XEROX CORP
Form 10-Q
August 01, 2014

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended: June 30, 2014

OR

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

For the transition period from to

Commission File Number 001-04471

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

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

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

_____

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

Class	Outstanding at June 30, 2014
Common Stock, $1 par value	1,153,152,810 shares

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; actions of competitors; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions and the relocation of our service delivery centers; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; the risk in the hiring and retention of qualified personnel; the risk that unexpected costs will be incurred; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; our ability to recover capital investments; the risk that our Services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts; development of new products and services; our ability to protect our intellectual property rights; our ability to expand equipment placements; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security; service interruptions; interest rates, cost of borrowing and access to credit markets; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to drive the expanded use of color in printing and copying; the outcome of litigation and regulatory proceedings to which we may be a party; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

XEROX CORPORATION
FORM 10-Q
JUNE 30, 2014
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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per-share data)	2014	2013	2014	2013
Revenues				
Sales	$1,359	$1,454	$2,630	$2,747
Outsourcing, maintenance and rentals	3,835	3,823	7,574	7,605
Financing	98	114	198	231
Total Revenues	5,292	5,391	10,402	10,583
Costs and Expenses				
Cost of sales	847	934	1,637	1,749
Cost of outsourcing, maintenance and rentals	2,781	2,718	5,520	5,467
Cost of financing	36	42	72	85
Research, development and engineering expenses	142	149	286	303
Selling, administrative and general expenses	972	1,041	1,932	2,080
Restructuring and asset impairment charges	38	33	65	25
Amortization of intangible assets	84	83	168	166
Other expenses, net	68	59	107	76
Total Costs and Expenses	4,968	5,059	9,787	9,951
Income before Income Taxes and Equity Income	324	332	615	632
Income tax expense	81	68	130	118
Equity in net income of unconsolidated affiliates	33	36	75	83
Income from Continuing Operations	276	300	560	597
Loss from discontinued operations, net of tax	(4)	(23)	(2)	(20)
Net Income	272	277	558	577
Less: Net income attributable to noncontrolling interests	6	6	11	10
Net Income Attributable to Xerox	$266	$271	$547	$567
Amounts Attributable to Xerox:				
Net income from continuing operations	$270	$294	$549	$587
Net loss from discontinued operations	(4)	(23)	(2)	(20)
Net Income Attributable to Xerox	$266	$271	$547	$567
Basic Earnings per Share:				
Continuing operations	$0.22	$0.24	$0.46	$0.47
Discontinued operations	—	(0.02)	—	(0.02)
Total Basic Earnings per Share	$0.22	$0.22	$0.46	$0.45
Diluted Earnings per Share:				
Continuing operations	$0.22	$0.23	$0.45	$0.46
Discontinued operations	—	(0.02)	—	(0.02)
Total Diluted Earnings per Share	$0.22	$0.21	$0.45	$0.44

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

(1) Refer to Note 16 - Other Comprehensive Income for gross components of Other Comprehensive Income, reclassification adjustments out of Accumulated Other Comprehensive Loss and related tax effects.

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

XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$1,007	$1,764
Accounts receivable, net	3,097	2,929
Billed portion of finance receivables, net	127	113
Finance receivables, net	1,497	1,500
Inventories	1,077	998
Other current assets	1,174	1,207
Total current assets	7,979	8,511
Finance receivables due after one year, net	2,826	2,917
Equipment on operating leases, net	535	559
Land, buildings and equipment, net	1,433	1,466
Investments in affiliates, at equity	1,403	1,285
Intangible assets, net	2,388	2,503
Goodwill	9,431	9,205
Other long-term assets	2,513	2,590
Total Assets	$28,508	$29,036
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$1,355	$1,117
Accounts payable	1,597	1,626
Accrued compensation and benefits costs	705	734
Unearned income	524	496
Other current liabilities	1,509	1,713
Total current liabilities	5,690	5,686
Long-term debt	6,354	6,904
Pension and other benefit liabilities	2,353	2,136
Post-retirement medical benefits	764	785
Other long-term liabilities	593	757
Total Liabilities	15,754	16,268
Series A Convertible Preferred Stock	349	349
Common stock		