, the confidential portion of this material has been omitted and filed separately with the Securities and Exchange Commission.*

**RESTATED CERTIFICATE OF INCORPORATION
OF
XEROX CORPORATION
UNDER SECTION 807 OF THE
BUSINESS CORPORATION LAW**

1. The name of the Corporation is "XEROX CORPORATION". The name under which it was formed is "THE HALOID COMPANY".
2. The Certificate of Incorporation was filed in the Office of the Secretary of State of the State of New York on April 18, 1906.
3. This restatement of the Certificate of Incorporation was authorized by a resolution adopted by the Board of Directors of the Corporation at a meeting thereof duly called and held. The text of the Certificate of Incorporation is hereby restated without further amendment to read as herein set forth in full:

FIRST: The name of the Corporation is XEROX CORPORATION.

SECOND: The purposes for which it is formed are as follows:

To engage in the invention, development, production, operation, sale or lease of devices, papers and other items, processes, and services, relating to the communications, photographic, printing and image reproduction arts;

To engage in any commercial, mercantile, manufacturing, mining, industrial, importing, exporting or trading business, venture, activity or service or other business, venture, activity or service of a kind or type described in these purposes;

To engage in scientific and technological research and pursuits of every lawful kind and description and to utilize, employ and exploit any and all knowledge resulting therefrom;

To purchase, lease or otherwise acquire, own, hold, sell, mortgage, charge or otherwise dispose of, invest, trade and deal in and with real and personal property of every kind and description.

THIRD: The office of the Corporation is to be located in the City of Rochester, Monroe County, New York.

FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 1,750,000,000 shares of Common Stock, of the par value of \$1.00 each (hereinafter referred to as "Common Stock"), 600,000 shares of Class B Stock of the par value of \$1.00 each (hereinafter referred to as "Class B Stock"), and 22,043,067 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock").

The designations, preferences, privileges and voting powers of each class of stock of the Corporation, and the restrictions and qualifications thereof, shall be as follows:

1. The Cumulative Preferred Stock may be issued from time to time as follows:
 - (a) The Cumulative Preferred Stock may be issued from time to time as shares of one or more series of Cumulative Preferred Stock and the Board of Directors is expressly authorized, prior to issuance, in the resolution or resolutions providing for the issue of shares in each particular series, to fix the following:
 - (i) the distinctive serial designation and number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;
 - (ii) the annual dividend rate for such series, and the date from which dividends on shares of such series shall be cumulative;
 - (iii) the redemption provisions and price or prices, if any, for such series, which may consist of a redemption price or scale of redemption prices applicable only to redemption for a sinking fund and the same or a different redemption price or scale of redemption prices applicable to any other redemption;

(iv) the amount or amounts which shall be paid to the holders of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation (but not less than \$1.00 in the case of involuntary liquidation);

(v) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund which shall be applied to the redemption of shares of such series;

(vi) the terms and conditions (with or without limitations), if any, on which shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, including the price or prices or at the rate or rates of conversion or exchange and the terms and conditions of adjustment thereof, if any; and

(vii) the voting rights, if any, in addition to those specified herein, and any other preferences, privileges and restrictions or qualifications of such series.

(b) All shares of Cumulative Preferred Stock, regardless of series, shall be of equal rank with each other and shall be identical with each other in all respects except as provided in or permitted by paragraph (a) of this subdivision 1 and except as provided in paragraph (b) of subdivision 6; and the shares of the Cumulative Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall be cumulative.

(c) In case the stated dividends and the amounts payable on liquidation are not paid in full, the shares of all series of the Cumulative Preferred Stock shall share ratably in the payment of dividends (including accumulations, if any) in accordance with the sums which would be payable on said shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distributions if all sums payable were discharged in full.

2. The holders of the Cumulative Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available for the payment of dividends, cumulative cash dividends at the annual rate for such series (as fixed by the Board of Directors in accordance with subdivision 1 in respect of any series), and no more, payable quarter-yearly, on the first day of January, April, July and October in each year, to shareholders of record on the respective dates, not exceeding forty days preceding such dividend payment dates, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend; provided that if dividends on any shares of the Cumulative Preferred Stock shall be cumulative from a date less than thirty days prior to the first quarter-yearly dividend payment date in respect of such shares, the dividends accrued on such shares to such date shall not be payable on such date but shall be payable on the next following quarter-yearly dividend payment date. The holders of shares of the Cumulative Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision 2.

As provided in paragraph (c) of subdivision 1, no dividend shall be paid upon, or declared or set apart for, any share of Cumulative Preferred Stock of any series for any quarter-yearly dividend period (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) unless at the same time a like proportionate dividend for the same quarter-yearly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Cumulative Preferred Stock of all series then issued and outstanding and entitled to receive the dividend.

3. So long as any shares of the Cumulative Preferred Stock are outstanding, no dividend whatever shall be paid or declared at any time, and no distribution made, on any junior stock (other than in junior stock) nor shall any shares of junior stock be purchased or otherwise acquired for value or redeemed at any time by the Corporation or any subsidiary:

(a) unless all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart; and

(b) unless the Corporation shall have redeemed, retired or purchased all shares of each series of Cumulative Preferred Stock required to have been redeemed, retired or purchased at such time pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1,

provided, however, that the foregoing restrictions in this subdivision 3 shall not apply to the acquisition of any junior stock solely in exchange for, or solely out of the proceeds of sale of, any other junior stock.

Subject to the foregoing provisions of this subdivision 3, and to any further limitations prescribed by the Board of Directors in accordance with subdivision 1, and not otherwise, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on any junior stock from time to time out of any funds of the Corporation legally available therefor, and the Cumulative Preferred Stock shall not be entitled to participate in any such dividends.

4. Subject to the provisions of subdivision 5, the Corporation at its option (expressed by resolution of the Board of Directors) or for the purpose of any sinking fund therefor may (except as otherwise provided by the Board of Directors in accordance with subdivision 1 in respect of any series) redeem the outstanding shares of Cumulative Preferred Stock, or of any one or more series thereof, at any time in whole, or from time to time in part, upon notice duly given as hereinafter specified, at the applicable redemption price or prices for such shares (as fixed in accordance with subdivision 1 in respect of any series), including, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption.

Notice of every such redemption of Cumulative Preferred Stock of any series (a) if all the shares of such series are held of record by not more than ten holders, shall be given by mailing such notice not less than 30 nor more than 60 days prior to the date fixed for such redemption to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation, or (b) if all the shares of such series are held of record by more than ten holders, shall be given by publication at least once in each of two successive calendar weeks in a newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, The City of New York, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for such redemption, and notice of such redemption shall also be mailed not less than 30 nor more than 60 days prior to the date fixed for such redemption, to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation; but, if publication is required, no failure to mail any such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceeding for the redemption of any shares to be redeemed.

In case of redemption of a part only of the Cumulative Preferred Stock of any series at the time outstanding, whether for the sinking fund therefor or otherwise, the redemption may (subject to any provision made by the Board of Directors in accordance with subdivision 1 in respect of any series) be either pro rata or by lot, as determined by the Board of Directors. Subject to the foregoing, the Board of Directors shall have full power and authority to prescribe the manner in which the drawings by lot or the pro rata redemption shall be conducted and, subject to the provisions contained in the Certificate of Incorporation or provided by the Board of Directors in accordance with subdivision 1, the terms and conditions upon which the Cumulative Preferred Stock shall be redeemed from time to time.

If any such notice of redemption shall have been duly given and if, on or before the redemption date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after such redemption date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption thereof without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired.

If any such notice of redemption shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable written authorization promptly to give or complete such notice, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been deposited by the Corporation with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York, doing business in the Borough of Manhattan, The City of New York, having a capital, surplus, and undivided profits aggregating at least \$5,000,000 according to its last published statement of condition, in trust for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired. Any interest accrued on such funds shall be paid to the Corporation from time to time.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of six years from such redemption date shall be released or repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment thereof; provided that any funds so deposited which shall not be required for redemption because

of the exercise of any privilege of conversion or exchange subsequent to the date of deposit shall be repaid to the Corporation forthwith.

None of the shares of Cumulative Preferred Stock of any series redeemed or retired pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1, shall be reissued and all such shares shall, in the manner provided by law, be eliminated from the authorized capital stock of the Corporation. The Corporation shall not be prohibited from reissuing any shares of Cumulative Preferred Stock redeemed or retired (other than for the sinking fund therefor) or converted into or exchanged for stock pursuant to the provisions fixed by the Board of Directors in accordance with subdivision 1, and after such redemption, retirement or conversion of the Corporation may, in the manner provided by law, restore such shares to the status of authorized but unissued shares of Cumulative Preferred Stock undesignated as to series.

5. If and so long as all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall not have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the Corporation shall not redeem (for sinking fund or otherwise) less than all of the Cumulative Preferred Stock at the time outstanding, and neither the Corporation nor any subsidiary shall purchase or otherwise acquire for value (for sinking fund or otherwise) any of the Cumulative Preferred Stock at the time outstanding.

6. Unless the consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least two-thirds of the shares of Cumulative Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Cumulative Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(a) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Cumulative Preferred Stock;

(b) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation which would affect adversely any right, preference, privilege or voting power of the Cumulative Preferred Stock or of the holders thereof; provided, however, that if any such amendment, alteration or repeal would affect adversely any right, preference, privilege or voting power of one or more, but not all, of the series of Cumulative Preferred Stock at the time outstanding, the consent of the holders of at least two-thirds of the outstanding shares of each such series so affected, similarly given, shall be required in lieu of (or if such consent is required by law, in addition to) the consent of the holders of two-thirds of the shares of the Cumulative Preferred Stock as a class; and

(c) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all the property or business of the Corporation, or the consolidation or merger of the Corporation with or into any other corporation, except any such consolidation or merger wherein none of the rights, preferences, privileges or voting powers of any series of the Cumulative Preferred Stock or the holders thereof are adversely affected.

No consent of the holders of the Cumulative Preferred Stock or of any series thereof which would otherwise be required to permit, effect or validate any action of the Corporation or a subsidiary pursuant to the provisions of this subdivision 6 or pursuant to any provision fixed by the Board of Directors in accordance with subdivision 1 shall be required if, prior to or concurrently with such action, provision shall be made in accordance with the provisions of the fourth paragraph of subdivision 4 for the redemption of all outstanding shares of Cumulative Preferred Stock or all outstanding shares of such series, as the case may be, and all funds necessary for such redemption shall be deposited in trust in accordance with the provisions of such paragraph.

7. Unless and until six quarter-yearly dividends on the Cumulative Preferred Stock of any series shall be in default, in whole or in part, the entire voting power, except as otherwise provided in the Certificate of Incorporation or By-Laws, shall be vested exclusively in the Common Stock in accordance with the provisions of, and except as otherwise expressly provided in, the Certificate of Incorporation. If and whenever six full quarter-yearly dividends (whether or not consecutive) payable on the Cumulative Preferred Stock of any series shall be in arrears, in whole or in part, the number of Directors then constituting the Board of Directors shall be increased by two and the holders of the Cumulative Preferred Stock, voting separately as a class, regardless of series, shall be entitled to elect the two additional directors at any annual meeting of shareholders or special meeting held in place thereof, or at a special meeting of the holders of the Cumulative Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Cumulative Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarter-yearly dividend period shall have been paid or declared and set apart for payment, then the right of the holders of the Cumulative Preferred Stock to elect such additional two Directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends), and the terms of office of all persons elected as Directors by the holders of the Cumulative Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the Cumulative

Preferred Stock, the Secretary of the Corporation may, and upon the written request of any holder of the Cumulative Preferred Stock (addressed to the Secretary at the principal office of the Corporation) shall, call a special meeting of the holders of the Cumulative Preferred Stock for the election of the two Directors to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws for a special meeting of the shareholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the Secretary within twenty days after receipt of any such request, then any holder of Cumulative Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Corporation. The Directors elected at any such special meeting shall hold office until the next annual meeting of the shareholders or special meeting held in place thereof. In case any vacancy shall occur among the Directors elected by the holders of the Cumulative Preferred Stock, a successor shall be elected to serve until the next annual meeting of the shareholders or special meeting held in place thereof by the then remaining Director elected by the holders of the Cumulative Preferred Stock or the successor of such remaining Director.

In any case in which the holders of Cumulative Preferred Stock or any series thereof shall be entitled to vote pursuant to the provisions of the Certificate of Incorporation or pursuant to law, each holder of Cumulative Preferred Stock or of such series, as the case may be, shall be entitled to one vote for each share thereof held.

8. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Cumulative Preferred Stock of each series shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, (i) if such liquidation, dissolution or winding up shall be involuntary, the amount fixed by the Board of Directors in accordance with subdivision 1 but not less than \$1.00, and (ii) if such liquidation, dissolution or winding up shall be voluntary, the amount per share fixed by the Board of Directors in accordance with the provisions of subdivision 1 in the case of any series of Cumulative Preferred Stock, in effect at the time thereof, together with, in each case, all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amounts; and the holders of the junior stock shall be entitled, to the exclusion of the holders of the Cumulative Preferred Stock of any and all series, to share ratably in all the remaining assets of the Corporation in accordance with their respective rights. As provided in paragraph (c) of subdivision 1, if upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the assets available for distribution shall be insufficient to pay the holders of all outstanding shares of Cumulative Preferred Stock the full amounts to which they respectively shall be entitled, the holders of shares of Cumulative Preferred Stock of all series shall share ratably in any distribution of assets in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Neither the consolidation or merger of the Corporation with or into any other corporation, nor any sale, lease or conveyance of all or any part of the property or business of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this subdivision 8.

9. Except as otherwise expressly provided in the Certificate of Incorporation and except as otherwise provided by law, voting rights upon any and all matters shall be vested exclusively in the holders of the Common Stock and the Class B Stock (each share of Common Stock and of Class B Stock having one vote).

10. No holder of Common Stock, Cumulative Preferred Stock or Class B Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

11. The holders of Common Stock and of Class B Stock shall possess equal voting rights and rights as to dividends or distributions, and in the event of any liquidation, dissolution or winding up of the Corporation. No dividend, distribution, split-up, combination, reclassification, or other change in the shares of Common Stock shall be made without the same being made with respect to the Class B Stock.

12. For all purposes of the Certificate of Incorporation:

The term "accrued and unpaid dividends" when used with reference to any share of any series of the Cumulative Preferred Stock shall mean an amount computed at the annual dividend rate for the shares of such series from the date on which dividends on such share became cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid on such share; but no interest shall be payable upon any arrearages.

The term "Certificate of Incorporation" shall mean the certificate of incorporation of the Corporation as amended and supplemented by any certificate heretofore or hereafter filed pursuant to law, including any certificate filed pursuant to law with respect to, and providing for the issue of, any series of Cumulative Preferred Stock.

The term "junior stock", when used with reference to the Cumulative Preferred Stock, shall mean the Common Stock, the Class B Stock and any other stock of the Corporation, now or hereafter authorized, over which the Cumulative Preferred Stock has preference or priority either in the payment of dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation.

The term "sinking fund", as applied to any series of preferred stock, shall mean any fund or requirement for the periodic redemption, retirement or purchase of shares of such series.

The term “stock ranking prior to the Cumulative Preferred Stock” shall mean any stock of the Corporation, now or hereafter authorized, which has preference over the Cumulative Preferred Stock either in the payment of dividends or in any liquidation, dissolution or winding up of the Corporation.

SERIES A CONVERTIBLE PERPETUAL PREFERRED STOCK

13. (a) *Designation.* There is hereby created out of the authorized and unissued shares of Cumulative Preferred Stock of the Corporation a series of preferred stock designated as the “Series A Convertible Perpetual Preferred Stock” (the “Series A Preferred Stock”). The number of shares constituting such series shall be 300,000.

(b) *Definitions.* As used herein with respect to the Series A Preferred Stock, the following terms shall have the following meanings, whether used in the singular or the plural:

“Additional Shares” has the meaning set forth in Subdivision 13(l)(i).

“Affiliate” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Applicable Conversion Price” at any given time means the price equal to \$1,000 divided by the Applicable Conversion Rate in effect at such time.

“Applicable Conversion Rate” means the Conversion Rate in effect at any given time.

“Board of Directors” means the board of directors of the Corporation or any committee thereof duly authorized to act in the relevant matter on behalf of such board of directors.

“Business Day” means any day other than a Saturday, Sunday or any other day on which banks in New York City, New York are generally required or authorized by law to be closed.

“Certificate of Incorporation” means the Restated Certificate of Incorporation of Xerox Corporation, as amended.

“Close of Business” means 5:00 pm, New York City time, on the date in question.

“Closing Price” of the Common Stock or any securities distributed in a Spin-Off, as the case may be, on any date of determination means:

(i) the closing sale price of the Common Stock or such other securities (or, if no closing sale price is reported, the last reported sale price of the Common Stock or such other securities) on the New York Stock Exchange on such date;

(ii) if the Common Stock or such other securities are not traded on the New York Stock Exchange on such date, the closing sale price of the Common Stock or such other securities (or, if no closing sale price is reported, the last reported sale price of the Common Stock or such other securities) as reported in the composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other securities are traded on such date;

(iii) if the Common Stock or such other securities are not traded on a U.S. national or regional securities exchange on such date, the last quoted bid price for the Common Stock or such other securities on such date in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization; or

(iv) if the Common Stock or such other securities are not quoted by Pink OTC Markets Inc. or a similar organization on such date, as determined by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

For purposes of this Subdivision 13, all references herein to the “Closing Price” and “last reported sale price” of the Common Stock on the New York Stock Exchange shall be such closing sale price and last reported sale price as reflected on the website of the New York Stock Exchange (<http://www.nyse.com>) and as reported by Bloomberg Professional Service; *provided* that in the event that there is a discrepancy between the closing sale price or last reported sale price as reflected on the website of the New York Stock Exchange and as reported by Bloomberg Professional Service, the closing sale price and last reported sale price on the website of the New York Stock Exchange shall govern.

“Common Stock Outstanding” means, at any given time, the number of shares of Common Stock issued and outstanding at such time.

“Conversion Date” has the meaning set forth in Subdivision 13(i)(v)(B).

“Conversion Rate” means, with respect to each share of Series A Preferred Stock, 89.8876 shares of Common Stock, subject to adjustment in accordance with the provisions of this Subdivision 13.

“Cumulative Preferred Stock” means the Cumulative Preferred Stock, par value of \$1.00 each, of the Corporation.

“Current Market Price” means, in the case of any distribution giving rise to an adjustment to the Conversion Rate pursuant to Subdivision 13(j)(iv), Subdivision 13(j)(v) or Subdivision 13(j)(vi) or a distribution upon conversion pursuant to Subdivision 13(j)(viii), the average Closing Price of the Common Stock during the ten consecutive Trading Day period ending on and including the Trading Day immediately preceding the Ex-Dividend Date for such distribution. Notwithstanding the foregoing, whenever successive adjustments to the Conversion Rate are called for pursuant to Subdivision 13(j), such adjustments shall be made to the Current Market Price as may be necessary or appropriate to effectuate the intent of Subdivision 13(j) and to avoid unjust or inequitable results as determined in good faith by the Board of Directors.

“Distributed Property” has the meaning set forth in Subdivision 13(j)(v).

“Dividend Payment Date” has the meaning set forth in Subdivision 13(d)(ii).

“Dividend Period” means each period from, and including, a Dividend Payment Date (or with respect to the initial Dividend Period, the Issue Date) to, but excluding, the following Dividend Payment Date.

“Dividend Rate” has the meaning set forth in Subdivision 13(d)(i).

“Dividend Record Date” has the meaning set forth in Subdivision 13(d)(iv).

“Dividend Threshold Amount” has the meaning set forth in Subdivision 13(j)(vi)(B).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exchange Property” has the meaning set forth in Subdivision 13(k)(i).

“Ex-Dividend Date” means the first date on which the shares of Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive the relevant dividend, distribution or issuance.

“Expiration Date” has the meaning set forth in Subdivision 13(j)(vii).

“Expiration Time” has the meaning set forth in Subdivision 13(j)(vii).

“Fair Market Value” means the amount which a willing buyer would pay a willing seller in an arm’s-length transaction as reasonably determined by the Board of Directors in good faith; *provided, however*, that with respect to Subdivision 13(o)(ii), Fair Market Value shall mean the value of the Optional Redemption Transferred Shares determined by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

“Fiscal Quarter” means, with respect to the Corporation, the fiscal quarter publicly disclosed by the Corporation.

“Fundamental Change” means the occurrence of any of the following:

(i) a “person” or “group” within the meaning of Section 13(d) of the Exchange Act files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect ultimate “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of common equity of the Corporation representing more than 50% of the voting power of the Common Stock;

(ii) consummation of any consolidation, merger or other business combination of the Corporation with or into another Person or any sale, lease or conveyance in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Corporation and its subsidiaries, taken as a whole, to any Person other than one of the Corporation’s subsidiaries, in each case pursuant to which the Common Stock will be converted into cash, securities or other property, other than:

(A) pursuant to a transaction in which the Persons that “beneficially owned” (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, Voting Shares of the Corporation immediately prior to such transaction beneficially own, directly or indirectly, Voting Shares representing a majority of the total voting

power of all outstanding classes of Voting Shares of the continuing or surviving Person immediately after the transaction; or

(B) any merger or consolidation primarily for the purpose of changing the jurisdiction on incorporation of the Corporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity; or

(iii) the Common Stock ceases to be listed on a U.S. national securities exchange or association (other than as a result of a transaction described in clause (ii) above);

provided, however, that a Fundamental Change with respect to clauses (i) or (ii) above shall not be deemed to have occurred if at least 90% of the consideration received by holders of the Common Stock in the transaction or transactions consists of common stock that is traded on a U.S. national securities exchange or that will be traded on a U.S. national securities exchange when issued or exchanged in connection with such transaction.

“Fundamental Change Notice” has the meaning set forth in Subdivision 13(m)(ii).

“Fundamental Change Redemption Date” has the meaning set forth in Subdivision 13(m)(i).

“Fundamental Change Redemption Price” has the meaning set forth in Subdivision 13(m)(i).

“Holder(s)” means the Person(s) in whose name the shares of the Series A Preferred Stock are registered, which may be treated by the Corporation, as the absolute owner of the shares of Series A Preferred Stock for the purpose of making payment and settling the related conversions and for all other purposes. The initial Holder shall be Darwin Deason.

“Issue Date” means the date upon which any shares of Series A Preferred Stock are first issued.

“Junior Securities” has the meaning set forth in Subdivision 13(c)(i).

“Liquidation Preference” means, with respect to each share of Series A Preferred Stock, at any time, \$1,000.

“Make-Whole Acquisition” means the occurrence of a transaction described under clauses (i) or (ii) of the definition of “Fundamental Change.”

“Make-Whole Acquisition Conversion Period” has the meaning set forth in Subdivision 13(l)(i).

“Make-Whole Acquisition Effective Date” has the meaning set forth in Subdivision 13(l)(i).

“Make-Whole Acquisition Stock Price” means the price paid per share of Common Stock in the event of a Make-Whole Acquisition. If the holders of shares of Common Stock receive only cash in the Make-Whole Acquisition, the Make-Whole Acquisition Stock Price shall be the cash amount paid per share of Common Stock. Otherwise, the Make-Whole Acquisition Stock Price shall be the average of the Closing Price per share of Common Stock on the 10 Trading Days up to, but not including, the Make-Whole Acquisition Effective Date.

“Mandatory Conversion Date” has the meaning set forth in Subdivision 13(h)(iii).

“Notice of Mandatory Conversion” has the meaning set forth in Subdivision 13(h)(iii).

“Optional Redemption Date” has the meaning set forth in Subdivision 13(o)(ii)(B).

“Optional Redemption Notice” has the meaning set forth in Subdivision 13(o)(ii)(A).

“Optional Redemption Transferred Shares” has the meaning set forth in Subdivision 13(o)(ii).

“Parity Securities” has the meaning set forth in Subdivision 13(c)(ii).

“Permitted Transferee(s)” means any of (w) the spouse of Darwin Deason, (x) any lineal descendant of Darwin Deason or any brother or sister of Darwin Deason, (y) any brother or sister of Darwin Deason, or (z) any trust for the direct or indirect benefit of exclusively Darwin Deason and/or the spouse of Darwin Deason; any lineal descendant of Darwin Deason or any brother or sister of Darwin Deason; or any brother or sister of Darwin Deason.

“Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock corporation, limited liability company or trust.

“Record Date” means, with respect to any issuance, dividend, or distribution declared, paid or made on or with respect to any capital stock of the Corporation, the date fixed for the determination of the holders of such capital stock entitled to receive such issuance, dividend or distribution.

“Registrar” means the Corporation or any other registrar appointed by the Corporation.

“Reorganization Event” has the meaning set forth in Subdivision 13(k)(i).

“Senior Securities” has the meaning set forth in Subdivision 13(c)(iii).

“Series A Preferred Stock” has the meaning set forth in Subdivision 13(a).

“Spin-Off” has the meaning set forth in Subdivision 13(j)(v).

“Spin-Off Valuation Period” has the meaning set forth in Subdivision 13(j)(v).

“Trading Day” means a day on which the shares of Common Stock or any securities distributed in a Spin-Off, as the case may be:

(i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the Close of Business; and

(ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the Common Stock.

“Transfer” means, with respect to each share of Series A Preferred Stock, the sale, transfer, pledge, assignment, loan or other disposition or encumbrance of such share of Series A Preferred Stock.

“Trigger Event” has the meaning set forth in Subdivision 13(j)(xv).

“Voting Shares” of a Person means shares of all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors of such Person.

(c) *Ranking.* The Series A Preferred Stock shall, with respect to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation, rank:

(i) senior to the Corporation’s Common Stock and Class B Stock and each other class or series of capital stock that the Corporation may issue in the future the terms of which do not expressly provide that it ranks on a parity with or senior to the Series A Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively, the “Junior Securities”);

(ii) on a parity with each class or series of Cumulative Preferred Stock established after the Issue Date by the Corporation the terms of which expressly provide that such class or series will rank on a parity with the Series A Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively, the “Parity Securities”); and

(iii) subject to the approval of the holders of the Series A Preferred Stock to the extent required by subdivision 6 of Article FOURTH of the Certificate of Incorporation, junior to any class or series of the Corporation’s capital stock that the Corporation may issue in the future the terms of which expressly provide that such class or series shall rank senior to the Series A Preferred Stock (collectively, the “Senior Securities”).

For the avoidance of doubt, the Corporation has the right to authorize and/or issue additional shares or classes or series of Junior Securities or Parity Securities without notice to or consent of the Holder(s).

(d) *Dividends.*

(i) The Holder(s) shall be entitled to receive, on each share of Series A Preferred Stock, when, as and if declared by the Board of Directors, out of any funds legally available for the payment of dividends, cumulative cash dividends at a rate per annum equal to 8.0% of the Liquidation Preference (the “Dividend Rate”) in accordance with subdivisions 1, 2 and 3 of Article FOURTH of the Certificate of Incorporation; *provided, however*, that in the event that on any Dividend Payment Date there shall be accrued and unpaid dividends for any prior Dividend Period, the Dividend Rate shall equal 8.0% per annum of the sum of (x) the Liquidation Preference and (y) the amount of all such accrued and unpaid dividends for any prior Dividend Periods.

(ii) Dividends will accrue and cumulate from the Issue Date and are payable quarterly in arrears on the first day of January, April, July and October (each, a “Dividend Payment Date”), commencing on the first Dividend Payment Date

following the Issue Date. If a Dividend Payment Date falls on a day that is not a Business Day, the dividends will be paid on the next Business Day as if it were paid on the Dividend Payment Date and no interest will accrue in connection therewith.

(iii) The amount of dividends payable for each full quarterly Dividend Period will be computed by dividing the Dividend Rate by four. The amount of dividends payable for the initial Dividend Period, or any other Dividend Period shorter or longer than a full quarterly Dividend Period, will be computed on the basis of the actual number of days elapsed during such Dividend Period over a 360-day year.

(iv) Dividends will be paid to the Holder(s) as such Holder(s) appear in the records of the Corporation at the Close of Business on the 15th day of the immediately preceding calendar month in which the applicable Dividend Payment Date falls (the "Dividend Record Date"). The Dividend Record Date shall apply regardless of whether any particular Dividend Record Date is a Business Day.

(v) Dividends on any share of Series A Preferred Stock converted to Common Stock shall cease to accumulate on the Mandatory Conversion Date or any applicable Conversion Date, as applicable.

(e) *Liquidation.*

(i) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the Holder(s) shall be entitled to receive for each share of Series A Preferred Stock out of the assets of the Corporation or proceeds thereof legally available for distribution to stockholders of the Corporation, after satisfaction of all liabilities, if any, to creditors of the Corporation and subject to the rights of holders of any Senior Securities, and before any distribution of such assets or proceeds is made to or set aside for the holders of Junior Securities, a liquidating distribution in an amount equal to (x) the Liquidation Preference and (y) an amount equal to any accrued and unpaid dividends on such share of Series A Preferred Stock through the date of such liquidating distribution. After payment of the full amount of such liquidating distribution, the Holder(s) will not be entitled to any further participation in any distribution of assets by, and shall have no right or claim to any remaining assets, of the Corporation.

(ii) In the event the assets of the Corporation available for distribution to stockholders upon any liquidation, dissolution or winding-up of the affairs of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full the amounts payable with respect to all outstanding shares of the Series A Preferred Stock and the corresponding amounts payable on any Parity Securities, the Holder(s) and the holders of such Parity Securities shall share ratably in any distribution of assets of the Corporation in proportion to the full respective liquidating distributions which would be payable on such shares if all amounts payable thereon were paid in full.

(iii) Neither the consolidation or merger of the Corporation with or into any other entity, nor the consolidation or merger of any other entity with or into the Corporation, nor the sale, lease or other transfer or disposition of all or substantially all of the Corporation's property or business or other assets shall, in and of itself, constitute a liquidation, dissolution or winding up of the Corporation.

(f) *Maturity.* The Series A Preferred Stock shall be perpetual, unless converted in accordance with this Certificate of Incorporation or redeemed either at the option of the Holder pursuant to Subdivision 13(m) or at the option of the Corporation pursuant to Subdivision 13(o)(ii).

(g) *Conversion at the Holder's Option.* Each Holder shall have the right, at such Holder's option, at any time and from time to time, to convert all or any portion of such Holder's Series A Preferred Stock into shares of Common Stock at the Applicable Conversion Rate, plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series A Preferred Stock so converted through the date of such conversion, subject to compliance with the conversion procedures set forth in Subdivision 13(i).

(h) *Mandatory Conversion at the Corporation's Option.*

(i) On or after the fifth anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time or from time to time to cause some or all of the Series A Preferred Stock to be converted into shares of Common Stock at the then Applicable Conversion Rate, plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series A Preferred Stock so converted through the Mandatory Conversion Date, if, for 20 Trading Days during any period of 30 consecutive Trading Days (including the last Trading Day of such period), ending on the Trading Day preceding the date the Corporation delivers a Notice of Mandatory Conversion, the Closing Price of the Common Stock exceeds 130% of the then Applicable Conversion Price.

(ii) If the Corporation elects to cause fewer than all of the shares of Series A Preferred Stock to be converted pursuant to this Subdivision 13(h), the Corporation shall select the Series A Preferred Stock to be converted on a pro rata basis or by another method the Board of Directors, in its sole discretion, considers fair to the Holders. If the

Corporation selects a portion of a Holder's Series A Preferred Stock for partial mandatory conversion and such Holder converts a portion of its shares of Series A Preferred Stock, the converted portion will be deemed to be from the portion selected for mandatory conversion under this Subdivision 13(h).

(iii) If the Corporation elects to exercise the mandatory conversion right pursuant to this Subdivision 13(h), the Corporation shall provide notice of such conversion to each Holder (such notice, a "Notice of Mandatory Conversion"). The conversion date shall be a date selected by the Corporation (the "Mandatory Conversion Date") and shall be no more than 7 days after the date on which the Corporation provides such Notice of Mandatory Conversion. In addition to any information required by applicable law or regulation, the Notice of Mandatory Conversion shall state, as appropriate:

- (A) the Mandatory Conversion Date;
- (B) the number of shares of Common Stock to be issued upon conversion of each share of Series A Preferred Stock; and
- (C) the number of shares of Series A Preferred Stock to be converted.

(i) *Conversion Procedures.*

(i) As provided in Subdivision 13(d)(v), dividends on any share of Series A Preferred Stock converted to Common Stock shall cease to accumulate on the Mandatory Conversion Date or any applicable Conversion Date, as applicable, and such shares of Series A Preferred Stock shall cease to be outstanding upon conversion.

(ii) Prior to the Close of Business on the Mandatory Conversion Date or any applicable Conversion Date, shares of Common Stock (and/or other securities, if applicable) issuable upon conversion of any shares of Series A Preferred Stock shall not be deemed outstanding for any purpose, and the Holder(s) shall have no rights with respect to the Common Stock (and/or other securities, if applicable) issuable upon conversion (including voting rights, rights to respond to tender offers for the Common Stock (and/or other securities, if applicable) issuable upon conversion and rights to receive any dividends or other distributions on the Common Stock (and/or other securities, if applicable) issuable upon conversion) by virtue of holding shares of Series A Preferred Stock.

(iii) The Person(s) entitled to receive the Common Stock (and/or cash, securities or other property, if applicable) issuable upon conversion of Series A Preferred Stock shall be treated for all purposes as the record holder(s) of such shares of Common Stock (and/or other securities, if applicable) as of the Close of Business on the Mandatory Conversion Date or any applicable Conversion Date. In the event that a Holder shall not by written notice designate the name in which shares of Common Stock (and/or cash, securities or other property, if applicable) and payments of cash in lieu of fractional shares, if any, and accrued and unpaid dividends, if any, to be issued or paid upon conversion of shares of Series A Preferred Stock should be registered or paid or the manner in which such shares should be delivered, the Corporation shall be entitled to register and deliver such shares, and make such payments, in the name of the Holder and in the manner shown on the records of the Corporation.

(iv) Shares of Series A Preferred Stock duly converted in accordance with this Certificate of Incorporation, or otherwise reacquired by the Corporation, will resume the status of authorized and unissued Cumulative Preferred Stock, undesignated as to series and available for future issuance. The Corporation may from time-to-time take such appropriate action as may be necessary to reduce the authorized number of shares of Series A Preferred Stock; *provided* that no decrease shall reduce the authorized number of Series A Preferred Stock to a number less than the number of shares then outstanding.

(v) Conversion into shares of Common Stock will occur on the Mandatory Conversion Date or any applicable Conversion Date as follows:

(A) On the Mandatory Conversion Date, certificates representing shares of Common Stock shall be issued and delivered to the Holder(s) or their designee upon presentation and surrender of the certificate evidencing the Series A Preferred Stock to the Corporation and, if required, the furnishing of appropriate endorsements and transfer documents and the payment of all transfer and similar taxes.

(B) On the date of any conversion at the option of the Holder(s) pursuant to Subdivision 13(g), a Holder must do each of the following in order to convert:

- (1) surrender the shares of Series A Preferred Stock to the Corporation;
- (2) if required, furnish appropriate endorsements and transfer documents; and
- (3) if required, pay all transfer or similar taxes.

The date on which a Holder complies with the procedures in this Subdivision 13(i)(v) is the "Conversion Date".

(vi) Fractional Shares.

(A) No fractional shares of Common Stock will be issued as a result of any conversion of shares of Series A Preferred Stock.

(B) In lieu of any fractional share of Common Stock otherwise issuable in respect of any conversion pursuant to Subdivision 13(g) or Subdivision 13(h), the Corporation shall pay an amount in cash (computed to the nearest cent) equal to the same fraction of the Closing Price of the Common Stock determined as of the second Trading Day immediately preceding the Conversion Date.

(C) If more than one share of the Series A Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Series A Preferred Stock so surrendered.

(j) *Anti-Dilution Adjustments.*

(i) The Conversion Rate shall be adjusted from time to time by the Corporation in accordance with this Subdivision 13(j).

(ii) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, pay a dividend or make a distribution on its Common Stock in shares of its Common Stock to all or substantially all holders of its Common Stock, then the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

- CR₀ = the Conversion Rate in effect at the Close of Business on the Record Date for such dividend or distribution;
 CR₁ = the Conversion Rate in effect immediately after the Record Date for such dividend or distribution;
 OS₀ = the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such dividend or distribution;
 OS₁ = and the number of shares of Common Stock that would be outstanding immediately after, and solely as a result of, such dividend or distribution.

Any adjustment made pursuant to this Subdivision 13(j)(ii) shall become effective immediately after the Record Date for such dividend or distribution. If any dividend or distribution that is the subject of this Subdivision 13(j)(ii) is declared but not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay or make such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. For the avoidance of doubt, for purposes of this Subdivision 13(j)(ii), the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such dividend or distribution shall not include shares of Common Stock held in treasury, if any.

(iii) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, (x) subdivide the then Common Stock Outstanding into a greater number of shares of Common Stock or (y) combine the then Common Stock Outstanding into a smaller number of shares of Common Stock, then the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

- CR₀ = the Conversion Rate in effect at the Close of Business on the effective date of such subdivision or combination;
 CR₁ = the Conversion Rate in effect immediately after the effective date of such subdivision or combination;
 OS₀ = the number of shares of Common Stock Outstanding at the Close of Business on the effective date of such subdivision or combination; and
 OS₁ = the number of shares of Common Stock that would be outstanding immediately after, and solely as a result of, such subdivision or combination.

Any adjustment made pursuant to this Subdivision 13(j)(iii) shall become effective immediately after the effective date of such subdivision or combination.

(iv) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, distribute to holders of all or substantially all of the Common Stock any rights or warrants (other than a distribution of rights issued pursuant to a stockholder's rights plan, to the extent such rights are attached to shares of Common Stock (in which event the provisions of Subdivision 13(j)(xv) shall apply), a dividend reinvestment plan or an issuance in connection with a transaction in which Subdivision 13(k) applies) entitling them to subscribe for or purchase, for a period of not more than 60 calendar days from the issuance date of such distribution, shares of Common Stock at a price per share less than the Current Market Price of the Common Stock, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

- CR₀ = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;
 CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;
 OS₀ = the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such distribution;
 X = the total number of shares of Common Stock issuable pursuant to such rights or warrants; and
 Y = the number of shares of Common Stock equal to (x) the aggregate price payable to exercise such rights or warrants divided by (y) the Current Market Price of the Common Stock.

Any adjustment made pursuant to this Subdivision 13(j)(iv) shall become effective immediately after the Record Date for such distribution. If such rights or warrants described in this Subdivision 13(j)(iv) are not so distributed, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to distribute such rights or warrants, to the Conversion Rate that would then be in effect if such distribution had not been declared. To the extent that such rights or warrants are not exercised prior to their expiration or shares of Common Stock are otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, the Conversion Rate shall be readjusted to the Conversion Rate which would then be in effect had the adjustments made upon the distribution of such rights or warrants been made on the basis of the delivery of only the number of shares of Common Stock actually delivered. In determining the aggregate price payable to exercise such rights or warrants, there shall be taken into account any consideration received by the Corporation upon exercise of such rights and warrants and the value of such consideration (if other than cash, to be determined in good faith by the Board of Directors). For the avoidance of doubt, for purposes of this Subdivision 13(j)(iv), the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such distribution shall not include shares of Common Stock held in treasury, if any.

(v) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, by dividend or otherwise, distribute to all or substantially all holders of the Common Stock shares of any class of capital stock of the Corporation, evidences of its indebtedness, assets, property or rights or warrants to acquire the Corporation's capital stock or other securities, but excluding:

- (A) any dividends or distributions referred to in Subdivision 13(j)(ii);
- (B) any rights or warrants referred to in Subdivision 13(j)(iv);
- (C) any dividends or distributions referred to in Subdivision 13(j)(vi);
- (D) any dividends and distributions in connection with a transaction to which Subdivision 13(k) shall apply; and
- (E) any Spin-Offs to which the provision set forth below in this Subdivision 13(j)(v) shall apply,

(any such shares of capital stock, indebtedness, assets, property or rights or warrants to acquire Common Stock or other securities, hereinafter in this Subdivision 13(j)(v) called the "Distributed Property"), then, in each such case the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

- CR₀ = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;
- CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;
- SP₀ = the Current Market Price of the Common Stock; and
- FMV = the Fair Market Value on the Record Date for such distribution of the Distributed Property, expressed as amount per share of Common Stock.

If the transaction that gives rise to an adjustment pursuant to this Subdivision 13(j)(v) is one pursuant to which the payment of a dividend or other distribution on the Common Stock consists of shares of capital stock of, or similar equity interests in, a Subsidiary or other business unit of the Corporation (a “Spin-Off”) that are, or when issued will be, traded or listed on the New York Stock Exchange, The NASDAQ Global Select Market, The NASDAQ Global Market or any other U.S. national securities exchange or association, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{(FMV + MP_0)}{MP_0}$$

where,

- CR₀ = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;
- CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;
- FMV = the average of the Closing Prices of the capital stock or similar equity interest distributed to holders of Common Stock applicable to one share of Common Stock over the 10 consecutive Trading Day period beginning on, and including, the effective date of the Spin-Off (the “Spin-Off Valuation Period”); and
- MP₀ = the average of the Closing Prices of the Common Stock over the Spin-Off Valuation Period.

Any adjustment made pursuant to this Subdivision 13(j)(v) shall become effective immediately after the Record Date for such distribution. If any dividend or distribution of the type described in this Subdivision 13(j)(v) is declared but not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. If an adjustment to the Conversion Rate is required under this Subdivision 13(j)(v), delivery of any additional shares of Common Stock that may be deliverable upon conversion as a result of an adjustment required under this Subdivision 13(j)(v) shall be delayed to the extent necessary in order to complete the calculations provided for in this Subdivision 13(j)(v).

(vi) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, by dividend or otherwise make a distribution to all or substantially all holders of its outstanding shares of Common Stock consisting exclusively of cash, but excluding:

(A) any dividend or distribution in connection with the liquidation, dissolution or winding up of the Corporation (whether voluntary or involuntary), or upon a transaction to which Subdivision 13(k) applies, or

(B) regular cash dividends to the extent that such dividends do not exceed \$0.25 per share in any Fiscal Quarter (the “Dividend Threshold Amount”),

then the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - DIV}$$

where,

CR ₀	=	the Conversion Rate in effect at the Close of Business on the Record Date for such dividend or distribution;
CR ₁	=	the Conversion Rate in effect immediately after the Record Date for such dividend or distribution;
SP ₀	=	the Current Market Price of the Common Stock; and
DIV	=	the amount in cash per share of Common Stock of the dividend or distribution, as determined pursuant to the following sentences. If any adjustment is required to be made as set forth in this Subdivision 13(j)(vi) as a result of a distribution (1) that is a regularly scheduled quarterly dividend, such adjustment would be based on the amount by which such dividend exceeds the Dividend Threshold Amount or (2) that is not a regularly scheduled quarterly dividend, such adjustment would be based on the full amount of such distribution. The Dividend Threshold Amount is subject to adjustment on an inversely proportional basis whenever the Conversion Rate is adjusted; <i>provided</i> that no adjustment shall be made to the Dividend Threshold Amount for any adjustment made to the Conversion Rate as described under this Subdivision 13(j)(vi).

Any adjustment made pursuant to this Subdivision 13(j)(vi) shall become effective immediately after the Record Date for such dividend or distribution. If any dividend or distribution of the type described in this Subdivision 13(j)(vi) is not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

(vii) If the Corporation shall, at any time or from time to time while any of the Series A Preferred Stock is outstanding, make a payment in respect of a tender offer or exchange offer for all or any portion of the Common Stock subject to the tender offer rules, to the extent that the cash and value of any other consideration included in the payment per share of Common Stock exceeds the Closing Price of the Common Stock on the trading day immediately succeeding the last date on which tenders or exchanges may be made pursuant to such tender offer or exchange offer (the "Expiration Date"), then the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV + (SP_1 \times OS_1)}{SP_1 \times OS_0}$$

where,

CR ₀	=	the Conversion Rate in effect at the Close of Business on the Expiration Date;
CR ₁	=	the Conversion Rate in effect immediately after the Expiration Date;
FMV	=	the Fair Market Value, on the Expiration Date, of the aggregate value of all cash and any other consideration paid or payable for shares of Common Stock validly tendered or exchanged and not withdrawn as of the Expiration Date;
OS ₁	=	the number of shares of Common Stock outstanding immediately after the last time tenders or exchanges may be made pursuant to such tender offer or exchange offer (the " <u>Expiration Time</u> ");
OS ₀	=	the number of shares of Common Stock outstanding immediately prior to the Expiration Time; and
SP ₁	=	the average of the Closing Price of Common Stock during the ten consecutive Trading Day period commencing on the Trading Day immediately after the Expiration Date.

Any adjustment made pursuant to this Subdivision 13(j)(vii) shall become effective immediately prior to 9:00 a.m., New York City time, on the Trading Day immediately following the Expiration Date. If the Corporation, or one of its subsidiaries, is obligated to purchase shares of Common Stock pursuant to any such tender offer or exchange offer, but the Corporation or such subsidiary is permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then the Conversion Rate shall be readjusted to be the Conversion Rate that would then be in effect if such tender offer or exchange offer had not been made. Except as set forth in the preceding sentence, if the application of this Subdivision 13(j)(vii) to any tender offer or exchange offer would result in a decrease in the Conversion Rate, no adjustment shall be made for such tender offer or exchange offer under this Subdivision 13(j)(vii). If an adjustment to the Conversion Rate is required under this Subdivision 13(j)(vii), delivery of any additional shares

of Common Stock upon conversion of the Series A Preferred Stock shall be delayed to the extent necessary in order to complete the calculations provided for in this Subdivision 13(j)(vii).

(viii) In cases where the Fair Market Value of shares of capital stock, evidences of indebtedness, assets (including cash), or securities or certain rights, warrants or options to purchase securities of the Corporation, or the amount of the cash dividend or distribution applicable to one share of Common Stock, distributed to all or substantially all holders of the Common Stock:

(A) equals or exceeds the Current Market Price of the Common Stock; or

(B) the Current Market Price of the Common Stock exceeds the Fair Market Value of such assets, debt securities or rights, warrants or options or the amount of cash so distributed by less than \$1.00,

rather than being entitled to an adjustment in the Conversion Rate, the Holder(s) will be entitled to receive upon conversion, in addition to shares of Common Stock, the kind and amount of shares of capital stock, evidences of indebtedness, assets, or securities or rights, warrants or options comprising the distribution, if any, that such Holder(s) would have received if such Holder(s) had held a number of shares of Common Stock equal to the principal amount of the notes held divided by the Conversion Rate in effect immediately prior to the record date for determining the holders of Common Stock entitled to receive the distribution.

(ix) All calculations under this Subdivision 13(j) shall be made to the nearest 1/100,000 of a share of Common Stock per share of Series A Preferred Stock. No adjustment in the Conversion Rate is required if the amount of such adjustment would be less than 1%; *provided, however*, that any such adjustment not required to be made pursuant to this Subdivision 13(j)(ix) will be carried forward and taken into account in any subsequent adjustment.

(x) No adjustment to the Conversion Rate shall be made if the Holder(s) may participate in the transaction that would otherwise give rise to an adjustment, as a result of holding the Series A Preferred Stock, without having to convert the Series A Preferred Stock, as if they held the full number of shares of Common Stock into which a share of the Series A Preferred Stock may then be converted.

(xi) The Corporation may, but is not required to, make such increases in the Conversion Rate, in addition to those required by Subdivision 13(j)(ii) through (vii), as the Board of Directors deems advisable to avoid or diminish any income tax to holders of Common Stock resulting from any dividend or distribution of Common Stock (or rights to acquire Common Stock) or from any event treated as such for income tax purposes.

(xii) In addition to the foregoing, to the extent permitted by applicable law and subject to the applicable rules of the New York Stock Exchange, the Corporation from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least 20 Business Days, the increase is irrevocable during the period and the Board of Directors shall have made a determination that such increase would be in the best interests of the Corporation, which determination shall be conclusive. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Corporation shall mail to Holder(s) a notice of the increase, which notice will be given at least 15 calendar days prior to the effectiveness of any such increase, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

(xiii) If during a period applicable for calculating the Closing Price of Common Stock or any other security, an event occurs that requires an adjustment to the Conversion Rate, the Closing Price of such security shall be calculated for such period in a manner reasonably determined by the Corporation to appropriately reflect the impact of such event on the price of such security during such period. Whenever any provision of this Subdivision 13 requires a calculation of an average of Closing Prices of Common Stock or any other security over multiple days, appropriate adjustments shall be made to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Record Date of the event occurs, at any time during the period during which the average is to be calculated.

(xiv) Whenever the Conversion Rate is to be adjusted in accordance with Subdivision 13(j), the Corporation shall compute the Conversion Rate in accordance with Subdivision 13(j), taking into account Subdivision 13(j)(ix), and provide, or cause to be provided, a written notice to the Holder(s) of the occurrence of such event and setting forth the adjusted Conversion Rate.

(xv) Rights Plans. If the Corporation has a rights plan in effect with respect to the Common Stock on the Mandatory Conversion Date or any Conversion Date, upon conversion of any shares of the Series A Preferred Stock, the Holder of such shares will receive, in addition to the shares of Common Stock, the rights under the rights plan relating to such Common Stock, unless, prior to the Mandatory Conversion Date or such Conversion Date, the rights have (x) become exercisable or (y) separated from the shares of Common Stock in accordance with the provisions of such rights plan (the first of events to occur being the "Trigger Event"), in either of which cases the Conversion Rate will be adjusted, effective automatically at the time of such Trigger Event, as if the Corporation had made a distribution of such rights to all holders of the Common Stock as described in Subdivision 13(j)(iv) (without giving effect to the 60

day limit on the exercisability of rights and warrants ordinarily subject to such Subdivision 13(j)(iv)), subject to appropriate readjustment in the event of the expiration, termination or redemption of such rights prior to the exercise, deemed exercise or exchange thereof. Notwithstanding the foregoing, to the extent any such stockholder rights are exchanged by the Corporation for shares of Common Stock, the Conversion Rate shall be appropriately readjusted as if such stockholder rights had not been issued, but the Corporation had instead issued the shares of Common Stock issued upon such exchange as a dividend or distribution of shares of Common Stock subject to Subdivision 13(j)(ii).

(k) *Reorganization Events.*

(i) In the event that there occurs:

- (A) any consolidation, merger or other business combination of the Corporation with or into another Person;
- (B) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation;
- (C) any reclassification, recapitalization or reorganization of the Corporation; or
- (D) any statutory exchange of the outstanding shares of Common Stock for securities of another Person (other than in connection with a consolidation, merger or other business combination);

and in each case, the holders of the Common Stock receive stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for the Common Stock (any such event or transaction, a “Reorganization Event”) each share of Series A Preferred Stock outstanding immediately prior to such Reorganization Event shall, without notice to or consent of the Holder(s) and subject to Subdivision 13(k)(v), become convertible (but, for the avoidance of doubt, shall not be automatically converted in connection with such Reorganization Event) into the kind of securities, cash and other property received in such Reorganization Event by the holders of the Common Stock (other than the counterparty to the Reorganization Event or an Affiliate of such counterparty) (such securities, cash and other property, the “Exchange Property”).

(ii) In the event that holders of the shares of Common Stock have the opportunity to elect the form of consideration to be received in such transaction, the consideration that the Holder(s) are entitled to receive upon conversion shall be deemed to be the types and amounts of consideration received by a majority of the holders of the shares of Common Stock that did make an affirmative election.

(iii) The above provisions of this Subdivision 13(k) shall similarly apply to successive Reorganization Events and the provisions of Subdivision 13(j) shall apply to any shares of capital stock received by the holders of Common Stock in any such Reorganization Event.

(iv) The Corporation (or any successor) shall, within 20 days of the consummation of any Reorganization Event, provide written notice to the Holder(s) of such consummation of such event and of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Subdivision 13(k).

(v) The Corporation shall not enter into any agreement for a transaction constituting a Reorganization Event unless:

(A) such agreement provides for, or does not interfere with or prevent (as applicable), conversion of the Series A Preferred Stock into the Exchange Property in a manner that is consistent with and gives effect to this Subdivision 13(k); and

(B) to the extent that the Corporation is not the surviving corporation in such Reorganization Event or will be dissolved in connection with such Reorganization Event, proper provision shall be made in the agreements governing such Reorganization Event for the conversion of the Series A Preferred Stock into stock of the Person surviving such Reorganization Event or, in the case of a Reorganization Event described in Subdivision 13(k)(i)(B), an exchange of Series A Preferred Stock for the stock of the Person to whom the Corporation’s assets are conveyed or transferred, and such stock of the Person surviving such Reorganization Event or to whom the Corporation’s assets are conveyed or transferred shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation.

(l) *Holder's Right to Convert Upon a Make-Whole Acquisition.*

(i) In addition to any other rights of conversion set forth herein, in the event a Make-Whole Acquisition occurs, each Holder shall have the right, at such Holder's option, to convert all or any portion of such Holder's shares of Series A Preferred Stock into shares of Common Stock during the period (the "Make-Whole Acquisition Conversion Period") beginning on the effective date of the Make-Whole Acquisition (the "Make-Whole Acquisition Effective Date") and ending on the date that is 30 calendar days after the Make-Whole Acquisition Effective Date at the Applicable Conversion Rate, plus a number of additional shares of Common Stock (the "Additional Shares") determined pursuant to Subdivision 13(l)(ii), plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series A Preferred Stock so converted through the date of such conversion, subject to compliance with the conversion procedures set forth in Subdivision 13(i).

(ii) The number of Additional Shares per share of Series A Preferred Stock shall be determined by reference to the table below for the applicable Make-Whole Acquisition Effective Date and the applicable Make-Whole Acquisition Stock Price:

Make-Whole Acquisition Effective Date	Make-Whole Acquisition Stock Price																	
	\$8.72	\$10.00	12.00	14.00	14.46	16.00	18.00	20.00	22.00	24.00	26.00	28.00	30.00	32.00	34.00	36.00	38.00	40.00
February 1, 2010	24.7913	23.6268	17.6972	13.9064	13.3093	11.3104	9.4138	7.9597	6.8038	5.8595	5.0727	4.4068	3.8368	3.3445	2.9161	2.5415	2.2124	1.9225
February 1, 2011	24.7913	22.0079	16.0166	12.3338	11.7769	9.9124	8.2031	6.9243	5.9232	5.1125	4.4392	3.8697	3.3813	2.9580	2.5883	2.2634	1.9767	1.7226
February 1, 2012	24.7913	20.3361	14.1073	10.4610	9.9415	8.2023	6.6990	5.6236	4.8061	4.1552	3.6187	3.1663	2.7780	2.4406	2.1447	1.8834	1.6513	1.4446
February 1, 2013	24.7913	18.7311	11.9829	8.2258	7.7398	6.1127	4.8531	4.0299	3.4382	2.9797	2.6061	2.2916	2.0214	1.7860	1.5788	1.3949	1.2309	1.0838
February 1, 2014	24.7913	17.6267	9.7394	5.4758	5.0124	3.4610	2.5458	2.0743	1.7728	1.5452	1.3585	1.1998	1.0627	0.9427	0.8369	0.7428	0.6586	0.5829
February 1, 2015 and thereafter	24.7913	16.9727	7.4564	0.8113	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

The exact Make-Whole Acquisition Stock Price and Make-Whole Acquisition Effective Date may not be set forth in the table, in which case:

(A) if the Make-Whole Acquisition Stock Price is between two Make-Whole Acquisition Stock Price amounts in the table or the Make-Whole Acquisition Effective Date is between two Make-Whole Acquisition Effective Dates in the table, the number of Additional Shares will be determined by straight-line interpolation between the number of Additional Shares set forth for the higher and lower Make-Whole Acquisition Stock Price amounts and the two Make-Whole Acquisition Effective Dates, as applicable, based on a 365-day year;

(B) if the Make-Whole Acquisition Stock Price is in excess of \$40.00 per share (subject to adjustment pursuant to Subdivision 13(j)), no Additional Shares will be issued upon conversion of the Series A Preferred Stock;

(C) if the Make-Whole Acquisition Stock Price is less than \$8.72 per share (subject to adjustment pursuant to Subdivision 13(j)), no Additional Shares will be issued upon conversion of the Series A Preferred Stock; and

(D) if the Make-Whole Acquisition Effective Date is after the fifth anniversary of the Issue Date, then the number of Additional Shares will be determined by reference to the last row in the table.

The Make-Whole Acquisition Stock Prices set forth in the table above shall be adjusted pursuant to Subdivision 13(j) as of any date the Conversion Rate is adjusted. The adjusted Make-Whole Acquisition Stock Prices will equal the Make-Whole Acquisition Stock Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Conversion Rate immediately prior to the adjustment and the denominator of which is the Conversion Rate as so adjusted. Each of the number of Additional Shares in the table shall also be subject to adjustment in the same manner as the Conversion Rate pursuant to Subdivision 13(j).

(iii) On or before the 20th calendar day prior to the date the Corporation anticipates the Make-Whole Acquisition being consummated or within two Business Days of becoming aware of a Make-Whole Acquisition of the type set forth in clause (i) of the definition of Make-Whole Acquisition, a written notice shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) as they appear in the records of the Corporation. Such notice shall contain:

(A) the date of which the Make-Whole Acquisition is anticipated to be effective or the Make-Whole Acquisition Effective Date, as applicable; and

(B) the date by which a Make-Whole Acquisition conversion pursuant to this Subdivision 13(l) must be exercised.

(iv) On the Make-Whole Acquisition Effective Date or as soon as practicable thereafter, another written notice shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) as they appear in the records of the Corporation. Such notice shall contain:

- (A) the date that shall be 30 calendar days after the Make-Whole Acquisition Effective Date;
- (B) the number of Additional Shares;
- (C) the amount of cash, securities and other consideration receivable by a Holder upon conversion; and
- (D) the instructions a Holder must follow to exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l).

(v) To exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l), a Holder must, no later than 5:00 p.m., New York City time, on or before the date specified in the notice sent pursuant to Subdivision 13(l)(iv), comply with the procedures set forth in Subdivision 13(i), and indicate that it is exercising its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l).

(vi) If a Holder does not elect to exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l), the shares of Series A Preferred Stock or successor security held by it shall remain outstanding (unless otherwise converted as provided herein), but the Holder will not be eligible to receive Additional Shares.

(vii) Upon a Make-Whole Acquisition conversion, the Conversion Agent shall, except as otherwise provided in the instructions provided by the Holder thereof in the written notice provided to the Corporation or its successor as set forth in Subdivision 13(l)(v), deliver to the Holder such cash, securities or other property as are issuable with respect to the shares of Series A Preferred Stock converted.

(viii) In the event that a Make-Whole Acquisition conversion is effected with respect to shares of Series A Preferred Stock or a successor security representing less than all the shares of Series A Preferred Stock or a successor security held by a Holder, upon such Make-Whole Acquisition conversion, the Corporation or its successor shall execute and the Registrar shall, unless otherwise instructed in writing, countersign and deliver to the Holder thereof, at the expense of the Corporation or its successors, a certificate evidencing the shares of Series A Preferred Stock or such successor security held by the Holder as to which a Make-Whole Acquisition conversion was not effected.

(m) *Holder's Redemption Right Upon a Fundamental Change.*

(i) Upon the occurrence of a Fundamental Change, each Holder shall have the option, during the period commencing on the date the applicable Fundamental Change Notice (as defined below) is mailed to Holders of the Series A Preferred Stock and ending at the Close of Business on the 45th Business Day thereafter (the "Fundamental Change Redemption Date"), to require the Corporation to redeem all, or any portion, of such Holder's shares of Series A Preferred Stock at the redemption price per share equal to the Liquidation Preference per share of Series A Preferred Stock plus an amount equal to any accrued and unpaid dividends on the shares of Series A Preferred Stock so redeemed to, but not including, the Fundamental Change Redemption Date (the "Fundamental Change Redemption Price").

(ii) Within 30 days following a Fundamental Change, the Corporation shall mail to each Holder of shares of the Series A Preferred Stock a notice (the "Fundamental Change Notice") setting forth the details of the Fundamental Change and the special redemption rights occasioned thereby. In addition to any information required by law or by the applicable rules of any exchange upon which the Series A Preferred Stock may be listed or admitted to trading, such notice shall state: (a) the Fundamental Change Redemption Date; (b) the Fundamental Change Redemption Price; (c) the place or places where certificates for shares may be surrendered for payment of the Fundamental Change Redemption Price, including any procedures applicable to redemption to be accomplished through book-entry transfers; (d) the procedures that the Holder of Series A Preferred Stock must follow to exercise such Holder's rights under this Subdivision 13(m); and (e) that dividends on the shares tendered for redemption will cease to accumulate on the Fundamental Change Redemption Date.

(iii) To exercise such Holder's special redemption right under this Subdivision 13(m), a Holder must (a) surrender the certificate or certificates evidencing the shares of Series A Preferred Stock to be redeemed, duly endorsed in a form satisfactory to the Corporation, at the office of the Corporation and (b) notify the Corporation at such office that such Holder elects to exercise such Holder's fundamental change redemption rights and the number of shares such Holder wishes to have redeemed. In the event that a Holder fails to notify the Corporation of the number of shares of Series A Preferred Stock which such Holder wishes to have redeemed, such Holder shall be deemed to have elected to have redeemed all shares represented by the certificate or certificates surrendered for redemption.

(iv) Exercise by a Holder of such Holder's special redemption right following a Fundamental Change is irrevocable, except that a Holder may withdraw its election to exercise such Holder's special redemption right at any

time on or before the Fundamental Change Redemption Date by delivering a written or facsimile transmission notice to the Corporation at the address or facsimile number specified in the Fundamental Change Notice. Such notice, to be effective, must be received by the Corporation prior to the close of business on the Fundamental Change Redemption Date. All shares of Series A Preferred Stock tendered for redemption pursuant to the Holder's fundamental change redemption rights as described herein and not withdrawn shall be redeemed at or prior to the Close of Business on the Fundamental Change Redemption Date. From and after the Fundamental Change Redemption Date, unless the Corporation defaults in payment of the Fundamental Change Redemption Price, dividends on the shares of Series A Preferred Stock tendered for redemption shall cease to accumulate, and said shares shall no longer be deemed to be outstanding and shall not have the status of shares of Series A Preferred Stock, and all rights of Holders thereof as shareholders of the Corporation (except the right to receive from the Company the Fundamental Change Redemption Price) shall cease. As soon as practical after the Fundamental Change Redemption Date, the Corporation shall deliver a new certificate representing the unredeemed portion, if any, of the shares of Series A Preferred Stock represented by the certificate or certificates surrendered for redemption.

(n) *Voting Rights.*

(i) Unless the consent of the Holder(s) of a greater number of shares shall then be required by law and except as provided in Subdivisions 13(n)(ii), 13(n)(iii) and 13(n)(iv), the consent of the Holder(s) of at least two-thirds of the shares of Series A Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Series A Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(A) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Series A Preferred Stock;

(B) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation (whether, directly or indirectly, by merger, consolidation or otherwise) which would affect adversely any right, preference, privilege or voting power of the Series A Preferred Stock or of the Holder(s) thereof; and

(C) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation, or the consolidation, merger or other business combination of the Corporation with or into any other Person, except any such sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation or consolidation or merger or other business combination wherein none of the rights, preferences, privileges or voting powers of the Series A Preferred Stock or the Holder(s) thereof are adversely affected.

(ii) The Holder(s) shall have no voting rights with respect to any consolidation, merger or other business combination of the Corporation with or into any other Person if:

(A) to the extent the Corporation is not the surviving Person in such transaction, the Holder(s) will receive the stock of the Person surviving such transaction and such stock shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation; and

(B) upon conversion of the Series A Preferred Stock or the stock of the Person surviving such transaction issued in accordance with Subdivision 13(k)(v), the Holder(s) will receive Exchange Property in accordance with Subdivision 13(k).

(iii) The Holder(s) shall have no voting rights with respect to any sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation if:

(A) to the extent the Corporation is not the surviving Person in such transaction, the Holder(s) will receive the stock of the Person to whom all or substantially all of the property or business of the Corporation is sold, leased or conveyed and such stock shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation; and

(B) upon conversion of the Series A Preferred Stock or the stock of the Person to whom all or substantially all of the property or business of the Corporation is sold, leased or conveyed issued in accordance with Subdivision 13(k)(v), the Holder(s) will receive Exchange Property in accordance with Subdivision 13(k).

(iv) The Holder(s) shall not have any voting rights if, at or prior to the effective time of the act with respect to which such vote would otherwise be required, all outstanding shares of Series A Preferred shall have been converted into shares of Common Stock.

(v) The last paragraph of Subdivision 6 of Article FOURTH of the Certificate of Incorporation shall not be applicable to the Series A Preferred Stock.

(vi) The Holder(s) will have the right to appoint two members of the Board of Directors in accordance with Subdivision 7 of Article FOURTH of the Certificate of Incorporation.

(o) *Transfer; Optional Redemption by the Corporation Upon Transfer.*

(i) The Transfer of the Series A Preferred Stock by the Holder(s) thereof shall not be restricted other than pursuant to the requirements of applicable law; *provided, however*, that, with respect to any such Transfer of shares of Series A Preferred Stock, the shares so Transferred must have an aggregate Liquidation Preference of at least \$1 million and, if applicable, any shares owned by the Holder effecting such Transfer following such Transfer must have an aggregate Liquidation Preference of at least \$1 million.

(ii) Upon a Transfer of the Series A Preferred Stock pursuant to Subdivision 13(o)(i) to a Person other than a Permitted Transferee, the Corporation shall have the right, at its option, to redeem, in part or in whole, such Transferred shares of Series A Preferred Stock (the “Optional Redemption Transferred Shares”) at any time on or following the fifth anniversary of the date of such Transfer at a redemption price per share of Series A Preferred Stock equal to the then Fair Market Value of such Optional Redemption Transferred Shares and an amount equal to any accrued and unpaid dividends on such Optional Redemption Transferred Shares to, but not including, the Optional Redemption Date.

(A) If the Corporation exercises its optional redemption right to redeem the Optional Redemption Transferred Shares pursuant to Subdivision 13(o)(ii), a written notice (the “Optional Redemption Notice”) shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) of such Optional Redemption Transferred Shares, which shall contain the number of Optional Redemption Transferred Shares, the name of the nationally recognized independent investment banking firm selected by the Corporation to determine the Fair Market Value of the Optional Redemption Transferred Shares to be redeemed, the Fair Market Value of the Optional Redemption Transferred Shares (on a per share and aggregate basis) and such other information required by applicable law.

(B) The date of the redemption of the Optional Redemption Transferred Shares shall be a date selected by the Corporation that is not less than 30 calendar days and not more than 60 calendar days after the date on which the Corporation provides Optional Redemption Notice (the “Optional Redemption Date”).

(C) If, on or before the Optional Redemption Date specified in the Optional Redemption Notice, the Corporation has set aside all funds necessary for such redemption, separate and apart from its other funds, in trust for the pro rata benefit of the Holder(s) of the Optional Redemption Transferred Shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for the Optional Redemption Transferred Shares so called for redemption shall not have been surrendered for cancellation, all the Optional Redemption Transferred Shares so called for redemption shall no longer be deemed outstanding on and after such Optional Redemption Date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such Optional Redemption Date cease and terminate, except only the right of the Holder(s) thereof to receive the amount payable on redemption thereof without interest.

(iii) A Holder effecting a Transfer pursuant to this Subdivision 13(o) must notify the Registrar of the Transfer on the date of the Transfer. Any purported Transfer of shares of Series A Preferred Stock not in accordance with this Subdivision 13(o) shall be void and have no effect; *provided, however*, that the failure to notify the Registrar of any Transfer shall not cause such Transfer to be void and of no effect.

(p) *Reservation of Common Stock.*

(i) The Corporation has reserved and shall continue at all times to reserve and keep available out of its authorized and unissued Common Stock or shares acquired by the Corporation, solely for issuance upon the conversion of shares of Series A Preferred Stock as provided in this Subdivision 13, free from any preemptive or other similar rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series A Preferred Stock then outstanding. The Corporation shall take all such corporate and other actions as from time to time may be necessary to ensure that all shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock at the Conversion Rate in effect from time to time will, upon issue, be duly and validly authorized and issued, fully paid and nonassessable and free of any preemptive or similar rights. For purposes of this Subdivision 13(p), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series A Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(ii) Notwithstanding the foregoing, the Corporation shall be entitled to deliver upon conversion of shares of Series A Preferred Stock, as herein provided, shares of Common Stock acquired by the Corporation (in lieu of the issuance of authorized and unissued shares of Common Stock), so long as (x) any such acquired shares are free and clear of all liens, charges, security interests or encumbrances (other than liens, charges, security interests and other encumbrances

created by the Holders) and (y) all such acquired shares have all the same attributes as any other share of Common Stock then outstanding, including without limitation any rights that may then be attached to all or substantially all of the Common Stock then outstanding pursuant to any stockholders' rights plan or similar arrangement.

(iii) All shares of Common Stock delivered upon conversion of the Series A Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holder(s)).

(iv) Prior to the delivery of any securities that the Corporation shall be obligated to deliver upon conversion of the Series A Preferred Stock, the Corporation shall use its reasonable best efforts to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(v) The Corporation hereby covenants and agrees that, if at any time the Common Stock shall be listed on the New York Stock Exchange or any other national securities exchange or automated quotation system, the Corporation will, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, all the Common Stock issuable upon conversion of the Series A Preferred Stock.

(q) *Replacement Certificates.* The Corporation shall replace any mutilated Series A Preferred Stock certificate at the Holder's expense upon surrender of that certificate to the Corporation. The Corporation shall replace certificates that become destroyed, stolen or lost at the Holder's expense upon delivery to the Corporation of satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may reasonably be required by the Corporation.

(r) *Miscellaneous.*

(i) All notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three Business Days after the mailing thereof if sent by registered or certified mail with postage prepaid, addressed: (x) if to the Corporation, to its office at 45 Glover Avenue, Norwalk, CT 06856, Attention: General Counsel, or (y) if to any Holder, to such Holder at the address of such Holder as listed in the stock record books of the Corporation or (z) to such other address as the Corporation or any such Holder, as the case may be, shall have designated by notice similarly given.

(ii) No Holder of Series A Preferred Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

(iii) The shares of Series A Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

FIFTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against it served on him is:

XEROX CORPORATION
45 Glover Avenue
P. O. Box 4505
Norwalk, CT 06856-4505
Attention: General Counsel

SIXTH: Its duration is to be perpetual.

SEVENTH: The number of directors shall be not less than five (5) nor more than twenty-one (21) as determined in the manner prescribed by the By-Laws.

Unless the election is contested, each director shall be elected by the affirmative vote of a majority of the votes cast for or against the director at any meeting for the election of directors at which a quorum is present. In a contested election, directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. An election shall be considered contested if as of the record date there are more nominees for election than positions on the board of directors to be filled by election at the meeting.

EIGHTH: The Corporation may purchase, acquire, hold and dispose of the stocks, bonds and other evidences of indebtedness of any corporation, domestic or foreign, and may issue in exchange therefor, its stock, bonds or other obligations.

NINTH: A person who is or was a director of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for any breach of duty in such capacity, except to the extent that the Business Corporation Law of the State of New York as in effect from time to time expressly provides that the foregoing provisions shall not eliminate or limit such personal liability. Nothing in this Article shall directly or indirectly increase the liability of any such person based upon acts or omissions occurring before the adoption hereof. No amendment, modification or repeal of this Article shall adversely affect any right or protection of any director that exists at the time of such change.

Signed on February 21, 2013.

/s/ Ursula M. Burns

Ursula M. Burns
Chairman of the Board and Chief Executive Officer

/s/ Don H. Liu

Don H. Liu
Senior Vice President, General Counsel and Secretary

Annual Performance Incentive Plan for 2012 (“2012 APIP”)

Under the 2012 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the “Committee”) are met.

The Committee previously approved an incentive target opportunity for 2012, expressed as a percentage of base salary, for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2012 APIP. Additionally, the Committee had established an opportunity for an individual performance component whereby the Committee has the authority to increase or decrease the award up to 20%, subject to the limitations of Section 162(m) of the Internal Revenue Code. The performance measures and weightings were adjusted earnings per share (weighted at 40%), operating cash flow (weighted at 40%) and revenue growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

The performance against the 2012 APIP goals was as follows: adjusted earnings per share and constant currency revenue growth were below threshold and operating cash flow exceeded maximum.

Annual Performance Incentive Plan for 2013 (“2013 APIP”)

Under the 2013 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the “Committee”) are met.

The Committee approved incentive opportunities for 2013, expressed as a percentage of base salary for each participating officer. The Committee also established overall threshold, target and maximum measures of performance for the 2013 APIP. Additionally, the Committee established an opportunity for an individual performance component whereby the Committee has the authority to increase or decrease the award up to 20%, subject to the limitations of Section 162(m) of the Internal Revenue Code. The performance measures and weightings are adjusted earnings per share (weighted at 40%), operating cash flow (weighted at 40%) and revenue growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

Individual awards will be subject to the review and approval of the Committee following the completion of the 2013 fiscal year, with payment to be made within the first four months of 2014.

2013 Executive Long-Term Incentive Program (“2013 E-LTIP”)

Under the 2013 E-LTIP, executive officers of the Company are eligible to receive performance shares based on certain performance measures established by the Compensation Committee of the Board of Directors (the “Committee”).

The performance elements and corresponding weightings for the 2013 E-LTIP are:

(i) (40%) Adjusted Earnings per Share (EPS): Diluted Earnings Per Share from Continuing Operations as reported in the Company’s audited consolidated financial statements, as adjusted on an after-tax basis for the following discretely disclosed (in either Management’s Discussion and Analysis/MD&A or the footnotes to the financial statements) items (on an individual, or in the aggregate, annual basis per item and subject to monetary thresholds as noted): amortization of acquisition-related intangibles; restructuring and asset impairment charges (amounts in excess of \$50 million); gains/(losses) resulting from acts of war, terrorism or natural disasters (if equal to or greater than \$50 million pre-tax); items individually identified within Other Expenses, net, (except for interest, currency and asset dispositions) and in an amount equal to or greater than \$25 million. If any such item qualifies for separate line item disclosure on the face of the consolidated statement of income in accordance with Generally Accepted Accounting Principles consistently applied, then such item will also warrant adjustment; gains/(losses) from the settlement of tax audits or changes in enacted tax law (if equal to or greater than \$30 million); our share of after-tax effects of the above items incurred by Fuji-Xerox (if our share is equal to or greater than \$10 million).

(ii) (40%) Adjusted Operating Cash Flow: Net Cash provided by (used for) Operating Activities as reported in the Company’s audited consolidated financial statements, as adjusted for the following items: with the exception of cash payments for restructurings, cash flow impacts (inflows and outflows) resulting from the EPS adjustments as identified above whether or not the cash flow impact and the EPS impact are in the same fiscal year; cash payments for restructurings in excess of the amount reported as current restructuring reserves in the preceding year’s Annual Report.

(iii) (20%) Revenue Growth: Revenue growth adjusted to (1) exclude the impact of changes in the translation of foreign currencies into U.S. dollars and (2) exclude the impacts of individual acquisitions/divestitures when such impacts are disclosed on an individual basis in either the Company’s consolidated financial statements or MD&A.

Acquisitions and Divestitures: EPS, Operating Cash Flow and Revenue Growth will be adjusted for the impacts of any individual acquisition/divestiture in excess of \$500 million purchase/sale price.

Any other items approved by the Committee for adjustment of the above metrics will be considered a modification of the award.

EXHIBIT 10(e)(25)

**AGREEMENT PURSUANT TO
XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN AS AMENDED OR RESTATED TO DATE**

AGREEMENT, by Xerox Corporation, a New York corporation (the "Company"), dated as of the date that appears in the award summary that provides the value (or number of Performance Shares) and vesting provisions of the award (the "Award Summary") in favor of the individual whose name appears on the Award Summary, who is an employee of the Company, one of the Company's subsidiaries or one of its affiliates (the "Employee").

In accordance with the provisions of the "2004 Performance Incentive Plan" and any amendments and/or restatements thereto (the "Plan"), the Compensation Committee of the Board of Directors of the Company (the "Committee") or the Chief Executive Officer of the Company (the "CEO") has authorized the execution and delivery of this Agreement.

Terms used herein that are defined in the Plan or in this Agreement shall have the meanings assigned to them in the Plan or this Agreement, respectively.

The Award Summary contains the details of the awards covered by this Agreement and is incorporated herein in its entirety.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the Company agrees as follows:

AWARDS

1. Award of Performance Shares. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the Award Summary the number of Performance Shares (individually, the "PS") as shown on the Award Summary. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company's Human Resources Policies) on the effective date of the award as shown on the Award Summary shall be eligible to receive the award.

TERMS OF THE PERFORMANCE SHARES

2. Entitlement to Shares. As soon as practicable on or after the Vesting Date indicated on the Award Summary (the "Vesting Date") in connection with the PSs, the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested PSs (subject to reduction for withholding of Employee's taxes in relation to the award as described in Paragraph 10 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

The Committee shall set performance goals and review performance against such goals in connection with determining the payout of PSs. The award of PSs covered hereby shall be earned based on achieving three-year cumulative performance goals (as shall be determined by the Committee) at one hundred percent (100%) of target. To the extent such performance measures are achieved at or between threshold and maximum levels on a three-year cumulative basis, PSs will be earned as set forth in the Award Summary. The Vesting Date for earned PS awards granted shall be set forth in the Award Summary.

Upon the occurrence of an event constituting a Change in Control, all PSs and dividend equivalents outstanding on such date shall be treated pursuant to the terms set forth in the Plan. Upon payment pursuant to the terms of the Plan, such awards shall be cancelled.

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of PSs covered by this Agreement (relating exclusively to PSs earned, based on achievement of three-year cumulative performance targets, not to exceed the target award amount shown on the Award Summary), that are held by the Employee on the close of business on the business day immediately preceding the Vesting Date, would have been entitled to receive as dividends on such Common Stock during the period commencing on the date hereof and ending on the Vesting Date as provided under Paragraph 2. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Corporate Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents.

OTHER TERMS

4. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee or its authorized delegate, as applicable, in its sole discretion from time to time as communicated to Employee in writing.

5. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the PSs until ownership guidelines are met under Paragraph 4 hereof, subject to any ownership and holding requirements policies established by the Committee from time to time. Such shares shall be held in the Employee's Morgan Stanley Smith Barney account or in another account acceptable to the Company. In addition, shares used to maintain the Employee's ownership level pursuant to this award should be held with Morgan Stanley Smith Barney or in another account acceptable to the Company.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee is a Corporate officer of the Company and terminates for any other reason, the holding requirement will be applicable for up to a one year period following termination.

6. Rights of a Shareholder. Employee shall have no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate to him for such shares. Except as otherwise provided herein, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

7. Non-Assignability. This Agreement shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution.

8. Effect of Termination of Employment or Death.

(a) Effect on PSs. In the event the Employee

(i) voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate (the Company, subsidiary or affiliate, together, the "Employer") for any reason other than retirement, and the PSs have not vested in accordance with Paragraph 2, the PSs shall be cancelled on the date of such voluntary termination of employment.

(ii) involuntarily ceases to be an Employee of the Employer for any reason (including Disability as provided pursuant to Paragraph 8(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, or voluntarily ceases to be an Employee of the Employer due to a reduction in workforce, shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis for three-year cumulative performance if achieved in accordance with Paragraph 2, based on the Employee's actual months of service, and vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary.

(iii) ceases to be an Employee of the Employer by reason of death, 100% of the PSs pursuant to this grant shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 7 to the personal representatives, heirs or legatees of the deceased Employee.

(iv) ceases to be an Employee of the Employer by reason of retirement (i.e., for purposes of this Agreement, "retirement" for U.S. employees shall mean termination of employment at or above age 55 with 10 years of service with the Employer), shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis for three-year cumulative performance, if achieved in accordance with Paragraph 2, based on the Employee's actual months of service, and vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary; and

(v) ceases to be an Employee of the Employer due to termination for Cause, the PSs shall, subject to any Plan provisions to the contrary, be cancelled on the date of such termination of employment.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Employer's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 8 and, during the continuance of such Employer-sponsored long-term disability plan benefits, the Employee shall be deemed to continue

active employment with the Employer. If the Employee is terminated because the Employee has received the maximum coverage under an Employer-provided long-term disability plan, the vesting of PSs shall be provided pursuant to Paragraph 8(a)(ii) above.

(c) Cause. "Cause" means (i) a violation of any of the rules, policies, procedures or guidelines of the Employer, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement (ii) any conduct which qualifies for "immediate discharge" under the Employer's Human Resource Policies as in effect from time to time (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Employer, or represents a conflict of interest with the interests of the Employer; (iv) conviction of, or entering a guilty plea with respect to, a crime whether or not connected with the Employer; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Employer.

9. General Restrictions. If at any time the Committee or its authorized delegate, as applicable, shall determine, in its discretion, that the listing, registration or qualification of any shares subject to this Agreement upon any securities exchange or under any state or Federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the awarding of the PSs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of PSs in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee or its authorized delegate, as applicable, and any delay caused thereby shall in no way affect the date of termination of the PSs.

10. Responsibility for Taxes. Employee acknowledges that the ultimate responsibility for Employee's Federal, state and municipal individual income taxes, the Employee's portion of social security and other payroll taxes, and any other taxes related to Employee's participation in the Plan and legally applicable to Employee, is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer.

11. Nature of Award. In accepting the award, Employee acknowledges that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time in a manner consistent with Section 13 of the Plan regarding Plan amendment and termination.

(b) the award of the PSs is voluntary and occasional and does not create any contractual or other right to receive future grants of PSs, or benefits in lieu of PSs, even if PSs have been granted repeatedly in the past;

(c) all decisions with respect to future PS awards, if any, will be at the sole discretion of the Committee or its authorized delegate, as applicable;

(d) Employee's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate Employee's employment relationship at any time; further, the PS award and Employee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Employer;

(e) Employee is voluntarily participating in the Plan;

(f) the PSs and the shares of Common Stock subject to the PSs are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Employer, and which is outside the scope of Employee's employment contract, if any;

(g) the PSs and the shares of Common Stock subject to the PSs are not intended to replace any pension rights or compensation;

(h) the PSs and the shares of Common Stock subject to the PSs are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Employer;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) in consideration of the award of the PSs, no claim or entitlement to compensation or damages shall arise from forfeiture of the PSs, including, but not limited to, forfeiture resulting from termination of Employee's employment with the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and Employee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, Employee shall be deemed irrevocably to have waived Employee's entitlement to pursue such claim; and

(k) subject to the provisions in the Plan regarding Change in Control, PSs and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

12. No Advice Regarding Award. Neither the Company nor the Employer is providing any tax, legal or financial advice, nor is the Company or Employer making any recommendations regarding Employee's participation in the Plan, or his or her acquisition or sale of the underlying shares of Common Stock. Employee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

13. Amendment of This Agreement. With the consent of the Employee, the Committee or its authorized delegate, as applicable, may amend this Agreement in a manner not inconsistent with the Plan.

14. Subsidiary. As used herein the term "subsidiary" shall mean any present or future corporation which would be a "subsidiary corporation" of the Company as the term is defined in Section 425 of the Internal Revenue Code of 1986 on the date of award.

15. Affiliate. As used herein the term "affiliate" shall mean any entity in which the Company has a significant equity interest, as determined by the Committee.

16. Recoupments.

(a) If an Employee or former Employee of the Employer, is reasonably deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Employer, any awards granted to such Employee or former Employee shall be cancelled and be of no further force or effect and any payment or delivery of an award within six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee or its authorized delegate, as applicable. Detrimental activity may include:

(i) violating terms of a non-compete agreement with the Employer, if any;

(ii) disclosing confidential or proprietary business information of the Employer to any person or entity including but not limited to a competitor, vendor or customer without appropriate authorization from the Employer;

(iii) violating any rules, policies, procedures or guidelines of the Employer;

(iv) directly or indirectly soliciting any employee of the Employer to terminate employment with the Employer;

(v) directly or indirectly soliciting or accepting business from any customer or potential customer or encouraging any customer, potential customer or supplier of the Employer, to reduce the level of business it does with the Employer;

(vi) engaging in any other conduct or act that is determined to be injurious, detrimental or prejudicial to any interest of the Employer.

(b) If an accounting restatement by the Company is required in order to correct any material noncompliance with financial reporting requirements under relevant securities laws, the Company will have the authority to recover from executive officers or former executive officers, whether or not still employed by the Employer, any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, provided under this Agreement to executive officers of the Employer, that was based on such erroneous data and paid during the three-year period preceding the date on which the Company is required to prepare the accounting restatement. Notwithstanding anything herein to the contrary, the Company may implement any policy or take any action with respect to the recovery of excess incentive-based compensation, including entitlement to shares that the Company determines to be necessary or advisable in order to comply with the requirements of the Dodd-Frank Wall Street Financial Reform and Consumer Protection Act.

17. Cancellation and Rescission of Award. Without limiting the foregoing Paragraph regarding non-engagement in detrimental activity against the Employer, the Company may cancel any award provided hereunder if the Employee is not in compliance with all of the following conditions:

(a) An Employee shall not render services for any organization or engage directly or indirectly in any business which would cause the Employee to breach any of the post-employment prohibitions contained in any agreement between the Employer and the Employee.

(b) An Employee shall not, without prior written authorization from the Employer, disclose to anyone outside the Employer, or use in other than the Employer's business, any confidential information or material, as specified in any agreement between the Employer and the Employee which contains post-employment prohibitions, relating to the business of the Employer acquired by the Employee either during or after employment with the Employer.

(c) An Employee, pursuant to any agreement between the Employer and the Employee which contains post-employment prohibitions shall disclose promptly and assign to the Employer, all right, title and interest in any invention or idea, patentable or not, made or conceived by the Employee during employment with the Employer, relating in any manner to the actual or

anticipated business, research or development work of the Employer, and shall do anything reasonably necessary to enable the Employer to secure a patent where appropriate in the United States and in foreign countries.

(d) Failure to comply with the provision of subparagraphs (a), (b) or (c) of this Paragraph 17 prior to, or during the six months after, any payment or delivery shall cause such payment or delivery to be rescinded. The Company shall notify the Employee in writing of any such rescission within two years after such payment or delivery. Within ten days after receiving such a notice from the Company, the Employee shall pay to the Company the amount of any payment received as a result of the rescinded payment or delivery pursuant to an award. Such payment to the Company by the Employee shall be made either in cash or by returning to the Company the number of shares of common stock that the Employee received in connection with the rescinded payment or delivery.

18. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at P.O. Box 4505, 45 Glover Avenue, 6th Floor, Norwalk, Connecticut 06856-4505, addressed to the attention of Stock Plan Administrator, and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

19. Language. If Employee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

20. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Employee hereby consents to receive such documents by electronic delivery, and agrees to participate in the Plan and be bound by the terms and conditions of this Agreement, through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

21. Interpretation of This Agreement. The Committee or its authorized delegate, as applicable, shall have the authority to interpret the Plan and this Agreement and to take whatever administrative actions, including correction of administrative errors in the awards subject to this Agreement and in this Agreement, as the Committee or its authorized delegate, as applicable, in its sole good faith judgment shall be determined to be advisable. All decisions, interpretations and administrative actions made by the Committee or its authorized delegate, as applicable, hereunder or under the Plan shall be binding and conclusive on the Company and the Employee. In the event there is inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

22. Successors and Assigns. This Agreement shall be binding and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 7 to the personal representatives, legatees and heirs of the Employee.

23. Governing Law and Venue. The validity, construction and effect of the Agreement and any actions taken under or relating to this Agreement shall be determined in accordance with the laws of the state of New York and applicable Federal law.

This grant is made and/or administered in the United States. For purposes of litigating any dispute that arises under this grant or the Agreement the parties hereby submit to and consent to the jurisdiction of the state of New York, agree that such litigation shall be conducted in the courts of Monroe County, New York, or the federal courts for the United States for the Western District of New York.

24. Separability. In case any provision in the Agreement, or in any other instrument referred to herein, shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions in the Agreement, or in any other instrument referred to herein, shall not in any way be affected or impaired thereby.

25. Integration of Terms. Except as otherwise provided in this Agreement, this Agreement contains the entire agreement between the parties relating to the subject matter hereof and supersedes any and all oral statements and prior writings with respect thereto.

26. Appendix for Non-U.S. Countries. Notwithstanding any provisions in this Agreement, the PS award shall be subject to any special terms and conditions set forth in any appendix to this Agreement for Employee's country (the "Appendix"). Moreover, if Employee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Employee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

27. Imposition of Other Requirements. The Committee or its authorized delegate, as applicable, reserves the right to impose other requirements on Employee's participation in the Plan, on the PSs and on any shares of Common Stock acquired under the Plan, to the extent the Committee or its authorized delegate, as applicable, determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the day and year set forth on the Award Summary.

XEROX CORPORATION

By: _____
Signature



Executive Long-Term Incentive Program Performance Share Award Award Summary

«First Name» «Last Name»

Date of agreement and award: <<Grant Date>>

Approved Value: <<Approved Value>>

Performance Shares

Number of Performance Shares:	<<# Performance Shares>>
Vesting Date of All Performance Shares Earned:	<<3 yrs. from grant date>>
Performance Shares Earned if 3-Year Cumulative Performance is Achieved between Threshold and Maximum:	25% – 150% based on 3-year performance results

*Subject to the terms and conditions described in the Omnibus Agreement – 2013: PIP; ELTIP; PSs

* Performance measures which may include, but are not limited to, achievement of specific business objectives, and other measurements of individual, business unit or Company performance, are determined by the Committee in its sole discretion, consistent with the terms of the 2004 Performance Incentive Plan as Amended or Restated.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges, the ratio of earnings to combined fixed charges and preferred stock dividends, as well as any deficiency of earnings are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income (loss) from continuing operations before income taxes and equity income; (b) distributed equity income; (c) fixed charges, as defined below; and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest and net income attributable to noncontrolling interests.

Fixed charges are calculated as the sum of: (a) interest costs (both expensed and capitalized); (b) amortization of debt expense and discount or premium relating to any indebtedness; and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre-tax earnings required to cover dividends paid on our Series A convertible preferred stock.

(in millions)	Year Ended December 31,				
	2012	2011	2010	2009	2008
Fixed Charges:					
Interest expense	\$ 428	\$ 478	\$ 592	\$ 527	\$ 567
Capitalized interest	13	13	5	8	10
Portion of rental expense which represents interest factor	215	227	211	89	84
Total Fixed Charges	\$ 656	\$ 718	\$ 808	\$ 624	\$ 661
Earnings Available for Fixed Charges:					
Pre-tax income	\$ 1,348	\$ 1,565	\$ 815	\$ 627	\$ (79)
Distributed equity income of affiliated companies	62	63	41	16	60
Add: Fixed charges	656	718	808	624	661
Less: Capitalized interest	(13)	(13)	(5)	(8)	(10)
Less: Net income-noncontrolling interests	(28)	(33)	(31)	(31)	(35)
Total Earnings Available for Fixed Charges	\$ 2,025	\$ 2,300	\$ 1,628	\$ 1,228	\$ 597
Ratio of Earnings to Fixed Charges	3.09	3.20	2.01	1.97	*
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:					
Fixed Charges:					
Interest expense	\$ 428	\$ 478	\$ 592	\$ 527	\$ 567
Capitalized interest	13	13	5	8	10
Portion of rental expense which represents interest factor	215	227	211	89	84
Total Fixed Charges before preferred stock dividends pre-tax income requirements	656	718	808	624	661
Preferred stock dividends pre-tax income requirements	39	39	35	—	—
Total Combined Fixed Charges and Preferred Stock Dividends	\$ 695	\$ 757	\$ 843	\$ 624	\$ 661
Earnings Available for Fixed Charges:					
Pre-tax income	\$ 1,348	\$ 1,565	\$ 815	\$ 627	\$ (79)
Distributed equity income of affiliated companies	62	63	41	16	60
Add: Fixed charges before preferred stock dividends	656	718	808	624	661
Less: Capitalized interest	(13)	(13)	(5)	(8)	(10)
Less: Net income-noncontrolling interests	(28)	(33)	(31)	(31)	(35)
Total Earnings Available for Fixed Charges and Preferred Stock Dividends	\$ 2,025	\$ 2,300	\$ 1,628	\$ 1,228	\$ 597
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	2.91	3.04	1.93	1.97	*

* Earnings for year ended December 31, 2008 were inadequate to cover fixed charges by \$64.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Executive Overview

With sales approaching \$23 billion, we are the world's leading global enterprise for business process and document management. Our services, technology and expertise enable customers - from small businesses to large global enterprises - to focus on their core business and operate more effectively. Headquartered in Norwalk, Connecticut, we offer business process outsourcing, document outsourcing and IT outsourcing services, including data processing, healthcare solutions, HR benefits management, finance support, transportation solutions and customer relationship management services for commercial and government organizations worldwide. We also provide extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size. Through our business process and IT outsourcing services as well as our document technology and managed print services, we operate in a market estimated at over \$600 billion. The 147,600 people of Xerox serve customers in more than 160 countries. Approximately 34 percent of our revenue is generated outside the U.S.

We organize our business around two main segments: **Services** and **Document Technology**.

- Our **Services** segment is comprised of **business process outsourcing, information technology outsourcing and document outsourcing**. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.

A key priority in 2012 was continued growth in our services business. Revenue from services grew 6%, reflecting growth from all three lines of business, business process outsourcing ("BPO"), information technology outsourcing ("ITO") and document outsourcing services ("DO"). Growth in BPO benefited from recent modestly-sized acquisitions, consistent with our strategy to continue diversifying our services portfolio and to expand our business globally. In 2012, total business signings were nearly \$11 billion and revenue from services represented 52 percent of our total 2012 revenue. Segment margin began to improve during 2012 and was up 0.9 points in the fourth quarter 2012 as compared to the prior year.

- Our **Document Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (excluding contracts related to document outsourcing). Our product groups within this segment include Entry, Mid-range and High-end products.

In 2012, as a result of economic uncertainties in several regions and secular shifts in the marketplace, we focused our efforts on productivity improvements and reductions in our cost base as well as steadily expanding distribution through indirect channels. As a result, we maintained market leadership in the fastest growing, most attractive segments of this market and segment margin remained comparable with 2011. During the first quarter of 2013, we will launch new and refreshed products that enhance our portfolio of mid-range and production color document systems. In addition, we are launching a new operating system and software for our line of multifunction printers ("MFPs") that add extensive cloud-based functionality and embedded security protection from McAfee. We expect that this operating system integrated with new products will help drive improved installs and sales of Xerox equipment throughout the year.

Approximately 84 percent of our 2012 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in Services. Some of the key indicators of annuity revenue growth include:

- New Services business signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period.
- Services renewal rate, which is defined as the annual recurring revenue ("ARR") on contracts that are renewed during the period, calculated as a percentage of ARR on all contracts that were up for renewal during the period.
- Services pipeline growth, which measures the year-over-year increase in new business opportunities.
- Installations of printers and multifunction printers as well as the number of page-producing machines in the field ("MIF") and the page volume and mix of pages printed on color devices, where available.

Consistent with our strategy to expand our Services offerings through acquisitions, we acquired the following companies in 2012:

- **Wireless Data Services ("WDS")**, a telecommunications technical support and consultancy firm headquartered in the United Kingdom.
- **Lateral Data**, a leading e-discovery technology provider based in the United States.
- **LaserNetworks Inc.**, a Canada-based provider of managed print services solutions that include print device tracking, centralized service and supply management and document routing.
- **XL World**, a multi-lingual customer care firm based in Italy that will further expand our BPO capabilities across Europe.

In addition, during 2012 we acquired companies that expand our distribution capacity for Xerox document technology to small and midsized businesses ("SMB") and in under-penetrated markets. These acquisitions include **R.K. Dixon**, a leading provider of IT services, printers and managed print services, with locations in seven Iowa and Illinois cities. We also enhanced our distribution capabilities by acquiring office products distributors in Wisconsin, California and Illinois.

Financial Overview

During 2012 we focused on aligning our costs, investments, diverse portfolio and operations with our services-led strategy that is designed to accelerate growth in Services while maximizing the profitability of our Document Technology business.

Total revenue of \$22.4 billion in 2012 declined 1% from the prior year, with a 1-percentage point negative impact from currency. Total revenue reflected 6% growth in our Services segment as a result of strong performance in BPO, ITO and DO services. Document Technology revenues in 2012 declined 8% from the prior year and included a 2-percentage point negative impact from currency. Document Technology revenues in 2012 continued to be impacted by the weak macro-economic environment as well as an increasing migration of customers to our managed print services.

Net income attributable to Xerox for 2012 was \$1,195 million and included \$316 million of after-tax costs and expenses related to the amortization of intangible assets and restructuring. Net income for 2012 reflects continued pressure on margins, as we scale our revenue in Services and ramp-up new contracts, partially offset by operational improvements and cost reductions from restructuring actions. We incurred additional pre-tax restructuring charges of \$120 million in 2012 as compared to 2011 as we actively manage our cost structure to improve profitability and better align it with our services-focused business model. Net income attributable to Xerox for 2011 was \$1,295 million and included \$305 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, and the loss on the early extinguishment of a long-term liability, which were partially offset by an after-tax curtailment gain of \$66 million.

Cash flow from operations was \$2.6 billion in 2012 as compared to \$2.0 billion in 2011. The increase in cash was primarily due to the sales of receivables as well as a higher net runoff of finance receivables as a result of lower equipment sales. This increase was partially offset by higher accounts receivables primarily due to the growth in Services revenue. Cash used in investing activities of \$761 million primarily reflects capital expenditures of \$513 million and acquisitions of \$276 million. Cash used in financing activities was \$1.5 billion, which primarily reflects \$1.1 billion for the repurchase of common stock, \$255 million for dividends and a \$100 million reduction in Commercial Paper. We also issued approximately \$1.1 billion in new Senior Notes to fund the May 2012 maturity of our \$1.1 billion 5.59% Senior Notes.

We expect 2013 revenue in the range of flat to growing 2 percent, excluding the impact of currency. In our Services business, we expect continued revenue growth in the mid-to-high single digits. Services margins are expected to be in the 10 to 12 percent range as the Company places a heightened focus on operational efficiencies and applying innovation to automate more business processes. In our Document Technology business, we expect a mid-single digit revenue decline, an improvement from the prior year. The Company expects to benefit from product launches and the expansion of indirect channels plus the acceleration of color printing in key markets, all of which partially offset declines primarily related to black-and-white printing. Margins in Document Technology are expected to be flat on a year-over-year basis, continuing to support the strong profitability of this mature business and providing flexibility to accelerate growth in the digital color and SMB markets.

Europe

As of and for the year ended December 31, 2012, approximately \$3.1 billion of our total revenues and \$4.1 billion of our total assets are based in countries where the Euro is the functional currency. Approximately \$1.8 billion of those assets are finance receivables and approximately 15% of those receivables are with governmental entities. Accordingly, we are impacted by the challenges facing the Euro zone economies and governments, and we expect those challenges to continue into 2013 .

Currency Impact

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as “currency impact” or “the impact from currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period’s currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. Revenues and expenses from our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe) are analyzed at actual exchange rates for all periods presented, since these countries generally have unpredictable currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Approximately 34% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue-weighted basis, the U.S. Dollar was 5% stronger in 2012 and 5% weaker in 2011, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 1% detriment in 2012 and a 2% benefit in 2011.

Application of Critical Accounting Policies

In preparing our Consolidated Financial Statements and accounting for the underlying transactions and balances, we apply various accounting policies. Senior management has discussed the development and selection of the critical accounting policies, estimates and related disclosures included herein with the Audit Committee of the Board of Directors. We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management's judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition for leases, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 1 - Summary of Significant Accounting Policies in the Consolidated Financial Statements.

Revenue Recognition

Application of the various accounting principles in GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Refer to Note 1 - Summary of Significant Accounting Policies - Revenue Recognition, in the Consolidated Financial Statements for additional information regarding our revenue recognition policies. Specifically, the revenue related to the following areas involve significant judgments and estimates:

- Bundled Lease Arrangements
- Sales to Distributors and Resellers
- Services - Percentage-of-completion.

[Bundled Lease Arrangements](#) - We sell our equipment under bundled lease arrangements, which typically include the equipment, service, supplies and a financing component for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 35% of our equipment sales revenue is related to sales made under bundled lease arrangements. Recognizing revenues under these arrangements requires us to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

[Sales to Distributors and Resellers](#) - We utilize distributors and resellers to sell many of our Document Technology products to end-user customers. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions and allowances for these programs as a reduction to revenue when the sales occur. Similarly, we also record estimates for sales returns and other discounts and allowances when the sales occur. We consider various factors, including a review of specific transactions and programs, historical experience and market and economic conditions when calculating these provisions and allowances. Approximately 10% of our revenues include sales to distributors and resellers and provisions and allowances recorded on these sales are approximately 20% of the associated gross revenues.

Revenue Recognition for Services - Percentage-of-Completion - A portion of our Services revenue is recognized using the percentage-of-completion ("POC") accounting method. This method requires the use of estimates and judgment. Approximately 3% of our Services revenue uses the POC accounting method. Although not significant to total Services revenue, the percentage-of-completion methodology is normally applied to certain of our larger and longer term outsourcing contracts involving system development and implementation services. The POC accounting methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed based on a current cumulative cost to estimated total cost basis and a reasonably consistent profit margin over the period. Due to the long-term nature of these arrangements, developing the estimates of cost often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs. Such revisions are reflected in income in the period in which the facts that give rise to that revision become known. We perform ongoing profitability analysis of our POC services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to complete each contract are future labor costs, future product costs and expected productivity efficiencies. If at any time these estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost of services.

Allowance for Doubtful Accounts and Credit Losses

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We recorded bad debt provisions of \$120 million, \$157 million and \$188 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, respectively.

Bad debt provisions decreased by \$37 million in 2012. Reserves as a percentage of trade and finance receivables was 3.3% at December 31, 2012, which was consistent with the percentage at December 31, 2011 and 2010. The decrease in bad debt provisions was primarily related to improvements in Europe, reflecting a stabilization of credit issues noted in the prior year. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts. In addition, although our bad debt provisions improved in Europe, this region continues to be a focus of our credit review and analysis.

As discussed above, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the five year period ended December 31, 2012, our reserve for doubtful accounts ranged from 3.3% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2012 rate of 3.3% would change the 2012 provision by approximately \$85 million.

Refer to Note 4 - Accounts Receivables, Net and Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our defined benefit pension plans. These factors include assumptions we make about the expected return on plan assets, discount rate, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic benefit cost over future periods.

Cumulative net actuarial losses for our defined benefit pension plans of \$3.4 billion as of December 31, 2012 increased by approximately \$800 million from December 31, 2011. This increase reflects the increase in our benefit obligations as a result of a lower discount rate, which was only partially offset by positive returns on plan assets in 2012 as compared to expected returns. The total actuarial loss will be amortized over future periods, subject to offsetting gains or losses that will impact the future amortization amounts.

We used a consolidated weighted average expected rate of return on plan assets of 6.9% for 2012, 7.2% for 2011 and 7.3% for 2010, on a worldwide basis. During 2012, the actual return on plan assets was \$792 million as compared to an expected return of \$613 million. When estimating the 2013 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future, particularly in light of current economic conditions, and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will use in 2013 is 6.7%. The reduction in the expected rate of return in 2013 as compared to 2012 primarily reflects an expected slight decrease in long term capital market returns.

Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2012 and to calculate our 2013 expense was 3.9%, which is lower than the 4.7% that was used to calculate our obligations as of December 31, 2011 and our 2012 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2012 and to calculate our 2013 expense was 3.6%, which is lower than the 4.5% that was used to calculate our obligation at December 31, 2011 and our 2012 expense.

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2013 projected net periodic pension cost by \$31 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2013 projected net periodic pension cost by \$19 million.

One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Annuity purchases represent benefits to be provided via contracts under which an insurance company is obligated to pay the benefits. Accordingly, under either option the participant's vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. Approximately two-thirds of participants elect to receive a lump-sum payment.

We have elected to apply settlement accounting and, therefore, we recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were \$3.4 billion at December 31, 2012, of which the U.S. primary domestic plans represented \$1.1 billion. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs - i.e. the lump-sum payment is made or the annuity purchased. Since settlement is dependent on an employee decision and election, the level of settlements and the associated losses can fluctuate significantly period to period. In 2012, settlement losses associated with our primary domestic pension plans amounted to \$82 million and were \$16 million, \$14 million, \$24 million and \$28 million for the first through fourth quarter of 2012, respectively. Currently, on average, approximately \$100 million of plan settlements will result in settlement losses of approximately \$24 million. During the three years ended December 31, 2012, U.S. plan settlements were \$481 million, \$598 million and \$393 million, respectively.

Refer to Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding our defined benefit pension plan assumptions.

The following is a summary of our benefit plan costs and funding for the three years ended December 31, 2012 as well as estimated amounts for 2013:

	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Costs:				
Defined benefit pension plans ⁽¹⁾	\$ 202	\$ 300	\$ 284	\$ 304
Curtailment gain ⁽²⁾	—	—	(107)	—
Defined contribution plans	113	63	66	51
Retiree health benefit plans	3	11	14	32
Total Benefit Plan Expense	\$ 318	\$ 374	\$ 257	\$ 387

(1) Estimated 2013 assumes settlement losses are consistent with 2012.

(2) Refer to the "Plan Amendment" section in Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for further information.

Our estimated 2013 defined benefit pension plan cost is expected to be approximately \$100 million lower than 2012, primarily driven by the U.S. defined benefit plan freeze at December 31, 2012, which eliminated approximately \$100 million of service costs and reduced the amortization of actuarial losses by \$47 million. These impacts were partially offset by the worldwide 80 bps decrease in the discount rate. Offsetting the decrease in our defined benefit pension plan expense is an increase in expense associated with our defined contribution plans as employees from those defined benefit pension plans that have been amended to freeze future service accruals are transitioned to enhanced defined contribution plans.

Benefit plan costs are included in several income statement components based on the related underlying employee costs.

	Estimated		Actual	
	2013	2012	2011	2010
Benefit Plan Funding:				
Defined benefit pension plans:				
Cash	\$ 195	\$ 364	\$ 426	\$ 237
Stock	—	130	130	—
Total	195	494	556	237
Defined contribution plans	113	63	66	51
Retiree health benefit plans	80	84	73	92
Total Benefit Plan Funding	\$ 388	\$ 641	\$ 695	\$ 380

The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. This decrease is partially offset by an expected increase in contributions to our defined contribution plans.

Refer to Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding expense and funding.

Income Taxes

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Adjustments to our valuation allowance, through (credits) charges to income tax expense, were \$(9) million, \$(5) million and \$22 million for the years ended December 31, 2012, 2011 and 2010, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of \$(14) million, \$(53) million and \$11 million for the years ended December 31, 2012, 2011 and 2010, respectively. These did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of \$3.8 billion and \$3.8 billion had valuation allowances of \$654 million and \$677 million at December 31, 2012 and 2011, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results. Unrecognized tax benefits were \$201 million, \$225 million and \$186 million at December 31, 2012, 2011 and 2010, respectively.

Refer to Note 16 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding deferred income taxes and unrecognized tax benefits.

Business Combinations and Goodwill

The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party appraisal firms. Refer to Note 3 - Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

As a result of our acquisition of ACS, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill at December 31, 2012 was \$9.1 billion. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred.

Application of the annual goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and the assessment - qualitatively or quantitatively - of the fair value of each reporting unit against its carrying value. At December 31, 2012, \$6.8 billion and \$2.3 billion of goodwill was allocated to reporting units within our Services and Document Technology segments, respectively. Our Services segment is comprised of three reporting units while our Document Technology segment is comprised of one reporting unit for a total of four reporting units with goodwill balances.

Our annual impairment test of goodwill was performed in the fourth quarter of 2012. As a result of market and business conditions, we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for each of our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit using a discounted cash flow methodology. This valuation approach requires significant judgment and considers a number of factors that include, but are not limited to, expected future cash flows, growth rates and discount rates, and it requires us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our business.

When performing our discounted cash flow analysis for each reporting unit, we incorporate the use of projected financial information and discount rates that are developed using market participant-based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue and expense projections, capital spending trends, and investment in working capital to support anticipated revenue growth or other changes in the business. The selected discount rates consider the risk and nature of the respective reporting units' cash flows and an appropriate capital structure and rates of return that market participants would require to invest their capital in our reporting units.

In performing our 2012 impairment test, the following were the long-term assumptions for Document Technology and the three reporting units within our Services segment with respect to revenue, operating income and margins, which formed the basis for estimating future cash flows used in the discounted cash flow model:

- Document Technology - revenue decline: 2-3%, operating income: flat, operating margin: 10-12% - as we continue to manage costs as a result of an expected decline in revenues.
- Services - revenue growth: 4-6%, operating income growth: 7-10%, operating margin: 10-12% - as we benefit from recurring revenue and strong signings growth in recent years while maintaining costs and expenses.

We believe these assumptions are appropriate because they are consistent with historical results as well as our forecasted long-term business model and give appropriate consideration to the current economic environment and markets that we serve. The average discount rate applied to our projected cash flows was approximately 10% which we considered reasonable based on the estimated capital costs of applicable market participants. Although the sum of the fair values of our reporting units was in excess of our market capitalization, we believe the difference is reasonable when market-based control premiums and other factors are taken into consideration, including the evolution of our business to be predominantly services-based. We also compared our reporting unit and consolidated valuations against market multiples and likewise concluded that our valuations were reasonable.

The results of our testing indicated that each of our reporting units has a fair value in excess of its carrying value and no impairment charge was required. The excess of reporting unit fair values over carrying values for our Document Technology reporting unit and the BPO/ITO Government reporting unit within our Services segment (which has approximately \$2.0 billion of goodwill) are significantly less than in prior years with excess of fair value over carrying value of approximately 20% and 10%, respectively.

We will continue to monitor the impact of economic, market and industry factors impacting these reporting units in 2013. Subsequent to our fourth quarter impairment test, we did not identify any indicators of potential impairment that required an update to the annual impairment test.

Refer to Note 9 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by reportable segment.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2012 were as follows:

(in millions)	Revenues			Change		Pro-forma ⁽¹⁾	Percent of Total Revenue		
	2012	2011	2010	2012	2011	2011	2012	2011	2010
Equipment sales	\$ 3,476	\$ 3,856	3,857	(10)%	— %	— %	16%	17%	18%
Annuity revenue	18,914	18,770	17,776	1 %	6 %	2 %	84%	83%	82%
Total Revenue	\$ 22,390	\$ 22,626	21,633	(1)%	5 %	2 %	100%	100%	100%

Reconciliation to Condensed Consolidated Statements of Income:

Sales	\$ 6,578	\$ 7,126	7,234						
Less: Supplies and other sales	(2,273)	(2,371)	(2,420)						
Less: Paper sales	(829)	(899)	(957)						
Equipment Sales	\$ 3,476	\$ 3,856	3,857	(10)%	— %	— %	16%	17%	18%
Outsourcing, service and rentals	\$ 15,215	\$ 14,868	13,739	2 %	8 %	4 %	68%	66%	64%
Add: Finance income	597	632	660	(6)%	(4)%	(4)%	2%	3%	3%
Add: Supplies and other sales	2,273	2,371	2,420	(4)%	(2)%	(3)%	10%	10%	11%
Add: Paper sales	829	899	957	(8)%	(6)%	(6)%	4%	4%	4%
Annuity Revenue	\$ 18,914	\$ 18,770	\$ 17,776	1 %	6 %	2 %	84%	83%	82%

(1) 2011 Results are discussed primarily on a pro-forma basis and include ACS's estimated results from January 1 through February 5 in 2010. See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Revenue 2012

Total revenues decreased 1% compared to the prior year and included a 1-percentage point negative impact from currency. Total revenues included the following:

- **Annuity revenue** increased 1% and included a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
 - **Outsourcing, service and rentals revenue** include outsourcing revenue within our Services segment and technical service revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of \$15,215 million increased 2% and included a 2-percentage point negative impact from currency. The increase was primarily driven by growth in all three lines of business in our Services segment partially offset by a declines in technical service revenues. Total digital pages declined 2% despite a 3% increase in digital MIF.
 - **Supplies and other sales** include unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of \$2,273 million decreased 4% and included a 1-percentage negative impact from currency. The decrease was primarily due to moderately lower demand.
 - **Paper sales**, which are primarily included within our Other segment, of \$829 million decreased 8% and included 2-percentage point negative impact from currency, driven primarily market pricing and lower activity.

- Finance income includes \$44 million in gains from the sale of finance receivables from our Document Technology segment (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information).
- **Equipment sales revenue** is reported primarily within our Document Technology segment and the document outsourcing business within our Services segment. Equipment sales revenue decreased 10% and included a 2-percentage point negative impact from currency primarily driven by delayed customer decision-making and overall weak economic and market conditions. An increase in total product installs was offset by the impact of lower product mix and price declines. Price declines were in the range of 5% to 10%.

Equipment sales within our Services segment continued to grow, driven by the migration of customers looking to reduce printing costs by moving to our document outsourcing offering.

- Color² revenue, decreased 6%, including a 2-percentage point negative impact from currency. An increase in color pages of 9% and color MIF of 14% were offset by a decline in color equipment sale revenue driven primarily by weakness in Europe and the impact of lower product mix. Color pages represented 30% of total pages in 2012.

Revenue 2011

Total revenues increased 5% compared to the prior year. Our consolidated 2011 results include a full year of revenues from ACS, which was acquired on February 5, 2010. On a pro-forma¹ basis, including ACS's estimated 2010 revenues for the period from January 1 through February 5 in our historical 2010 results, the total revenue for 2011 grew 2%. Total revenue growth included a 2-percentage point positive impact from currency. Total revenues included the following:

- Annuity revenue increased 6% or 2% on a pro-forma¹ basis, with a 1-percentage point positive impact from currency. Annuity revenue is comprised of the follows:
 - Outsourcing, service and rentals revenue of \$14,868 million increased 8%, or 4% on a pro-forma¹ basis, and included a 2-percentage point positive impact from currency. The increase was primarily due to growth in BPO and DO revenue in our Services segment partially offset by a decline in pages. Total digital pages declined 3% despite a 2% increase in digital MIF.
 - Supplies and other sales of \$2,371 million decreased 2% or 3% on a pro-forma¹ basis, with no impact from currency.
 - Paper sales of \$899 million decreased 6% and included 2-percentage point negative impact from currency.
- Equipment sales revenue was flat and included a 1-percentage point positive impact from currency. Favorable product mix in high-end products was offset by price declines in the range of 5% to 10%.
- Color² revenue increased 5%, including a 2-percentage point negative impact from currency. This increase was due to an increase in color pages of 9% and an increase in color equipment sale revenue of 4%. Color² pages represented 27% of total pages in 2011 while color device MIF represented 35% of total MIF.

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

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,			Change				Pro-forma ⁽¹⁾	
	2012	2011	2010	2012	2011	2,011	2,010		
Total Gross Margin	31.4%	32.8%	34.4%	(1.4) pts	(1.6) pts	(1.1) pts	(0.2) pts		
RD&E as a % of Revenue	2.9%	3.2%	3.6%	(0.3) pts	(0.4) pts	(0.3) pts	(0.4) pts		
SAG as a % of Revenue	19.2%	19.9%	21.2%	(0.7) pts	(1.3) pts	(1.0) pts	(0.9) pts		
Operating Margin⁽¹⁾	9.3%	9.8%	9.6%	(0.5) pts	0.2 pts	0.3 pts	1.0 pts		
Pre-tax Income Margin	6.0%	6.9%	3.8%	(0.9) pts	3.1 pts	3.4 pts	(2.2) pts		

(1) See the "Non-GAAP Financial Measures" section for an explanation of Pro-forma and Operating Margin non-GAAP financial measures.

Operating Margin

The operating margin¹ for the year ended December 31, 2012 of 9.3% decreased 0.5-percentage points as compared to 2011. The decline, which was primarily in our Services segment due to a decrease in gross margin, was partially offset by expense reductions.

The operating margin¹ for the year ended December 31, 2011 of 9.8% increased 0.2-percentage points, or 0.3-percentage points on a pro-forma¹ basis as compared to 2010. The increase was due primarily to disciplined cost and expense management.

Note: The acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a technology company. As a result, in 2011 gross margins and SAG are also discussed below on a pro-forma basis where we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for year ended December 31, 2012 of 31.4% decreased 1.4-percentage points as compared to 2011. The decrease was driven by the overall mix of services revenue, the ramping of new services contracts and pressure on government contracts, particularly in the third quarter 2012. These negative impacts were partially offset by productivity improvements and cost savings from restructuring.

Gross margin for year ended December 31, 2011 of 32.8% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma¹ basis, as compared to 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals, transaction currency and the mix of higher services revenue.

Services gross margin for the year ended December 31, 2012 decreased 1.7-percentage points as compared to 2011. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and pressure on government contracts, particularly in the third quarter 2012.

Services gross margin for the year ended December 31, 2011 decreased 1.7-percentage points, or 1.2 percentage points, on a pro-forma¹ basis, as compared to 2010. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals.

Document Technology gross margin for the year ended December 31, 2012 increased by 0.1-percentage points as compared to 2011. Productivity improvements, restructuring savings and gains recognized on the sales of finance receivables (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines, product mix and the unfavorable year-over-year impact of transaction currency.

Document Technology gross margin for the year ended December 31, 2011 decreased by 0.9-percentage points as compared to 2010 due to the impact of price declines and the negative year-over-year impact of transaction currency. The decline was partially offset by cost productivities and restructuring savings which reflect our continued focus on cost management.

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

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
R&D	\$ 545	\$ 613	\$ 653	\$ (68)	\$ (40)
Sustaining engineering	110	108	128	2	(20)
Total RD&E Expenses	\$ 655	\$ 721	\$ 781	\$ (66)	\$ (60)
R&D Investment by Fuji Xerox⁽¹⁾	\$ 860	\$ 880	\$ 821	\$ (20)	\$ 59

(1) Fluctuation in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E as a percent of revenue for the year ended December 31, 2012 of 2.9% decreased 0.3-percentage points. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue, which historically has a lower RD&E percent of revenue.

RD&E of \$655 million for the year ended December 31, 2012, was \$66 million lower reflecting the impact of restructuring and productivity improvements. Innovation is one of our core strengths and we continue to invest at levels that enhance this core strength, particularly in color, software and services. During 2012 we managed our investments in R&D to align with growth opportunities in areas like business services, color printing and customized communication. Xerox R&D is also strategically coordinated with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2011 of 3.2% decreased 0.4-percentage points. In addition to lower spending, the decrease was also driven by the positive mix impact of the continued growth in Services revenue, which historically has a lower RD&E percent of revenue.

RD&E of \$721 million for the year ended December 31, 2011, was \$60 million lower reflecting the impact of restructuring and productivity improvements.

Selling, Administrative and General Expenses (“SAG”)

SAG as a percent of revenue of 19.2% decreased 0.7-percentage points for the year ended December 31, 2012. The decrease was driven by spending reductions reflecting benefits from restructuring and productivity improvements in addition to the positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percent of revenue.

SAG expenses of \$4,288 million for the year ended December 31, 2012 were \$209 million lower than the prior year period including a \$60 million favorable impact from currency. The decrease in SAG expense reflects the following:

- \$240 million decrease in selling expenses reflecting the benefits from restructuring and productivity improvements as well as lower compensation-related expenses and advertising spending partially offset by the impact of acquisitions.

- \$68 million increase in general and administrative expenses as restructuring savings and productivity improvements were more than offset by the impact of acquisitions and deferred compensation expense.
- \$37 million decrease in bad debt expenses to \$120 million, driven primarily by lower write-offs in Europe.

SAG as a percent of revenue of 19.9% decreased 1.3-percentage points, or 1.0-percentage points on a pro-forma¹ basis for the year ended December 31, 2011.

SAG expenses of \$4,497 million for the year ended December 31, 2011 was \$97 million lower the prior year period, or \$156 million lower on a pro-forma¹ basis, both including a \$68 million unfavorable impact from currency. The pro-forma SAG expense decrease reflects the following:

- \$68 million decrease in selling expenses reflecting the benefits from restructuring, productivity improvements and decrease in brand advertising partially offset by the impact of acquisitions.
- \$54 million decrease in general and administrative expenses primarily reflecting lower compensation as well as the benefits from restructuring and operational improvements.
- \$31 million decrease in bad debt expense, to \$157 million as improvements in write-off trends in North America were more than offset by higher write-offs in southern Europe.

Restructuring and Asset Impairment Charges

During the year ended December 31, 2012, we recorded net restructuring and asset impairment charges of \$153 million (\$97 million after-tax). Approximately 47% of the charges were related to our Services segment and 53% to our Document Technology segment and included the following:

- \$160 million of severance costs related to headcount reductions of approximately 6,300 employees primarily in North America. The actions impacted several functional areas, and approximately 63% of the costs were focused on gross margin improvements, 31% in SAG and 6% on the optimization of RD&E investments.
- \$5 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- \$2 million of asset impairment losses.

The above charges were partially offset by \$14 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2013 pre-tax savings of approximately \$170 million from our 2012 restructuring actions.

During the year ended December 31, 2011, we recorded net restructuring and asset impairment charges of \$33 million (\$18 million after-tax) which included the following:

- \$98 million of severance costs related to headcount reductions of approximately 3,900 employees primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- \$1 million for lease termination costs.
- \$5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.

The above charges were partially offset by \$71 million of net reversals for changes in estimated reserves from prior period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2012 for all programs was \$130 million, of which approximately \$122 million is expected to be spent over the next twelve months. Refer to Note 10, Restructuring and Asset Impairment Charges, in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Acquisition Related Costs

Costs of \$77 million were incurred during 2010 in connection with our acquisition of ACS. These costs include \$53 million of transaction costs, which represent external costs directly related to completing the acquisition of ACS. The remainder of the acquisition-related costs represents external incremental costs directly related to the integration of ACS and Xerox.

Amortization of Intangible Assets

During the year ended December 31, 2012, we recorded \$328 million of expense related to the amortization of intangible assets, which is \$70 million lower than the prior year. The prior year expense included \$52 million related to the accelerated amortization of the ACS trade name intangible asset which was fully written off in 2011 as a result of the decision to discontinue its use and transition the services business to the "Xerox Business Services" trade name. The impact from the write off of the ACS trade name was partially offset by the amortization of intangible assets associated with current and prior-year acquisitions.

During the year ended December 31, 2011, we recorded \$398 million of expense related to the amortization of intangible assets, which was \$86 million higher than the prior year primarily as a result of the accelerated write-off of the ACS trade name.

Curtailment Gain

In December 2011, we amended all of our primary non-union U.S. defined benefit pension plans for salaried employees. Our primary qualified plans had previously been amended to freeze the final average pay formulas within the plans as of December 31, 2012, but the cash balance service credit was expected to continue post December 31, 2012. The 2011 amendments now fully freeze benefit and service accruals after December 31, 2012 for these plans, including the related non-qualified plans. As a result of these plan amendments, we recognized a pre-tax curtailment gain of \$107 million (\$66 million after-tax), which represents the recognition of deferred gains from other prior year amendments ("prior service credits") as a result of the discontinuation ("freeze") of any future benefit or service accrual period. The amendments did not materially impact 2012 pension expense.

Worldwide Employment

Worldwide employment of 147,600 at December 31, 2012 increased approximately 8,000 from December 31, 2011, primarily due to the impact of acquisitions partially offset by restructuring related actions. Worldwide employment was approximately 139,650 and 136,500 at December 2011 and 2010, respectively.

Other Expenses, Net

(in millions)	Year Ended December 31,		
	2012	2011	2010
Non-financing interest expense	\$ 230	\$ 247	\$ 346
Interest income	(13)	(21)	(19)
Loss (gains) on sales of businesses and assets	2	(9)	(18)
Currency losses, net	3	12	11
ACS shareholders litigation settlement	—	—	36
Litigation matters	(1)	11	(4)
Loss on sales of accounts receivables	21	20	15
Loss on early extinguishment of liability	—	33	15
Deferred compensation investment gains	(10)	—	(12)
All other expenses, net	24	29	19
Total Other Expenses, Net	\$ 256	\$ 322	\$ 389

Non-Financing Interest Expense: Non-financing interest expense for the year ended December 31, 2012 of \$230 million was \$17 million lower than prior year. The decrease in interest expense is primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt.

Non-financing interest expense for the year ended December 31, 2011 of \$247 million was \$99 million lower than the prior year. The decrease in interest expense reflects a lower average debt balance due to the repayments of Senior Notes, as well as the benefit of lower borrowing costs achieved as a result of refinancing existing debt and utilizing the commercial paper program.

Loss (Gains) on Sales of Businesses and Assets: The gains in 2011 and 2010 were primarily related to the sales of certain surplus facilities in Latin America.

Currency Losses, Net: Currency losses primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities and the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities.

The 2011 net currency losses were primarily due to the significant movement in exchange rates during the third quarter of 2011 among the U.S. Dollar, Euro, Yen and several developing market currencies.

The 2010 net currency losses include a currency loss of \$21 million for the re-measurement of our Venezuelan Bolivar denominated monetary net assets following a devaluation of the Bolivar in the first quarter of 2010. This loss was partially offset by a cumulative translation gain of \$6 million that was recognized upon the repatriation of cash and liquidation of a foreign subsidiary.

ACS Shareholders' Litigation Settlement: The 2010 expense of \$36 million relates to the settlement of claims by ACS shareholders arising from our acquisition of ACS in 2010. The total settlement for all defendants was approximately \$69 million, with Xerox paying approximately \$36 million net of insurance proceeds.

Litigation Matters: Litigation matters for 2012, 2011 and 2010 represent charges related to probable losses for various legal matters, none of which were individually material. Refer to Note 17 - Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Loss on Sales of Accounts Receivables: Represents the loss incurred on our sales of accounts receivables. Refer to "Sales of Accounts Receivables" below and Note 4 - Accounts Receivables, Net in the Condensed Consolidated Financial Statements for additional information regarding our sales of receivables.

Loss on Early Extinguishment of Liability: The 2011 loss of \$33 million was related to the redemption by Xerox Capital Trust I, our wholly-owned subsidiary trust, of its \$650 million 8% Preferred Securities due in 2027. The redemption resulted in a pre-tax loss of \$33 million (\$20 million after-tax), representing the call premium of approximately \$10 million as well as the write-off of unamortized debt costs and other liability carrying value adjustments of \$23 million.

The 2010 loss of \$15 million represents the loss associated with the redemption of senior and medium-term notes in the fourth quarter 2010 and reflects a call premium and the write-off of unamortized debt costs.

Deferred Compensation Investment Gains: Represents gains on investments supporting certain of our deferred compensation arrangements. These gains or losses are offset by an increase or decrease, respectively, in compensation expense recorded in SAG in our Services segment as a result of the increase or decrease in the liability associated with these arrangements.

Income Taxes

The 2012 effective tax rate was 20.5% or 24.0% on an adjusted basis¹. The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to foreign tax credits resulting from anticipated dividends and other foreign transactions as well as the geographical mix of profits. In addition, a net tax benefit from adjustments of certain unrecognized tax positions and deferred tax valuation allowances was offset by a tax law change.

The 2011 effective tax rate was 24.7% or 27.5% on an adjusted basis¹. The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to the geographical mix of profits as well as a higher foreign tax credit benefit as a result of our decision to repatriate current year income from certain non-U.S. subsidiaries.

The 2010 effective tax rate was 31.4% or 31.2% on an adjusted basis¹. The adjusted tax rate for the year was lower than the U.S. statutory rate primarily due to the geographical mix of income before taxes and the related tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income and tax law changes.

Xerox operations are widely dispersed. The statutory tax rate in most non U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full year effective tax rate for 2012 includes a benefit of approximately 12-percentage points from these non-U.S. operations. Refer to Note 16 - Income and Other Taxes, in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (e.g. audit settlements, tax law changes, changes in valuation allowances, etc.) that may not be predictable. We anticipate that our effective tax rate for 2013 will be approximately 28%, which excludes the effects of intangibles amortization and other discrete events. We also expect to record an estimated discrete benefit of approximately \$19 million in the first quarter 2013 for the retroactive benefits of the American Taxpayer Relief Act of 2012 which was signed into law on January 2, 2013.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31,		
	2012	2011	2010
Total equity in net income of unconsolidated affiliates	\$ 152	\$ 149	\$ 78
Fuji Xerox after-tax restructuring costs	16	19	38

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox.

The 2011 increase of \$71 million was primarily due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements as well as the strengthening of the Yen and lower restructuring costs.

Refer to Note 8 - Investment in Affiliates, at Equity, in the Consolidated Financial Statements for additional information.

Net Income

Net income attributable to Xerox for the year ended December 31, 2012 was \$1,195 million, or \$0.88 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,398 million, or \$1.03 per diluted share, and included adjustments for the amortization of intangible assets.

Net income attributable to Xerox for the year ended December 31, 2011 was \$1,295 million, or \$0.90 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,563 million, or \$1.08 per diluted share, and included adjustments for the amortization of intangible assets and the loss on early extinguishment of liability.

Net income attributable to Xerox for the year ended December 31, 2010 was \$606 million, or \$0.43 per diluted share. On an adjusted basis¹, net income attributable to Xerox was \$1,296 million, or \$0.94 per diluted share, and included adjustments for the amortization of intangible assets, restructuring and asset impairment charges (including those incurred by Fuji Xerox), acquisition-related costs and other discrete costs and expenses.

Refer to the "Non-GAAP Financial Measures" section for the reconciliation of reported net income to adjusted net income.

Other Comprehensive Income

2012 Other comprehensive loss attributable to Xerox of \$511 million decreased \$217 million from 2011. The decreased loss was primarily due to gains from the translation of our foreign currency denominated net assets in 2012 as compared to translation losses in 2011. The translation gains are the result of a strengthening of our major foreign currencies against the U.S. Dollar in 2012 as compared to a weakening of those same currencies in 2011. A decrease in losses associated with our defined benefit plans was offset by an increase in unrealized losses from our cash flow hedges primarily due to a weakening of the Japanese Yen particularly in the fourth quarter 2012 (See Note 13 - Financial Instruments in the Consolidated Financial Statements for additional information regarding our cash flow hedges).

2011 Other comprehensive loss attributable to Xerox of \$728 million increased \$728 million from 2010. The increased loss was primarily due to losses associated with our defined benefit plans due to an increase in our benefit obligations as a result of a decrease in the discount rates used to measure our obligations (See discussion of Pension Plan Assumptions in the Application of Critical Accounting Policies section of the MD&A as well as Note 15 - Employee Benefit Plans in the Consolidated Financial Statements for additional information). In addition, losses from the translation of our foreign currency denominated net assets increased in 2011 as compared to 2010 as a result of the further weakening of our major foreign currencies against the U.S. Dollar in 2011.

Recent Accounting Pronouncements

Refer to Note 1 - Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial conditions.

Operations Review of Segment Revenue and Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Services, Document Technology and Other. Revenues by segment for the three years ended December 31, 2012 were as follows:

(in millions)	Total Revenue		Segment Profit (Loss)		Segment Margin
2012					
Services	\$	11,528	\$	1,173	10.2 %
Document Technology		9,462		1,065	11.3 %
Other		1,400		(241)	(17.2)%
Total	\$	22,390	\$	1,997	8.9 %
2011					
Services	\$	10,837		1,207	11.1 %
Document Technology		10,259		1,140	11.1 %
Other		1,530		(255)	(16.7)%
Total	\$	22,626	\$	2,092	9.2 %
2010					
Services	\$	9,637	\$	1,132	11.7 %
Document Technology		10,349		1,085	10.5 %
Other		1,647		(342)	(20.8)%
Total	\$	21,633	\$	1,875	8.7 %
2010 Pro-forma⁽¹⁾					
Services	\$	10,256	\$	1,166	11.4 %
Document Technology		10,349		1,085	10.5 %
Other		1,647		(353)	(21.4)%
Total	\$	22,252	\$	1,898	8.5 %

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

Services Segment

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

Services segment revenues for the three years ended December 31, 2012 were as follows:

(in millions)	Revenue			Change		Pro- forma ⁽¹⁾ Change
	2012	2011	2010	2012	2011	2011
Business processing outsourcing	\$ 6,610	\$ 6,074	\$ 5,145	9%	18%	8 %
Document outsourcing	3,659	3,545	3,264	3%	9%	9 %
Information technology outsourcing	1,426	1,326	1,249	8%	6%	(4)%
Less: Intra-segment elimination	(167)	(108)	(21)	*	*	*
Total Services Revenue	\$ 11,528	\$ 10,837	\$ 9,637	6%	12%	6 %

* Percent not meaningful.

(1) See the "Non-GAAP Financial Measures" section for an explanation of Pro-forma and Operating Margin non-GAAP financial measures.

Note: In 2011, the Services segment is discussed on a pro-forma¹ basis. ACS was acquired on February 5, 2010, accordingly for comparison purposes, we adjusted our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Revenue 2012

Services revenue of \$11,528 million increased 6% with 1-percentage point negative impact from currency.

- BPO revenue increased 9%, including a 1-percentage point negative impact from currency, and represented 57% of total Services revenue. BPO growth was driven by the government healthcare, healthcare payer, customer care, financial services, retail, travel and insurance businesses and other state government solutions, as well as the benefits from recent acquisitions.
- DO revenue increased 3%, including a 2-percentage point negative impact from currency, and represented 31% of total Services revenue. The increase in DO revenue was primarily driven by our new partner print services offerings as well as new signings.
- ITO revenue increased 8% and represented 12% of total Services revenue. ITO growth was driven by the revenue ramp resulting from strong growth in recent quarters and also includes 3-percentage points of growth related to revenue from intercompany services, which is eliminated in total Services segment revenue.

Segment Margin 2012

Services segment margin of 10.2% decreased 0.9-percentage points from the prior year primarily due to a decline in gross margin, which was driven by the ramping of new services contracts, pressure on government contracts, the impact of lower contract renewals and lower volumes in some areas of the business. The gross margin decline was partially offset by the benefits from restructuring and lower SAG, primarily in DO.

Metrics

Pipeline

Our total services sales pipeline at December 31, 2012, including synergy opportunities, grew 6% over the prior year. This sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that potentially could be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of \$100 million.

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Signings were as follows:

(in billions)	Year Ended December 31,		
	2012	2011	2010
BPO	\$ 6.0	\$ 6.8	\$ 10.0
DO	3.3	4.4	3.3
ITO	1.5	3.4	1.3
Total Signings	\$ 10.8	\$ 14.6	\$ 14.6

Services signings were an estimated \$10.8 billion in TCV for 2012 and decreased 25% compared to the prior year. This decline was driven by a decrease in large deals from the prior year as well as delays in customer decision making. While the total number of BPO/ITO contracts signed in 2012 increased from 2011, the decline in large deals drove a reduction in the average contract length of new business signings in 2012. The above DO signings amount represents Enterprise signings only and does not include signings from our partner print services offerings, which is driving the revenue growth in DO.

Services signings were an estimated at \$14.6 billion in TCV for 2011 and were flat as compared to the prior year and were impacted by the cyclicity of large deals particularly the California Medicaid signing in 2010. Signings did trend positively in 2011, increasing sequentially for the last three quarters of the year with signings growth particularly in ITO.

Renewal rate (for BPO and ITO only)

Renewal rate is defined as the annual recurring revenue ("ARR") on contracts that are renewed during the period as a percentage of ARR on all contracts on which a renewal decision was made during the period. Although our renewal rate was below our target range in the fourth quarter 2012, our full year 2012 renewal rate was 85%, which was within our target range of 85%-90% and 5 percentage points higher than full year 2011. Our 2011 renewal rate of 80% was 7-percentage points lower than the 2010 renewal rate of 87%.

Revenue 2011

Services revenue of \$10,837 million increased 12% or 6% on a pro-forma¹ basis, with no impact from currency.

- BPO revenue had pro-forma¹ revenue growth of 8% and represented 55% of total Services revenue. The growth in BPO was primarily driven by acquisitions over the past two years consistent with our strategy to expand our service offerings through "tuck-in" acquisitions. BPO growth was also driven to a lesser extent by growth in the healthcare payer, human resources services, business process solutions and transportation solutions businesses.
- DO revenue increased 9%, including a 2-percentage point positive impact from currency, and represented 33% of total Services revenue. The increase in DO revenue reflects an improving growth trend from our partner print services offerings as well as new signings.
- ITO revenue on a pro-forma¹ basis decreased 4% and represented 12% of total Services revenue. The decrease in ITO revenue was driven by lower third-party equipment sales as well as the impact of lower contract renewals partially offset by growth in new commercial business.

Segment Margin 2011

Services segment margin of 11.1% decreased 0.6-percentage points, or 0.3-percentage points on a pro-forma¹ basis, from the prior year as the gross margin decline, which was driven by the ramping of new services contracts and the impact of lower contract renewals, more than offset the lower costs and expenses from restructuring and synergy savings.

Document Technology Segment

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

Revenue

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Equipment sales	\$ 2,879	\$ 3,277	\$ 3,404	(12)%	(4)%
Annuity revenue	6,583	6,982	6,945	(6)%	1 %
Total Revenue	\$ 9,462	\$ 10,259	\$ 10,349	(8)%	(1)%

Revenue 2012

Document Technology revenue of \$9,462 million decreased 8%, including a 2-percentage points negative impact from currency. Total revenues include the following:

- 12% decrease in equipment sales revenue with a 1-percentage point negative impact from currency. This decline, primarily in mid-range and high-end equipment, was driven by delayed customer decision-making reflecting the continued weak macro-environment. In addition, the impact of lower product mix and price declines in the range of 5% to 10% more than offset growth in installs. Document Technology revenue excludes increasing revenues in our DO offerings. As noted previously, in 2013 we will be investing in our portfolio with significant product announcements in the mid-range and entry production color spaces.
- 6% decrease in annuity revenue, including a 2-percentage point negative impact from currency driven by lower supplies and a decline in total digital pages of 2% as well as the continued migration of customers to our partner print services offerings, which is included in our Services segment.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2012

Document Technology segment margin of 11.3% increased 0.2-percentage points from prior year. Productivity improvements, restructuring savings and gains recognized on the sale of finance receivables (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information) more than offset the impact of price declines and overall lower revenues.

Installs 2012

Entry

- 39% increase in color multifunction devices driven by demand for the WorkCentre[®] 6015, WorkCentre 6605 and ColorQube 8700/8900.
- 23% increase in entry black-and-white multifunction devices driven by demand for the WorkCentre[®] 3045.
- 7% decrease in color printers driven by a decrease in sales to OEM partners.

Mid-Range

- 2% decrease in installs of mid-range color devices driven as a difficult compare in the U.S. from the fourth quarter 2012 was partially offset by demand for products such as the WorkCentre® 7535/7125/7530 and the WorkCentre® 7556, which enabled continued market share gains in the fastest growing and most profitable segment of the office color market.
- 10% decrease in installs of mid-range black-and-white devices.

High-End

- 34% increase in installs of high-end color systems driven by strong demand for the Xerox Color 770. This product has enabled large market share gains in the Entry Production Color market segment.
- 26% decrease in installs of high-end black-and-white systems, reflecting continued declines in the overall market.

Install activity percentages include installations for Document Outsourcing and the Xerox-branded product shipments to GIS. Descriptions of “Entry”, “Mid-range” and “High-end” are defined in Note 2 - Segment Reporting, in the Consolidated Financial Statements.

Revenue 2011

Document Technology revenue of \$10,259 million decreased 1%, including 2-percentage points positive impact from currency. Total revenues include the following:

- 4% decrease in equipment sales revenue with a 1-percentage point positive impact from currency primarily driven by a decline in Europe reflecting the economic conditions in the Euro Zone, particularly in the fourth quarter 2011. In addition, install declines of entry and mono products were only partially offset by install growth in mid-range and high-end color products. Consistent with prior years, price declines were in the range of 5% to 10%. Document Technology revenue excludes increasing revenues in our DO offerings.
- 1% increase in annuity revenue, including a 2-percentage point positive impact from currency. An increase in supplies revenue was offset by a decline in pages.
- Document Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2011

Document Technology segment margin of 11.1% increased 0.6-percentage points from prior year. Lower cost and expense from restructuring savings in addition to an increase in equity in net income from unconsolidated affiliates more than offset the gross margin decline.

Installs 2011

Entry

4% decrease in entry black-and-white and color multifunction devices and color printers reflecting:

- A decline in sales to OEM partners.
- A decline in developing markets due in part to a very strong 2010 in which installs increased significantly.

These declines were partially offset by growth in newly launched products such as the WorkCentre® 3045 and WorkCentre® 6015.

Mid-Range

- 26% increase in installs of mid-range color devices driven primarily by demand for new products, such as the WorkCentre® 7530/7535, WorkCentre® 7545/7556 and WorkCentre® 7120 and the Xerox Color 550/560. This growth has enabled market share gains in the fastest growing and most profitable segment of the office color market.
- 2% increase in installs of mid-range black-and-white devices driven by strong demand for the recently launched WorkCentre® 5325/5330/5335 product partially offset by declines in Europe.

High-End

- 7% increase in installs of high-end color systems driven primarily by installs of our market-leading Xerox Color 800 and 1000 and iGen as well as strong demand for the recently launched Xerox Color 770 and the DocuColor™ 8080. These products have improved our offerings in the entry production color product category.
- 8% decrease in installs of high-end black-and-white systems driven by declines across most product areas.

Other Segment

Revenue 2012

Other segment revenue of \$1,400 million decreased 8%, including 1-percentage point negative impact from currency, due to a decline in paper sales, which is driven by lower market pricing and activity, as well as a decline in revenues from wide format systems and lower patent sales and licensing revenue. Paper comprised approximately 59% of the 2012 Other segment revenue.

Segment Loss 2012

Other segment loss of \$241 million, improved \$14 million from the prior year, primarily driven by a decrease in Other Expenses, Net partially offset by lower gross profit as a result of the decline in revenues.

Revenue 2011

Other segment revenue of \$1,530 million decreased 7%, including 2-percentage points positive impact from currency, due to a decline in paper sales, wide format systems and other supplies partially offset by an increase in revenue from patent sales and licensing as noted below. Paper comprised approximately 59% of the 2011 Other segment revenue.

In 2011, we entered into an agreement with another company that included, among other items, the sale of certain patents and the cross-licensing of certain patents of each party, pursuant to which we received an up-front payment with the remaining amount payable in two equal annual installment payments. Consistent with our accounting policy for these transactions, revenue associated with this agreement will be recorded as earned and only to the extent of cash received. During 2011, the Other segment included revenue and pre-tax income/segment profit of approximately \$32 million and \$26 million (\$16 million after-tax), respectively, which is net of certain expenses paid in connection with this agreement.

Segment Loss 2011

Other segment loss of \$255 million, improved \$87 million from the prior year, primarily driven by lower non-financing interest expense and SAG expense.

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

(2) Color revenues and pages represent revenues and pages from color enabled devices and is a subset of total revenues and excludes Global Imaging Systems, Inc. ("GIS").

Capital Resources and Liquidity

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

- As of December 31, 2012 and 2011, total cash and cash equivalents were \$1,246 million and \$902 million, respectively, we had no borrowings under our Commercial Paper Programs as of December 31, 2012 and \$100 million as of December 31, 2011. There were no outstanding borrowings or letters of credit under our \$2 billion Credit Facility for either year end. The increase in our cash balance in 2012 was largely from the sales and run-off of finance receivables partially offset by an increase in share repurchases. We expect to use approximately \$400 million of our total cash to pay down maturing Senior Notes in May 2013.
- Our Commercial Paper program was established in 2010 as a means to reduce our cost of capital and to provide us with an additional liquidity vehicle in the market. Aggregate Commercial Paper and Credit Facility borrowings may not exceed the borrowing capacity under our Credit Facility at any time.
- Over the past three years we have consistently delivered strong cash flow from operations driven by the strength of our annuity-based revenue model. Cash flows from operations were \$2,580 million, \$1,961 million and \$2,726 million for the three years ended December 31, 2012, respectively.
- We expect cash flows from operations between \$2.1 and \$2.4 billion for 2013. We expect lower contributions from finance receivables of approximately \$500 million, due to fewer collections as a result of the 2012 finance receivables sales and a lower natural run-off of the portfolio, given our expectations of better equipment activity. This impact is expected to be partially offset by lower pension funding requirements. We expect the rest of working capital to be essentially flat year over year.

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2012, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31,			Change	
	2012	2011	2010	2012	2011
Net cash provided by operating activities	\$ 2,580	\$ 1,961	\$ 2,726	\$ 619	\$ (765)
Net cash used in investing activities	(761)	(675)	(2,178)	(86)	1,503
Net cash used in financing activities	(1,472)	(1,586)	(3,116)	114	1,530
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)	6	11
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)	653	2,279
Cash and cash equivalents at beginning of year	902	1,211	3,799	(309)	(2,588)
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	1,211	\$ 344	\$ (309)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$2,580 million for the year ended December 31, 2012. The \$619 million increase in cash from 2011 was primarily due to the following:

- \$879 million increase from finance receivables primarily due to sales of receivables as well as higher net run-off of finance receivables as a result of lower equipment sales (see Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for additional information).
- \$124 million increase due to lower inventory growth.
- \$74 million increase due to lower restructuring payments.
- \$62 million increase due to lower contributions to our defined benefit pension plans primarily in the U.S. as a result of the recently enacted pension funding legislation.
- \$41 million increase as a result of less up-front costs and other customer related spending associated primarily with new services contracts.
- \$390 million decrease due to a lower benefit from accounts receivable sales as well as growth in services revenue.
- \$45 million decrease from higher net income tax payments primarily due to refunds in the prior year.

In March 2012, we elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding.

Net cash provided by operating activities was \$1,961 million for the year ended December 31, 2011. The \$765 million decrease in cash from 2010 was primarily due to the following:

- \$533 million decrease due to lower benefit from changes in accounts payable and accrued compensation primarily related to the timing of payments as well as lower spending.
- \$189 million decrease due to higher contributions to our defined benefit pension plans.
- \$101 million decrease as a result of up-front costs and other customer related spending associated primarily with new services contracts.
- \$65 million decrease from higher net income tax payments primarily due to refunds in the prior year.
- \$49 million decrease due to higher finance receivables of \$39 million and equipment on operating leases of \$10 million both reflective of increased equipment placements.
- \$46 million decrease in derivatives primarily due to the absence of proceeds from the early termination of certain interest rate swaps.
- \$16 million decrease due to a lower benefit from accounts receivable sales partially offset by improved collections.
- \$290 million increase in pre-tax income before depreciation and amortization, litigation, restructuring, curtailment and the Venezuelan currency devaluation.
- \$113 million increase due to the absence of cash outflows from acquisition-related expenditures.

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

Cash Flows from Investing Activities

Net cash used in investing activities was \$761 million for the year ended December 31, 2012. The \$86 million increase in the use of cash from 2011 was primarily due to the following:

- \$64 million increase in acquisitions. 2012 acquisitions include Wireless Data for \$95 million, RK Dixon for \$58 million as well as seven smaller acquisitions totaling \$123 million. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million as well as a net cash receipt of \$35 million for Symcor.
- \$19 million increase due to lower cash proceeds from asset sales.

Net cash used in investing activities was \$675 million for the year ended December 31, 2011. The \$1,503 million decrease in the use of cash from 2010 was primarily due to the following:

- \$1,522 million decrease in acquisitions. 2011 acquisitions include Unamic/HCN B.V. for \$55 million, ESM for \$43 million, Concept Group for \$41 million, MBM for \$42 million, Breakaway for \$18 million and ten smaller acquisitions for an aggregate of \$46 million as well as a net cash receipt of \$35 million for Symcor. 2010 acquisitions include ACS for \$1,495 million, ExcelerateHRO, LLP for \$125 million, TMS Health, LLC for \$48 million, Irish Business Systems Limited for \$29 million, Georgia Duplicating Products for \$21 million and Spur Information Solutions for \$12 million.
- \$24 million increase due to lower cash proceeds from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was \$1,472 million for the year ended December 31, 2012. The \$114 million decrease in the use of cash from 2011 was primarily due to the following:

- \$670 million decrease reflecting the absence of payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.
- \$351 million increase from higher share repurchases in 2012.
- \$157 million increase from net debt activity. 2012 reflects net proceeds of \$1.1 billion from Senior Notes issued in March offset by net payments on 2012 Senior Notes of \$1.1 billion that matured in May and a decrease of \$100 million in Commercial Paper. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper.
- \$47 million increase due to higher distributions to noncontrolling interests.

Net cash used in financing activities was \$1,586 million for the year ended December 31, 2011. The \$1,530 million decrease in the use of cash from 2010 was primarily due to the following:

- \$3,105 million decrease from net debt activity. 2011 includes proceeds of \$1.0 billion from the issuance of Senior Notes offset by the repayment of \$750 million for Senior Notes due in 2011 and a decrease of \$200 million in Commercial Paper. 2010 includes the repayments of \$1,733 million of ACS's debt on the acquisition date, \$950 million of Senior Notes, \$550 million early redemption of the 2013 Senior Notes, net payments of \$109 million for other debt and \$14 million of debt issuance costs for the bridge loan facility commitment, which was terminated in 2009. These payments were offset by an increase of \$300 million in Commercial Paper.
- \$701 million increase resulting from the resumption of our share repurchase program.
- \$670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with their redemption of preferred securities.
- \$139 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- \$26 million increase reflecting a full year of dividend payments on shares issued in connection with the acquisition of ACS in 2010.
- \$12 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Customer Financing Activities

We provide lease equipment financing to our customers, primarily in our Document Technology segment. Our lease contracts permit customers to pay for equipment over time rather than at the date of installation. Our investment in these contracts is reflected in Total finance assets, net. We primarily fund our customer financing activity through cash generated from operations, cash on hand, commercial paper borrowings, sales and securitizations of finance receivables and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically with our small and mid-sized customers, where third-party financial institutions independently provide lease financing, on a non-recourse basis to Xerox, directly to our customers. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the unrelated third-party finance receivable and debt are not included in our Consolidated Financial Statements.

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

(in millions)	December 31,	
	2012	2011
Total Finance receivables, net ⁽¹⁾	\$ 5,313	\$ 6,362
Equipment on operating leases, net	535	533
Total Finance Assets, Net	\$ 5,848	\$ 6,895

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

The decrease of \$1,047 million in Total finance assets, net reflects the sale of finance receivables (discussed further below) and the decrease in equipment sales over the past several years as well as equipment sales growth in regions or operations where we don't offer direct leasing. These impacts were partially offset by an increase of \$83 million due to currency.

We maintain a certain level of debt, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the breakdown of our total debt at December 31, 2012 and 2011 between financing debt and core debt:

(in millions)	December 31,	
	2012	2011
Financing debt ⁽¹⁾	\$ 5,117	\$ 6,033
Core debt	3,372	2,600
Total Debt	\$ 8,489	\$ 8,633

(1) Financing debt includes \$4,649 million and \$5,567 million as of December 31, 2012 and December 31, 2011, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases.

In 2013, we expect to continue the leveraging of our finance assets at an assumed 7:1 ratio of debt to equity. We also may sell or securitize certain finance receivables as another means to support our customer financing activities - see discussion further below of finance receivable sale activity in 2012. The following summarizes our total debt at December 31, 2012 and 2011:

(in millions)	December 31,	
	2012	2011
Principal debt balance ⁽¹⁾	\$ 8,410	\$ 8,450
Net unamortized discount	(63)	(7)
Fair value adjustments	142	190
Total Debt	\$ 8,489	\$ 8,633

(1) Includes Commercial Paper of \$0 and \$100 million as of December 31, 2012 and 2011, respectively.

Sales of Accounts Receivable

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

Accounts receivables sales were as follows:

(in millions)	Year Ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivable	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

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

Refer to Note 4 - Accounts Receivables, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 million to a third-party financial institution for cash proceeds of \$630 million and beneficial interests from the purchaser of \$101 million. These transactions enable us to lower the cost associated with our financing portfolio.

A pre-tax gain of \$44 million was recognized on these sales and is net of additional fees and expenses of \$5 million. The gain was reported in Finance income in Document Technology segment revenues. We will continue to service the sold receivables and expect to a record servicing fee income of approximately \$12 million over the expected life of the associated receivables.

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

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

(in millions)	Year Ended December 31,		
	2012	2011	2010
Cash received from finance receivables sales	\$ 625	\$ —	\$ —
Collections on sold finance receivables ⁽¹⁾	(45)	—	—
Net cash impact of finance receivable sales	580	—	—
Net cash impact of accounts receivable sales	(78)	133	106
Net Cash Impact On Cash Flows From Operating Activities	\$ 502	\$ 133	\$ 106

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

Capital Market Activity

Debt Exchange

In February 2012, we completed an exchange of our 5.71% Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of \$303, for \$362 of our 4.50% Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.50% Senior Notes due 2021 from \$700 to \$1,062. The exchange was conducted to retire high-interest, long-dated debt in a favorable interest rate environment. The debt exchange was accounted for as a non-revolving debt modification and, therefore, it did not result in any gain or loss. The difference between the book value of our Zero Coupon Notes and the principal value of the Senior Notes issued in exchange will be accreted over the remaining term of the Senior Notes. Upfront fees paid to third parties in connection with the exchange were not material and were expensed as incurred.

Senior Notes

In March 2012, we issued \$600 of Floating Rate Senior Notes due 2013 (the "2013 Floating Rate Notes") and \$500 of 2.95% Senior Notes due 2017 (the "2017 Senior Notes"). The 2013 Floating Rate Notes were issued at par and the 2017 Senior Notes were issued at 99.875% of par, resulting in aggregate net proceeds for both notes of approximately \$1,093. The 2013 Floating Rate Notes accrue interest at a rate per annum, reset quarterly, equal to the three-month LIBOR plus 1.400% and are payable quarterly. The 2017 Senior Notes accrue interest at a rate of 2.95% per annum and are payable semi-annually. As a result of the discount, they have a weighted average effective interest rate of 2.977%. In connection with the issuance of these Senior Notes, debt issuance costs of \$6 were deferred. This debt issuance partially funded the May 2012 maturity of our \$1,100 of 5.59% Senior Notes.

Refer to Note 12- Debt in the Consolidated Financial Statements for additional information regarding our debt.

Financial Instruments

Refer to Note 13 - Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs - Treasury Stock

During 2012, we repurchased 146.3 million shares for an aggregate cost of \$1.1 billion, including fees. Through February 20, 2013, we repurchased an additional 1.4 million shares at an aggregate cost of \$10.1 million, including fees, for a cumulative program total of 429.7 million shares at a cost of \$4.7 billion, including fees. We expect total share repurchases of at least \$400 million in 2013.

In October 2012, the Board of Directors authorized an additional \$1.0 billion in share repurchase, bringing the total remaining authorization for share repurchases to \$1.3 billion as of February 20, 2013.

Refer to Note 19 - Shareholders' Equity – Treasury Stock in the Consolidated Financial Statements for additional information regarding our share repurchase programs.

Dividends

The Board of Directors declared aggregate dividends of \$226 million, \$241 million and \$243 million on common stock in 2012, 2011 and 2010, respectively. The decrease in 2012 as compared to prior years is primarily due to a lower level of outstanding shares in 2012 as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of \$24 million, \$24 million and \$21 million on the Series A Convertible Preferred Stock in 2012, 2011 and 2010, respectively. The preferred shares were issued in connection with the acquisition of ACS.

In addition the company increased its dividend from 4.25 cents per share to 5.75 cents per share per quarter, beginning with the dividend payable on April 30, 2013. Accordingly, we expect approximately \$300 million in dividend payments for the full year 2013.

Liquidity and Financial Flexibility

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

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

Year	Amount
2013	\$ 1,039
2014	1,093
2015	1,259
2016	954
2017	1,002
2018	1,001
2019	650
2020	—
2021	1,062
2022 and thereafter	350
Total	\$ 8,410

Foreign Cash

At December 31, 2012, we had \$1,246 million of cash and cash equivalents on a consolidated basis. Of that amount, approximately \$400 million was held outside the U.S. by our foreign subsidiaries to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings.

However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 16- Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

At December 31, 2012, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 12 - Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2012, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2013	2014	2015	2016	2017	Thereafter
Total debt, including capital lease obligations ⁽¹⁾	\$ 1,039	\$ 1,093	\$ 1,259	\$ 954	\$ 1,002	\$ 3,063
Interest on debt ⁽¹⁾	421	363	293	234	177	777
Minimum operating lease commitments ⁽²⁾	636	425	265	157	74	83
Defined benefit pension plans	195	—	—	—	—	—
Retiree health payments	80	80	79	77	75	339
Estimated Purchase Commitments:						
Flextronics ⁽³⁾	498	—	—	—	—	—
Fuji Xerox ⁽⁴⁾	2,069	—	—	—	—	—
Other ⁽⁵⁾	169	131	43	16	1	—
Total	\$ 5,107	\$ 2,092	\$ 1,939	\$ 1,438	\$ 1,329	\$ 4,262

(1) Refer to Note 12 - Debt in the Consolidated Financial Statements for additional information regarding debt.

(2) Refer to Note 7 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately \$600 million per year.

(4) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.

(5) Other purchase commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2012 cash contributions for these plans were \$364 million for our defined benefit pension plans and \$84 million for our retiree health plans. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 million in 2012.

In 2013, based on current actuarial calculations, we expect to make contributions of approximately \$195 million to our worldwide defined benefit pension plans and approximately \$80 million to our retiree health benefit plans. The decrease in required contributions to our worldwide defined benefit pension plans is largely in the U.S. and reflects the expected benefits from the pension funding legislation enacted in the U.S. during 2012. Contributions in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes. Although we currently expect contributions to our worldwide defined benefit pension plans to increase moderately in 2014, primarily in the U.S., contributions are still expected to be lower over the next several years as compared to 2011 and 2012 primarily as a result of the amendment of several of our defined benefit pension plans to freeze current benefits and eliminate benefit accruals for future service.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. Cash contributions are made each year to cover medical claims costs incurred during the year. The amounts reported in the above table as retiree health payments represent our estimate of future benefit payments.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling \$2.1 billion, \$2.2 billion and \$2.1 billion in 2012, 2011 and 2010, respectively. Our purchase commitments with Fuji Xerox are entered into in the normal course of business and typically have a lead time of three months. Related party transactions with Fuji Xerox are discussed in Note 8 - Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 million, with the decrease from December 31, 2011 balance of approximately \$1,120 million, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010 million, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2012 we had \$211 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 million and additional letters of credit of approximately \$242 million, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 17 - Contingencies and Litigation in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and non-consolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Should developments in any of these areas cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Unrecognized Tax Benefits

As of December 31, 2012, we had \$201 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and foreign tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off-Balance Sheet Arrangements

Occasionally we may utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."). We enter into the following arrangements that have off-balance sheet elements:

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 7 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- We have facilities primarily in the U.S., Canada and several countries in Europe that enable us to sell to third-parties certain accounts receivable without recourse. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 4 - Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.
- During 2012 we entered into arrangements to sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 5 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales.

At December 31, 2012, we do not believe we have any off-balance sheet arrangements that have, or reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

In addition, see the table above for the Company's contractual cash obligations and other commercial commitments and Note 17 - Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilized derivative financial instruments to hedge economic exposures, as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events have not caused us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 13 - Financial Instruments in the Consolidated Financial Statements for additional discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2012, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would not be significant because all material currency asset and liability exposures were economically hedged as of December 31, 2012. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2012 would have an impact on our cumulative translation adjustment portion of equity of approximately \$711 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox Brasil, and translated into U.S. Dollars using the year-end exchange rates, was approximately \$7.1 billion at December 31, 2012.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2012, 2011 and 2010 approximated 4.7%, 5.2%, and 5.8%, respectively. Interest expense includes the impact of our interest rate derivatives.

Virtually all customer-financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2012, \$903 million of our total debt of \$8,489 million carried variable interest rates, including the effect of pay variable interest rate swaps, if any, we may use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2012, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$113 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). In addition, we have discussed our results using non-GAAP measures.

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

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

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects. For our 2012 reporting year, adjustments were limited to the amortization of intangible assets.

- Net income and Earnings per share ("EPS"), and
- Effective tax rate.

The above have been adjusted for the following items:

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

- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 only):** Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.
- **Acquisition-related costs (2010 only):** We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition-related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- **Other discrete, unusual or infrequent costs and expenses:** In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of the item on our results of operations for the period: 1) Loss on early extinguishment of liability (2011 and 2010), 2) Medicare subsidy tax law change (income tax effect only)(2010), 3) ACS shareholder's litigation settlement (2010) and 4) Venezuela devaluation (2010). We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

We also calculate and utilize an Operating income and margin earnings measure by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the amortization of intangible assets and restructuring expenses (see above), operating income and margin also exclude Other expenses, net. 2011 operating income and margin also exclude a Curtailment gain recorded in the fourth quarter 2011 while 2010 operating income and margin exclude ACS acquisition related costs (see above). Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. The Curtailment gain resulted from the amendment of our primary non-union U.S. defined benefit pension plans for salaried employees to fully freeze future benefit and service accruals after December 31, 2012. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Pro-forma Basis

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

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Year Ended December 31,					
	2012		2011		2010	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported	\$ 1,195	\$ 0.88	\$ 1,295	\$ 0.90	\$ 606	\$ 0.43
Adjustments:						
Amortization of intangible assets	203	0.15	248	0.17	194	0.14
Loss on early extinguishment of liability			20	0.01	10	0.01
Xerox and Fuji Xerox restructuring charges					355	0.26
ACS acquisition-related costs					58	0.04
ACS shareholders' litigation settlement					36	0.03
Venezuela devaluation costs					21	0.02
Medicare subsidy tax law change					16	0.01
Adjusted	\$ 1,398	\$ 1.03	\$ 1,563	\$ 1.08	\$ 1,296	\$ 0.94
Weighted average shares for adjusted EPS ⁽¹⁾	1,356		1,444		1,378	
Fully diluted shares at December 31, 2012 ⁽²⁾	1,271					

(1) Average shares for the calculation of adjusted EPS and include 27 million of shares associated with the Series A convertible preferred stock and therefore the related annual dividend was excluded.

(2) Represents common shares outstanding at December 31, 2012 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in the fourth quarter 2012.

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
As Reported	\$ 1,348	\$ 277	20.5%	\$ 1,565	\$ 386	24.7%	815	256	31.4%
Adjustments:									
Amortization of intangible assets	328	125		398	150		312	118	
Loss on early extinguishment of liability				33	13		15	5	
Xerox restructuring charge							483	166	
ACS acquisition-related costs							77	19	
ACS shareholders' litigation settlement							36	—	
Venezuela devaluation costs							21	—	
Medicare subsidy tax law change							—	(16)	
Adjusted	<u>\$ 1,676</u>	<u>\$ 402</u>	<u>24.0%</u>	<u>\$ 1,996</u>	<u>\$ 549</u>	<u>27.5%</u>	<u>1,759</u>	<u>548</u>	<u>31.2%</u>

Operating Income / Margin reconciliation:

(in millions)	As Reported			Pro-forma ⁽¹⁾
	2012	2011	2010	2010
Total Revenue	\$ 22,390	\$ 22,626	\$ 21,633	\$ 22,252
Pre-tax Income	1,348	1,565	815	777
Adjustments:				
Amortization of intangible assets	328	398	312	339
Xerox restructuring charge	153	33	483	483
Curtailment gain	—	(107)	—	—
ACS Acquisition-related costs	—	—	77	77
Other expenses, net	256	322	389	444
Adjusted Operating Income	<u>\$ 2,085</u>	<u>\$ 2,211</u>	<u>\$ 2,076</u>	<u>\$ 2,120</u>
Pre-tax Income Margin	6.0%	6.9%	3.8%	3.5%
Adjusted Operating Margin	9.3%	9.8%	9.6%	9.5%

(1) Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 5 in our reported 2010 results.

Forward-Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”). We do not intend to update these forward-looking statements, except as required by law.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per-share data)	Year Ended December 31,		
	2012	2011	2010
Revenues			
Sales	\$ 6,578	\$ 7,126	\$ 7,234
Outsourcing, service and rentals	15,215	14,868	13,739
Finance income	597	632	660
Total Revenues	22,390	22,626	21,633
Costs and Expenses			
Cost of sales	4,362	4,697	4,741
Cost of outsourcing, service and rentals	10,802	10,269	9,195
Equipment financing interest	198	231	246
Research, development and engineering expenses	655	721	781
Selling, administrative and general expenses	4,288	4,497	4,594
Restructuring and asset impairment charges	153	33	483
Acquisition-related costs	—	—	77
Amortization of intangible assets	328	398	312
Curtailment gain	—	(107)	—
Other expenses, net	256	322	389
Total Costs and Expenses	21,042	21,061	20,818
Income Before Income Taxes and Equity Income	1,348	1,565	815
Income tax expense	277	386	256
Equity in net income of unconsolidated affiliates	152	149	78
Net Income	1,223	1,328	637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share	\$ 0.88	\$ 0.90	\$ 0.43

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

Xerox 2012 Form 10-K

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31,		
	2012	2011	2010
Net Income	\$ 1,223	\$ 1,328	\$ 637
Less: Net income attributable to noncontrolling interests	28	33	31
Net Income Attributable to Xerox	<u>\$ 1,195</u>	<u>\$ 1,295</u>	<u>\$ 606</u>
Other Comprehensive Income (Loss), Net⁽¹⁾:			
Translation adjustments, net	\$ 113	\$ (105)	\$ (35)
Unrealized (losses) gains, net	(63)	12	12
Changes in defined benefit plans, net	(561)	(636)	23
Other Comprehensive Loss, Net	<u>(511)</u>	<u>(729)</u>	<u>—</u>
Less: Other comprehensive loss, net attributable to noncontrolling interests	—	(1)	—
Other Comprehensive Loss, Net Attributable to Xerox	<u>\$ (511)</u>	<u>\$ (728)</u>	<u>\$ —</u>
Comprehensive Income, Net	\$ 712	\$ 599	\$ 637
Less: Comprehensive income, net attributable to noncontrolling interests	28	32	31
Comprehensive Income, Net Attributable to Xerox	<u>\$ 684</u>	<u>\$ 567</u>	<u>\$ 606</u>

(1) Refer to Note 20 - Other Comprehensive Income for gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and related tax effects.

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

XEROX CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
<i>(in millions, except share data in thousands)</i>		
Assets		
Cash and cash equivalents	\$ 1,246	\$ 902
Accounts receivable, net	2,866	2,600
Billed portion of finance receivables, net	152	166
Finance receivables, net	1,836	2,165
Inventories	1,011	1,021
Other current assets	1,162	1,058
Total current assets	8,273	7,912
Finance receivables due after one year, net	3,325	4,031
Equipment on operating leases, net	535	533
Land, buildings and equipment, net	1,556	1,612
Investments in affiliates, at equity	1,381	1,395
Intangible assets, net	2,783	3,042
Goodwill	9,062	8,803
Deferred tax assets, long-term	763	672
Other long-term assets	2,337	2,116
Total Assets	\$ 30,015	\$ 30,116
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 1,042	\$ 1,545
Accounts payable	1,913	2,016
Accrued compensation and benefits costs	741	757
Unearned income	438	432
Other current liabilities	1,776	1,631
Total current liabilities	5,910	6,381
Long-term debt	7,447	7,088
Pension and other benefit liabilities	2,958	2,487
Post-retirement medical benefits	909	925
Other long-term liabilities	778	861
Total Liabilities	18,002	17,742
Series A Convertible Preferred Stock	349	349
Common stock	1,239	1,353
Additional paid-in capital	5,622	6,317
Treasury stock, at cost	(104)	(124)
Retained earnings	7,991	7,046
Accumulated other comprehensive loss	(3,227)	(2,716)
Xerox shareholders' equity	11,521	11,876
Noncontrolling interests	143	149
Total Equity	11,664	12,025
Total Liabilities and Equity	\$ 30,015	\$ 30,116
Shares of common stock issued	1,238,696	1,352,849
Treasury stock	(14,924)	(15,508)
Shares of common stock outstanding	1,223,772	1,337,341

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

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	\$ 1,223	\$ 1,328	\$ 637
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,301	1,251	1,097
Provision for receivables	127	154	180
Provision for inventory	30	39	31
Deferred tax expense (benefit)	96	203	(2)
Undistributed equity in net income of unconsolidated affiliates	(90)	(86)	(37)
Stock-based compensation	125	123	123
Restructuring and asset impairment charges	153	33	483
Payments for restructurings	(144)	(218)	(213)
Contributions to defined benefit pension plans	(364)	(426)	(237)
Increase in accounts receivable and billed portion of finance receivables	(776)	(296)	(118)
Collections of deferred proceeds from sales of receivables	470	380	218
Increase in inventories	—	(124)	(151)
Increase in equipment on operating leases	(276)	(298)	(288)
Decrease in finance receivables	947	90	129
Increase in other current and long-term assets	(265)	(249)	(98)
Increase in accounts payable and accrued compensation	120	82	615
Decrease in other current and long-term liabilities	(71)	(22)	(9)
Net change in income tax assets and liabilities	42	89	229
Net change in derivative assets and liabilities	11	39	85
Other operating, net	(79)	(131)	52
Net cash provided by operating activities	2,580	1,961	2,726
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(388)	(338)	(355)
Proceeds from sales of land, buildings and equipment	9	28	52
Cost of additions to internal use software	(125)	(163)	(164)
Acquisitions, net of cash acquired	(276)	(212)	(1,734)
Other investing, net	19	10	23
Net cash used in investing activities	(761)	(675)	(2,178)
Cash Flows from Financing Activities:			
Net (payments) proceeds on debt	(108)	49	(3,056)
Payment of liability to subsidiary trust issuing preferred securities	—	(670)	—
Common stock dividends	(231)	(241)	(215)
Preferred stock dividends	(24)	(24)	(15)
Proceeds from issuances of common stock	44	44	183
Excess tax benefits from stock-based compensation	10	6	24
Payments to acquire treasury stock, including fees	(1,052)	(701)	—
Repurchases related to stock-based compensation	(42)	(27)	(15)
Distributions to noncontrolling interests	(69)	(22)	(22)
Net cash used in financing activities	(1,472)	(1,586)	(3,116)
Effect of exchange rate changes on cash and cash equivalents	(3)	(9)	(20)
Increase (decrease) in cash and cash equivalents	344	(309)	(2,588)
Cash and cash equivalents at beginning of year	902	1,211	3,799
Cash and Cash Equivalents at End of Year	\$ 1,246	\$ 902	\$ 1,211

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

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽³⁾	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2009	\$ 871	\$ 2,493	\$ —	\$ 5,674	\$ (1,988)	\$ 7,050	\$ 141	\$ 7,191
Comprehensive income	—	—	—	606	—	606	31	637
ACS acquisition	490	3,825	—	—	—	4,315	—	4,315
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(243)	—	(243)	—	(243)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(21)	—	(21)	—	(21)
Stock option and incentive plans, net	37	262	—	—	—	299	—	299
Distributions to noncontrolling interests	—	—	—	—	—	—	(19)	(19)
Balance at December 31, 2010	\$ 1,398	\$ 6,580	\$ —	\$ 6,016	\$ (1,988)	\$ 12,006	\$ 153	\$ 12,159
Comprehensive income	—	—	—	1,295	(728)	567	32	599
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(241)	—	(241)	—	(241)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Contribution of common stock to U.S. pension plan	17	113	—	—	—	130	—	130
Stock option and incentive plans, net	11	128	—	—	—	139	—	139
Payments to acquire treasury stock, including fees	—	—	(701)	—	—	(701)	—	(701)
Cancellation of treasury stock	(73)	(504)	577	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(36)	(36)
Balance at December 31, 2011	\$ 1,353	\$ 6,317	\$ (124)	\$ 7,046	\$ (2,716)	\$ 11,876	\$ 149	\$ 12,025
Comprehensive income	—	—	—	1,195	(511)	684	28	712
Cash dividends declared-common stock ⁽¹⁾	—	—	—	(226)	—	(226)	—	(226)
Cash dividends declared-preferred stock ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Contribution of common stock to U.S. pension plan	15	115	—	—	—	130	—	130
Stock option and incentive plans, net	18	115	—	—	—	133	—	133
Payments to acquire treasury stock, including fees	—	—	(1,052)	—	—	(1,052)	—	(1,052)
Cancellation of treasury stock	(147)	(925)	1,072	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(34)	(34)
Balance at December 31, 2012	\$ 1,239	\$ 5,622	\$ (104)	\$ 7,991	\$ (3,227)	\$ 11,521	\$ 143	\$ 11,664

(1) Cash dividends declared on common stock of \$0.0425 in each of the four quarters in 2012, 2011 and 2010.

(2) Cash dividends declared on preferred stock of \$12.22 per share in the first quarter of 2010 and \$20 per share in each quarter thereafter in 2010, 2011 and 2012.

(3) AOCL - Accumulated other comprehensive loss.

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

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

Note 1 – Summary of Significant Accounting Policies

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

Description of Business and Basis of Presentation

We are a \$22.4 billion global enterprise for business process and document management. We offer business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, human resource benefits management, finance support, transportation solutions and customer relationship management services for commercial and government organizations worldwide. The company also provides extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income from the date such determination is made.

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

Use of Estimates

The preparation of our Consolidated Financial Statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes certain significant costs and expenses that require management estimates for the three years ended December 31, 2012:

Expense/(Income)	Year Ended December 31,		
	2012	2011	2010
Provision for restructuring and asset impairments	\$ 153	\$ 33	\$ 483
Provision for receivables	127	154	180
Provisions for litigation and regulatory matters	(1)	11	(4)
Provisions for obsolete and excess inventory	30	39	31
Provision for product warranty liability	29	30	33
Depreciation and obsolescence of equipment on operating leases	279	294	313
Depreciation of buildings and equipment	452	405	379
Amortization of internal use software	116	91	70
Amortization of product software	19	11	7
Amortization of acquired intangible assets	328	401	316
Amortization of customer contract costs	107	49	12
Defined pension benefits - net periodic benefit cost ⁽¹⁾	300	177	304
Retiree health benefits - net periodic benefit cost	11	14	32
Income tax expense	277	386	256

(1) 2011 includes \$107 pre-tax curtailment gain - refer to Note 15 - Employee Benefit Plans for additional information.

Changes in Estimates

In the ordinary course of accounting for the items discussed above, we make changes in estimates as appropriate and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operation.

New Accounting Standards and Accounting Changes

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

Goodwill:

In September 2011, the FASB issued **ASU No. 2011-08**, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment, which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that a potential exposure exists, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We adopted ASU 2011-08 in 2011. The adoption of this update did not have a material effect on our financial condition or results of operations. See "Goodwill and Other Intangible Assets" below for additional information.

Presentation of Comprehensive Income:

In June 2011, the FASB issued **ASU 2011-05**, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the Statement of Shareholders' Equity. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share.

We adopted ASU 2011-05 effective for our fiscal year ending December 31, 2011 and have retrospectively applied the new presentation of comprehensive income to 2010. We elected to present comprehensive income in two separate but consecutive statements. Note 20 - Other Comprehensive Income provides details regarding the gross components of other comprehensive income, reclassification adjustments out of accumulated other comprehensive income and the related tax effects. Other than the change in presentation and disclosure, the update did not have an impact on our financial condition or results of operations.

In February 2013, the FASB issued **ASU No. 2013-02**, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide additional information about the amounts reclassified out of Accumulated Other Comprehensive Income by component. This update is effective for us beginning January 1, 2013.

Fair Value Accounting:

In May 2011, the FASB issued **ASU 2011-04**, which amended Fair Value Measurements and Disclosures - Overall (ASC Topic 820-10) to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This update changed certain fair value measurement principles and enhanced the disclosure requirements, particularly for level 3 fair value measurements. We adopted this update prospectively effective for our fiscal year beginning January 1, 2012. This update did not have a material effect on financial condition or results of operations.

Balance Sheet Offsetting:

In December 2011, the FASB issued **ASU 2011-11**, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the Balance Sheet and instruments and transactions subject to an agreement similar to a master netting arrangement to enable users of its financial statements to understand the effects of offsetting and related arrangements on its financial position. This update is effective for our fiscal year beginning January 1, 2013 and must be applied retrospectively. In January 2013, the FASB issued ASU 2013-01 which limited the scope of this guidance to derivatives, repurchase type agreements and securities borrowing and lending transactions. The principal impact from this update will be to expand disclosures regarding our financial instruments. We currently report our derivative assets and liabilities on a gross basis in the Balance Sheet even in those instances where offsetting may be allowed under a master netting agreement.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through services, the sale and rental of equipment, supplies and income associated with the financing of our equipment sales. Revenue is recognized when it is realized or realizable and earned. We consider revenue realized or realizable and earned when we have persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until equipment has been shipped or services have been provided to the customer, risk of loss has transferred to the customer, and either customer acceptance has been obtained, customer acceptance provisions have lapsed, or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment-Related Revenues

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Technical Services: Technical service revenues are derived primarily from maintenance contracts on the equipment sold to our customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Bundled Lease Arrangements: We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements also typically include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price-per-page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract. Revenues under bundled arrangements are allocated considering the relative selling prices of the lease and non-lease deliverables included in the bundled arrangement. Lease deliverables include the equipment, financing, maintenance and other executory costs, while non-lease deliverables generally consist of the supplies and non-maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and other executory costs plus a profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements which are subjected to the accounting estimates noted below under "Leases."

Our pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology products to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the company, the sales price is not contingent upon resale or payment by the end user customer and we have no further obligations related to bringing about the resale, delivery or installation of the product.

Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end-user customers who purchased equipment we sold to distributors or resellers. We compete with other third party leasing companies with respect to the lease financing provided to these end-user customers.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales contract terms.

Software: Most of our equipment has both software and non-software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of equipment sales revenues. Software accessories sold in connection with our equipment sales, as well as free-standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence ("VSOE") of fair value. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Leases: As noted above, equipment may be placed with customers under bundled lease arrangements. The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: 1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease.

We consider the economic life of most of our products to be five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

Services-Related Revenue

Outsourcing: Revenues associated with outsourcing services are generally recognized as services are rendered, which is generally on the basis of the number of accounts or transactions processed. Information technology processing revenues are recognized as services are provided to the customer, generally at the contractual selling prices of resources consumed or capacity utilized by our customers. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on cost reimbursable contracts are recognized by applying an estimated factor to costs as incurred, determined by the contract provisions and prior experience. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer. Revenues on time and material contracts are recognized at the contractual rates as the labor hours and direct expenses are incurred.

Revenues on certain fixed price contracts where we provide system development and implementation services are recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract using the percentage-of-completion accounting methodology. These services require that we perform significant, extensive and complex design, development, modification or implementation of our customers' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period.

Revenues earned in excess of related billings are accrued, whereas billings in excess of revenues earned are deferred until the related services are provided. We recognize revenues for non-refundable, upfront implementation fees on a straight-line basis over the period between the initiation of the ongoing services through the end of the contract term.

In connection with our services arrangements, we incur and capitalize costs to originate these long-term contracts and to perform the migration, transition and setup activities necessary to enable us to perform under the terms of the arrangement. Certain initial direct costs of an arrangement are capitalized and amortized over the contractual service period of the arrangement to cost of services.

From time to time, we also provide inducements to customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. Customer-related deferred set-up/transition and inducement costs were \$356 and \$294 at December 31, 2012 and 2011, respectively, and the balance at December 31, 2012 is expected to be amortized over a weighted average period of approximately seven years. Amortization expense associated with customer-related contract costs at December 31, 2012 is expected to be approximately \$103 in 2013.

Long-lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Our outsourcing services contracts may also include the sale of equipment and software. In these instances we follow the policies noted above under Equipment-related Revenue.

Other Revenue Recognition Policies

Multiple Element Arrangements: As described above, we enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled lease arrangements, which typically include both lease deliverables and non-lease deliverables as described above.
- Contracts for multiple types of outsourcing services, as well as professional and value-added services. For instance, we may contract for an implementation or development project and also provide services to operate the system over a period of time; or we may contract to scan, manage and store customer documents.

In substantially all of our multiple element arrangements, we are able to separate the deliverables since we normally will meet both of the following criteria:

- The delivered item(s) has value to the customer on a stand-alone basis; and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is primarily determined based on VSOE or third-party evidence ("TPE") of the selling price. The above noted revenue policies are then applied to each separated deliverable, as applicable.

Revenue-based taxes: We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The primary revenue-based taxes are sales tax and value-added tax ("VAT").

Other Significant Accounting Policies

Shipping and Handling

Costs related to shipping and handling are recognized as incurred and included in Cost of sales in the Consolidated Statements of Income.

Research, Development and Engineering ("RD&E")

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Sustaining engineering costs were \$110, \$108 and \$128 in 2012, 2011 and 2010, respectively. Refer to Management's Discussion and Analysis, RD&E section for additional information regarding RD&E expense.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money market funds, and investments with original maturities of three months or less.

Receivable Sales

We regularly sell certain portions of our receivable portfolios. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management's best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 4 - Accounts Receivable, Net and Note 5 - Finance Receivables, Net for more details on our receivable sales.

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value, which normally are not significant. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 6 - Inventories and Equipment on Operating Leases, Net and Note 7 - Land, Buildings, Equipment and Software, Net for further discussion.

Software - Internal Use and Product

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented ("Internal Use Software"). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility ("Product Software"). These costs are amortized based on estimated future revenues over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are charged to Costs of services as incurred.

Refer to Note 7 - Land, Buildings, Equipment and Software, Net for further information.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If we perform the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (step 2) to measure such impairment. In 2012, we elected to proceed to the quantitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test. Based on our quantitative assessments, we concluded that the fair values of each of our reporting units exceeded their carrying values and no impairments were identified.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company.

Refer to Note 9 - Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Pension and Post-Retirement Benefit Obligations

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retiree medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated Other Comprehensive Loss, net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Actual returns on plan assets are not immediately recognized in our income statement, due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return on the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a market-related value approach in determining the value of the pension plan assets, rather than a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the market-related asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The market-related value approach reduces the volatility in net periodic pension cost that would result from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. The discount rate reflects the current rate at which benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments adjusted to eliminate the effects of call provisions, as well as the expected timing of pension and other benefit payments.

Each year, the difference between the actual return on plan assets and the expected return on plan assets as well as increases or decreases in the benefit obligation as a result of changes in the discount rate and other actuarial assumptions, are added to or subtracted from any cumulative actuarial gain or loss from prior years. This amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss. We amortize net actuarial gains and losses as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss (excluding asset gains or losses that have not been recognized in market-related value) exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets (the "corridor" method). This determination is made on a plan-by-plan basis. If amortization is required for a particular plan, we amortize the applicable net gain or loss in excess of the 10 percent threshold on a straight-line basis in net periodic pension cost over the remaining service period of the employees participating in that pension plan. In plans where substantially all participants are inactive, the amortization period for the excess is the average remaining life expectancy of the plan participants.

Our primary domestic plans allow participants the option of settling their vested benefits through either the receipt of a lump-sum payment or the purchase of a non-participating annuity contract with an insurance company. Under either option the participant's vested benefit is considered fully settled upon payment of the lump-sum or the purchase of the annuity. We have elected to apply settlement accounting and therefore we recognize the losses associated with settlements in this plan immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of the participant's vested benefit.

Refer to Note 15 - Employee Benefit Plans for further information regarding our Pension and Post-Retirement Benefit Obligations.

Foreign Currency Translation and Re-measurement

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain foreign subsidiaries that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in re-measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are recorded in Currency (gains) and losses within Other expenses, net together with other foreign currency remeasurments.

Note 2 – Segment Reporting

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

The **Services** segment is comprised of three outsourcing service offerings:

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

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

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

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

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

Selected financial information for our Operating segments was as follows:

	Years Ended December 31,			
	Services	Document Technology	Other	Total
2012⁽¹⁾				
Revenue	\$ 11,453	\$ 8,951	\$ 1,389	\$ 21,793
Finance income	75	511	11	597
Total Segment Revenue	\$ 11,528	\$ 9,462	\$ 1,400	\$ 22,390
Interest expense	22	172	234	428
Segment profit (loss) ⁽²⁾	1,173	1,065	(241)	1,997
Equity in net income of unconsolidated affiliates	30	122	—	152
2011⁽¹⁾				
Revenue	\$ 10,754	\$ 9,722	\$ 1,518	\$ 21,994
Finance income	83	537	12	632
Total Segment Revenue	\$ 10,837	\$ 10,259	\$ 1,530	\$ 22,626
Interest expense	\$ 25	\$ 202	\$ 251	\$ 478
Segment profit (loss) ⁽²⁾	1,207	1,140	(255)	2,092
Equity in net income of unconsolidated affiliates	31	118	—	149
2010⁽¹⁾				
Revenue	\$ 9,548	\$ 9,790	\$ 1,635	\$ 20,973
Finance income	89	559	12	660
Total Segment Revenue	\$ 9,637	\$ 10,349	\$ 1,647	\$ 21,633
Interest expense	\$ 28	\$ 212	\$ 352	\$ 592
Segment profit (loss) ⁽²⁾	1,132	1,085	(342)	1,875
Equity in net income of unconsolidated affiliates	16	62	—	78

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our chief executive officer.

(2) Depreciation and amortization expense, which is recorded in Cost of Sales, Services, RD&E and SAG are included in segment profit above. This information is neither identified nor internally reported to our chief executive officer. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

The following is a reconciliation of segment profit to pre-tax income:

Segment Profit Reconciliation to Pre-tax Income	Years Ended December 31,		
	2012	2011	2010
Total Segment Profit	\$ 1,997	\$ 2,092	\$ 1,875
Reconciling items:			
Restructuring and asset impairment charges	(153)	(33)	(483)
Restructuring charges of Fuji Xerox	(16)	(19)	(38)
Acquisition-related costs	—	—	(77)
Amortization of intangible assets	(328)	(398)	(312)
Venezuelan devaluation costs	—	—	(21)
ACS shareholders' litigation settlement	—	—	(36)
Loss on early extinguishment of liability and debt	—	(33)	(15)
Equity in net income of unconsolidated affiliates	(152)	(149)	(78)
Curtailment gain	—	107	—
Other	—	(2)	—
Pre-tax Income	\$ 1,348	\$ 1,565	\$ 815

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows for the three years ended December 31, 2012:

	Revenues			Long-Lived Assets ⁽¹⁾		
	2012	2011	2010	2012	2011	2010
United States	\$ 14,701	\$ 14,493	\$ 13,801	\$ 1,966	\$ 1,894	\$ 1,764
Europe	5,111	5,557	5,332	784	776	741
Other areas	2,578	2,576	2,500	262	276	309
Total Revenues and Long-Lived Assets	\$ 22,390	\$ 22,626	\$ 21,633	\$ 3,012	\$ 2,946	\$ 2,814

(1) Long-lived assets are comprised of (i) land, buildings and equipment, net, (ii) equipment on operating leases, net, (iii) internal use software, net and (iv) product software, net.

Note 3 – Acquisitions

2012 Acquisitions

In July 2012, we acquired **Wireless Data Services, Ltd. ("WDS")**, a provider of technical support, knowledge management and related consulting to the world's largest wireless telecommunication brands for approximately \$95 (£60 million) in cash. Based in the U.K., WDS's expertise in the telecommunications industry strengthens our broad portfolio of customer care solutions.

In February 2012, we acquired **R.K. Dixon**, a leading provider of IT services, copiers, printers and managed print services for approximately \$58 in cash. The acquisition furthers our coverage of central Illinois and eastern Iowa, building on our strategy to create a nationwide network of locally-based companies focused on customers' needs to improve performance through efficiencies.

Our Document Technology segment also acquired three additional businesses in 2012 for a total of \$62 in cash as part of our strategy of increasing our U.S. distribution network primarily for small and mid-size businesses. Our Services segment acquired four additional businesses in 2012 for a total of \$61 in cash, primarily related to customer care and software to support our BPO service offerings.

2012 Summary

All of our 2012 acquisitions reflected 100% ownership of the acquired companies. The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. WDS is included within our Services segment while the acquisition of R.K. Dixon is included within our Document Technology segment. Our 2012 acquisitions contributed aggregate revenues of approximately \$162 to our 2012 total revenues from their respective acquisition dates. The purchase prices for all acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. The primary elements that generated the goodwill are the value of synergies and the acquired assembled workforce. Approximately 50% of the goodwill recorded in 2012 is expected to be deductible for tax purposes. Refer to Note 9 - Goodwill and Intangible Assets, Net for additional information.

The following table summarizes the purchase price allocations for our 2012 acquisitions as of the acquisition dates:

	Weighted-Average Life (Years)	Total 2012 Acquisitions
Accounts/finance receivables		\$ 51
Intangible assets:		
Customer relationships	8	40
Trademarks	19	22
Non-compete agreements	4	5
Software	5	10
Goodwill		184
Other assets		29
Total Assets Acquired		341
Liabilities assumed		(65)
Total Purchase Price		\$ 276

2011 and 2010 Acquisitions

In December 2011, we acquired the Merizon Group Inc. which operates **MBM** formerly known as Modern Business Machines, a Wisconsin-based office products distributor for approximately \$42 net of cash acquired. The acquisition furthers our strategy of creating a nationwide network of locally-based companies focused on improving document workflow and office efficiency.

In November 2011, we acquired **The Breakaway Group** ("Breakaway"), a cloud-based service provider that helps healthcare professionals accelerate their adoption of an electronic medical records ("EMR") system, for approximately \$18 net of cash acquired. We are also obligated to pay the sellers up to an additional \$25 if certain future performance targets are achieved, of which \$18 was recorded as of the acquisition date representing the estimated fair value of this obligation for a total acquisition fair value of \$36. The Denver-based firm's technology allows caregivers to practice using an EMR system without jeopardizing actual patient data. This acquisition adds to our offering of services that help healthcare professionals use the EMR system for clinical benefit.

In September 2011, we acquired the net assets related to the **U.S. operations of Symcor Inc.** ("Symcor"). In connection with the acquisition, we assumed and took over the operational responsibility for the customer contracts related to this operation. We agreed to pay \$17 for the acquired net assets and the seller agreed to pay us \$52, which represented the fair value of the liabilities assumed for a net cash receipt of \$35. The assumed liabilities primarily include customer contract liabilities representing the estimated fair value of the obligations associated with the assumed customer contracts. We are recognizing these liabilities over a weighted-average period of approximately two years consistent with the cash outflows from the contracts. Symcor specializes in outsourcing services for U.S. financial institutions and its offerings range from cash management services to statement and check processing.

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

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

In February 2011, we acquired **Concept Group, Ltd.** for \$41 net of cash acquired. This acquisition expands our reach into the small and mid-size business market in the U.K. Concept Group has nine locations throughout the U.K. and provides document imaging solutions and technical services to more than 3,000 customers.

In October 2010, we acquired **TMS Health, LLC** ("TMS"), a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries, for approximately \$48 in cash. TMS enables us to improve communications among pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, we augment the IT and BPO services we deliver to the healthcare and pharmaceutical industries.

In July 2010, we acquired **ExcellerateHRO, LLP** ("EHRO"), a global benefits administration and relocation services provider for \$125 net of cash acquired. EHRO established us as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services.

Our Document Technology segment also acquired seven additional business in 2011 and two additional business in 2010 for \$21 and \$50, respectively, in cash as part of our strategy of increasing our distribution network for small and mid-size businesses. Our Services segment acquired three additional businesses in 2011 and one additional business in 2010 for \$25 and \$12, respectively, in cash primarily related to software to support our BPO service offerings.

Summary - 2011 and 2010 Acquisitions

All of our 2011 and 2010 acquisitions reflected 100% ownership of the acquired companies. The operating results of the 2011 and 2010 acquisitions described above were not material to our financial statements and were included within our results from the respective acquisition dates. Breakaway, Symcor, ESM, Unamic/HCN, TMS and EHRO were included within our Services segment while the acquisitions of MBM and Concept Group were primarily included within our Document Technology segment. The purchase price for all acquisitions, except Symcor, were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. Refer to Note 9 - Goodwill and Intangible Assets, Net for additional information. Our 2011 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$397 and \$177 to our 2012 and 2011 total revenues, respectively. Excluding ACS, our 2010 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$323, \$318 and \$140 to our 2012, 2011 and 2010 total revenues, respectively.

Contingent Consideration

In connection with certain acquisitions, we are obligated to make contingent payments if specified contractual performance targets are achieved. Contingent consideration obligations are recorded at their respective fair value. As of December 31, 2012, the maximum aggregate amount of outstanding contingent obligations to former owners of acquired entities was approximately \$55, of which \$32 was accrued representing the estimated fair value of this obligation.

Affiliated Computer Services, Inc. ("ACS")

In February 2010, we acquired ACS in a cash-and-stock transaction valued at approximately \$6.5 billion. Each outstanding share of ACS common stock was converted into a combination of 4.935 shares of Xerox common stock and \$18.60 in cash. We also issued convertible preferred stock with a fair value of \$349 and stock options valued at \$222. Refer to Note 18 - Preferred Stock and Note 19 - Shareholders' Equity for additional information regarding the issuance of preferred stock and stock options, respectively. In addition, we repaid \$1.7 billion of ACS's debt and assumed an additional \$0.6 billion of debt. The total aggregate purchase price was \$8.8 billion.

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed are recognized at their fair values as of the acquisition date. The acquisition of ACS resulted in recognized Goodwill of \$5.1 billion and Intangible assets of \$3.0 billion. The operating results of ACS are included in our Services segment from February 6, 2010. Had we acquired ACS on January 1, 2010, full year 2010 revenues, net income and diluted EPS would have been \$22,252, \$592 and \$0.41, respectively.

Note 4 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	December 31,	
	2012	2011
Amounts billed or billable	\$ 2,639	\$ 2,307
Unbilled amounts	335	395
Allowance for doubtful accounts	(108)	(102)
Accounts Receivable, Net	\$ 2,866	\$ 2,600

Unbilled amounts include amounts associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at December 31, 2012 and 2011 were approximately \$1,049 and \$963, respectively.

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

Accounts Receivable Sales Arrangements

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

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and were \$116 and \$97 at December 31, 2012 and 2011, respectively.

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

Of the accounts receivables sold and derecognized from our balance sheet, \$766 and \$815 remained uncollected as of December 31, 2012 and 2011, respectively. Accounts receivable sales were as follows:

	Year Ended December 31,		
	2012	2011	2010
Accounts receivable sales	\$ 3,699	\$ 3,218	\$ 2,374
Deferred proceeds	639	386	307
Loss on sale of accounts receivables	21	20	15
Estimated (decrease) increase to operating cash flows ⁽¹⁾	(78)	133	106

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

Note 5 – Finance Receivables, Net

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

	December 31,	
	2012	2011
Gross receivables	\$ 6,290	\$ 7,583
Unearned income	(809)	(1,027)
Subtotal	5,481	6,556
Residual values	2	7
Allowance for doubtful accounts	(170)	(201)
Finance Receivables, Net	5,313	6,362
Less: Billed portion of finance receivables, net	152	166
Less: Current portion of finance receivables not billed, net	1,836	2,165
Finance Receivables Due After One Year, Net	\$ 3,325	\$ 4,031

Contractual maturities of our gross finance receivables as of December 31, 2012 were as follows (including those already billed of \$152):

2013	2014	2015	2016	2017	Thereafter	Total
\$ 2,353	\$ 1,753	\$ 1,234	\$ 680	\$ 242	\$ 28	\$ 6,290

Sale of Finance Receivables

In 2012, we sold our entire interest in two separate portfolios of U.S. finance receivables from our Document Technology segment with a combined net carrying value of \$682 (net of an allowance of \$18) to a third-party financial institution for cash proceeds of \$630 and beneficial interests from the purchaser of \$101. The lease contracts, including associated service and supply elements, were initially sold to wholly-owned consolidated bankruptcy-remote limited purpose subsidiaries which in turn sold the principal and interest portions of such contracts to the third-party financial institution (the "ultimate purchaser"). As of December 31, 2012, the net carrying value of the receivables sold and derecognized from our balance sheet was \$647.

A pre-tax gain of \$44 was recognized on these sales and is net of fees and expenses of approximately \$5. The gain was reported in Finance income in Document Technology segment revenues. We continue to service the sold receivables for which we receive a 1% servicing fee. We have concluded that the 1% servicing fee (approximately \$12 over the expected life of the associated receivables) is adequate compensation and, accordingly, no servicing asset or liability was recorded.

The beneficial interests represent our right to receive future cash flows from the sold receivables which exceed the ultimate purchaser's initial investment and associated return on that investment as well as the servicing fee. The beneficial interests were initially recognized at an estimate of fair value based on the present value of the expected future cash flows. The present value of the expected future cash flows was calculated using management's best estimate of key assumptions including credit losses, prepayment rates and an appropriate risk adjusted discount rate (all unobservable Level 3 inputs) for which we utilized annualized rates of approximately 2.1%, 9.3% and 10.0%, respectively. These assumptions are supported by both our historical experience and anticipated trends relative to the particular portfolios of receivables sold. However, to assess the sensitivity on the fair value of the beneficial interests, we adjusted the credit loss rate, prepayment rate and discount rate assumptions individually by 10% and 20% while holding the other assumptions constant. Although the effect of multiple assumption changes was not considered in this analysis, a 10% or 20% adverse variation in any one of these three individual assumptions would each decrease the recorded beneficial interests by approximately \$4 or less.

The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests of which \$35 and \$68 is included in "Other current assets" and "Other long-term assets", respectively, in the accompanying Consolidated Balance Sheets at December 31, 2012. The beneficial interests are held by the bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We will report collections on the beneficial interests as operating cash flows in the Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity and the associated interest rate risk is de minimis considering their weighted average lives of less than 2 years.

Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and Western Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. We establish credit limits based upon an initial evaluation of the customer's credit quality and adjust that limit accordingly based upon ongoing credit assessments of the customer, including payment history and changes in credit quality.

The allowance for doubtful accounts and provision for credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine the allowance for credit losses. This loss rate is primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups. The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Since our allowance for doubtful finance receivables is determined by country, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of those countries/regions. Loss rates declined in both the U.S. and Canada reflecting the effects of improved collections in those countries during 2011 and 2012. Since Europe is comprised of various countries and regional economies, the risk profile within our European portfolio segment is somewhat more diversified due to the varying economic conditions among the countries. Charge-offs in Europe were flat in 2012 as compared to the prior years reflecting a stabilization of the credit issues noted in 2011. Loss rates peaked in 2011 as a result of the European economic challenges particularly for those countries in the southern region.

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

	United States	Canada	Europe	Other ⁽³⁾	Total
Allowance for Credit Losses:					
Balance at December 31, 2010	\$ 91	\$ 37	\$ 81	\$ 3	\$ 212
Provision	15	11	74	—	100
Charge-offs	(31)	(17)	(59)	(1)	(108)
Recoveries and other ⁽¹⁾	—	2	(5)	—	(3)
Balance at December 31, 2011	75	33	91	2	201
Provision	11	9	52	3	75
Charge-offs	(21)	(15)	(59)	(2)	(97)
Recoveries and other ⁽¹⁾	—	—	—	—	—
Sale of finance receivables	(18)	—	—	—	(18)
Balance at December 31, 2012	\$ 50	\$ 31	\$ 85	\$ 4	\$ 170
Finance Receivables Collectively Evaluated for Impairment:					
December 31, 2011 ⁽²⁾	\$ 2,993	\$ 825	\$ 2,630	\$ 108	\$ 6,556
December 31, 2012 ⁽²⁾	\$ 2,012	\$ 801	\$ 2,474	\$ 194	\$ 5,481

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

(2) Total Finance receivables exclude residual values of \$2 and \$7 and the allowance for credit losses of \$170 and \$201 at December 31, 2012 and 2011, respectively.

(3) Includes developing market countries and smaller units.

In the U.S. and Canada, customers are further evaluated or segregated by class based on industry sector. The primary customer classes are Finance & Other Services, Government & Education; Graphic Arts; Industrial; Healthcare and Other. In Europe, customers are further grouped by class based on the country or region of the customer. The primary customer classes include the U.K./Ireland, France and the following European regions - Central, Nordic and Southern. These groupings or classes are used to understand the nature and extent of our exposure to credit risk arising from finance receivables.

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

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

- **Non-investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.
- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

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

	December 31, 2012			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 252	\$ 147	\$ 59	\$ 458
Government and Education	750	15	4	769
Graphic arts	92	90	137	319
Industrial	115	31	17	163
Healthcare	109	37	14	160
Other	70	39	34	143
Total United States	1,388	359	265	2,012
Finance and other services	151	116	40	307
Government and education	117	10	2	129
Graphic arts	37	34	30	101
Industrial	66	40	29	135
Other	75	43	11	129
Total Canada	446	243	112	801
France	274	294	134	702
U.K./Ireland	215	155	50	420
Central ⁽¹⁾	315	445	56	816
Southern ⁽²⁾	139	230	73	442
Nordics ⁽³⁾	49	36	9	94
Total Europe	992	1,160	322	2,474
Other	148	39	7	194
Total	\$ 2,974	\$ 1,801	\$ 706	\$ 5,481

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

	December 31, 2011			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 349	\$ 380	\$ 160	\$ 889
Government and education	821	20	4	845
Graphic arts	126	200	172	498
Industrial	180	83	32	295
Healthcare	130	42	28	200
Other	97	93	76	266
Total United States	1,703	818	472	2,993
Finance and other services	153	118	51	322
Government and education	121	9	4	134
Graphic arts	36	39	35	110
Industrial	56	41	34	131
Other	74	42	12	128
Total Canada	440	249	136	825
France	246	354	92	692
U.K./Ireland	201	162	54	417
Central ⁽¹⁾	330	494	57	881
Southern ⁽²⁾	219	256	63	538
Nordics ⁽³⁾	60	39	3	102
Total Europe	1,056	1,305	269	2,630
Other	75	26	7	108
Total	\$ 3,274	\$ 2,398	\$ 884	\$ 6,556

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

(2) Italy, Greece, Spain and Portugal.
Sweden, Norway, Denmark and Finland.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured. The aging of our billed finance receivables is as follows:

December 31, 2012

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

December 31, 2011

	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
Finance and other services	\$ 18	\$ 4	\$ 1	\$ 23	\$ 866	\$ 889	\$ 15
Government and education	21	5	2	28	817	845	29
Graphic arts	16	2	1	19	479	498	7
Industrial	7	2	1	10	285	295	6
Healthcare	5	2	—	7	193	200	5
Other	8	1	—	9	257	266	4
Total United States	75	16	5	96	2,897	2,993	66
Canada	3	2	1	6	819	825	27
France	1	1	1	3	689	692	16
U.K./Ireland	3	2	3	8	409	417	4
Central ⁽¹⁾	7	2	3	12	869	881	46
Southern ⁽²⁾	31	4	13	48	490	538	82
Nordics ⁽³⁾	1	—	—	1	101	102	—
Total Europe	43	9	20	72	2,558	2,630	148
Other	2	1	—	3	105	108	—
Total	\$ 123	\$ 28	\$ 26	\$ 177	\$ 6,379	\$ 6,556	\$ 241

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

Note 6 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	December 31,	
	2012	2011
Finished goods	\$ 844	\$ 866
Work-in-process	61	58
Raw materials	106	97
Total Inventories	\$ 1,011	\$ 1,021

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. We recorded \$30, \$39 and \$31 in inventory write-down charges for the years ended December 31, 2012, 2011 and 2010, respectively.

Equipment on operating leases and the related accumulated depreciation were as follows:

	December 31,	
	2012	2011
Equipment on operating leases	\$ 1,533	\$ 1,556
Accumulated depreciation	(998)	(1,023)
Equipment on Operating Leases, Net	\$ 535	\$ 533

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense for equipment on operating leases was \$279, \$294 and \$313 for the years ended December 31, 2012, 2011 and 2010, respectively. Our equipment operating lease terms vary, generally from one to three years. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2013	2014	2015	2016	2017	Thereafter
\$ 397	\$ 285	\$ 177	\$ 103	\$ 46	\$ 15

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2012, 2011 and 2010 amounted to \$158, \$154 and \$133, respectively.

Note 7 - Land, Buildings, Equipment and Software, Net

Land, buildings and equipment, net were as follows:

	Estimated Useful Lives (Years)	December 31,	
		2012	2011
Land		\$ 61	\$ 60
Buildings and building equipment	25 to 50	1,135	1,121
Leasehold improvements	Varies	506	461
Plant machinery	5 to 12	1,571	1,557
Office furniture and equipment	3 to 15	1,681	1,470
Other	4 to 20	83	99
Construction in progress		74	93
Subtotal		5,111	4,861
Accumulated depreciation		(3,555)	(3,249)
Land, Buildings and Equipment, Net		\$ 1,556	\$ 1,612

Depreciation expense and operating lease rent expense were as follows:

	Year Ended December 31,		
	2012	2011	2010
Depreciation expense	\$ 452	\$ 405	\$ 379
Operating lease rent expense ⁽¹⁾	646	681	632

(1) We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Capital leased assets were less than \$80 at December 31, 2012 and 2011, respectively.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2012 were as follows:

2013	2014	2015	2016	2017	Thereafter
\$ 636	\$ 425	\$ 265	\$ 157	\$ 74	\$ 83

Internal Use and Product Software

Additions to:	Year Ended December 31,		
	2012	2011	2010
Internal use software	\$ 125	\$ 163	\$ 164
Product software	107	108	70

Capitalized costs, net:	December 31,	
	2012	2011
Internal use software	\$ 577	\$ 545
Product software	344	256

Useful lives of our internal use and product software generally vary from three to ten years. Included within product software is approximately \$200 of capitalized costs associated with a software system developed for use in certain of our government services businesses.

Our 2012 impairment review indicated these costs will be recoverable from estimated future operating profits. However, since the review indicated that the excess of estimated future operating profits over capitalized costs was less than 5%; in 2013 we will continue to closely monitor any significant changes in the estimated future revenues or margins from current or potential customers. Beginning in 2013, the costs associated with this software system will be amortized over seven years.

Note 8 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

	December 31,	
	2012	2011
Fuji Xerox	\$ 1,317	\$ 1,334
All other equity investments	64	61
Investments in Affiliates, at Equity	\$ 1,381	\$ 1,395

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

	Year Ended December 31,		
	2012	2011	2010
Fuji Xerox	\$ 139	\$ 137	\$ 63
Other investments	13	12	15
Total Equity in Net Income of Unconsolidated Affiliates	\$ 152	\$ 149	\$ 78

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand and other areas of the Pacific Rim. Our investment in Fuji Xerox of \$1,317 at December 31, 2012, differs from our implied 25% interest in the underlying net assets, or \$1,430, due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox.

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

Condensed financial data of Fuji Xerox was as follows:

	Year Ended December 31,		
	2012	2011	2010
Summary of Operations			
Revenues	\$ 12,633	\$ 12,367	\$ 11,276
Costs and expenses	11,783	11,464	10,659
Income before income taxes	850	903	617
Income tax expense	279	312	291
Net Income	571	591	326
Less: Net income - noncontrolling interests	6	5	5
Net Income - Fuji Xerox	\$ 565	\$ 586	\$ 321
Balance Sheet			
Assets:			
Current assets	\$ 5,154	\$ 5,056	\$ 4,884
Long-term assets	6,158	6,064	5,978
Total Assets	\$ 11,312	\$ 11,120	\$ 10,862
Liabilities and Equity:			
Current liabilities	\$ 3,465	\$ 3,772	\$ 3,534
Long-term debt	1,185	817	1,260
Other long-term liabilities	917	700	707
Noncontrolling interests	27	25	22
Fuji Xerox shareholders' equity	5,718	5,806	5,339
Total Liabilities and Equity	\$ 11,312	\$ 11,120	\$ 10,862

Yen/U.S. Dollar exchange rates used to translate are as follows:

Financial Statement	Exchange Basis	2012	2011	2010
Summary of Operations	Weighted average rate	79.89	79.61	87.64
Balance Sheet	Year-end rate	86.01	77.62	81.66

Transactions with Fuji Xerox

We receive dividends from Fuji Xerox, which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive royalty payments for their use of our Xerox brand trademark, as well as rights to access our patent portfolio in exchange for access to their patent portfolio. These payments are included in Outsourcing, service and rental revenues in the Consolidated Statements of Income. We also have arrangements with Fuji Xerox whereby we purchase inventory from and sell inventory to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be negotiated at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique research and development costs.

Transactions with Fuji Xerox were as follows:

	Year Ended December 31,		
	2012	2011	2010
Dividends received from Fuji Xerox	\$ 52	\$ 58	\$ 36
Royalty revenue earned	132	128	116
Inventory purchases from Fuji Xerox	2,069	2,180	2,098
Inventory sales to Fuji Xerox	147	151	147
R&D payments received from Fuji Xerox	2	2	1
R&D payments paid to Fuji Xerox	15	21	30

As of December 31, 2012 and 2011, net amounts due to Fuji Xerox were \$110 and \$105, respectively.

Note 9 - Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

	Year Ended December 31,		
	Services	Document Technology	Total
Balance at December 31, 2009⁽¹⁾	\$ 1,295	\$ 2,127	\$ 3,422
Foreign currency translation	(22)	(25)	(47)
Acquisitions:			
ACS	5,127	—	5,127
EHRO	77	—	77
TMS	35	—	35
IBS	—	14	14
Other	10	11	21
Balance at December 31, 2010	\$ 6,522	\$ 2,127	\$ 8,649
Foreign currency translation	(28)	(6)	(34)
Acquisitions:			
Unamic/HCN	43	—	43
Breakaway	33	—	33
ESM	28	—	28
Concept Group	—	26	26
MBM	—	20	20
Other	21	17	38
Balance at December 31, 2011	\$ 6,619	\$ 2,184	\$ 8,803
Foreign currency translation	41	34	75
Acquisitions:			
WDS	69	—	69
R.K. Dixon	—	30	30
Other	51	34	85
Balance at December 31, 2012	\$ 6,780	\$ 2,282	\$ 9,062

(1) Includes the reallocation of approximately \$300 of goodwill related to our Managed Print Services business from Document Technology to Services to reflect the current composition of our Segments.

Intangible Assets, Net

Net intangible assets were \$2.8 billion at December 31, 2012 and approximately \$2.4 billion relate to the Services segment and \$0.4 billion relate to the Document Technology segment. Intangible assets were comprised of the following:

	Weighted Average Amortization	December 31, 2012			December 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	12 years	\$ 3,562	\$ 1,052	\$ 2,510	\$ 3,522	\$ 751	\$ 2,771
Distribution network	25 years	123	64	59	123	59	64
Trademarks ⁽¹⁾	20 years	257	59	198	238	47	191
Technology, patents and non-compete ⁽¹⁾	4 years	23	7	16	29	13	16
Total Intangible Assets		\$ 3,965	\$ 1,182	\$ 2,783	\$ 3,912	\$ 870	\$ 3,042

(1) Includes \$10 and \$5 of indefinite-lived assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was \$328, \$401, and \$316 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense for 2011 includes \$52 for the accelerated write-off of the ACS trade name as a result of the fourth quarter 2011 decision to discontinue its use and transition our services business to the "Xerox Business Services" trade name.

Excluding the impact of additional acquisitions, amortization expense is expected to approximate \$333 in 2013 and 2014, and \$328 in years 2015 through 2017.

Note 10 – Restructuring and Asset Impairment Charges

Over the past several years, we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily consist of severance actions and impact all major geographies and segments. Management continues to evaluate our business, therefore, in future years, there may be additional provisions for new plan initiatives as well as changes in previously recorded estimates, as payments are made or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets sold, abandoned or made obsolete as a result of these programs.

Costs associated with restructuring, including employee severance and lease termination costs are generally recognized when it has been determined that a liability has been incurred, which is generally upon communication to the affected employees or exit from the leased facility, respectively. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize employee severance costs when they are both probable and reasonably estimable.

A summary of our restructuring program activity during the three years ended December 31, 2012 is as follows:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance at December 31, 2009	\$ 54	\$ 20	\$ —	\$ 74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	—	(41)
Net current period charges ⁽²⁾	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance at December 31, 2010	298	25	—	323
Restructuring provision	98	1	5	104
Reversals of prior accruals	(65)	(6)	—	(71)
Net current period charges ⁽²⁾	33	(5)	5	33
Charges against reserve and currency	(215)	(13)	(5)	(233)
Balance at December 31, 2011	116	7	—	123
Restructuring provision	160	5	2	167
Reversals of prior accruals	(13)	—	(1)	(14)
Net current period charges ⁽²⁾	147	5	1	153
Charges against reserve and currency	(140)	(5)	(1)	(146)
Balance at December 31, 2012	<u>\$ 123</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 130</u>

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

(2) Represents amount recognized within the Consolidated Statements of Income for the years shown.

The following table summarizes the reconciliation to the Consolidated Statements of Cash Flows:

	Year Ended December 31,		
	2012	2011	2010
Charges against reserve	\$ (146)	\$ (233)	\$ (234)
Asset impairment	1	5	26
Effects of foreign currency and other non-cash items	1	10	(5)
Restructuring Cash Payments	\$ (144)	\$ (218)	\$ (213)

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

	Year Ended December 31,		
	2012	2011	2010
Services	\$ 71	\$ 12	\$ 104
Document Technology	82	23	325
Other	—	(2)	54
Total Net Restructuring Charges	\$ 153	\$ 33	\$ 483

Refer to the "Restructuring and Asset Impairment Charges" section of our MD&A for additional discussion of net restructuring charges for the three years ended December 31, 2012.

Note 11 - Supplementary Financial Information

The components of other current and long-term assets and liabilities were as follows:

	December 31,	
	2012	2011
Other Current Assets		
Deferred taxes and income taxes receivable	\$ 296	\$ 261
Royalties, license fees and software maintenance	165	143
Restricted cash	151	97
Prepaid expenses	143	147
Derivative instruments	11	58
Deferred purchase price from sales of accounts receivables	116	97
Beneficial interests - sales of finance receivables	35	—
Advances and deposits	29	28
Other	216	227
Total Other Current Assets	\$ 1,162	\$ 1,058
Other Current Liabilities		
Deferred taxes and income taxes payable	\$ 105	\$ 83
Other taxes payable	170	150
Interest payable	83	84
Restructuring reserves	122	116
Derivative instruments	82	31
Product warranties	13	15
Dividends payable	69	74
Distributor and reseller rebates/commissions	117	112
Servicer liabilities	146	88
Other	869	878
Total Other Current Liabilities	\$ 1,776	\$ 1,631
Other Long-term Assets		
Prepaid pension costs	\$ 35	\$ 76
Net investment in discontinued operations	190	204
Internal use software, net	577	545
Product software, net	344	256
Restricted cash	214	246
Debt issuance costs, net	37	38
Customer contract costs, net	356	294
Beneficial interests - sales of finance receivables	68	—
Deferred compensation plan investments	100	92
Other	416	365
Total Other Long-term Assets	\$ 2,337	\$ 2,116
Other Long-term Liabilities		
Deferred and other tax liabilities	\$ 262	\$ 290
Environmental reserves	14	16
Unearned income	134	82
Restructuring reserves	8	7
Other	360	466
Total Other Long-term Liabilities	\$ 778	\$ 861

Restricted Cash and Investments

As more fully discussed in Note 17 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. In addition, as more fully discussed in Note 4 - Accounts Receivable, Net and Note 5 - Finance Receivables, Net, we continue to service the receivables sold under most of our receivable sale agreements. As servicer, we may collect cash related to sold receivables prior to month-end that will be remitted to the purchaser the following month. Since we are acting on behalf of the purchaser in our capacity as servicer, such cash collected is reported as restricted cash. Restricted cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

Restricted cash amounts were as follows:

	December 31,	
	2012	2011
Tax and labor litigation deposits in Brazil	\$ 211	\$ 240
Escrow and cash collections related to receivable sales	146	88
Other restricted cash	8	15
Total Restricted Cash and Investments	\$ 365	\$ 343

Net Investment in Discontinued Operations

At December 31, 2012, our net investment in discontinued operations primarily consisted of a \$208 performance-based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of \$18. The recovery of the performance-based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017. The performance-based instrument is pledged as security for our future funding obligations to our U.K. Pension Plan for salaried employees.

Note 12 – Debt

Short-term borrowings were as follows:

	December 31,	
	2012	2011
Commercial paper	\$ —	\$ 100
Current maturities of long-term debt	1,042	1,445
Total Short-term Debt	\$ 1,042	\$ 1,545

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income.

Long-term debt was as follows:

	December 31,		
	Weighted Average Interest Rates at December 31, 2012 ⁽²⁾	2012	2011
<u>Xerox Corporation</u>			
Senior Notes due 2012	—%	—	1,100
Senior Notes due 2013	5.65%	400	400
Floating Rate Notes due 2013	1.71%	600	—
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	750
Floating Rate Notes due 2014	1.13%	300	300
Senior Notes due 2015	4.29%	1,000	1,000
Notes due 2016	7.20%	250	250
Senior Notes due 2016	6.48%	700	700
Senior Notes due 2017	6.83%	500	500
Senior Notes due 2017	2.98%	500	—
Notes due 2018	0.57%	1	1
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.66%	650	650
Senior Notes due 2021	5.39%	1,062	700
Zero Coupon Notes due 2023	—%	—	301
Senior Notes due 2039	6.78%	350	350
Subtotal - Xerox Corporation		\$ 8,082	\$ 8,021
<u>Subsidiary Companies</u>			
Senior Notes due 2015	4.25%	250	250
Borrowings secured by other assets	4.31%	77	76
Other	1.23%	1	3
Subtotal-Subsidiary Companies		\$ 328	\$ 329
Principal Debt Balance		8,410	8,350
Unamortized discount		(63)	(7)
Fair value adjustments ⁽¹⁾		142	190
Less: current maturities		(1,042)	(1,445)
Total Long-term Debt		\$ 7,447	\$ 7,088

- (1) Fair value adjustments represent changes in the fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported at an amount equal to the sum of their carrying value (principal value plus/minus premiums/discounts) and any fair value adjustment.
- (2) Represents weighted average effective interest rate which includes the effect of discounts and premiums on issued debt.

Scheduled principal payments due on our long-term debt for the next five years and thereafter are as follows:

2013 ⁽¹⁾		2014		2015		2016		2017		Thereafter		Total
1,039	\$	1,093	\$	1,259	\$	954	\$	1,002	\$	3,063	\$	8,410

(1) Quarterly total debt maturities for 2013 are \$12, \$410, \$609 and \$8 for the first, second, third and fourth quarters, respectively.

Commercial Paper

We have a private placement commercial paper ("CP") program in the U.S. under which we may issue CP up to a maximum amount of \$2.0 billion outstanding at any time. Aggregate CP and Credit Facility borrowings may not exceed \$2.0 billion outstanding at any time. The maturities of the CP Notes will vary, but may not exceed 390 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at market rates. At December 31, 2012, we did not have any CP Notes outstanding.

Credit Facility

We have a \$2.0 billion unsecured revolving Credit Facility with a group of lenders which matures in 2016. The Credit Facility contains a \$300 million letter of credit sub-facility, and also includes an accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed \$2.75 billion. We entered into the facility in December 2011 and we have the right to request a one year extension on each of the first and second anniversary dates of this facility. No extension was requested at the first anniversary date in 2012.

The Credit Facility provides a backstop to our \$2.0 billion CP program. Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes.

At December 31, 2012 we had no outstanding borrowings or letters of credit under the Credit Facility.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than \$100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

Borrowings under the Credit Facility bear interest at our choice, at either (a) a Base Rate as defined in our Credit Facility agreement, plus a spread that varies between 0.00% and 0.45% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 0.90% and 1.45% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2012, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.175% and 1.175%, respectively.

An annual facility fee is payable to each participator in the Credit Facility at a rate that varies between 0.10% and 0.30% depending on our credit rating. Based on our credit rating as of December 31, 2012, the applicable rate is 0.20%.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

- (a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, as defined) of 3.75x.
- (b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00x.
- (c) Limitations on (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in termination of the lenders' commitments to lend and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Capital Market Activity

Refer to the "Capital Market Activity" section in our Capital Resources and Liquidity section of the MDA for a discussion of 2012 Capital Market activity.

Interest

Interest paid on our short-term and long-term debt amounted to \$462, \$538 and \$586 for the years ended December 31, 2012, 2011 and 2010, respectively.

Interest expense and interest income was as follows:

	Year Ended December 31,		
	2012	2011	2010
Interest expense ⁽¹⁾	\$ 428	\$ 478	\$ 592
Interest income ⁽²⁾	610	653	679

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

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

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on our overall corporate cost of borrowing adjusted to reflect a rate that would be paid by a typical BBB rated leasing company. The estimated level of debt is based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net (Payments) Proceeds on Debt

Net (payments) proceeds on debt as shown on the Consolidated Statements of Cash Flows was as follows:

	Year Ended December 31,		
	2012	2011	2010
Net (payments) proceeds on short-term debt	\$ (108)	\$ (200)	\$ 300
Proceeds from issuance of long-term debt	1,116	1,000	—
Payments on long-term debt	(1,116)	(751)	(3,357)
Net (Payments) Proceeds on Other Debt	\$ (108)	\$ 49	\$ (3,057)

Note 13 – Financial Instruments

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

We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with our derivative instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

We may use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged. We did not have any interest rate swap agreements outstanding at December 31, 2012 or 2011.

Terminated Swaps: During the period from 2004 to 2011, we early terminated several interest rate swaps that were designated as fair value hedges of certain debt instruments. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2012, 2011 and 2010, the amortization of these fair value adjustments reduced interest expense by \$49, \$53 and \$28, respectively, and we expect to record a net decrease in interest expense of \$142 in future years through 2018.

Foreign Exchange Risk Management

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

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

Summary of Foreign Exchange Hedging Positions: At December 31, 2012, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,505, which is typical of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values as of December 31, 2012:

<u>Currencies Hedged (Buy/Sell)</u>	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Japanese Yen/U.S. Dollar	\$ 640	\$ (37)
U.S. Dollar/Euro	559	(6)
U.K. Pound Sterling/Euro	516	(4)
Euro/U.K. Pound Sterling	502	5
Japanese Yen/Euro	463	(33)
Euro/U.S. Dollar	188	1
U.S. Dollar/Japanese Yen	87	—
Indian Rupee/U.S. Dollar	65	1
Mexican Peso/U.S. Dollar	65	1
Euro/Japanese Yen	61	—
Philippine Peso/U.S. Dollar	52	1
Euro/Swiss Franc	37	—
Swiss Franc/Euro	29	—
U.S. Dollar/Canadian Dollar	25	—
All Other	216	—
Total Foreign Exchange Hedging	\$ 3,505	\$ (71)

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2012.

Foreign Currency Cash Flow Hedges: We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. The net (liability) asset fair value of these contracts was \$(48) and \$26 as of December 31, 2012 and December 31, 2011, respectively.

Summary of Derivative Instruments Fair Value: The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	December 31,	
		2012	2011
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 3	\$ 37
	Other current liabilities	(51)	(11)
	Net Designated (Liability) Asset	\$ (48)	\$ 26
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 8	\$ 21
	Other current liabilities	(31)	(20)
	Net Undesignated (Liability) Asset	\$ (23)	\$ 1
Summary of Derivatives			
	Total Derivative Assets	\$ 11	\$ 58
	Total Derivative Liabilities	(82)	(31)
	Net Derivative (Liability) Asset	\$ (71)	\$ 27

Summary of Derivative Instruments Gains (Losses)

Derivative gains and (losses) affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and (losses).

Designated Derivative Instruments Gains (Losses): The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Year Ended December 31,					
		Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2012	2011	2010	2012	2011	2010
Interest rate contracts	Interest expense	\$ —	\$ 15	\$ 99	\$ —	\$ (15)	\$ (99)

Derivatives in Cash Flow Hedging Relationships	Year Ended December 31,						
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)		
	2012	2011	2010		2012	2011	2010
Foreign exchange contracts – forwards	\$ (50)	\$ 30	\$ 46	Cost of sales	\$ 37	\$ 14	\$ 28

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

At December 31, 2012, net after-tax losses of of \$37 were recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

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

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative (Loss) Gain	Year Ended December 31,		
		2012	2011	2010
Foreign exchange contracts – forwards	Other expense – Currency (losses) gains, net	\$ (38)	\$ 33	\$ 113

During the three years ended December 31, 2012, we recorded Currency losses, net of \$3, \$12 and \$11, respectively. Currency losses, net includes the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re-measurement of foreign currency-denominated assets and liabilities.

Note 14 – Fair Value of Financial Assets and Liabilities

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

	As of December 31,	
	2012	2011
Assets:		
Foreign exchange contracts-forwards	\$ 11	\$ 58
Deferred compensation investments in cash surrender life insurance	77	69
Deferred compensation investments in mutual funds	23	23
Total	\$ 111	\$ 150
Liabilities:		
Foreign exchange contracts-forwards	\$ 82	\$ 31
Deferred compensation plan liabilities	110	97
Total	\$ 192	\$ 128

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

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

Summary of Other Financial Assets and Liabilities Fair Value Measured on a Nonrecurring Basis

The estimated fair values of our other financial assets and liabilities fair value measured on a nonrecurring basis were as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,246	\$ 1,246	\$ 902	\$ 902
Accounts receivable, net	2,866	2,866	2,600	2,600
Short-term debt	1,042	1,051	1,545	1,622
Long-term debt	7,447	8,040	7,088	7,496

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt was estimated based on quoted market prices for publicly traded securities (Level 1) or on the current rates offered to us for debt of similar maturities (Level 2). The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 15 – Employee Benefit Plans

We sponsor numerous defined benefit and defined contribution pension and other post-retirement benefit plans, primarily retiree health care, in our domestic and international operations. December 31 is the measurement date for all of our post-retirement benefit plans.

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Change in Benefit Obligation:						
Benefit obligation, January 1	\$ 4,670	\$ 4,456	\$ 5,835	\$ 5,275	\$ 1,007	\$ 1,006
Service cost	112	108	83	78	9	8
Interest cost	282	328	270	284	42	47
Plan participants' contributions	—	—	9	10	19	33
Actuarial loss	480	403	537	513	18	26
Currency exchange rate changes	—	—	232	(85)	4	(3)
Curtailments	—	—	(1)	—	—	—
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	(2)	(2)	(1)	7	(7)	(4)
Benefit Obligation, December 31	\$ 5,033	\$ 4,670	\$ 6,708	\$ 5,835	\$ 989	\$ 1,007
Change in Plan Assets:						
Fair value of plan assets, January 1	\$ 3,393	\$ 3,202	\$ 4,884	\$ 4,738	\$ —	\$ —
Actual return on plan assets	358	406	434	288	—	—
Employer contribution	331	408	163	148	84	73
Plan participants' contributions	—	—	9	10	19	33
Currency exchange rate changes	—	—	197	(57)	—	—
Benefits paid/settlements	(509)	(623)	(256)	(247)	(103)	(106)
Other	—	—	—	4	—	—
Fair Value of Plan Assets, December 31	\$ 3,573	\$ 3,393	\$ 5,431	\$ 4,884	\$ —	\$ —
Net Funded Status at December 31⁽¹⁾	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)
Amounts Recognized in the Consolidated Balance Sheets:						
Other long-term assets	\$ —	\$ —	\$ 35	\$ 76	\$ —	\$ —
Accrued compensation and benefit costs	(23)	(22)	(25)	(23)	(80)	(82)
Pension and other benefit liabilities	(1,437)	(1,255)	(1,287)	(1,004)	—	—
Post-retirement medical benefits	—	—	—	—	(909)	(925)
Net Amounts Recognized	\$ (1,460)	\$ (1,277)	\$ (1,277)	\$ (951)	\$ (989)	\$ (1,007)

(1) Includes under-funded and non-funded plans.

Benefit plans pre-tax amounts recognized in AOCL at December 31:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2012	2011	2012	2011	2012	2011
Net actuarial loss	\$ 1,255	\$ 963	\$ 2,013	\$ 1,589	\$ 97	\$ 70
Prior service (credit) cost	(17)	(38)	—	1	(128)	(163)
Total Pre-tax Loss (Gain)	\$ 1,238	\$ 925	\$ 2,013	\$ 1,590	\$ (31)	\$ (93)
Accumulated Benefit Obligation	\$ 5,027	\$ 4,617	\$ 6,359	\$ 5,517		

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	December 31, 2012						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,679	\$ 5,997	\$ 355	\$ 527	\$ 5,034	\$ 6,524	\$ 11,558
Accumulated benefit obligation	4,672	5,686	355	520	5,027	6,206	11,233
Fair value of plan assets	3,574	5,213	—	—	3,574	5,213	8,787

	December 31, 2011						
	Underfunded Plans		Unfunded Plans		Total		
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Projected benefit obligation	\$ 4,342	\$ 4,391	\$ 327	\$ 445	\$ 4,669	\$ 4,836	\$ 9,505
Accumulated benefit obligation	4,291	4,127	326	434	4,617	4,561	9,178
Fair value of plan assets	3,393	3,811	—	—	3,393	3,811	7,204

Our pension plan assets and benefit obligations at December 31, 2012 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S. funded	\$ 3.6	\$ 4.6	\$ (1.0)
U.S. unfunded	—	0.4	(0.4)
Total U.S.	\$ 3.6	\$ 5.0	\$ (1.4)
U.K.	3.4	3.7	(0.3)
Canada	0.7	1.0	(0.3)
Other funded	1.3	1.5	(0.2)
Other unfunded	—	0.5	(0.5)
Total	\$ 9.0	\$ 11.7	\$ (2.7)

Most of our defined benefit pension plans generally provide employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provide a benefit at the greater of (i) the highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

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

	Pension Benefits					
	Year Ended December 31,					
	U.S. Plans			Non-U.S. Plans		
	2012	2011	2010	2012	2011	2010
Components of Net Periodic Benefit Costs:						
Service cost	\$ 112	\$ 108	\$ 109	\$ 83	\$ 78	\$ 69
Interest cost ⁽¹⁾	282	328	310	270	284	265
Expected return on plan assets ⁽²⁾	(306)	(337)	(296)	(307)	(310)	(274)
Recognized net actuarial loss	53	33	40	53	39	31
Amortization of prior service credit	(23)	(23)	(23)	—	—	1
Recognized settlement loss	82	80	72	1	4	—
Recognized curtailment gain	—	(107)	—	—	—	—
Defined Benefit Plans	200	82	212	100	95	92
Defined contribution plans	28	31	25	35	35	26
Net Periodic Benefit Cost	228	113	237	135	130	118
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:						
Net actuarial loss	427	334	8	416	518	190
Prior service credit	(2)	(2)	(17)	(1)	—	(2)
Amortization of net actuarial loss	(135)	(113)	(112)	(54)	(40)	(31)
Amortization of net prior service credit	23	23	23	—	—	(1)
Curtailment gain - recognition of net prior service credit	—	107	—	—	—	—
Total Recognized in Other Comprehensive Income	313	349	(98)	361	478	156
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 541	\$ 462	\$ 139	\$ 496	\$ 608	\$ 274

(1) Interest cost includes interest expense on non-TRA obligations of \$382, \$388 and \$381 and interest expense directly allocated to TRA participant accounts of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Expected return on plan assets includes expected investment income on non-TRA assets of \$443, \$423 and \$376 and actual investment income on TRA assets of \$170, \$224 and \$194 for the years ended December 31, 2012, 2011 and 2010, respectively.

	Retiree Health		
	Year Ended December 31,		
	2012	2011	2010
Components of Net Periodic Benefit Costs:			
Service cost	\$ 9	\$ 8	\$ 8
Interest cost	42	47	54
Recognized net actuarial loss	1	—	—
Amortization of prior service credit	(41)	(41)	(30)
Net periodic benefit cost	11	14	32
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:			
Net actuarial loss	18	25	13
Prior service credit	(6)	(3)	(86)
Amortization of net actuarial loss	(1)	—	—
Amortization of net prior service credit	41	41	30
Total recognized in Other Comprehensive Income	52	63	(43)
Total recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 63	\$ 77	\$ (11)

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$106 and \$(2), respectively, excluding amounts that may be recognized through settlement losses. The net actuarial loss and prior service credit for the retiree health benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$2 and \$(43), respectively.

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown above in the "actual return on plan assets" caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

Plan Amendments

Pension Plan Freezes

Over the past several years, we have amended several of our defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service. In certain plans we are required to continue to consider salary increases in determining the benefit obligation related to prior service. The following is a discussion of these amendments and their impact on our primary defined benefit pension plans.

In 2011, we amended all our primary U.S. defined benefit plans for salaried employees. Our primary qualified plans had previously been amended to freeze the final pay formulas within the plans as of December 31, 2012, but a cash balance service credit was expected to continue post December 31, 2012. The 2011 amendments fully freeze any further benefit and service accrual after December 31, 2012 for all of these plans, including the non-qualified plans. As a result of these plan amendments, in 2011 we recognized a pre-tax curtailment gain of \$107 (\$66 after-tax). The gain represents the recognition of deferred gains from other prior year amendments ("Prior service credits") as a result of the discontinuation of any future benefit or service accrual period. This amendment will also result in a change in amortization period as of January 1, 2013 for actuarial gains and losses from the average remaining service period of participants (approximately ten years) to the average remaining life expectancy of all participants (approximately thirty-three years) as a result of all participants being considered inactive as of the effective date of the freeze.

As of December 31, 2012, the aggregate accumulated actuarial losses for our primary U.S. Defined Benefit Plans for salaried employees amounted to \$1.1 billion. This change is expected to reduce our 2013 pension expense by approximately \$47. This reduction is expected to be partially offset by an increased contribution to the U.S. defined contribution plan as all employees have been transferred to that plan following the freeze.

In 2011, the Canadian Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary increases to the extent applicable; therefore, the amendment did not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2011.

In 2009, the U.K. Final Salary Pension Plan was amended to close the plan to future service accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected and participants will continue receive the benefit of future salary and inflation increases to the extent applicable; therefore, the amendment does not result in a material change to the projected benefit obligation at the re-measurement date of December 31, 2009.

Retiree Health Plan Amendments

In 2010, we amended our domestic retiree health benefit plan to eliminate the use of the Retiree Drug Subsidy that the Company receives from Medicare as an offset to retiree contributions. This amendment was effective January 1, 2011. The Company instead decided to use this subsidy to reduce its retiree healthcare costs. The amendment resulted in a net decrease of \$55 to the retiree medical benefit obligation and a corresponding \$34 after tax increase to equity. This amendment reduced both the 2012 and 2011 retiree-health expenses by approximately \$13.

Plan Assets

Current Allocation

As of the 2012 and 2011 measurement dates, the global pension plan assets were \$9.0 billion and \$8.3 billion, respectively. These assets were invested among several asset classes. Our common stock represents approximately \$99 or 1.0% of total plan assets at December 31, 2012.

The following tables presents the defined benefit plans assets measured at fair value and the basis for that measurement:

Asset Class	December 31, 2012					
	U.S. Defined Benefit Plans Assets					
	Level 1	Level 2	Level 3	Total	% of Total	
Cash and cash equivalents	\$ 48	\$ —	\$ —	\$ 48	1%	
Equity Securities:						
U.S. large cap	411	10	—	421	12%	
Xerox common stock	99	—	—	99	3%	
U.S. mid cap	79	—	—	79	2%	
U.S. small cap	67	28	—	95	3%	
International developed	133	205	—	338	9%	
Emerging markets	282	67	—	349	10%	
Global equity	2	6	—	8	—%	
Total Equity Securities	1,073	316	—	1,389	39%	
Debt Securities:						
U.S. treasury securities	—	367	—	367	10%	
Debt security issued by government agency	—	153	—	153	4%	
Corporate Bonds	—	1,080	—	1,080	31%	
Asset backed securities	—	11	—	11	—%	
Total Debt Securities	—	1,611	—	1,611	45%	
Derivatives:						
Interest rate contracts	—	15	—	15	—%	
Foreign exchange contracts	(2)	—	—	(2)	—%	
Equity contracts	5	—	—	5	—%	
Credit contracts	—	(1)	—	(1)	—%	
Total Derivatives	3	14	—	17	—%	
Real estate	59	46	58	163	5%	
Private equity/Venture capital	—	—	300	300	8%	
Other ⁽¹⁾	12	33	—	45	2%	
Total Defined Benefit Plans Assets	\$ 1,195	\$ 2,020	\$ 358	\$ 3,573	100%	

(1) Other Level 1 assets include net non-financial assets of \$13 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2012

Asset Class	Non-U.S. Defined Benefit Plans Assets					% of Total
	Level 1	Level 2	Level 3	Total		
Cash and cash equivalents	\$ 500	\$ —	\$ —	\$ 500	9%	
Equity Securities:						
U.S. large cap	204	50	—	254	5%	
U.S. mid cap	14	—	—	14	—%	
U.S. small cap	30	1	—	31	1%	
International developed	1,107	174	—	1,281	24%	
Emerging markets	322	76	—	398	7%	
Global equity	5	12	—	17	—%	
Total Equity Securities	1,682	313	—	1,995	37%	
Debt Securities:						
U.S. treasury securities	1	19	—	20	—%	
Debt security issued by government agency	35	1,253	—	1,288	24%	
Corporate bonds	150	753	—	903	17%	
Asset backed securities	3	31	—	34	1%	
Total Debt Securities	189	2,056	—	2,245	42%	
Common/Collective trust	2	—	—	2	—%	
Derivatives:						
Interest rate contracts	—	74	—	74	1%	
Foreign exchange contracts	9	8	—	17	—%	
Other contracts	69	—	—	69	1%	
Total Derivatives	78	82	—	160	2%	
Hedge funds	—	—	3	3	—%	
Real estate	19	35	332	386	7%	
Guaranteed insurance contracts	—	—	131	131	3%	
Other ⁽¹⁾	13	(4)	—	9	—%	
Total Defined Benefit Plans Assets	\$ 2,483	\$ 2,482	\$ 466	\$ 5,431	100%	

(1) Other Level 1 assets include net non-financial assets of \$5 such as due to/from broker, interest receivables and accrued expenses.

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December 31, 2011

Asset Class	U.S. Defined Benefit Plans Assets				
	Level 1	Level 2	Level 3	Total	% of Total
Cash and cash equivalents	\$ 198	\$ —	\$ —	\$ 198	6 %
Equity Securities:					
U.S. large cap	366	7	—	373	11 %
Xerox common stock	50	—	—	50	2 %
U.S. mid cap	69	—	—	69	2 %
U.S. small cap	56	89	—	145	4 %
International developed	162	327	—	489	15 %
Emerging markets	117	—	—	117	3 %
Total Equity Securities	820	423	—	1,243	37 %
Debt Securities:					
U.S. treasury securities	4	393	—	397	12 %
Debt security issued by government agency	—	180	—	180	5 %
Corporate bonds	6	875	—	881	26 %
Asset backed securities	—	10	—	10	— %
Total Debt Securities	10	1,458	—	1,468	43 %
Derivatives:					
Interest rate contracts	18	13	—	31	1 %
Foreign exchange contracts	8	—	—	8	— %
Equity contracts	23	—	—	23	1 %
Total Derivatives	49	13	—	62	2 %
Real estate	45	35	72	152	5 %
Private equity/Venture capital	—	—	318	318	9 %
Other ⁽¹⁾	(62)	14	—	(48)	(2)%
Total Defined Benefit Plans Assets	\$ 1,060	\$ 1,943	\$ 390	\$ 3,393	100 %

(1) Other Level 1 assets include net non-financial liabilities of \$62 such as due to/from broker, interest receivables and accrued expenses.

December 31, 2011

Asset Class	Non-U.S. Defined Benefit Plans Assets				Total	% of Total
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 380	\$ —	\$ —	\$ 380	8%	
Equity Securities:						
U.S. large cap	145	43	—	188	4%	
U.S. mid cap	21	—	—	21	—%	
U.S. small cap	27	—	—	27	1%	
International developed	1,047	154	—	1,201	25%	
Emerging markets	180	54	—	234	5%	
Global equity	7	17	—	24	—%	
Total Equity Securities	1,427	268	—	1,695	35%	
Debt Securities:						
U.S. treasury securities	5	23	—	28	1%	
Debt security issued by government agency	64	1,227	—	1,291	26%	
Corporate bonds	144	595	—	739	15%	
Asset backed securities	2	51	—	53	1%	
Total Debt Securities	215	1,896	—	2,111	43%	
Common/Collective trust	3	—	—	3	—%	
Derivatives:						
Interest rate contracts	—	90	—	90	2%	
Foreign exchange contracts	6	(1)	—	5	—%	
Other contracts	64	—	—	64	1%	
Total Derivatives	70	89	—	159	3%	
Hedge funds	—	—	3	3	—%	
Real estate	22	97	280	399	8%	
Guaranteed insurance contracts	—	—	116	116	3%	
Other ⁽¹⁾	14	4	—	18	—%	
Total Defined Benefit Plans Assets	\$ 2,131	\$ 2,354	\$ 399	\$ 4,884	100%	

(1) Other Level 1 assets include net non-financial assets of \$8 such as due to/from broker, interest receivables and accrued expenses.

The following tables represents a roll-forward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

	U.S. Defined Benefit Plans Assets		
	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)		
	Real Estate	Private Equity/Venture Capital	Total
Balance at December 31, 2010	\$ 69	\$ 307	\$ 376
Purchases	2	30	32
Sales	(6)	(61)	(67)
Realized gains (losses)	—	46	46
Unrealized gains (losses)	6	(4)	2
Other	1	—	1
Balance at December 31, 2011	72	318	390
Purchases	1	20	21
Sales	(11)	(48)	(59)
Realized gains (losses)	1	36	37
Unrealized gains (losses)	(5)	(26)	(31)
Balance at December 31, 2012	\$ 58	\$ 300	\$ 358

	Non-U.S. Defined Benefit Plans Assets			
	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
	Real Estate	Guaranteed Insurance Contracts	Hedge Funds	Total
Balance at December 31, 2010	\$ 206	\$ 97	\$ 3	\$ 306
Purchases	67	3	—	70
Sales	—	(3)	(1)	(4)
Net transfers in from Level 1	2	12	—	14
Net transfers in from Level 2	—	9	—	9
Realized gains (losses)	—	(1)	—	(1)
Unrealized gains (losses)	12	(4)	—	8
Currency translation	(4)	(3)	—	(7)
Other	(3)	6	1	4
Balance at December 31, 2011	280	116	3	399
Purchases	13	15	—	28
Sales	(21)	(7)	—	(28)
Net transfers in from Level 2	69	—	—	69
Realized gains (losses)	1	4	—	5
Unrealized gains (losses)	(25)	(1)	—	(26)
Currency translation	15	4	—	19
Balance at December 31, 2012	\$ 332	\$ 131	\$ 3	\$ 466

Valuation Method

Our primary Level 3 assets are Real Estate and Private Equity/Venture Capital investments. The fair value of our real estate investment funds are based on the Net Asset Value ("NAV") of our ownership interest in the funds. NAV information is received from the investment advisers and is primarily derived from third party real estate appraisals for the properties owned. The fair value for our private equity/venture capital partnership investments are based on our share of the estimated fair values of the underlying investments held by these partnerships as reported in their audited financial statements. The valuation techniques and inputs for our Level 3 assets have been consistently applied for all periods presented.

Investment Strategy

The target asset allocations for our worldwide defined benefit pension plans were:

	2012		2011	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Equity investments	41%	40%	41%	41%
Fixed income investments	43%	47%	43%	46%
Real estate	5%	9%	5%	9%
Private equity	9%	—%	9%	—%
Other	2%	4%	2%	4%
Total Investment Strategy	100%	100%	100%	100%

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long-term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. This consideration involves the use of long-term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations, and may include Company stock. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected Long-term Rate of Return

We employ a "building block" approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions

In 2012, we made cash contributions of \$364 (\$201 U.S. and \$163 Non-U.S.) and \$84 to our defined benefit pension plans and retiree health benefit plans, respectively. We also elected to make a contribution of 15.4 million shares of our common stock, with an aggregate value of approximately \$130, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2012. Accordingly, total contributions to our defined benefit pension plans were \$494 (\$331 U.S. and \$163 Non-U.S.) in 2012.

In 2013 we expect, based on current actuarial calculations, to make contributions of approximately \$195 (\$26 U.S. and \$169 non-U.S.) to our defined benefit pension plans and \$80 to our retiree health benefit plans. The decrease in required contributions to our U.S. defined benefit pension plans reflect the expected benefits from the pension funding legislation enacted in the U.S. during 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

	Pension Benefits			Retiree Health
	U.S.	Non-U.S.	Total	
2013	\$ 483	\$ 248	\$ 731	\$ 80
2014	445	251	696	80
2015	402	261	663	79
2016	370	274	644	77
2017	348	280	628	75
Years 2018-2022	1,425	1,550	2,975	339

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits					
	2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%

	Retiree Health		
	2012	2011	2010
	Discount rate	3.6%	4.5%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits							
	2013		2012		2011		2010	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.7%	4.0%	4.8%	4.6%	5.1%	5.3%	5.7%	5.7%
Expected return on plan assets	7.8%	6.1%	7.8%	6.2%	8.3%	6.6%	8.3%	6.6%
Rate of compensation increase	0.2%	2.6%	3.5%	2.7%	3.5%	2.7%	3.5%	3.6%

	Retiree Health			
	2013	2012	2011	2010
	Discount rate	3.6%	4.5%	4.9%

Note: Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded. Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates were as follows:

	December 31,	
	2012	2011
Health care cost trend rate assumed for next year	7.5%	8.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.9%	4.9%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% increase		1% decrease	
Effect on total service and interest cost components	\$	3	\$	(3)
Effect on post-retirement benefit obligation		62		54

Defined Contribution Plans

We have savings and investment plans in several countries, including the U.S., Finland and Canada. In many instances, employees from those defined benefit pension plans that have been amended to freeze future service accruals will be transitioned to an enhanced defined contribution plan. For the U.S. plans, employees may contribute a portion of their salaries and bonuses to the plans, and we match a portion of the employee contributions. We recorded charges related to our defined contribution plans of \$63 in 2012, \$66 in 2011 and \$51 in 2010.

Note 16 - Income and Other Taxes

Income before income taxes ("pre-tax income") was as follows:

	Year Ended December 31,		
	2012	2011	2010
Domestic income	\$ 878	\$ 917	\$ 433
Foreign income	470	648	382
Income Before Income Taxes	\$ 1,348	\$ 1,565	\$ 815

Provisions (benefits) for income taxes were as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal Income Taxes			
Current	\$ 24	\$ 52	\$ 153
Deferred	84	134	(17)
Foreign Income Taxes			
Current	123	103	59
Deferred	—	38	8
State Income Taxes			
Current	34	28	46
Deferred	12	31	7
Total Provision (Benefit)	<u>\$ 277</u>	<u>\$ 386</u>	<u>\$ 256</u>

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

	Year Ended December 31,		
	2012	2011	2010
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Nondeductible expenses	2.6 %	2.0 %	6.3 %
Effect of tax law changes	0.7 %	0.2 %	(0.2)%
Change in valuation allowance for deferred tax assets	(0.7)%	(0.3)%	2.6 %
State taxes, net of federal benefit	2.1 %	2.4 %	2.0 %
Audit and other tax return adjustments	(4.7)%	(1.0)%	(3.6)%
Tax-exempt income, credits and incentives	(2.6)%	(3.1)%	(3.9)%
Foreign rate differential adjusted for U.S. taxation of foreign profits ⁽¹⁾	(11.8)%	(10.4)%	(6.7)%
Other	(0.1)%	(0.1)%	(0.1)%
Effective Income Tax Rate	<u>20.5 %</u>	<u>24.7 %</u>	<u>31.4 %</u>

(1) The "U.S. taxation of foreign profits" represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, we paid a total of \$137, \$94 and \$49 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2012, respectively.

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
	2012	2011	2010
Pre-tax income	\$ 277	\$ 386	\$ 256
Common shareholders' equity:			
Changes in defined benefit plans	(233)	(277)	12
Stock option and incentive plans, net	(5)	1	(6)
Cash flow hedges	(24)	3	5
Translation adjustments	(9)	2	6
Total Income Tax Expense (Benefit)	\$ 6	\$ 115	\$ 273

Unrecognized Tax Benefits and Audit Resolutions

Due to the extensive geographical scope of our operations, we are subject to ongoing tax examinations in numerous jurisdictions. Accordingly, we may record incremental tax expense based upon the more-likely-than-not outcomes of any uncertain tax positions. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2012, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2012	2011	2010
Balance at January 1	\$ 225	\$ 186	\$ 148
Additions from acquisitions	—	—	46
Additions related to current year	28	43	38
Additions related to prior years positions	5	38	24
Reductions related to prior years positions	(36)	(17)	(16)
Settlements with taxing authorities ⁽¹⁾	(13)	(14)	(19)
Reductions related to lapse of statute of limitations	(8)	(8)	(35)
Currency	—	(3)	—
Balance at December 31	\$ 201	\$ 225	\$ 186

(1) Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2012, 2011 and 2010 are \$16, \$36 and \$39, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or that they may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

We recognized interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements within income tax expense. We had \$20, \$28 and \$31 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2012, 2011 and 2010, respectively.

In the U.S., with the exception of ACS, we are no longer subject to U.S. federal income tax examinations for years before 2007. ACS is no longer subject to such examinations for years before 2005. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Deferred Income Taxes

We had undistributed earnings of foreign subsidiaries and other foreign investments carried at equity at December 31, 2012 of approximately \$8.8 billion. We have provided deferred taxes on approximately \$500 of those earnings due to their anticipated repatriation to the U.S. The remaining \$8.3 billion of undistributed earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. We do not believe it is practical to calculate the potential deferred tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

	December 31,	
	2012	2011
Deferred Tax Assets		
Research and development	\$ 793	\$ 876
Post-retirement medical benefits	359	368
Anticipated foreign repatriations	264	41
Depreciation and amortization	52	71
Net operating losses	630	637
Other operating reserves	300	285
Tax credit carryforwards	177	379
Deferred compensation	312	306
Allowance for doubtful accounts	73	93
Restructuring reserves	30	29
Pension	696	547
Other	143	132
Subtotal	3,829	3,764
Valuation allowance	(654)	(677)
Total	\$ 3,175	\$ 3,087
Deferred Tax Liabilities		
Unearned income and installment sales	\$ 947	\$ 996
Intangibles and goodwill	1,252	1,261
Other	48	41
Total	\$ 2,247	\$ 2,298
Total Deferred Taxes, Net	\$ 928	\$ 789

The above amounts are classified as current or long-term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate or, when applicable, based on the expected timing of the reversal. Current deferred tax assets at December 31, 2012 and 2011 amounted to \$273 and \$229, respectively.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2012 and 2011 was a decrease of \$23 and \$58, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more-likely-than-not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more-likely-than-not that the deferred tax assets, for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2012, we had tax credit carryforwards of \$177 available to offset future income taxes, of which \$79 are available to carryforward indefinitely while the remaining \$98 will expire 2013 through 2032 if not utilized. We also had net operating loss carryforwards for income tax purposes of \$1.3 billion that will expire 2013 through 2032, if not utilized, and \$2.4 billion available to offset future taxable income indefinitely.

Note 17 – Contingencies and Litigation

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

Additionally, guarantees, indemnifications and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2012, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2012, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$1,010 with the decrease from December 31, 2011 balance of approximately \$1,120, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of \$1,010, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2012 we had \$211 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$13 and additional letters of credit of approximately \$242, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive ("Class Period") and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the "Class"). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants' alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company's operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to refile. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius ("Agius") and Georgia Stanley to appoint them as additional lead plaintiffs.

In July 2007, the Court denied plaintiffs' renewed motion for class certification, without prejudice to renewal after the Court holds a pre-filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius's withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as class counsel. Subsequently, on April 9, 2009, the Court denied defendants' motion to disqualify Milberg LLP. On November 6, 2008, the defendants filed a motion for summary judgment. Briefing with respect to the motion is complete. The Court has not yet rendered a decision. The parties also filed motions to exclude the testimony of certain expert witnesses. On April 22, 2009, the Court denied plaintiffs' motions to exclude the testimony of two of defendants' expert witnesses. On September 30, 2010, the Court denied plaintiffs' motion to exclude the testimony of another of defendants' expert witnesses. The Court also granted defendants' motion to exclude the testimony of one of plaintiffs' expert witnesses, and granted in part and denied in part defendants' motion to exclude the testimony of plaintiffs' two remaining expert witnesses. The individual defendants and we deny any wrongdoing and are vigorously defending the action. At this time, we do not believe it is reasonably possible that we will incur additional material losses in excess of the amount we have already accrued for this matter. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Guarantees, Indemnifications and Warranty Liabilities

Indemnifications Provided as Part of Contracts and Agreements

We are a party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Contracts that we entered into for the sale or purchase of businesses or real estate assets, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including obligations to pay rent. Typically, these relate to such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition.
- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.
- Agreements to indemnify various service providers, trustees and bank agents from any third party claims related to their performance on our behalf, with the exception of claims that result from third-party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract and such procedures also typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. In addition, we indemnify certain software providers against claims that may arise as a result of our use or our subsidiaries', customers' or resellers' use of their software in our products and solutions. These indemnities usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by-laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments (such as those related to "clawback" provisions in certain compensation arrangements) may not be covered under our directors' and officers' insurance coverage. In addition, we indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales-type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life of the equipment under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our entry level products, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for the three years ended December 31, 2012 were \$29, \$30 and \$33, respectively. Total product warranty liabilities as of December 31, 2012 and 2011 were \$14 and \$16, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2012:

- \$454 for letters of credit issued to i) guarantee our performance under certain services contracts; ii) support certain insurance programs; and iii) support our obligations related to the Brazil tax and labor contingencies.
- \$736 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, require us to provide a surety bond as a guarantee of our performance of contractual obligations.

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

We have service arrangements where we service third party student loans in the Federal Family Education Loan program ("FFEL") on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At December 31, 2012, we serviced a FFEL portfolio of approximately 3.7 million loans with an outstanding principal balance of approximately \$53.0 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of December 31, 2012, other current liabilities include reserves which we believe to be adequate. At December 31, 2012, other current liabilities include reserves of approximately \$3.6 for losses on defaulted loans purchased.

Note 18 - Preferred Stock

Series A Convertible Preferred Stock

In 2010, in connection with our acquisition of ACS, we issued 300,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of \$300 and an initial fair value of \$349. The convertible preferred stock pays quarterly cash dividends at a rate of 8% per year (\$24 per year). Each share of convertible preferred stock is convertible at any time, at the option of the holder, into 89.8876 shares of common stock for a total of 26,966 thousand shares (reflecting an initial conversion price of approximately \$11.125 per share of common stock), subject to customary anti-dilution adjustments.

On or after February 5, 2015, if the closing price of our common stock exceeds 130% of the then applicable conversion price (currently \$11.125 per share of common stock) for 20 out of 30 trading days, we have the right to cause any or all of the convertible preferred stock to be converted into shares of common stock at the then applicable conversion rate. The convertible preferred stock is also convertible, at the option of the holder, upon a change in control, at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for our common stock upon such change in control. In addition, upon the occurrence of certain fundamental change events, including a change in control or the delisting of Xerox's common stock, the holder of convertible preferred stock has the right to require us to redeem any or all of the convertible preferred stock in cash at a redemption price per share equal to the liquidation preference and any accrued and unpaid dividends to, but not including the redemption date. The convertible preferred stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

Note 19 – Shareholders' Equity

Preferred Stock

As of December 31, 2012, we had one class of preferred stock outstanding. See Note 18 - Preferred Stock for further information. We are authorized to issue approximately 22 million shares of cumulative preferred stock, \$1.00 par value per share.

Common Stock

We have 1.75 billion authorized shares of common stock, \$1.00 par value per share. At December 31, 2012, 155 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges, 27 million shares were reserved for conversion of the Series A convertible preferred stock and 2 million shares were reserved for the conversion of convertible debt.

Treasury Stock

We account for the repurchased common stock under the cost method and include such treasury stock as a component of our common shareholder's equity. Retirement of treasury stock is recorded as a reduction of Common stock and Additional paid-in capital at the time such retirement is approved by our Board of Directors.

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2012 (shares in thousands):

Authorized share repurchase programs	\$	6,000
Share repurchase cost	\$	4,691
Share repurchase fees	\$	8
Number of shares repurchased		428,314

In 2012, the Board of Directors authorized an additional \$1.5 billion in share repurchase bringing the total authorization to \$6 billion.

The following table reflects the changes in Common and Treasury stock shares (shares in thousand):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2009	869,381	—
Stock based compensation plans, net	37,018	—
ACS acquisition ⁽¹⁾	489,802	—
Other	1,377	—
Balance at December 31, 2010	1,397,578	—
Stock based compensation plans, net	11,027	—
Contributions to U.S. pension plan ⁽²⁾	16,645	—
Acquisition of Treasury stock	—	87,943
Cancellation of Treasury stock	(72,435)	(72,435)
Other	34	—
Balance at December 31, 2011	1,352,849	15,508
Stock based compensation plans, net	17,343	—
Contributions to U.S. pension plan ⁽²⁾	15,366	—
Acquisition of Treasury stock	—	146,278
Cancellation of Treasury stock	(146,862)	(146,862)
Other	—	—
Balance at December 31, 2012	1,238,696	14,924

(1) Refer to Note 3 - Acquisitions for additional information.

(2) Refer to Note 15 - Employee Benefits Plans for additional information.

Stock-Based Compensation

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (“RSUs”), performance shares (“PSs”) and non-qualified stock options. We grant stock-based awards in order to continue to attract and retain employees and to better align employees' interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2012 and 2011, 50 million and 31 million shares, respectively, were available for grant of awards.

Stock-based compensation expense was as follows:

	Year Ended December 31,		
	2012	2011	2010
Stock-based compensation expense, pre-tax	\$ 125	\$ 123	\$ 123
Income tax benefit recognized in earnings	48	47	47

Restricted Stock Units: Compensation expense is based upon the grant date market price for most awards. The primary grant in 2009 had a market based condition and therefore the grant date price was based on a Monte Carlo simulation. Compensation expense is recorded over the vesting period, which is normally three years from the date of grant, based on management's estimate of the number of shares expected to vest.

Performance Shares: We grant officers and selected executives PSs that vest contingent upon meeting pre-determined Revenue, Earnings per Share (“EPS”) and Cash Flow from Operations targets. These shares entitle the holder to one share of common stock, payable after a three-year period and the attainment of the stated goals. If the annual actual results for Revenue exceed the stated targets and if the cumulative three-year actual results for EPS and Cash Flow from Operations exceed the stated targets, then the plan participants have the potential to earn additional shares of common stock. This overachievement cannot exceed 50% for officers and 25% for non-officers of the original grant.

The fair value of PSs is based upon the market price of our stock on the date of the grant. Compensation expense is recognized over the vesting period, which is normally three years from the date of grant, based on management's estimate of the number of shares expected to vest. If the stated targets are not met, any recognized compensation cost would be reversed.

In connection with the ACS acquisition, selected ACS executives received a special one-time grant of PSs that vest over a three-year period ending February 2013 contingent upon ACS meeting pre-determined annual earnings targets. These shares entitle the holder to one share of common stock, payable after the three-year period and the attainment of the targets. The aggregate number of shares that may be delivered based on achievement of the targets was determined on the date of grant and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of the August 2009 options (maximum).

Employee Stock Options: With the exception of the conversion of ACS options in connection with the ACS acquisition (see below), we have not issued any new stock options associated with our employee long-term incentive plan since 2004. Substantially all stock options previously issued under our employee long-term incentive plan are fully exercised, cancelled or expired as of December 31, 2012.

Summary of Stock-based Compensation Activity

(Shares in thousands; amounts per share)	2012		2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Restricted Stock Units						
Outstanding at January 1	33,784	\$ 8.70	32,431	\$ 8.68	25,127	\$ 10.18
Granted	13,033	7.82	8,035	10.66	11,845	8.56
Vested	(14,848)	6.89	(5,225)	11.64	(3,671)	18.22
Cancelled	(1,555)	8.97	(1,457)	8.57	(870)	10.36
Outstanding at December 31	30,414	9.19	33,784	8.70	32,431	8.68
Performance Shares						
Outstanding at January 1	9,763	\$ 9.21	7,771	\$ 9.78	4,874	\$ 15.49
Granted	5,193	7.87	4,852	10.42	5,364	8.10
Vested	—	—	(1,587)	12.84	(1,566)	18.48
Cancelled	(420)	8.96	(1,273)	12.79	(901)	15.51
Outstanding at December 31	14,536	8.74	9,763	9.21	7,771	9.78
Stock Options						
Outstanding at January 1	50,070	\$ 6.98	71,038	\$ 8.00	28,363	\$ 10.13
Granted	—	—	—	—	96,662	6.79
Cancelled/expired	(8,617)	8.58	(14,889)	8.38	(2,735)	7.33
Exercised	(7,721)	5.69	(6,079)	8.21	(51,252)	6.92
Outstanding at December 31	33,732	6.86	50,070	6.98	71,038	8.00
Exercisable at December 31	28,676	6.95	39,987	7.14	57,985	8.38

The total unrecognized compensation cost related to non-vested stock-based awards at December 31, 2012 was as follows:

Awards	Unrecognized Compensation	Remaining Weighted-Average Vesting Period (Years)
Restricted Stock Units	\$ 125	1.5
Performance Shares	58	1.5
Stock Options	12	1.6
Total	\$ 195	

The aggregate intrinsic value of outstanding RSUs and PSs awards was as follows:

Awards	December 31, 2012
Restricted Stock Units	\$ 207
Performance Shares	99

Information related to stock options outstanding and exercisable at December 31, 2012 was as follows:

	Options	
	Outstanding	Exercisable
Aggregate intrinsic value	\$ 7	\$ 5
Weighted-average remaining contractual life (years)	4.3	3.9

The total intrinsic value and actual tax benefit realized for vested and exercised stock-based awards was as follows:

Awards	December 31, 2012			December 31, 2011			December 31, 2010		
	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit
Restricted Stock Units	\$ 117	\$ —	\$ 33	\$ 56	\$ —	\$ 22	\$ 31	\$ —	\$ 10
Performance Shares	—	—	—	17	—	6	12	—	5
Stock Options	12	44	4	18	44	7	155	183	56

No Performance Shares vested in 2012 since the 2009 primary award grant that normally would have vested in 2012 was replaced with a grant of Restricted Stock Units with a market based condition and therefore were accounted and reported for as part of Restricted Stock Units.

ACS Acquisition

In connection with the acquisition of ACS (see Note 3 - Acquisitions for additional information), outstanding ACS options were converted into 96,662 thousand Xerox options. The Xerox options have a weighted average exercise price of \$6.79 per option. The estimated fair value associated with the options issued was approximately \$222 based on a Black-Scholes valuation model utilizing the assumptions stated below. Approximately \$168 of the estimated fair value is associated with ACS options issued prior to August 2009, which became fully vested and exercisable upon the acquisition in accordance with preexisting change-in-control provisions, and was recorded as part of the acquisition fair value. The remaining \$54 is associated with ACS options issued in August 2009 which did not fully vest and become exercisable upon the acquisition, but continue to vest according to specified vesting schedules, and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from date of grant. 33,693 thousand Xerox options issued upon this conversion remain outstanding at December 31, 2012.

Assumptions	Pre-August 2009 Options		August 2009 Options	
Strike price	\$	6.89	\$	6.33
Expected volatility		37.90%		38.05%
Risk-free interest rate		0.23%		1.96%
Dividend yield		1.97%		1.97%
Expected term		0.75 years		4.2 years

Note 20 – Other Comprehensive Income

Other Comprehensive Income is composed of the following:

	Year Ended December 31,					
	2012		2011		2010	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments Gains (Losses)	\$ 104	\$ 113	\$ (103)	\$ (105)	\$ (29)	\$ (35)
Unrealized (Losses) Gains:						
Changes in fair value of cash flow hedges - (losses) gains	(50)	(35)	30	22	46	31
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(37)	(28)	(14)	(9)	(28)	(18)
Other	—	—	(1)	(1)	(1)	(1)
Net unrealized (losses) gains	\$ (87)	\$ (63)	\$ 15	\$ 12	\$ 17	\$ 12
Defined Benefit Plans (Losses) Gains:						
Actuarial / Prior service losses	(852)	(578)	(872)	(607)	(106)	(191)
Amortization ⁽²⁾	126	85	89	60	91	164
Curtailment gain - recognition of prior service credit	—	—	(107)	(66)	—	—
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	(13)	(13)	(31)	(31)	28	28
Other ⁽⁴⁾	(55)	(55)	8	8	22	22
Changes in defined benefit plans (losses) gains	\$ (794)	\$ (561)	\$ (913)	\$ (636)	\$ 35	\$ 23
Other Comprehensive (Loss) Income	(777)	(511)	(1,001)	(729)	23	—
Less: Other comprehensive loss attributable to noncontrolling interests	—	—	(1)	(1)	—	—
Other Comprehensive (Loss) Income Attributable to Xerox	\$ (777)	\$ (511)	\$ (1,000)	\$ (728)	\$ 23	\$ —

(1) Reclassified to Cost of sales - refer to Note 13 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 15 - Employee Benefit Plans for additional information.

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

(4) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

Accumulated Other Comprehensive Loss ("AOCL")

AOCL is composed of the following:

	December 31,		
	2012	2011	2010
Cumulative translation adjustments	\$ (826)	\$ (939)	\$ (835)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(2,364)	(1,803)	(1,167)
Other unrealized (losses) gains, net	(37)	26	14
Total Accumulated Other Comprehensive Loss	\$ (3,227)	\$ (2,716)	\$ (1,988)

(1) Includes our share of Fuji Xerox.

Note 21 – Earnings per Share

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

	Year Ended December 31,		
	2012	2011	2010
Basic Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	(24)	(21)
Adjusted Net Income Available to Common Shareholders	\$ 1,171	\$ 1,271	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Basic Earnings per Share	\$ 0.90	\$ 0.92	\$ 0.44
Diluted Earnings per Share:			
Net income attributable to Xerox	\$ 1,195	\$ 1,295	\$ 606
Accrued dividends on preferred stock	(24)	—	(21)
Interest on convertible securities, net	1	1	—
Adjusted Net Income Available to Common Shareholders	\$ 1,172	\$ 1,296	\$ 585
Weighted-average common shares outstanding	1,302,053	1,388,096	1,323,431
Common shares issuable with respect to:			
Stock options	4,335	9,727	13,497
Restricted stock and performance shares	20,804	16,993	13,800
Convertible preferred stock	—	26,966	—
Convertible securities	1,992	1,992	—
Adjusted Weighted Average Common Shares Outstanding	1,329,184	1,443,774	1,350,728
Diluted Earnings per Share	\$ 0.88	\$ 0.90	\$ 0.43
The following securities were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive:			
Stock options	29,397	40,343	57,541
Restricted stock and performance shares	23,430	26,018	25,983
Convertible preferred stock	26,966	—	26,966
Convertible securities	—	—	1,992
	79,793	66,361	112,482
Dividends per common share	\$ 0.17	\$ 0.17	\$ 0.17

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have free access to the Audit Committee.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2012.

/s/ URSULA M. BURNS

Chief Executive Officer

/s/ LUCA MAESTRI

Chief Financial Officer

/s/ GARY R. KABURECK

Chief Accounting Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 21, 2013

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

(in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2012					
Revenues	\$ 5,503	\$ 5,541	\$ 5,423	\$ 5,923	\$ 22,390
Costs and Expenses	5,190	5,190	5,106	5,556	21,042
Income before Income Taxes and Equity Income	313	351	317	367	1,348
Income tax expenses	77	66	63	71	277
Equity in net income of unconsolidated affiliates	40	31	34	47	152
Net Income	276	316	288	343	1,223
Less: Net income - noncontrolling interests	7	7	6	8	28
Net Income Attributable to Xerox	<u>\$ 269</u>	<u>\$ 309</u>	<u>\$ 282</u>	<u>\$ 335</u>	<u>\$ 1,195</u>
2011					
Revenues	\$ 5,465	\$ 5,614	\$ 5,583	\$ 5,964	\$ 22,626
Costs and Expenses	5,115	5,213	5,216	5,517	21,061
Income before Income Taxes and Equity Income	350	401	367	447	1,565
Income tax expenses	95	108	81	102	386
Equity in net income of unconsolidated affiliates	34	34	43	38	149
Net Income	289	327	329	383	1,328
Less: Net income - noncontrolling interests	8	8	9	8	33
Net Income Attributable to Xerox	<u>\$ 281</u>	<u>\$ 319</u>	<u>\$ 320</u>	<u>\$ 375</u>	<u>\$ 1,295</u>
Basic Earnings per Share ⁽¹⁾	\$ 0.20	\$ 0.23	\$ 0.21	\$ 0.26	\$ 0.90
Diluted Earnings per Share ⁽¹⁾	0.19	0.22	0.21	0.26	0.88

⁽¹⁾ The sum of quarterly earnings per share may differ from the full-year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti-dilutive in certain quarters may not be anti-dilutive on a full-year basis.

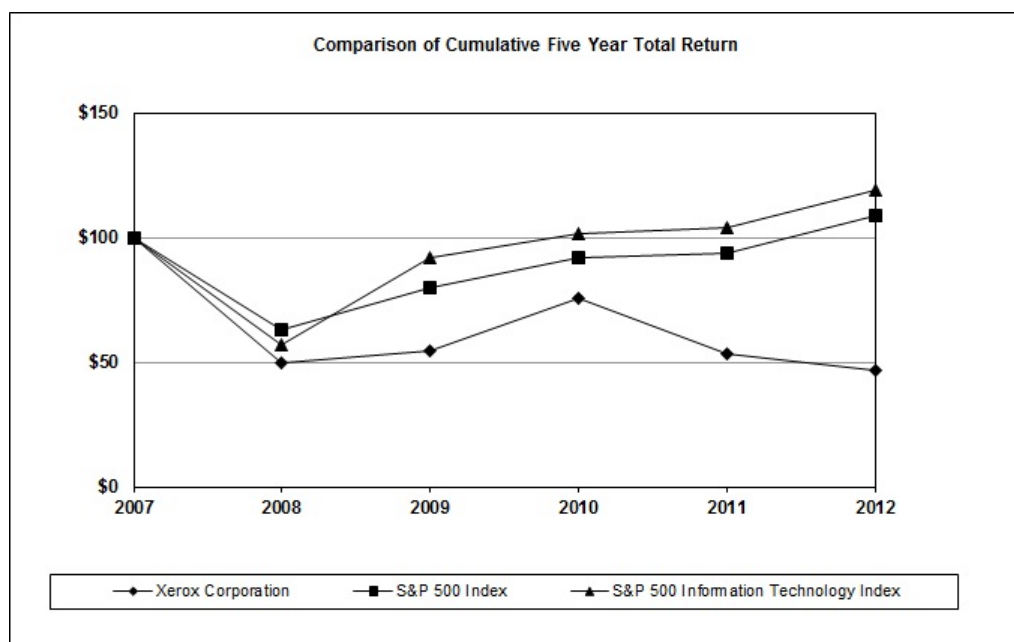
FIVE YEARS IN REVIEW

(in millions, except per-share data)

	2012	2011	2010 ⁽¹⁾	2009	2008
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.90	\$ 0.92	\$ 0.44	\$ 0.56	\$ 0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Earnings					
Basic	0.90	0.92	0.44	0.56	0.26
Diluted	0.88	0.90	0.43	0.55	0.26
Common stock dividends declared	0.17	0.17	0.17	0.17	0.17
Operations					
Revenues	\$ 22,390	\$ 22,626	\$ 21,633	\$ 15,179	\$ 17,608
Sales	6,578	7,126	7,234	6,646	8,325
Outsourcing, service and rentals	15,215	14,868	13,739	7,820	8,485
Finance income	597	632	660	713	798
Income from continuing operations	1,223	1,328	637	516	265
Income from continuing operations - Xerox	1,195	1,295	606	485	230
Net income	1,223	1,328	637	516	265
Net income - Xerox	1,195	1,295	606	485	230
Financial Position					
Working capital	\$ 2,363	\$ 1,531	\$ 2,222	\$ 5,270	\$ 2,700
Total Assets	30,015	30,116	30,600	24,032	22,447
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,042	1,545	1,370	988	1,610
Long-term debt	7,447	7,088	7,237	8,276	6,774
Total Debt	8,489	8,633	8,607	9,264	8,384
Liability to subsidiary trust issuing preferred securities	—	—	650	649	648
Series A convertible preferred stock	349	349	349	—	—
Xerox shareholders' equity	11,521	11,876	12,006	7,050	6,238
Noncontrolling interests	143	149	153	141	120
Total Consolidated Capitalization	\$ 20,502	\$ 21,007	\$ 21,765	\$ 17,104	\$ 15,390
Selected Data and Ratios					
Common shareholders of record at year-end	39,397	41,982	43,383	44,792	46,541
Book value per common share	\$ 9.41	\$ 8.88	\$ 8.59	\$ 8.11	\$ 7.21
Year-end common stock market price	\$ 6.82	\$ 7.96	\$ 11.52	\$ 8.46	\$ 7.97
Employees at year-end	147,600	139,700	136,500	53,600	57,100
Gross margin	31.4%	32.8%	34.4%	39.7%	38.9%
Sales gross margin	33.7%	34.1%	34.5%	33.9%	33.7%
Outsourcing, service and rentals gross margin	29.0%	30.9%	33.1%	42.6%	41.9%
Finance gross margin	66.8%	63.4%	62.7%	62.0%	61.8%

(1) 2010 results include the acquisition of ACS

PERFORMANCE GRAPH



Total Return To Shareholders

(Includes reinvestment of dividends)	Year Ended December 31,					
	2007	2008	2009	2010	2011	2012
Xerox Corporation	\$ 100.00	\$ 49.97	\$ 54.46	\$ 75.46	\$ 53.16	\$ 46.59
S&P 500 Index	\$ 100.00	63.00	79.67	91.68	93.61	108.59
S&P 500 Information Technology Index	\$ 100.00	56.86	91.96	101.32	103.77	119.15

Source: Standard & Poor's Investment Services

Notes: Graph assumes \$100 invested on December 31, 2007 in Xerox Corp., the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

CORPORATE INFORMATION

Stock Exchange Information

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012				
High	\$ 8.76	\$ 8.15	\$ 7.94	\$ 7.39
Low	7.73	6.94	6.38	6.23
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
2011				
High	\$ 11.71	\$ 10.88	\$ 10.71	\$ 8.57
Low	9.87	9.40	6.97	6.72
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425

* Price as of close of business

EXHIBIT 21

SUBSIDIARIES of XEROX CORPORATION

The following companies are subsidiaries of Xerox Corporation as of December 31, 2012. Unless otherwise noted, a subsidiary is a company in which Xerox Corporation or a subsidiary of Xerox Corporation holds 50% or more of the voting stock. The names of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary/Affiliate	Jurisdiction of Incorporation
ACS@Xerox LLC	Delaware
ACS Holdings (UK) LLP	United Kingdom (48)
Global Imaging Systems, Inc.	Delaware
American Photocopy Equipment Company of Pittsburgh, LLC	Delaware
Arizona Office Technologies, Inc.	Arizona
Berney Office Solutions, LLC	Alabama
N&L Enterprises, LLC	Alabama
Capitol Office Solutions, LLC	Delaware
Carolina Office Systems, Inc.	South Carolina
Carr Business Systems, Inc.	New York
Chicago Office Technology Group, Inc.	Illinois
ComDoc, Inc.	Ohio
Connecticut Business Systems, LLC	Delaware
Conway Office Products, LLC	New Hampshire
Business Equipment Unlimited	Maine
Cameron Office Products, LLC	Massachusetts
Eastern Managed Print Network, LLC	New York
Northeast Copier Systems, LLC	Massachusetts
CopyCo Office Solutions, Inc.	Indiana
CTX Business Solutions, Inc.	Oregon
Dahill Office Technology Corporation	Texas (34)
Denitech Corporation	Texas
Electronic Systems, Inc.	Virginia
TML Enterprises, Inc.	Virginia
GDP Finance, Inc.	Georgia
Georgia Duplicating Products, Inc.	Georgia
Global Iowa, Inc.	Iowa
Global Iowa Finance, Inc.	Iowa
Midwest Business Solutions, Inc.	Iowa
Premier Office Equipment, Inc.	Iowa
ImageQuest, Inc.	Kansas
Image Technology Specialists, Inc.	Massachusetts
Inland Business Machines, Inc.	California
Precision Copier Service, Inc. d/b/a Sierra Office Solutions	Nevada
Lucas Business Systems, Inc.	Delaware
Lewan & Associates, Inc.	Colorado
Imaging Concepts of New Mexico, Inc.	New Mexico
Merizon Group Incorporated	Wisconsin

Michigan Office Solutions, Inc.	Michigan
Minnesota Office Technology Group, Inc.	Minnesota
Mr. Copy, Inc.	California
MRC Smart Technology Solutions, Inc.	California
MWB Copy Products, Inc.	California
SoCal Office Technologies, Inc.	California
Martin Whalen Office Solutions, Inc.	Illinois
MW Leasing Company	Illinois
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
R. K. Dixon Company	Iowa
Saxon Business Systems, Inc.	Florida
Stewart Business Systems, LLC	New Jersey
Xerox Audio Visual Solutions, Inc.	Georgia
Daniel Communications, Inc.	Alabama
Zoom Imaging Solutions, Inc.	California
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Institute for Research on Learning	Delaware
LaserNetworks Inc.	Delaware
Lateral Data, L.P.	Texas
NewField Information Technology LLC	Pennsylvania
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware
The Xerox Foundation	Delaware
Xerox Argentina Industrial y Comercial S.A.	Argentina (1)
Xerox Business Services, LLC	Delaware
ACS Application Management Services, LLC	California
Agilera, LLC	Delaware
Agilera Messaging, LLC	Delaware
ACS BRC Holdings, LLC	Delaware
ACS Enterprise Solutions, LLC	Delaware
ACS BPO Services, Inc.	Delaware
Government Records Services, Inc.	Delaware
Title Records Corporation	Delaware
ACS Government Systems, Inc.	Delaware
ACS TMC, Inc.	Delaware
Digital Information Systems Company, L.L.C.	Georgia
Xerox Audit & Compliance Solutions, LLC	Delaware
Xerox Heritage, LLC	Virginia
Xerox State Healthcare, LLC	Delaware
ACS EDI Gateway, Inc.	Delaware
Consultec IPA, Inc.	New York

Xerox Federal Solutions LLC	Delaware
ACS Health Care, Inc.	Oregon
CredenceHealth, Inc.	Tennessee
MidasPlus, Inc.	Arizona
Statit Software, Inc.	Oregon
ACS ComplIQ Corporation	Nevada
ACS Consultant Holdings Corporation	Delaware
Xerox Consultant Company, Inc.	Michigan
Superior Venture Partner, Inc.	Pennsylvania
ACS e-Services, LLC	Delaware
e-Services Group (St. Lucia) Ltd.	St. Lucia
e-Services Group International (Jamaica) Limited	Jamaica (47)
ACS Health Administration, Inc.	Delaware
ACS Healthcare Analytics, Inc.	Delaware
ACS Human Resources Solutions, LLC	Delaware
Buck Consultants, LLC	Delaware
Buck Consultants Limited/Conseillers Buck Limitee	Ontario
Buck Consultants Insurance Agency Limited	Ontario
Buck Consultants	Belgium (44)
Buck Kwasha Securities LLC	Delaware
LiveWire, LLC	Missouri
Xerox HR Solutions, LLC	Pennsylvania
Xerox HR Solutions, LLP	Delaware (67)
ACS HR Solutions UK Limited	United Kingdom
ACS HR Solutions World Services, LLC	Delaware
Xerox Relocation & Assignment Services, LLC	Delaware
ACS Image Solutions, Inc.	Louisiana
ACS IT Solutions, LP	Delaware (45)
ACS Lending, Inc.	Delaware (41)
ACS Business Services, LLC	Delaware
ACS/ECG Holdings, LLC	Delaware
ACS Defense, LLC	Delaware
ACS Outsourcing Solutions, Inc.	Michigan
ACS Print and Mail Services, Inc.	Michigan
ACS Properties, LLC	Delaware
ACS Marketing, L.P.	Delaware (42)
ACS Protection Services, Inc.	Texas
ACS Puerto Rico, LLC	Puerto Rico
ACS REBGM, Inc.	Illinois
ACS Recovery Services, Inc.	Delaware
ACS Solutions Poland Sp. z.o.o.	Poland
ACS TradeOne Marketing, Inc.	Delaware
ACS Securities Services, Inc.	Texas
etravelexperts, LLC	Delaware
ACS Transport Solutions, Inc.	Georgia
ACB Airport Solutions, LLC	Georgia (46)

ACS Solutions de Mexico S.A. de C.V.	Mexico (68)
ACS Trust I	Delaware
ACS Trust II	Delaware
ACS Welfare Benefit Trust	Texas
Breakaway Healthcare and Life Sciences, LLC	Colorado
Health Technology Acquisition Company	Indiana
Outsourced Administrative Systems, Inc.	Indiana
Intellinex LLC	Delaware
LiveBridge, Inc.	Oregon
Newspaper Services Holding, Inc.	Oregon
ACS Contact Solutions of Canada, ULC	Nova Scotia
Restaurant Technology Services, LLC	Delaware
RTS Information Consulting (Chengdu) Co. Ltd	China
Restaurant Technology Services UK Limited	United Kingdom
Specialty I, LLC	Delaware
The National Abandoned Property Processing Corporation	Delaware
Wagers & Associates, Inc.	Colorado
Wireless Data Services North America, Inc.	Washington
Wireless Data Services (Operations), Inc.	Idaho
WDS Global-Texas, Inc.	Texas
Xerox Care and Quality Solutions, Inc.	Wisconsin
Xerox Commercial Solutions, LLC	Nevada
ACS Global, Inc.	Delaware
Affiliated Computer Services (Australia) Pty Ltd.	Australia
ML Colombia S.A.	Colombia (51)
Market Line Peru S.A.C.	Peru (52)
Market Line S.A.	Argentina (49)
Market Line Chile S.A.	Chile (50)
CDR Associates, L.L.C.	Delaware
Education Sales and Marketing, LLC	Colorado
ESM Chaperone, LLC	Colorado
TMS Health, LLC	Delaware
Truckload Management Services, Inc.	Colorado
Xerox Education Services, Inc.	Delaware
ACS Asset Management Group, Inc.	Oregon
Education Services Company	Delaware
ACS Education Loan Services LLC	Delaware
Xerox Education Solutions, LLC	Delaware
Xerox State & Local Solutions, Inc.	New York
ACS Human Services, LLC	Indiana
ACS Middle East, Inc.	Delaware
ACS China Solutions Hong Kong Limited	Hong Kong
ACS Road Technology Services (Beijing) Co. Ltd.	China
ParkIndy LLC	Delaware
Transaction Processing Specialists, Inc.	Texas
Xerox Capital LLC	Turks & Caicos Islands (9)

Xerox de Chile S.A.	Chile (40)
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox DNHC LLC	Delaware
Xerox del Ecuador, S.A.	Ecuador (32)
Xerox Engineering Systems NV	Belgium
Xerox Export, LLC	Delaware
Xerox Europe Finance Limited Partnership	Scotland (20)
Xerox European Funding LLC	Delaware
Affiliated Computer Services Holdings (Luxembourg) S.A.R.L.	Luxembourg
Xerox Finance, Inc.	Delaware
Xerox Investments Holding (Bermuda) Limited	Bermuda
Xerox Financial Services LLC	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox d'Haiti, S.A.	Haiti
Xerox Holdings, Inc.	Delaware
Talegen Holdings, Inc.	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California (10)
Xerox Investments Europe B.V.	Netherlands
XC Global Trading B.V.	Netherlands
XC Trading Singapore Pte Ltd.	Singapore
XC Trading Hong Kong Limited	Hong Kong
XC Trading Japan G.K.	Japan
XC Trading Korea YH	Korea
XC Trading Malaysia	Malaysia
XC Trading Shenzhen Co., Ltd.	China
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Monocolour Limited	Ireland
NewField Information Technology Limited	United Kingdom
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
Xerox Israel Ltd.	Israel
Xerox Middle East Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt (5)
Xerox Finance Leasing S.A.E.	Egypt (3)
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda (16)
Xerox UK Holdings Limited	United Kingdom
Triton Business Finance Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom

Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Limited	United Kingdom
Affiliated Computer Services International B.V.	Netherlands
ACS-BPS (Ghana) Limited	Ghana
ACS BPS de Guatemala S.A.	Guatemala (70)
ACS Business Process Solutions Limited	United Kingdom
ACS Malta Limited	Malta (66)
ACS Worldwide Lending Limited	United Kingdom
Buck Consultants Limited	United Kingdom
Bevis Trustees Limited	United Kingdom
Buckingham Trustees Limited	United Kingdom
Buck Consultants (Healthcare) Limited	United Kingdom
Buck Consultants (Administration & Investment) Limited	United Kingdom
Talking People Limited	United Kingdom
Spur Information Solutions Limited	United Kingdom
Syan Holdings Limited	United Kingdom
ACS Information Technologies UK Limited	United Kingdom
Anix Group Limited	United Kingdom
Anix Business Systems Limited	United Kingdom
Anix Computers Limited	United Kingdom
PR Systems Limited	United Kingdom
Syan Technology Limited	United Kingdom
VBHG Limited	United Kingdom
Anix Holdings Limited	United Kingdom
Blue River Systems Limited	United Kingdom
Posetiv Limited	United Kingdom
Red Squared Limited	United Kingdom
Wireless Data Services Limited	United Kingdom
Hugh Symons Wireless Data Services Pty. Limited	Australia
Wireless Data Services (Asia Pacific) PTE Ltd.	Singapore
Wireless Data Services (Proprietary) Limited	South Africa
ACS (Cyprus) Holdings Limited	Cyprus
Affiliated Computer Services of India Private Limited	India (58)
ACS Czech Republic s.r.o.	Czech Republic
ACS HR Solutions Nederland B.V.	Netherlands
ACS HR Solutions Share Plan Services (Guernsey) Limited	Guernsey
ACS of the Philippines, Inc.	Philippines (62)
ACS Solutions Chile SA	Chile (57)
ACS Solutions Hong Kong Limited	Hong Kong
ACS Solutions of Puerto Rico, Inc.	Puerto Rico
ACS Solutions Schweiz AG	Switzerland
Affiliated Computer Services Austria GmbH	Austria
Affiliated Computer Services do Brasil Ltda.	Brazil (55)
ACS HR Solucoes Servicos de Recursos Humanos do Brasil Ltda.	Brazil (72)

Affiliated Computer Services (Fiji) Limited	Fiji (59)
Affiliated Computer Services GmbH	Switzerland
Affiliated Computer Services International (Barbados) Limited	Barbados
ACS Business Process Solutions (Dominican Republic), S.A.	Dominican Republic (54)
ACS Business Process Solutions (Jamaica) Limited	Jamaica (53)
Affiliated Computer Services Ireland Limited	Ireland
Affiliated Computer Services Malaysia Sdn. Bhd.	Malaysia (61)
Affiliated Computer Services (Netherlands) B.V.	Netherlands
Affiliated Computer Services of Poland Sp. z.o.o.	Poland (63)
Affiliated Computer Services South Africa (Proprietary) Limited	South Africa
Affiliated Computer Services (Tianjin) Co., Ltd.	China
Veenman B.V.	Netherlands
Veenman Financial Services B.V.	Netherlands
Wilhaave Groep B.V.	Netherlands
Unamic Holding B.V.	Netherlands
Unamic/HCN B.V.	Netherlands
Telenamic N.V.	Suriname (73)
Unamic/HCN BVBA	Belgium (74)
Unamic HCN Musterfi Hizmetleri Limited Sirketi	Turkey (75)
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox (Nederland) BV	Netherlands
"Veco" Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands
Xerox Services BV	Netherlands
Continua Limited	United Kingdom
Continua Sanctum Limited	United Kingdom
Limited Liability Company Xerox (C.I.S.)	Russia
The Xerox (UK) Trust	United Kingdom
Xerox AS	Norway
Xerox Austria GmbH	Austria
Xerox Global Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Office Supplies GmbH	Austria
Xerox Bulgaria EOOD	Bulgaria
Xerox Buro Araclari Ticaret ve Servis A.S.	Turkey
Xerox Canada Inc.	Ontario
Xerox (Barbados) SRL	Barbados (14)
Xerox Finance (Luxembourg) Sarl	Luxembourg
Xerox Canada Finance Inc.	Ontario
ACS Public Sector Solutions Inc.	Canada
ACS Business Process Solutions de Mexico S.A. de C.V.	Mexico (56)
ACS Government Solutions Canada Inc.	Ontario
ACS HR Solutions Canada Co.	Nova Scotia

Xerox Canada Ltd.	Canada (4)
LaserNetworks Inc.	Ontario
6999816 Canada Inc.	Canada
Green Imaging Supplies Inc.	Canada
Xerox Financial Services Canada Ltd.	Ontario
Xerox Capital (Europe) Limited	United Kingdom
Concept Group Limited	Scotland
Concept Group (Sales) Limited	Scotland
Imaging Business Systems (N.I.) Limited	Northern Ireland
Irish Business Systems Limited (Republic of Ireland)	Republic of Ireland
Xerox AG	Switzerland
Xerox A/S	Denmark
Xerox Financial Services Danmark A/S	Denmark
Xerox Finance AG	Switzerland
Xerox Sverige AB	Sweden
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Xerox Finance Limited	United Kingdom
Xerox Channels Limited	United Kingdom
XEROX CZECH REPUBLIC s r.o.	Czech Republic
Xerox Espana, S.A.U.	Spain
Affiliated Computer Services of Spain, S.L., Sociedad Unipersonal	Spain
Affiliated Computer Services Solutions Spain, S.L.	Spain
Buck Consultants, S.L.	Spain
Xerox Fabricacion S.A.U.	Spain
Xerox Renting S.A.U.	Spain
Xerox Office Supplies S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Financial Services Belux NV	Belgium
Xerox Financial Services Norway AS	Norway
Xerox Financial Services Sverige AB	Sweden
Xerox Hellas AEE	Greece
Xerox Holdings Deutschland GmbH	Germany
Affiliated Computer Services of Germany GmbH	Germany
ACS Holdings (Germany) GmbH	Germany
ACS HR Solutions Deutschland GmbH	Germany
Xerox IT Services GmbH	Germany
Xerox GmbH	Germany
Xerox Dienstleistungsgesellschaft GmbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Hungary Trading Limited	Hungary
Xerox (Ireland) Limited	Ireland
Xerox India Limited	India (8)
Xerox Kazakhstan Limited Liability Partnership	Kazakhstan
Xerox Management Services N.V.	Belgium

Xerox N.V.	Belgium
Xerox Luxembourg SA	Luxembourg (27)
Xerox Oy	Finland
Xerox Financial Services Finland Oy	Finland
Xerox Pensions Limited	United Kingdom
Xerox Polska Sp.zo.o	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal (21)
CREDITEX - Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox Property Services Limited	United Kingdom
Xerox (Romania) Echipmante Si Servici S.A.	Romania
Xerox Serviços e Participações Ltda	Brazil
Xerox Comercio e Industria Ltda	Brazil
Xerox Slovenia d.o.o.	Slovenia
Xerox S.p.A.	Italy
ACS Solutions Italia, S.p.A.	Italy
Nuova Karel Soluzioni S.r.l. unipersonale	Italy
Xerox Financial Services Italia S.p.A.	Italy
Xerox Italia Rental Services Srl	Italy
Xerox Italia Services S.p.A.	Italy
XLW S.r.l.	Italy
Eagle Connect Sh.p.k.	Albania
Voice Star Sh.p.k.	Albania
XLW Star S.r.l.	Romania
Xerox Telebusiness GmbH	Germany
Xerox (Ukraine) Ltd LLC	Ukraine (17)
Xerox S.A.S.	France (22)
Affiliated Computer Services Holdings (France) S.A.S.	France
Affiliated Computer Services Business Process Solutions S.A.S.	France (64)
Affiliated Computer Services Strategic Support (France) E.U.R.L.	France
Affiliated Computer Services Solutions France S.A.S.	France
ACS Solutions Peru S.A.	Peru (65)
Xerobail SAS	France
Xerox Financial Services SAS	France (23)
Xerox Document Supplies SNC	France (24)
Xerox General Services SAS	France
Xerox XHB Limited	Bermuda
Xerox XIB Limited	Bermuda
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
XRI Limited	United Kingdom
RRXH Limited	United Kingdom
RRXO Limited	United Kingdom
RRXIL Limited	United Kingdom
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Lease Receivables I, LLC	Delaware

Xerox Lease Receivables 2012-2 LLC	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico (28)
Xerox Mortgage Services, Inc.	Delaware
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Xerox Trade Receivables II LLC	Delaware
Xerox Trinidad Limited	Trinidad
XESystems Foreign Sales Corporation	Barbados
XMPie Inc.	Delaware
Nuvisio Corporation	Delaware
Nuvisio, Ltd.	Israel
XMPie, Ltd.	Israel

- (1) Xerox Corporation owns 90% of the shares of Xerox Argentina; the remaining 10% is owned by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
- (2) Owned 99.9% by XMEIBL and .1% by several individuals.
- (3) Owned 96% by Xerox Egypt S.A.E., 3% by Xerox Middle East Investments (Bermuda) Limited and 1% by Egyptian Finance Company S.A.E.
- (4) Owned 80.24% by Xerox Canada Inc. and 19.76% by Xerox Canada Finance Inc.
- (5) Owned 75% by Xerox Middle East Investments (Bermuda) Limited and 25% by Egyptian Finance Company S.A.E
- (6) [RESERVED]
- (7) [RESERVED]
- (8) Xerox Corporation indirectly owns 89.3% and 10.7% is privately held.
- (9) Owned 99.9% by Xerox Corporation and .1% by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation
- (10) Xerox International Partners is a California general partnership between FX Global, Inc. (49%) and Xerox International Joint Marketing, Inc. (51%).
- (11) [RESERVED]
- (12) [RESERVED]
- (13) [RESERVED]
- (14) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation
- (15) [RESERVED]
- (16) Owned 51% by Xerox Middle East Investments (Bermuda) Limited; the remaining 49% is owned by a third party - the Estate of the late Hareb Al Otaiba
- (17) Owned 99% by Xerox Limited; the remaining 1% is owned by Xerox Property Services Limited, another subsidiary of Xerox Limited
- (18) Owned 75% by Xerox Corporation; the remaining 25% is owned by an outside third party in Trinidad
- (19) Owned 95% by Fuji Xerox Co., Ltd. and 5% by Biznet Corporation
- (20) Xerox Europe Finance Limited Partnership is owned 99.9% by Xerox Export LLC and .1% by Xerox Corporation.
- (21) Owned 74% by Xerox Limited and 26% by Xerox Property Services Limited
- (22) Remaining shares transferred in Xerox SAS to Xerox Overseas Holdings Limited after share capital reduction exercise.
- (23) Owned 87.5% by Xerobail SAS and 12.5% by Xerox SAS
- (24) Owned 99.99% by XEROX S.A.S. and .01% by Xerobail SAS
- (25) [RESERVED]
- (26) [RESERVED]
- (27) Owned 99% by NV Xerox SA and 1% by Xerox Financial Services Belux NV
- (28) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation
- (29) [RESERVED]
- (30) Owned 95.73% by Xerox Corporation and 4.27% by Pacific Services and Development Corporation.
- (31) [RESERVED]
- (32) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation (PSDC owns only 1 share)
- (33) [RESERVED]
- (34) Owned 99% by Conway Office Products, LLC (limited partner) and 1% by Global Imaging Systems, Inc. (general partner)
- (35) [RESERVED]
- (36) [RESERVED]
- (37) [RESERVED]
- (38) [RESERVED]
- (39) [RESERVED]
- (40) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation
- (41) Owned 19% by Xerox Business Services, LLC; 37% by Xerox State & Local Solutions, Inc.; 23% by Buck Consultants, LLC; 15% by Xerox State Healthcare, LLC; 6% by ACS HR Solutions, LLC

(42) Owned 99.9% by ACS Properties, LLC and 0.1% by Xerox Business Services, LLC
(43) [RESERVED]
(44) Owned 79.884% by Buck Consultants, LLC and 20.116% by ACS Holdings (Germany) GmbH
(45) Owned 99.9% by Xerox Business Services, LLC and 0.1% by ACS Business Services, LLC
(46) Owned 66% by ACS Transport Solutions, Inc.; 17% by Carter Brothers, LLC; and 17% by D&D Electric, Inc.
(47) Owned 99.9998% by eServices Group (St. Lucia) Ltd.; 0.0002% by ACS Global Inc.
(48) Owned 93.59% by Xerox Corporation, 6.35% by Xerox Commercial Solutions, LLC and .06% by Xerox State and Local Solutions, Inc.
(49) Owned 90% by ACS Global Inc; 10% by Xerox Commercial Solutions, LLC
(50) Owned 93.3750% by Market Line S.A. in Argentina; 6.6250% by ACS Global, Inc.
(51) Owned 94.9% by ACS Global, Inc.; 2.1% Xerox Commercial Solutions, LLC; 1% LiveBridge, Inc.; 1% Market Line S.A. in Argentina; 1% ACS Middle East, Inc.
(52) Owned 90% by ACS Global, Inc.; 10% Xerox Commercial Solutions, LLC
(53) Owned 99.9090% by Affiliated Computer Services International (Barbados) Limited; .0910% by Xerox Commercial Solutions, LLC
(54) Owned 99.9966 by Affiliated Computer Services International (Barbados) Limited; 0.0006% by ACS Business Services, LLC; .0006% by ACS Lending, Inc.; 0.0006% by ACS Outsourcing Solutions, Inc.; 0.0006% by Xerox State & Local Solutions, Inc.; 0.0006% by Xerox State Healthcare, LLC; 0.0006% by Xerox Business Services, LLC
(55) Owned 99.9997 by Affiliated Computer Services International B.V.; .0003% by Xerox Business Services, LLC
(56) Owned 99% by ACS Public Sector Solutions Inc; 1% by Xerox State and Local Solutions, Inc.
(57) Owned 99.5% by Affiliated Computer Services International B.V.; .5% by Xerox State and Local Solutions, Inc.
(58) Owned 99.0% by ACS (Cyprus) Holdings Limited; 1.0% by Xerox Commercial Solutions, LLC
(59) Owned 99.9999% by Affiliated Computer Services International B.V.; .0001% by Xerox State and Local Solutions, Inc.
(60) [RESERVED]
(61) Owned 99% by Affiliated Computer Services International B.V.; 1% by Xerox Commercial Solutions, LLC
(62) Owned 99.9822 by Affiliated Computer Services International B.V.; .0178% by a minority
(63) Owned 99.9290% by Affiliated Computer Services International B.V.; .0710% by Xerox Commercial Solutions, LLC
(64) Owned 99.9383% by Affiliated Computer Services Holdings (France) S.A.S.; 0.0616% by Affiliated Computer Services International B.V.; 0.0001 by Xerox Commercial Solutions, LLC
(65) Owned 99% by Affiliated Computer Services Solutions France S.A.S.; 1% by Xerox State & Local Solutions, Inc.
(66) Owned 99.8% by ACS Business Process Solutions Limited; 0.2% by Xerox Commercial Solutions, LLC
(67) Owned 99% by Xerox HR Solutions, LLC; 1% by ACS Human Resource Solutions, LLC
(68) Owned 99% by ASC Transport Solutions, Inc.; 1% by Xerox State & Local Solutions, Inc.
(69) [RESERVED]
(70) Owned 98% by Affiliated Computer International B.V.; 2% by Xerox State & Local Solutions, Inc.
(71) [RESERVED]
(72) Owned 99% by Affiliated Computer Services do Brasil Ltda.; 1% by ACS HR Solutions World Services, LLC
(73) Owned 50% by Unamic/HCN B.V.; 50% by Telesur, a non-ACS/Xerox entity
(74) Owned 99.9% by Unamic/HCN B.V.; .1% by Unamic Holding B.V.
(75) Owned 98.99% by Unamic/HCN B.V.; 1.01% by Unamic Holding B.V.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (no. 333-166431) and Form S-8 (Nos. 333-162639, 333-164766, 333-160264, 333-125250, 333-09821, and 333-167922) of Xerox Corporation of our report dated February 21, 2013 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 21, 2013 relating to the financial statement schedule, which appears in this Form10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 21, 2013

CEO CERTIFICATIONS

I, Ursula M. Burns, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 21, 2013

/s/ URSULA M. BURNS

Ursula M. Burns
Principal Executive Officer

CFO CERTIFICATIONS

I, Luca Maestri, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 21, 2013

/s/ LUCA MAESTRI

Luca Maestri
Principal Financial Officer

**CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-K of Xerox Corporation, a New York corporation (the "Company"), for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ursula M. Burns, Chairman of the Board and Chief Executive Officer of the Company, and Luca Maestri, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ URSULA M. BURNS

Ursula M. Burns
Chief Executive Officer

February 21, 2013

/s/ LUCA MAESTRI

Luca Maestri
Chief Financial Officer

February 21, 2013

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.