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

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

Executive Overview

With sales approaching $23 billion, we are the world's leading global enterprise for business process and document management. Our technology, expertise and services enable workplaces – from small businesses to large global enterprises – to simplify the way work gets done so they operate more effectively. Headquartered in Norwalk, Connecticut, Xerox offers business process outsourcing and IT outsourcing services, including data processing, healthcare solutions, HR benefits management, finance support, transportation solutions and customer relationship management services for commercial and government organizations worldwide. The company also provides extensive leading-edge document technology, services, software and genuine Xerox supplies for graphic communication and office printing environments of any size. Through our business process and IT outsourcing services, as well as our document technology and managed print services, we operate in a market estimated to be more than $600 billion. The 140,000 people of Xerox serve clients in more than 160 countries. Approximately 36% of our revenue is generated from customers outside the U.S.

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

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

  A key priority for Xerox in 2011 was accelerating growth in our services business. Revenue from services grew 12%, or 6% on a pro-forma[1] basis, reflecting growth from our business process outsourcing ("BPO") and document outsourcing ("DO") services. Growth in BPO benefited from recent modestly sized acquisitions, consistent with our strategy to continue diversifying our services portfolio and to expand our business globally. Our information technology outsourcing ("ITO") services business declined 4% during the year; however, there was a recent uplift in ITO signings in the fourth quarter. In 2011, through expanded sales activities, we increased new business signings by 14% and our services business now represents the largest portion of our total revenue at 48%.

- Our Technology segment is comprised of our document technology and related supplies, technical service and equipment financing (the portion not related to document outsourcing contracts). Our product categories within this segment include Entry, Mid-range and High-end products.

  Maintaining our leadership in document technology was a key priority in 2011. We not only continued to hold our number-one equipment revenue market share position, but we also grew market share during the year. We did this by offering a more extensive and affordable portfolio of color products and by expanding our distribution to serve more small and midsize businesses around the world. During the year, we launched 27 new products, with an emphasis on broadening our color portfolio for both production and office markets and expanding our channels of distribution for these products.

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 83% of our 2011 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in services. Some of the key indicators of annuity revenue growth include:

- Services signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period
- Services pipeline growth, which measures the year-over-year increase in new business opportunities
- The number of page-producing machines-in-the-field ("MIF"), which is impacted by equipment installations
- Page volume and the mix of color pages, as color pages generate more revenue per page than black-and-white.

Consistent with our strategy to expand our service offerings through "tuck-in" acquisitions, we acquired the following companies in 2011:

- In April 2011, we acquired Unamic/HCN B.V., the largest privately owned customer care provider in the Benelux region in Western Europe.
- In July 2011, we acquired Education Sales and Marketing, LLC ("ESM"), a leading provider of outsourced enrollment management and student loan default solutions.
- In September 2011, we acquired the net assets of the U.S. operations of Symcor. Symcor specializes in outsourcing services for U.S. financial institutions, and its offerings range from cash management services to statement and check processing.
- In November 2011, we acquired The Breakaway Group ("Breakaway"), a cloud-based service provider that helps healthcare professionals accelerate their adoption of electronic medical records.

We also completed additional Services acquisitions in the areas of print consultancy, healthcare provider and customer care in 2011, increasing our presence in the United States and Europe.

In addition, we acquired companies during 2011 that expand our distribution capacity for Xerox technology to small and midsize businesses ("SMB") and in under-penetrated markets:

- In February 2011, we acquired Concept Group, Ltd. This acquisition expands our reach into the SMB market in the U.K.
- In December 2011, we acquired the Merizon Group Incorporated, which operates MBM, a Wisconsin-based office products distributor.

We also acquired office product distributors in Iowa, New York, Illinois, Virginia and Florida.

Financial Overview

Total revenue of $22.6 billion in 2011 grew 5% from the prior year, including a 2-percentage point favorable impact from currency. To provide a clearer comparison of our year-over-year results, we are also providing a discussion and analysis on a pro-forma basis for the full year, where we include ACS's 2010 estimated results from January 1 through February 5 in our historical 2010 results. On a pro-forma[1] basis, total revenue for 2011 increased 2%, including a 2-percentage point favorable impact from currency. Total revenue growth was primarily driven by increased revenues in our Services segment, which grew by 12% in 2011 or 6% on a pro-forma[1] basis, reflecting strong performance in BPO and DO services. Technology revenues in 2011 declined 1% from the prior year and included a 2-percentage point favorable impact from currency. Technology revenues in 2011 were impacted by macro conditions, including the natural disaster in Japan in the first quarter and economic weakness in Europe, particularly in the fourth quarter.

Net income attributable to Xerox for 2011 was $1.3 billion and included $305 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, and the loss on the early extinguishment of a long-term liability, which were partially offset by an after-tax curtailment gain of $66 million. Net income attributable to Xerox for 2010 was $606 million and included $690 million of after-tax costs and expenses related to the amortization of intangible assets, restructuring, acquisition-related costs and other discrete items. The improvement in net income reflects continued operational cost savings from restructuring and productivity improvements that more than offset the impacts from economic events.

Cash flow from operations was $2.0 billion in 2011 as compared to $2.7 billion in 2010. The decrease reflects increased cash usage in 2011 for working capital, higher pension contributions and investments associated with new services contracts. Cash used in investing activities of $675 million primarily reflects capital expenditures of $501 million and acquisitions of $212 million. Cash used in financing activities was $1.6 billion, which includes the redemption of Xerox Capital Trust's $650 million preferred securities, the scheduled repayment of $750 million of Senior Notes and net payments of $200 million on Commercial Paper, partially offset by the issuance of $1.0 billion in Senior Notes. Financing activities also reflect $701 million for the repurchase of common stock and $265 million for dividends.

Total revenue is expected to grow modestly in 2012, reflecting the mix of continued solid growth in our services business, partially offset by continued pressure in our technology business, which is impacted by challenging economic conditions, especially in Europe. The steady progress we've made in increasing signings for our diverse service offerings positions us well to accelerate revenue growth from Services in 2012. In our Technology business, we expect that Xerox's competitively advantaged product portfolio and expanded distribution will drive an increase in installs of Xerox equipment, maintaining our leadership in document technology.

We expect to continue our focus on cost management and productivity improvements. This will help offset the potential impact from unfavorable currency movements, pension expense and funding requirements, near-term impact of new Services contracts and economic uncertainty.

Our 2012 balance sheet and cash flow strategy includes: sustaining our working capital improvements; leveraging of our financing assets (finance receivables and equipment on operating leases); achieving an optimal cost of capital; and effectively deploying cash to maximize shareholder value through share repurchases, acquisitions and dividends.

Europe

As of and for the year ended December 31, 2011, approximately $3.5 billion of our total revenues and $3.3 billion of our total assets are based in countries where the Euro is the functional currency. Approximately $1.9 billion of those assets are finance receivables and approximately 16% of those receivables are with governmental entities. Accordingly, we are impacted by the significant challenges facing the Euro Zone economies and governments, and we expect those negative impacts to continue in 2012 mainly with respect to revenue growth and bad debt provisions.

Currency Impact

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

Approximately 36% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue-weighted basis, the U.S. Dollar was 5% weaker in 2011 and 2% stronger in 2010, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 2% benefit in 2011 and negligible in 2010.

Application of Critical Accounting Policies

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

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

Revenue Recognition for Bundled Lease Arrangements

We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 40% of our equipment sales revenue is related to sales made under bundled lease arrangements. Typically these arrangements include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. Revenues under these arrangements are allocated, considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of supplies and non-maintenance services. The allocation for lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. These elements are generally recognized over the term of the lease as services revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted in "Revenue Recognition for Leases" in Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements.

Our pricing interest rates, which are used in determining customer payments, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Revenue Recognition for Services – Percentage-of-Completion

A portion of our services revenue is recognized using the percentage-of-completion accounting method. This method requires the use of estimates and judgment as discussed below. During 2011, we recognized approximately $320 million of revenue using the percentage-of-completion accounting method.

Revenues on certain fixed-price contracts where we provide system development and implementation services related to our information technology business are recognized using the percentage-of-completion approach. Revenue is recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract. These contracts require that we perform significant, extensive and complex design, development, modification and implementation activities for our clients' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period. Due to the longer-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs. Such revisions are reflected in income in the period in which the facts that give rise to that revision become known. If at any time these estimates indicate the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost of service. We perform ongoing profitability analysis of our services contracts in order to determine whether the latest estimates require updating.

Allowance for Doubtful Accounts and Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We cannot guarantee that we will continue to experience credit loss rates similar to those we have experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We recorded bad debt provisions of $157 million, $188 million and $291 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009, respectively.

Historically, the majority of the bad debt provision is related to our finance receivables portfolio. This provision is inherently more difficult to estimate than the provision for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. The estimated credit quality of any given customer and class of customer or geographic location can significantly change during the life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the provision for doubtful accounts.

Bad debt provisions decreased by $31 million in 2011. Reserves as a percentage of trade and finance receivables were 3.3% at both December 31, 2011 and 2010 and 4.1% at December 31, 2009. The improving trend in write-offs for the U.S. and Canada was offset by higher write-offs in Southern Europe. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for additional information.

As discussed above, in preparing our Consolidated Financial Statements for the three years ended December 31, 2011, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the five-year period ended December 31, 2011, our reserve for doubtful accounts ranged from 3.1% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2011 rate of 3.3% would change the 2011 provision by approximately $93 million.

Pension and Retiree Health Benefit Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retirement medical costs. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic benefit cost generally over the average remaining service lives of the employees participating in the plans. In plans where substantially all participants are inactive, the amortization period for net actuarial gains and losses is the average remaining life expectancy of the plan participants.

Cumulative actuarial losses for our defined benefit pension plans of $2.6 billion as of December 31, 2011 increased by approximately $700 million from December 31, 2010. The increase reflects the increase in our benefit obligations as a result of a lower discount rate, which was only partially offset by positive returns on plan assets in 2011 as compared to expected returns. The total actuarial loss will be amortized over future periods, subject to offsetting gains or losses that will impact the future amortization amounts.

We used a weighted average expected rate of return on plan assets of 7.2% for 2011, 7.3% for 2010 and 7.4% for 2009, on a worldwide basis. During 2011, the actual return on plan assets was $694 million. When estimating the 2012 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future, particularly in light of current economic conditions, and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will use in 2012 is 6.9%. The reduction in the expected rate of return in 2012 as compared to 2011 reflects the expected decrease in long-term capital market returns for all asset categories.

For purposes of determining the expected return on plan assets, we use a calculated value approach to determine the value of the pension plan assets, rather than a fair market value approach. The primary difference between these two methods relates to a systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that can result from using the fair market value approach. The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative differences from prior years. This amount is a component of the net actuarial gain or loss.

Another significant assumption affecting our pension and retiree health benefit obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. The discount rate reflects the current rate at which the benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider rates of return on high-quality, fixed-income investments included in published bond indices, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In the U.S.

and the U.K., which comprise approximately 75% of our projected benefit obligations, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The weighted average discount rate we used to measure our pension obligations as of December 31, 2011 and to calculate our 2012 expense was 4.7%, which is lower than the 5.2% that was used to calculate our 2011 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2011 and to calculate our 2012 expense was 4.5%, which is lower than the 4.9% that was used to calculate our 2011 expense.

The following is a summary of our benefit plan costs and funding for the three years ended December 31, 2011, as well as estimated amounts for 2012:

	Estimated		Actual	
Benefit Plan Costs:	2012	2011	2010	2009
Defined benefit pension plans[1]	$321	$ 284	$304	$232
Curtailment gain[2]	—	(107)	—	—
Defined contribution plans	67	66	51	38
Retiree health benefit plans	13	14	32	26
Total Benefit Plan Expense	$401	**$257**	$387	$296

[1] Estimated 2012 assumes settlement losses are consistent with 2011.
[2] Refer to the "Plan Amendment" section in Note 14 – Employee Benefit Plans in the Consolidated Financial Statements for further information.

Our estimated 2012 defined benefit pension plan cost is expected to be approximately $37 million higher than 2011, primarily driven by reductions in the discount rate and the corresponding increase in service cost as well as higher amortization of actuarial losses.

	Estimated		Actual	
Benefit Plan Funding:	2012	2011	2010	2009
Defined benefit pension plans	$560	$556	$237	$122
Defined contribution plans	67	66	51	38
Retiree health benefit plans	80	73	92	107
Total Benefit Plan Funding	$707	**$695**	$380	$267

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2012 projected net periodic pension cost by $28 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2012 projected net periodic pension cost by $18 million.

Benefit plan costs are included in several income statement components based on the related underlying employee costs. Pension and retiree health benefit plan assumptions are included in Note 14 – Employee Benefit Plans in the Consolidated Financial Statements.

Income Taxes

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets, resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Adjustments to our valuation allowance, through (credits) charges to income tax expense, were $(5) million, $22 million and $(11) million for the years ended December 31, 2011, 2010 and 2009, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of $(53) million, $11 million and $55 million for the years ended December 31, 2011, 2010 and 2009, respectively. These did not affect income tax expense in total, as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of $3.7 billion and $3.8 billion had valuation allowances of $677 million and $735 million at December 31, 2011 and 2010, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results. Unrecognized tax benefits were $225 million, $186 million and $148 million at December 31, 2011, 2010 and 2009, respectively.

We file income tax returns in the U.S. federal jurisdiction and in various foreign jurisdictions. In the U.S., with the exception of ACS, we are no longer subject to U.S. federal income tax examinations for years before 2007. ACS is no longer subject to such examination for years before 2004. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Refer to Note 15 – Income and Other Taxes for additional information regarding deferred income taxes and unrecognized tax benefits.

Business Combinations and Goodwill

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

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

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

In the fourth quarter of 2011, we early-adopted ASU No. 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment, which allows an entity to use a qualitative approach to test goodwill for impairment. As a result, in performing our annual impairment test, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If it is concluded that this is the case for one or more reporting units, we perform a detailed quantitative assessment. Our annual impairment test of goodwill is performed in the fourth quarter of each year.

We performed a quantitative goodwill impairment test in 2010. The estimated fair values of our reporting units for that test were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in those valuations considered the current economic environment. Based on these valuations, the fair values of our reporting units exceeded their carrying values by more than adequate margins. The lowest margins were in two of the three reporting units comprising our Services segment. However, these two reporting units were the direct result of our acquisition of ACS and, therefore, the lower margins were considered reasonable due, in large part, to the recent nature of the acquisition.

The qualitative assessment of goodwill impairment requires significant judgment. This assessment involves the consideration and evaluation of various factors, including macroeconomic and general economic conditions; entity-specific events such as industry and market conditions as well as reporting unit-level financial performance; and other events affecting a reporting unit, such as an expectation that a reporting unit will be sold or reorganized.

After consideration of the margins from our 2010 quantitative impairment test, our 2011 qualitative assessment centered on the evaluation of the key factors from those noted above and whether there had been any significant adverse changes since the 2010 quantitative test. The assessment involved a review of internal and external sources of information necessary to monitor the relevant factors for each reporting unit, including a review of analyst reports as well as credit rating information.

We believe that our expected long-term projections with respect to revenue, operating profit and cash flows continue to be achievable based on consideration of the following:

- Services – Services revenue grew in 2011, signings for new contracts increased 14%, and our services pipeline increased 5% over the prior year. Accordingly, we believe that we are well positioned for continued future growth in each of our services reporting units consistent with our long-term projections. As such, we continue to invest in growing our DO, BPO and ITO service offerings to commercial and government customers, both domestically and internationally.
- Technology – In 2011, we continued to hold our number-one equipment revenue market share position and we also grew market share. We also launched 27 new products, reflecting the continued demand for our equipment. In addition, we continue to expand our distribution capabilities to serve more small and midsize businesses.
- Cost containment – We continue to offset pricing pressures and increased supply chain costs with cost savings from restructuring and productivity improvements.
- Capital – We remain an investment-grade company and have ready access to the capital markets, including a commercial paper program.

Based on the above, in 2011, after completing our annual qualitative reviews for each of our reporting units, we concluded that it was not more likely than not that the carrying value of any of our reporting units exceeds its fair value. Accordingly, we concluded that further quantitative analysis and testing was not required, and no goodwill impairment charge was required during the fourth quarter 2011.

Refer to Note 8 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by operating segment.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2011 was as follows:

	Revenues			Change		Pro-forma[1]		Percent of Total Revenue		
(in millions)	2011	2010	2009	2011	2010	2011	2010	2011	2010	2009
Equipment sales	$ 3,856	$ 3,857	3,550	—%	9%	—%	9%	17%	18%	23%
Annuity revenue	18,770	17,776	11,629	6%	53%	2%	1%	83%	82%	77%
Total Revenue	**$22,626**	$ 21,633	15,179	**5%**	43%	**2%**	3%	**100%**	100%	100%
Memo: Color[2]	$ 6,795	$ 6,446	5,972	5%	8%	5%	8%	30%	30%	39%
Reconciliation to Consolidated Statements of Income:										
Sales	$ 7,126	$ 7,234	6,646	(1)%	9%	(2)%	7%	31%	33%	43%
Less: Supplies, paper and other sales	(3,270)	(3,377)	(3,096)					(14)%	(15)%	(20)%
Equipment Sales	$ 3,856	$ 3,857	3,550	—%	9%	—%	9%	17%	18%	23%
Service, outsourcing and rentals	$ 14,868	$ 13,739	7,820	8%	76%	4%	1%	66%	64%	52%
Add: Finance income	632	660	713	(4)%	(7)%	(4)%	(7)%	3%	3%	5%
Add: Supplies, paper and other sales	3,270	3,377	3,096	(3)%	9%	(4)%	4%	14%	15%	20%
Annuity Revenue	**$18,770**	$ 17,776	$11,629	**6%**	53%	**2%**	1%	**83%**	82%	77%

Revenue 2011

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

- Annuity revenue increased 6%, or 2% on a pro-forma[1] basis, and included a 1-percentage point positive impact from currency. Annuity revenue is comprised of the following:
  - Service, outsourcing and rentals revenue of $14,868 million increased 8%, or 4% on a pro-forma[1] basis, and included a 2-percentage point positive impact from currency. The increase was primarily due to growth in BPO and DO revenue in our Services segment, partially offset by a decline in pages. Total digital pages declined 3% despite a 2% increase in digital MIF.
  - Supplies, paper and other sales of $3,270 million decreased 3%, or 4% on a pro-forma[1] basis, and included a 1-percentage point positive impact from currency. The decrease primarily reflected a decline in paper sales.
- Equipment sales revenue was flat and included a 1-percentage point positive impact from currency. Favorable product mix in high-end products was offset by price declines in the range of 5% to 10%.
- 5% increase in color[2] revenue, including a 2-percentage point positive impact from currency reflecting:
  - 6% increase in color[2] annuity revenue, with a 2-percentage point positive impact from currency. The increase was driven by higher page volumes of 9% on color devices, as well as an increase in color device MIF of 14%.
  - 4% increase in color[2] equipment sales revenue, including a 2-percentage point positive impact from currency. This increase was driven by higher installs of new mid-range products.
  - Color[2] pages represented 27% of total pages in 2011 while color device MIF represented 35% of total MIF.

Revenue 2010

Total revenues increased 43% compared to the prior year. Our consolidated 2010 results include ACS results subsequent to February 5, 2010, the effective date of the acquisition. On a pro-forma[1] basis, total revenue for 2010 grew 3%. Currency had a negligible impact on total revenues during 2010. Total revenues included the following:

- Annuity revenue increased 53%, or 1% on a pro-forma[1] basis, with a 1-percentage point negative impact from currency. The components of annuity revenue were as follows:
  - Service, outsourcing and rentals revenue of $13,739 million increased 76%, or 1% on a pro-forma[1] basis, and included a negligible impact from currency. The increase was driven by BPO revenue that partially offset the declines in technical service revenue which were driven by a continued but stabilizing decline in pages. Total digital pages declined 4% while color pages increased 9%. During 2010 digital MIF increased by 1% and color MIF increased by 15%.
  - Supplies, paper and other sales of $3,377 million increased 9%, or 4% on a pro-forma[1] basis, with a 1-percentage point negative impact from currency. Growth in supplies revenues was partially offset by a decline in paper sales.
- Equipment sales revenue increased 9% and included a 1-percentage point negative impact from currency. Growth in install activity was partially offset by price declines of approximately 5% and mix.
- 8% increase in color[2] revenue, including a 1-percentage point negative impact from currency reflecting:
  - 5% increase in color[2] annuity revenue, including a 1-percentage point negative impact from currency. The increase was driven by higher printer supplies sales and higher page volumes.
  - 12% increase in color[2] equipment sales revenue, including a 2-percentage point negative impact from currency. The increase was driven by higher installs of new products.
  - 9% growth in color pages[2] representing 23% of total pages in 2010, while color device MIF represented 31% of total MIF.

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

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,			Change		Pro-forma[1]	
	2011	2010	2009	2011	2010	2011	2010
Total Gross Margin	32.8%	34.4%	39.7%	(1.6) pts	(5.3) pts	(1.1) pts	(0.2) pts
RD&E as a % of Revenue	3.2%	3.6%	5.5%	(0.4) pts	(1.9) pts	(0.3) pts	(0.4) pts
SAG as a % of Revenue	19.9%	21.2%	27.3%	(1.3) pts	(6.1) pts	(1.0) pts	(0.9) pts
Operating Margin[3]	9.8%	9.6%	6.8%	0.2 pts	2.8 pts	0.3 pts	1.0 pts
Pre-tax Income Margin	6.9%	3.8%	4.1%	3.1 pts	(0.3) pts	3.4 pts	(2.2) pts

Operating Margin

The operating margin[3] for the year ended December 31, 2011 of 9.8% increased 0.2-percentage points, or 0.3-percentage points on a pro-forma[1] basis, as compared to 2010. The increase was due primarily to disciplined cost and expense management.

The operating margin[3] for the year ended December 31, 2010 of 9.6% increased 2.8-percentage points, or 1.0-percentage points on a pro-forma[1] basis, as compared to 2009. The improvement reflects strong revenue growth and continued disciplined cost and expense management.

Note: The acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percent of revenue than we historically experienced when Xerox was primarily a technology company. As a result, gross margins and SAG are also discussed below on a pro-forma basis. In 2011, for comparison purposes, we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. In 2010, for comparison purposes, we adjust our historical 2009 results to include ACS's 2009 estimated results for the period from February 6 through December 31, 2009. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends.

Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Gross Margin

Gross margin for year ended December 31, 2011 of 32.8% decreased 1.6-percentage points, or 1.1-percentage points on a pro-forma[1] basis, as compared to 2010. The decrease was driven by the ramping of new services contracts, the impact of lower contract renewals, transaction currency and the mix of higher services revenue.

Gross margin for year ended December 31, 2010 of 34.4% decreased 5.3-percentage points, or 0.2-percentage points on a pro-forma[1] basis, as compared to 2009. The decrease is primarily due to the unfavorable impact of year-over-year transaction currency.

Services gross margin for the year ended December 31, 2011 decreased 1.7-percentage points, or 1.2-percentage points on a pro-forma[1] basis, as compared to 2010. The decrease is primarily due to the ramping of new services contracts within BPO and ITO and the impact of lower contract renewals.

Services gross margin for the year ended December 31, 2010 decreased 5.8-percentage points, but was essentially flat on a pro-forma[1] basis, as compared to 2009.

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

Technology gross margin for the year ended December 31, 2010 decreased by 0.8-percentage points as compared to 2009. Cost improvements and positive mix partially offset a 0.5-percentage point adverse impact from transaction currency and price declines of about 1-percentage point.

Research, Development and Engineering Expenses ("RD&E")

	Year Ended December 31,			Change	
(in millions)	2011	2010	2009	2011	2010
R&D	$ 613	$653	$713	$ (40)	$(60)
Sustaining engineering	108	128	127	(20)	1
Total RD&E Expenses	**$ 721**	$781	$840	**$ (60)**	$(59)
R&D Investment by Fuji Xerox[1]	**$ 880**	$821	$796	**$ 59**	$ 25

[1] Increase in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

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

RD&E of $721 million for the year ended December 31, 2011 was $60 million lower, reflecting the impact of restructuring and productivity improvements. Innovation is one of our core strengths and we continue to invest at levels that enhance this core strength, particularly in color, software and services. Xerox R&D is strategically coordinated with Fuji Xerox.

RD&E as a percentage of revenue for the year ended December 31, 2010 of 3.6% decreased 1.9-percentage points, reflecting savings from restructuring and productivity improvements.

RD&E of $781 million for the year ended December 31, 2010 was $59 million lower, reflecting the impact of restructuring cost actions which consolidated the development and engineering infrastructures within our Technology segment.

Selling, Administrative and General Expenses ("SAG")

SAG as a percentage of revenue of 19.9% decreased 1.3-percentage points, or 1.0-percentage points on a pro-forma[1] basis, for the year ended December 31, 2011. In addition to spending reductions and lower compensation, the decrease was also driven by the positive mix impact from the continued growth in Services revenue, which historically has a lower SAG percentage of revenue.

SAG expenses of $4,497 million for the year ended December 31, 2011 were $97 million lower than the prior year period, or $156 million lower on a pro-forma[1] basis, both including a $68 million unfavorable impact from currency. The pro-forma SAG expense decrease reflects the following:

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

SAG as a percentage of revenue of 21.2% decreased 6.1-percentage points, or 0.9-percentage points on a pro-forma[1] basis, for the year ended December 31, 2010.

SAG expenses of $4,594 million for the year ended December 31, 2010 were $445 million higher than 2009, or $57 million lower on a pro-forma[1] basis, including a negligible impact from currency. The pro-forma SAG decrease reflects the following:

- $137 million increase in selling expenses, reflecting increased demand generation and brand advertising and higher commissions, partially offset by restructuring savings and productivity improvements
- $86 million decrease in general and administrative expenses, reflecting benefits from restructuring and operational improvements
- $108 million decrease in bad debt expense, to $188 million, reflecting an improved write-off trend.

Restructuring and Asset Impairment Charges

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

- $98 million of severance costs related to headcount reductions of approximately 3,900 employees, primarily in North America. The actions impacted several functional areas, and approximately 55% of the costs were focused on gross margin improvements, 36% on SAG and 9% on the optimization of RD&E investments.
- $1 million for lease termination costs.
- $5 million of asset impairment losses from the disposition of two aircraft associated with the restructuring of our corporate aviation operations.
- The above charges were partially offset by $71 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2012 pre-tax savings of approximately $60 million from our 2011 restructuring actions.

To date we have identified and approved additional restructuring initiatives of approximately $25 million for the first quarter of 2012. These actions are expected to impact all geographies and segments, with approximately equal focus on SAG reductions, gross margin improvements and optimization of RD&E investments.

During the year ended December 31, 2010, we recorded $483 million of net restructuring and asset impairment charges, which included the following:

- $470 million of severance costs related to headcount reductions of approximately 9,000 employees. The costs associated with these actions applied about equally to North America and Europe, with approximately 20% related to our developing market countries. Approximately 50% of the costs were focused on gross margin improvements, 40% on SAG and 10% on the optimization of RD&E investments and impacted the following functional areas:
  - Services
  - Supply chain and manufacturing
  - Back-office administration
  - Development and engineering.
- $28 million for lease termination costs primarily reflecting the continued rationalization and optimization of our worldwide operating locations, including consolidations with ACS.
- $19 million loss associated with the sale of our Venezuelan subsidiary. The loss primarily reflects the write-off our Venezuelan net assets including working capital and long-lived assets. We continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but no longer have any direct or local operations in Venezuela.
- The above charges were partially offset by $41 million of net reversals for changes in estimated reserves from prior-period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2011 for all programs was $123 million, of which approximately $116 million is expected to be spent over the next 12 months. Refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Acquisition-Related Costs

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

Costs of $72 million were incurred during 2009 in connection with our acquisition of ACS. $58 million of the costs relate to the write-off of fees associated with a Bridge Loan Facility commitment which was terminated as a result of securing permanent financing to fund the acquisition. The remainder of the costs represent transaction costs such as banking, legal and accounting fees, as well as some pre-integration costs such as external consulting services.

Amortization of Intangible Assets

During the year ended December 31, 2011, we recorded $398 million of expense related to the amortization of intangible assets, which is $86 million higher than the prior year. $52 million of the increase reflects the accelerated write-off of the ACS trade name as a result of the decision to discontinue its use and transition the services business to the "Xerox Services" trade name. The remainder of the increase primarily reflects the additional month of amortization of intangibles associated with our acquisition of ACS in 2010, as well as the amortization of intangible assets associated with other prior-year acquisitions.

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 are not expected to materially impact 2012 pension expense.

Worldwide Employment

Worldwide employment of 139,650 at December 31, 2011 increased approximately 3,100 from December 31, 2010, primarily due to the impact of acquisitions, partially offset by restructuring-related actions. Worldwide employment was approximately 136,500 and 53,600 at December 2010 and 2009, respectively.

Other Expenses, Net

	Year Ended December 31,		
(in millions)	2011	2010	2009
Non-financing interest expense	$ 247	$346	$ 256
Interest income	(21)	(19)	(21)
Gains on sales of businesses and assets	(9)	(18)	(16)
Currency losses, net	12	11	26
ACS shareholders litigation settlement	—	36	—
Litigation matters	11	(4)	9
Loss on early extinguishment of liability	33	15	—
All other expenses, net	49	22	31
Total Other Expenses, Net	**$322**	$389	$ 285

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

Non-financing interest expense for the year ended December 31, 2010 of $346 million was $90 million higher than the prior year. The increase is due to higher average debt balances primarily resulting from the funding of the ACS acquisition, partially offset by the early extinguishment of certain debt instruments as well as the scheduled repayments of other debt.

Gains on Sales of Businesses and Assets: Gains on sales of businesses and assets for the three years ended December 31, 2011 were primarily related to the sales of certain surplus facilities in Latin America.

Currency Losses, Net: Currency losses primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities, the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities and the mark-to-market impact of hedges of anticipated transactions, primarily future inventory purchases, for those to which we do not apply cash flow hedge accounting treatment.

The 2011 net currency losses were primarily due to the significant movement in exchange rates during the third quarter of 2011 among the U.S. Dollar, Euro, Yen and several developing market currencies.

The 2010 net currency losses include a currency loss of $21 million for the re-measurement of our Venezuelan Bolivar denominated monetary net assets following a devaluation of the Bolivar in the first quarter of 2010 . This loss was partially offset by a cumulative translation gain of $6 million that was recognized upon the repatriation of cash and liquidation of a foreign subsidiary.

The 2009 net currency losses were primarily due to the significant movement in exchange rates among the U.S. Dollar, Euro and Yen in the first quarter of 2009, as well as the increased cost of hedging, particularly in our developing markets.

ACS Shareholders' Litigation Settlement: The 2010 expense of $36 million relates to the settlement of claims by ACS shareholders arising from our acquisition of ACS in 2010. The total settlement for all defendants was approximately $69 million, with Xerox paying approximately $36 million net of insurance proceeds.

Litigation Matters: Litigation matters for 2011, 2010 and 2009 represent charges related to probable losses for various legal matters, none of which were individually material. Refer to Note 16 – Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

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

The 2010 loss on early extinguishment of liability of $15 million represents the loss associated with the redemption of senior and medium-term notes in the fourth quarter 2010 and reflects a call premium and the write-off of unamortized debt costs.

All Other Expenses, Net: All other expenses, net for the year ended December 31, 2011 increased $27 million driven in part by higher fees associated with the sale of receivables as well as higher interest expense on the Brazil tax and labor contingencies. All Other expenses, net for the year ended December 31, 2010 decreased $9 million, primarily due to lower interest expense on the Brazil tax and labor contingencies.

Income Taxes

The 2011 effective tax rate was 24.7%, or 27.5% on an adjusted basis[3]. The adjusted tax rate for the year was lower than the U.S. statutory rate, primarily due to the geographical mix of profits as well as a higher foreign tax credit benefit as a result of our decision to repatriate current-year income from certain non-U.S. subsidiaries.

The 2010 effective tax rate was 31.4%, or 31.2% on an adjusted basis[3]. The adjusted tax rate for the year was lower than the U.S. statutory rate, primarily due to the geographical mix of income before taxes and the related tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income and tax law changes.

The 2009 effective tax rate was 24.2%, or 25.8% on an adjusted basis[3]. The adjusted tax rate for the year was lower than the U.S. statutory rate, primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the settlement of certain previously unrecognized tax benefits, partially offset by a reduction in the utilization of foreign tax credits.

Xerox operations are widely dispersed. The statutory tax rate in most non-U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full-year effective tax rate for 2011 includes a benefit of approximately 10 percentage points from these non-U.S. operations. Refer to Note 15 – Income and Other Taxes in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable. We anticipate that our effective tax rate for 2012 will be approximately 29%, excluding the effects of intangibles amortization and any discrete events.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31, 2011	2010	2009
Total equity in net income of unconsolidated affiliates	$149	$ 78	$ 41
Fuji Xerox after-tax restructuring costs	19	38	46

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox.

The 2011 increase of $71 million was primarily due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements, as well as the strengthening of the Yen and lower restructuring costs.

The 2010 increase of $37 million from 2009 was primarily due to an increase in Fuji Xerox's net income, which was primarily driven by higher revenue and cost improvements, as well as lower restructuring costs.

Net Income

Net income attributable to Xerox for the year ended December 31, 2011 was $1,295 million, or $0.90 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $1,563 million, or $1.08 per diluted share, and included adjustments for the amortization of intangible assets and the loss on early extinguishment of liability.

Net income attributable to Xerox for the year ended December 31, 2010 was $606 million, or $0.43 per diluted share. On an adjusted basis[3], net income attributable to Xerox was $1,296 million, or $0.94 per diluted share, and included adjustments for the amortization of intangible assets, restructuring and asset impairment charges (including those incurred by Fuji Xerox), acquisition-related costs and other discrete costs and expenses.

Refer to the "Non-GAAP Financial Measures" section for the reconciliation of reported net income to adjusted net income.

Recent Accounting Pronouncements

Refer to Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial conditions.

Operations Review of Segment Revenue and Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Technology, Services and Other. Revenues by segment for the three years ended December 31, 2011 were as follows:

(in millions)	Total Revenue	Segment Profit (Loss)	Segment Margin
2011			
Services	$ 10,837	$ 1,207	11.1%
Technology	10,259	1,140	11.1%
Other	1,530	(255)	(16.7)%
Total	**$22,626**	**$2,092**	**9.2%**
2010			
Services	$ 9,637	1,132	11.7%
Technology	10,349	1,085	10.5%
Other	1,647	(342)	(20.8)%
Total	$ 21,633	$ 1,875	8.7%
2009			
Services	$ 3,476	$ 231	6.6%
Technology	10,067	949	9.4%
Other	1,636	(342)	(20.9)%
Total	$ 15,179	$ 838	5.5%
2010 Pro-forma[1]			
Services	$ 10,256	$ 1,166	11.4%
Technology	10,349	1,085	10.5%
Other	1,647	(353)	(21.4)%
Total	$ 22,252	$ 1,898	8.5%
2009 Pro-forma[1]			
Services	$ 9,379	$ 1,008	10.7%
Technology	10,067	949	9.4%
Other	1,636	(447)	(27.3)%
Total	$ 21,082	$ 1,510	7.2%

Services

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

Services segment revenues for the three years ended December 31, 2011 were as follows:

	Revenue			Change		Pro-forma[1] Change	
(in millions)	2011	2010	2009	2011	2010	2011	2010
Business Processing Outsourcing	$ 6,035	$5,112	$ 94	18%	*	8%	8%
Document Outsourcing	3,584	3,297	3,382	9%	(3)%	9%	(3)%
Information Technology Outsourcing	1,326	1,249	—	6%	*	(4)%	—
Less: Intra-segment Elimination	(108)	(21)	—	*	*	*	—
Total Services Revenue	**$10,837**	$9,637	$3,476	**12%**	177%	**6%**	3%

* Percentage not meaningful.

Note: The Services segment is discussed on a pro-forma[1] basis. In 2011, for comparison purposes, we adjust our historical 2010 results to include ACS's 2010 estimated results for the period from January 1 through February 5, 2010. In 2010, for comparison purposes, we adjust our historical 2009 results to include ACS's 2009 estimated results for the period from February 6 through December 31, 2009. We believe these pro-forma comparisons provide a perspective on the impact of the ACS acquisition on our results and trends. Refer to the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP presentation.

Revenue 2011

Services revenue of $10,837 million increased 12%, or 6% on a pro-forma[1] basis, with no impact from currency.

- BPO revenue had pro-forma[1] revenue growth of 8% and represented 55% of total Services revenue. The growth in BPO was primarily driven by acquisitions over the past two years consistent with our strategy to expand our service offerings through "tuck-in" acquisitions. BPO growth was also driven to a lesser extent by growth in the healthcare payer, human resources services, business process solutions and transportation solutions businesses.
- DO revenue increased 9%, including a 2-percentage point positive impact from currency, and represented 33% of total Services revenue. The increase reflects an improving growth trend from our partner print services offerings as well as new signings.
- ITO revenue on a pro-forma[1] basis decreased 4% and represented 12% of total Services revenue. The decrease in ITO revenue was driven by lower third-party equipment sales as well as the impact of lower contract renewals, partially offset by growth in new commercial business.

Segment Margin 2011

Services segment margin of 11.1% decreased 0.6-percentage points, or 0.3-percentage points on a pro-forma[1] basis, from the prior year, as the gross margin decline, which was driven by the ramping of new services contracts and the impact of lower contract renewals, more than offset the lower costs and expenses from restructuring and synergy savings.

Metrics

Pipeline

Our total services sales pipeline at December 31, 2011, including synergy opportunities, grew 5% over the prior year. We have been able to maintain a significant pipeline since the ACS acquisition. This sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that potentially could be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of $100 million.

Signings

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

TCV represents the estimated future contract revenue for pipeline or signed contracts for signings, as applicable.

Signings were as follows:

	Year Ended December 31,	
(in billions)	2011	2010
BPO	$ 6.8	$ 10.0
DO	4.4	3.3
ITO	3.4	1.3
Total Signings	**$14.6**	$ 14.6

Services signings were an estimated $14.6 billion in TCV for 2011 and were flat as compared to the prior year and were impacted by the cyclicality of large deals, particularly the California Medicaid signing in 2010. However, signings did trend positively in 2011, increasing sequentially for the last three quarters of the year. Estimated services signings of $14.6 billion in 2010 increased by 13% as compared to the comparable prior-year period, driven by strong signings in all lines of businesses.

Revenue 2010

Services revenue of $9,637 million increased 177%, or 3% on a pro-forma[1] basis, including a negligible impact from currency.

- BPO delivered pro-forma[1] revenue growth of 8% and represented 53% of total Services revenue. BPO growth was driven by healthcare services, customer care, transportation solutions, healthcare payer services and acquisitions during the year.
- DO revenue decreased 3%, including a negligible impact from currency, and represented 34% of total Services revenue. The decrease primarily reflects the continued impact of the weak economy in 2010 on usage levels and renewal rates.
- ITO revenue was flat on a pro-forma[1] basis and represented 13% of total Services revenue.

Segment Margin 2010

Services segment margin of 11.7% increased 5.1-percentage points, or 1.0-percentage points on a pro-forma[1] basis, from 2009, primarily driven by BPO revenue growth and lower G&A expenses.

Technology

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

Revenue

	Year Ended December 31,			Change	
(in millions)	2011	2010	2009	2011	2010
Equipment sales	$ 3,277	$ 3,404	$ 3,137	(4)%	9%
Annuity revenue	6,982	6,945	6,930	1%	—%
Total Revenue	**$10,259**	$10,349	$10,067	**(1)%**	3%

Revenue 2011

Technology revenue of $10,259 million decreased 1%, including a 2-percentage point positive impact from currency. Total revenues include the following:

- 4% decrease in equipment sales revenue with a 1-percentage point positive impact from currency, primarily driven by a decline in Europe reflecting the economic conditions in the Euro Zone, particularly in the fourth quarter of 2011. In addition, install declines of entry and mono products were only partially offset by install growth in mid-range and high-end color products. Consistent with prior years, price declines were in the range of 5% to 10%. Technology revenue excludes increasing revenues in our DO offerings.
- 1% increase in annuity revenue, including a 2-percentage point positive impact from currency. An increase in supplies revenue was offset by a decline in pages.
- Technology revenue mix is 22% entry, 57% mid-range and 21% high-end.

Segment Margin 2011

Technology segment margin of 11.1% increased 0.6-percentage points from the prior year. Lower cost and expense from restructuring savings, in addition to an increase in equity in net income from unconsolidated affiliates, more than offset the gross margin decline.

Installs 2011

Entry

4% decrease in entry black-and-white and color multifunction devices and color printers reflecting:

- A decline in sales to OEM partners
- A decline in developing markets due in part to a very strong 2010 in which installs increased significantly.

These declines were partially offset by growth in newly launched products such as the WorkCentre® 3045 and WorkCentre® 6015.

Mid-range

- 26% increase in installs of mid-range color devices, driven primarily by demand for new products such as the WorkCentre® 7530/7535, WorkCentre® 7545/7556 and WorkCentre® 7120 and the Xerox Color 550/560. This growth has enabled market share gains in the fastest-growing and most profitable segment of the office color market.
- 2% increase in installs of mid-range black-and-white devices, driven by strong demand for the recently launched WorkCentre® 5325/5330/5335 product, partially offset by declines in Europe.

High-end

- 7% increase in installs of high-end color systems, driven primarily by installs of our market-leading Xerox Color 800 and 1000 and iGen, as well as strong demand for the recently launched Xerox Color 770 and the DocuColor™ 8080. These products have improved our offerings in the entry production color product category.
- 8% decrease in installs of high-end black-and-white systems, driven by declines across most product areas.

Install activity percentages include installations for Document Outsourcing and the Xerox-branded product shipments to GIS. Descriptions of "Entry," "Mid-range" and "High-end" are defined in Note 2 – Segment Reporting in the Consolidated Financial Statements.

Revenue 2010

Technology revenue of $10,349 million increased 3%, including a negligible impact from currency, and reflected solid install and related equipment revenue growth including the launch of 21 new products in 2010. Total revenues include the following:

- 9% increase in equipment sales revenue, with a 1-percentage point negative impact from currency, driven primarily by install growth across all color product categories
- Annuity revenue was flat compared to the prior year, with a 1-percentage point negative impact from currency, as increased supplies sales were offset by lower service revenues, reflecting decreased but stabilizing page volumes
- Technology revenue mix is 22% entry, 56% mid-range and 22% high-end.

Segment Margin 2010
Technology segment margin of 10.5% increased 1.1-percentage points from the prior-year period. Lower cost and expense from restructuring savings, in addition to an increase in equity in net income from unconsolidated affiliates, more than offset the gross margin decline.

Installs 2010
Entry
- 46% increase in installs of A4 black-and-white multifunction devices, driven by growth in developing markets and indirect channels.
- 39% increase in installs of A4 color multifunction devices, driven by demand for new products.
- 4% increase in installs of color printers.

Mid-range
- 4% increase in installs of mid-range black-and-white devices.
- 27% increase in installs of mid-range color devices, primarily driven by demand for new products such as the Xerox Color 550/560, WorkCentre 7545/7556 and WorkCentre 7120/7700, and the continued strong demand for the ColorQube.

High-end
- 8% decrease in installs of high-end black-and-white systems, reflecting declines across most product areas.
- 26% increase in installs of high-end color systems, reflecting strong demand for the recently launched Xerox Color 800 and 1000.

Install activity percentages include installations for Document Outsourcing and the Xerox-branded product shipments to GIS. Descriptions of "Entry," "Mid-range" and "High-end" are defined in Note 2 – Segment Reporting in the Consolidated Financial Statements.

Other

Revenue 2011
Other segment revenue of $1,530 million decreased 7%, including a 2-percentage point positive impact from currency, due to a decline in paper sales, wide format systems and other supplies, partially offset by an increase in revenue from patent sales and licensing as noted below. Paper comprised approximately 59% of the 2011 Other segment revenue.

In the fourth quarter of 2011, we entered into an agreement with another company that included, among other items, the sale of certain patents and the cross-licensing of certain patents of each party, pursuant to which we received an up-front payment with the remaining amount payable in two equal annual installment payments. Consistent with our accounting policy for these transactions, revenue associated with this agreement will be recorded as earned and only to the extent of cash received. During the fourth quarter 2011, the Other segment included revenue and pre-tax income/segment profit of approximately $32 million and $26 million ($16 million after-tax), respectively, which is net of certain expenses paid in connection with this agreement. We expect to recognize additional revenue and pre-tax income/segment profit of approximately $12 million and $8 million ($5 million after-tax), respectively, in each of the next two years in the Other Segment related to this agreement.

Segment Loss 2011
Other segment loss of $255 million improved $87 million from the prior year, primarily driven by lower non-financing interest expense and SAG expense.

Revenue 2010
Other segment revenue of $1,647 million increased 1%, including a negligible impact from currency. Increases in GIS's network integration and electronic presentation systems and wide format sales offset a decline in paper sales. Paper comprised approximately 58% of the 2010 Other segment revenue.

Segment Loss 2010
Other segment loss of $342 million was flat from the prior year, as higher gross profit, reflecting an increase in gross margins from the mix of revenues, was partially offset by higher interest expense associated with funding for the ACS acquisition.

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(1) Results are discussed primarily on a pro-forma basis and include ACS's estimated results from January 1 through February 5 in 2010 and ACS's estimated results from February 6 through December 31 in 2009. See the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.
(2) Color revenues and pages represent revenues and pages from color-enabled devices and is a subset of total revenues and excludes Global Imaging Systems, Inc. ("GIS").
(3) See the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Capital Resources and Liquidity

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

- As of December 31, 2011 and 2010, total cash and cash equivalents were $902 million and $1.2 billion, respectively, borrowings under our Commercial Paper Programs were $100 million and $300 million, respectively, and there were no outstanding borrowings or letters of credit under our $2 billion Credit Facility for either year-end. The decrease in our cash balance was largely due to the use of a portion of our cash balance to fund share repurchases in 2011.
- Our Commercial Paper program was established in 2010 as a means to reduce our cost of capital and to provide us with an additional liquidity vehicle in the market. Aggregate Commercial Paper and Credit Facility borrowings may not exceed the borrowing capacity under our Credit Facility at any time.
- Over the past three years we have consistently delivered strong cash flow from operations, driven by the strength of our annuity-based revenue model. Cash flows from operations were $1,961 million, $2,726 million and $2,208 million for the three years ended December 31, 2011, respectively. We expect cash flows from operations of between $2.0 and $2.3 billion for 2012.

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2011, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,			Change	
(in millions)	2011	2010	2009	2011	2010
Net cash provided by operating activities	$ 1,961	$ 2,726	$2,208	$ (765)	$ 518
Net cash used in investing activities	(675)	(2,178)	(343)	1,503	(1,835)
Net cash (used in) provided by financing activities	(1,586)	(3,116)	692	1,530	(3,808)
Effect of exchange rate changes on cash and cash equivalents	(9)	(20)	13	11	(33)
(Decrease) increase in cash and cash equivalents	(309)	(2,588)	2,570	2,279	(5,158)
Cash and cash equivalents at beginning of year	1,211	3,799	1,229	(2,588)	2,570
Cash and Cash Equivalents at End of Year	**$ 902**	$ 1,211	$3,799	**$ (309)**	$ (2,588)

Cash Flows from Operating Activities

Net cash provided by operating activities was $1,961 million for the year ended December 31, 2011. The $765 million decrease in cash from 2010 was primarily due to the following:

- $533 million decrease due to lower benefit from changes in accounts payable and accrued compensation, primarily related to the timing of payments as well as lower spending.
- $189 million decrease due to higher contributions to our defined benefit pension plans.
- $101 million decrease as a result of up-front costs and other customer-related spending associated primarily with new services contracts.
- $65 million decrease from higher net income tax payments, primarily due to refunds in the prior year.
- $49 million decrease due to higher finance receivables of $39 million and equipment on operating leases of $10 million, both reflective of increased equipment placements.
- $46 million decrease in derivatives, primarily due to the absence of proceeds from the early termination of certain interest rate swaps.
- $16 million decrease due to a lower benefit from accounts receivable sales, partially offset by improved collections.
- $290 million increase in pre-tax income before depreciation and amortization, litigation, restructuring, curtailment and the Venezuelan currency devaluation.
- $113 million increase due to the absence of cash outflows from acquisition-related expenditures.

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

Net cash provided by operating activities was $2,726 million for the year ended December 31, 2010 and includes $113 million of cash outflows for acquisition-related costs. The $518 million increase in cash from 2009 was primarily due to the following:

- $1,173 million increase in pre-tax income before depreciation and amortization, stock-based compensation, litigation, restructuring and the Venezuelan currency devaluation.
- $458 million increase due to higher accounts payable and accrued compensation, primarily related to higher inventory purchases and the timing of accounts payable payments, as well as increased compensation, benefit and other accruals.
- $141 million increase primarily from the early termination of certain interest rate swaps.
- $57 million increase due to lower restructuring payments.
- $470 million decrease as a result of higher inventory levels reflecting increased activity.
- $367 million decrease due to an increase in accounts receivable, net of collections of deferred proceeds from the sale of receivables, primarily as a result of higher revenues and a lower impact from receivable sales.
- $216 million decrease as a result of up-front costs and other customer-related spending associated with our services contracts.
- $140 million decrease due to higher finance receivables of $119 million and equipment on operating leases of $21 million, both reflective of increased equipment placements.
- $115 million decrease primarily due to higher contributions to our U.S. pension plans. No contributions were made in 2009 to our U.S. pension plans due to the availability of prior years' credit balances.

Cash Flows from Investing Activities

Net cash used in investing activities was $675 million for the year ended December 31, 2011. The $1,503 million decrease in the use of cash from 2010 was primarily due to the following:

- $1,522 million decrease in acquisitions. 2011 acquisitions include Unamic/HCN for $55 million, ESM for $43 million, Concept Group for $41 million, MBM for $42 million, Breakaway for $18 million and 10 smaller acquisitions for an aggregate of $46 million, as well as a net cash receipt of $35 million for Symcor. 2010 acquisitions include ACS for $1,495 million, ExcellerateHRO, LLP ("EHRO") for $125 million, TMS Health, LLC ("TMS") for $48 million, Irish Business Systems Limited ("IBS") for $29 million, Georgia Duplicating Products for $21 million and Spur Information Solutions for $12 million.
- $24 million increase due to lower cash proceeds from asset sales.

Net cash used in investing activities was $2,178 million for the year ended December 31, 2010. The $1,835 million increase in the use of cash from 2009 was primarily due to the following:

- $1,571 million increase primarily due to the acquisitions of ACS for $1,495 million, EHRO for $125 million, TMS for $48 million, IBS for $29 million, Georgia Duplicating Products for $21 million and Spur Information Solutions for $12 million.
- $326 million increase due to higher capital expenditures (including internal use software) primarily as a result of the inclusion of ACS in 2010.
- $35 million decrease due to higher cash proceeds from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was $1,586 million for the year ended December 31, 2011. The $1,530 million decrease in the use of cash from 2010 was primarily due to the following:

- $3,105 million decrease from net debt activity. 2011 includes proceeds of $1.0 billion from the issuance of Senior Notes offset by the repayment of $750 million for Senior Notes due in 2011 and net payments of $200 million of Commercial Paper and $1 million other debt. 2010 includes the repayments of $1,733 million of ACS's debt on the acquisition date, $950 million of Senior Notes, $550 million early redemption of the 2013 Senior Notes, net payments of $109 million of other debt and $14 million of debt issuance costs for the Bridge Loan Facility commitment, which was terminated in 2009. These payments were offset by net proceeds of $300 million from Commercial Paper.
- $701 million increase resulting from the resumption of our share repurchase program.
- $670 million increase reflecting the payment of our liability to Xerox Capital Trust I in connection with its redemption of preferred securities.
- $139 million increase due to lower proceeds from the issuances of common stock under our stock option plans.
- $26 million increase reflecting a full year of dividend payments on shares issued in connection with the acquisition of ACS in 2010.
- $12 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.

Net cash used in financing activities was $3,116 million for the year ended December 31, 2010. The $3,808 million decrease in cash from 2009 was primarily due to the following:

- $3,980 million decrease due to net debt activity. 2010 includes the repayments of $1,733 million of ACS's debt on the acquisition date, $950 million of Senior Notes, $550 million early redemption of the 2013 Senior Notes, net payments of $109 million on other debt and $14 million of debt issuance costs for the Bridge Loan Facility commitment, which was terminated in 2009. These payments were offset by net proceeds of $300 million from Commercial Paper issued under a program we initiated during the fourth quarter of 2010. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short-term borrowings, net payments of $57 million for secured debt and $44 million of debt issuance costs for the Bridge Loan Facility commitment which was terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009.
- $66 million decrease reflecting dividends on an additional number of outstanding shares as a result of the acquisition of ACS.
- $182 million increase due to proceeds from the issuance of common stock, primarily as a result of the exercise of stock options issued under the former ACS plans as well as the exercise of stock options from several expiring grants.

Financing Activities, Credit Facility and Capital Markets

Customer Financing Activities

We provide lease equipment financing to our customers, primarily in our Technology segment. Our lease contracts permit customers to pay for equipment over time rather than at the date of installation. Our investment in these contracts is reflected in Total finance assets, net. We currently fund our customer financing activity through cash generated from operations, cash on hand, borrowings under bank credit facilities and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically with our small and midsize customers, where third-party financial institutions independently provide lease financing, on a non-recourse basis to Xerox, directly to our customers. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the unrelated third-party finance receivable and debt are not included in our Consolidated Financial Statements.

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

(in millions)	December 31, 2011	2010
Total Finance receivables, net[1]	$ 6,362	$6,620
Equipment on operating leases, net	533	530
Total Finance Assets, net	**$6,895**	$7,150

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

The decrease of $255 million in Total finance assets, net includes unfavorable currency of $63 million, and reflects the decrease in equipment sales over the past several years prior to 2011 as well as equipment sales growth in regions or operations where we do not have direct leasing.

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation; therefore, we maintain a certain level of debt, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the breakdown of our total debt at December 31, 2011 and 2010 between financing debt and core debt:

(in millions)	December 31, 2011	2010
Financing debt[1]	$ 6,033	$6,256
Core debt	2,600	2,351
Total Debt	**$8,633**	$8,607

[1] Financing debt includes $5,567 million and $5,793 million as of December 31, 2011 and December 31, 2010, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases.

The following summarizes our total debt at December 31, 2011 and 2010:

(in millions)	December 31, 2011	2010
Principal debt balance[1]	$ 8,450	$ 8,380
Net unamortized discount	(7)	(1)
Fair value adjustments	190	228
Total Debt	8,633	8,607
Less: Current maturities and short-term debt	(1,545)	(1,370)
Total Long-Term Debt	**$ 7,088**	$ 7,237

[1] Includes Commercial Paper of $100 million and $300 million as of December 31, 2011 and 2010, respectively. The 2011 balance also includes $650 million in debt resulting from the refinancing of the Xerox Capital Trust I preferred securities.

Sales of Accounts Receivable

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

(in millions)	Year Ended December 31, 2011	2010	2009
Accounts receivable sales	$3,218	$2,374	$1,566
Deferred proceeds	386	307	—
Fees associated with sales	20	15	13
Estimated increase to operating cash flows[1]	133	106	309

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

Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for additional information.

Credit Facility and Capital Market Activity

In 2011, we refinanced our $2.0 billion unsecured revolving Credit Facility that was executed in 2007 (the "2007 Credit Facility"). This new $2.0 billion Credit Facility is a five-year commitment maturing in 2016 with a group of lenders, most of whom were lenders under the prior facility.

In May 2011, we issued $300 million of Floating Rate Senior Notes due 2014 (the "2014 Floating Rate Notes") and $700 of 4.50% Senior Notes due 2021 (the "2021 Senior Notes"). Proceeds from the offering were used to redeem the $650 million Trust I 8% Preferred Securities mentioned below and for general corporate purposes.

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

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding 2011 debt activity.

In February 2012, we completed an exchange of our 5.71% Zero Coupon Notes due 2023 with an accreted book value at the date of the exchange of $303 million, for approximately $363 million of our 4.50% Senior Notes due 2021. Accordingly, this increased the principal amount for our 4.5% Senior notes due 2021 from $700 million to $1,063 million. The exchange was conducted to retire high-interest long-dated debt in a favorable interest rate environment.

Refer to Note 21 – Subsequent Events in the Consolidated Financial Statements for additional information regarding this debt exchange.

Financial Instruments

Refer to Note 12 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs – Treasury Stock

In July 2011, we resumed our share repurchase program previously authorized by our Board of Directors. During 2011, we repurchased 87.9 million shares for an aggregate cost of $701 million, including fees. Through February 21, 2012, we repurchased an additional 6.1 million shares at an aggregate cost of $50 million, including fees, for a cumulative program total of 288.1 million shares at a cost of $3.7 billion, including fees. In January 2012, the Board of Directors authorized an additional $500 million in share repurchase, bringing the total remaining authorization for share repurchases to $1.3 billion as of February 21, 2012.

Refer to Note 18 – Shareholders' Equity – Treasury Stock in the Consolidated Financial Statements for additional information regarding our share repurchase programs.

Dividends

The Board of Directors declared aggregate dividends of $241 million and $243 million on common stock in 2011 and 2010, respectively. The decrease in 2011 is primarily due to a lower level of outstanding shares in 2011 as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of $24 million and $21 million on the Series A Convertible Preferred Stock in 2011 and 2010, respectively. The preferred shares were issued in connection with the acquisition of ACS. The slight increase in dividends is due to the shares being outstanding for a full year in 2011 as compared to 11 months in 2010.

Liquidity and Financial Flexibility

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

Our principal debt maturities are in line with historical and projected cash flows and are spread over the next 10 years as follows (in millions):

Year	Amount
2012	$1,545
2013	425
2014	1,078
2015	1,252
2016	951
2017	501
2018	1,001
2019	650
2020	—
2021 and thereafter	1,047
Total	$8,450

2012 maturities include $100 million of Commercial Paper and $301 million for the 5.71% Zero Coupon Notes due 2023. In February 2012, we completed an exchange of the 5.71% Zero Coupon Notes due 2023 for approximately $363 million of our 4.50% Senior Notes due 2021.

Foreign Cash

At December 31, 2011, we had $902 million of cash and cash equivalents on a consolidated basis. Of that amount, approximately $280 million was held outside the U.S. by our foreign subsidiaries and is needed to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries were needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings.

However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 15 – Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

At December 31, 2011, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to prepay outstanding loans or to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2011, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2012	2013	2014	2015	2016	Thereafter
Total debt, including capital lease obligations[1]	$ 1,541	$ 425	$1,078	$1,252	$ 951	$ 3,202
Minimum operating lease commitments[2]	637	503	296	168	83	103
Defined benefit pension plans	560	—	—	—	—	—
Retiree health payments	80	83	82	81	80	372
Estimated Purchase Commitments:						
Flextronics[3]	599	—	—	—	—	—
Fuji Xerox[4]	2,180	—	—	—	—	—
IM service contracts[5]	180	141	95	45	12	—
Other[6]	22	5	2	—	—	—
Total	$ 5,799	$ 1,157	$1,553	$1,546	$1,126	$ 3,677

(1) Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information and interest payments related to total debt. Amounts above include principal portion only and $100 million of Commercial Paper at December 31, 2011.

(2) Refer to Note 6 – Land, Buildings and Equipment, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. Actual purchases from Flextronics were approximately $600 million in 2011 and 2010.

(4) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.

(5) We have an information management contract with HP Enterprise Services ("HPES") which runs through 2014. Services provided under this contract include support for our European mainframe system processing, as well as workplace, service desk and voice and data network management. We can terminate this contract for convenience without paying a termination fee by providing 60 days prior notice. We also have several agreements for similar services with other third-party providers. These contracts have various terms through 2016 and include desktop services, voice and data network-related services, mainframe application, development and support and mid-range applications processing and support.

(6) Other purchase commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2011 cash contributions for these plans were $426 million for our defined benefit pension plans and $73 million for our retiree health plans. We also elected to make a contribution of 16.6 million shares of our common stock, with an aggregate value of approximately $130 million, to our U.S. defined benefit pension plan for salaried employees in order to meet our planned level of funding for 2011. Accordingly, total contributions to our defined benefit pension plans were $556 million in 2011.

In 2012 , based on current actuarial calculations, we expect to make contributions of approximately $560 million to our worldwide defined benefit pension plans and approximately $80 million to our retiree health benefit plans. As in 2011, contributions to our defined benefit pension plans may include shares of our common stock in lieu of cash, depending on our cash requirements during the year. Despite favorable returns on our defined benefit pension plan assets, contributions in 2012 are expected to be level with 2011, primarily due to a significant decrease in the discount rate. Contributions in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes. We currently expect contributions to our defined benefit pension plans to decline in years subsequent to 2012.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. Cash contributions are made each year to cover medical claims costs incurred during the year. The amounts reported in the above table as retiree health payments represent our estimate of future benefit payments.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling $2.2 billion, $2.1 billion and $1.6 billion in 2011, 2010 and 2009, respectively. Our purchase commitments with Fuji Xerox are entered into in the normal course of business and typically have a lead time of three months. Related-party transactions with Fuji Xerox are discussed in Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2011, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately $1,120 million, with the decrease from December 31, 2010 balance of approximately $1,274 million, primarily related to currency and adjustments from closed cases partially offset by interest and new cases. With respect to the unreserved balance of $1,120 million, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2011 we had $240 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of $16 million and additional letters of credit of approximately $237 million, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 16 – Contingencies and Litigation in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and non-consolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Should developments in any of these areas cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Unrecognized Tax Benefits

As of December 31, 2011, we had $225 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off-Balance Sheet Arrangements

Although we rarely utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations"), we enter into operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 6 – Land, Buildings and Equipment, Net in the Consolidated Financial Statements. In addition, we have facilities primarily in the U.S., Canada and several countries in Europe that enable us to sell to third parties, on an ongoing basis, certain accounts receivable without recourse. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.

See the table above for the Company's contractual cash obligations and other commercial commitments and Note 16 – Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilized derivative financial instruments to hedge economic exposures, as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events have not caused us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 12 – Financial Instruments in the Consolidated Financial Statements for additional discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2011, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would not be significant because all material currency asset and liability exposures were economically hedged as of December 31, 2011. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2011 would have an impact on our cumulative translation adjustment portion of equity of approximately $740 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox Brasil, and translated into U.S. Dollars using the year-end exchange rates, was approximately $7.4 billion at December 31, 2011.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2011, 2010 and 2009 approximated 5.2%, 5.8%, and 6.1%, respectively. Interest expense includes the impact of our interest rate derivatives.

Virtually all customer-financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2011, $302 million of our total debt carried variable interest rates, including the effect of pay variable interest rate swaps we use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2011, a 10% change in market interest rates would change the fair values of such financial instruments by approximately $160 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). In addition, we have discussed our results using non-GAAP measures.

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

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

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects. For our 2011 reporting year, adjustments were limited to the amortization of intangible assets and the loss on early extinguishment of liability.

- Net income and Earnings per share ("EPS"),
- Effective tax rate, and
- Pre-tax income(loss) margin.

The above have been adjusted for the following items:

- Amortization of intangible assets (all periods): The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future-period revenues as well. Amortization of intangible assets will recur in future periods.
- Restructuring and asset impairment charges (including those incurred by Fuji Xerox) (2010 and 2009 only): Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.

- Acquisition-related costs (2010 and 2009 only): We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition-related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- Other discrete, unusual or infrequent costs and expenses: In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of the item on our results of operations for the period: 1) Loss on early extinguishment of liability (2011 and 2010), 2) Medicare subsidy tax law change (income tax effect only)(2010), 3) ACS shareholders' litigation settlement (2010) and 4) Venezuela devaluation (2010). We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

In addition to the above excluded items, the calculation of operating income and margin also excludes other expenses, net which is primarily composed of non-financing interest expense, as well a curtailment gain in 2011.

Pro-forma Basis

To better understand the trends in our business, we discuss our 2011 and 2010 operating results by comparing them against adjusted prior-period results which include ACS historical results for the comparable period. We acquired ACS on February 5, 2010 and ACS's results subsequent to that date are included in our reported results. Accordingly, for the comparison of our reported 2011 results to 2010, we included ACS's 2010 estimated results for the period January 1 through February 5, 2010 in our reported 2010 results (pro-forma 2010). For the comparison of our reported 2010 results to 2009, we included ACS's 2009 estimated results for the period February 6 through December 31 in our reported 2009 results (pro-forma 2009). We refer to these comparisons against adjusted results as "pro-forma" basis comparisons. ACS's historical results for these periods have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition. We believe comparisons on a pro-forma basis provide a more enhanced assessment than the actual comparisons, given the size and nature of the ACS acquisition. In addition, the acquisition of ACS increased the proportion of our revenue from services, which has a lower gross margin and SAG as a percentage of revenue than we historically experienced when Xerox was primarily a technology company. We believe the pro-forma basis comparisons provide investors with a better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company's operations.

Net Income and EPS Reconciliation:

	Year Ended December 31,			
	2011[1]		2010	
(in millions; except per share amounts)	Net Income	EPS	Net Income	EPS
As Reported	$1,295	$ 0.90	$ 606	$ 0.43
Adjustments:				
Amortization of intangible assets	248	0.17	194	0.14
Loss on early extinguishment of liability	20	0.01	10	0.01
Xerox and Fuji Xerox restructuring charges			355	0.26
ACS acquisition-related costs			58	0.04
ACS shareholders' litigation settlement			36	0.03
Venezuela devaluation costs			21	0.02
Medicare subsidy tax law change			16	0.01
Adjusted	$1,563	$ 1.08	$ 1,296	$ 0.94
Weighted average shares for adjusted EPS[2]	1,444		1,378	

[1] For 2011, we only adjusted for Amortization of intangible assets and the Loss on early extinguishment of liability.

[2] Average shares for the calculation of adjusted EPS for 2011 were 1,444 million and include 27 million of shares associated with the Series A convertible preferred stock and therefore the related 2011 annual dividend of $24 million is excluded. Year 2010 shares of 1,378 million also include pro-rated portion of the 27 million shares associated with the Series A convertible preferred stock and therefore the 2010 annual dividend of $21 million associated with those shares was excluded. We evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2011[1] Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Year Ended December 31, 2010 Pre-Tax Income	Income Tax Expense	Effective Tax Rate
As Reported	$1,565	$ 386	24.7%	$ 815	$ 256	31.4%
Adjustments:						
Amortization of intangible assets	398	150		312	118	
Loss on early extinguishment of liability	33	13		15	5	
Xerox restructuring charge				483	166	
ACS acquisition-related costs				77	19	
ACS shareholders' litigation settlement				36	—	
Venezuela devaluation costs				21	—	
Medicare subsidy tax law change				—	(16)	
Adjusted	$1,996	$ 549	27.5%	$ 1,759	$ 548	31.2%

[1] For 2011, we only adjusted for Amortization of intangible assets and the Loss on early extinguishment of liability.

Operating Income/Margin Reconciliation:

(in millions)	As Reported 2011	2010	2009	Pro-forma 2010	2009
Total Revenue	$22,626	$21,633	$15,179	$22,252	$21,082
Pre-tax Income	1,565	815	627	777	1,267
Adjustments:					
Amortization of intangible assets	398	312	60	339	60
Xerox restructuring charge	33	483	(8)	483	(8)
Curtailment gain	(107)	—	—	—	—
ACS acquisition-related costs	—	77	72	77	104
Other expenses, net	322	389	285	444	382
Adjusted Operating Income	$ 2,211	$ 2,076	$ 1,036	$ 2,120	$ 1,805
Pre-tax Income Margin	6.9%	3.8%	4.1%	3.5%	6.0%
Adjusted Operating Margin	9.8%	9.6%	6.8%	9.5%	8.6%

[1] Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 6 in our reported 2010 results. Pro-forma 2009 includes ACS's 2009 estimated results from February 6 through December 31 in our reported 2009 results. ACS's estimated results were adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses, certain non-recurring product sales and other material non-recurring costs associated with the acquisition.

Pro-forma:

	Year Ended December 31,								
	As Reported			Pro-forma[1]		As Reported Change		Pro-forma Change	
(in millions)	2011	2010	2009	2010	2009	2011	2010	2011	2010[2]
Total Xerox									
Revenue:									
Equipment sales	$ 3,856	$ 3,857	$ 3,550	$ 3,857	$ 3,550	—%	9%	—%	9%
Supplies, paper and other	3,270	3,377	3,096	3,402	3,234	(3)%	9%	(4)%	4%
Sales	7,126	7,234	6,646	7,259	6,784	(1)%	9%	(2)%	7%
Service, outsourcing and rentals	14,868	13,739	7,820	14,333	13,585	8%	76%	4%	1%
Finance income	632	660	713	660	713	(4)%	(7)%	(4)%	(7)%
Total Revenues	**$22,626**	$21,633	$15,179	$22,252	$21,082	5%	43%	2%	3%
Service, outsourcing and rentals	$14,868	$13,739	$ 7,820	$14,333	$13,585	8%	76%	4%	1%
Add: Finance income	632	660	713	660	713				
Add: Supplies, paper and other sales	3,270	3,377	3,096	3,402	3,234				
Annuity Revenue	**$18,770**	$17,776	$11,629	$18,395	$17,532	6%	53%	2%	1%
Gross Profit:									
Sales	$ 2,429	$ 2,493	$ 2,251	$ 2,494	$ 2,269				
Service, outsourcing and rentals	4,599	4,544	3,332	4,646	4,585				
Finance income	401	414	442	414	442				
Total	**$ 7,429**	$ 7,451	$ 6,025	$ 7,554	$ 7,296				
Gross Margin:									
Sales	34.1%	34.5%	33.9%	34.4%	33.4%	(0.4) pts	0.6 pts	(0.3) pts	1.1 pts
Service, outsourcing and rentals	30.9%	33.1%	42.6%	32.4%	33.8%	(2.2) pts	(9.5) pts	(1.5) pts	(0.7) pts
Finance income	63.4%	62.7%	62.0%	62.7%	62.0%	0.7 pts	0.7 pts	0.7 pts	0.7 pts
Total	32.8%	34.4%	39.7%	33.9%	34.6%	(1.6) pts	(5.3) pts	(1.1) pts	(0.2) pts
RD&E	$ 721	$ 781	$ 840	$ 781	$ 840				
RD&E % Revenue	3.2%	3.6%	5.5%	3.5%	4.0%	(0.4) pts	(1.9) pts	(0.3) pts	(0.4) pts
SAG	$ 4,497	$ 4,594	$ 4,149	$ 4,653	$ 4,651				
SAG % Revenue	19.9%	21.2%	27.3%	20.9%	22.1%	(1.3) pts	(6.1) pts	(1.0) pts	(0.9) pts
Adjusted Operating Profit	$ 2,211	$ 2,076	$ 1,036	$ 2,120	$ 1,805				
Adjusting Operating Margin	9.8%	9.6%	6.8%	9.5%	8.6%	0.2 pts	2.8 pts	0.3 pts	1.0 pts
Services Segment									
Document Outsourcing	$ 3,584	$ 3,297	$ 3,382	$ 3,297	$ 3,382	9%	(3)%	9%	(3)%
Business Processing Outsourcing[2]	6,035	5,112	94	5,603	4,751	18%	*	8%	8%
Information Technology Outsourcing	1,326	1,249	—	1,377	1,246	6%	*	(4)%	—%
Less: Intra-segment Eliminations	(108)	(21)	—	(21)	—	*	*	*	*
Total Revenue – Services	**$10,837**	$ 9,637	$ 3,476	$10,256	$ 9,379	**12%**	177%	**6%**	3%
Segment Profit – Services	**$ 1,207**	$ 1,132	$ 231	$ 1,166	$ 1,008	**7%**	390%	**4%**	12%
Segment Margin – Services	**11.1%**	11.7%	6.6%	11.4%	10.7%	**(0.6) pts**	5.1 pts	**(0.3) pts**	1.0 pts

* Percentage change not meaningful.

(1) 2010 pro-forma includes ACS's 2010 estimated results from January 1 through February 5, 2010 in our reported 2010 results. 2009 pro-forma includes ACS's 2009 estimated results from February 6 through December 31, 2009 in our reported 2009 results. The ACS results were adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.

(2) 2010 changes for Xerox excluding ACS results for gross margin, RD&E and SAG were (0.2) pts, (0.5) pts and (0.8) pts, respectively, which were comparable to the pro-forma changes noted.

Forward-Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in our 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). We do not intend to update these forward-looking statements, except as required by law.