XEROX CORP
Form 10-K
February 19, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2015

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

For the transition period from: ______ to: _______

Commission File Number 001-04471

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

New York	16-0468020
(State of incorporation)	(IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue, Norwalk, Connecticut 06856-4505	(203) 968-3000
(Address of principal executive offices)	(Registrants telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2015 was $11,371,974,991.

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

Class	Outstanding at January 31, 2016
Common Stock, $1 par value	1,012,898,377

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated herein by reference:

Document	Part of Form 10-K in which Incorporated
Xerox Corporation Notice of 2016 Annual Meeting of Shareholders and Proxy Statement (to be filed no later than 120 days after the close of the fiscal year covered by this report on Form 10-K)	III

FORWARD-LOOKING STATEMENTS

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

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including with respect to the proposed separation of the Business Process Outsourcing (BPO) business from the Document Technology and Document Outsourcing business, the expected timetable for completing the separation, the future financial and operating performance of each business, the strategic and competitive advantages of each business, future opportunities for each business and the expected amount of cost reductions that may be realized in the cost transformation program, and are subject to a number of factors that may cause actual results to differ materially. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contacts and applicable law; the risk that our bids do not accurately estimate the resources and costs required to implement and service very complex, multi-year governmental and commercial contracts, often in advance of the final determination of the full scope and design of such contracts or as a result of the scope of such contracts being changed during the life of such contracts; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; service interruptions; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions and the relocation of our service delivery centers; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; the risk in the hiring and retention of qualified personnel; the risk that unexpected costs will be incurred; our ability to recover capital investments; the risk that our Services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts; the collectibility of our receivables for unbilled services associated with very large, multi-year contracts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to expand equipment placements; interest rates, cost of borrowing and access to credit markets; the risk that our products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives; the outcome of litigation and regulatory proceedings to which we may be a party; the possibility that the proposed separation of the BPO business from the Document Technology and Document Outsourcing business will not be consummated within the anticipated time period or at all, including as the result of regulatory, market or other factors; the potential for disruption to our business in connection with the proposed separation; the potential that BPO and

Document Technology and Document Outsourcing do not realize all of the expected benefits of the separation, and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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PART I

ITEM 1. BUSINESS
Planned Company Separation

On January 29, 2016, we announced that our Board of Directors approved management's plan to separate the Company's Business Process Outsourcing business from its Document Technology and Document Outsourcing business. Each of the businesses will operate as an independent, publicly-traded company. Leadership and names of the two companies will be determined as the process progresses. The transaction is intended to be tax-free for Xerox shareholders for federal income tax purposes. In conjunction with the separation, we also announced a three-year strategic transformation program targeting savings across all segments.

Xerox will begin the process to separate while we finalize the transaction structure. Our objective is to complete the separation by year-end 2016, subject to customary regulatory approvals, the effectiveness of a Form 10 filing with the U.S. Securities and Exchange Commission, tax considerations, securing any necessary financing, and final approval of the Xerox Board of Directors. Until the separation is complete, we will continue to operate and report as a single company, and it will continue to be business as usual for our customers and employees. Accordingly, the overview of our business provided here is based on our 2015 reporting basis.

Our Business
Xerox is helping change the way the world works. By applying our expertise in imaging, business process, analytics, automation and user-centric insights, we engineer the flow of work to provide greater productivity, efficiency and personalization.
We are a leader across large, diverse and growing markets estimated at nearly $365 billion(1). The global business process outsourcing market is very broad, encompassing multi-industry business processes as well as industry-specific business processes, and our addressable market is estimated at almost $275 billion(1). The document management market is estimated at roughly $90 billion(1) and is comprised of the document systems, software, solutions and services that our customers have relied upon for years to help run their businesses and reduce their costs. Xerox led the establishment of the managed print services market, and continues today as the industry leader in this expanding market segment.

(1) Market estimates are derived from third-party forecasts produced by firms such as Gartner and Nelson Hall, and include our internal assumptions.

The following are some additional insights into these business areas:
Business Process Outsourcing (BPO): We are a leading enterprise for business process outsourcing, with expertise in managing transaction-intensive processes. Our BPO business includes services that support enterprises through multi-industry offerings such as customer care, transaction processing, finance and accounting, and human resources, as well as industry-focused offerings in areas such as healthcare, transportation, financial services, retail and telecommunications.
Document Technology (DT) and Document Outsourcing (DO): Our document technology products and solutions support the work processes of our customers by providing them with an efficient, cost effective printing and communications infrastructure. Our DO service offerings help customers ranging from small businesses to global enterprises optimize their printing and their related document workflow and business processes.
Our Strategy and Business Model
Our strategy is to apply technology and innovation to help change the way the world works, and to create sustained shareholder value through growth in business services and continued leadership in document technology. We also create value through expanding margins and profits as well as a balanced capital allocation strategy that returns cash to shareholders, while investing for growth and competitive advantage. To accomplish this, (beginning in 2014) we established the following strategic priorities:

Leverage Brand Strength and Market Position
We have a strong and valuable brand that continues to be ranked in the top percentile of the most valuable global brands. By applying our expertise in imaging, business process, analytics, automation and user-centric insights, we engineer the flow of work to provide greater productivity, efficiency and personalization. Well-recognized and respected, our brand is associated worldwide with delivering innovative solutions, and industry-leading business process and document management services and technology.
Xerox has a broad, diverse set of offerings in Services and a strong, well-positioned product portfolio in Document Technology. We are strengthening our market positions by constantly evaluating our businesses and focusing our investments in areas where we have an advantage, and where the greatest market opportunities exist. We expect to accomplish this by narrowing our focus, targeting acquisitions and investing in businesses that will enhance our Services offerings and capabilities, capitalize on our deep industry expertise and expand services globally, while maintaining our Document Technology leadership in attractive market segments.

Geographically, our footprint spans more than 180 countries and allows us to deliver superior technology and services to customers of all sizes, regardless of complexity or number of customer locations.

Profitably Grow Services in Attractive Markets
Over half of our revenue was derived from business services in 2015. The business services markets have attractive market growth rates generally in the mid-single digits, and we believe we can accelerate our Services revenue over time through both organic and inorganic growth. Across our business, we serve industry verticals where we have deep expertise resulting from years of experience, strong customer relationships, global scale and renowned innovation. Capitalizing on the opportunities that these strengths provide will continue to be key to our growth.

Lead in Document Technology
We are focused on maintaining our leadership position in the Document Technology market and continuing to innovate around our software, hardware and services offerings. In 2015, we updated our product portfolio by introducing nine new devices and also launched nineteen new workflow and software solutions. These include products and solutions in the growing graphic communications market, and expanding upon our investments in the production inkjet market and further building upon our 2013 Impika acquisition. Continuing to bring innovative new products and solutions to market, while also enhancing existing products and solutions, will enable us to sustain our Document Technology market leadership.

Innovate to Differentiate Our Offerings
Differentiating our offerings is key to our strategy. A critical role of our research is to envision the future and define new research and competency areas for that future. We direct our research and development (R&D) investments to areas such as data analytics, business process automation, and improving the quality and reducing the environmental impact of digital printing. The proportion of our annual U.S. patent filings related to software, solutions and analytics oriented capabilities has increased each of the last five years and they represented more than 40 percent of our filings in 2015. We are investing in attractive markets, such as healthcare and transportation, to create differentiation. In addition, our acquisitions target companies providing new capabilities and offering access to adjacent services, solutions and technologies. We expect this will deliver incremental value for our customers and drive profitable revenue growth for our business.

Drive Operational Excellence Across Our Businesses
Our operational excellence model leverages our global delivery capabilities, production model, incentive-based compensation process, proprietary systems and financial discipline to deliver increased productivity and lower costs for our customers and for our own business. Margin expansion is a key priority within Services and an overall opportunity for Xerox that we will achieve through specific initiatives aimed at improving our cost structure and portfolio mix. As markets shift, we undertake restructuring to optimize our workforce and facilities to best align our

resources with the growth areas of our business, and to maximize profitability and cash flow in businesses that are declining. In Services, we realigned our delivery resources into global capability organizations in order to maximize our global scale and ensure service delivery excellence across our BPO offerings. We also have initiatives underway to continue improving our software platform implementation capability, particularly within our Government Healthcare business where we have narrowed the focus of our platform development initiatives. With our ongoing efforts and targeted initiatives in both Services and Document Technology, we expect over time to maintain or increase our profitability and overall competitive positioning.

Engage, Develop and Support Our People

Our Services and Document Technology offerings and know-how are a powerful combination, and are supported by a talented global workforce focused on delivering value to our customers. We continue to develop our employees by investing in processes and systems to equip them with modern tools that enable them to perform their jobs more effectively and by providing opportunities for career growth.

Annuity-Based Business Model and Shareholder-Centered Capital Allocation

Our business is based on an annuity model that provides significant recurring revenue and cash generation. In 2015, 85 percent of our total revenue was annuity-based; this includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. The remaining 15 percent of our revenue comes from equipment sales, either from lease agreements that qualify as sales for accounting purposes or outright cash sales.

We remain committed to using our solid cash flow to deliver shareholder returns now and in the future through a balanced capital allocation strategy that includes share repurchase, acquisitions and dividends.

Acquisitions and Divestitures

The following is a summary of our acquisitions and divestitures in 2015. Additional details can be found in Note 3 - Acquisitions and Note 4 - Divestitures, in the Consolidated Financial Statements.

In the Services segment, consistent with our strategy to expand our offerings and geographic reach through acquisitions and to actively manage our product portfolio, we acquired the following companies:

- The learning services unit of Seattle-based Intrepid Learning Solutions (announced in 2014, closed January 2015).
- Healthy Communities Institute, a California-based company that helps hospitals and other health organizations manage population health.
- RSA Medical, an Illinois-based provider of health assessment and risk management for members interacting with health and life insurance companies.
- inVentiv Patient Access Solutions (iPAS), an inVentiv Health company that helps pharmaceutical companies drive product adoption and supports patients in minimizing or eliminating financial and reimbursement hurdles.

Additionally, we completed the sale of our Information Technology Outsourcing (ITO) business on June 30, 2015 to Atos SE. The sale enables Xerox to increase its focus and resources on expanding its BPO and DO businesses, areas where the company has competitive advantage. We continue to have a relationship with Atos in which Atos continues to provide IT services to us internally as well as to our current BPO customers.

In the Document Technology segment, consistent with our strategy to expand distribution in under-penetrated markets, we acquired Lancaster, PA based Conestoga Business Solutions and Fort Collins, Colorado based Capital Business Systems.

Innovation and Research

Xerox has a rich heritage of innovation, and innovation continues to be a core strength of the Company as well as a competitive differentiator. Our aim is to create value for our customers, our shareholders, and our people by driving innovation in key areas. Our investments in innovation align with our growth opportunities in areas like business process services, color printing and customized communication. Our research efforts can be categorized under four themes:

1. Usable Analytics - Transform big data into useful information resulting in better business decisions:

Competitive advantage can be achieved by better utilizing available and real-time information. Today, information resides in an ever increasing universe of servers, repositories and formats. The vast majority of information is unstructured, including text, images, voice and videos. One key research area is making sense of unstructured information using natural language processing and semantic analysis. A second major research area focuses on developing proprietary methods for prescriptive analytics applied to business processes. Here, we seek to better manage very large data systems in order to extract business insights and use those insights to provide our clients with actionable recommendations. Tailoring these methods to various vertical applications leads to new customer value propositions.

2. Agile Enterprise - Create simple, automated and touch-less business processes resulting in lower cost, higher quality and increased agility:

Businesses require agility in order to quickly respond to market changes and new business requirements. To enable greater business process agility, our research goals are to simplify, automate and enable business processes on the cloud via flexible platforms that run on robust and scalable infrastructures. Automation of business processes benefits from our research on image, video and natural language processing, as well as machine learning. Application of these methods to business processes enables technology to perform tasks that today are performed manually, thus allowing workers to focus on higher level tasks.

3. Personalization @ Scale - Augment humans by providing secure, real-time, context-aware personalized products, solutions and services:

Whether business correspondence, personal communication, manufactured items or an information service, personalization increases the value to the recipient. Our research leads to technologies that improve the efficiency, economics and relevance of business services, such as customer care, benefits and educational services. Our proprietary printing technologies give us a strong platform to research and develop methods that create affordable, ubiquitous color printing. We also research how to expand the application of digital printing to cover new applications such as packaging and printing directly on end-use products.

4. Sustainable Enterprise and Society - Enhance the environmental and societal benefits of our offerings:

Global demand for energy, and the environmental consequences of products used by enterprises and consumers, have elevated customer interest in sustainable solutions. Our research develops technologies that minimize the environmental impact of document systems and business processes. We seek opportunities to utilize processes and components that minimize life-cycle footprint and waste, and create zero bioaccumulation. We also actively seek to incorporate bio-based materials into our printing consumables. To help our customers optimize their operations, research is creating new enterprise-wide energy optimization tools, and user sustainability feedback systems.

Global Research Centers

We have four global research centers, each with a unique area of focus, where creativity and entrepreneurship are truly valued. Our leadership has empowered researchers to deliver high-impact innovations that make a difference to our clients and the world. Our research centers are:

- Palo Alto Research Center (PARC): A wholly-owned subsidiary of Xerox located in Silicon Valley and Webster NY, PARC provides Xerox commercial and government clients with R&D and open innovation services. PARC scientists have deep technological expertise in big data analytics, intelligent sensing, computer vision, networking, printed electronics, energy, and digital design and manufacturing.
- Xerox Research Centre of Canada (XRCC): Located in Mississauga, Ontario, Canada, XRCC brings materials to market through advances in organic materials chemistry, polymer processing, formulation design, prototyping and scale-up. Advanced materials, sustainable materials, printed electronics, additive manufacturing and continuous processes are among the current areas of exploration for XRCC researchers as they develop new competencies to meet the future needs of customers.
- Xerox Research Centre Europe (XRCE): Located in Grenoble, France, XRCE research aims to differentiate Xerox business process service offerings by simplifying them and making them more automated, intelligent and agile. The centre combines its world-class expertise in imaging, text and data analytics, with insights from its ethnographic studies to create and design innovative and disruptive technology.
- Xerox Research Centre India (XRCI): Located in Bangalore, India, XRCI explores, develops and incubates innovative solutions and services for our global customers, with a special focus on emerging markets.

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

Our total research, development and engineering expenses (RD&E), which includes sustaining engineering expenses for hardware engineering and software development after we launch a product, totaled $563 million in

2015, $577 million in 2014 and $603 million in 2013. Fuji Xerox R&D expenses were $569 million in 2015, $654 million in 2014 and $724 million in 2013.

Segment Information

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

Revenues by Business Segment

Our Services segment is the largest segment, with $10,137 million in revenue in 2015, representing 56 percent of total revenue. The Document Technology segment contributed $7,365 million in revenue, representing 41 percent of total revenue. The Other segment contributed $543 million in revenue, representing 3 percent of total revenue.

Services Segment

We provide business services in global markets across major industries and to government agencies. These services help our clients improve the flow of work, providing them more time and resources to allocate to their core operations and enabling them to respond rapidly to changing technologies and to reduce expenses associated with their business processes. Our Services segment currently comprises two types of service offerings: Business Process Outsourcing and Document Outsourcing.

Business Process Outsourcing

BPO represented 68 percent of our total Services segment revenue in 2015. We are a leading enterprise for business process outsourcing, with expertise in managing transaction-intensive processes. We provide multi-industry offerings such as customer care, transaction processing, finance and accounting, and human resources, as well as industry focused offerings in areas such as healthcare, transportation, financial services, retail and telecommunications. We bring our BPO solutions to market through Industry Business Groups and we deliver our solutions to our customers through Global Capability Organizations.

Industry Business Groups

To enable deep client engagement and to optimize cross-selling of our broad portfolio of services solutions, we have organized our go-to-market resources into global industry business groups. The industry groups have primary responsibility for client relationships and sales, developing industry thought leadership and industry specific solutions, and ensuring service delivery meets client requirements. The industry business groups in 2015 were as follows:

- Commercial Healthcare: We have innovative solutions and subject matter expertise across the healthcare ecosystem including providers, payers, employers and government agencies. We help these customers focus on delivering better, more accessible and more affordable healthcare, which leads to better health and wellness for their constituencies. In the commercial segment of the market, we primarily serve the following constituencies:

Healthcare Payer and Pharma: We deliver administrative efficiencies to our healthcare payer and pharmaceutical clients through scalable and flexible transactional business solutions, which encompass our global delivery model and domestic payer service centers. We support nearly all of the top 20 U.S. commercial health plans, touching nearly two-thirds of the insured population in the U.S.

Healthcare Provider Solutions: We serve hospitals, doctors and other care providers, including every large health system in the U.S., with contracts in 49 of the 50 states. Our services help our clients improve access to patient data, achieve tighter regulatory compliance, realize greater operational efficiencies, reduce administrative costs and provide better health outcomes.

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Commercial Industries - High Tech and Communications, Financial Services, and Industrial, Retail and Hospitality: We have deep expertise, targeted business process solutions, and a large, diverse client base in a broad range of commercial industries including communications and media, high tech and software, banking and capital markets, insurance, manufacturing, automotive, travel and leisure, food and beverage, transportation and logistics and others.

- Public Sector: We provide services to many constituencies across the public sector space. This includes services uniquely focused on transportation-related entities as well as our broad portfolio of BPO solutions to all governmental entities.

Transportation Services: We provide revenue-generating solutions for our government clients in over 35 countries. Our services include public transit and fare collection, electronic toll collection, parking management, photo enforcement and commercial vehicle operations. We create simple and reliable processes for operators and government agencies, and we are differentiated by the breadth of our offerings and innovative technology.
State, Local and Federal Government Services: We support our government clients with services targeting key agencies within federal, state, county and municipal governments including Health and Human Services, Veterans Administration, Treasury, Safety and Justice, and Government Administration. Our depth of agency-specific expertise and scale required to deliver and manage programs at all levels of government gives us an advantaged market position. Our services span benefits collection and disbursement and electronic payment cards, tax and revenue systems, eligibility systems and services, unclaimed property services and a broad range of other business process services.

- Government Healthcare: We provide administrative and care management solutions to state Medicaid programs and federally-funded U.S. government healthcare programs. We provide a broad range of innovative solutions to 32 states and the District of Columbia. Our services include processing Medicaid claims, pharmacy benefits management, clinical program management, supporting health information exchanges, eligibility application processing and determination, management of long-term care programs, delivering public and private health insurance exchange services and care and quality management.

Global Capability Organizations
To leverage our global scale and ensure service delivery excellence across our BPO offerings, we have organized our delivery resources into global capability groups. The capability organizations have primary responsibility for implementing new client contracts and delivering service to existing clients, identifying best practices to improve cost competitiveness and innovating and implementing our next generation offerings. The 2015 global capability groups were as follows:

- Customer Care: Our teams across the globe provide expertise in customer service, technical support, sales, collections and other services via multiple channels including phone, SMS, chat, interactive voice response, social networks and email.
- Transaction Processing: We have a broad array of transaction processing capabilities across many different client types. These capabilities include data entry, scanning, image processing, enrollment processing, claims processing, high volume offsite print and mail services, file indexing and others.
- Human Resources Services: Our capabilities cover a wide range of HR outsourcing services including health, pension and retirement administration and outsourcing, private healthcare exchanges, employee service centers, learning solutions and welfare services, global mobility and relocation, payroll and others.
- Finance and Accounting: We serve clients in many industries by managing their critical finance, accounting and procurement processes. Our services span corporate finance and decision support, prepaid cards, payment processing, loan and banking process support and student loan servicing.
- Communication and Marketing Services: We provide end-to-end outsourcing for content design, creation, marketing, fulfillment and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through print and multimedia channels, including SMS, web, email and mobile media.
- Consulting and Analytics Services: Our consulting services help clients identify and capture strategic opportunities in their businesses often in conjunction with the deployment of BPO services such as those discussed above. Our analytics capabilities provide clients with deep business insights on an ongoing basis, as an add-on or embedded service offering in conjunction with BPO contracts.

In 2015, we continued to focus our portfolio and differentiate our offerings. Significant actions in 2015 included the following:

- New Operating Model: We completed the transition to our new operating model based on industry business groups and global capabilities, including investment in management and sales resources and training.

- Focus in Government Healthcare: We narrowed our focus in Government Healthcare by limiting the scope of development and deployment of new platforms, including our Health Enterprise Medicaid information system.
- Automation: We continued to successfully deploy our automation solutions, which use software to perform rules-based, repeatable tasks freeing up people for higher-value activities, to differentiate our offerings, in areas such as toll processing within Transportation Services, claims processing in Commercial Healthcare and virtual agents in Customer Care.
- Key Signings: We signed large-scale deals, including one with the state of New York to implement a new Medicaid information system based on our federally certified solution in New Hampshire and one with the state of Florida to build a consolidated customer service system for processing highway toll transactions.
- Customer Retention: We increased our renewal rate by 3-percentage points in 2015 to a rate of 84%.

Document Outsourcing

We are the industry leader in document outsourcing services. We help companies assess and optimize their print infrastructure, secure and integrate their environment and automate and simplify their business processes so that they can grow revenue, reduce costs and operate more efficiently. DO represented 32 percent of our total Services segment revenue in 2015.

Our two primary offerings within DO are Managed Print Services (MPS), including Workflow Automation and Centralized Print Services (CPS). The MPS offering targets clients ranging from large, global enterprises to mid-size and small businesses, including via our partner print services channels, and governmental entities. The CPS offering targets the on-demand, production printing, multi-channel publishing and mailroom operations needs of governments, large enterprises and mid-size businesses.

We provide the most comprehensive portfolio of MPS services in the industry and are recognized as an industry leader by several major analyst firms, including Gartner, IDC, Quocirca, Info Trends and Forrester. As the market leader in MPS, Xerox helps clients cut costs, increase productivity and meet their environmental sustainability goals while supporting their mobile and security needs. Xerox® MPS complements and provides opportunities to expand existing BPO services. Within BPO and other accounts, Xerox® MPS helps to automate workflow and enhance employee productivity.

Our Next Generation MPS and CPS offerings are built upon a three stage approach:

Assess and Optimize: We use best-in-class tools and processes to create a baseline of our client’s current spend, enabling us to design a solution that reduces our client's costs by up to 30 percent while supporting our client's sustainability goals.

Secure and Integrate: Print devices are connected in a secure and compliant way to the IT environment. In addition, mobile print solutions are activated, security is enhanced and print server and print queue management streamline the IT environment - all backed by Xerox help desk support.

Automate and Simplify: With the right technology securely integrated within our client’s IT environment, we are able to automate and digitize paper-based processes, improving employee productivity. By eliminating ineffective processes that perpetuate inefficiency and increase costs, our clients can achieve greater productivity and digital transformation. Analytics guide strategies to bring operational excellence to routine workflows as well as industry-specific processes.

In 2015 we continued to innovate and expand upon the solutions within the three stage approach with an increased emphasis on Workflow Automation Services. Significant new enhancements launched in 2015 include the following:

- Xerox Secure Print Manager Suite: services to help integrate advanced print security, control, reporting and analytics capabilities.
- Xerox Digital Alternatives: enables individuals and workgroups to complete multiple workflows within a single application without the need for paper.

- Xerox DocuShare 7.0: an on-premise or in the cloud enterprise content management (ECM) and process automation solution.

- Xerox Workflow Automation Solutions for Supply Chain Optimization: a service based solution that improves the processes between a retailer's head office, stores and back office operations.

- Xerox Workflow Automation Solutions for Loan Application Processing: an automation of loan application review process using document capture, e-forms, e-signature, content management and workflow technologies.

- Xerox Workflow Automation Solutions for Health Records Information Management: a solution that aggregates, manages and presents clinical healthcare data from diverse sources into a unified, configurable, easily accessed view: the Patient Window.

- Xerox Workflow Automation Solutions for Insurance: workflow solutions for New Business Processing and Claims Processing.

- Xerox Workflow Automation Solutions for Human Resources: three workflow solutions including HR Onboarding, Employee File Management and Policy and Procedure Administration that provide HR personnel the information they need to better streamline their HR processes.

- Xerox Workflow Automation Solutions for Finance & Accounting: workflow solutions for Accounts Payable and Accounts Receivable.

- Next Generation Xerox Partner Print Services: enabling Channel Partner expansion opportunities with Digital Alternatives, DocuShare 7.0, Client MPS Maturity Assessment and Demand Generation tools and solutions.

Document Technology Segment

Document Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (which are not related to document outsourcing contracts). Our Document Technology business is made up of strategic product groups that share common technology, manufacturing and product platforms. The strategic product groups are: Entry, Mid-Range and High-End.

In 2015, we announced a number of new Xerox products and solutions that bring our customers new ways to print, share and protect documents while working from anywhere. The development of these and future solutions solidifies our commitment at Xerox to maintaining our leadership in Document Technology.

Entry

Entry comprises desktop monochrome and color printers and multifunction printers ranging from small personal devices to workgroup printers and multifunction printers (MFPs) that serve the needs of office workgroups. Entry products represented 19 percent of our total Document Technology segment revenue in 2015 and are sold to customers in all segments from SMB to enterprise, principally through a global network of reseller partners and service providers, as well as through our direct sales force.

In 2015, we launched new Xerox devices that simplified printing from smartphones, tablets and laptops:

- The Xerox Phaser 6022 and WorkCentre 6027 (available worldwide) and the Phaser 6020 and WorkCentre 6025 (available in developing markets and Europe) represent a refresh of our personal class color portfolio. These products deliver good value to single users or small work teams through small footprints, mobility features, fast print speeds and high quality output.

- Adding wireless and mobile printing capabilities to any Ethernet-compatible printer or MFP, the Xerox Wireless Print Solutions Adapter enables legacy devices compatibility with modern workflows. This pocket-sized adapter sits next to the device and integrates with Google Cloud Print, Wi-Fi Direct, NFC tap-to-pair and Apple AirPrint.

- The Xerox ColorQube 8580 and ColorQube 8880 solid ink printers continue to offer our customers a unique solid ink value with productive, waste-conscious printing solutions that deliver exceptional print quality. Additionally they offer EnergyStar 2.0 certification and EPEAT Silver ratings.

Mid-Range

Mid-Range comprises products for enterprises of all sizes. These products are sold through dedicated Xerox branded partners, our direct sales force, indirect multi-branded channel partners and resellers worldwide. Our Mid-Range products represented 57 percent of our total Document Technology segment revenue in 2015. We are a leader in this product segment and offer a wide range of multifunction printers, copiers, digital printing presses and light production devices, and solutions that deliver flexibility and advanced features.

In 2015, we continued to innovate with a focus on expanding our security, workflow and software application capabilities through the following solutions:

- A free app, the Xerox Print Service Plug-in for Android offers Android users a simple printing workflow, much like Apple® AirPrint™ does for iOS® users.

- The Xerox® Mobile Link App allows workers that utilize both Android and iOS platforms to create personalized, one-touch workflows to automatically transmit documents to the cloud, fax, email or other destinations. One touch workflows are created once and saved as icons allowing users to easily repeat desired workflows.

- Building on an existing Xerox solution - and a Buyer's Lab Outstanding Mobile Solution for 2015 Pick - Xerox® Mobile Print Cloud 3.0 was updated with Print from Email capability and enables direct connection to cloud printing without the need for additional infrastructure.

Additionally, Xerox is focused on providing secure mobile printing by offering the Xerox PrintSafe Software solution that provides authentication security for MFPs through most industry standard card readers. This affordable solution runs on both Xerox and non-Xerox devices and has the added ability to print anywhere at any time to any MFP in a customer network.

We also launched in the U.S. the Xerox® Adaptable Accessibility Solution, a Section 508 compliant accessibility solution that operates on a standard tablet and features talk-back audio - empowering the blind, visually impaired and people with all abilities to easily access technology that enables work independence.

High-End

Our High-End digital color and monochrome solutions are designed for customers in the graphic communications industry and large enterprises with high-volume printing requirements. Our High-End products comprised 24 percent of our total Document Technology segment revenue in 2015. Our High-End solutions enable full-color, on-demand printing of a wide range of applications, including variable data for personalized content and 1:1 marketing.

During 2015, Xerox continued development and growth of our portfolio of Free Flow workflow software offerings in the High-End segment. Workflow automation is essential to our customers' success, and our workflow platforms are an outstanding complement to our world-class hardware offerings. We launched cloud solutions for FreeFlow® Core and FreeFlow® Digital Publisher, these offerings expand the reach and accessibility via a SaaS model. Additionally we launched the latest version of FreeFlow® Variable Information Suite.

Within the High-End hardware portfolio, in 2015, we continued to integrate and grow our production inkjet business, led by the Impika inkjet platforms as well as the Xerox® CiPress Production Inkjet Systems. Our newest production inkjet offering is the Xerox Rialto 900 Inkjet Press, the first fully integrated, roll-to-cut sheet press in the industry. The Rialto 900 earned several industry awards in 2015, including being named "Best in Category" among all digital presses at Graph Expo 2015. The Rialto 900 joins the Xerox Impika® eVolution, Xerox Impika® Compact and Xerox Impika® Reference in our aqueous inkjet portfolio, producing a wide range of commercial and industrial print applications for our customers. The CiPress platform is based on Xerox solid ink technology, and provides unique value as the industry's only waterless production inkjet printing system.

Additionally, we remain the worldwide leader in the cut-sheet production color and monochrome industry segments. In 2015, our most significant new product was the Xerox® iGen® 5. The iGen 5 has an optional fifth color housing that increases the ability to match a larger range of Pantone colors without hindering productivity and delivering speeds up to 150 pages per minute with outstanding print quality. A variety of color matching, job setup and quality control automation tools are also available.

We also launched the Xerox® Versant™ 80 Press, which enables full color printing at speeds up to 80 pages per minute, with outstanding Ultra HD Resolution print quality and is built with the same compact belt fuser and set of automation tools as the Versant 2100 introduced in 2014. In 2015, we delivered a number of feature enhancements across our entire cut sheet line which includes the Xerox iGen™, Xerox Color Presses, Xerox Nuvera™, DocuTech™ and DocuPrint™ series, and Xerox® Wide Format IJP 2000.

Other Segment
The Other segment includes paper sales in our developing market countries, wide-format systems, licensing revenue, Global Imaging Systems network integration solutions and non-allocated corporate items, including Other expenses, net. Paper sales comprised nearly 40% of the revenues in the Other segment in 2015, which is roughly the same as in 2014.

Geographic Information
Our global presence is one of our core strengths. Overall, 30 percent of our revenue is generated by customers outside the U.S.

In 2015, our revenues by geography were as follows: U.S. - $12,557 million (70 percent of total revenue), Europe - $3,783 million (21 percent of total revenue), and Other areas - $1,705 million (9 percent of total revenue). Revenues by geography are based on the location of the unit reporting the revenue and include export sales.

Patents, Trademarks and Licenses
Xerox and its subsidiaries were awarded 938 U.S. utility patents in 2015. On that basis, we rank 37th on the list of companies that were awarded the most U.S. patents during the year. Including our research partner Fuji Xerox, we were awarded about 1,550 U.S. utility patents in 2015. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2015, we held over 12,500 U.S. design and utility patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated or circumvented, or may not provide significant competitive advantages.

In the U.S., we are party to numerous patent-licensing agreements and, in a majority of them, we license or assign our patents to others in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2015, we added 11 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in 7 of the agreements. We are also a party to a number of cross-licensing agreements with companies that hold substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett-Packard Inc, Oce, Sharp, Samsung, Seiko Epson, Toshiba TEC and R.R. Donnelley. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 440 U.S. trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every 10 years. We vigorously enforce and protect our trademarks.

Marketing and Distribution
We operate in over 180 countries, providing the industry's broadest portfolio of document technology, services and software, and the most diverse array of business process outsourcing solutions, through a variety of distribution channels around the world. We manage our business based on the principal segments described earlier. We have organized the marketing, selling and distribution of our products and services by geography, channel type and line of business.

We go to market with a services-led approach and sell our products and services directly to customers through our world-wide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web. In addition, our wholly-owned subsidiary, Global Imaging Systems (GIS), an office technology dealer which is comprised of regional core companies in the U.S., sells document management and network integration systems and services. We continued to expand our distribution to small and mid-size businesses in 2015 through GIS's acquisition of two companies.

Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands. In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, as well as through related non-U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties who distribute our products in Sudan. Sudan, among others, has been designated as a state sponsor of terrorism by the U.S. Department of State and is subject to U.S. economic sanctions. We maintain an export and sanctions compliance program, and believe that we have been and are in compliance with U.S. laws and government regulations for Sudan. We have no assets, liabilities or operations in Sudan other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan in August 2006. Now, Xerox has only legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2015, total Xerox revenues of $18.0 billion included less than $10 thousand attributable to Sudan.

Competition

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

In the Services business, our larger competitors include Accenture, Aon, Computer Sciences Corporation, Convergys, Genpact, Hewlett-Packard Enterprise, IBM and Teletech. In addition, we compete with in-house departments that perform the functions that could be outsourced to us.

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

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

Global Employment

Globally, we have approximately 143,600 direct employees. BPO employees comprise roughly 72 percent of our total. The combination of Document Technology and Document Outsourcing, which share much of their infrastructure, makes up 25 percent of employees, while an additional 3 percent of our employees are in corporate or other areas.

Customer Financing

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

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand and proceeds from capital market offerings. At December 31, 2015, we had $4.0 billion of finance receivables and $0.5 billion of equipment on operating leases, or Total Finance assets of $4.5 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in the majority of our $7.4 billion of debt being allocated to our financing business.

Refer to "Customer Financing Activities and Debt" in the Capital Resources and Liquidity section of Management's Discussion and Analysis included in Item 7 of this 2015 Form 10-K, which is incorporated here by reference, for additional information.

Manufacturing and Supply
Our manufacturing and distribution facilities are located around the world. The Company's largest manufacturing site is in Webster, N.Y., where we produce the Xerox® iGen and Nuvera systems, components, EA Toner, consumables, fusers, photoreceptors and other products. Our other primary manufacturing operations are located in Dundalk, Ireland, for our High-End production products and consumables; Wilsonville, OR, for solid ink consumable supplies and components for our mid-range and entry products; and Aubagne, France, for Impika aqueous-ink production ink-jet systems. We also have a facility in Venray, Netherlands, that provides supplies manufacturing and supply chain management for the Eastern Hemisphere.

Our master supply agreement with Flex, a global electronics manufacturing services company, to outsource portions of manufacturing for our mid-range and entry businesses, continues through December 2016 (exclusive of extension rights). We also acquire products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements.

We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. Refer to Note 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements, which is incorporated here by reference, for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model
Our global services production model is one of our key competitive advantages. We have approximately 130 Strategic Delivery Centers located around the world, including India, Philippines, Jamaica, Mexico, Guatemala, Colombia, Brazil, Argentina, Spain, Poland and Romania. These locations are comprised of Customer Care Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. Our global production model is enabled by the use of proprietary technology, which allows us to securely distribute client transactions within data privacy limits across a global workforce. This global production model allows us to make the most of lower-cost production locations, consistent methodology and processes, time zone advantages and business continuity.

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

International Operations
The financial measures by geographical area for 2015, 2014 and 2013 that are included in Note 2 - Segment Reporting in the Consolidated Financial Statements, are incorporated here by reference. See also the risk factor entitled “Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes” in Part I, Item 1A included herein.

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

Seasonality

Our revenues are affected by such factors as the introduction of new products, the length of sales cycles and the seasonality of technology purchases and services unit volumes. These factors have historically resulted in lower revenues, operating profits and operating cash flows in the first quarter and the third quarter.

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

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

Our Internet address is www.xerox.com.

ITEM 1A. RISK FACTORS
Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes.
A significant portion of our revenue is generated from operations outside the United States. In addition, we maintain significant operations and acquire or manufacture many of our products and/or their components outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates - particularly the Japanese Yen to U.S. Dollar and Japanese Yen to Euro exchange rates, as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.
If we fail to successfully develop new products, technologies and service offerings and protect our intellectual property rights, we may be unable to retain current customers and gain new customers and our revenues would decline.
The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. In developing these new technologies and products, we rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. However, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect our competitive position. In addition, some of our products rely on technologies developed by third parties. We may not be able to obtain or to continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and newly enacted regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers' needs through the development of new products, technologies and service offerings or if we fail to adequately protect

our intellectual property rights or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

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

A significant portion of our revenues is derived from contracts with U.S. federal, state and local governments and their agencies, as well as international governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., Congressional sequestration of funds under the Budget Control Act of 2011) or other debt or funding constraints, such as those recently experienced in the United States and Europe, could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government finds that we inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. If the government discovers improper or illegal activities or contractual non-compliance in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, the negative publicity that arises from findings in such audits, investigations or the penalties or sanctions therefore could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

The planned separation of our Business Process Outsourcing (“BPO”) business from our Document Technology and Document Outsourcing business into two independent, publicly-traded companies is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline, or at all, and will involve significant time and expense, which could disrupt or adversely affect our business.

On January 29, 2016 we announced that our Board of Directors approved management’s plan to separate our BPO business from our Document Technology and Document Outsourcing business. Each of the businesses will operate as an independent, publicly-traded company. Our objective is to complete the separation by year-end 2016. The separation is subject to customary regulatory approvals, effectiveness of a Form 10 Registration Statement filing with the U.S. Securities and Exchange Commission, tax considerations, securing any necessary financing and final approval of our Board of Directors. The transaction is intended to be tax-free for our shareholders for U.S. federal income tax purposes. We also announced a three-year strategic cost transformation project targeting incremental savings of $600 million for a cumulative cost reduction of $2.4 billion when combined with savings from on-going programs.

There are numerous risks associated with the proposed separation, including, but not limited to, the risk that the proposed separation of the BPO business from the Document Technology and Document Outsourcing business will not be consummated within the anticipated time period or at all, including as the result of regulatory, market or other factors the risk of significant additional costs being incurred if the separation is delayed or does not occur at all; the risk of disruption to our business in connection with the proposed separation and that we could lose customers and/or business partners as a result of such disruption the risk that the proposed separation will require significantly more time and attention from our senior management and employees than we currently anticipate, which could distract management from the operation of our business; the risk that we may find it more difficult to attract, retain and motivate employees during the pendency of the separation and following its completion; the risk that the BPO business and Document Technology and Document Outsourcing business do not realize all of the expected benefits of the separation; the risk that, as smaller, independent companies, the BPO business and Document Technology and Document Outsourcing business will be less diversified companies with a narrower business focus and may be more vulnerable to changing market conditions and well as the risk of takeover by third parties; the risk that the yet-to-be determined credit ratings for the two publicly-traded companies may result in higher funding costs for one or both of the companies; the risk that the separation will not be tax-free for U.S. federal income tax purposes; the risk that the combined value of the common stock of the two publicly-traded companies will not be equal to or greater than what the value of Xerox common stock would have been had the separation not occurred; and the risk that the expected amount of cost reductions under the cost transformation program will not be realized.

The potential negative impact of the events described above could have a material adverse effect on our business, financial condition, results of operations and prospects, whether we are constituted as two independent publicly-traded companies after the proposed separation is completed or as one company as currently constituted.

We derive significant revenue and profit from commercial and federal government contracts awarded through competitive bidding processes, including renewals, which can impose substantial costs on us, and we will not achieve revenue and profit objectives if we fail to accurately and effectively bid on such projects.

Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and proposals. Competitive bidding imposes substantial costs and presents a number of risks, including: (i) the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us; (ii) the need to estimate accurately the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of their full scope and design; (iii) the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding, and the risk that such protests or challenges could result in the requirement to resubmit bids, and in the termination, reduction, or modification of the awarded contracts; and (iv) the opportunity cost of not bidding on and winning other contracts we might otherwise pursue. Adverse events or developments in any of these bidding risks and uncertainties could materially and negatively impact our business, financial condition, results of operations and cash flow.

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

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

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

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

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

Our success depends on our ability to obtain adequate pricing for our services and products and that will provide a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our services and products may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our services and products, it could materially adversely affect our results of operations and financial condition. In addition, our services contracts are increasingly requiring tighter timelines for implementation as well as more stringent service level metrics. This makes the bidding process for new contracts much more difficult and requires us to adequately consider these requirements in the pricing of our services.

We continually review our operations with a view towards reducing our cost structure, including reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We from time to time engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions, it could materially adversely affect our results of operations and financial condition. In addition, in order to continually meet the service requirements of our customers, which often includes 24/7 service, and to optimize our employee cost base including our back-office support, we often locate our delivery service and back-office support centers in lower-cost locations, including several developing countries. Concentrating our centers in these locations presents a number of operational risks, many of which are beyond our control, including the risks of political instability, natural disasters, safety and security risks, labor disruptions; excessive employee turnover and rising labor rates. These risks could impair our ability to effectively provide services to our customers and keep our costs aligned to our associated revenues and market requirements.

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

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

We receive, process, transmit and store information relating to identifiable individuals, both in our role as a service and technology provider and as an employer. As a result, we are subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations designed to protect individually identifiable information, including the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the HIPAA regulations governing, among other things, the privacy, security and electronic transmission of individually identifiable health information, and the European Union Directive on Data Protection (Directive 95/46/EC). Other United States (both federal and state) and foreign jurisdiction laws apply to our processing of individually identifiable information and these laws have been subject to frequent changes, and new legislation in this area may be enacted at any time. For example, the recent invalidation of the U.S.-EU Safe Harbor regime will require us to implement alternative mechanisms in order for some of our data flows from Europe to the United States to comply with applicable law. Changes to existing laws, introduction of new laws in this area, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process information and allegations by our customers and clients that we have not performed our contractual obligations, any of which may have a material adverse effect on our profitability and cash flow.

We are subject to breaches of our security systems and service interruptions which could expose us to liability, impair our reputation or temporarily render us unable to fulfill our service obligations under our contracts.

We have implemented security systems with the intent of maintaining the physical security of our facilities and protecting our customers', clients' and suppliers' confidential information and information related to identifiable individuals against unauthorized access through our information systems or by other electronic transmission or through the misdirection, theft or loss of physical media. These include, for example, the appropriate encryption of information. Despite such efforts, we are subject to breach of security systems which may result in unauthorized access to our facilities and/or the information we are trying to protect. Because the techniques used to obtain unauthorized access are constantly changing and becoming increasingly more sophisticated and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement sufficient preventative measures. If unauthorized parties gain physical access to one of our facilities or electronic access to our information systems or such information is misdirected, lost or stolen during transmission or transport, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers and clients that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow. We also maintain various systems and data centers for our customers. Often these systems and data centers must be maintained worldwide and on a 24/7 basis. Although we endeavor to ensure that there is adequate back-up and maintenance of these systems and centers, we could experience service interruptions that could result in curtailed operations and loss of customers, which would reduce our revenue and profits in addition to impairing our reputation.

Our ability to recover capital investments in connection with our contracts is subject to risk.
In order to attract and retain large outsourcing contracts, we sometimes make significant capital investments to enable us to perform our services under the contracts, such as purchases of information technology equipment and costs incurred to develop and implement software. The net book value of such assets recorded, including a portion of our intangible assets, could be impaired, and our earnings and cash flow could be materially adversely affected in the event of the early termination of all or a part of such a contract or a reduction in volumes and services thereunder for reasons such as a customer's or client's merger or acquisition, divestiture of assets or businesses, business failure or deterioration, or a customer's or client's exercise of contract termination rights.
Our services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts.
In order for our services business to continue its growth, we must successfully manage the start-up of services related to new contracts. If a client is not satisfied with the quality of work performed by us or a subcontractor, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client or obtain new work from other potential clients. In particular, clients who are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date, which may result in our inability to fully recover our up-front investments. In addition, clients could direct future business to our competitors. We could also trigger contractual credits to clients or a contractual default. Failure to properly transition new clients to our systems, properly budget transition costs or accurately estimate new contract operational costs could result in delays in our contract performance, trigger service level penalties, impair fixed or intangible assets or result in contract profit margins that do not meet our expectations or our historical profit margins.
In addition, we incur significant expenditures for the development and construction of system software platforms needed to support our clients' needs. Our failure to fully understand client requirements or implement the appropriate operating systems or databases or solutions which enable the use of other supporting software may delay the project and result in cost overruns or potential impairment of the related software platforms.
If we are unable to collect our receivables for unbilled services, our results of operations, financial condition and cash flows could be adversely affected.
The profitability of certain of our large services contracts depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. Actual losses on client balances could differ from current estimates and, as a result, may require adjustment of our receivables for unbilled services. Our receivables include long-term contracts and over the course of a long-term contract, our customers' financial condition may change such that their ability to pay their obligations, and our ability to collect our fees for services rendered, is adversely affected. Additionally, we may perform work for the federal, state and local governments, with respect to which we must file requests for equitable adjustment or claims with the proper agency to seek recovery in whole or in part, for out-of-scope work directed or caused by the government customer in support of its project, and the amounts of such recoveries may not meet our expectations or cover our costs. Macroeconomic conditions could result in financial difficulties, including limited access to the credit markets, insolvency or bankruptcy, for our clients and, as a result,

could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments (for example, achieve specified milestones in percentage-of-completion contracts) and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

We have outsourced a significant portion of our overall worldwide manufacturing operations and increasingly are relying on third-party manufacturers, subcontractors and external suppliers.

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

In addition, in our services business we may partner with other parties, including software and hardware vendors, to provide the complex solutions required by our customers. Therefore, our ability to deliver the solutions and provide the services required by our customers is dependent on our and our partners' ability to meet our customers' requirements and schedules. If we or our partners fail to deliver services or products as required and on time, our ability to complete the contract may be adversely affected, which may have an adverse impact on our revenue and profits.

We need to successfully manage changes in the printing environment and market because our operating results may be negatively impacted by lower equipment placements and usage trends.

The printing market and environment is changing significantly as a result of new technologies, shifts in customer preferences in office printing and the expansion of new printing markets. Examples include mobile printing, color printing, continuous feed inkjet printing and the expansion of the market for entry products (A4 printers) and high-end products (B1/B2 printers). A significant part of our strategy and ultimate success in this changing market is our ability to develop and market technology that produces products and services that meet these changes. Our future success in executing on this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market. If we are unable to develop and market advanced and competitive technologies, it may negatively impact expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be further enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, enterprise managed print services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct and indirect sales productivity and expand and successfully manage our indirect distribution channels in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix and price of color pages, equipment utilization and color adoption, as well as our ability to retain a high level of supplies sales in unbundled contracts. Equipment placements typically occur through leases with original terms of three to five years. There will be a lag between the increase in equipment placements and an increase in post sale revenues. In addition, with respect to our indirect distribution channels, many of our partners may sell competing products, further increasing the need to successfully manage our relationships with our partners to ensure they meet our specific sale and distribution requirements for equipment placements and post sale revenues. If we are unable to maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

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

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

Our ability to deliver services could be impaired if we are unable to hire or retain qualified personnel in certain areas of our business, which could result in decreased revenues or additional costs.

At times, we have experienced difficulties in hiring personnel with the desired levels of training or experience. In regard to the labor-intensive business of the Company, quality service and adequate internal controls depend on our ability to retain employees and manage personnel turnover. An increase in the employee turnover rate or our inability to recruit and retain qualified personnel could increase recruiting and training costs and potentially decrease revenues or decrease our operating effectiveness and productivity. We may not be able to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects. Additionally, we need to identify managerial personnel in emerging markets and lower-cost locations where the depth of skilled employees is often limited and competition for these resources is intense. If we are unable to develop and retain these managerial employees with leadership capabilities our ability to successfully manage our business units could be impaired.

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

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

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

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

The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). At December 31, 2015, we were in full compliance with the covenants and other provisions of the Credit Facility. Failure to comply with material provisions or covenants in the Credit Facility could have a material adverse effect on our liquidity, results of operations and financial condition.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

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

As a result of implementing our restructuring programs (refer to Note 11 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements, which is incorporated here by reference) as well as various productivity initiatives, several leased and owned properties became surplus. We are obligated to maintain our leased surplus properties through required contractual periods. We have disposed or subleased certain of these properties and are actively pursuing the successful disposition of remaining surplus properties.

In June 2015 we completed the sale of our ITO business to Atos. The sale resulted in the transfer of 57 leases and 4 owned buildings to Atos and reduced our property portfolio by 1.3 million square feet and our operating costs by $31 million per year.

We also own or lease numerous facilities globally, which house general offices, sales offices, service locations, data centers, call centers and distribution centers. The size of our property portfolio at December 31, 2015 was approximately 30 million square feet at an annual operating cost of approximately $520 million and was comprised of 1,505 leased properties and 131 owned properties (of which 74 are located on our Webster, New York campus). It is our opinion that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform their functions. We believe that our current facilities are suitable and adequate for our current businesses.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under Note 18 "Contingencies and Litigation" in the Consolidated Financial Statements is incorporated here by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

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

Stock Exchange Information

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2015				
High	$14.00	$13.26	$11.37	$10.88
Low	12.59	10.64	9.49	9.29
Dividends declared per share	0.07	0.07	0.07	0.07
2014				
High	$12.44	$12.92	$14.05	$14.32
Low	10.30	11.06	12.20	12.21
Dividends declared per share	0.0625	0.0625	0.0625	0.0625

*Price as of close of business.

In January 2016, the Board of Directors approved an increase in the Company's quarterly cash dividend from 7.00 cents per share to 7.75 cents per share, beginning with the dividend payable on April 29, 2016.

Common Shareholders of Record

See Item 6 - Selected Financial Data, Five Years in Review, Common Shareholders of Record at Year-End, which is incorporated here by reference.

PERFORMANCE GRAPH

Total Return To Shareholders

	Year Ended December 31,					
(Includes reinvestment of dividends)	2010	2011	2012	2013	2014	2015
Xerox Corporation	$100.00	$70.46	$61.75	$112.78	$131.00	$103.09
S&P 500 Index	100.00	102.11	118.45	156.82	178.29	180.75
S&P 500 Information Technology Index	100.00	102.41	117.59	151.03	181.40	192.15

Source: Standard & Poor's Investment Services
Notes: Graph assumes $100 invested on December 31, 2010 in Xerox, the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER ENDED DECEMBER 31, 2015

During the quarter ended December 31, 2015, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Dividend Equivalent

(a) Securities issued on October 31, 2015: Registrant issued 5,522 deferred stock units (DSUs), representing the right to receive shares of Common stock, par value $1 per share, at a future date.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen Rusckowski, Sara Martinez Tucker, and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $9.635 per DSU (aggregate price $53,204), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.

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

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2015

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

Board Authorized Share Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(2)
October 1 through 31	—	$—	—	$244,710,381
November 1 through 30	—	—	—	244,710,381
December 1 through 31	—	—	—	244,710,381
Total	—		—	

(1) Exclusive of fees and costs.

(2) Of the cumulative $8.0 billion of share repurchase authority granted by our Board of Directors, exclusive of fees and expenses, approximately $7.8 billion has been used through December 31, 2015. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission’s Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
October 1 through 31	107,619	$9.64	n/a	n/a
November 1 through 30	201	9.75	n/a	n/a
December 1 through 31	1,175	10.88	n/a	n/a
Total	108,995			

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

(2) Exclusive of fees and costs.

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEARS IN REVIEW
(in millions, except per-share data)

	2015	2014 (1)	2013	2012	2011
Per-Share Data					
Income from continuing operations					
Basic	$0.50	$0.96	$0.91	$0.87	$0.86
Diluted	0.49	0.94	0.89	0.85	0.84
Net Income Attributable to Xerox					
Basic	0.42	0.86	0.93	0.90	0.92
Diluted	0.42	0.85	0.91	0.88	0.90
Common stock dividends declared	0.28	0.25	0.23	0.17	0.17
Operations					
Revenues	$18,045	$19,540	$20,006	$20,421	$20,638
Sales	4,748	5,288	5,582	5,827	6,265
Outsourcing, maintenance and rentals	12,951	13,865	13,941	13,997	13,741
Financing	346	387	483	597	632
Income from continuing operations	570	1,151	1,159	1,180	1,252
Income from continuing operations - Xerox	552	1,128	1,139	1,152	1,219
Net income	492	1,036	1,179	1,223	1,328
Net income - Xerox	474	1,013	1,159	1,195	1,295
Financial Position					
Working capital	$1,431	$2,798	$2,825	$2,363	$1,531
Total Assets	24,817	27,658	29,036	30,015	30,116
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	$985	$1,427	$1,117	$1,042	$1,545
Long-term debt	6,382	6,314	6,904	7,447	7,088
Total Debt(2)	7,367	7,741	8,021	8,489	8,633
Series A convertible preferred stock	349	349	349	349	349
Xerox shareholders' equity	9,074	10,678	12,300	11,521	11,876
Noncontrolling interests	43	75	119	143	149
Total Consolidated Capitalization	$16,833	$18,843	$20,789	$20,502	$21,007
Selected Data and Ratios					
Common shareholders of record at year-end	33,843	35,307	37,552	39,397	41,982
Book value per common share	$8.96	$9.56	$10.35	$9.41	$8.88
Year-end common stock market price	$10.63	$13.86	$12.17	$6.82	$7.96

(1) 2014 was revised for a deferred tax liability adjustment related to a change in tax law. Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies in our Consolidated Financial Statements, which is incorporated here by reference, for additional information.
(2) Includes capital lease obligations.

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

The following Management's Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes. Throughout the MD&A, we refer to various notes to our Consolidated Financial Statements which appear in Item 8 of this 2015 Form 10-K, and the information contained in such notes is incorporated by reference into the MD&A in the places where such references are made.

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 revenues of $18.0 billion we are a leader across large, diverse and growing markets estimated at nearly $365 billion. The global business process outsourcing market is very broad, encompassing multi-industry business processes as well as industry-specific business processes, and our addressable market is estimated at almost $275 billion. The document management market is estimated at about $90 billion and is comprised of the document systems, software, solutions and services that our customers have relied upon for years to help run their businesses and reduce their costs. Xerox led the establishment of the managed print services market, and continues today as the industry leader in this expanding market segment.

Headquartered in Norwalk, Connecticut, the 143,600 people of Xerox serve customers in more than 180 countries providing business services, printing equipment and software for commercial and government organizations. In 2015, 30% of our revenue was generated outside the U.S.

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

- Our Services segment is comprised of business process outsourcing (BPO) and document outsourcing (DO) services.
- Our Document Technology segment is comprised of our document technology and related supplies, technical service and equipment financing (excluding contracts related to document outsourcing). Our product groups within this segment include Entry, Mid-Range and High-End products.

Annuity-Based Business Model

In 2015, 85% of our total revenue was annuity-based, which includes contracted outsourcing services, equipment maintenance services, 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, which reflects the estimated future revenues from contracts signed during the period, i.e., Total Contract Value (TCV).
- Services renewal rate, which is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period, calculated as a percentage of ARR on all contracts where a renewal decision was made during the period.
- Services pipeline growth, which measures the increase in new business opportunities.
- Installations of printers and multifunction devices as well as the number of machines in the field (MIF) and the page volume and mix of pages printed on color devices, where available.

Planned Company Separation
On January 29, 2016, we announced that our Board of Directors had approved management's plan to separate the Company's Business Process Outsourcing business from its Document Technology and Document Outsourcing businesses. Each of the businesses will operate as an independent, publicly-traded company. Leadership and the names of the two companies will be determined as the process progresses. The transaction is intended to be tax-free for Xerox shareholders for federal income tax purposes.

Xerox will begin the process to separate while we finalize the transaction structure. Our objective is to complete the separation by year-end 2016, subject to customary regulatory approvals, the effectiveness of a Form 10 filing with the U.S. Securities and Exchange Commission, tax considerations, securing any necessary financing and final approval of the Xerox Board of Directors. Until the separation is complete, we will continue to operate and report as a single company, and it will continue to be business as usual for our customers and employees.

As part of the planned separation, Xerox also announced that we will implement a three-year strategic transformation program targeting incremental savings of $600 million across all segments for a cumulative cost reduction of $2.4 billion over the three years when combined with savings from on-going programs.

Acquisitions and Divestitures
Consistent with our strategy to enhance our Services offerings and global presence and to expand our distribution capabilities in Document Technology, we completed several acquisitions during 2015. Refer to Acquisitions and Divestitures section in Item 1. Business in this Form 10-K as well as Note 3 - Acquisitions in our Consolidated Financial Statements for additional information regarding our 2015 acquisitions.
In December 2014, we announced an agreement to sell our Information Technology Outsourcing (ITO) business to Atos and began reporting it as a Discontinued Operation. The sale was completed on June 30, 2015. Refer to Note 4 - Divestitures in our Consolidated Financial Statements for additional information.
Significant 2015 Charges
During 2015, we announced several changes regarding the strategic direction of our Government Healthcare Solutions (GHS) business, specifically with respect to the implementation of our Health Enterprise (HE) Medicaid platform. In October 2015, we determined that we would not fully complete the implementation of the platform in California and Montana. This determination resulted in recording a pre-tax charge (HE charge) of $389 million ($241 million after-tax) in the third quarter 2015. $116 million of the charge was recorded as a reduction to revenues and the remaining $273 million was recorded to Cost of outsourcing, maintenance and rentals. This development followed the GHS strategy change announced in July 2015, regarding our decision to focus our future HE implementations on current Medicaid customers and to discontinue investment in and sales of the Xerox Integrated Eligibility System. This change in strategy resulted in pre-tax non-cash software platform impairment charges of $146 million in the second quarter 2015. Refer to the "Government Healthcare Strategy Change" section of the "Services Segment" review for further details of these decisions and charges.
As a result of the significant impact of the HE charge and the software impairment charges on our reported revenues, earnings and key metrics for the period, we are also discussing our results excluding the impact of these charges. These adjusted results are noted as "adjusted[1]" in the discussion below. Refer to the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.
Financial Overview
Total revenue of $18.0 billion in 2015 declined 8% from the prior year, with a 4-percentage point negative impact from currency. On an adjusted[1] basis, excluding the HE charge, total revenues decreased 7%, with a 4-percentage point negative impact from currency. Services segment revenues decreased 4%, with a 3-percentage point negative impact from currency. On an adjusted[1] basis Services segment revenues decreased 3%, with a 3-percentage point negative impact from currency, reflecting a 1% constant currency decrease in BPO revenues offset by a 3% increase in DO revenues. Services segment margin of 4.4% decreased 4.6-percentage points. On an adjusted[1] basis segment margin was 8.1% and decreased 0.9-percentage points primarily due to targeted resource and other investments and

increased expenses associated with our GHS HE platform implementations prior to the change in strategy. Document Technology segment revenues declined 12%, with a 4-percentage point negative impact from currency reflecting lower sales of entry products particularly in developing markets and to OEM customers and lower supplies demand as well as continued price and page declines. Document Technology segment margin of 11.9% decreased 1.8-percentage points from 2014, reflecting unfavorable product mix and price declines, within our historical range, and an increase in pension expense partially offset by restructuring and productivity benefits.

2015 Net income from continuing operations attributable to Xerox was $552 million and included the $241 million after-tax HE charge and $90 million after-tax GHS software impairment charges as well as $193 million of after-tax amortization of intangible assets. Net income from continuing operations attributable to Xerox for 2014 was $1,128 million and included $196 million of after-tax amortization of intangible assets. The decrease in net income, after consideration of the noted charges, is primarily due to the profit decline in both the Services and Document Technology segments.

Cash flow from operations was $1.6 billion in 2015 as compared to $2.1 billion in 2014. The decrease in operating cash flow was primarily due to lower earnings and the elimination of cash flows from the divested ITO business. Cash provided by investing activities of $508 million primarily reflects net proceeds from the sale of the ITO business of approximately $930 million partially offset by capital expenditures of $342 million and acquisitions of $210 million. Cash used in financing activities was $2.1 billion, reflecting $1.3 billion for share repurchases, $370 million of net payments on debt and $326 million for dividends.

2016 Outlook

We expect total revenues to decline 2 to 4% in 2016, excluding the impact of currency. At mid January 2016 exchange rates, we expect currency to have about a 1 to 2 percentage point negative impact on total revenues in 2016, reflecting the continued weakening of our major foreign currencies against the U.S. dollar as compared to prior year. Earnings in 2016 are expected to reflect margin improvements in the Services segment and a Document Technology margin generally consistent with 2015. Refer to the "2016 Segment Reporting Change" section for a discussion of planned changes in the measurement of segment revenues and profits in 2016. The discussion below reflects those changes and the "2016 Segment Reporting Change" section includes a summary of revised segment results for 2015 on the new basis for comparison purposes.

In our Services business, we expect flat to 3% revenue growth, excluding the impact of currency, with revenue growth improving through the year driven by continued growth in signings. Services margins are expected to improve and be in the range of 8 to 9.5% in 2016 as we continue to focus on productivity and cost improvements, capturing additional efficiencies, including streamlining and automating more of our service delivery capabilities, and continued improvements to our business mix with a greater proportion of revenue from higher value offerings.

In our Document Technology business, we expect revenue to decline 5 to 7%, excluding the impact of currency, as we continue to face secular declines in these markets. We expect to offset these expected declines through continued cost management as well as the benefits from productivity and restructuring actions. 2016 margins in Document Technology are expected to be in the range of 12 to 14%, in line with 2015.

We expect 2016 cash flows from operations to be between $1.3 and $1.5 billion in 2016 and capital expenditures to be approximately $300 million.

Our capital allocation plan for 2016 includes the following:

- Share repurchase and dividends – we plan to spend more than 50% of free cash flow (cash flow from operations less capital expenditures) on dividends and share repurchases. We recently announced an 11% increase in the quarterly dividend to 7.75 cents per share, beginning with the dividend payable on April 29, 2016. This will result in common dividends of approximately $300 million in 2016, which is in line with prior year as share repurchases effectively self-fund the increase.
- Debt – we will manage our debt to maintain our investment grade rating.
- Acquisitions – we expect to invest between $100 and $400 million, focusing on acquiring companies that will expand our capabilities in attractive markets of our Services and Document Technology segments. We will maintain the disciplined approach we have established for evaluating and completing acquisitions.

Currency Impact

To understand the trends in our 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” or "constant currency". In 2015 and 2014, 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. Our calculation of this impact currently excludes the exchange impact from our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe). Revenues and expenses for these countries are analyzed at actual exchange rates for all periods presented, since these countries generally had unpredictable currency and inflationary environments, and our operations in these countries have historically been able to implement pricing actions to recover the impact of inflation and devaluation.

Approximately 30% 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 16% stronger in 2015 and flat in 2014, each compared to the prior year. As a result, the foreign currency translation had a 4-percentage point negative impact on revenue in 2015 and no impact on revenue in 2014. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

The weakness of our major currencies against the U.S. Dollar is expected to remain an unfavorable revenue impact in 2016. At mid January 2016 exchange rates, we expect currency to have about a 1 to 2 percentage point negative impact on full-year 2016 revenues with a higher impact in the first half of the year than the second half.

In 2016 we plan to revise our calculation of the currency impact on revenue growth to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which, as noted above, are currently excluded from the calculation. Over the past few years, the exchange markets for the currencies of all countries - developed countries and developing market countries - have experienced significant volatility and unpredictability. Additionally, due to the changing nature of the global economy and the increased economic dependencies among all countries, the currency exchange markets in the developing market countries are no longer materially different from those in the developed countries. As a result of these market dynamics and economic changes, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries; therefore, the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. Applying this revised methodology in 2015 would have increased the negative impact from currency by about 1% for both the Total Company and the Document Technology segment revenues. The impact of this change was not material for 2014.

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 - Basis of Presentation and Summary of Significant Accounting Policies in the Consolidated Financial Statements.

Revenue Recognition

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

- Bundled Lease Arrangements,
- Sales to Distributors and Resellers and
- Services - Percentage-of-Completion

Bundled Lease Arrangements: We sell our equipment under bundled lease arrangements, which typically include the equipment, service, supplies and a financing component for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 38% of our equipment sales revenue is related to sales made under bundled lease arrangements. Recognizing revenues under these arrangements requires us to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

Sales to Distributors and Resellers: We utilize distributors and resellers to sell many of our technology products, supplies and services to end-user customers. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions and allowances for these programs as a reduction to revenue when the sales occur. Similarly, we also record estimates for sales returns and other discounts and allowances when the sales occur. We consider various factors, including a review of specific transactions and programs, historical experience and market and economic conditions when calculating these provisions and allowances. Approximately 11% of our revenues includes sales to distributors and resellers, and provisions and allowances recorded on these sales are approximately 23% of the associated gross revenues.

Revenue Recognition for Services - Percentage-of-Completion: A portion of our Services revenue is recognized using the percentage-of-completion (POC) accounting method. This method requires the use of estimates and judgment. Approximately 2% of our Services revenues were recognized using the POC accounting method. Although not significant to total Services revenue, the POC methodology is normally applied to certain of our larger and longer term outsourcing contracts involving system development and implementation services, primarily in government healthcare and certain government transportation contracts. In addition, we had unbilled receivables totaling $229 million and $360 million at December 31, 2015 and 2014, respectively, representing revenues recognized but not yet billable under the terms of our POC contracts. The decrease in unbilled revenues in 2015 is primarily due to developments in certain implementations of our Health Enterprise (HE) Medicaid platform - see below.

The POC accounting methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed based on a current cumulative cost incurred to estimated total cost basis and a reasonably consistent profit margin over the period. Due to the long-term nature of these arrangements, developing the estimates of cost often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs. Such revisions are reflected in income in the period in which the facts that give rise to that revision become known. We perform ongoing profitability analysis of our POC services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to complete each contract are future labor costs, future product costs, expected productivity efficiencies, achievement of contracted milestones and performance goals as well as potential penalties for milestone and system implementation delays.

If at any time our estimates indicate the POC contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost of services and results in the contract being recorded at a zero profit margin with recognition of an equal amount of revenues and costs.

As noted previously, we apply the POC accounting method for arrangements in our government healthcare business. This includes the implementation of our HE Medicaid platform for various states in the U.S. Changes in the healthcare market, including evolving regulations, have continued to impact our development work and project scope for these arrangements including the development work required by our clients and their providers. This has contributed to delays in meeting client delivery dates as well as increased delivery costs for these contracts. In addition, the POC estimation process is particularly complex and challenging for these arrangements due to their significant scope and duration and the highly technical nature of the implementations. As a result, throughout the respective development and implementation periods, there is the potential for additional changes in contract costs, productivity, performance penalties and other factors, all of which may result in material increases or decreases in future revenues and costs.
As an example, during 2015 it was determined that we would not fully complete the HE Medicaid platform implementation projects in California and Montana. Revenues associated with these implementations were being recognized using the POC accounting method. As a result of the determination that we will not fully complete these implementations, we recorded a $116 million write-off of unbilled POC receivables associated with these projects and additional charges of $273 million. Based on the significance of these projects, we continually monitor the progress on our remaining HE Medicaid platform implementations and consider the potential for increased costs as well as risks and uncertainties in our estimates of revenues and costs under the POC accounting methodology. To the extent possible, we attempt to mitigate these risks through operational changes, project oversight and process improvements. Total unbilled receivables associated with our current HE Medicaid implementation projects were $51 million at December 31, 2015.

Allowance for Doubtful Accounts and Credit Losses

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We recorded bad debt provisions of $53 million, $53 million and $120 million in Selling, Administrative and General Expenses (SAG) expenses in our Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013, respectively.
Bad debt provisions remained fairly flat in 2015 reflecting a consistent trend in write-offs throughout the year as well as a continued disciplined credit process. Reserves, as a percentage of trade and finance receivables, were 3.0% at December 31, 2015, as compared to 3.1% and 3.4% at December 31, 2014 and 2013. 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.
As discussed above, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the five year period ended December 31, 2015, our reserve for doubtful accounts ranged from 3.0% to 3.4% of gross receivables. Holding all assumptions constant, a 0.5-percentage point increase or decrease in the reserve from the December 31, 2015 rate of 3.0% would change the 2015 provision by approximately $33 million.
Refer to Note 5 - Accounts Receivables, Net and Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our defined benefit pension plans. These factors include assumptions we make about the expected return on plan assets, discount rate, lump-sum settlement rates, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic benefit cost over future periods. Over the past several years, we have amended several of our major defined benefit pension plans to freeze current benefits and eliminate benefit accruals for future service. The freeze of current benefits is the primary driver of the reduction in pension service costs since 2013. In certain plans we are required by law or statute to continue to reflect salary increases and inflation in determining the benefit obligation related to prior service.
Cumulative net actuarial losses for our defined benefit pension plans of $3.1 billion as of December 31, 2015 decreased by $223 million from December 31, 2014, reflecting the decrease in our benefit obligations as a result of

higher discount rates and the recognition of actuarial losses through amortization and U.S. settlement losses. These impacts were partially offset by losses as a result of actual plan asset returns being less than expected returns in

2015. The total actuarial loss at December 31, 2015 is subject to offsetting gains or losses in the future due to changes in actuarial assumptions and will be recognized in future periods through amortization or settlement losses.
We used a consolidated weighted average expected rate of return on plan assets of 6.0% for 2015, 6.7% for 2014 and 6.7% for 2013, on a worldwide basis. During 2015, the actual return on plan assets was $(89) million as compared to an expected return of $376 million, with the difference largely due to negative returns in the equity markets in 2015. When estimating the 2016 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 2016 is 5.8%. The decline in the 2016 rate primarily reflects the increased investment in fixed income securities as we reposition our investment portfolios in light of the freeze of plan benefits.
Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. In the U.S. and the U.K., which comprise approximately 77% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2015 and to calculate our 2016 expense was 3.7%; the rate used to calculate our obligations as of December 31, 2014 and our 2015 expense was 3.4%. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2015 and to calculate our 2016 expense was 4.1%; the rate used to calculate our obligation at December 31, 2014 and our 2015 expense was 3.8%.
Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2016 projected net periodic pension cost by approximately $30 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2016 projected net periodic pension cost by $19 million.
One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through the receipt of a lump-sum payment. We recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were $3.1 billion at December 31, 2015, of which the U.S. primary domestic plans represented approximately $1,101 million. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs - i.e. the lump-sum payment is made. Since settlement is dependent on an employee's decision and election, the level of settlements and the associated losses can fluctuate significantly from period to period. During the three years ended December 31, 2015, U.S. plan settlements were $340 million, $250 million and $838 million, respectively, and the associated settlement losses on those plan settlements were $88 million, $51 million and $162 million, respectively. In 2016, on average, approximately $100 million of plan settlements will result in settlement losses of approximately $25 million.
The following is a summary of our benefit plan costs for the three years ended December 31, 2015 as well as estimated amounts for 2016:

	Estimated	Actual		
(in millions)	2016	2015	2014	2013
Defined benefit pension plans[(1)]	$56	$54	$31	$105
U.S. settlement losses	124	88	51	162
Defined contribution plans	106	100	102	89
Retiree health benefit plans[(2)]	37	24	3	1
U.S. Retiree health curtailment gain	—	(22)	—	—
Total Benefit Plan Expense	$323	$244	$187	$357

(1) Excludes U.S. settlement losses.

(2) Excludes U.S. retiree health curtailment gain.

Our estimated 2016 defined benefit pension plan cost is expected to be approximately $38 million higher than 2015, primarily driven by higher projected U.S. settlement losses. The increase in expense associated with Retiree health

benefit plans is primarily due to lower prior service credits as a result of a curtailment of our U.S. Retiree health benefit plan during 2015. Benefit plan costs are included in several income statement components based on the related underlying employee costs.
The following is a summary of our benefit plan funding for the three years ended December 31, 2015 as well as estimated amounts for 2016:

	Estimated	Actual		
(in millions)	2016	2015	2014	2013
Defined benefit pension plans:	$140	$309	$284	$230
Defined contribution plans	106	100	102	89
Retiree health benefit plans	70	63	70	77
Total Benefit Plan Funding	$316	$472	$456	$396

The decrease in contributions to our worldwide defined benefit pension plans in 2016 is largely due to not including any planned contribution for our domestic tax-qualified defined benefit plans because none are required to meet the minimum funding requirements. However, once the January 1, 2016 actuarial valuations and projected results as of the end of the 2016 measurement year are available, the desirability of additional contributions will be reassessed. Based on these results, we may voluntarily decide to contribute to these plans.

Refer to Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding defined benefit pension plan assumptions, expense and funding.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the consolidated provision for income taxes. Our provision is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our provision will change based on discrete or other nonrecurring events such as audit settlements, tax law changes, changes in valuation allowances, etc., that may not be predictable.

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Adjustments to our valuation allowance, through (credits)/charges to income tax expense, were $(3) million, $(20) million and $2 million for the years ended December 31, 2015, 2014 and 2013, respectively. There were other decreases to our valuation allowance, including the effects of currency, of $125 million, $56 million and $42 million for the years ended December 31, 2015, 2014 and 2013, 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 $3.1 billion and $3.4 billion had valuation allowances of $410 million and $538 million at December 31, 2015 and 2014, 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 $247 million, $240 million and $267 million at December 31, 2015, 2014 and 2013, respectively.

Refer to Note 17 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding deferred income taxes and unrecognized tax benefits.

Business Combinations and Goodwill

The 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 valuation firms. Refer to Note 3 - Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

As a result of our acquisition of Affiliated Computer Services, Inc. (ACS) in 2010, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill at December 31, 2015 was $8.8 billion. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors, supply costs, unanticipated competitive activities and acts by governments and courts.

Application of the annual goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and the assessment-qualitatively or quantitatively - of the fair value of each reporting unit against its carrying value. At December 31, 2015, $6.5 billion and $2.3 billion of goodwill was allocated to reporting units within our Services and Document Technology segments, respectively. Our Services segment is comprised of five reporting units while our Document Technology segment is comprised of one reporting unit for a total of six reporting units with goodwill balances.

Our annual impairment test of goodwill was performed in the fourth quarter of 2015. Consistent with 2014, we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for each of our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit by weighting the results from the income approach (discounted cash flow methodology) and market approach. These valuation approaches require significant judgment and consider a number of factors that include, but are not limited to, expected future cash flows, growth rates and discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our businesses.

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

In performing our 2015 impairment test, the following were the 3-year compounded assumptions for Document Technology and the five reporting units within our Services segment with respect to revenue, operating income and margins, which formed the basis for estimating future cash flows used in the discounted cash flow model:

- Document Technology - Continued revenue declines with a flattening over the long-term. Operating income - flat and operating margin - 9% to 11% - as we continue to manage costs to match expected decline in revenues.
- Services - Revenues flat to single digit growth over the long-term, as we look to expand in key segments of the outsourcing services market. Operating income growth - 11% to 12% - and operating margin - 9% to 10% - as we benefit from revenue growth while improving the mix of services and our cost structure through restructuring and productivity improvements.

We believe these assumptions are appropriate and reflect our forecasted long-term business model, giving appropriate consideration to our historical results as well as the current economic environment and markets that we serve. The average discount rate applied to our projected cash flows was approximately 9.0%, which we considered reasonable based on the estimated capital costs of applicable market participants. Although the sum of the fair values of our reporting units was in excess of our market capitalization, we believe the difference is reasonable when market-based control premiums and other factors are taken into consideration, including the evolution of our

business to be predominantly services-based.
Our impairment assessment methodology includes the use of outside valuation experts and the inclusion of factors and assumptions related to third-party market participants. When performing our market approach for each reporting unit, we rely specifically on the guideline public company method. Our guideline public company method incorporates revenues and earnings multiples from publicly traded companies with operations and other characteristics similar to each reporting unit. The selected multiples consider each reporting unit's relative growth, profitability, size and risk relative to the selected publicly traded companies.
After completing our annual impairment reviews for each reporting unit in the fourth quarter of 2015 and 2014, we concluded that goodwill was not impaired in either of these years. Although we experienced a decline in the fair values of our reporting units in 2015 as compared to 2014, with the exception of the Commercial Services and the Commercial Healthcare Services reporting units, no reporting unit had an excess of fair value over carrying value of less than 20%.
The excess of reporting unit fair values over carrying values for our Commercial Services reporting unit (which has approximately $2.0 billion of goodwill) was significantly less than in prior years with an excess of fair value over carrying value of approximately 17%. Although we experienced a similar 2015 decline in fair value in our Commercial Healthcare Services reporting unit (which has approximately $900 million of goodwill), that decline is expected to be mitigated by synergies and operational improvements resulting from the combination of this reporting unit with the Government Healthcare Services reporting unit in 2016. We will continue to monitor the impact of economic, market and industry factors impacting these reporting units in 2016. The decrease in fair values for these reporting units was largely due to the mix of services and pricing pressures not being matched with cost reductions from productivity and restructuring actions. However, both of these reporting units operate in key growth segments of the business process outsourcing market, and the 2016 expectation is that through an increased focus on revenue and cost management both businesses will reflect improved performance and a corresponding increase in fair value.
Subsequent to our fourth quarter impairment test, we did not identify any indicators of potential impairment that required an update to the annual impairment test.
Refer to Note 10 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by reportable segment.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2015 was as follows:

	Revenues			% Change		CC % Change		Percent of Total Revenue		
(in millions)	2015	2014	2013	2015	2014	2015	2014	2015	2014	2013
Equipment sales	$2,781	$3,104	$3,358	(10)%	(8)%	(6)%	(7)%	15 %	16 %	17 %
Annuity revenue	15,264	16,436	16,648	(7)%	(1)%	(4)%	(1)%	85 %	84 %	83 %
Total Revenue	$18,045	$19,540	$20,006	(8)%	(2)%	(4)%	(2)%	100 %	100 %	100 %
Reconciliation to Consolidated Statements of Income:										
Sales	$4,748	$5,288	$5,582							
Less: Supplies, paper and other sales	(1,967)	(2,184)	(2,224)							
Equipment Sales	$2,781	$3,104	$3,358	(10)%	(8)%	(6)%	(7)%	15 %	16 %	17 %
Outsourcing, maintenance and rentals	$12,951	$13,865	$13,941	(7)%	(1)%	(3)%	— %	72 %	71 %	70 %
Add: Supplies, paper and other sales	1,967	2,184	2,224	(10)%	(2)%	(8)%	(2)%	11 %	11 %	11 %
Add: Financing	346	387	483	(11)%	(20)%	(4)%	(20)%	2 %	2 %	2 %
Annuity Revenue	$15,264	$16,436	$16,648	(7)%	(1)%	(4)%	(1)%	85 %	84 %	83 %
Adjusted: (1)										
Outsourcing, maintenance and rentals	$13,067	$13,865	$13,941	(6)%		(2)%				
Annuity revenue	$15,380	$16,436	$16,648	(6)%		(3)%				
Total Revenue	$18,161	$19,540	$20,006	(7)%		(3)%				

CC - See "Non-GAAP Financial Measures" section for description of Constant Currency

(1) Refer to the Revenue/Segment reconciliation table in the "Non-GAAP Financial Measures" section.

Revenue 2015

Total revenues decreased 8% compared to the prior year with a 4-percentage point negative impact from currency. On an adjusted[1] basis, excluding the HE charge, total revenues decreased 7%, with a 4-percentage point negative impact from currency. The negative impact from currency reflects the significant weakening of our major foreign currencies against the U.S. dollar as compared to prior year. On a revenue-weighted basis, our major European currencies and the Canadian dollar were approximately 16% weaker against the U.S. dollar as compared to prior year. Revenues from these major foreign currencies comprise approximately 25% of our total consolidated revenues, while overall non-U.S. revenues represent approximately one third of the total. Total revenues included the following:

- Annuity revenue decreased 7% compared to the prior year with a 3-percentage point negative impact from currency. On an adjusted[1] basis, annuity revenue decreased 6%, with a 3-percentage point negative impact from currency. Annuity revenue is comprised of the following:

Outsourcing, maintenance and rentals revenue includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of $12,951 million decreased 7%, or 6% on an adjusted[1] basis, including a 4-percentage point negative impact from currency and was primarily due to a decline in the Document Technology segment.

Supplies, paper and other sales includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of $1,967 million decreased 10% from the prior year including a 2-percentage point negative impact from currency, reduced supplies demand reflecting lower equipment sales in prior periods and continued weakness in developing markets and lower OEM supplies sales.

Financing revenue is generated from financed equipment sale transactions primarily within our Document Technology segment. Financing revenues decreased 11% from the prior year including a 7-percentage point negative impact from currency and a declining finance receivables balance due to lower prior period equipment sales. Refer to the discussion on Sales of Finance Receivable in the Capital Resources and

Liquidity section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

- Equipment sales revenue is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 10% from the prior year, including a 4-percentage point negative impact from currency. The constant currency decline was driven by developing markets with the remainder reflecting lower high-end and OEM sales as well as overall price declines that continue to be within our historical range of 5% to 10%.These areas of decline were partially offset by DO equipment sales growth.

Revenue 2014

Total revenues decreased 2% compared to the prior year with no impact from currency. Total revenues included the following:

- Annuity revenue decreased 1% compared to the prior year with no impact from currency. Annuity revenue is comprised of the following:

Outsourcing, maintenance and rentals revenue includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of $13,865 million decreased 1% from the prior year with a 1-percentage point negative impact from currency. The decrease was due to a decline in the Document Technology segment partially offset by growth in outsourcing revenue within our Services segment.

Supplies, paper and other sales includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of $2,184 million decreased 2% from the prior year with no impact from currency. The decrease was primarily driven by moderately lower supplies demand and a decline in other sales revenue.

Financing revenue is generated from financed sale transactions primarily within our Document Technology segment. Financing revenues decreased 20% from the prior year due primarily to $40 million in pre-tax gains on finance receivable sales in 2013 as well as a lower finance receivable balance mostly as a result of prior period sales of finance receivables and lower originations due to decreased equipment sales. Refer to the discussion on Sales of Finance Receivable in the "Capital Resources and Liquidity" section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

- Equipment sales revenue is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 8% from the prior year, including a 1-percentage point negative impact from currency. Lower installs across the majority of our product groupings, lower sales in entry products due to product launch timing and overall price declines that were at the low-end of our historical 5% to 10% range contributed to the decline. Equipment sales were also impacted by lower sales in developing markets, and particularly lower sales in Russia due to economic instability.

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			
	2015		2014		2013		2015 B/(W)	2014 B/(W)	2015 Adjusted[1]		2015 Adjusted[1] B/(W) 2014
Total Gross Margin	29.2	%	32.0	%	32.4	%	(2.8) pts	(0.4) pts	31.1	%	(0.9) pts
RD&E as a % of Revenue	3.1	%	3.0	%	3.0	%	(0.1) pts	—	3.1	%	(0.1) pts
SAG as a % of Revenue	19.7	%	19.4	%	20.4	%	(0.3) pts	1.0 pts	19.6	%	(0.2) pts
Operating Margin[1]	NM		9.6	%	9.0	%	NM	0.6 pts	8.4	%	(1.2) pts

Pre-tax Income Margin	2.3	%	6.2	%	6.2	%	(3.9) pts	—	N/A	N/A

(1) Refer to Key Financial Ratios reconciliation table in the "Non-GAAP Financial Measures" section.

Operating Margin

Operating margin[1] for the year ended December 31, 2015 of 8.4% decreased 1.2-percentage points as compared to 2014. On an adjusted[1] basis, this decline was driven by a 0.9-percentage point decrease in gross margin and a 0.3-percentage point increase in operating expenses as a percent of revenue. The operating margin decline includes lower Services margin driven by targeted resource and other investments as well as higher costs associated with our GHS HE platform implementations prior to the announced changes in strategy. Document Technology margin was also lower as compared to the prior year due to lower gross margin, higher year-over-year pension expense and unfavorable currency. These negative impacts were partially offset in both segments by restructuring savings and productivity improvements as well as lower compensation and a $22 million curtailment gain in the U.S.[(3)]

Operating margin[1] for the year ended December 31, 2014 of 9.6% increased 0.6-percentage points as compared to 2013. The increase was driven primarily by a 1.0-percentage point improvement in SAG as a percent of revenue partially offset by a decline in gross margin of 0.4-percentage points. The operating margin improvement reflects restructuring savings and productivity improvements, continued benefits from currency on yen based purchases and lower bad debt expense. As anticipated, operating margin also benefited from lower year-over-year pension expense and settlement losses (collectively referred to as "pension expense"). Services margins decreased in 2014 due to higher government healthcare platform expenses, including net non-cash impairment charges, as well as platform and resource investments across the Services segment and the continued run-off of the student loan business.

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(1) Refer to Operating Income/Margin reconciliation table and the Key Financial Ratios reconciliation table in the "Non-GAAP Financial Measures" section.

(2) Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting policies for additional information.

(3) Refer to Note 16 - Employee Benefit Plans for additional information.

Gross Margins

Total Gross Margin

Total gross margin for the year ended December 31, 2015 of 29.2% decreased 2.8-percentage points as compared to 2014. On an adjusted[1] basis, gross margin of 31.1% decreased by 0.9-percentage points as compared to 2014. Declines in gross margins for both segments as well as a higher proportion of our revenue from Services (which historically has a lower gross margin) resulted in a reduction in overall gross margin.

Total gross margin for year ended December 31, 2014 of 32.0% decreased 0.4-percentage points as compared to 2013. The decrease was driven by margin declines within the Services segment as well as the impact of a higher proportion of our revenue from Services (which historically has a lower gross margin than Document Technology) partially offset by a higher gross margin within the Document Technology segment.

Services Gross Margin

Services gross margin for the year ended December 31, 2015 decreased 3.6-percentage points, and remained flat on an adjusted[1] basis, as compared to 2014. Targeted resource and other investments, impacts from unfavorable line-of-business mix, increased expenses associated with our GHS HE platform implementations and price declines were offset by productivity improvements and restructuring benefits.

Services gross margin for the year ended December 31, 2014 decreased 1.1-percentage points as compared to 2013. The decrease is primarily due to higher expenses associated with our public sector and government healthcare businesses, including costs for the Medicaid and Health Insurance Exchange (HIX) platforms, the anticipated run-off of our student loan business and price declines that were consistent with prior periods. These impacts were only partially offset by productivity improvements and restructuring benefits.

Document Technology Gross Margin

Document Technology gross margin for the year ended December 31, 2015 decreased by 0.7-percentage points as compared to 2014. The decrease reflects unfavorable product mix, price declines and an increase in pension expense, partially offset by the retiree health curtailment gain, lower compensation and benefit expenses and restructuring and productivity benefits.

Document Technology gross margin for the year ended December 31, 2014 increased by 1.5-percentage points as compared to 2013. The increase, driven by cost productivity and restructuring savings, favorable transaction currency on our Yen-based purchases, lower pension expense and favorable revenue mix, was partially offset by moderate price declines and the impact of the prior year finance receivable gain.

Research, Development and Engineering Expenses (RD&E)

	Year Ended December 31,			Change	
(in millions)	2015	2014	2013	2015	2014
R&D	$437	$445	$481	$(8)	$(36)
Sustaining engineering	126	132	122	(6)	10
Total RD&E Expenses	$563	$577	$603	$(14)	$(26)
R&D Investment by Fuji Xerox(1)	$569	$654	$724	$(85)	$(70)

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

RD&E as a percent of revenue for the year ended December 31, 2015 of 3.1% increased 0.1-percentage points on an actual and adjusted[1] basis, as the total company revenue decline was only partially offset by modest RD&E expense reductions and the benefits from the higher mix of Services revenue (which historically has a lower RD&E as a percentage of revenue) and modest restructuring and productivity improvements.

RD&E of $563 million for the year ended December 31, 2015, was $14 million lower than 2014 reflecting the impact of restructuring and productivity improvements.

Innovation is one of our core strengths and we continue to invest at levels to maintain and improve our competitiveness, particularly in services, color and software. During 2015 we managed our investments in R&D to align with growth opportunities in areas like business services, color printing and customized communication. Our R&D is also strategically coordinated with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2014 of 3.0% remained flat, reflecting the impact of restructuring and productivity improvements and a higher mix of Services revenue (which historically has a lower RD&E as a percentage of revenue), offset by increased investments in Services RD&E and the overall total company revenue decline.

RD&E of $577 million for the year ended December 31, 2014, was $26 million lower than 2013 reflecting the impact of restructuring and productivity improvements.

Selling, Administrative and General Expenses (SAG)

SAG as a percent of revenue of 19.7% increased 0.3-percentage points for the year ended December 31, 2015. On an adjusted[1] basis, SAG as a percentage of revenue of 19.6% increased 0.2-percentage points from 2014. The increase was driven by a total company revenue decline only partially matched by expense reductions, as restructuring and productivity improvements, lower compensation expense (including the favorable impact from the curtailment gain), and a higher mix of Services revenue (which historically has lower SAG as a percentage of revenue) were partly offset by Services investments.

SAG expenses of $3,559 million for the year ended December 31, 2015 were $229 million lower than the prior year period. The decrease in SAG expense reflects the following:

- $137 million decrease in selling expenses.
- $92 million decrease in general and administrative expenses.
- Bad debt expense of $53 million was flat as compared to the prior year and less than one percent of receivables.

SAG as a percent of revenue of 19.4% decreased 1.0-percentage point for the year ended December 31, 2014. The decrease was driven by the higher mix of Services revenue (which historically has lower SAG as a percentage of revenue), restructuring and productivity improvements, and lower pension and bad debt expense. The net reduction in SAG spending exceeded the overall revenue decline on a percentage basis.

SAG expenses of $3,788 million for the year ended December 31, 2014 were $285 million lower than the prior year period. The decrease in SAG expense reflects the following:

- $125 million decrease in selling expenses.
- $93 million decrease in general and administrative expenses.
- $67 million decrease in bad debt expense to $53 million, reflecting the favorable trend in write-offs and recoveries experienced throughout the year. Full year 2014 bad debt expense remained less than one percent of receivables.

Restructuring and Asset Impairment Charges

During the year ended December 31, 2015, we recorded net restructuring and asset impairment charges of $186 million ($118 million after-tax). Approximately 88% of the charges were related to our Services segment, 8% to our Document Technology segment, and 4% to our Other segment and included the following:

- $54 million of severance costs related to headcount reductions of approximately 1,700 employees globally. The actions impacted several functional areas, with approximately 53% of the costs focused on gross margin improvements, 42% on SAG and 5% on the optimization of RD&E investments.
- $4 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- $153 million of asset impairment charges, including $146 million recorded in second quarter 2015 associated with software asset impairments resulting from a change in our Government Healthcare Solutions strategy in the Services segment as well as $7 million of charges incurred in the third quarter 2015.

The above charges were partially offset by $25 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2016 pre-tax savings of approximately $50 million from our 2015 restructuring actions.

During the year ended December 31, 2014, we recorded net restructuring and asset impairment charges of $128 million ($91 million after-tax). Approximately 30% of the charges were related to our Services segment, 59% to our Document Technology segment, and 11% to our Other segment and included the following:

- $143 million of severance costs related to headcount reductions of approximately 4,000 employees globally. The actions impacted several functional areas, with approximately 53% of the costs focused on gross margin improvements, 42% on SAG and 5% on the optimization of RD&E investments.
- $5 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- $7 million of asset impairment losses.

The above charges were partially offset by $27 million of net reversals for changes in estimated reserves from prior period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2015 for all programs was $24 million, of which approximately $23 million is expected to be spent over the next twelve months. In the first quarter 2016, we expect to incur additional restructuring charges of approximately $100 million pre-tax.

Refer to Note 11 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Amortization of Intangible Assets

During the year ended December 31, 2015, we recorded $310 million of expense related to the amortization of intangible assets, which is $5 million lower than the prior year primarily due to currency and the run-off of amortization associated with acquired technology assets.

During the year ended December 31, 2014, we recorded $315 million of expense related to the amortization of intangible assets, which is $10 million higher than the prior year reflecting the increase in acquisitions in 2014.

Refer to Note 10 - Goodwill and Intangible assets, Net in the Consolidated Financial Statements for additional information regarding our intangible assets.

Worldwide Employment

Worldwide employment of approximately 143,600 as of December 31, 2015 increased by approximately 5,700 from December 31, 2014, due primarily to the impact of ramping new business and acquisitions partially offset by restructuring reductions and productivity improvements. Worldwide employment was approximately 137,900 and 133,300 at December 2014 and 2013, respectively (NOTE: prior year employment amounts are adjusted to exclude employees associated with the divested ITO business).

Other Expenses, Net

	Year Ended December 31,		
(in millions)	2015	2014	2013
Non-financing interest expense	$223	$237	$240
Interest income	(8)	(10)	(11)
Gains on sales of businesses and assets[1]	(44)	(50)	(64)
Currency losses (gains), net	6	5	(7)
Litigation matters	16	11	(34)
Loss on sales of accounts receivables	13	15	17
Deferred compensation investment losses (gains)	1	(7)	(15)
All other expenses, net	26	31	20
Total Other Expenses, Net	$233	$232	$146

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(1) Excludes the loss on sale of the ITO business reported in discontinued operations. Refer to Note 4 - Divestitures for additional information.

Note: Total Other Expenses, Net with the exception of Deferred compensation investment losses (gains) are included in the Other segment. Deferred compensation investment losses (gains) are included in the Services segment together with the related deferred compensation expense/income.

Non-Financing Interest Expense: Non-financing interest expense for the year ended December 31, 2015 of $223 million was $14 million lower than prior year primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt. When non-financing interest expense is combined with financing interest expense (cost of financing), total company interest expense declined by $24 million from the prior year, primarily driven by a lower total average debt balance and lower average cost of debt.

Non-financing interest expense for the year ended December 31, 2014 of $237 million was $3 million lower than prior year primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt. When non-financing interest expense is combined with financing interest expense (cost of financing), total company interest expense declined by $26 million from the prior year, primarily driven by a lower total average debt balance and lower average cost of debt.

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding our allocation of interest expense.

Gains on Sales of Businesses and Assets: The 2015 net gain on sales of businesses and assets of $44 million reflected a gain of approximately $25 million on the sale of surplus real estate in Latin America and gains of approximately $20 million for surplus technology assets.

The 2014 gains on sales of businesses and assets was primarily related to the sales of surplus properties with $39 million related to sales in Latin America and $8 million related to a sale in the U.S.

The 2013 gains on sales of businesses and assets include the following transactions:

- A $29 million gain on the $32.5 million cash sale of a portion of our Wilsonville, Oregon product design, engineering and chemistry group and related assets that were surplus to our needs.
- A $23 million gain on the sale of a surplus facility in the U.S.
- An $8 million gain on the sale of a surplus facility in Latin America.

Currency Losses (Gains), Net: Currency losses (gains) primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities and the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities.

Litigation Matters: Litigation matters in 2015 reflect probable losses and reserves for various legal matters. Litigation matters in 2014 reflect probable losses and reserves for various legal matters partially offset by the favorable resolution of our securities litigation matter. Litigation matters for 2013 primarily reflect the benefit resulting from a reserve reduction associated with litigation developments.

Refer to Note 18 - Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.
Loss on Sales of Accounts Receivables: Represents the loss incurred on our sales of accounts receivables. Refer to Sales of Accounts Receivables section below and Note 5 - Accounts Receivables, Net in the Consolidated Financial Statements for additional information regarding our sales of receivables.
Deferred Compensation Investment Losses (Gains): Represents losses (gains) on investments supporting certain of our deferred compensation arrangements. These gains or losses are offset by an increase or decrease, respectively, in compensation expense recorded in SAG in our Services segment as a result of the increase or decrease in the liability associated with these arrangements.
Income Taxes

The 2015 effective tax rate was (5.6)% and was negative primarily due to the discrete tax benefit associated with the third quarter 2015 HE charge and the second quarter 2015 software impairment charges. On an adjusted[1] basis, the 2015 effective tax rate was 23.7%, which was lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries as well as the retroactive impact of the Protecting Americans from Tax Hikes Act of 2015 and the geographical mix of profits.
The 2014 effective tax rate was 17.8% and reflects the $44 million benefit for a deferred tax liability adjustment associated with a tax law change[2]. On an adjusted[1] basis, the 2014 effective tax rate was 24.9%, which was lower than the U.S. statutory tax rate primarily due to a net benefit of approximately 2.4% resulting from the redetermination of certain unrecognized tax positions upon conclusion of several audits, 2.5% from foreign tax credits resulting from actual and anticipated dividends from our foreign subsidiaries, 1.1% from the retroactive impact from the U.S. Tax Increase Prevention Act of 2014, and 1.0% from the reversal of a valuation allowance on deferred tax assets associated with capital losses as well as the geographical mix of profits.
The 2013 effective tax rate was 20.4% or 23.8% on an adjusted[1] basis. The adjusted tax rate for 2013 was lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from actual and anticipated dividends from our foreign subsidiaries, the geographical mix of income and the retroactive tax benefits from the American Taxpayer Relief Act of 2012 tax law change of approximately $19 million. These benefits were partially offset by the discrete impact of $12 million for the U.K. corporate income tax rate reduction and the corresponding adjustment to our U.K. deferred tax assets.
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 2015 includes a benefit of 37.6-percentage points from these non-U.S. operations. The significant increase in the percentage point benefit, as compared to the prior period benefit of approximately 10%, is primarily due to a lower U.S. pre-tax income in 2015 as a result of the significant charges in 2015 being U.S. based. Refer to Note 17 - Income and Other Taxes, in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.
Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (e.g. audit settlements, tax law changes, changes in valuation allowances, etc.) that may not be predictable. Excluding the effects of intangibles amortization, restructuring and retirement-related costs, and other discrete items, we anticipate that our adjusted effective tax rate will be approximately 26% to 28% for the first quarter and full year 2016.

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(1) See the "Non-GAAP Financial Measures" section for an explanation of the adjusted effective tax rate non-GAAP financial measure.
(2) Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting policies for additional information.

Equity in Net Income of Unconsolidated Affiliates

	Year Ended December 31,		
(in millions)	2015	2014	2013
Total equity in net income of unconsolidated affiliates	$135	$160	$169
Fuji Xerox after-tax restructuring costs	4	3	9

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox. 2015 equity income of $135 million decreased $25 million as compared to prior year reflecting the weaker Yen as compared to the U.S. dollar in 2015 as well as lower Fuji Xerox net income.

Refer to Note 9 - Investment in Affiliates, at Equity, in the Consolidated Financial Statements for additional information regarding our investment in Fuji Xerox.

Net Income From Continuing Operations

Net income from continuing operations attributable to Xerox for the year ended December 31, 2015 was $552 million, or $0.49 per diluted share. On an adjusted[1] basis, net income attributable to Xerox was $1,076 million, or $0.98 per diluted share, and reflects the adjustments for the amortization of intangible assets as well as the software impairment charges and the HE charge. Adjusted earnings per diluted share reflected the impact of a lower average share count as a result of share repurchases over the last three years.

Net income from continuing operations attributable to Xerox for the year ended December 31, 2014 was $1,128 million, or $0.94 per diluted share. On an adjusted[1] basis, net income attributable to Xerox was $1,280 million, or $1.07 per diluted share, and included adjustments for the amortization of intangible assets as well as the deferred tax liability adjustment in the fourth quarter 2014. The increase in earnings per diluted share reflects a lower average share count as a result of share repurchases over the last three years.

Net income from continuing operations attributable to Xerox for the year ended December 31, 2013 was $1,139 million, or $0.89 per diluted share. On an adjusted[1] basis, net income attributable to Xerox was $1,328 million, or $1.04 per diluted share, and included adjustments for the amortization of intangible assets.

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(1) See the "Non-GAAP Financial Measures" section for a reconciliation of reported net income from continuing operations to adjusted net income.

Discontinued Operations

Discontinued operations are primarily related to our sale of the ITO business. As previously noted, in the fourth quarter 2014, we announced an agreement to sell the ITO business to Atos and began reporting it as a Discontinued Operation. The sale was completed on June 30, 2015.

Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information regarding Discontinued Operations.

Other Comprehensive (Loss) Income

Other comprehensive loss attributable to Xerox was $483 million in 2015 as compared to a loss of $1,380 million in 2014. The reduction of $897 million was primarily due to net gains from changes in defined benefit plans of $153 million in 2015 as compared to losses of $662 million in 2014. The gains in 2015 are largely the result of the reclassification of actuarial losses to net income and the currency impacts on deferred actuarial losses. The remainder of the reduction in other comprehensive loss is related to the $74 million decrease in losses from the translation of our foreign currency denominated net assets. Both 2015 and 2014 reflect translation losses as a result of the significant weakening of our major foreign currencies as compared to the U.S. Dollar in both years.

Other comprehensive loss attributable to Xerox was $1,380 million in 2014 as compared to income of $448 million in 2013. The decrease of $1,828 million from 2013 is primarily the result of losses of $662 million from changes in our defined benefit plans in 2014 as compared to gains of $632 million in 2013. The benefit plan losses in 2014 are primarily due to a decrease in the discount rates used to measure our benefit obligations in 2014 as compared to an increase in rates in 2013. The remainder of the year-over-year decrease in other comprehensive income is related to the $549 million increase in losses from the translation of our foreign currency denominated net assets as a result of the increased weakening in 2014 of our major foreign currencies as compared to the U.S. Dollar.

Refer to our discussion of Pension Plan Assumptions in the "Application of Critical Accounting Policies" section of the MD&A as well as Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

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

Operations Review of Segment Revenue and Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Services, Document Technology and Other. Revenues by segment for the three years ended December 31, 2015 were as follows:

(in millions)	Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2015						
Services	$493	$9,644	$10,137	56 %	$446	4.4 %
Document Technology	2,179	5,186	7,365	41 %	879	11.9 %
Other	109	434	543	3 %	(267)	(49.2)%
Total	$2,781	$15,264	$18,045	100 %	$1,058	5.9 %
Adjusted:(1)						
Services	$493	$9,760	$10,253	56 %	$835	8.1 %
Total	$2,781	$15,380	$18,161		$1,447	8.0 %
2014						
Services	$499	$10,085	$10,584	54 %	$956	9.0 %
Document Technology	2,482	5,876	8,358	43 %	1,149	13.7 %
Other	123	475	598	3 %	(272)	(45.5)%
Total	$3,104	$16,436	$19,540	100 %	$1,833	9.4 %
2013						
Services	$503	$9,976	$10,479	52 %	$1,055	10.1 %
Document Technology	2,727	6,181	8,908	45 %	964	10.8 %
Other	128	491	619	3 %	(217)	(35.1)%
Total	$3,358	$16,648	$20,006	100 %	$1,802	9.0 %

(1) Refer to the Services Segment reconciliations table in the "Non-GAAP Financial Measures" section.

Services Segment

Our Services segment is comprised of two service offerings: Business Process Outsourcing (BPO) and Document Outsourcing (DO).

Services segment revenues for the three years ended December 31, 2015 were as follows:

	Revenue			% Change		CC % Change	
(in millions)	2015	2014	2013	2015	2014	2015	2014
Business process outsourcing	$6,872	$7,218	$7,161	(5)%	1 %	(3)%	1 %
Document outsourcing	3,265	3,366	3,318	(3)%	1 %	3 %	2 %
Total Revenue	$10,137	$10,584	$10,479	(4)%	1 %	(1)%	1 %
Adjusted:[(1)]							
Business process outsourcing	$6,988	$7,218	$7,161	(3)%	1 %	(1)%	
Total Revenue	$10,253	$10,584	$10,479	(3)%	1 %	— %	

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(1) Refer to the Services Segment reconciliation table in the "Non-GAAP Financial Measures" section.

CC - See "Non-GAAP Financial Measures" section for description of Constant Currency

Note: The above table excludes intercompany revenue.

Revenue 2015

Services revenue of $10,137 million was 56% of total revenue and decreased 4% with a 3-percentage point negative impact from currency. On an adjusted[1] basis, Services revenue of $10,253 million was 56% of total revenue and decreased 3% compared to 2014, with a 3-percentage point negative impact from currency.

- BPO revenue decreased 5% and represented 68% of total Services revenue. On an adjusted[1] basis, BPO revenue decreased 3%, with a 2-percentage point negative impact from currency, and represented 68% of total Services revenue. The decline was primarily driven by the anticipated run-off of the student loan business, the Texas Medicaid contract and the impact of our third quarter 2015 decision to not fully complete the Health Enterprise implementations in California and Montana, which combined had a 4.6-percentage point negative impact on BPO revenue growth and a 3.1-percentage point negative impact on total Services revenue growth. Partially offsetting this decline was moderate acquisition contribution and organic growth in several lines of business net of the impacts from lost business and lower pricing that were consistent with prior trends.
In 2015, BPO revenue mix, on an adjusted[1] basis, across the major business areas was as follows: Commercial Business Groups (excluding Healthcare) - 45%; Public Sector - 27%; Commercial Healthcare - 15%; and Government Healthcare - 13%.
- DO revenue decreased 3%, with a 6-percentage point negative impact from currency, and represented 32% of adjusted[1] Services revenue. Growth from our partner print services offerings, reflected in both equipment and annuity revenue, and from increased equipment sales due to higher signings, was partially offset by continued declines in developing markets.

Segment Margin 2015

Services segment margin was 4.4%. On an adjusted[1] basis, Services segment margin of 8.1% decreased by 0.9-percentage points from the prior year primarily due to targeted resource and other investments, impacts from unfavorable line-of-business mix, increased expenses associated with our GHS HE platform implementations prior to the change in strategy and price declines which more than offset productivity improvements and restructuring benefits. 2014 Services segment margin included a 0.2-percentage point negative impact from a net non-cash impairment charge as a result of the cancellation of a state health insurance exchange contract in our GHS business.

Government Healthcare Strategy Change

Late in third quarter 2015, discussions took place with our Medicaid clients in California and Montana regarding the status and scope of our current HE platform projects in those states. Based on those discussions, we determined that we would not fully complete the implementation of the platform in these states. However, we would continue to process Medicaid claims using existing legacy systems in these states, thus providing uninterrupted service for the

states' healthcare providers and constituents.
As a result of the determination that we would not complete these platform implementations, we recorded a pre-tax charge of $389 million ($241 million after-tax) reflecting write-offs and estimated settlement costs as well as other impacts from this determination. The charge included $116 million for the write-off of contract receivables (primarily non-current), $34 million related to the non-cash impairment of the Enterprise software and deferred contract set-up and transition costs and $14 million for other related assets and liabilities. The remainder of the charge is primarily related to settlement costs including payments to subcontractors and is expected to be cash outflows in future quarters. Although our negotiations with Montana have been finalized, we continue to negotiate with California on a final settlement. We believe we have recorded our best estimate of the required liability for a settlement in California, however, this estimate is subject to change when negotiations are finalized.
The above noted developments followed the change in our GHS strategy announced in July 2015, regarding our decision to focus our future HE implementations on current Medicaid customers and to discontinue investment in and sales of the Xerox Integrated Eligibility System (IES). This change in strategy resulted in a pre-tax non-cash software impairment charge of $146 million ($90 million after-tax) in second quarter 2015 associated with our Enterprise and IES software platforms.
We remain committed to the implementation and ongoing operation of the Health Enterprise platform for our four other state clients, including our largest state client, New York. In addition, GHS is a significant and important business for the Company, and we are committed to the business over the longer-term. We have a diverse portfolio of healthcare solutions and will focus on the more profitable market segments from which we derive over two thirds of GHS's revenues. We will continue to assess and modify our GHS strategy as the marketplace and business conditions evolve.
Metrics
Signings
Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Signings were as follows:
Signings were as follows:

	Year Ended December 31,		
(in billions)	2015	2014	2013
BPO	$8.4	$7.6	$8.9
DO	3.1	3.0	3.3
Total Signings	$11.5	$10.6	$12.2

Services signings were an estimated $11.5 billion in Total Contract Value (TCV) for 2015 and increased 8% as compared to the prior year. Signings in 2015 included large contracts such as the Florida Tolling and NY MMIS contracts, which were partially offset by a modest decline in new business signings and a lower level of renewal decision opportunities. New business annual recurring revenue (ARR) and non-recurring revenue (NRR) decreased 1% compared to the prior year.
Services signings were an estimated $10.6 billion in TCV for 2014 and decreased 13% compared to the prior year. The decrease was driven by a lower level of renewal decision opportunities and lower new business signings which were partially impacted by customer decision delays and a decrease in the average contract length. New business ARR and NRR decreased 13% compared to the prior year.
Note: The above DO signings amount represents Enterprise signings only and does not include signings from our partner print services offerings, which is driving the revenue growth in DO. TCV is the estimated total contractual revenue related to future contracts in the pipeline or signed contracts, as applicable.
Renewal Rate (Total Services)
Renewal rate is defined as the ARR on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period. Our 2015 renewal rate of 84% was just below our target range of 85%-90% but 3-percentage points higher than 2014.

Pipeline

The sales pipeline includes the Total Contract Value (TCV) of new business opportunities that potentially could be contracted within the next six months and excludes new business opportunities with estimated annual recurring revenue in excess of $100 million. Our total Services sales pipeline at December 31, 2015 declined 15% compared to 2014, reflecting increased TCV signings in 2015, including larger deals, and our second quarter 2015 strategic decision to narrow the focus in our Government Healthcare Solutions business.

Revenue 2014

Services revenue of $10,584 million increased 1% with no impact from currency.

- BPO revenue increased 1% and represented 68% of total Services revenue. Growth from acquisitions along with organic growth in commercial healthcare and litigation services as well as growth internationally were partially offset by declines in portions of customer care. In addition, the anticipated declines in the student loan business and the Texas Medicaid contract termination had a combined 2.6-percentage point negative impact on BPO revenue growth and a 1.8-percentage point negative impact on total Services revenue.

In 2014, BPO revenue mix across the major business areas was as follows: Commercial - 45%; Government and Transportation - 25%; Commercial Healthcare - 18%; and Government Healthcare - 12%.

- DO revenue increased 1% and represented 32% of total Services revenue. The increase in DO revenue was primarily driven by growth in our partner print services offerings offset by declines in Europe and other markets due to contract run-off and new contract ramp timing.

Segment Margin 2014

Services segment margin of 9.0% decreased 1.1-percentage points from the prior year primarily due primarily to a 1.1-percentage point decline in gross margin, as margin improvements in DO, commercial healthcare, human resources and commercial European businesses were more than offset by decreased margin in government healthcare and government and transportation. Productivity improvements and restructuring benefits were insufficient to offset higher expenses associated with our government healthcare Medicaid and Health Insurance Exchange (HIX) platforms, net non-cash impairment charges for the HIX platform, higher compensation expenses, the anticipated run-off of the student loan business and price declines consistent with prior years. The gross margin decline was partially offset by improvements in SAG reflecting restructuring benefits.

Document Technology Segment

Our Document Technology segment includes the sale of products and supplies, as well as the associated maintenance and financing of those products.

Document Technology segment revenues for the three years ended December 31, 2015 were as follows:

	Revenue			% Change		CC % Change	
(in millions)	2015	2014	2013	2015	2014	2015	2014
Equipment sales	$2,179	$2,482	$2,727	(12)%	(9)%	(9)%	(9)%
Annuity revenue	5,186	5,876	6,181	(12)%	(5)%	(8)%	(5)%
Total Revenue	$7,365	$8,358	$8,908	(12)%	(6)%	(8)%	(6)%

Revenue 2015

Document Technology revenue of $7,365 million decreased 12%, with a 4-percentage point negative impact from currency. Total revenues include the following:

- Equipment sales revenue decreased 12% with a 3-percentage point negative impact from currency. The decline was across all product groups and was driven by weakness in developing markets, lower OEM sales, lower sales of production products due to product launch timing, continued migration of customers to our partner print services offering (included in our Services segment), and overall price declines that continue to be within our historical range of 5% to 10%.

- Annuity revenue decreased by 12%, with a 4-percentage point negative impact from currency. The annuity revenue decrease reflects lower equipment sales in prior periods, resulting in ongoing page declines and lower supplies demand, as well as supplies channel inventory dynamics and reduced financing revenue. Annuity revenue in Document Technology also reflects continued migration of customers to our partner print services offering (included in our Services segment).

Total revenue in the Document Technology segment is expected to continue to decline over the next three years as we continue to migrate the business to more services-based offerings. These services-based offerings are reported within our Services segment. This segment also continues to be impacted by lower equipment placements and price declines as well as related supplies and page declines. We expect to continue to mitigate these declines through focus on productivity and cost improvements, as well as investments in growth areas of the market.

Document Technology revenue mix was 19% entry, 57% mid-range and 24% high-end.

Segment Margin 2015

Document Technology segment margin of 11.9% decreased 1.8-percentage points from prior year, including a 0.7-percentage point decrease in gross margin as well as higher RD&E and SAG as a percent of revenue. The gross margin decrease reflects unfavorable revenue-stream mix, price declines and an increase in pension expense, partially offset by the retiree health curtailment gain, lower compensation and benefit expenses and benefits from restructuring and productivity actions. SAG increased as a percent of revenue due to the impact of overall lower revenues and higher pension expense that more than offset benefits from restructuring and productivity improvements, lower compensation and benefit expenses and the curtailment gain.

Installs 2015

Entry

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.

- 28% decrease in color printers reflecting lower OEM sales due in part to a transition to color multifunction devices.
- 28% increase in color multifunction devices driven by higher demand for new products and OEM sales.
- 11% decrease in black-and-white multifunction devices reflecting continued declines in developing markets including Eurasia.

Mid-Range

- 1% increase in mid-range color including demand for new products.
- 7% decrease in mid-range black-and-white reflecting higher declines in developing markets including Eurasia.

High-End

- 2% increase in high-end color systems driven primarily by the new Color Press 800, 1000 and Versant products offset by declines in other production color products partially reflecting product launch timing. Excluding Fuji Xerox digital front-end sales, high-end color installs decreased 4%.
- 10% decrease in high-end black-and-white systems consistent with overall market declines.

Revenue 2014

Document Technology revenue of $8,358 million decreased 6%, with no impact from currency. Document Technology revenues exclude Document Outsourcing. Inclusive of Document Outsourcing, 2014 aggregate document-related revenue decreased 4% from 2013, with no impact from currency. Total revenues include the following:

Total revenues include the following:

- Equipment sales revenue decreased 9% with no impact from currency. The decrease in equipment sales reflects weakness in entry products due to product launch timing, the continued migration of customers to our growing partner print services offering (included in our Services segment), weakness in developing markets due to economic instability and, price declines of approximately 5%. 2013 benefited from the ConnectKey mid-range product launch, and the refresh cycle for several large accounts. Equipment sales in 2014 were negatively impacted by lower sales in Russia due to economic instability.

- Annuity revenue decreased by 5%, with no impact from currency. The decrease reflects a modest decline in total pages, weakness in developing markets and entry products due to product launch timing, a continued decline in financing revenue as a result of prior period sales of finance receivables and lower receivables balance due to lower originations. The overall decrease in Financing revenue from prior year contributed 1-percentage point to the Annuity revenue decline and 1-percentage point impact to the overall Document Technology revenue decline. Annuity revenue was also impacted by the continued migration of customers to our partner print services offerings (included in our Services segment). Total digital page volumes declined 4% despite a 2% increase in digital MIF.

Segment Margin 2014

Document Technology segment margin of 13.7% increased 2.9-percentage points from prior year. The increase was primarily driven by a 1.5-percentage point increase in gross margin as the benefits from restructuring and productivity, lower pension expense, and favorable currency on Yen-based purchases and revenue mix more than offset moderate price declines and the impact of lower financing revenues. SAG decreased as a percent of revenue as lower pension and bad debt expense as well as benefits from restructuring and productivity improvements more than offset the impact of overall lower revenues.

Installs 2014

Entry

- 7% decrease in color multifunction devices.
- Entry color printers flat.
- 23% decrease in entry black-and-white multifunction devices driven by declines in all geographies.

Mid-Range

- 1% increase in installs of mid-range color devices reflects benefits from the newly launched WorkCentre 7970 and entry production devices partially offset by timing of large account sales.
- 13% decrease in installs of mid-range black-and-white devices is consistent with overall market declines.

High-End

- 7% decrease in installs of high-end color systems. Excluding Fuji Xerox growth in digital front-end (DFE) sales, high-end color installs increased 6% with growth in iGen and the new Versant product.
- 13% decrease in installs of high-end black-and-white systems, reflecting continued declines in the overall market.

Other

Revenue 2015

Other segment revenue of $543 million decreased 9%, with no impact from currency, due primarily to lower wide format revenues, paper sales as well as networking hardware and integration services revenues. Total paper revenue (all within developing markets) comprised nearly 40% of the Other segment revenue.

Other Loss 2015

Non-financing interest expense as well as all Other expenses, net (excluding deferred compensation investment losses (gains)) are reported within the Other segment and were $232 million in 2015 as compared to $239 million in 2014. The $7 million decrease from the prior year was primarily due to lower non-financing interest expense.

Other segment loss of $35 million before Other expenses, increased $2 million from the prior year.

Revenue 2014

Other segment revenue of $598 million decreased 3%, with no impact from currency, due to lower licensing and patent sale revenues as well as lower wide format systems revenue. Total paper revenue (all within developing markets) comprised approximately one-third of the Other segment revenue.

Other Loss 2014

Non-financing interest expense as well as all Other expenses, net (excluding deferred compensation investment losses (gains)) are reported within the Other segment and were $239 million in 2014 as compared to $198 million in 2013 (which excludes the $37 favorable resolution of securities litigation matter). The $41 million increase was primarily driven by lower gains from the sale of surplus properties, currency losses and legal reserves.

Other segment loss of $33 million before Other expenses, increased $14 million from the prior year primarily due to lower revenues from licensing and patents.

2016 Segment Reporting Change

Revised 2015 Segments - New Reporting Basis

In the first quarter of 2016, we will be revising our segment reporting to reflect the following changes:

- The transfer of the Education/Student Loan business from the Services segment to Other as a result of the expected continued run-off of this business. The business does not meet the threshold for separate segment reporting.
- The exclusion of the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment Profit.

Although no other changes have been approved, additional segment changes may be considered in 2016 as a result of the Company's plan to separate the Business Processing Outsourcing business from its Document Technology and Document Outsourcing businesses.

Below are revised results by reportable segment as a result of the reporting changes discussed above.

(in millions)	Revised Full Year 2014	Q1	Q2	Q3	Q4	Full Year 2015	Revised 2015 Adj. for HE charge Q3	Revised 2015 Adj. for HE charge Full Year 2015
Revenues								
Services	$10,338	$2,467	$2,526	$2,367	$2,602	$9,962	$2,483	$10,078
Document Technology	8,358	1,830	1,880	1,778	1,877	7,365	1,778	7,365
Other	844	172	184	188	174	718	188	718
Total Revenues	$19,540	$4,469	$4,590	$4,333	$4,653	$18,045	$4,449	$18,161
Segment Profit (Loss)								
Services	$893	$187	$181	$(196)	$252	$424	$193	$813
Document Technology	1,204	232	235	248	245	960	248	960
Other	(185)	(47)	(62)	(55)	(46)	(210)	(55)	(210)
Total Segment Profit (Loss)	$1,912	$372	$354	$(3)	$451	$1,174	$386	$1,563
Segment Margin								
Services	8.6%	7.6%	7.2%	(8.3)%	9.7%	4.3%	7.8%	8.1%
Document Technology	14.4%	12.7%	12.5%	13.9%	13.1%	13.0%	13.9%	13.0%

Other	(21.9)%	(27.3)%	(33.7)%	(29.3)%	(26.4)%	(29.2)%	(29.3)%	(29.2)%
Total Segment Margin	9.8 %	8.3 %	7.7 %	(0.1)%	9.7 %	6.5 %	8.7 %	8.6 %

Capital Resources and Liquidity

Our liquidity is primarily dependent on our ability to continue to generate strong cash flows from operations. Additional liquidity is also provided through access to the financial capital markets, including the Commercial Paper market, as well as a committed global credit facility. The following is a summary of our liquidity position:

- As of December 31, 2015 and 2014, total cash and cash equivalents were $1,368 million and $1,411 million, respectively. There were no borrowings under our Commercial Paper Program at December 31, 2015 versus $150 million of borrowings at December 31, 2014. There were no borrowings or letters of credit under our $2 billion Credit Facility at either year end.
- Over the past three years we have consistently delivered strong cash flows from operations driven by the strength of our annuity-based revenue model. Cash flows from operations was $1,611 million, $2,063 million and $2,375 million for the three years ended December 31, 2015, respectively. The decrease in 2015 cash flow from operations was primarily due to lower earnings and the elimination of cash flows from the disposed ITO business. Cash flows from operations for all periods reflect the cash impacts from the sales of finance receivables - refer to Sales of Finance Receivables within this section.
- We expect cash flows from operations to be between $1.3 and $1.5 billion in 2016, which reflects expected cash outflows for the HE settlement charge and higher restructuring payments.

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2015, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,			Change	
(in millions)	2015	2014	2013	2015	2014
Net cash provided by operating activities	$1,611	$2,063	$2,375	$(452)	$(312)
Net cash provided by (used in) investing activities	508	(703)	(452)	1,211	(251)
Net cash used in financing activities	(2,074)	(1,624)	(1,402)	(450)	(222)
Effect of exchange rate changes on cash and cash equivalents	(88)	(89)	(3)	1	(86)
(Decrease) increase in cash and cash equivalents	(43)	(353)	518	310	(871)
Cash and cash equivalents at beginning of year	1,411	1,764	1,246	(353)	518
Cash and Cash Equivalents at End of Year	$1,368	$1,411	$1,764	$(43)	$(353)

Cash Flows from Operating Activities

Net cash provided by operating activities was $1,611 million for the year ended December 31, 2015. The $452 million decrease in operating cash from 2014 was primarily due to the following:

- $503 million decrease in pre-tax income before depreciation and amortization, gain on sales of businesses and assets, stock-based compensation and restructuring charges as well as the HE charge.
- $105 million decrease due to the expected loss of cash flow associated with the ITO business, post-divestiture.
- $79 million decrease primarily due to higher levels of inventory following lower equipment and supplies demand.
- $31 million decrease from finance receivables primarily related to a lower net run-off as a result of an increase in originations. This was partially offset by a lower impact from the prior year sales of receivables. Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding the sale of finance receivables.
- $25 million decrease primarily due to higher discretionary pension contributions in the U.S. offset by lower contributions in the international plans.
- $90 million decrease in accounts payable and accrued compensation primarily related to the timing of payments and an increase in days payable outstanding as well as lower compensation accruals.
- $256 million increase from accounts receivable primarily due to additional sales of accounts receivable under existing programs. In addition, the increase reflects improved collections, select use of prompt pay discounts and lower

revenues.

- $35 million increase from lower restructuring payments due to lower activity.
- $29 million increase from lower spending for up-front costs for outsourcing service contracts.

Cash flow from operations in 2015 and 2014 include approximately $40 million and $145 million, respectively, of cash flows from our ITO business, which was held for sale and reported as a discontinued operation through its sale on June 30, 2015. Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information.

Net cash provided by operating activities was $2,063 million for the year ended December 31, 2014. The $312 million decrease in operating cash from 2013 was primarily due to the following:

- $598 million decrease from finance receivables primarily related to the impact from prior period sales of receivables partially offset by higher net run-off due to lower lease originations. Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding the sale of finance receivables.
- $54 million decrease due to higher contributions to our defined benefit pension plans.
- $157 million increase due to higher accounts payable and accrued compensation primarily related to the timing of accounts payable payments and improved payment terms with key suppliers.
- $92 million increase from accounts receivable primarily due to the timing of collections and improved collections partially offset by the impact from quarterly revenue changes.
- $42 million increase from lower spending for product software and up-front costs for outsourcing service contracts.
- $34 million increase due to lower net income tax payments primarily due to refunds in 2014 of prior years.
- $20 million increase from lower installs of equipment on operating leases.

Cash flow from operations in 2014 and 2013 include approximately $145 million and $130 million, respectively, of cash flows from our ITO business, which was reported as a discontinued operation through its sale June 30, 2015. Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information.

Cash Flows from Investing Activities

Net cash provided by investing activities was $508 million for the year ended December 31, 2015. The $1,211 million increase in cash from 2014 was primarily due to the following:

- $936 million of net proceeds from the sale of the ITO business. Refer to Note - 4 Divestitures, in the Consolidated Financial Statements for additional information.
- $130 million change from acquisitions. 2015 acquisitions include RSA medical for $141 million, Intrepid Learning Solutions, Inc. for $28 million and $41 million for other acquisitions. 2014 acquisitions include ISG Holdings, Inc. for $225 million, Invoco Holding GmbH for $54 million, Consilience Software, Inc. for $25 million and $36 million for other acquisitions.
- $110 million due to lower capital expenditures (including internal use software) partly due to the sale of the ITO business.
- $39 million of higher proceeds primarily from the sale of surplus property and assets in the U.S. and Latin America.

Capital expenditures (including internal use software) in 2015 and 2014 include approximately $40 million and $100 million, respectively, for our ITO business, which was held for sale and reported as a discontinued operation through June 30, 2015. Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information.

Net cash used in investing activities was $703 million for the year ended December 31, 2014. The $251 million increase in the use of cash from 2013 was primarily due to the following:

- $185 million increase in acquisitions. 2014 acquisitions include ISG Holdings, Inc. for $225 million, Invoco Holding GmbH for $54 million, Consilience Software, Inc. for $25 million and three smaller acquisitions for $36 million. 2013 acquisitions include Zeno Office Solutions, Inc. for $59 million, Impika for $53 million and four smaller acquisitions totaling $43 million.
- $32 million increase primarily due to lower proceeds from the sale of assets. 2014 includes proceeds from the sale of surplus facilities in Latin America of $42 million. 2013 includes proceeds from the sale of a U.S. facility of $38 million and the sale of portions of our Wilsonville, Oregon operation and related assets of $33 million.
- $25 million increase due to higher capital expenditures (including internal use software).

Capital expenditures (including internal use software) in 2014 and 2013 include approximately $100 million in each year associated with our ITO business, which was held for sale and reported as a discontinued operation through its sale on June 30, 2015. Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information.

Cash Flows from Financing Activities

Net cash used in financing activities was $2,074 million for the year ended December 31, 2015. The $450 million increase in the use of cash from 2014 was primarily due to the following:

- $231 million increase in share repurchases.
- $195 million increase from net debt activity. 2015 reflects payment of $1,250 million on Senior Notes and a decrease of $150 million in Commercial Paper offset by net proceeds of $1,045 million from the issuance of Senior Notes. 2014 reflects payments of $1,050 million on Senior Notes offset by net proceeds of $700 million from the issuance of Senior Notes and an increase of $150 million in Commercial Paper.
- $36 million increase due to lower proceeds from the issuance of common stock under our incentive stock plans.
- $25 million decrease due to lower distributions to noncontrolling interests.

Net cash used in financing activities was $1,624 million for the year ended December 31, 2014. The $222 million increase in the use of cash from 2013 was primarily due to the following:

- $375 million increase in share repurchases.
- $69 million increase due to lower proceeds from the issuance of common stock under our incentive stock plans.
- $48 million increase due to higher common stock dividends of $17 million as well as distributions to noncontrolling interests of $31 million.
- $259 million decrease from net debt activity. 2014 reflects payments of $1,050 million on Senior Notes offset by net proceeds of $700 million from the issuance of Senior Notes and an increase of $150 million in Commercial Paper. 2013 reflects payments of $1 billion of Senior Notes offset by net proceeds of $500 million from the issuance of Senior Notes and $39 million from the sale and capital leaseback of a building in the U.S.

Customer Financing Activities and Debt

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

We have arrangements in certain international countries and domestically with our small and mid-sized customers, where third-party financial institutions independently provide lease financing directly to our customers, on a non-recourse basis to Xerox. 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:

	December 31,	
(in millions)	2015	2014
Total Finance receivables, net[(1)]	$3,988	$4,254
Equipment on operating leases, net	495	525
Total Finance Assets, Net [(2)]	$4,483	$4,779

(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.

(2) The change from December 31, 2014 includes a decrease of $247 million due to currency across all Finance Assets.

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 allocation of our total debt at December 31, 2015 and 2014 between financing debt and core debt:

	December 31,	
(in millions)	2015	2014

Financing debt[(1)]	$3,923	$4,182
Core debt	3,444	3,559
Total Debt	$7,367	$7,741

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(1) Financing debt includes $3,490 million and $3,722 million as of December 31, 2015 and December 31, 2014, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases.

In 2015, we expect to continue the leveraging of our finance assets at an assumed 7:1 ratio of debt to equity. The following summarizes our total debt at December 31, 2015 and 2014:

	December 31,	
(in millions)	2015	2014
Principal debt balance[(1)]	$7,365	$7,722
Net unamortized discount	(52)	(54)
Fair value adjustments[(2)]		
- terminated swaps	47	68
- current swaps	7	5
Total Debt	$7,367	$7,741

(1) Balance at December 31, 2015 and 2014 includes $3 million and $1 million of Notes Payable and $0 million and $150 of Commercial Paper, respectively.

(2) Fair value adjustments include the following: (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

Sales of Accounts Receivable

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

Refer to Note 5 - Accounts Receivable, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities. The transfers were accounted for as sales and resulted in the de-recognition of lease receivables with a net carrying value of $676 million in 2013 and $682 million in 2012, and associated pre-tax gains of $40 million and $44 million, respectively. There have been no sales since 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables.

Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

Capital Market Activity

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information.

Financial Instruments

Refer to Note 14 - Financial Instruments in the Consolidated Financial Statements for additional information.

Share Repurchase Programs - Treasury Stock

During 2015, we repurchased 115.2 million shares of our common stock for an aggregate cost of $1.3 billion, including fees.

Refer to Note 20 - 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 $299 million, $293 million and $287 million on common stock in 2015, 2014 and 2013, respectively. The increase in 2015 as compared to prior years is primarily due to the increase in the quarterly dividend to 7.00 cents per share in 2015 partially offset by a lower level of outstanding shares as a result of the repurchase of shares under our share repurchase programs.

The Board of Directors declared aggregate dividends of $24 million on the Series A Convertible Preferred Stock in each year for the three years ended December 31, 2015. The preferred shares were issued in 2010 in connection with the acquisition of ACS.

In January 2016, the Board of Directors approved an increase in the Company's quarterly cash dividend from 7.00 cents per share to 7.75 cents per share, beginning with the dividend payable on April 29, 2016.

Liquidity and Financial Flexibility

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

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

Year	Amount
2016[(1)]	$983
2017	1,027
2018	1,020
2019	1,161
2020	1,207
2021	1,067
2022	—
2023	—
2024	300
2025 and thereafter	600
Total	$7,365

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(1) Includes $3 million of Notes Payable.

Foreign Cash

At December 31, 2015, we had $1.4 billion of cash and cash equivalents on a consolidated basis. Of that amount, approximately $500 million was held outside the U.S. by our foreign subsidiaries to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with the repatriation, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings. However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 17- 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, 2015, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2015, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2016	2017	2018	2019	2020	Thereafter
Total debt, including capital lease obligations(1)	$983	$1,027	$1,020	$1,161	$1,207	$1,967
Interest on debt(1)	307	251	205	169	116	675
Minimum operating lease commitments(2)	378	271	178	122	78	139
Defined benefit pension plans	140	—	—	—	—	—
Retiree health payments	70	68	67	66	64	296
Estimated Purchase Commitments:						
Fuji Xerox(3)	1,728	—	—	—	—	—
Flextronics(4)	413	—	—	—	—	—
Other(5)	226	163	125	102	29	153
Total	$4,245	$1,780	$1,595	$1,620	$1,494	$3,230

(1) Total debt for 2016 includes $3 million of Notes Payable. Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding debt and interest on debt.

(2) Refer to Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. Refer to 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements for additional information related to transactions with Fuji-Xerox.

(4) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately $465 million per year.

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

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2015 cash contributions for these plans were $309 million for our defined benefit pension plans and $63 million for our retiree health plans. In 2016, based on current actuarial calculations, we expect to make contributions of approximately $140 million to our worldwide defined benefit pension plans and approximately $70 million to our retiree health benefit plans.

Contributions to our defined benefit pension plans 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. At December 31, 2015, the unfunded and underfunded balances of our U.S. and Non-U.S. defined benefit pension plans were $1,347 million and $962 million, respectively, or $2,309 million in the aggregate.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. The unfunded balance of our retiree health plans was $855 million at December 31, 2015. 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.

Refer to Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding contributions to our defined benefit pension and post-retirement plans.

Fuji Xerox
We purchased products, including parts and supplies, from Fuji Xerox totaling $1.7 billion, $1.8 billion and $1.9 billion in 2015, 2014 and 2013, 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 9 - 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, 2015, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately $577 million, with the decrease from December 31, 2014 balance of approximately $817 million, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of $577 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, 2015, we had $71 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of $14 million and additional letters of credit and surety bonds of approximately $129 million and $80 million, respectively, 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 the 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 18 - Contingencies and Litigation in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement law; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. 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, 2015, we had $247 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and foreign tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and, therefore, we are unable to make a reliable

estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.
Refer to Note 17 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding unrecognized tax benefits.

Off-Balance Sheet Arrangements

We may occasionally utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), “Disclosure in Management’s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations”). We enter into the following arrangements that have off-balance sheet elements:

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.

- We have facilities, primarily in the U.S., Canada and several countries in Europe that enable us to sell to third-parties certain accounts receivable without recourse. In most instances, a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 5 - Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.

- During 2013 and 2012, we entered into arrangements to transfer and sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales. There were no sales of Finance Receivables since the year ended December 31, 2013.

As of December 31, 2015, we do not believe we have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
In addition, see the preceding table for the Company's contractual cash obligations and other commercial commitments and Note 18 - Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

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 Revenue, Costs and Expenses, and Margin

As previously discussed, during third quarter 2015, we recorded a pre-tax charge, the Health Enterprise (HE) charge, of $389 million ($241 million after-tax or 23 cents per share), which included a $116 million reduction to revenues. (See Services Segment within the "Operations Review of Segment Revenue and Profit" section for additional details). As a result of the significant impact of the HE charge on our reported revenues, costs and expenses as well as key metrics for the period, we also discussed our results using non-GAAP measures which excluded the impact of the HE charge. In addition to the magnitude of the charge and its impact on our reported results, we excluded the HE charge due to the fact that it was primarily a unique charge associated with the determination, reached after a series of discussions, that fully completing our HE platform implementations in California and Montana was no longer considered probable.

Adjusted Earnings Measures
- Net income and Earnings per share (EPS)
- Effective tax rate

In addition to the exclusion of the HE charge, the above measures were also adjusted for the following items:
Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. 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.
Software impairment charge: The software impairment charge is excluded due to its non-cash impact and the unique nature of the item both in terms of the amount and the fact that it was the result of a specific management action involving a change in strategy in our Government Healthcare Solutions business. See Services Segment within the "Operations Review of Segment Revenue and Profit" section for further discussion.
Deferred tax liability adjustment: The deferred tax liability adjustment was excluded due its non-cash impact and the unusual nature of the item both in terms of amount and the fact that it was the result of an infrequent change in a tax treaty impacting future distributions from Fuji Xerox. Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, in the Consolidated Financial Statements for additional information.
Operating Income and Margin
We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the exclusion of the HE Charge as well as the amortization of intangible assets, operating income and margin also excludes Other expenses, net as well as Restructuring and asset impairment charges. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. Restructuring charges consist of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment charges include costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Such charges are expected to yield future benefits and savings with respect to our operational performance. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.
Net Income and EPS reconciliation:

	Year Ended December 31,					
	2015		2014		2013	
(in millions; except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported[1]	$552	$0.49	$1,128	$0.94	$1,139	$0.89
Adjustments:						
Amortization of intangible assets	193	0.18	196	0.17	189	0.15
Software Impairment	90	0.08	—	—	—	—
HE Charge	241	0.23	—	—	—	—
Deferred tax liability adjustment	—	—	(44)	(0.04)	—	—
Adjusted	$1,076	$0.98	$1,280	$1.07	$1,328	$1.04
Weighted average shares for adjusted EPS[2]	1,103		1,199		1,274	
Fully diluted shares at December 31, 2015[3]	1,046					

(1) Net income and EPS from continuing operations.
(2) Average shares for the calculation of adjusted EPS include 27 million shares associated with our Series A convertible preferred stock.
(3)

Represents common shares outstanding at December 31, 2015 as well as shares associated with our Series A convertible preferred stock plus potential dilutive common shares used for the calculation of diluted earnings per share for the year ended 2015.

Effective Tax reconciliation:

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
(in millions)	Pre-Tax Income	Income Tax (Benefit)Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[1]	$412	$ (23)	(5.6)%	$1,206	$ 215	17.8 %	$1,243	$ 253	20.4 %
Adjustments:									
Amortization of intangible assets	310	117		315	119		305	116	
Software Impairment	146	56		—	—		—	—	
HE Charge	389	148		—	—		—	—	
Deferred tax liability adjustment	—	—		—	44		—	—	
Adjusted	$1,257	$ 298	23.7 %	$1,521	$ 378	24.9 %	$1,548	$ 369	23.8 %

(1) Pre-tax income and income tax (benefit) expense from continuing operations.

Operating Income / Margin reconciliation:

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-tax Income[1]	$412	$18,045	2.3 %	$1,206	$19,540	6.2 %	$1,243	$20,006	6.2 %
Adjustments:									
Amortization of intangible assets	310			315			305		
Restructuring and asset impairment charges	186			128			115		
HE Charge	389	116		—	—		—	—	
Other expenses, net	233			232			146		
Adjusted Operating Income / Margin	$1,530	$18,161	8.4 %	$1,881	$19,540	9.6 %	$1,809	$20,006	9.0 %

(1) Profit and revenue from continuing operations.

The following non-GAAP reconciliation tables adjust for the third quarter 2015 HE charge, which does not impact the years ended December 31, 2014 or 2013.

Revenue / Segment reconciliation:

	Year Ended December 31, 2015		
(in millions)	Reported[1]	HE Charge	Adjusted
Total Revenue	$18,045	$116	$18,161
Annuity Revenue	15,264	116	15,380
Outsourcing, Maintenance and Rentals Revenue	12,951	116	13,067
Total Segment Profit	1,058	389	1,447
Total Segment Margin	5.9 %		8.0 %

(1) Revenue from continuing operations.

Services Segment reconciliation:

	Year Ended December 31, 2015		
(in millions)	Reported[1]	HE Charge	Adjusted
Annuity Revenue	$9,644	$116	$9,760
BPO Revenue	6,872	116	6,988
Segment Revenue	10,137	116	10,253
% of Total Revenue	56 %	—	56 %
Segment Profit	446	389	835
Segment Margin	4.4 %		8.1 %

(1) Revenue from continuing operations.

Key Financial Ratios reconciliation:

	Year Ended December 31, 2015		
(in millions)	Gross Margin	RD&E as % of Revenue	SAG as % of Revenue
Reported[1]	29.2 %	3.1 %	19.7 %
Adjustment:			
HE Charge	1.9	—	(0.1)
Adjusted	31.1 %	3.1 %	19.6 %

(1) Revenue from continuing operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 14 - 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, 2015, 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, 2015. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2015 would have an impact on our cumulative translation adjustment portion of equity of approximately $557 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox and Xerox Canada Inc. and translated into U.S. Dollars using the year-end exchange rates, was approximately $5.6 billion at December 31, 2015.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt for 2015, 2014 and 2013 approximated 4.7%, 4.8%, and 5.0%, 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, 2015, $338 million of our total debt of $7.4 billion carried variable interest rates, including the effect of pay variable interest rate swaps, if any, we may use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2015, a 10% change in market interest rates would change the fair values of such financial instruments by approximately $115 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), cash flows and shareholders’ equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in Item 15(a)(1) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As disclosed in Note 1 to the consolidated financial statements, the Company changed the presentation and classification of deferred income taxes in 2015 in accordance with the adoption of the new accounting standard.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 19, 2016

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

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

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

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control - Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2015.

/s/ URSULA M. BURNS	/s/ LESLIE F. VARON	/s/ JOSEPH H. MANCINI, JR.
Chief Executive Officer	Interim Chief Financial Officer	Chief Accounting Officer

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(in millions, except per-share data)	2015	2014	2013
Revenues			
Sales	$4,748	$5,288	$5,582
Outsourcing, maintenance and rentals	12,951	13,865	13,941
Financing	346	387	483
Total Revenues	18,045	19,540	20,006
Costs and Expenses			
Cost of sales	2,961	3,269	3,550
Cost of outsourcing, maintenance and rentals	9,691	9,885	9,808
Cost of financing	130	140	163
Research, development and engineering expenses	563	577	603
Selling, administrative and general expenses	3,559	3,788	4,073
Restructuring and asset impairment charges	186	128	115
Amortization of intangible assets	310	315	305
Other expenses, net	233	232	146
Total Costs and Expenses	17,633	18,334	18,763
Income Before Income Taxes and Equity Income	412	1,206	1,243
Income tax (benefit) expense	(23)	215	253
Equity in net income of unconsolidated affiliates	135	160	169
Income from Continuing Operations	570	1,151	1,159
(Loss) income from discontinued operations, net of tax	(78)	(115)	20
Net Income	492	1,036	1,179
Less: Net income attributable to noncontrolling interests	18	23	20
Net Income Attributable to Xerox	$474	$1,013	$1,159