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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2010

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

For the transition period from: __ to ____

001-04471 (Commission File Number)

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

New York	16-0468020
(State of incorporation)	**(I.R.S. Employer Identification No.)**

P.O. Box 4505, 45 Glover Avenue, Norwalk, Connecticut 06856-4505 (Address of principal executive offices)
Registrant's telephone number, including area code: (203) 968-3000

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2010 was: $11,119,697,695.

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, 2011
Common Stock, $1 par value	1,399,441,447 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

Document	Part of Form 10-K in Which Incorporated
Xerox Corporation 2010 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2011 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10-K)	III

FORWARD-LOOKING STATEMENTS

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

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

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements, environmental regulations and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; our ability to expand equipment placements and to drive the expanded use of color in printing and copying; development of new products and services; interest rates, cost of borrowing and access to credit markets; our ability to protect our intellectual property rights; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that unexpected costs will be incurred; reliance on third parties for manufacturing of products and provision of services; the risk that we will not realize all of the anticipated benefits from the acquisition of Affiliated Computer Services, Inc.; our ability to recover capital investments; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term; 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; 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.

TABLE of CONTENTS

Table of Contents

PART I

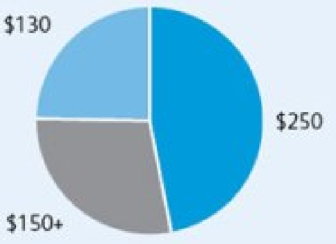
ITEM 1. BUSINESS OVERVIEW

With sales of $22 billion and operations in 160 countries we are the world's leading enterprise for business process and document management. We focus on managing the documents and millions of transaction touchpoints that simplify the ways real business gets done.

We provide the industry's broadest portfolio of document technology, services and software; and the most diverse array of business process and IT outsourcing support. Our document technology offerings serve businesses of all sizes and across industries to deliver solutions for both the workplace and production print environments. We leverage our technology and the document expertise of our employees to deliver further value for our customers through our document outsourcing solutions, which help customers improve their productivity and reduce costs. We have transformed our business with the acquisition of Affiliated Computer Services, Inc. ("ACS") in February 2010, which allows Xerox to capitalize on the rapidly growing services market. Through our business process and IT outsourcing we offer global services from claims reimbursement and electronic toll transactions to the management of HR benefits and customer care centers to the operation of a company's technology infrastructure.

[Table of Contents](#)

We are a leader in a large, diverse and growing market estimated at over $500 billion
(in billions)



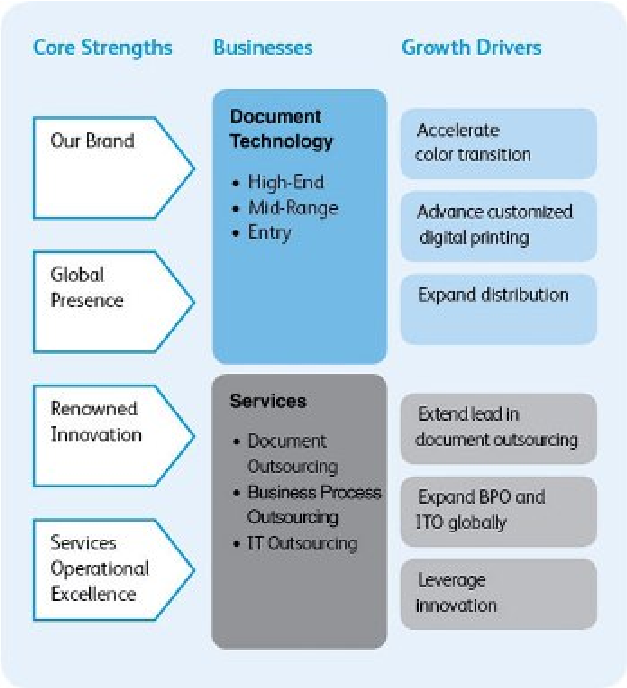
- **$250B Information Technology Outsourcing**
  We specialize in designing, developing and delivering effective IT solutions. By outsourcing their IT infrastructure, companies are able to streamline and improve their IT functions while reducing costs and improving their competitive position. We apply thought leadership, innovation and operational excellence to deliver the highest level of service delivery to our customers.
- **$150B+ Business Process Outsourcing**
  We are the largest worldwide diversified business process outsourcing company in the large and growing BPO market. The BPO market comprises the outsourcing of non-core, mission-critical business processes and functions that clients need to run their day-to-day operations. The market is very broad, encompassing horizontal business processes such as human resource management and finance and accounting as well as industry specific business processes.
- **$130B Document Management**
  We are well-positioned to lead in this market. The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology and services.

These market estimates are calculated by leveraging third-party forecasts from firms such as International Data Corporation and InfoSource in conjunction with our assumptions about our markets.

Our Strategy

We are well-positioned to lead in the markets in which we participate. Our strategy leverages our core strengths to drive growth within our segments and lines of businesses.

Table of Contents



Our core strengths include:

– **Our Brand** – We have a strong and well-recognized brand that is known by businesses worldwide for delivering industry-leading document technology, services and solutions.

– **Global Presence** – Our geographic footprint spans 160 countries and allows us to serve customers of all sizes to deliver superior technology and services regardless of complexity or number of customer locations.

– **Renowned Innovation** – We have a history of innovation and, with more than 10,200 active U.S. patents and five global research centers, we are committed to continuing to lead in the document technology industry and to leverage our technology into new service areas.

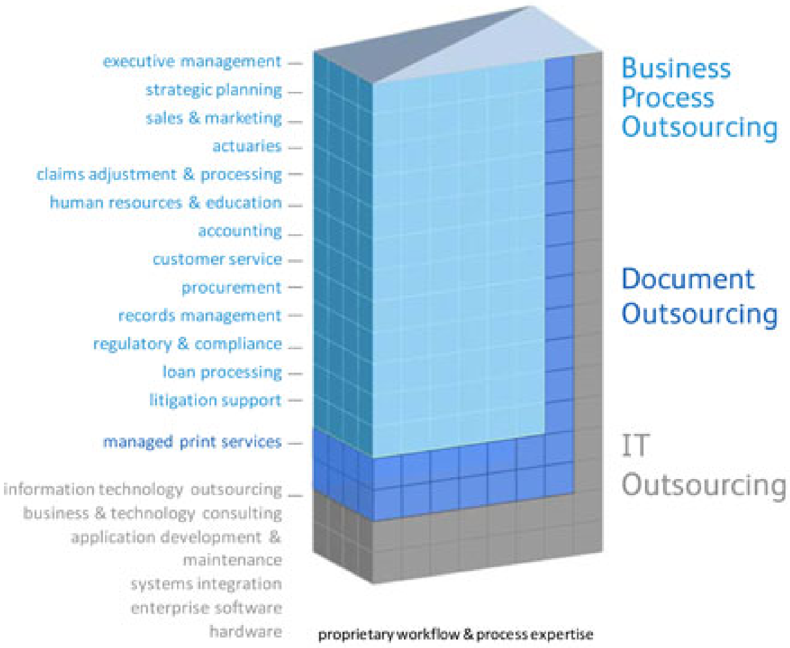
– **Services Operational Excellence** – We have an operational excellence model that leverages our global delivery capabilities, production model, incentive-based compensation process, proprietary systems and financial discipline to deliver productivity and lower costs for our customers.

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

– Our **Technology** segment comprises our business of providing customers with document technology and related supplies, technical service and equipment financing. Our product categories within this segment include Entry, Mid-range and High-end products.

[Table of Contents](#)

– Our **Services** segment is comprised of business process outsourcing, information technology outsourcing and document outsourcing services. Because we provide all three of these business services, we are uniquely positioned in the industry, and we believe this allows us to provide a differentiated solution and deliver greater value to our customers.



We will leverage our core strengths and market opportunities to grow our businesses by executing on the following growth initiatives:

– **Accelerating the Transition to Color** – We have the broadest color portfolio in the industry and leading technologies to help customers realize the communication benefits of printing in color. Cost and quality improvements are driving the transition from black-and-white to color. With only 23% of Xerox pages printed on color devices, we believe there remains tremendous opportunity to grow color pages and revenues.

– **Advancing Customized Digital Printing** – We are the leader in digital production printing, and we continue to create new market opportunities for digital printing through technology that enables personalized promotional and transactional documents, short-run book publishing, cross-media customized campaigns and more. Color digital production pages are estimated to grow over 20% CAGR from 2009 to 2014, according to internal market estimates.

– **Expand Distribution** – We strive to ensure Xerox is considered by every customer and potential customer. We will continue to broaden our distribution capacity through acquisitions and channel partnerships targeted at expanding our presence in the small and mid-size business ("SMB") market and we will capitalize on our coverage investments and partnerships to drive growth in digital production printing.

– **Extending Lead in Document Outsourcing** – We lead the industry with end-to-end Document Management Services. Through offerings such as managed print services, we can help our customers save up to 30% on printing costs by optimizing their use of document systems across an entire enterprise. We will seek to grow our document outsourcing revenue by expanding our print services offerings to smaller companies, delivering solutions in new service categories such as multi-channel marketing communications, and leveraging our BPO and ITO presence to deliver even greater value to our customers.

– **Expand BPO and ITO Globally** – In 2010, approximately 90% of our BPO and ITO revenues were from services provided to customers in the United States. We believe there is tremendous opportunity to leverage Xerox's global presence and customer relationships to expand our BPO and ITO services internationally.

– **Leverage Innovation** – We have a strong heritage in innovation and we continue to invest heavily in research and development. In 2010, together with Fuji Xerox, our research and development spending was $1,602 million. We see great opportunity in applying our document management technology to deliver industry-leading document solutions to the market, to increase ACS's existing BPO capabilities, and to deliver new services to help customers better manage their document-intensive business processes.

Acquisitions

In February 2010, we acquired **Affiliated Computer Services, Inc.** ACS is a premier provider of diversified business process outsourcing and information technology services and solutions to commercial and government clients worldwide.

Subsequent to the acquisition of ACS, we acquired three additional service companies, further expanding our BPO capabilities:

– In July 2010, we acquired **ExcellerateHRO, LLP** ("EHRO"), a global benefits administration and relocation services provider. This acquisition establishes ACS as one of the world's largest pension plan administrators and a leading provider of outsourced health, welfare and relocation services.

– In October 2010, we acquired **TMS Health, LLC** ("TMS"), a U.S.-based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries. Through TMS, we will improve communication between pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing, and clinical trial solutions, we build on our ITO and BPO services we are already delivering to the healthcare and pharmaceutical industries.

– In November 2010, we acquired **Spur Information Solutions, Limited** ("Spur"), one of the United Kingdom's leading providers of parking enforcement computer software used. Spur's core software helps governments implement and enforce local parking codes across municipalities. The acquisition strengthens our broad portfolio of services that support the transportation industry.

Additionally in 2010, we acquired two companies to further expand our distribution capacity:

– In January 2010, we acquired **Irish Business Systems Limited** ("IBS") to expand our reach into the small and mid-size business market in Ireland. IBS, a managed print services provider, has eight offices located throughout Ireland and is the largest independent supplier of digital imaging and printing solutions in Ireland.

– In September 2010, we acquired **Georgia Duplicating Products, Inc.**, an office equipment supplier. This acquisition furthers our strategy of supporting business customers across the U.S. with an expanding network of office technology providers.

Business Model Fundamentals

Our annuity based business model yields strong and stable cash generation and earnings growth.

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

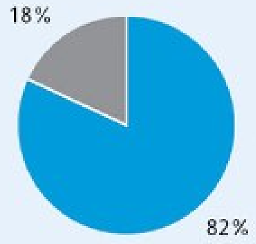
Table of Contents

Annuity Model

The fundamentals of our business rest upon an annuity model that drives significant recurring revenue and cash generation. Over 80% of our 2010 total revenue was annuity based revenue that includes contracted services, equipment maintenance and consumable supplies, among other elements. Some of the key indicators of annuity revenue growth include:

- The number of page-producing machines in the field (“MIF”) which is impacted by the number of equipment installations
- Page volume and the mix of color pages, as color pages generate more revenue per page than black-and-white
- Services signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period as measured on a trailing 12 month basis
- Services pipeline growth, which measures the year-over-year increase in new business opportunities
- Expanding the digital production printing market, as this is key to increasing pages.

Revenue stream



82% Annuity
Approximately 82% of our revenue, annuity includes revenues from services, maintenance, supplies, rentals and financing.

18% Equipment Sales
The remaining 18% of our revenue comes from equipment sales, from either lease arrangements that qualify as sales for accounting purposes or outright cash sales.

Cash Generation

The combination of consistent strong cash flow from operations and modest capital investments enabled us in 2010 to pay down a significant amount of the debt associated with the ACS acquisition. Cash generation in the future will continue to provide a return to shareholders through:

- Buying back shares under our share repurchase program once debt leverage targets are met
- Expanding our distribution and business process outsourcing capabilities through acquisitions
- Maintaining and, over time, increasing our quarterly dividend.

Expanded Earnings

We will expand our operating margin and future earnings through:

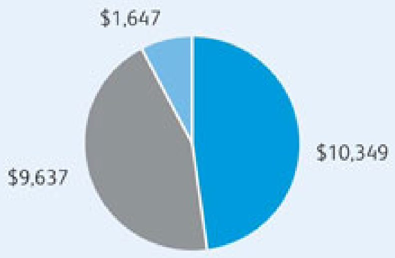
- Modest revenue growth
- Driving cost efficiencies to balance gross profit and expense
- Repurchasing shares
- Making accretive acquisitions.

[Table of Contents](#)

Segment Information

Our reportable segments are Technology, Services and Other. We present operating segment financial information in Note 2 – Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. We have a very broad and diverse base of customers by both geography and industry, ranging from SMB 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
(in millions)



- **$10,349 Technology**
  Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products.
- **$9,637 Services**
  Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Information Technology Outsourcing ("ITO") and Document Outsourcing ("DO").
- **$1,647 Other**
  The Other segment primarily includes revenue from paper sales, wide-format systems, and GIS network integration solutions and electronic presentation systems.

Technology

The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology, for businesses of any size, in any industry, around the world.

[Table of Contents](#)

9
percent year-over-year increase in equipment sale revenue

9
percent color page growth

>50
percent of digital production color pages produced on Xerox technology

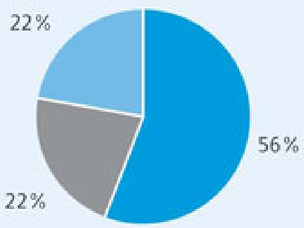
21
product launches in 2010

100
billion dollar + market opportunity

7
percent color revenue growth

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products. The Technology segment is centered around strategic product groups that share common technology, manufacturing and product platforms.

Technology Revenue Mix



56% Mid-Range
The Mid-Range business comprises a wide range of multifunction printers, copiers, digital printing presses and light production printers and copiers sold to enterprises of all sizes.

22% Entry
The Entry business comprises products sold principally to small and mid-size businesses.

22% High-End
The High-End business provides high-end digital monochrome and color systems designed for customers in the graphic communications industry and for large enterprises.

[Table of Contents](#)

Our strategic product groups are as follows:

Entry

Entry comprises products sold principally to small and mid-size businesses through a worldwide network of independent resellers, and includes desktop monochrome and color printers and multifunction printers (MFPs) ranging from small personal devices to larger workgroup printers designed to serve the needs of demanding office users. In 2010, we continued to build on our position in the market by:

- Leveraging the market transition from larger centralized devices to more-affordable desktop-centric devices with a full portfolio of products
- Making high-quality desktop color more affordable and easier to use for small businesses and large enterprises alike
- Expanding our channel reach, partner programs and capacity to support the needs of the SMB market

Our Entry business products include:

- **ColorQube 8570/8870:** Featuring advanced cartridge-free solid ink, the ColorQube 8570 and ColorQube 8870 color printers are powerful, no-fuss and waste-conscious printing solutions that are simple, highly productive and affordable, with the advantage of superior color output. At 40 pages-per-minute (“ppm”), these products are perfect for small to mid-size workgroups.
- **Phaser 7500:** This 35 ppm color laser printer allows small and mid-size workgroups to attain professional-quality results. Key features include improved print quality as a function of 1200 dpi, new “Color by Words” Xerox technology, a natural language technology enabling easy and intuitive color adjustments, enhanced media handling capabilities and longer lives on customer replaceable parts.
- **WorkCentre 6400:** The WC6400 is Xerox’s first desktop multifunction printer that utilizes Xerox’s Smart Controller platform and supports EIP, Xerox’s open platform allowing customization of applications on the MFP. The WorkCentre 6400 is also able to handle busy volumes with print speeds up to 32 ppm color/37 ppm mono and offers basic finishing, Print Around and ID Card Copy.

Mid-range

Mid-range comprises products sold to enterprises of all sizes, principally through dedicated Xerox-branded partners and our direct sales force. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features.

In 2010, our Mid-range business continued to build on our position in the market by:

- Enhancing our already strong product portfolio, making color more affordable, easier to use, faster and more reliable while maintaining our leadership position in black-and-white
- Driving to a leadership position in the combined color page printer and color MFP market segments
- Offering a complete range of services and solutions in partnership with independent software partners that allow our customers to analyze, streamline, automate, secure and track their document workflows.

The breadth of our Mid-range product portfolio is unmatched. We continued to build on this portfolio in 2010 with the launches of:

- **Xerox WorkCentre 7120:** Xerox’s new multifunction printer combines affordable color with high-productivity workflow tools. Today’s MFPs do far more than copy and print – they improve the way work gets done; the WorkCentre 7120 helps SMBs maximize office productivity and produce affordable, impactful color documents.
- **WorkCentre 7545 and 7556:** These new multifunction printers are equipped with features to help mid-size businesses and large workgroups boost productivity and meet their sustainability goals. They offer speeds up to 45 and 50 ppm color and 45 and 55 ppm black-and-white, respectively. The MFPs, which can copy, scan, fax and email, include advanced document management and workflow tools to make office work easier.

[Table of Contents](#)

– **Xerox Color 550/560 Digital Color Printer:** The new Xerox Color 550/560 printer, with an easy-to-use color touch-screen, benchmark image quality and flexible finishing options, is an efficient choice for quick-print shops, small commercial printers, in-plant operations, advertising agencies, creative shops and office settings. It is the perfect fit in any print setting for applications ranging from marketing pieces to office documents.

Extensible Interface Platform

Xerox Extensible Interface Platform (EIP) is a software platform upon which developers can use standard web-based tools to create server-based applications that can be configured for the multifunction printer's (MFP's) touch-screen user interface. It brings a new world of possibilities to the Xerox MFP – the ability to adapt to, support and automate the work processes of our customers.

Xerox Mobile Offerings

These offerings make it easier for office workers to print from anywhere, at anytime. Mobile office workers and IT professionals stay productive with three tools that make it easier than ever to print regardless of location:

- **Xerox Mobile Print Solution** makes mobile printing simpler and more convenient. It keeps your business documents secure while printing from any smartphone or electronic device, with no need to download cumbersome drivers, tools or software.
- **Xerox Mobile Express Driver** enables printing from a PC to virtually anywhere. It is a single, universal printer driver that can be downloaded to a PC and used to print to any PostScript device on a network, including printers made by other manufacturers.
- **Secure Access Unified ID System** allows remote workers and students to send documents to a centralized print server and activate their job at the device with a swipe of their magnetic or proximity ID card for authentication. This gives users quick, easy and secure access to documents wherever they need them.

High-end

We provide High-end digital monochrome and color systems designed for customers in the graphic communications industry and for large enterprises. These High-end devices enable digital on-demand printing, digital full-color printing and enterprise printing. We are the leading provider in the market offering a complete family of monochrome and color production systems, business development tools and workflow solutions. We are creating new market opportunities in targeted application areas with digital printing as a complement to traditional offset printing.

For more than two decades, we have delivered innovative technologies that have revolutionized the production printing industry. We are the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2010 with the launches of:

– **Xerox Color Press 800 and 1000:** These new products are additions to the portfolio and are positioned below iGen4, and above the DocuColor 8002. They offer customers a set of new innovative features. The optional fifth housing for clear dry ink allows users to create new applications and/or add value to existing work. The clear dry ink allows for images and text to be highlighted for visual impact, or digital watermarks applied for artistic effect. Flexible finishing options include high-capacity stackers, booklet makers and a tape bind option exclusive to Xerox

– **Xerox iGen4 EXP:** We added more capabilities to the flagship of the production color portfolio, iGen4. The industry's most reliable and productive press added a number of new options that expand the reach of iGen, enabling new applications that were previously done only on offset presses. The expanded sheet size of 26", or 660mm, allows print providers to produce full-size trifold brochures and more multi-up images such as postcards and business cards per page. A new touchless workflow allows for jobs to be completed without manual intervention or setup, saving time, reducing errors and producing more-sellable prints. Integrating with the Adobe PDF print engine drives quick and reliable printing of native Adobe PDF files.

[Table of Contents](#)

We are enabling print providers in graphic communications, service bureaus and large enterprises to profit and grow by meeting their customers' specific business needs with just-in-time, one-to-one and e-based services – rather than simply manufacturing a printed piece.

FreeFlow Digital Workflow: Our FreeFlow digital workflow is a collection of software technology solutions that our customers can use to improve all aspects of their processes, from content creation and management to production and fulfillment. Our digital technology combined with total document solutions and services that enable personalization and printing on demand, delivers value that improves our customers' business results.

Through our industry-leading FreeFlow Digital Workflow collection and FreeFlow Print Server, we deliver three primary values to our customers - the ability to Connect, Control and Enable. Our solutions:

– Connect our customers to their customers 24/7, enabling them to be open for business around the clock
– Control our customers' costs, environmental impacts and security. Automated workflows provide extensive productivity gains and greatly increase document integrity by eliminating manual processes.
– Enable new applications and revenue streams such as photo books, secure event tickets and packaging.

Services

We are behind the scenes managing the essential processes that your business can count on to be successful.

37 billion public transport fares processed annually

900 million healthcare claims processed annually

4.4 million employees and retirees served by HR services

3 year leader in Gartner MPS Magic Quadrant

1.5 million phone calls handled daily in our call centers

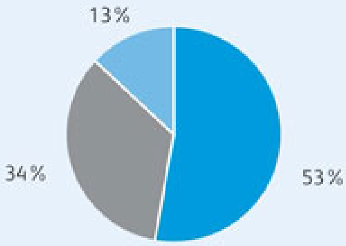
350 thousand desktops supported

Our Services segment comprises three service offerings: Business Process Outsourcing ("BPO"), Document Outsourcing ("DO") and Information Technology Outsourcing ("ITO"). We provide non-core, mission-critical services that our clients need to run their day-to-day business. The services we provide enable our clients to concentrate on their core operations, respond rapidly to changing technologies and reduce expenses associated with their business processes and information processing.

The majority of our Services business is the result of our acquisition of ACS in February 2010.

Table of Contents

Services Revenue Mix



53% Business Process Outsourcing
BPO, which provides a multitude of services for our customers, is the largest component of the Services segment.

34% Document Outsourcing
Our DO business provides services that help customers optimize their printing infrastructure and streamline their communication and business processes.

13% Information Technology Outsourcing
Our ITO business allows our customers worldwide to focus on their competencies instead of their IT infrastructure.

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with focused offerings in education, transportation, communication, healthcare, government, finance and accounting services, manufacturing, consumer goods and retail. Our BPO service offerings are focused, transaction-intensive, back-office functions. Our BPO services include:

– **Human Resources Services:** We provide a comprehensive portfolio of human resources solutions that allow our clients to benefit from best practices, our subject matter expertise, consulting and technological solutions. Our human resources services include:
  - HR consulting
  - HR Outsourcing
  - Total Benefits Outsourcing
  - Learning

– **Customer Care:** One of our core values is delivering a positive customer care experience. We have years of experience providing customer care outsourcing services that can improve productivity, efficiency and customer retention. Services include:
- Strategic Advisory Services
- Account Activations
- Collections
- Device/Technical Support

– **Finance and Accounting Outsourcing:** Our finance and accounting services allow our clients to benefit from our global delivery model and our quality management systems, resulting in better accuracy and, timeliness, and reduced risk for our clients. Services include:
- Accounts Payable, Accounts Receivable
- Billing
- General Accounting
- Tax Management
- Treasury and Risk Management
- Time and Expense Reporting

– **Healthcare Payer and Insurance:** We deliver administrative efficiencies to our healthcare payer clients through our scalable and flexible transactional business solutions, which encompass both our global delivery model and domestic payer service centers. Services include:
- Healthcare Payer Claim Processing
- Healthcare Payer Customer Care
- Cost Recovery, Audit, Cost Avoidance

– **Healthcare Provider:** Our healthcare provider business offers services and solutions to meet the critical financial, operational and clinical needs of the healthcare provider industry. We offer a full range of services, including:
- Consulting Solutions
- Revenue Cycle Management
- Application Services

– **Government Services and Solutions:** We help federal, state and local government agencies by providing services that improve their operating efficiency, increase the level of service provided to their constituents, increase their revenue streams and reduce overall operating costs of service delivery. Our service offerings include:
- Child Support Payment Processing
- Electronic Benefits Transfer
- Student Loan Servicing
- Government Records Management
- Electronic Payment Cards

– **Government Healthcare:** We provide our state government clients with health program management solutions to help them administer their programs and control the cost of healthcare. We support the full healthcare continuum, including member enrollment, claims processing and health management. Our service offerings include:
- Medicaid Program Administration
- Healthcare and Quality Management
- Eligibility and Enrollment Solutions
- Pharmacy Benefits Management

– **Transportation Solutions:** We help transportation agencies worldwide address the unique challenges associated with revenue collection and regulation compliance services. From fare collection to toll and parking solutions and from back office processing to infrastructure installation, we provide systems and services that help governments with their transportation problems. New innovations include the **Smart Card Fare Payment Solution** - a streamlined and seamless fare payment system. By adopting a fare payment system based on the financial industry's open standards, transit agencies can now enable riders to tap contactless bankcards for point-of-entry payments.

Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Our secure data centers, help desks and managed storage facilities around the world provide a reliable IT infrastructure that minimizes the chance of disruption to our clients' daily operations.

With our global Information Technology Outsourcing solutions, commercial businesses and government organizations worldwide can focus on their competencies instead of their IT infrastructure.

Throughout our global IT services outsourcing portfolio, we:
- Infuse thought leadership and innovation
- Manage to the highest level of quality for service delivery
- Enable our customers to transform their organization

Our ITO services include:
- **Data Center Outsourcing:** We provide a 24/7 support organization that maintains a unified set of tools and processes to support our clients' IT environments, including systems administration, database administration, systems monitoring, batch processing, data backup and capacity planning.
- **Mid-range Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We are able to leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **Remote Infrastructure Management ("RIM"):** We provide RIM services that allow our clients to retain control of their IT assets but outsource the day-to-day IT operations management.
- **Help Desk/Service Desk Management:** We deliver specialized service desk support from self-service to remote management and diagnostics.
- **Desktop Outsourcing:** Our desktop services provide our clients with a comprehensive approach to managing their end-user platforms and devices. We design and execute desktop management strategies that address and resolve issues such as enterprise bandwidth constraints, unstable computing environments, areas of insecurity and unavailable network resources.
- **Managed Storage:** Data storage requirements have become larger and more complex. We help our clients define, monitor and optimize their data storage requirements while reducing the complexity of their storage environments and associated costs.
- **Utility Computing:** We support large corporations with our utility computing model. Utility computing provides "pay for use" pricing for mid-range server clients, which provides variable pricing and relieves our clients from the burden of asset ownership.
- **Disaster Recovery:** We approach disaster recovery as a multidisciplinary function. We assess our clients' specific enterprise requirements and then deploy solutions based on these requirements.
- **Security Services:** Our solutions provide security from the desktop to LAN/WAN and Internet levels. We leverage a combination of mature methodologies and industry best practices that afford increased ability to protect valuable data while also satisfying industry audit requirements.
- **IT commercial services:** We possess category knowledge, tools and processes that allow us to reduce IT and telecommunication costs for our clients.

Table of Contents

Cloud computing
Xerox is uniquely positioned to bring the best of enterprise-level Cloud services to our clients. We've been involved in virtualization and on-demand services for more than 20 years – driving the evolution from mainframe computers to the ASP model to utility computing. Cloud is the next step in this evolution; representing the maturation of what our company has been doing all along. Our strength is delivering secure, enterprise-level Cloud solutions to large organizations with multi-site applications and large transaction volumes. We create and execute the entire solution – from the initial consultation and development of the most appropriate Cloud strategy to the phased transformation.

Document Outsourcing

We are an industry leader in document outsourcing services with more than 20 years' experience and 15,000 business professionals across 160 countries.

We help companies optimize their printing infrastructure and streamline their communication and business processes to grow revenue, reduce costs and operate more efficiently. We specialize in the planning and delivery of the following services:
- Managed print services for workplace, production environments and virtual worker printing sites
- Consolidating in-house production and commercial printing under a single point of control
- Improving communication processes and back-office functions associated with creating, capturing, managing and routing customer, employee and supplier information
- Designing, authoring and translating technical and user documentation
- Creating personalized, multi-channel marketing communications

Through these services, we:
- Help our clients save up to 30% on printing costs through managed print services that optimize the use of document systems across an entire enterprise
- Simplify document-driven processes, such as forms processing and records management
- Manage in-house print operations and special events by handling technology procurement and print/copy centers
- Make information easier to manage and find through digital imaging, archiving and indexing
- Generate a better return on investment through personalized, multi-channel marketing communications
- Improve commercial print operations, sales and profits through document outsourcing

As the market leader in managed print services, our approach to optimizing across all print environments allows our customers to print from anywhere to anywhere in a seamless way while ensuring compliance with budget targets, security protocols and environmental sustainability programs.

Other

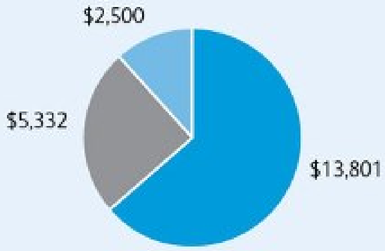
The Other segment primarily includes revenue from paper sales, wide-format systems and GIS network integration solutions and electronic presentation systems. Paper comprised approximately 58% of the revenues in the Other segment.

[Table of Contents](#)

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 36% of our revenue is generated by customers outside the U.S. Currently, ACS generates approximately 10% of its revenue outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand the ACS business in Europe and developing markets.

Revenues by geography
(in millions)



- $13,801 U.S.
- $5,332 Europe
- $2,500 Other Areas

Note: ACS generates approximately 10% of its revenue outside the U.S.

Revenues by geography are based on the location of the unit reporting the revenue and includes export sales.

Research and Development

Innovation drives growth and keeps us at the forefront of our industry.

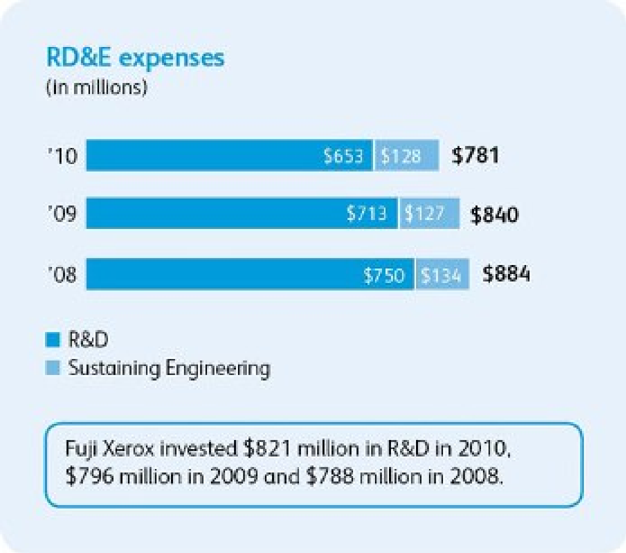
Investment in R&D is critical for competitiveness in our fast-paced markets. Approximately 55% of our equipment sales are from products launched during the last two years. Our R&D investment also enables innovation within our Services segment.

Research activities are conducted in the United States in Webster, New York and Palo Alto, California; in Canada in Mississauga, Ontario; in Europe in Grenoble, France; and Asia both at the India Innovation Hub in Chennai, India, and in collaboration with Fuji Xerox, Ltd. (“Fuji Xerox”).

To ensure our success, we have aligned our R&D investment portfolio with our growth initiatives, including accelerating our color transition, enhancing customer value by building on our services leadership, and by strengthening our leadership in digital color printing.

Xerox conducts work in color science, computing, digital imaging, work practices, electromechanical systems, novel materials, linguistics, work practice analysis and other disciplines. Through our Smart Document Technologies, we are developing ways to apply innovation to automate and differentiate our Services offerings.

Sustaining engineering expenses, which are the hardware engineering and software development costs we incur after we launch a product, are included in our RD&E expenses.



Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,031 U.S. utility patents in 2010. On that basis, we would have ranked 20th on the list of companies that were awarded the most U.S. patents during the year. Including our research partner Fuji Xerox, we were awarded over 1,600 U.S. utility patents in 2010. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2010, we held almost 10,200 design and utility U.S. 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 2010, we added 16 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in 14 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, Oce, Sharp, Samsung and Seiko Epson. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 650 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.

Table of Contents

Marketing and Distribution

Our brand is valued at an estimated $6.1 billion and was ranked as a "Best Global Brand" by *Business Week*.

We manage our business based on the principal business 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 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 large enterprises, we follow a services-led approach that enables us to address two basic challenges facing large enterprise customers:
- How to optimize infrastructure to be both cost-effective and globally consistent
- How to improve their value proposition and communication with their customers

Our go-to-market approach includes the largest direct sales force in the industry, with customers served by Client Managing Directors, Account General Managers and Sales Representatives.

For small and mid-size business, we continue to expand our distribution partnerships in North America with additional information technology resellers and by enhancing our network of independent agents. In 2010, we acquired two companies to further expand this distribution capacity.

In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, and related non-U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to provide distribution of our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties providing distribution of our products in Iran, Sudan and Syria. Iran, Sudan and Syria, among others, have been designated as state sponsors of terrorism by the U.S. Department of State and are subject to U.S. economic sanctions. We maintain an export and sanctions compliance program and believe that we have been and are in compliance with U.S. laws and government regulations for these countries. We have no assets, liabilities or operations in these countries other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan and Syria in August 2006 and terminated its distribution agreement with the distributor servicing Iran in December 2006. Now, Xerox only has legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2010, total Xerox revenues of $21.6 billion included less than $0.2 million attributable to Iran, Sudan and Syria.

[Table of Contents](#)

We operate in over 160 countries worldwide.
We provide the industry's broadest portfolio of document technology, services and software, and the most diverse array of business processes and IT outsourcing support through a variety of distribution channels around the world.

- **Xerox North America**
  North American Operations includes the United States and Canada.
- **Xerox Europe**
  Xerox Europe covers 17 countries across Europe.
- **Developing Markets**
  Developing Markets supports more than 130 countries.
- **Fuji Xerox**
  Fuji Xerox, an unconsolidated entity of which we own 25%, develops, manufactures and distributes document management systems, supplies and services.

ACS maintains a global presence in the Business Process Outsourcing and Information Technology Outsourcing businesses and leverages the Xerox distribution organizations within these geographies.

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.

Our competitors in the Technology business include Canon, Ricoh, Hewlett-Packard, Kodak, Oce, Konica Minolta and Lexmark. In the Services business, our larger competitors are Hewlett-Packard, Genpact, Teletech, Accenture, Aon Hewitt, Computer Services, IBM and Dell. In addition, in the Services segment, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

We believe that our brand recognition, reputation for our business process and document management knowledge and expertise, innovative technology, service, breadth of product offerings, global distribution channels, customer relationships and large customer base are important competitive advantages. We and our competitors continue to develop and market new and innovative products and services at competitive prices and, at any given time, we may set new market standards for quality, speed, function and level of service.

Global Employment

Globally, we have approximately 136,500 direct employees. We have approximately 8,000 sales professionals, approximately 12,000 technical service employees and over 46,000 employees serving our customers through on-site operations or off-site delivery centers.

Customer Financing

We finance a large portion of our direct channel customer purchases of Xerox equipment through bundled lease agreements. We believe that 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.

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, 2010, we had $6.6 billion of finance receivables and $0.6 billion of equipment on operating leases, or Total Finance assets of $7.2 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, and therefore, a significant portion of our $8.6 billion of debt is associated with our financing business.

Manufacturing and Supply

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

Our master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Mid-range and Entry businesses, continues into 2011.

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 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2010 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

We believe our global services production model is one of our key competitive advantages. This model encompasses employees in production centers around the world including India, Mexico, the Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. Our global production model is enabled by the use of proprietary technology, which allows us to securely distribute client transactions within data privacy limits across a global workforce. This global production model allows us to leverage lower-cost production locations, consistent methodology and processes, and time zone advantages.

Table of Contents

Fuji Xerox

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

International Operations

We are incorporating by reference the financial measures by geographical area for 2010, 2009 and 2008 that are included in Note 2 - Segment Reporting in the Consolidated Financial Statements in our 2010 Annual Report. See also the risk factor entitled "Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes" in Part I, Item 1A of Form 10-K.

Backlog

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

Seasonality

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

Other Information

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

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

Our Internet address is **www.xerox.com**.

[Table of Contents](#)

ITEM 1A. RISK FACTORS

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

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

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

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

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

Our success depends on our ability to obtain adequate pricing for our products and services which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services 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 products and services, it could materially adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

Our 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 perform our services under the contract, 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 the reduction in volumes and services thereunder for reasons such as, among other things, a customer’s or client’s merger or acquisition, divestiture of assets or businesses, business failure or deterioration, or a customer’s or client’s exercise of contract termination rights.

If we fail to successfully develop new products and 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 be reduced.

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 applicable 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 and 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 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 are currently funding our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings and other borrowings. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

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

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. As of December 31, 2010, we had $8.6 billion of total debt and a $650 million liability to a subsidiary trust issuing preferred securities. The total value of finance assets, shown on the balance sheet as Finance receivables and On-lease equipment, was $7.2 billion at December 31, 2010. The total cash and cash equivalents was $1.2 billion at December 31, 2010. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels, these related risks could increase.

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

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets and funding from third parties. As of December 31, 2010, total cash and cash equivalents was $1.2 billion, and our borrowing capacity under our Credit Facility was $2.0 billion, reflecting no outstanding borrowings or letters of credit. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt; (ii) certain fundamental changes to corporate structure; (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The Credit Facility 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). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on: issuance of secured debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends and certain other payments. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments. Some of the covenants under our senior notes are suspended while we are rated investment grade.

At December 31, 2010, we were in full compliance with the covenants and other provisions of the Credit Facility and the senior notes. Failure to comply with material provisions of or covenants in the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition.

We need to successfully execute the transition of Affiliated Computer Services, Inc. in order to realize all of the anticipated benefits from the transaction.

Our ability to realize the anticipated benefits of the Affiliated Computer Services, Inc. (“ACS”) acquisition is subject to certain risks including, but not limited to, the risks that: the future business operations of ACS will not be successful; customer retention, cost synergies and revenue expansion goals for the ACS transaction will not be met; and disruptions from the ACS transaction will harm relationships with customers, employees and suppliers.

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

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

Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted or are expected to adopt restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition. Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products, and other environmentally related programs impacting products and operations, such as those associated with climate change accords, agreements and regulations. For example, the European Union's Energy-Using Products Directive ("EUP") is expected to lead to the adoption of "implementing measures" intended to require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. It is possible that some or all of our products may be required to comply with EUP implementing measures. Another example is the European Union "REACH" Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that will require 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 affect on our 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 are derived from contracts with U.S. federal, state and local governments and their agencies, as well as international governments and their agencies. Governments and their agencies may have the right to terminate many of these contracts at any time without cause. These contracts, upon their expiration or termination, are typically subject to a bidding process in which Xerox may not be successful. Also, our contracts with governmental entities are generally subject to the approval of annual appropriations by the United States Congress or other legislative/governing bodies to fund the expenditures of the governmental entities under those contracts. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government finds that we improperly charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. If the government discovers improper or illegal activities in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, the negative publicity that arises from findings in such audits, investigations or the penalties or sanctions therefore could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

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

We are subject to breach of our security systems.

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

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 Technology Segment. Our principal research facilities are located in California, New York, Canada, France and the U.K. The research activities in our principal research centers benefit all of our operating segments. Our Corporate Headquaters is a leased facility located in Norwalk, Connecticut.

As a result of implementing our restructuring programs, (refer to Note 9 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements in our 2010 Annual Report, incorporated by reference), several leased and owned properties became surplus. As of December 31, 2010, the surplus portions of our Dundalk, Ireland facility were sold and the Oklahoma City, OK manufacturing plant was removed from surplus and placed back into operation. A portion of the Oklahoma facility is used as an ACS Call Center and we are developing plans for the balance of the facility. We are obligated to maintain our leased surplus properties through required contractual periods. With respect to United States properties, as of December 31, 2010, we are marketing 12 surplus leased facilities totaling 533,386 square feet. During 2010, the largest surplus leased site in Monrovia, California was subleased.

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

In February 2010, we acquired Affiliated Computer Services, Inc. (“ACS”). As a result of this acquisition and subsequent 2010 business transactions, we added 533 locations comprising 11.3 million square feet of owned and leased property. The owned property consists of 23 locations for 1.2 million square feet in Texas, North Carolina, South Carolina, Kentucky, Illinois, Ohio, Mississippi, Mexico and France. The largest owned facility is the ACS headquarters complex located in Dallas, Texas, consisting of approximately 600,000 square feet, which also houses a data center and other operations. The leased property consists of 510 locations for 10.1 million square feet in numerous locations throughout the world. The leases have terms through 2029 and we do not anticipate any significant difficulty in obtaining lease renewals or alternate space. The ACS owned and leased space is used for general office, data centers and call center purposes principally in our Services segment operations. During 2010, we completed 31 Xerox and ACS consolidation projects to optimize our property portfolio.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the “Contingencies” note in the Consolidated Financial Statements, of the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

PART II

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

Market Information, Holders and Dividends

The information set forth under the following captions of the Xerox Corporation 2010 Annual Report to Shareholders is hereby incorporated by reference:

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

(a) Sales of Unregistered Securities During the Quarter ended December 31, 2010

During the quarter ended December 31, 2010, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”):

Dividend Equivalents:

(a) Securities issued on October 31, 2010: Registrant issued 1,703 deferred stock units (“DSU”), 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: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $10.395 per DSU (aggregate price $17,703), 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.

Table of Contents

(b) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2010 Repurchases of Xerox Common Stock, par value $1.00 per Share

Board Authorized Share Repurchase Programs:

We did not purchase Common stock during the fourth quarter or full year 2010.

Of the cumulative $4.5 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately $2.9 billion has been used through December 31, 2010. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the SEC'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	19,866	$ 11.05	n/a	n/a
November 1 through 30	7,996	$ 11.68	n/a	n/a
December 1 through 31	4,532	$ 11.92	n/a	n/a
Total	32,394		n/a	n/a

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

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2010, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2010 Annual Report to Shareholders, is incorporated by reference in this Form 10-K.

Revenues
Income from continuing operations
Per-Share Data:
  Income from continuing operations - Basic and Diluted
  Earnings - Basic and Diluted
Common stock dividends
Total Assets
Long-term debt
Liability to subsidiary trust issuing preferred securities
Series A convertible preferred stock

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

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption "Financial Risk Management," in the Xerox Corporation 2010 Annual Report is hereby incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, included in the Xerox Corporation 2010 Annual Report, are incorporated by reference in this Form 10-K. With the exception of the aforementioned information and the information incorporated in Items 1, 3, 5, 6, 7, 7A and 8, the Xerox Corporation 2010 Annual Report is not to be deemed filed as part of this Form 10-K.

The quarterly financial data included under the caption “Quarterly Results of Operations (Unaudited)” of the Xerox Corporation 2010 Annual Report is incorporated by reference in this Annual Report on Form 10-K.

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

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Management’s Responsibility for Financial Statements

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

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

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company’s financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of December 31, 2010, our principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and was accumulated and communicated to the Company’s Management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Management’s Report on Internal Control over Financial Reporting

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

Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2010 Annual Report to Shareholders which is incorporated by reference in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Executive Compensation

On February 22, 2011, the Compensation Committee of the Board of Directors of the Company took the following actions:

2010 and 2011 Annual Performance Incentive Plan (APIP)

The Compensation Committee approved the payments of cash awards under the Xerox 2004 Performance Incentive Plan ("2004 PIP"), as amended, for 2010 APIP. The measures on which awards are based for the 2010 fiscal year are set out on Exhibit 10(e)(14) attached hereto. The Compensation Committee approved the payment of cash awards under the 2004 PIP for fiscal year 2010 to Ursula M. Burns, Chairman and Chief Executive Officer of the Company; Lawrence A. Zimmerman, Vice Chairman; and certain other officers, including Lynn Blodgett, Armando Zagalo de Lima and James A. Firestone, our next three most highly compensated executive officers for fiscal year 2010; and Anne M. Mulcahy, former Chairman of the Board (collectively, the "Named Executive Officers"). The Compensation Committee approved a cash award of $1,693,125 to Ms. Burns, $767,550 to Mr. Zimmerman, $1,615,989 to Mr. Blodgett, $704,951 to Mr. Zagalo de Lima, $767,550 to Mr. Firestone and $559,896 to Mrs. Mulcahy.

The Compensation Committee approved the measures for APIP awards for fiscal year 2011, which are set out on Exhibit 10(e)(19) attached hereto.

2008 E-LTIP Awards

The Compensation Committee determined that 60% of the original grant amount awarded under the 2008 Executive Long-Term Incentive Program ("2008 E-LTIP") was earned based on the Company's three-year cumulative 2008, 2009 and 2010 performance against the three-year cumulative targets established for Earnings Per Share and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(5). The total number of shares earned for the three-year cumulative performance period ended December 31, 2010 that shall vest on July 1, 2011 for each Named Executive Officer is as follows: Ms. Burns, 179,916 shares; Mr. Zimmerman, 64,641 shares; Mr. Zagalo de Lima, 44,982 shares; Mr. Firestone, 89,958 shares; and Mrs. Mulcahy, 231,164 shares. Included in these share amounts are shares that were previously earned for 2009 annual performance, as previously disclosed in our 2009 Form 10-K (except for Mr. Zagalo de Lima who became a Named Executive Officer for 2010). No performance shares were earned for 2008 based on the Company's 2008 performance against the annual targets.

2009 E-LTIP Awards

In lieu of performance shares, 2009 E-LTIP awards were made in the form of Restricted Stock Units (RSUs) with a performance feature based on the price of Xerox common stock over a three-year period. The number of shares of stock that can be earned range between 80% and 120% of the original RSU award, based on the increase or decrease in the price of Xerox common stock over the three-year vesting period. No further action is required by the Compensation Committee.

2010 E-LTIP Awards

The Compensation Committee determined that 33.33% of the performance shares granted under the 2010 Executive Long-Term Incentive Program ("2010 E-LTIP") were earned based on the Company's 2010 performance against the annual targets established for Earnings Per Share and Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(15). The number of shares earned for 2010 for each Named Executive Officer is as follows: Ms. Burns, 313,676 shares; Mr. Blodgett, 83,650 shares; Mr. Zagalo de Lima, 62,736 shares; and Mr. Firestone, 83,650 shares. Earned shares vest three years from their grant date.

In lieu of a performance share award that vests over a three-year period, the Compensation Committee approved a performance share award for Mr. Zimmerman effective March 1, 2010 that will vest on March 1, 2011. Performance metrics were the same as those developed for the first year of the three-year 2010 E-LTIP performance share award and thus Mr. Zimmerman earned 209,425 shares.

ACS Performance Shares

In connection with the acquisition of ACS, Mr. Blodgett received a special one-time grant of performance shares that vest over a three year period contingent upon ACS meeting pre-determined annual targets for Earnings Before Interest and Taxes. The aggregate number of shares that may be delivered based on achievement of the targets was determined on the grant date and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of previously awarded stock options (maximum). The Compensation Committee determined that the maximum number of shares were earned for 2010 based on ACS's performance against the 2010 stated target. The number of shares earned for Mr. Blodgett is 171,330 shares, which will vest on February 5, 2013.

2011 E-LTIP Awards

2011 E-LTIP awards made to Named Executive Officers reflect their leadership role in the Company, their historical and future contributions, and competitive award levels. The purpose of the 2011 E-LTIP is to provide the necessary incentives to retain and reward executives for sustained performance improvements over the next three-year period. Awards under the 2011 E-LTIP for Named Executive Officers are comprised entirely of performance shares that may be earned based on achieving performance targets between threshold and maximum as determined by the Compensation Committee. All performance shares that are earned will vest in 2014. Named Executive Officers who retire, are involuntarily terminated (without cause) or voluntarily terminate due to a reduction in force prior to the end of the three-year performance cycle will vest in a portion of the performance shares earned on a pro rata basis.

Performance metrics for the 2011 E-LTIP are Revenue Growth (at constant currency) (weighted 10%), Adjusted Earnings Per Share (weighted 55%) and Core Cash Flow from Operations (weighted 35%). Revenue Growth, Adjusted Earnings Per Share and Core Cash Flow from Operations are defined in Exhibit 10(e)(20) attached hereto. The Compensation Committee has established annual targets for Revenue Growth and annual and cumulative targets for Adjusted EPS and Core Cash Flow from Operations. Based on actual performance versus targets, the number of performance shares earned by Named Executive Officers under the 2011 E-LTIP will range from 0% to 150% of the initial number of shares subject to the grant. The form of award agreement pursuant to which such grants were made is attached hereto as Exhibit 10(e)(21).

Participants in the 2011 E-LTIP are subject to meaningful ownership requirements and mandatory share holding requirements of 50% of the net vested shares until their ownership requirements have been met.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding directors is incorporated herein by reference to the section entitled “Proposal 1 - Election of Directors” in our definitive Proxy Statement (“2011 Proxy Statement”) to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our Annual Meeting of Stockholders to be held on May 26, 2011. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2010.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2011 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled “Committee Functions, Membership and Meetings” in the section entitled “Proposal 1 - Election of Directors” in our 2011 Proxy Statement.

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

Executive Officers of Xerox

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

[Table of Contents](#)

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

Name	Age	Present Position	Year Appointed to Present Position	Xerox Officer Since
Ursula M. Burns*	52	Chairman of the Board and Chief Executive Officer	2010	1997
Lawrence A. Zimmerman	68	Vice Chairman	2009	2002
Lynn R. Blodgett	56	Executive Vice President; President and Chief Executive Officer, Affiliated Computer Services, Inc.	2010	2010
James A. Firestone	56	Executive Vice President; President, Corporate Operations	2008	1998
Luca Maestri	47	Executive Vice President; Chief Financial Officer	2011	2011
Armando Zagalo de Lima	52	Executive Vice President; President, Xerox Global Customer Operations	2010	2000
Willem Appelo	46	Senior Vice President; President, Xerox Global Business and Services Group	2008	2004
Michael Stephen Cronin	57	Senior Vice President; President, Global Document Outsourcing	2008	2004
Don H. Liu	49	Senior Vice President; General Counsel and Secretary	2007	2007
Russell Peacock	52	Senior Vice President; President, Xerox North America	2010	2007
Eric Armour	52	Vice President; President, Graphic Communications Business Group	2010	2007
Richard M. Dastin	51	Vice President; President, Enterprise Business Group	2010	2008
Jacques Guers	55	Vice President; President, Xerox Europe	2010	2009
Gary R. Kabureck	57	Vice President and Chief Accounting Officer	2003	2000
James H. Lesko	59	Vice President; Vice President, Investor Relations	2004	1993
Rhonda L. Seegal	60	Vice President and Treasurer	2003	2003
Herve Tessler	47	Vice President; President Developing Markets Operations	2010	2010
Leslie F. Varon	54	Vice President; Vice President, Finance and Corporate Controller	2010	2001
Kevin M. Warren	48	Vice President; President United States Customer Operations	2010	2010

* Member of Xerox Board of Directors

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

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

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

Prior to joining Xerox in 2007, Mr. Liu was with Toll Brothers where he was Senior Vice President, General Counsel and Corporate Compliance Officer from 2005 to 2007. Prior to that, he was General Counsel, Corporate Secretary and Corporate Compliance Officer for IKON Office Solutions from 1999 to 2005. Prior to that, he was Vice President and Deputy Chief Legal Officer for Aetna U.S. Healthcare from 1992 to 1999.

Prior to joining Xerox in 2007, Mr. Armour was an industrial partner at the investment firm RHJ International from 2006 to 2007. Prior to that, he was President and General Manager from 2003–2006 at The Gillette Company’s BRAUN global business division. From 1990–2003, he was a partner with Marakon Associates, a consulting firm in the consumer products, financial services, pharmaceuticals, aerospace and other industries.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions under “Proposal 1-Election of Directors” in our 2011 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2010”, “Outstanding Equity Awards at 2010 Fiscal Year-End”, “Option Exercises and Stock Vested in 2010”, “Pension Benefits for the 2010 Fiscal Year”, “Nonqualified Deferred Compensation”, “Potential Payments upon Termination or Change in Control”, “Summary of Director Annual Compensation” and “Compensation Committee”. The information included under the heading “Compensation Committee Report” in our 2011 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

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

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled “Ownership of Company Securities,” and “Equity Compensation Plan Information” under “Proposal 1– Election of Directors” in our 2011 definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled “Certain Relationships and Related Person Transactions” under “Proposal 1– Election of Directors” in our 2011 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled “Corporate Governance” and “Director Independence” in the section entitled “Proposal 1 – Election of Directors” in our 2011 definitive Proxy Statement.

ITEM 14. PRINCIPAL AUDITOR FEES AND SERVICES

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled “Proposal 2 – Ratification of Election of Independent Registered Public Accounting Firm” in our 2011 definitive Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Index to Financial Statements and Financial Statement Schedule, incorporated by reference or filed as part of this report:

Report of Independent Registered Public Accounting Firm;

Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2010;

Consolidated Balance Sheets as of December 31, 2010 and 2009;

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2010;

Consolidated Statements of Shareholders’ Equity for each of the years in the three-year period ended December 31, 2010;

Notes to the Consolidated Financial Statements;

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule;

Schedule II – Valuation and Qualifying Accounts for the three years ended December 31, 2010; and

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

(2) Supplementary Data:

Quarterly Results of Operations (unaudited); and

Five Years in Review.

(3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.

(b) The management contracts or compensatory plans or arrangements listed in the “Index of Exhibits” that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant’s 2011 Proxy Statement are preceded by an asterisk (*).

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

XEROX CORPORATION

/S/ URSULA M. BURNS
Ursula M. Burns
Chairman of the Board and
Chief Executive Officer
February 23, 2011

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

February 23, 2011

Signature	Title
Principal Executive Officer:	
/S/ URSULA M. BURNS **Ursula M. Burns**	Chairman of the Board, Chief Executive Officer and Director
Principal Financial Officer:	
/S/ LUCA MAESTRI **Luca Maestri**	Executive Vice President and Chief Financial Officer
Principal Accounting Officer:	
/S/ GARY R. KABURECK **Gary R. Kabureck**	Vice President and Chief Accounting Officer
/S/ GLENN A. BRITT **Glenn A. Britt**	Director
/S/ RICHARD J. HARRINGTON **Richard J. Harrington**	Director
/S/ WILLIAM CURT HUNTER **William Curt Hunter**	Director
/S/ ROBERT J. KEEGAN **Robert J. Keegan**	Director
/S/ ROBERT A. MCDONALD **Robert A. McDonald**	Director
/S/ N. J. NICHOLAS, JR. **N. J. Nicholas, Jr.**	Director
/S/ CHARLES PRINCE **Charles Prince**	Director
/S/ ANN N. REESE **Ann N. Reese**	Director
/S/ MARY AGNES WILDEROTTER **Mary Agnes Wilderotter**	Director

Table of Contents

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of Xerox Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 23, 2011 appearing in the 2010 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(1) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2011

Table of Contents

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
For the three years ended December 31, 2010

(in millions)	Balance at beginning of period	Additions charged to bad debt provision (1)	Amounts (credited) charged to other income statement accounts (1)	Deductions and other, net of recoveries (2)	Balance at end of period
2010					
Allowance for Losses on:					
Accounts Receivable	$ 148	$ 60	$ (14)	$ (82)	$ 112
Finance Receivables	222	128	6	(144)	212
	$ 370	$ 188	$ (8)	$ (226)	$ 324
2009					
Allowance for Losses on:					
Accounts Receivable	$ 131	$ 114	$ (5)	$ (92)	$ 148
Finance Receivables	198	177	3	(156)	222
	$ 329	$ 291	$ (2)	$ (248)	$ 370
2008					
Allowance for Losses on:					
Accounts Receivable	$ 128	$ 64	$ 8	$ (69)	$ 131
Finance Receivables	203	124	3	(132)	198
	$ 331	$ 188	$ 11	$ (201)	$ 329

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

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

Table of Contents

INDEX OF EXHIBITS

Document and Location

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on November 7, 2003, as amended by: Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on August 19, 2004; Certificate of Change filed with the Department of State of the State of New York on October 31, 2007; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010.
	Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated February 3, 2010.
3(b)	By-Laws of Registrant, as amended through May 21, 2009.
	Incorporated by reference to Exhibit 3(b) to Registrant's Current Report on Form 8-K dated May 21, 2009 (filed May 28, 2009).
4(a)(1)	Indenture dated as of December 1, 1991, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "December 1991 Indenture").
	Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement Nos. 33-44597, 33-49177 and 33-54629.
4(a)(2)	Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.
	Incorporated by reference to Exhibit 4(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.
4(a)(3)	Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust Company, as prior trustee, Citibank,, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the December 1991 Indenture.
	Incorporated by reference to Exhibit 4(a)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
4(b)(1)	Indenture dated as of January 29, 1997, between Registrant and Bank One, National Association (as successor by merger with The First National Bank of Chicago) ("Bank One"), as trustee (the "January 1997 Indenture"), relating to Registrant's Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures").
	Incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-24193.
4(b)(2)	Form of Certificate of Exchange relating to Junior Subordinated Debentures.
	Incorporated by reference to Exhibit A to Exhibit 4.1 to Registration Statement No. 333-24193.
4(b)(3)	Certificate of Trust of Xerox Capital Trust I executed as of January 23, 1997.
	Incorporated by reference to Exhibit 4.3 to Registration Statement No. 333-24193.
4(b)(4)	Amended and Restated Declaration of Trust of Xerox Capital Trust I dated as of January 29, 1997.
	Incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-24193.
4(b)(5)	Form of Exchange Capital Security Certificate for Xerox Capital Trust I.
	Incorporated by reference to Exhibit A-1 to Exhibit 4.4 to Registration Statement No. 333-24193.
4(b)(6)	Series A Capital Securities Guarantee Agreement of Registrant dated as of January 29, 1997, relating to Series A Capital Securities of Xerox Capital Trust I.
	Incorporated by reference to Exhibit 4.6 to Registration Statement No. 333-24193.

4(b)(7)	Registration Rights Agreement dated January 29, 1997, among Registrant, Xerox Capital Trust I and the initial purchasers named therein.
	Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-24193.
4(b)(8)	Instrument of Resignation, Appointment and Acceptance dated as of November 30, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo Bank Minnesota, National Association ("Wells Fargo"), as successor Trustee, relating to the January 1997 Indenture.
	Incorporated by reference to Exhibit (c)(8) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
4(c)(1)	Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "June 25, 2003 Indenture").
	Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated June 25, 2003.
4(c)(2)	Form of Second Supplemental Indenture to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit (4)(b)(3) to Registrant's Registration Statement No. 333-111623.
4(c)(3)	Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006.
4(c)(4)	Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006.
4(c)(5)	Form of Fifth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(8) to Registrant's Current Report on Form 8-K dated August 18, 2006.
4(c)(6)	Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900.
4(d)(1)	Form of Credit Agreement dated as of April 30, 2007 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").
	Incorporated by reference to Exhibit 10(j) to Registrant's Current Report on Form 8-K dated April 30, 2007.
4(d)(2)	Amendment No. 1 to Credit Agreement, dated as of October 27, 2008, among Registrant, the Lenders named therein, and Citibank, ,N.A., as agent for the Lenders.
	Incorporated by reference to Exhibit 4(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
4(d)(3)	Amendment No. 2 to Credit Agreement, dated as of April 23, 2009, between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.
	Incorporated by reference to Exhibit 4(g)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2009.
4(d)(4)	Amendment No. 3 to Credit Agreement, dated as of October 19, 2009, between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.

	Incorporated by reference to Exhibit 4(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.
4(e)	Master Demand Note dated December 10, 2003 between Registrant and Xerox Credit Corporation.
	Incorporated by reference to Exhibit 4(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
4(f)	Form of Indenture dated as of December 4, 2009 between Xerox Corporation and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities.
	Incorporated by reference to Exhibit 4(b)(5) to Post-Effective Amendment No. 1 to Registrant's Registration Statement No. 333-142900.
4(g)(1)	Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. ("ACS") as Issuer and The Bank of New York Trust Company, N.A. as Trustee (the "June 6, 2005 Indenture").
	Incorporated by reference to Exhibit 4.1 to ACS's Current Report on Form 8-K, filed June 6, 2005.
4(g)(2)	Second Supplemental Indenture, dated as of June 6, 2005, to the June 6, 2005 Indenture.
	Incorporated by reference to Exhibit 4.3 to ACS's Current Report on Form 8-K, filed June 6, 2005.
4(g)(3)	Third Supplemental Indenture, dated as of February 5, 2010, to the June 6, 2005 Indenture between Boulder Acquisition Corp., the successor to ACS, and The Bank of New York Trust Company, N.A.
	Incorporated by reference to Exhibit 4(j)(4) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
4(h)	Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
10	The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2010 Proxy Statement are preceded by an asterisk (*).
*10(a)(1)	Registrant's Form of Separation Agreement (with salary continuance) – February 2010.
	Incorporated by reference to Exhibit 10(a)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(a)(2)	Registrant's Form of Separation Agreement (without salary continuance) – February 2010.
	Incorporated by reference to Exhibit 10(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(b)(1)	Registrant's 1991 Long-Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
	Incorporated by reference to Exhibit 10(b)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(b)(2)	Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
	Incorporated by reference to Exhibit 10(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(b)(3)	Amendment dated December 4, 2007 to 1991 LTIP.
	Incorporated by reference to Exhibit 10(b)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(c)(1)	Registrant's 1996 Non-employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
	Incorporated by reference to Exhibit 10(c)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(c)(2)	Amendment dated December 5, 2007 to 1996 NDSOP.
	Incorporated by reference to Exhibit 10(c)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

10(d)(1)	Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED").
	Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(d)(2)	Form of Agreement under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(3)	Form of Grant Summary under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(4)	Form of DSU Deferral under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(5)	Amendment dated December 5, 2007 to 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(1)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 6, 2005 ("2004 PIP").
	Incorporated by reference to Exhibit 10(e)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
*10(e)(2)	Form of Amendment to Agreements under 2004 PIP.
	Incorporated by reference to Exhibit 10(e)(7) to Registrant's Current Report on Form 8-K dated May 19, 2005.
*10(e)(3)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of February 15, 2007 ("2007 PIP").
	Incorporated by reference to Exhibit 10(e)(10) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
*10(e)(4)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007-2 PIP").
	Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(5)	Performance Elements for 2008 Executive Long-Term Incentive Program ("2008 ELTIP").
	Incorporated by reference to Exhibit 10(e)(17) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(6)	Form of Executive Long-Term Incentive Program Award Summary under 2008 ELTIP.
	Incorporated by reference to Exhibit 10(e)(18) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(7)	2008 Form of Executive Long-Term Incentive Program Award Agreement under the 2007-2 PIP.
	Incorporated by reference to Exhibit 10(e)(19) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(8)	Amendment dated December 4, 2007 to 2007-2 PIP.
	Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

*10(e)(9)	Amendment No. 1 dated December 17, 2008 to 2007-2 PIP.
	Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(e)(10)	Amendment No. 2 dated February 16, 2009 to 2007-2 PIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
*10(e)(11)	Performance Elements for 2009 Executive Long-Term Incentive Program ("2009 ELTIP").
	Incorporated by reference to Item 5.02 of Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(e)(12)	Form of Executive Long-Term Incentive Program Award Agreement under 2009 ELTIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(e)(13)	Form of Executive Long-Term Incentive Program Award Summary under 2009 ELTIP.
	Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(e)(14)	Annual Performance Incentive Plan for 2010.
*10(e)(15)	Performance Elements for 2010 Executive Long-Term Incentive Program ("2010 ELTIP").
	Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(e)(16)	Form of Executive Long-Term Incentive Program Award Agreement under 2010 ELTIP.
	Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(e)(17)	Form of Executive Long-Term Incentive Program Award Summary under 2010 ELTIP.
	Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(e)(18)	Registrant's 2004 Performance Incentive Plan, as amended and restated May 20, 2010.
	Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8-K dated May 20, 2010.
*10(e)(19)	Annual Performance Incentive Plan 2011
*10(e)(20)	Performance Elements for 2011 Executive Long-Term Incentive Program ("2011 ELTIP")
*10(e)(21)	Form of Executive Long-Term Incentive Award under 2011 ELTIP
*10(e)(22)	Form of Executive Long-Term Incentive Program Award Summary under 2011 ELTIP
*10(f)(1)	2008 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through February 12, 2008 ("2008 URIGP").
	Incorporated by reference to Exhibit 10(f)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(f)(2)	Amendment No. 1 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(f)(3)	Amendment No. 2 dated March 6, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2009.
*10(f)(4)	Amendment No. 3 dated May 5, 2009 to 2008 URIGP.

	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2009.
*10(f)(5)	Amendment No. 4 dated October 9, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.
*10(f)(6)	Amendment No. 5 dated December 1, 2009 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(6) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
*10(f)(7)	Amendment No. 6 dated March 10, 2010 to 2008 URIGP.
	Incorporated by reference to Exhibit 10(f)(7) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2010.
*10(g)(1)	2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP").
	Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(g)(2)	Amendment dated December 4, 2007 to Registrant's 2007 USERP.
	Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(g)(3)	Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP.
	Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(h)	1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002.
	Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(i)(1)	Form of Severance Letter Agreement entered into with various executive officers, effective October 12, 2007 ("2007 Severance Letter").
	Incorporated by reference to Exhibit 10(i)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(i)(2)	Amendment dated December 4, 2007 to 2007 Severance Letter.
	Incorporated by reference to Exhibit 10(i)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007
*10(i)(3)	Amendment dated December 17, 2008 to 2007 Severance Letter.
	Incorporated by reference to Exhibit 10(i)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(j)(1)	Registrant's Universal Life Plan effective July 1, 2003.
	Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(j)(2)	Amendment No. 3 to Registrant's Universal Life Plan.
	Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2006.
*10(j)(3)	Amendment No. 4 dated September 28, 2009 to Registrant's Universal Life Plan.

	Incorporated by reference to Exhibit 10(j)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.
10(k)(1)	Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD").
	Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(k)(2)	Amendment dated December 5, 2007 to DCPD.
	Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007
10(k)(3)	Amendment No. 2 dated May 17, 2010 to DCPD.
	Incorporated by reference to Exhibit 10(k)(3) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
*10(l)	Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004.
	Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004.
*10(m)	Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000.
	Incorporated by reference to Exhibit 10(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(n)	Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.
	Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
*10(o)	Letter Agreement dated May 20, 2002 between Registrant and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(o) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(p)	Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.
	Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(q)	2006 Technology Agreement, effective as of April 1, 2006, by and between Registrant and Fuji Xerox Co., Ltd.
	Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated March 9, 2006.**
*10(r)	Form of 2009 Long-Term Cash Incentive Award for Anne M. Mulcahy.
	Incorporated by reference to Exhibit 10(t) to Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(s)	Form of 2009 Long-Term Cash Incentive Award for Lawrence A. Zimmerman.
	Incorporated by reference to Exhibit 10(u) to Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(t)	Form of Severance Agreement entered into with various executive officers, effective October 2010.
*10(u)	Senior Executive Agreement dated September 27, 2009 among ACS, Registrant and Lynn Blodgett.
	Incorporated by reference to Exhibit 10.2 to ACS's Current Report on Form 8-K dated September 27, 2009.

[Table of Contents](#)

*10(v)(1)	Affiliated Computer Services, Inc. (“ACS”) 1997 Stock Incentive Plan (“ACS 1997 SIP”)
	Incorporated by reference to Appendix D to ACS’s Joint Proxy Statement on Schedule 14A, filed November 14, 1997.
*10(v)(2)	Amendment No. 1 dated October 28, 2004 to ACS 1997 SIP.
	Incorporated by reference to Exhibit 4.6 to ACS’s Registration Statement on Form S-8, filed December 6, 2005.
*10(w)	ACS Amended and Restated 2007 Equity Incentive Plan.
	Incorporated by reference to Exhibit 10.1 to ACS’s Current Report on Form 8-K filed August 21, 2009.
*10(x)	ACS Senior Executive Annual Incentive Plan.
	Incorporated by reference to Exhibit A to ACS’s Proxy Statement on Schedule 14A, filed April 14, 2009.
*10(y)	ACS 401(k) Supplemental Plan. Effective as of July 1, 2000, as amended.
	Incorporated by reference to Exhibit 10.15 to ACS’s Annual Report on Form 10-K for the fiscal year ended June 30, 2004.
*10(z)	ACS Executive Benefit Plan, effective as of January 1, 2002, as amended.
	Incorporated by reference to Exhibit 10.15 to ACS’s Annual Report on Form 10-K for the fiscal year ended June 30, 2005.
*10(aa)	Letter Agreement dated December 20, 2010 between Registrant and Luca Maestri, Executive Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(cc) to Registrant’s Current Report on Form 8-K dated January 25, 2011.
12	Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
13	Registrant’s 2010 Annual Report to Shareholders.
21	Subsidiaries of Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
	Incorporated by reference to Exhibit 99.2 to Registrant’s Current Report on Form 8-K dated April 11, 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.

101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

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

Annual Performance Incentive Plan for 2010 ("2010 APIP")

Under the 2010 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the "Committee") are met.

The Committee previously approved an incentive target opportunity for 2010, expressed as a percentage of base salary, for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2010 APIP. The performance measures and weightings were adjusted Earnings per Share (weighted at 40%), Cash Flow from Operations (weighted at 40%) and Pro Forma Revenue Growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

The performance against the 2010 APIP goals was as follows: adjusted earnings per share and cash flow from operations exceeded maximum, and pro forma constant currency revenue growth was at target.

Annual Performance Incentive Plan for 2011 (“2011 APIP”)

Under the 2011 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the “Committee”) are met.

The Committee approved incentive opportunities for 2011, expressed as a percentage of base salary for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2011 APIP. The performance measures and weightings are adjusted Earnings per Share (weighted at 40%), Core Cash Flow from Operations (weighted at 40%) and Revenue Growth (adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars) (weighted at 20%).

Individual awards will be subject to the review and approval of the Committee following the completion of the 2011 fiscal year, with payment to be made within the first four months of 2012.

2011 Executive Long-Term Incentive Program ("2011 E-LTIP")

Under the 2011 E-LTIP, executive officers of the Company are eligible to receive performance shares based on certain performance measures established by the Compensation Committee of the Board of Directors (the "Committee").

The performance elements and corresponding weights for the 2011 E-LTIP are: (i) (10%) Revenue Growth: Revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars; (ii) (55%) Adjusted Earnings per Share: Diluted Earnings Per Share from Continuing Operations as reported in the Company's audited consolidated financial statements, as adjusted on an after-tax basis for the following discretely disclosed (in either Management's Discussion and Analysis/MD&A or the footnotes to the financial statements) items (if equal to or greater than $50 million pre-tax on an individual basis, or in the aggregate per item, with the exception of income tax and Fuji-Xerox adjustments): direct costs of acquisition and acquisition-related expenses; amortization of acquisition-related intangibles; restructuring and asset impairment charges; gains/(losses) from litigation, regulatory matters or any changes in enacted law (including tax law); gains/(losses) from asset sales or business divestitures; gains/(losses) resulting from acts of war, terrorism or natural disasters; the initial effect of changes in accounting principles that are included within Income from Continuing Operations; impairment of goodwill and other intangibles; gains/(losses) from the settlement of tax audits (if equal to or greater than $30 million on an individual basis, or in the aggregate per item); gains/(losses) on early extinguishment of debt; non-restructuring related impairments of long-lived assets; and our share of after-tax effects of the above items incurred by Fuji-Xerox (if our share is equal to or greater than $10 million on an individual basis, or in the aggregate per item); and (iii) (35%) Core Cash Flow from Operations: Net Cash provided by (used for) Operating Activities as reported in the Company's consolidated audited financial statements, as adjusted for the following items: net changes in finance receivables and on-lease equipment; with the exception of cash payments for restructurings, cash flow impacts (inflows and outflows) resulting from the EPS adjustments as identified above whether or not the cash flow impact and the EPS impact are in the same fiscal year; cash payments for restructurings in excess of the amount reported as current restructuring reserves in the preceding years Annual Report; and special discretionary pension fundings in excess of $50 million. Any other items approved by the Committee for adjustment of the above metrics will be considered a modification of the award.

Executive Long-Term Incentive Program (Officers)
Award Summary

«First Name» «Last Name»

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

Approved Value: <<Approved Value>>

Performance Shares

Number of Performance Shares:	<<# Performance Shares>>
Vesting Date of All Performance Shares Earned:	<<3 yrs. from grant date>>
Performance Shares Earned if Annual Target Performance is Achieved for EPS and Cash:	1/3 of EPS and Cash portions of grant on <<one, two and three yrs. from grant date>>
Performance Shares Earned if Annual Performance is Achieved between Base and Maximum for Revenue:	50%to 150% of Revenue portion of grant on <<one, two and three yrs. from grant date>>
Performance Shares Earned if Three-Year Cumulative Performance is Achieved between Threshold and Maximum for EPS and Cash:	25% – 150% of EPS and Cash portions of grant (net of shares earned for Annual Achievement) on <<3 yrs. from grant date>>

* Subject to the terms and conditions described in the Omnibus Agreement – 2011: PIP;ELTIP;PSs

* Performance measures which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance shall be determined by the Committee in its sole discretion.

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

AGREEMENT, by Xerox Corporation, a New York corporation (the “Company”), dated as of the date which appears as the “Date of Agreement and Award” in the Award Summary attached hereto (the “Award Summary”) in favor of the individual whose name appears on the Award Summary, an employee of the Company, one of the Company’s subsidiaries or one of its affiliates (the “Employee”).

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

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

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

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

AWARDS

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

TERMS OF THE PERFORMANCE SHARES

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

The Committee shall set performance goals and review performance against such goals in connection with determining the payout of PSs. The award of PSs covered hereby shall be earned based on achieving one hundred percent (100%) of a target on an annual basis based on certain performance measures as shall be determined from time to time by the Committee. Notwithstanding the above, to the extent that a measure is not subject to three-year cumulative performance goals, PSs shall be earned annually based on achieving performance between base and maximum levels (as shall be determined by the Committee). For any measure(s) subject to three-year cumulative performance goals (as shall be determined by the Committee), to the extent such performance measures are achieved at or between threshold and maximum levels on a three-year cumulative basis, an additional award of PSs will be earned, net of shares previously earned for annual achievement. The Vesting Date for earned PS awards granted shall be set forth in the Award Summary.

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

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

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

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

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

OTHER TERMS

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

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

8. Effect of Termination of Employment or Death.

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

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

(ii) involuntarily ceases to be an Employee of the Company or any subsidiary or affiliate for any reason (including Disability as provided pursuant to Paragraph 8(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, or voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate due to a reduction in workforce, shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis for annual and three-year cumulative performance if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which termination occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year (earning period) and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to such involuntary termination of employment and shares earned on a pro-rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three-year cumulative performance, vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary.

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

(iv) ceases to be an Employee of the Company or any subsidiary or affiliate by reason of retirement (under a retirement policy of the Company, its subsidiary or affiliate, as applicable), shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis for annual and three-year cumulative performance, if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which retirement occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year (earning period) and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to retirement and shares earned on a pro-rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three-year cumulative performance, vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary; and

(v) ceases to be an Employee of the Company or any subsidiary or affiliate due to termination for Cause, the PSs shall be cancelled as provided under the Plan.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Company's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 8 and during the continuance of such Xerox-sponsored long-term disability plan benefits the Employee shall be deemed to continue active employment with the Company. If the Employee is terminated because the Employee has received the maximum coverage under the Xerox long-term disability plan, the vesting of PSs shall be provided pursuant to Paragraph 8 (a)(ii) above.

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

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

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

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

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

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

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

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

(e) Employee is voluntarily participating in the Plan;

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

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

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

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

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

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

12. No Advice Regarding Award. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Employee's participation in the Plan, or his or her acquisition or sale of the underlying shares of Common Stock. Employee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

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

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

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

16. Recoupments.

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

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

(ii) disclosing confidential or proprietary business information of the Company;

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

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

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

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

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

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

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

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

(c) An Employee, pursuant to any agreement between the Company and the Employee which contains post-employment prohibitions shall disclose promptly and assign to the Company all right, title and interest in any invention or idea, patentable or not, made or conceived by the Employee during employment with the Company, relating in any manner to the actual or anticipated business, research or development work of the Company and shall do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in foreign countries.

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

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

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

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

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

22. Successors and Assigns. This Agreement shall be binding and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 8 to the personal representatives, legatees and heirs of the Employee.

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

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

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

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

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

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

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

XEROX CORPORATION

By: ______________________________

Signature

EXHIBIT 10(t)

XEROX CORPORATION
45 Glover Avenue
Norwalk, CT 06856-4505

Amended and Restated Severance Letter Agreement
Providing Certain Benefits Upon Termination of Employment
Following a Change In Control

[Date]

Dear [Name]:

Xerox Corporation ("the Company") considers it in the best interests of its shareholders to foster the continuous employment of key management personnel. The Board recognizes that, as with many publicly held corporations, the possibility of a Change in Control may arise, and that the uncertainty raised by this possibility may cause the departure or distraction of management personnel, to the detriment of the Company and its shareholders.

The Board has determined that appropriate steps should be taken to reinforce the continued dedication of key management personnel to their duties, without potential distraction arising from a possible Change in Control, although no such change is now contemplated.

In order to induce you to remain in the employ of the Company and in consideration of your agreement set forth in Section 3, the Company accordingly agrees that you shall receive the severance benefits set forth in this Agreement if your employment with the Company is terminated under certain circumstances following a Change in Control.

It is intended that this Agreement comply with Section 409A of the Code and the regulations thereunder and shall be construed and interpreted in a manner consistent with such intention.

1. Definitions.

(a) Agreement shall mean the letter agreement set forth herein.

(b) Board shall mean the Board of Directors of the Company.

(c) Change in Control of the Company shall be deemed to have occurred if:

(i) Any "Person" is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (A) individuals who, on the date hereof constitute the Board, and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(iii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which results in the directors of the Company who were members of the Incumbent Board immediately before such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding voting securities; or

(iv) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately before such sale. For purposes of the definition of Change in Control and Potential Change in Control, Person shall have the meaning given in Section 3(a)(9) of the 1934 Act, as modified and used in Section 13(d) and 14(d) of the 1934 Act, except that such term shall not include Excluded Persons. "Excluded Persons" shall mean (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, (3) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (A) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) an individual, entity or group who is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule), provided that if any Excluded Person described in clause (6) subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this definition, such individual, entity or group shall no longer be considered an Excluded Person and shall be deemed to have first acquired beneficial ownership of securities of the Company on the first date on which such individual, entity or group becomes required to or does so report on such Schedule.

(d) Code shall mean the Internal Revenue Code of 1986, as amended.

(e) Company shall mean the Company or any successor thereto, including any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law or otherwise.

(f) Date of Termination shall mean:

(i) If your employment is terminated pursuant to a Termination by the Company For Disability, thirty (30) days after Notice of Termination is given (if you do not return to the performance of your duties on a full-time basis during such thirty (30) day period); and

(ii) If your employment is terminated for any other reason, the date specified in the Notice of Termination, subject to clauses (iii), (iv) and (v) of this subsection.

(iii) In the case of a Termination by the Company For Cause, the specified date shall not be less than thirty (30) days from the date the Notice of Termination is given.

(iv) In the case of a Termination by You For Good Reason, the specified date shall not be less than fifteen (15) days nor more than sixty (60) days, from the date the Notice of Termination is given subject to Section 1(m)(viii).

(v) The Date of Termination may be extended pursuant to Section 13.

(g) Disability shall mean a physical or mental incapacity incurred after a Potential Change in Control which would allow you to receive benefits under the Company's Long-Term Disability Income Plan (or any substitute plans adopted before a Change in Control).

(h) Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

(i) Notice of Termination shall mean the notice required to be given by you or the Company in accordance with the terms of Section 12.

(j) Potential Change in Control of the Company shall be deemed to have occurred if:

(i) The Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) Any person, including an Excluded Person, publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(iii) Any Person becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 10% or more of the combined voting power of the Company's then outstanding securities; or

(iv) The Board adopts a resolution to the effect that a Potential Change in Control for purposes of this Agreement has occurred.

(k) Termination by the Company For Cause shall mean termination by the Company of your employment upon:

(i) The willful and continued failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination by You For Good Reason), after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties;

(ii) The willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise; or

(iii) The conviction of any crime (whether or not involving the Company) which constitutes a felony.

(iv) For purposes of this subsection, no act or failure to act on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

(v) A termination of your employment is not a Termination by the Company For Cause until there is delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth in this subsection, and specifying the particulars thereof in detail.

(l) <u>Termination by the Company For Disability</u> shall mean a termination by the Company of your employment following a Change in Control and during the term of this Agreement as follows. If, as a result of your incapacity due to physical or mental illness, you fail to perform your duties and shall have been receiving payments under the Company's Long-Term Disability Income Plan, or any substitute plans adopted before the Change in Control, for a period of twelve (12) consecutive months and, within thirty (30) days after Notice of Termination is given, you shall not have returned to the full-time performance of your duties, the Company may terminate your employment pursuant to a Termination by the Company For Disability. You shall continue to receive your full base salary at the rate then in effect and your bonus and all compensation shall be paid during the period until this Agreement is terminated pursuant to this subsection. Your benefits shall thereafter be determined in accordance with the Company's welfare benefits programs then in effect and the Company's retirement plans then in effect.

(m) <u>Termination by You For Good Reason</u> shall mean the termination by you of your employment within two years of the initial occurrence of any of the following circumstances, provided that (1) such circumstance occurs without your express written consent, after a Change in Control, and during the term of this Agreement, and (2) you properly notify the Company within 90 days of the initial occurrence of such circumstance and the Company does not remedy the circumstance within 30 days of such notice:

(i) Subject to Section 1(m)(viii) herein, the material diminution of your authority, duties, or responsibilities from those in effect immediately prior to a Change in Control (including, without limitation, if you are an executive officer of the Company prior to a Change in Control, ceasing to be an executive officer of the surviving company);

(ii) A material reduction in your annual base salary and/or annual target bonus as in effect on the date hereof, or as the same may be increased from time to time, except that this clause (ii) shall not apply to across-the-board salary reductions similarly affecting all executives of the Company and all executives of any person in control of the Company;

(iii) A material change in the geographic location at which you are required to be based (including, without limitation, the Company requiring you to relocate outside of the metropolitan area in which you were based immediately prior to the Change in Control), except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations;

(iv) The failure by the Company to continue in effect any material compensation or benefit plan, vacation policy or any material perquisites in which you participate immediately before the Change in Control, (except to the extent such plan terminates in accordance with its terms), unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, than existed at the time of the Change in Control; or

(v) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 11.

(vi) A Termination by You For Good Reason shall be deemed to occur if, after a Change in Control, there occurs any termination or purported termination by the Company of your employment which is not accompanied by any Notice of Termination required by Section 12, and does not comply with the notice requirements (if applicable) of subsection (k) of this section (defining Termination by the Company For Cause).

(vii) A termination by you of your employment shall not fail to be a Termination by You For Good Reason merely because of your incapacity due to physical or mental illness, or because your employment continued after the occurrence of any of the events listed in this subsection.

(viii) Notwithstanding anything herein to the contrary, in the event of a Termination by you for Good Reason under Section 1(m)(i), no benefits are payable to you under the Agreement if, before the second anniversary of a Potential Change in Control (I) you voluntarily terminate your employment or (II) the Company remedies the circumstance described in Section 1(m)(1).

(n) Termination by You Without Good Reason shall mean a termination by you of your employment that is not a Termination by You For Good Reason.

2. Term of Agreement

(a) This Agreement shall be effective on [date], and shall continue in effect through December 31, [year], or the later date provided by subsection (b) or (c) of this section.

(b) Commencing on January 1, [year], and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, (i) not later than the later of November 1 or thirty days following the meeting of the Compensation Committee of the Board held in October of the preceding year, the Company gives notice that it does not wish to extend this Agreement; or (ii) at any time, the Company gives notice that you are no longer in a position considered to be a key role in the event of a CIC. No such notice may be given during the pendency of a Potential Change in Control.

(c) If a Change in Control occurs while this Agreement is in effect, then notwithstanding subsections (a) and (b) of this section, this Agreement shall continue in effect until the last day of the 24th month following the month in which occurs such Change in Control.

(d) This Agreement shall terminate upon your termination of employment (which for this purpose shall include commencement of salary continuance or other severance amounts), other than a termination of employment that occurs after a Change in Control.

3. Your Agreement to Certain Continued Employment. You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control, you will remain in the employ of the Company until the earliest of:

(a) The expiration of nine (9) months from the occurrence of such Potential Change in Control,

(b) The termination by you of your employment by reason of Disability;

(c) The date on which you first become entitled under this Agreement to receive the benefits provided in Section 4 (or would be so entitled, except for the application of Section 14 herein, relating to section 409A of the Code.)

4. Benefits Upon Termination.

(a) You shall be entitled to the benefits provided by this section upon termination of your employment, if such termination occurs after a Change in Control and during the term of this Agreement, and is not (i) because of your death, (ii) a Termination by the Company For Cause, (iii) a Termination by the Company For Disability, or (iv) a Termination by You Without Good Reason.

(b) The Company shall pay you your full base salary through your separation from service at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company, at the time such payments are due.

(c) In lieu of any further salary payments to you for periods after your separation from service, the Company shall pay a lump sum severance payment equal to [two (2) or 2.99] times the sum of:

(i) the greater of (A) your annual rate of base salary in effect on the date Notice of Termination is given, and (B) your annual rate of base salary in effect immediately before the Change in Control, and

(ii) the greater of (A) the annual target bonus applicable to you for the year in which Notice of Termination is given and (B) the annual target bonus applicable to you for the year in which the Change in Control occurs.

(d) The payment under subsection (c) will be paid immediately upon your separation from service, except that it may not be paid before the earliest date permitted under Section 14 herein (relating to section 409A of the Code).

(e) In addition to all other amounts payable to you under this section, you shall be entitled to receive all benefits payable under any other plan or agreement relating to retirement benefits or to compensation previously earned and not yet paid, in accordance with the terms of such plans or agreements.

(f) For the [24 or 36] month period immediately following the Date of Termination, the Company shall arrange to provide you and your dependents life, disability, accident and health insurance benefits substantially similar to those provided to you and your dependents immediately before the Date of Termination or, if more favorable to you, those provided to you and your dependents immediately before the occurrence of a Change in Control, at no greater cost to you than the cost to you immediately before such date or occurrence. Benefits otherwise receivable by you pursuant to this section shall be reduced to the extent benefits of the same type are received by or made available at no greater cost to you by a subsequent employer during the [24 or 36] month period following the Date of Termination (and any such benefits received by or made available to you shall be reported by you to the Company).

(g) <u>Deeming rules for certain terminations of employment before a Change in Control</u>. For purposes of this Agreement:

(i) Termination of your employment shall be deemed to occur after a Change in Control if (A) your employment is terminated by the Company before a Change in Control, (B) such termination was not a Termination by the Company For Cause, and (C) either such termination was at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, or you reasonably demonstrate that such termination was otherwise in connection with or in anticipation of a Change in Control.

(ii) Termination of your employment shall be deemed to be a Termination by You For Good Reason after a Change in Control if (A) before a Change in Control, you incur a Termination by You For Good Reason (or what would be such but for the fact that it occurs before a Change in Control), and (B) the circumstance or event which constitutes Good Reason occurs at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control.

(iii) Clauses (i) and (ii) apply whether or not a Change in Control actually occurs.

(h) All payments under the Agreement are subject to the reduction or potential reduction set forth in Section 9.

5. Benefits upon Termination For Cause or Without Good Reason. If, following a Change in Control, your employment is terminated pursuant to a Termination by the Company For Cause, or a Termination by You Without Good Reason, the Company shall pay you your full base salary through your separation from service at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to you under this Agreement.

6. No Duty to Mitigate. You shall not be required to mitigate the amount of any payment provided for in Sections 4, 5, 9 or 10 herein by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in such sections be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, other than under subsection (f) of Section 4 (relating to certain continuing welfare benefits) and Section 8.

7. No Waiver. Your continued employment after any event which is or might be an event listed under the definition of Termination by You For Good Reason herein shall not constitute your consent to, or your waiver of rights with respect to, any circumstances surrounding a Termination by You For Good Reason.

8. Offset for Certain Severance Pay. If you become entitled to the lump sum severance benefit under subsection (c) of Section 4 herein, you shall not be entitled to receive severance pay under any severance pay plan, policy or arrangement maintained by the Company or any of its subsidiaries. If the Company is obligated by law or by contract to pay severance pay, a termination indemnity, notice pay, or the like, or if the Company is obligated by law or by contract to provide advance notice of separation, then the lump sum severance benefit under subsection (c) of Section 4 herein shall be reduced, but not below zero, by the amount of any such severance pay, termination indemnity, notice pay or the like, as applicable, and by the amount of any compensation received by you during the period of such advance notice. No offset or reduction of amounts shall be permitted to the extent it results in a prohibited substitution under Code Section 409A and regulations thereunder.

9. Payment Calculation.

(a) Generally, Total Payments (defined below) in connection with a Change in Control, including but not limited to payments under this Agreement, may be subject to an Excise Tax (defined below) payable by you. The Excise Tax applies only if Total Payments exceed a threshold computed under the Code and IRS regulations. Accordingly, if it is determined that the Excise Tax would apply to any payments to you in connection with a Change in Control, payments under the Agreement shall be reduced by this section if it is determined by the Accounting Firm (defined below) that such Cutback (defined below) causes the Net After Tax Amount to be greater than the Net After Tax Amount (defined below) without such Cutback.

(b) For purposes of this Section, the following terms have the following meanings:

(i) “Total Payments” shall mean all of the payments or benefits, paid or payable to you or for your benefit, subject to the excise tax under Section 4999 of the Code (before any reduction pursuant to this section), including any vesting of awards subject to Section 83 of the Code, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control, or any person affiliated with the Company or such person.

(ii) “Excise Tax” shall mean the excise tax (if any) imposed under section 4999 of the Code on your Total Payments.

(iii) “Net After Tax Amount” shall mean the amount of Total Payments net of any applicable taxes under the Code and any State or local income taxes applicable on the date of payment. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the payments, as in effect on the date of payment.

(c) Amounts payable to you under the Agreement shall be reduced by an amount (“the Cutback”) if and only if it is determined that the Net After Tax Amount is greater if the Cutback is imposed than if the Cutback is not imposed.

(d) All determinations required to be made under this Section 9 shall be made by the accounting firm that was, immediately before the Change in Control, the Company’s independent auditor (the “Accounting Firm”), which shall provide detailed supporting calculations both to the Company and to you within fifteen (15) business days after your Notice of Termination, or such earlier time as requested by the Company. In the event that such accounting firm is also serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm instead shall be the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and you.

10. Legal Fees.

(a) The Company also shall pay to you all reasonable legal fees and expenses incurred by you with respect to the initial determination by the Accounting Firm with respect to the amount of Cutback (if any), as well as in disputing in good faith any issue hereunder relating to the termination of your employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payment shall be made immediately upon the date that is five business days after delivery of your written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

(b) To the extent required by Section 409A of the Code and guidance thereunder, any payment by the Company under this section shall be made no later than December 31 of the calendar year following the calendar year in which you incur such fees and expenses. Notwithstanding the foregoing, to the extent required by Section 409A of the Code, in the case of a payment by the Company to reimburse expenses incurred due to a tax audit or litigation, payment shall be made no later than December 31 of the calendar year following the calendar you in which you remit the Excise Tax or, where as a result of such audit or litigation, no taxes are remitted, December 31 of the calendar year following the calendar year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation.

11. Successors; Binding Agreement.

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place.

(b) Failure of the Company to obtain such assumption and agreement before the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

(c) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or if no such designee, to your estate.

12. Notice Requirement. Any termination or purported termination of your employment (except by reason of your death) by the Company or by you following a Change in Control and during the term of this Agreement shall be communicated by written Notice of Termination to the other party hereto in accordance with this section. The Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

13. Extension of Date of Termination. If, within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected). The Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. You shall make prompt, good faith and reasonable efforts to collect any amounts you believe are owing to you, in accordance with regulations under Section 409A. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this section. Amounts paid under this section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement and shall not be reduced by any compensation earned by you as the result of employment by another employer

14. No Payment Earlier Than Permitted Under Code Section 409A.

In no event shall any amount that is deferred compensation under Code section 409A (other than a short term deferral) payable under this Agreement upon your separation from service be paid to you under this Agreement before the date of your separation from service plus 6 months after such date if you are a specified employee (as defined for purposes of Code section 409A(a)(2)(B)).

15. Amendment.

(a) Except as provided in subsection (b), no provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Compensation Committee of the Board.

(b) To the extent deemed necessary or desirable by the Compensation Committee of the Board, the Agreement may be amended by an affirmative vote of the majority of the directors described in section 1(c)(ii) hereof and on the Compensation Committee in order to comply with Code section 409A and to avoid any additional tax or penalty related solely to Code section 409A. Such amendments will be effective if signed by such officer as may be specifically designated by the Compensation Committee of the Board. The provisions of this subsection (b) shall not apply at any time after the occurrence of either a Potential Change in Control or a Change in Control.

(c) The Chief Executive Officer of Xerox Corporation or her delegate may amend the Agreement as she or he in his or her sole discretion deems necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder.

16. Miscellaneous. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Sections 4, 5, 9 and 10 shall survive the expiration of the term of this Agreement. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between you and the Company, you shall not have any right to be retained in the employ of the Company.

17. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

18. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and during the term of the Agreement supersedes the provisions of all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto with respect to the subject matter hereof (including, without limitation, the Severance Agreement previously entered into between you and the Company as thereafter amended and/or extended).

20. Effective Date. This Agreement shall become effective as of the date set forth above. If this letter correctly sets forth our agreement on the subject matter hereof, please sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

XEROX CORPORATION

By: ____

Name: Ursula M. Burns

Title: Chairman and Chief Executive Officer

Agreed to as of the Date: _______________________

Name: ______________________________________

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

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

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

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

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre-tax earnings required to cover dividends paid on our Series A convertible preferred stock issued in 2010 and our Series C mandatory convertible preferred stock. Series C mandatory convertible preferred stock was redeemed and converted to common stock as of July 3, 2006 and, as such, there were no dividends beyond such date.

	Year Ended December 31,				
(in millions)	2010	2009	2008	2007	2006
Fixed charges:					
Interest expense	$ 592	$ 527	$567	$ 579	$ 544
Capitalized interest	5	8	10	8	—
Portion of rental expense which represents interest factor	211	89	84	95	90
Total Fixed charges	$ 808	$ 624	$661	$ 682	$ 634
Earnings available for fixed charges:					
Pre-tax income (loss)	$ 815	$ 627	$ (79)	$1,468	$ 830
Distributed equity income of affiliated companies	41	16	60	37	44
Add: Fixed charges	808	624	661	682	634
Less: Capitalized interest	(5)	(8)	(10)	(8)	—
Less: Net income – noncontrolling interests	(31)	(31)	(35)	(30)	(22)
Total Earnings available for fixed charges	$1,628	$1,228	$597	$2,149	$1,486
Ratio of earnings to fixed charges	2.01	1.97	*	3.15	2.34

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend:

	Year Ended December 31,				
(in millions)	2010	2009	2008	2007	2006
Fixed charges:					
Interest expense	$ 592	$ 527	$567	$ 579	$ 544
Capitalized interest	5	8	10	8	—
Portion of rental expense which represents interest factor	211	89	84	95	90
Total Fixed charges before preferred stock dividends pre-tax requirements	$ 808	$ 624	$661	$ 682	$ 634
Preferred stock dividends pre-tax income requirements	35	—	—	—	48
Total Combined fixed charges and preferred stock dividends	$ 843	$ 624	$661	$ 682	$ 682
Earnings available for fixed charges:					
Pre-tax income (loss)	$ 815	$ 627	$ (79)	$1,468	$ 830
Distributed equity income of affiliated companies	41	16	60	37	44
Add: Fixed charges	808	624	661	682	634
Less: Capitalized interest	(5)	(8)	(10)	(8)	—
Less: Net income – noncontrolling interests	(31)	(31)	(35)	(30)	(22)
Total Earnings available for fixed charges and preferred stock dividends	$1,628	$1,228	$597	$2,149	$1,486
Ratio of earnings to fixed charges and preferred stock dividends	1.93	1.97	*	3.15	2.18

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

ANNUAL REPORT
TABLE OF CONTENTS

Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

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

Executive Overview

We are a $22 billion leading global enterprise for business process and document management. We provide the industry’s broadest portfolio of document systems and services for businesses of any size. This includes printers, multifunction devices, production publishing systems, managed print services (“MPS”) and related software. We also offer financing, service and supplies, as part of our document technology offerings. In 2010, we acquired Affiliated Computer Services, Inc. (“ACS”). Through ACS we offer extensive business process outsourcing and information technology outsourcing services, including data processing, HR benefits management, finance support and customer relationship management services for commercial and government organizations worldwide. We operate in a market that is estimated to be $500 billion. We have 136,500 employees and serve customers in more than 160 countries. Approximately 36 percent of our revenue is generated from customers outside the U.S.

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

- Our **Technology** segment comprises our business of providing customers with document technology and related supplies, technical service and equipment financing. Our product categories within this segment include entry, mid-range and high-end products.
- Our **Services** segment is comprised of our business process outsourcing, information technology outsourcing and document outsourcing services. Because we participate in all three of these lines of business, we are uniquely positioned in the industry, and we believe this allows us to provide a differentiated solution and deliver greater value to our customers.

The fundamentals of our business rest upon an annuity model that drives significant recurring revenue and cash generation. Over 80 percent of our 2010 total revenue was annuity based revenue that includes contracted services, equipment maintenance and consumable supplies, among other elements. Some of the key indicators of annuity revenue growth include:

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

Subsequent to the acquisition of ACS, we acquired three additional service companies further expanding our BPO capabilities.

- In July 2010, we acquired ExcellerateHRO, LLP (“EHRO”), a global benefits administration and relocation services provider.
- In October 2010, we acquired TMS Health (“TMS”), a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries.
- In November 2010, we acquired Spur Information Solutions (“Spur”), one of the United Kingdom’s leading providers of computer software used for parking enforcement.

Additionally, in 2010 we acquired two companies to further expand our distribution capacity.

- In January 2010, we acquired Irish Business Systems Limited ("IBS") to expand our reach into the small and mid-size business market in Ireland.
- In September 2010, we acquired Georgia Duplicating Products ("Georgia"), an office equipment supplier.

Financial Overview

During 2010, despite the continued economic weakness we began to see improvement in our markets. Results remained strong in our developing markets countries as well as in the small to mid-size business market. We began to see increased demand and usage activity in large enterprise customers particularly in the fourth quarter 2010. We closed 2010 with strong revenue growth, operating margin expansion and excellent cash generation, reflecting the strength of our business model and the benefits of our expanded technology and service offerings.

The following is a summary of key 2010 highlights:

- Exceeded on earnings and cash generation commitments
- Strong services performance, realizing benefits from the ACS acquisition
- Technology revenue and activity growth; innovative products launched in key segments
- Disciplined cost and expense management yielding operating margin improvement

We completed the acquisition of ACS on February 5, 2010, and their results subsequent to that date are included in our results. Total revenue of $21.6 billion in 2010 increased 43% from the prior year primarily as a result of the ACS acquisition. Currency had a negligible impact on 2010 total revenues. In order to provide a clearer comparison of our results to the prior year, we are also providing a discussion and analysis on a pro-forma basis, where we include ACS's 2009 estimated results from February 6 through December 31 in our historical 2009 results(1). On a pro-forma(1) basis, total revenue increased 3% in 2010, including a negligible impact from currency.

2010 Annuity Revenue(2) increased 53% from the prior year, or 1% on a pro-forma(1) basis. Currency had a 1-percentage point unfavorable impact on pro-forma annuity revenue. 2010 Equipment Revenue increased 9% from the prior year, including a 1-percentage point negative impact from currency.

Net income attributable to Xerox for 2010 was $606 million and included $690 million of after-tax costs and expenses related to restructuring, intangibles amortization, acquisition-related costs and other discrete and unusual items. Net income attributable to Xerox for 2009 was $485 million and included $128 million of similar after-tax costs and expenses.

Cash flow from operations was $2.7 billion for 2010 primarily as a result of increased earnings and working capital cash generation. Cash used in investing activities of $2.2 billion primarily reflects the net cash consideration of $1.5 billion for the ACS acquisition. Cash used in financing activities was $3.1 billion, primarily reflecting the repayment of ACS's debt of $1.7 billion as well as net payments on other debt during 2010 including the early redemption of $660 million of debt.

Our 2011 priorities include:

- Strengthening our leadership in Technology through competitively advantaged products and increased distribution
- Accelerating our services business - capture significant BPO opportunity and continue improvements in ITO and document outsourcing
- Continued cost and expense discipline to enable operating margin expansion
- Drive cash flow, reduce debt and return cash to shareholders

Our 2011 balance sheet and cash flow strategy includes: sustaining our working capital improvements; continued reductions in non-financing debt; leveraging of our financing assets (finance receivables and equipment on operating leases); achieving an optimal cost of capital; and effectively deploying cash to maximize shareholder value through share repurchase, acquisitions and dividends.

In addition, as a result of providing lease equipment financing to our customers, we expect to continue to make investments in lease contracts (finance receivables and equipment on operating leases). Since we maintain a certain level of debt to support this investment, we expect to continue to leverage this investment in 2011 (see "Customer Financing Activities" for additional information).

---

(1) The pro-forma information included within this MD&A is different than the pro-forma information provided in Note 3 – Acquisitions. The pro-forma information included in Note 3 presents the combined results for 2010 and 2009 as if the acquisition was completed January 1st of each respective year. See the "Non-GAAP Financial Measures" section for a further explanation and discussion of this non-GAAP measure.

(2) Annuity revenue = Service, outsourcing and rentals + Supplies, paper and other sales + Finance income.

Currency Impacts

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

Approximately 36% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is 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 2% stronger in 2010 and 7% stronger in 2009, each compared to the prior year. As a result, the foreign currency translation impact on revenue was negligible in 2010 and a 3% detriment in 2009.

Refer to "Gross Margin" section for additional information regarding the impact of currency on our product costs.

Summary Results

Revenue

Revenues for the three years ended December 31, 2010 were as follows:

(in millions)	Revenues 2010	Revenues 2009	Revenues 2008	Percent Change 2010	Percent Change 2009	Pro-forma[3] Change 2010	Percent of Total Revenue 2010	Percent of Total Revenue 2009	Percent of Total Revenue 2008
Revenue:									
Equipment sales	$ 3,857	$ 3,550	$ 4,679	9%	(24)%	9%	18%	24%	26%
Supplies, paper and other	3,377	3,096	3,646	9%	(15)%	4%	15%	20%	21%
Sales	7,234	6,646	8,325	9%	(20)%	7%	33%	44%	47%
Service, outsourcing and rentals	13,739	7,820	8,485	76%	(8)%	1%	64%	51%	48%
Finance income	660	713	798	(7)%	(11)%	(7)%	3%	5%	5%
Total Revenues	$ 21,633	$ 15,179	$ 17,608	43%	(14)%	3%	100%	100%	100%
Segments:									
Technology	$ 10,349	$ 10,067	$ 11,714	3%	(14)%	3%	48%	66%	66%
Services	9,637	3,476	3,828	177%	(9)%	3%	44%	23%	22%
Other	1,647	1,636	2,066	1%	(21)%	1%	8%	11%	12%
Total Revenues	$ 21,633	$ 15,179	$ 17,608	43%	(14)%	3%	100%	100%	100%
Memo:									
Annuity Revenue [1]	$ 17,776	$ 11,629	$ 12,929	53%	(10)%	1%	82%	77%	73%
Color [2]	$ 6,397	$ 5,972	$ 6,669	7%	(10)%	7%	30%	39%	38%

Revenue 2010

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

- 53% increase in annuity revenue [1], or 1% on a pro-forma [3] basis, with a 1-percentage point negative impact from currency. The components of annuity revenue were as follows:
  - Service, outsourcing and rentals revenue of $13,739 million increased 76%, or 1% on a pro-forma [3] basis, and included a negligible impact from currency. The increase was driven by Business Process Outsourcing ("BPO") revenue that partially offset the declines in technical service revenue which were driven by a continued but stabilizing decline in pages. Total digital pages declined 4% while color pages increased 9%. During 2010 digital MIF increased by 1% and color MIF increased by 15%.
  - Supplies, paper, and other sales of $3,377 million increased 9%, or 4% on a pro-forma [3] basis, with a 1-percentage point negative impact from currency. Growth in supplies revenues were partially offset by a decline in paper sales.
- 9% increase in equipment sales revenue, including a 1-percentage point negative impact from currency. Growth in install activity was partially offset by price declines of approximately 5% and mix.
- 7% increase in color revenue [2], including a 1-percentage point negative impact from currency reflecting:
  - 5% increase in color annuity revenue, including a 1-percentage point negative impact from currency. The increase was driven by higher printer supplies sales and higher page volumes.
  - 12% increase in color equipment sales revenue, including a 2-percentage point negative impact from currency. The increase was driven by higher installs of new products.
  - 9% growth in color pages[4]. Color pages [4] represented 23% of total pages in 2010 while color MIF represented 31% of total MIF.

Revenue 2009

Revenue decreased 14% compared to the prior year, including a 3-percentage point negative impact from currency. Although moderating in the fourth quarter 2009, worldwide economic weakness negatively impacted our major market segments during the year. Total revenues included the following:

- 10% decrease in annuity revenue[1] including a 3-percentage point negative impact from currency. The components of the annuity revenue decreased as follows:
  - 8% decrease in service, outsourcing and rentals revenue to $7,820 million reflecting a 3-percentage point negative impact from currency and an overall decline in page volume. Total digital pages declined 6% despite an increase in color pages of 10%. Additionally, during 2009 digital MIF increased by 2% and color MIF increased by 21%.
  - Supplies, paper, and other sales of $3,096 million decreased 15% due primarily to currency, which had a 2-percentage point negative impact, and declines in channel supplies purchases, including lower purchases within developing markets, and lower paper sales.
- 24% decrease in equipment sales revenue, including a 1-percentage point negative impact from currency. The overall decline in install activity was the primary driver along with price declines of approximately 5%.
- 10% decrease in color revenue [2] including a 2-percentage point negative impact from currency reflecting:
  - 5% decrease in color annuity revenue including a 3-percentage point negative impact from currency. The decline was partially driven by lower channel color printer supplies purchases. Color represented 40% and 37% of annuity revenue in 2009 and 2008, respectively.
  - 22% decrease in color equipment sales revenue including a 2-percentage point negative impact from currency and lower installs driven by the impact of the economic environment. Color sales represented 53% and 50% of total equipment sales in 2009 and 2008.
  - 10% growth in color pages[4]. Color pages [4] represented 21% and 18% of total pages in 2009 and 2008, respectively.

Net Income

Net income and diluted earnings per share, as well as the adjustments to net income [5] for the three years ended December 31, 2010 were as follows:

	2010		2009		2008	
(in millions, except per-share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported	$ 606	$ 0.43	$ 485	$ 0.55	$ 230	$ 0.26
Adjustments:						
Xerox and Fuji Xerox restructuring charges	355	0.26	41	0.05	308	0.34
Acquisition-related costs	58	0.04	49	0.06	—	—
Amortization of intangible assets	194	0.14	38	0.04	35	0.04
ACS shareholders litigation settlement	36	0.03	—	—	—	—
Venezuela devaluation costs	21	0.02	—	—	—	—
Medicare subsidy tax law change	16	0.01	—	—	—	—
Provision for litigation matters	—	—	—	—	491	0.54
Equipment write-off	—	—	—	—	24	0.03
Loss on early extinguishment of debt	10	0.01	—	—	—	—
Settlement of unrecognized tax benefits	—	—	—	—	(41)	(0.05)
As Adjusted[5]	$ 1,296	$ 0.94	$ 613	$ 0.70	$ 1,047	$ 1.16
Weighted average shares for reported EPS		1,351		880		895
Weighted average shares for adjusted EPS		1,378		880		897

Average shares for the calculation of adjusted EPS for 2010 of 1,378 million include a pro-rata portion of 27 million shares associated with the Series A convertible preferred stock and therefore the 2010 dividends of $21 million are excluded. In addition, average shares for the calculation of adjusted EPS for both 2010 and 2008 include 2 million shares associated with other convertible securities. We evaluate the dilutive effect of our convertible securities on an “if-converted” basis. Refer to Note 20 – Earnings Per Share in the Consolidated Financial Statements for additional information.

(1) Annuity revenue equals Service, outsourcing and rentals plus Supplies, paper and other sales plus Finance income.
(2) Color revenues represent a subset of total revenue and excludes the impact of GIS's revenues.
(3) Growth on a pro-forma basis reflects the inclusion of ACS's adjusted results from February 6 through December 31, 2009. Refer to the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.
(4) Pages include estimates for developing markets, GIS and printers.
(5) Refer to the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Application of Critical Accounting Policies

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

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

Revenue Recognition for Leases

Our accounting for leases involves specific determinations under applicable lease accounting standards. These determinations affect the timing of revenue recognition for our equipment. If a lease qualifies as a sales-type capital lease, equipment revenue is recognized as sale revenue upon delivery or installation of the equipment as opposed to ratably over the lease term. The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended.

Revenue Recognition for Bundled Lease Arrangements

We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Approximately 40% of our equipment sales revenue is related to sales made under bundled lease arrangements. Typically these arrangements include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. Revenues under these arrangements are allocated, considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of supplies and non-maintenance services. The allocation for lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. These elements are generally recognized over the term of the lease as services revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted above under "Revenue Recognition for Leases." We perform analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must be reasonably consistent with the lease selling prices, taking into account residual values, in order for us to determine that such lease prices are indicative of fair value.

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

Revenue Recognition for Services – Percentage-of-Completion

A significant portion of our services revenue is recognized based on objective criteria that do not require significant estimates or uncertainties. For example, transaction volume, time and materials and cost reimbursable arrangements are based on specific, objective criteria under the contracts. Accordingly, revenues recognized under these contracts do not require the use of significant estimates that are susceptible to change. However, revenue recognized using the percentage-of-completion accounting method does require the use of estimates and judgment as discussed below. During 2010, we recognized approximately $270 million of revenue using the percentage-of-completion accounting method.

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

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

Allowance for Doubtful Accounts and Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We cannot guarantee that we will continue to experience credit loss rates similar to those we have experienced in the past.

Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We recorded bad debt provisions of $188 million, $291 million and $188 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, respectively.

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

Bad debt provisions decreased by $103 million in 2010 and reserves as a percentage of trade and finance receivables decreased to 3.3% at December 31, 2010 as compared to 4.1% at December 31, 2009 and 3.4% at December 31, 2008. The decline in 2010 reflects the improving trend in write-off's over the past year as well as the acquisition of ACS. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts. Refer to Note 4 – Receivables in the Consolidated Financial Statements for additional information.

As discussed above, in preparing our Consolidated Financial Statements for the three years ended December 31, 2010, 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, 2010, our reserve for doubtful accounts ranged from 3.0% to 4.1% of gross receivables. Holding all assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2010 rate of 3.3% would change the 2010 provision by approximately $98 million.

Pension and Retiree Health Benefit Plan Assumptions

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

Cumulative actuarial losses for our defined benefit pension plans of $1.9 billion as of December 31, 2010 were essentially unchanged from December 31, 2009. Positive returns on plan assets in 2010 as compared to expected returns offset a decrease in discount rates. The total actuarial loss will be amortized over future periods, subject to offsetting gains or losses that will impact the future amortization amounts.

We used a weighted average expected rate of return on plan assets of 7.3% for 2010, 7.4% for 2009 and 7.6% for 2008, on a worldwide basis. During 2010, the actual return on plan assets was $846 million, reflecting an improvement in the equity markets during the year. When estimating the 2011 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 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 2011 is 7.2%.

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

Another significant assumption affecting our pension and retiree health benefit obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. The discount rate reflects the current rate at which the benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider rates of return on high quality fixed-income investments included in published bond indices, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligations, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The weighted average discount rate we used to measure our pension obligations as of December 31, 2010 and to calculate our 2011 expense was 5.2%, which is lower than 5.7% that was used to calculate our 2010 expense. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2010 and to calculate our 2011 expense was 4.9%, which is lower than 5.4% that was used to calculate our 2010 expense.

On a consolidated basis, we recognized net periodic pension cost of $355 million, $270 million and $254 million for the years ended December 31, 2010, 2009 and 2008, respectively. The costs associated with our defined contribution plans, which are included in net periodic pension cost, were $51 million, $38 million and $80 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increase in 2010 was primarily due to our partial resumption of the 401(k) match in the U.S. On a consolidated basis, we recognized net retiree health benefit cost of $32 million, $26 million and $77 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Assuming settlement losses in 2011 are consistent with 2010, our 2011 net periodic defined benefit pension cost is expected to be approximately $30 million lower than 2010, primarily driven by the U.S. as a result of a reduction in the amortization of actuarial losses and an increase in expected asset returns from higher asset values and expected contributions to the plan. Our 2011 retiree health benefit cost is expected to be approximately $17 million lower than 2010, primarily as a result of amendments to the U.S. plan in 2010.

Benefit plan costs are included in several income statement components based on the related underlying employee costs. Pension and retiree health benefit plan assumptions are included in Note 15 – Employee Benefit Plans in the Consolidated Financial Statements. Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2011 projected net periodic pension cost by $17 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2011 projected net periodic pension cost by $17 million.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Adjustments to our valuation allowance, through charges (credits) to income tax expense, were $22 million, $(11) million and $17 million for the years ended December 31, 2010, 2009 and 2008, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of $11 million, $55 million and $(136) million for the years ended December 31, 2010, 2009 and 2008, respectively. These did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of $3.8 billion and $3.7 billion had valuation allowances of $735 million and $672 million at December 31, 2010 and 2009, 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.

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

Legal Contingencies

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and ERISA, as discussed in Note 17 – Contingencies in the Consolidated Financial Statements. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Business Combinations and Goodwill

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

As a result of our acquisition of ACS, as well as other acquisitions including GIS, we have a significant amount of goodwill. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the 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 determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires significant judgment including: estimation of future cash flows, which is dependent on internal forecasts; estimation of the long-term rate of growth for our business; the useful life over which cash flows will occur; determination of our weighted average cost of capital for purposes of establishing a discount rate; and consideration of relevant market data.

Our annual impairment test of goodwill is performed in the fourth quarter of each year. The estimated fair values of our reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in those valuations considered the current economic environment. In performing our 2010 impairment test, the following were the overall composite assumptions regarding revenue and expense growth, which formed the basis for estimating future cash flows used in the discounted cash flow model: (1) revenue growth 3-5%; (2) gross margin 33-35%; (3) RD&E 3%; (4) SAG 19-20%; and (5) return on sales 10-12%. We believe these assumptions are appropriate because they are consistent with historical results (inclusive of ACS), generally consistent with our forecasted long-term business model and give appropriate consideration to the current economic environment.

Based on these valuations, we determined that the fair values of our reporting units exceeded their carrying values and no goodwill impairment charge was required during the fourth quarter 2010.

Refer to Note 1 – Summary of Significant Accounting Policies – "Goodwill and Intangible Assets" for additional information regarding our goodwill impairment testing, as well as Note 8 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by operating segment.

Operations Review of Segment Revenue and Operating Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Technology, Services and Other.

2010 Segment Reporting Change

In 2010, as a result of our acquisition of ACS, we realigned our internal financial reporting structure and began reporting our financial performance based on two primary segments – **Technology** and **Services**. The Technology segment represents the combination of our former Production and Office segments excluding the document outsourcing business. The Services segment represents the combination of our document outsourcing business, which includes Xerox's historic business process services, and ACS's business process outsourcing and information technology outsourcing businesses. We believe this realignment improves our view of the expanded markets we now serve and will help us to better manage our business which is primarily centered around equipment systems and outsourcing services. Our Technology segment operations involve the sale and support of a broad range of document systems from entry level to the high-end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT. Our 2009 and 2008 segment disclosures have been restated to reflect our new 2010 internal reporting structure. Refer to Note 2 – Segment Reporting, in the Consolidated Financial Statements for further description of these segments.

Revenues by segment for the three years ended December 31, 2010 were as follows:

(in millions)	Total Revenue	Segment Profit (Loss)	Segment Margin
2010			
Technology	$ 10,349	$ 1,085	10.5%
Services	9,637	1,132	11.7%
Other	1,647	(342)	(20.8)%
Total	$ 21,633	$ 1,875	8.7%
2009			
Technology	$ 10,067	$ 949	9.4%
Services	3,476	231	6.6%
Other	1,636	(342)	(20.9)%
Total	$ 15,179	$ 838	5.5%
2009 Pro-forma[(1)]			
Technology	$ 10,067	$ 949	9.4%
Services	9,379	1,008	10.7%
Other	1,636	(447)	(27.3)%
Total	$ 21,082	$ 1,510	7.2%
2008			
Technology	$ 11,714	$ 1,288	11.0%
Services	3,828	302	7.9%
Other	2,066	(245)	(11.9)%
Total	$ 17,608	$ 1,345	7.6%

(1) Results include ACS's 2009 estimated results February 6 through December 31. Refer to the "Non-GAAP Financial Measures" section for an explanation of this non-GAAP financial measure.

Technology

Our technology segment includes the sale of document systems and supplies, provision of technical service and financing of products.

(in millions)	Year Ended December 31, 2010	2009	2008	Percent Change 2010	2009
Equipment sales	$ 3,404	$ 3,137	$ 4,079	9%	(23)%
Post sale revenues [1]	6,945	6,930	7,635	—%	(9)%
Total Revenue	$ 10,349	$ 10,067	$ 11,714	3%	(14)%

(1) Post sale revenue does not include outsourcing revenue which is reported in our Services segment.

Revenue 2010

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

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

Segment Profit 2010

Technology segment profit of $1,085 million increased $136 million from 2009, reflecting an increase in gross profit due to higher revenues, lower bad debt expense as well as cost and expense savings from restructuring actions.

Installs 2010

Entry

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

Mid-range

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

High-end

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

Install activity percentages include installations for document outsourcing and the Xerox-branded product shipments to GIS. Descriptions of “Entry,” “Mid-range,” and “High-end” can be found in Note 2 – Segment Reporting in the Consolidated Financial Statements.

Revenue 2009

Technology revenue of $10,067 million decreased 14%, including a 3-percentage point negative impact from currency. Total revenue included the following:

- 23% decrease in equipment sales revenue, with a 2-percentage point negative impact from currency. The decline reflects lower installs driven by the weak economic environment during the year and delays in customer spending on technology.
- 9% decrease in post sale revenue, with a 3-percentage point negative impact from currency, reflecting lower page volumes and supplies primarily as a result of the weak economic environment.
- Technology revenue mix was 21% entry, 56% mid-range and 23% high-end.

Segment Profit 2009

Technology profit of $949 million decreased $339 million from 2008. The decrease is primarily the result of lower gross profit reflecting decreased revenue partially offset by lower costs and expenses reflecting the benefits from restructuring and favorable currency.

Installs 2009

Entry

- 40% decrease in installs of A4 black-and white multifunction devices primarily reflecting lower activity in developing markets.
- 22% decrease in installs of A4 color multifunction devices driven by lower overall demand.
- 34% decrease in installs of color printers due to lower demand and lower sales to OEM partners.

Mid-range

- 31% decrease in installs of mid-range black-and-white devices.
- 19% decrease in installs of mid-range color devices driven by lower overall demand which more than offset the impact of new products including the ColorQube and a mid-range version of the Xerox® 700.

High-end

- 29% decrease in installs of high-end black-and-white systems reflecting declines in all product areas.
- 37% decrease in installs of high-end color systems as entry production color declines were partially offset by increased iGen4 installs.

Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Document Outsourcing (“DO”) and Information Technology Outsourcing (“ITO”).

Services total revenue and segment profit for the year ended December 31, 2010 increased 177% and 390%, respectively, primarily due to the inclusion of ACS. Since these comparisons are not meaningful, results for the Services segment are primarily discussed on a pro-forma basis, with ACS’s 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See “Non-GAAP Financial Measures” section for discussion of this non-GAAP measure).

Revenue 2010

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

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

Segment Profit 2010

Services operating profit of $1,132 million increased $901 million or $124 million on a pro-forma(1) basis from 2009, driven primarily by BPO growth and lower G&A expenses.

Metrics

Pipeline

Our BPO and ITO revenue pipeline including synergy opportunities grew 25% over the fourth quarter 2009. The sales pipeline includes the Total Contract Value ("TCV") of new business opportunities that could potentially be contracted within the next six months and excludes business opportunities with estimated annual recurring revenue in excess of $100 million. The DO sales pipeline grew approximately 17% over the fourth quarter 2009. The DO sales pipeline includes all active deals with $10 million or greater in TCV.

Signings

Signings ("Signings") are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Services signings were an estimated $14.6 billion in TCV in 2010 and increased 13% as compared to the comparable prior year period. TCV represents estimated total revenue for future contracts for pipeline or signed contracts for signings as applicable.

Signings were as follows:

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

Signings growth was driven by strong signings in both our BPO and DO businesses. In 2010 we signed significant new business in the following areas:

- Child support payment processing
- Commercial healthcare
- Customer care
- Electronic payment cards
- Enterprise print services
- Government healthcare
- Telecom and hardware services
- Transportation

Revenue 2009

Services revenue of $3,476 million decreased 9% including a 2-percentage point negative impact from currency. Services revenue for 2009 and 2008 primarily reflects revenue from DO services. The decrease in revenue is primarily due to lower usage primarily in black-and-white devices.

Segment Profit 2009

Services operating profit of $231 million decreased $71 million from 2008. The decrease was primarily due to lower gross profit reflecting a decrease in revenues partially offset by lower cost and expenses reflecting benefits from restructuring and favorable currency.

Other

Revenue 2010

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

Segment Loss 2010

Other segment loss of $342 million was flat with 2009 as higher gross profit reflecting an increase in gross margins from the mix of revenues was partially offset by higher interest expense associated with funding for the ACS acquisition.

Revenue 2009

Other revenue of $1,636 million decreased 21%, including a 2-percentage point negative impact from currency, primarily driven by declines in revenue from paper, wide format systems and licensing and royalty arrangements. Paper comprised approximately 60% of the Other segment revenue.

Segment Loss 2009

Other operating loss of $342 million increased $97 million from 2008, primarily due to lower revenue, as well as lower interest and equity income.

(1) Refer to the "Non-GAAP Financial Measures" section for an explanation of the Pro-forma non-GAAP financial measure.

Costs, Expenses and Other Income

Gross Margin

Gross margins by revenue classification were as follows:

	Year Ended December 31,			Change		Pro-forma[1] Change
	2010	2009	2008	2010	2009	2010
Sales	34.5%	33.9%	33.7%	0.6pts	0.2pts	1.1pts
Service, outsourcing and rentals	33.1%	42.6%	41.9%	(9.5)pts	0.7pts	(0.7)pts
Finance income	62.7%	62.0%	61.8%	0.7pts	0.2pts	0.7pts
Total Gross Margin	34.4%	39.7%	38.9%	(5.3)pts	0.8pts	(0.2)pts

Gross Margin 2010

The 2010 total gross margin decreased 5.3-percentage points, and service, outsourcing and rentals gross margin decreased 9.5-percentage points, on an actual basis primarily due to the ACS acquisition. ACS, as a services based company, had a lower gross margin as compared to a technology based company, which typified Xerox before the acquisition. Since actual comparisons are not meaningful, gross margins for these two categories are primarily discussed below on a pro-forma basis with ACS's 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See "Non-GAAP Financial Measures" section for a further discussion of this non-GAAP measure).

- **Total gross margin** decreased 5.3-percentage points or 0.2-percentage points on a pro-forma[1] basis, as compared to 2009. The decline was primarily due to the unfavorable impact of year-over-year transaction currency.
- **Sales gross margin** increased 0.6-percentage points or 1.1-percentage points on a pro-forma[1] basis, as compared to 2009. Cost improvements and positive mix more than offset a 0.5-percentage point adverse impact from transaction currency and price declines of about 1-percentage points.
- **Service, outsourcing and rentals gross margin** decreased 9.5-percentage points or 0.7-percentage points on a pro-forma[1] basis, as compared to 2009 as price declines and the higher rate of growth in lower margin BPO revenue were only partially offset by cost improvements.
- **Financing income gross margin** of 62.7% remained comparable to 2009.

Since a large portion of our inventory is procured from Japan, the strengthening of the Yen versus the U.S. Dollar and Euro in 2010 and 2009 has significantly impacted our product costs. In 2010, the Yen strengthened approximately 6% against the U.S. Dollar and 10% against the Euro as compared to 2009. In 2009, the Yen strengthened approximately 10% against the U.S. Dollar and 15% against the Euro as compared to 2008. We expect product costs and gross margins to continue to be negatively impacted in 2011, particularly in the first half, if Yen exchange rates remain at January 2011 levels.

(1) Refer to the "Non-GAAP Financial Measures" section for an explanation of the Pro-forma non-GAAP financial measure.

Gross Margin 2009

- **Total gross margin** increased 0.8-percentage points compared to 2008 primarily driven by cost improvements, enabled by restructuring and our cost actions, which were partially offset by the 0.5-percentage point unfavorable impact of transaction currency, primarily the Yen, and price declines of 1.0-percentage points.
- **Sales gross margin** increased 0.2-percentage points primarily due to the cost improvements and the positive mix of revenues partially offset by the adverse impact of transaction currency on our inventory purchases of 1.0-percentage point and price declines of 1.2-percentage points.
- **Service, outsourcing and rentals margin** increased 0.7-percentage points primarily due to the positive impact from the reduction in costs driven by our restructuring and cost actions of 1.5-percentage points. These cost improvements more than offset the approximate 0.9-percentage points impact of pricing.
- **Financing income margin** of 62% remained comparable to 2008.

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

We invest in technological research and development, particularly in color, software and services. We believe our R&D spending is sufficient to remain technologically competitive. Our R&D is strategically coordinated with that of Fuji Xerox.

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009	Pro-forma(1) Change 2010
R&D	$ 653	$ 713	$ 750	$ (60)	$ (37)	$ (60)
Sustaining Engineering	128	127	134	1	(7)	1
Total RD&E Expenses	$ 781	$ 840	$ 884	$ (59)	$ (44)	$ (59)
RD&E % Revenue	3.6%	5.5%	5.0%	(1.9)pts	0.5pts	(0.4)pts
R&D Investment by Fuji Xerox(2)	$ 821	$ 796	$ 788	$ 25	$ 8	n/a

(1) Refer to the "Non-GAAP Financial Measures" section for an explanation of the Pro-forma non-GAAP financial measure.
(2) Increase in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E 2010: The decrease in RD&E spending for 2010 primarily reflects the savings from restructuring and productivity improvements.

RD&E 2009: The decrease in RD&E spending for 2009 reflects our restructuring and cost actions which consolidated the development and engineering infrastructures within our Technology segment.

Selling, Administrative and General Expenses ("SAG")

(in millions)	Year Ended December 31, 2010	2009	2008	Change 2010	2009	Pro-forma(1) Change 2010
Total SAG	$ 4,594	$ 4,149	$ 4,534	$ 445	$ (385)	$ (57)
SAG as a % of revenue	21.2%	27.3%	25.7%	(6.1)pts	1.6pts	(0.9)pts
Bad Debt Expense	$ 188	$ 291	$ 188	$ (103)	$ 103	$ (108)
Bad Debt as a % of revenue	0.9%	1.9%	1.1%	(1.0)pts	0.8pts	(0.5)pts

(1) Refer to the "Non-GAAP Financial Measures" section for an explanation of the Pro-forma non-GAAP financial measure.

SAG 2010

SAG as a percent of revenue decreased 6.1-percentage points on an actual basis primarily due to the ACS acquisition. ACS, as a typical service based company, had lower SAG as a percent of revenue as compared to a technology based company, which typified Xerox before the acquisition. Since actual comparisons are not meaningful, SAG is primarily discussed on a pro-forma basis, with ACS's 2009 estimated results from February 6 through December 31 included in our historical 2009 results (See "Non-GAAP Financial Measures" section for additional discussion of this non-GAAP measure).

SAG of $4,594 million was $445 million higher than 2009, or $57 million lower on a pro-forma [(1)] basis, including a negligible impact from currency. The pro-forma[(1)] SAG decrease reflects the following:

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

SAG 2009

SAG of $4,149 million was $385 million lower than 2008, including a $126 million benefit from currency. The SAG decrease was the result of the following:

- $311 million decrease in selling expenses, reflecting favorable currency; benefits from restructuring, an overall reduction in marketing spend and lower commissions.
- $177 million decrease in general and administrative expenses, reflecting favorable currency and benefits from restructuring and cost actions partially offset by higher compensation accruals.
- $103 million increase in bad debt expense, reflecting increased write-offs in North America and Europe.

Summary Costs and Expenses

The following is a summary of key metrics used to assess our performance:

	Year Ended December 31,			Change		Pro-forma[(1)] Change
(in millions)	2010	2009	2008	2010	2009	2010
Total Gross Margin	34.4%	39.7%	38.9%	(5.3)pts	0.8pts	(0.2)pts
RD&E % of revenue	3.6%	5.5%	5.0%	(1.9)pts	0.5pts	(0.4)pts
SAG % of revenue	21.2%	27.3%	25.7%	(6.1)pts	1.6pts	(0.9)pts
Operating Margin[(1)]	9.6%	6.8%	8.4%	2.8pts	(1.6)pts	1.0pts
Pre-tax income (loss) margin	3.8%	4.1%	(0.4)%	(0.3)pts	4.5pts	(2.2)pts

(1) See the “Non-GAAP Measures” section for additional information.

As previously noted, the acquisition of ACS increased the proportion of revenues from Services. Consistent with Services companies, this portion of our operations has a lower gross margin than our Technology segment, but also has both, lower SAG and R&D as a percent of revenue. Accordingly, in 2010 we began to assess our performance using an operating margin metric, which neutralizes this mix differential. Operating margin is an internal measurement metric and represents gross margin minus RD&E percentage of revenue and SAG percentage of revenue. (Refer to the “Non-GAAP Financial Measures” section for further information and the reconciliation of operating margin to pre-tax income (loss) margin).

During 2010, operating margin increased 2.8-percentage points or 1.0-percentage-points on a pro-forma [(1)] basis, as compared to 2009. The improvement reflects strong revenue growth and continued disciplined cost and expense management. During 2009, operating margin decreased 1.6-percentage points largely due to lower revenue as a result of the worldwide recession as well as the negative effects of currency on our product costs, which were only partially offset by savings from prior year restructuring actions.

Restructuring and Asset Impairment Charges

2010 Activity

During 2010 we recorded $483 million of net restructuring and asset impairment charges which included the following:

- $470 million of severance costs related to headcount reductions of approximately 9,000 employees. The costs associated with these actions applied about equally to North America and Europe, with approximately 20% related to our developing market countries. Approximately 50% of the costs were focused on gross margin improvements, 40% on SAG and 10% on the optimization of RD&E investments and impacted the following functional areas:
  - Services
  - Supply chain and manufacturing
  - Back office administration
  - Development and engineering
- $28 million for lease termination costs primarily reflecting the continued rationalization and optimization of our worldwide operating locations, including consolidations with ACS.
- $19 million loss associated with the sale of our Venezuelan subsidiary. The loss primarily reflects the write-off our Venezuelan net assets including working capital and long-lived assets. We will continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but will no longer have any direct or local operations in Venezuela. The sale of our operations and change in business model follows a decision by management in the fourth quarter 2010 to reduce the Company's future exposure and risk associated with operating in this unpredictable economy.

The above charges were partially offset by $41 million of net reversals for changes in estimated reserves from prior period initiatives.

We expect 2011 pre-tax savings of approximately $270 million from our 2010 restructuring actions and approximately $475 million of annualized savings once all actions are fully implemented.

2009 Activity

Restructuring activity was minimal in 2009, and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2008 Activity

During 2008, we recorded $357 million of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in North America and Europe. Focus areas for these actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources and training;
- Capturing efficiencies in technical services, managed services and supply chain and manufacturing infrastructure; and
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of $19 million and asset impairment charges of $53 million. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

Restructuring Summary

The restructuring reserve balance as of December 31, 2010, for all programs was $323 million, of which approximately $309 million is expected to be spent over the next twelve months. Refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Acquisition-Related Costs

Costs of $77 million were incurred during 2010 in connection with our acquisition of ACS. These costs include $53 million of transaction costs, which represent external costs directly related to completing the acquisition of ACS and primarily include expenditures for investment banking, legal, accounting and other similar services. Legal costs include costs associated with the ACS shareholders litigation which was settled in 2010. The remainder of the acquisition-related costs represents external incremental costs directly related to the integration of ACS and Xerox. These costs include expenditures for consulting, systems integration, corporate communication services and the consolidation of facilities as well as the expense associated with the performance shares that were granted to ACS management in connection with existing change-in-control agreements.

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

Amortization of Intangible Assets

During 2010, we recorded $312 million for the amortization of intangibles assets, which was $252 million higher than 2009. The increase primarily reflects the amortization of intangibles associated with our acquisition of ACS. Refer to Note 3 – Acquisitions in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Amortization of intangibles was $60 million in 2009 which was an increase of $6 million over 2008 primarily as a result of the full-year amortization of the assets acquired as part of our acquisitions in 2008.

Worldwide Employment

Worldwide employment of 136,500 as of December 31, 2010 increased approximately 83,000 from December 31, 2009, primarily due to the additional headcount related to the ACS acquisition partially offset by restructuring reductions. Worldwide employment was approximately 53,600 and 57,100 at December 31, 2009 and 2008, respectively.

Other Expenses, Net

Other expenses, net for the three years ended December 31, 2010 were as follows:

(in millions)	2010	2009	2008
Non-financing interest expense	$ 346	$ 256	$ 262
Interest income	(19)	(21)	(35)
Gain on sales of businesses and assets	(18)	(16)	(21)
Currency losses, net	11	26	34
ACS shareholders litigation settlement	36	—	—
Litigation matters	(4)	9	781
Loss on early extinguishment of debt	15	—	—
All Other expenses, net	22	31	12
Total Other Expenses, Net	$ 389	$ 285	$ 1,033

Non-financing interest expense: 2010 non-financing interest expense of $346 million increased $90 million from 2009 due to higher average debt balances, primarily resulting from the funding of the ACS acquisition, partially offset by the early extinguishment of certain debt instruments as well as the scheduled repayments of other debt.

In 2009 non-financing interest expense decreased compared to 2008, as interest expense associated with our $2.0 billion Senior Note offering for the funding of the ACS acquisition was more than offset by lower interest rates on the remaining debt.

Interest income: Interest income is derived primarily from our invested cash and cash equivalent balances. The decline in interest income in 2010 and 2009 was primarily due to lower average cash balances and rates of return.

Gain on sales of businesses and assets: Gains on sales of business and assets primarily consisted of the sales of certain surplus facilities in Latin America.

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

The 2010 net currency losses were primarily due to the currency devaluation in Venezuela. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the U.S. Dollar for a majority of our products. As a result of this devaluation, we recorded a currency loss of $21 million in the first quarter of 2010 for the re-measurement of our net Bolivar-denominated monetary assets. This loss was partially offset by a cumulative translation gain of $6 million that was recognized upon the repatriation of cash and liquidation of a foreign subsidiary.

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

The 2008 currency losses were primarily due to net re-measurement losses associated with our Yen-denominated payables, foreign currency-denominated assets and liabilities in our developing markets and the cost of hedging. The currency losses on Yen-denominated payables were largely limited to the first quarter 2008 as a result of the significant and rapid weakening of the U.S. Dollar and Euro versus the Yen.

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

Litigation matters: The 2010 and 2009 amounts for litigation matters primarily relate to changes in estimated probable losses for various legal matters.

In 2008 legal matters consisted of the following:

- $721 million reflecting provisions for the $670 million court approved settlement of *Carlson v. Xerox Corporation* and other pending securities-related cases, net of insurance recoveries.
- $36 million for probable losses on Brazilian labor-related contingencies. Following an assessment of the most recent trend in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of $36 million in the fourth quarter of 2008.
- $24 million associated with probable losses from various other legal matters.

Refer to Note 17 – Contingencies in the Consolidated Financial Statements for additional information regarding litigation against the Company.

All other expenses, net: All Other expenses in 2010 decreased primarily due to lower interest expense on the Brazil tax and labor contingencies.

All Other expenses, net in 2009 were $19 million higher than 2008, primarily due to fees associated with the sale of receivables, as well as an increase in interest expense related to Brazil tax and labor contingencies.

Income Taxes

	Year Ended December 31,								
	2010			2009			2008		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported	$ 815	$ 256	31.4%	$ 627	$ 152	24.2%	$ (79)	$ (231)	292.4%
Adjustments:									
Xerox restructuring charge(1)	483	166		(8)	(3)		426	134	
Acquisition-related costs	77	19		72	23		—	—	
Amortization of intangible assets	312	118		60	22		54	19	
Venezuela devaluation costs	21	—		—	—		—	—	
Medicare subsidy tax law change	—	(16)		—	—		—	—	
Equipment write-off	—	—		—	—		39	15	
Provision for securities litigation	—	—		—	—		774	283	
ACS shareholders' litigation settlement	36	—		—	—		—	—	
Loss on early extinguishment of debt	15	5		—	—		—	41	
Adjusted(2)	$ 1,759	$ 548	31.2%	$ 751	$ 194	25.8%	$ 1,214	$ 261	21.5%

The 2010 effective tax rate was 31.4%, or 31.2%(2) on an adjusted basis, which was lower than the U.S. statutory rate primarily due to the geographical mix of income before taxes and the related effective tax rates in those jurisdictions as well as the U.S. tax impacts on certain foreign income and tax law changes.

The 2009 effective tax rate was 24.2%, or 25.8%(2) on an adjusted basis, which was lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the settlement of certain previously unrecognized tax benefits partially offset by a reduction in the utilization of foreign tax credits.

The 2008 effective tax rate was 292.4%, or 21.5%(2) on an adjusted basis, which was lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions, the utilization of foreign tax credits and tax law changes.

Our effective tax rate will change based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the U.S. tax impacts on certain foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable. We anticipate that our effective tax rate for 2011 will be approximately 31%, excluding the effects of any discrete events.

Refer to Note 16 – Income and Other Taxes in the Consolidated Financial Statements for additional information.

(1) Income tax benefit from restructuring in 2010 includes a $19 million benefit from the sale of our Venezuelan operations.
(2) See the "Non-GAAP Measures" section for additional information.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31, 2010	2009	2008
Total equity in net income of unconsolidated affiliates	$ 78	$ 41	$ 113
Fuji Xerox after-tax restructuring costs(1)	38	46	16

(1) Represents our 25% share of Fuji Xerox after-tax restructuring costs. Amounts are included in Total equity in net income of unconsolidated affiliates.

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

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

The 2009 decrease of $72 million from 2008 was primarily due to Fuji Xerox's lower net income, which was negatively impacted by the weakness in the worldwide economy, as well as $46 million related to our share of Fuji Xerox after-tax restructuring costs.

Recent Accounting Pronouncements

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

Capital Resources and Liquidity

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2010, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,			Change	
(in millions)	2010	2009	2008	2010	2009
Net cash provided by operating activities	$ 2,726	$ 2,208	$ 939	$ 518	$ 1,269
Net cash used in investing activities	(2,178)	(343)	(441)	(1,835)	98
Net cash (used in) provided by financing activities	(3,116)	692	(311)	(3,808)	1,003
Effect of exchange rate changes on cash and cash equivalents	(20)	13	(57)	(33)	70
(Decrease) increase in cash and cash equivalents	(2,588)	2,570	130	(5,158)	2,440
Cash and cash equivalents at beginning of year	3,799	1,229	1,099	2,570	130
Cash and Cash Equivalents at End of Year	$ 1,211	$ 3,799	$ 1,229	$ (2,588)	$ 2,570

Cash Flows from Operating Activities

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

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

Net cash provided by operating activities was $2,208 million for the year ended December 31, 2009. The $1,269 million increase in cash from 2008 was primarily due to the following:

- $587 million increase due to the absence of payments for securities-related litigation settlements.
- $433 million increase as a result of lower inventory levels reflecting aggressive supply chain actions in light of lower sales volume.
- $410 million increase from accounts receivables reflecting the benefits from sales of accounts receivables, lower revenue and strong collection effectiveness.
- $177 million increase due to lower contributions to our defined pension benefit plans. The lower contributions are primarily in the U.S., as no contributions were required due to the availability of prior years' credit balances.
- $116 million increase due to lower net tax payments.
- $84 million increase due to higher net run-off of finance receivables.
- $64 million increase due to lower placements of equipment on operating leases, reflecting lower install activity.
- $440 million decrease in pre-tax income before litigation, restructuring and acquisition costs.
- $139 million decrease due to higher restructuring payments related to prior years' actions.
- $54 million decrease due to lower accounts payable and accrued compensation, primarily related to lower purchases and the timing of payments to suppliers.

Cash Flows from Investing Activities

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

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

Net cash used in investing activities was $343 million for the year ended December 31, 2009. The $98 million decrease in the use of cash from 2008 was primarily due to the following:

- $142 million decrease due to lower capital expenditures (including internal use software), reflecting very stringent spending controls.
- $21 million increase due to lower cash proceeds from asset sales.

Cash Flows from Financing Activities

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

- $3,980 million decrease due to net debt activity. 2010 includes the repayments of $1,733 million of ACS's debt on the acquisition date, $950 million of Senior Notes, $550 million early redemption of the 2013 Senior Notes, net payments of $110 million on other debt and $14 million of debt issuance costs for the bridge loan facility commitment, which was terminated in 2009. These payments were offset by net proceeds of $300 million from Commercial Paper issued under a program we initiated during the fourth quarter 2010. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short-term borrowings and $44 million of debt issuance costs for the Bridge Loan Facility commitment which was terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009.
- $66 million decrease, reflecting dividends on an increased number of outstanding shares as a result of the acquisition of ACS.
- $182 million increase due to proceeds from the issuance of common stock primarily as a result of the exercise of stock options issued under the former ACS plans as well as the exercise of stock options from several expiring grants.
- $58 million increase from lower net repayments on secured debt.

Net cash provided by financing activities was $692 million for the year ended December 31, 2009. The $1,003 million increase in cash from 2008 was primarily due to the following:

- $812 million increase because no purchases were made under our share repurchase program in 2009.
- $170 million increase from lower net repayments on secured debt.
- $21 million increase due to lower share repurchases related to employee withholding taxes on stock-based compensation vesting.
- $3 million decrease due to lower net debt proceeds. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short-term borrowings and $44 million of debt issuance costs for the Bridge Loan Facility commitment which was terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009. 2008 reflects the issuance of $1.4 billion in Senior Notes, $250 million in Zero Coupon Notes and net payments of $354 million on the Credit Facility and $370 million on other debt.

ACS Acquisition

On February 5, 2010 we acquired all of the outstanding equity of ACS in a cash-and-stock transaction valued at approximately $6.2 billion, net of cash acquired. The consideration transferred to acquire ACS was as follows:

(in millions)	February 5, 2010
Xerox common stock issued	$ 4,149
Cash consideration, net of cash acquired	1,495
Value of exchanged stock options	168
Series A convertible preferred stock	349
Net Consideration – Cash and Non-cash	**$ 6,161**

In addition, we also repaid $1.7 billion of ACS's debt at acquisition and assumed an additional $0.6 billion.

Refer to Note 3 – Acquisitions, in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Financing Activities, Credit Facility and Capital Markets

Customer Financing Activities

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

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

The following represents our investment in lease contracts as of December 31:

(in millions)	2010	2009
Total Finance receivables, net [(1)]	$ 6,620	$ 7,027
Equipment on operating leases, net	530	551
Total Finance Assets, net	$ 7,150	$ 7,578

(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 the Consolidated Balance Sheets as of December 31, 2010 and 2009.

$134 million of the $428 million decrease in Total finance assets, net is due to currency.

We maintain a certain level of debt, referred to as financing debt, in order to support our investment in our lease contracts. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets for this financing aspect of our business. Based on this leverage, the following represents the breakdown of Total debt between financing debt and core debt as of December 31:

(in millions)	2010	2009
Financing debt [(1)]	$ 6,256	$ 6,631
Core debt	2,351	2,633
Total Debt	$ 8,607	$ 9,264

(1) Financing debt includes $5,793 million and $6,149 million as of December 2010 and 2009, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of “equipment financing interest” expense. The remainder of the financing debt is associated with Equipment on operating leases.

The following summarizes our debt as of December 31:

(in millions)	2010	2009
Principal debt balance[(1)]	$ 8,380	$ 9,122
Net unamortized discount	(1)	(11)
Fair value adjustments	228	153
Total Debt	8,607	9,264
Less: Current maturities and short-term debt[(1)]	(1,370)	(988)
Total Long-term Debt[(1)]	$ 7,237	$ 8,276

(1) December 31, 2010 includes Commercial Paper of $300 million.

Sales of Accounts Receivable

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

	Year Ended December 31,		
(in millions)	2010	2009	2008
Accounts receivable sales	$ 2,374	$ 1,566	$ 717
Deferred proceeds	307	—	—
Fees associated with sales	15	13	4
Estimated increase on operating cash flows[1]	106	309	51

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

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

Financial Instruments

Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs

Refer to Note 19 – Shareholders' Equity – "Treasury Stock" in the Consolidated Financial Statements for additional information regarding our share repurchase programs.

Dividends

The Board of Directors declared aggregate dividends of $243 million and $152 million on common stock in 2010 and 2009, respectively. The increase in 2010 is primarily due to the common stock issued in connection with the ACS acquisition.

The Board of Directors declared aggregate dividends of $21 million on the Series A Convertible Preferred Stock in 2010. The preferred shares were issued in connection with the acquisition of ACS.

Refer to Note 3 – Acquisitions, in the Consolidated Financial Statements for additional information regarding the ACS acquisition.

Capital Market Activity

In 2010, we redeemed our $550 million 7.625% Senior Notes due in 2013. We incurred a loss on extinguishment of approximately $15 million, representing the call premium of approximately $7 million, as well as the write-off of unamortized debt costs of $8 million.

Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding 2010 Debt activity.

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

The following is a discussion of our liquidity position as of December 31, 2010:

- Total cash and cash equivalents was $1.2 billion and there were no outstanding borrowings or letters of credit under our $2 billion Credit Facility. The Credit Facility provides backup for our Commercial Paper ("CP") borrowings which amounted to $300 million at December 31, 2010.
- In October 2010, Xerox's Board of Directors authorized the company to issue Commercial Paper ("CP"), a liquidity vehicle that the Company has not used for several years. Aggregate CP and Credit Facility borrowings may not exceed $2 billion outstanding at any time. Under the company's private placement CP program as of December 31, 2010, we could issue CP up to a maximum amount of $1 billion. In February 2011 this amount was increased to $2 billion to be consistent with the Board authorization.
- Over the past three years we have consistently delivered strong cash flow from operations, driven by the strength of our annuity-based revenue model. Cash flows from operations were $2,726 million, $2,208 million and $939 million for the years ended December 31, 2010, 2009 and 2008, respectively. Cash flows from operations in 2008 included $615 million in net payments for securities litigation.
- Our principal debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows and includes $300 million of Commercial Paper in 2011 (in millions):

Year	Amount
2011	$ 1,370
2012	1,126
2013	412
2014	771
2015	1,251
2016	950
2017	501
2018	1,001
2019	650
2020 and thereafter	348
Total Debt	$ 8,380

Loan Covenants and Compliance

At December 31, 2010, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to prepay outstanding loans or to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

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

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2010, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2011	2012	2013	2014	2015	Thereafter
Total debt, including capital lease obligations (1)	$ 1,370	$ 1,126	$ 412	$ 771	$ 1,251	$ 3,450
Minimum operating lease commitments (2)	669	486	337	171	118	106
Liability to subsidiary trust issuing preferred securities (3)	—	—	—	—	—	650
Defined benefit pension plans	500	—	—	—	—	—
Retiree health payments	87	86	85	85	84	396
Estimated Purchase Commitments:						
Flextronics (4)	670	—	—	—	—	—
Fuji Xerox (5)	2,100	—	—	—	—	—
HPES Contracts (6)	69	23	6	—	—	—
Other IM service contracts(7)	150	140	122	89	12	36
Other (8)	7	7	1	—	—	—
Other Commitments(9):						
Surety Bonds	636	20	7	1	1	1
Letters of Credit	96	15	—	4	—	155
Total	$ 6,354	$ 1,903	$ 970	$ 1,121	$ 1,466	$ 4,794

(1) Refer to Note 11 - Debt in the Consolidated Financial Statements for additional information and interest payments related to total debt. Amounts above include principal portion only and $300 million of Commercial Paper in 2011.
(2) Refer to Note 6 - Land, Buildings and Equipment, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.
(3) Refer to Note 12 - Liability to Subsidiary Trust Issuing Preferred Securities in the Consolidated Financial Statements for additional information and interest payments (amounts above include principal portion only).
(4) Flextronics: We outsource certain manufacturing activities to Flextronics and are currently in the first of two one-year extensions of the Master Supply Agreement. The term of this agreement is three years, with two additional one year extension periods. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
(5) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
(6) HPES contract: We have an information management contract with HP Enterprise Services ("HPES") legal successor to Electronic Data Systems Corp. through March 2014. Services to be provided under this contract include support for European mainframe system processing, as well as workplace, service desk, voice and data network management. Although the HPES contract runs through March 2014, we may choose to transfer some of the services to internal Xerox providers before the HPES contract ends. There are no minimum payments required under this contract. The amounts disclosed in the table reflect our estimate of minimum payments for the periods shown. We can terminate the contract for convenience by providing sixty day's prior notice without paying a termination fee. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the HPES contract.
(7) IM ("Information Management") services: During 2010 and 2009, we terminated certain information management services provided under the HPES contract. Terminated services were either discontinued or we entered into new agreements for similar services with other providers. Services provided under these contracts include mainframe application processing, development and support; and mid-range applications processing and support. The contracts have various terms through 2015. Some of the contracts require minimum payments and require early termination penalties. The amounts disclosed in the table reflect our estimate of minimum payments.
(8) 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.
(9) Certain contracts, primarily governmental, require surety bonds or letters of credit as guarantee of performance. Generally these commitments have one year terms which are typically renewed annually. Refer to Note 17—Contingencies in the Consolidated Financial Statements for additional information.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2010 contributions for these plans were $237 million for our defined benefit pension plans and $92 million for our retiree health plans. In 2011 we expect, based on current actuarial calculations, to make contributions of approximately $500 million to our worldwide defined benefit pension plans and approximately $90 million to our retiree health benefit plans. Contributions to our defined benefit pension plans have increased from the prior year due to a decrease in the discount rate, prior years' investment performance as well as the requirement in the U.S. to make quarterly contributions for the current plan year. Contributions in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes. We currently expect contributions to our defined benefit pension plans to decline in years subsequent to 2011.

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

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling $2.1 billion, $1.6 billion and $2.1 billion in 2010, 2009 and 2008, respectively. Our purchase commitments with Fuji Xerox are entered into in the normal course of business and typically have a lead time of three months. Related party transactions with Fuji Xerox are discussed in Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2010, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,274 million, with the increase from the December 31, 2009 balance of $1,225 million primarily related to currency and current year interest indexation partially offset by matters that have been closed. With respect to the unreserved balance of $1,274 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, 2010 we had $276 million of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $19 million and additional letters of credit of approximately $160 million. 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 these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 17 – Contingencies in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated 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, 2010, we had $186 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off-Balance Sheet Arrangements

Although we rarely utilize off-balance sheet arrangements in our operations, we enter into operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 6 – Land, Buildings and Equipment, Net in the Consolidated Financial Statements. In addition, we have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further additional information.

See the table above for the Company's contractual cash obligations and other commercial commitments and Note 17 – Contingencies in the Consolidated Financial Statements for additional information regarding our guarantees, indemnifications and warranty liabilities.

Financial Risk Management

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

Recent market events have not caused us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2010, 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, 2010. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2010 would have a $528 million impact on our cumulative translation adjustment portion of equity. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox do Brasil, and translated into U.S. Dollars using the year-end exchange rates, was $5.3 billion at December 31, 2010.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt and liability to subsidiary trust issuing preferred securities for 2010, 2009 and 2008 approximated 5.8%, 6.1%, and 6.6%, 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, 2010, $952 million of our total debt carried variable interest rates, including the effect of pay variable interest rate swaps we use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2010, a 10% change in market interest rates would change the fair values of such financial instruments by approximately $194 million.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). Additionally, 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 to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below.

Adjusted Earnings Measures

To better understand the trends in our business and the impact of the ACS acquisition, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of the certain items as well as their related income tax effects:

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

The above have been adjusted for the following items:

- **Restructuring and asset impairment charges (including those incurred by Fuji Xerox):** Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.

- **Acquisition-related costs:** We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition-related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- **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. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.
- **Other discrete, unusual or infrequent costs and expenses:** In addition, we have also excluded the following items given the discrete, unusual or infrequent nature of these items on our results of operations:
  - **2010** (1) loss on early extinguishment of debt; (2) ACS shareholders litigation settlement; (3) Venezuela devaluation and (4) Medicare subsidy tax law change (income tax effect only); and
  - **2008** (1) provision for litigation matters; (2) equipment write-off and (3) settlement of unrecognized tax benefits.

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

See “Net Income” and “Income Taxes” sections in the M,D&A for the reconciliation of these Non-GAAP measures for Net Income / Earnings per share and the Effective tax rate, respectively, to the most directly comparable measures calculated and presented in accordance with GAAP.

The following is a reconciliation of the Non-GAAP measure of Operating margin to Pre-tax income margin, which is the most directly comparable measure calculated and presented in accordance with GAAP.

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009[1]	As Reported 2008	10 vs. 09 Change	Pro-forma Change	09 vs. 08 Change
Total Revenues	$ 21,633	$ 15,179	$ 21,082	$ 17,608	43%	3%	(14)%
Pre-tax Income	815	627	1,267	(79)	30%	(36)%	*
Adjustments:							
Xerox restructuring charge	483	(8)	(8)	429			
Acquisition-related costs	77	72	104	—			
Amortization of intangible assets	312	60	60	54			
Equipment write-off	—	—	—	39			
Other expenses, net[2]	389	285	382	1,033			
Adjusted Operating Income	$ 2,076	$ 1,036	$ 1,805	$ 1,476	100%	15%	(30)%
Pre-tax Income (Loss) Margin	3.8%	4.1%	6.0%	(0.4)%	(0.3) pts	(2.2) pts	4.5 pts
Adjusted Operating Margin	9.6%	6.8%	8.6%	8.4%	2.8 pts	1.0 pts	(1.6) pts

* Percent change not meaningful.

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

(2) 2008 includes provision for litigation matters of $774 million.

Pro-forma Basis

To better understand the trends in our business, we discuss our 2010 operating results by comparing them against adjusted 2009 results which include ACS historical results for the comparable period. Accordingly, we have included ACS's 2009 estimated results for the comparable period February 6, 2009 through December 31, 2009 in our reported 2009 results. We refer to comparisons against these adjusted 2009 results as "pro-forma" basis comparisons. ACS 2009 historical results have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition. We believe comparisons on a pro-forma basis are more meaningful than the actual comparisons given the size and nature of the ACS acquisition. We believe the pro-forma basis comparisons allow investors to have better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company's operations.

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

Total Xerox

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009 (1)	Change	Pro-forma Change
	Year Ended December 31,				
Revenue:					
Equipment sales	$ 3,857	$ 3,550	$ 3,550	9%	9%
Supplies, paper and other	3,377	3,096	3,234	9%	4%
Sales	7,234	6,646	6,784	9%	7%
Service, outsourcing and rentals	13,739	7,820	13,585	76%	1%
Finance income	660	713	713	(7)%	(7)%
Total Revenues	$ 21,633	$ 15,179	$ 21,082	43%	3%
Service, outsourcing and rentals	$ 13,739	$ 7,820	$ 13,585	76%	1%
Add: Finance income	660	713	713		
Add: Supplies, paper and other sales	3,377	3,096	3,234		
Annuity Revenue	$ 17,776	$ 11,629	$ 17,532	53%	1%
Gross Profit:					
Sales	$ 2,493	$ 2,251	$ 2,269		
Service, outsourcing and rentals	4,544	3,332	4,585		
Finance income	414	442	442		
Total	$ 7,451	$ 6,025	$ 7,296		
Gross Margin:					
Sales	34.5%	33.9%	33.4%	0.6 pts	1.1 pts
Service, outsourcing and rentals	33.1%	42.6%	33.8%	(9.5) pts	(0.7) pts
Finance income	62.7%	62.0%	62.0%	0.7 pts	0.7 pts
Total	34.4%	39.7%	34.6%	(5.3) pts	(0.2) pts
RD&E	$ 781	$ 840	$ 840		
RD&E % Revenue	3.6%	5.5%	4.0%	(1.9) pts	(0.4) pts
SAG	$ 4,594	$ 4,149	$ 4,651		
SAG % Revenue	21.2%	27.3%	22.1%	(6.1) pts	(0.9) pts

Services Segment

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009 (1)	Change	Pro-forma Change
	Year Ended December 31,				
Document Outsourcing	$ 3,297	$ 3,382	$ 3,382	(3)%	(3)%
Business Processing Outsourcing	5,112	94	4,751	*	8%
Information Technology Outsourcing	1,249	—	1,246	*	—%
Less: Intra-segment eliminations	(21)	—	—	*	*
Total Revenue – Services	$ 9,637	$ 3,476	$ 9,379	177%	3%
Segment Profit – Services	$ 1,132	$ 231	$ 1,008	390%	12%
Segment Margin – Services	11.7%	6.6%	10.7%	5.1 pts	1.0 pts

* Percent change not meaningful.

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

Forward-Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). We do not intend to update these forward-looking statements, except as required by law.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per-share data)	Year Ended December 31, 2010	2009	2008
Revenues			
Sales	$ 7,234	$ 6,646	$ 8,325
Service, outsourcing and rentals	13,739	7,820	8,485
Finance income	660	713	798
Total Revenues	21,633	15,179	17,608
Costs and Expenses			
Cost of sales	4,741	4,395	5,519
Cost of service, outsourcing and rentals	9,195	4,488	4,929
Equipment financing interest	246	271	305
Research, development and engineering expenses	781	840	884
Selling, administrative and general expenses	4,594	4,149	4,534
Restructuring and asset impairment charges	483	(8)	429
Acquisition-related costs	77	72	—
Amortization of intangible assets	312	60	54
Other expenses, net	389	285	1,033
Total Costs and Expenses	20,818	14,552	17,687
Income (Loss) before Income Taxes and Equity Income	815	627	(79)
Income tax expense (benefit)	256	152	(231)
Equity in net income of unconsolidated affiliates	78	41	113
Net Income	637	516	265
Less: Net income attributable to noncontrolling interests	31	31	35
Net Income Attributable to Xerox	$ 606	$ 485	$ 230
Basic Earnings per Share	$ 0.44	$ 0.56	$ 0.26
Diluted Earnings per Share	$ 0.43	$ 0.55	$ 0.26

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

XEROX CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data in thousands)	December 31, 2010	2009
Assets		
Cash and cash equivalents	$ 1,211	$ 3,799
Accounts receivable, net	2,826	1,702
Billed portion of finance receivables, net	198	226
Finance receivables, net	2,287	2,396
Inventories	991	900
Other current assets	1,126	708
Total current assets	8,639	9,731
Finance receivables due after one year, net	4,135	4,405
Equipment on operating leases, net	530	551
Land, buildings and equipment, net	1,671	1,309
Investments in affiliates, at equity	1,291	1,056
Intangible assets, net	3,371	598
Goodwill	8,649	3,422
Deferred tax assets, long-term	540	1,640
Other long-term assets	1,774	1,320
Total Assets	$ 30,600	$ 24,032
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 1,370	$ 988
Accounts payable	1,968	1,451
Accrued compensation and benefits costs	901	695
Unearned income	371	201
Other current liabilities	1,807	1,126
Total current liabilities	6,417	4,461
Long-term debt	7,237	8,276
Liability to subsidiary trust issuing preferred securities	650	649
Pension and other benefit liabilities	2,071	1,884
Post-retirement medical benefits	920	999
Other long-term liabilities	797	572
Total Liabilities	18,092	16,841
Series A Convertible Preferred Stock	349	—
Common stock	1,398	871
Additional paid-in capital	6,580	2,493
Retained earnings	6,016	5,674
Accumulated other comprehensive loss	(1,988)	(1,988)
Xerox shareholders' equity	12,006	7,050
Noncontrolling interests	153	141
Total Equity	12,159	7,191
Total Liabilities and Equity	$ 30,600	$ 24,032
Shares of common stock issued and outstanding	1,397,578	869,381

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

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2010	2009	2008
Cash Flows from Operating Activities:			
Net income	$ 637	$ 516	$ 265
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	1,097	698	669
Provision for receivables	180	289	199
Provision for inventory	31	52	115
Deferred tax (benefit) expense	(2)	120	(324)
Net gain on sales of businesses and assets	(18)	(16)	(21)
Undistributed equity in net income of unconsolidated affiliates	(37)	(25)	(53)
Stock-based compensation	123	85	85
Provision for litigation, net	36	—	781
Payments for litigation, net	(36)	(28)	(615)
Restructuring and asset impairment charges	483	(8)	429
Payments for restructurings	(213)	(270)	(131)
Contributions to pension benefit plans	(237)	(122)	(299)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(118)	467	57
Collections of deferred proceeds from sales of receivables	218	—	—
(Increase) decrease in inventories	(151)	319	(114)
Increase in equipment on operating leases	(288)	(267)	(331)
Decrease in finance receivables	129	248	164
(Increase) decrease in other current and long-term assets	(98)	129	(8)
Increase in accounts payable and accrued compensation	615	157	211
Decrease in other current and long-term liabilities	(9)	(100)	(174)
Net change in income tax assets and liabilities	229	(18)	(92)
Net change in derivative assets and liabilities	85	(56)	230
Other operating, net	70	38	(104)
Net cash provided by operating activities	2,726	2,208	939
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(355)	(95)	(206)
Proceeds from sales of land, buildings and equipment	52	17	38
Cost of additions to internal use software	(164)	(98)	(129)
Acquisitions, net of cash acquired	(1,734)	(163)	(155)
Net change in escrow and other restricted investments	20	(6)	8
Other investing, net	3	2	3
Net cash used in investing activities	(2,178)	(343)	(441)
Cash Flows from Financing Activities:			
Net proceeds (payments) on secured financings	1	(57)	(227)
Net (payments) proceeds on other debt	(3,057)	923	926
Common stock dividends	(215)	(149)	(154)
Preferred stock dividends	(15)	—	—
Proceeds from issuances of common stock	183	1	6
Excess tax benefits from stock-based compensation	24	—	2
Payments to acquire treasury stock, including fees	—	—	(812)
Repurchases related to stock-based compensation	(15)	(12)	(33)
Other financing	(22)	(14)	(19)
Net cash (used in) provided by financing activities	(3,116)	692	(311)
Effect of exchange rate changes on cash and cash equivalents	(20)	13	(57)
(Decrease) increase in cash and cash equivalents	(2,588)	2,570	130
Cash and cash equivalents at beginning of year	3,799	1,229	1,099
Cash and Cash Equivalents at End of Year	$ 1,211	$ 3,799	$ 1,229

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

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock(6)	Additional Paid-in Capital	Treasury Stock (6)	Retained Earnings	AOCL (1)	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2007	$ 920	$ 3,176	$ (31)	$ 5,288	$ (765)	$ 8,588	$ 103	$ 8,691
Net income	—	—	—	230	—	230	35	265
Translation adjustments	—	—	—	—	(1,364)	(1,364)	(3)	(1,367)
Cumulative effect of change in accounting principles	—	—	—	(25)	—	(25)	—	(25)
Changes in benefit plans (2)	—	—	—	—	(286)	(286)	—	(286)
Other unrealized losses, net	—	—	—	—	(1)	(1)	—	(1)
Comprehensive (Loss) Income						$ (1,446)	$ 32	$ (1,414)
Cash dividends declared - common stock(3)	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans	5	55	—	—	—	60	—	60
Payments to acquire treasury stock	—	—	(812)	—	—	(812)	—	(812)
Cancellation of treasury stock	(59)	(784)	843	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2008	$ 866	$ 2,447	$ —	$ 5,341	$ (2,416)	$ 6,238	$ 120	$ 6,358
Net income	—	—	—	485	—	485	31	516
Translation adjustments	—	—	—	—	595	595	1	596
Changes in benefit plans (2)	—	—	—	—	(169)	(169)	—	(169)
Other unrealized gains	—	—	—	—	2	2	—	2
Comprehensive Income						$ 913	$ 32	$ 945
Cash dividends declared - common stock(3)	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans	5	67	—	—	—	72	—	72
Tax loss on stock option and incentive plans, net	—	(21)	—	—	—	(21)	—	(21)
Distributions to noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Balance at December 31, 2009	$ 871	$ 2,493	$ —	$ 5,674	$ (1,988)	$ 7,050	$ 141	$ 7,191
Net income	—	—	—	606	—	606	31	637
Translation adjustments	—	—	—	—	(35)	(35)	—	(35)
Changes in benefit plans (2)	—	—	—	—	23	23	—	23
Other unrealized gains, net	—	—	—	—	12	12	—	12
Comprehensive Income						$ 606	$ 31	$ 637
ACS acquisition (4)	490	3,825	—	—	—	4,315	—	4,315
Cash dividends declared - common stock(3)	—	—	—	(243)	—	(243)	—	(243)
Cash dividends declared - preferred stock (5)	—	—	—	(21)	—	(21)	—	(21)
Stock option and incentive plans	37	256	—	—	—	293	—	293
Tax benefit on stock option and incentive plans, net	—	6	—	—	—	6	—	6
Distributions to noncontrolling interests	—	—	—	—	—	—	(19)	(19)
Balance at December 31, 2010	$ 1,398	$ 6,580	$ —	$ 6,016	$ (1,988)	$ 12,006	$ 153	$ 12,159

(1) Refer to Note 1 "Accumulated Other Comprehensive Loss (AOCL)" section for additional information.
(2) Refer to Note 15 - Employee Benefit Plans for additional information.
(3) Cash dividends declared on common stock of $0.0425 in each of the four quarters in 2008, 2009 and 2010.
(4) Refer to Note 3 – Acquisitions for additional information.
(5) Cash dividends declared on preferred stock of $12.22 per share in the first quarter of 2010 and $20 per share in each of the second, third and fourth quarters of 2010.
(6) Refer to Note 19 – Shareholders' Equity for rollforward of shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions, except per share data and unless otherwise indicated.

Note 1 – Summary of Significant Accounting Policies

References herein to “we,” “us,” “our,” the “Company,” and Xerox refer to Xerox Corporation and its consolidated subsidiaries unless the context specifically requires otherwise.

Description of Business and Basis of Presentation

We are a $22 billion global enterprise for business process and document management. We provide essential back-office support through our broad portfolio of technology, services and outsourcing offerings. We also offer extensive business process outsourcing and information technology outsourcing services through Affiliated Computer Services, Inc. (“ACS”), which we acquired in February 2010. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income from the date such determination is made.

For convenience and ease of reference, we refer to the financial statement caption “Income (Loss) before Income Taxes and Equity Income” as “pre-tax income” or “pre-tax loss” throughout the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States of America, requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in leases and other multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) revenue recognition for services under the percentage-of-completion method; (v) allowance for doubtful accounts; (vi) inventory valuation; (vii) restructuring and related charges; (viii) asset impairments; (ix) depreciable lives of assets; (x) useful lives of intangible assets; (xi) amortization period for customer contract costs (xii) pension and post-retirement benefit plans; (xiii) income tax reserves and valuation allowances; and (xiv) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes certain significant charges that require management estimates for the three years ended December 31, 2010:

Expense/(Income)	Years Ended December 31, 2010	2009	2008
Restructuring provisions and asset impairments	$ 483	$ (8)	$ 429
Provisions for receivables[1]	180	289	199
Provisions for litigation and regulatory matters	(4)	9	781
Provisions for obsolete and excess inventory	31	52	115
Depreciation and obsolescence of equipment on operating leases	313	329	298
Depreciation of buildings and equipment	379	247	257
Amortization of internal use software	70	53	56
Amortization of product software	7	5	—
Amortization of acquired intangible assets[2]	316	64	58
Amortization of customer contract costs	12	—	—
Defined pension benefits – net periodic benefit cost	304	232	174
Other post-retirement benefits – net periodic benefit cost	32	26	77
Deferred tax asset valuation allowance provisions	22	(11)	17

(1) Includes net receivable adjustments of $(8), $(2) and $11 for 2010, 2009 and 2008, respectively.
(2) Includes amortization of $4 for patents, which is included in cost of sales for each period presented.

Changes in Estimates

In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

New Accounting Standards and Accounting Changes

FASB Establishes Accounting Standards Codification™

In 2009, the FASB established the Accounting Standards Codification ("the Codification" or "ASC") as the official single source of authoritative U.S. generally accepted accounting principles ("GAAP"). All existing accounting standards are superseded. All other accounting guidance not included in the Codification is considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission ("SEC") guidance organized using the same topical structure in separate sections within the Codification. The FASB updates the Codification by issuing Accounting Standard Updates ("ASU's").

The Codification did not change GAAP, but only the way GAAP is organized and presented. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

Fair Value Accounting

In 2010, the FASB issued ASU No. 2010-06 which amended Fair Value Measurements and Disclosures – Overall (ASC Topic 820-10). This update required a gross presentation of activities within the Level 3 rollforward and added a new requirement to disclose transfers in and out of Level 1 and 2 measurements. The update also clarified the following existing disclosure requirements in ASC 820-10 regarding: i) the level of disaggregation of fair value measurements; and ii) the disclosures regarding inputs and valuation techniques. This update was effective for our fiscal year beginning January 1, 2010 except for the gross presentation of the Level 3 rollforward information, which is effective for our fiscal year beginning January 1, 2011. The principle impact from this update is to expand disclosures regarding our fair value measurements.

In 2009, the FASB issued the following updates that provide additional application guidance and require enhanced disclosures regarding fair value measurements:

- FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (ASC Topic 820-10-65).
- FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (ASC Topic 320-10-65).
- FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (ASC Topic 320-10-65).
- ASU No. 2009-05, “Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value.”

We adopted these updates in 2009 and the adoptions did not have a material effect on our financial condition or results of operations.

In 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (ASC Topic 820) which defined fair value, established a market-based framework or hierarchy for measuring fair value and expanded disclosures about fair value measurements. This guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It did not expand or require any new fair value measures; however the application of this statement may change current practice. We adopted this guidance for financial assets and liabilities effective January 1, 2008 and for non-financial assets and liabilities effective January 1, 2009. The adoption of this guidance, which primarily affected the valuation of our derivative contracts, did not have a material effect on our financial condition or results of operations.

Business Combinations

In 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (ASC Topic 805). This guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose the information needed to evaluate and understand the nature and financial effect of the business combination. We adopted this guidance effective January 1, 2009 and have applied it to all business combinations prospectively from that date. The impact of ASC Topic 805 on our consolidated financial statements depends upon the nature, terms and size of the acquisitions we consummate in the future.

Revenue Recognition

In 2009, the FASB issued the following ASUs:

- ASU No. 2009-13, Revenue Recognition (ASC Topic 605) - Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modified previous requirements by allowing the use of the “best estimate of selling price” in the absence of vendor-specific objective evidence (“VSOE”) or verifiable objective evidence (“VOE”) (now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when more objective evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

- ASU No. 2009-14, Software (ASC Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modified the scope of ASC subtopic 985-605 Software-Revenue Recognition to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality.

We adopted these updates effective for our fiscal year beginning January 1, 2010 and are applying them prospectively from that date for new or materially modified arrangements. The adoption of these updates did not have a material effect on our financial condition or results of operations. See “Summary of Accounting Policies- Revenue recognition – Multiple Element Arrangements” for further information regarding our adoption of ASU No. 2009-13.

With respect to the new software guidance in ASU No. 2009-14, the modification in the scope of the industry-specific software revenue recognition guidance did not result in a change in the recognition of revenue for our equipment and services. Software included within our equipment and services has generally been considered incidental and therefore has been, and will continue to be, accounted for as part of the sale of equipment or services. Most of our equipment have both software and non-software components that function together to deliver the equipment’s essential functionality. The software scope modification is also not expected to change the recognition of revenue for software accessories sold in connection with our equipment or free-standing software sales as these transactions will continue to be accounted for under the industry-specific software revenue recognition guidance as separate software elements. See “Summary of Accounting Policies- Revenue recognition – Software” for further information.

Other Accounting Changes

In 2010, the FASB issued the following codification updates:

- ASU 2010-19 which amended Foreign Currency (ASC Topic 830). The purpose of this update was to codify the SEC staff’s view on certain foreign currency issues related to investments in Venezuela. See “Foreign Currency Translation and Re-measurement” section below for further information regarding our operations in Venezuela.

- ASU 2010-20 which amended Receivables (ASC Topic 310) and requires significantly increased disclosures regarding the credit quality of an entity’s financing receivables and its allowance for credit losses. In addition, this update requires an entity to disclose credit quality indicators past due information, and modifications of its financing receivables. The disclosures are first effective for our 2010 Annual Report. The principal impact from this update was increased disclosures concerning the details of finance receivables and the related provisions and reserves for credit losses. See Note 4 – Receivables, Net for the disclosures required by this update.

In 2009, the FASB issued the following codification updates:

- ASU 2009-16 which amended Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets. This update removed the concept of a qualifying special-purpose entity and removed the exception from applying consolidation guidance to these entities. This update also clarified the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. We adopted this update effective for our fiscal year beginning January 1, 2010. Certain accounts receivable sale arrangements were modified in order to qualify for sale accounting under this updated guidance. The adoption of this update did not have a material effect on our financial condition or results of operations.

- ASU 2009-17 which amended Consolidations (ASC Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This update required an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. It also required an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. We adopted this update effective for our fiscal year beginning January 1, 2010 and the adoption did not have a material effect on our financial condition or results of operations.

Since the implementation of the codification, the FASB has issued several ASU’s. Except for the ASU’s discussed above, the remaining ASU’s issued by the FASB entail technical corrections to existing guidance or affect guidance related to unique/infrequent transactions or specialized industries/entities and therefore have minimal, if any, impact on the Company.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through services, the sale and rental of equipment, supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Services: Technical service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Revenues associated with outsourcing services are generally recognized as services are rendered, which is generally on the basis of the number of accounts or transactions processed. Information technology processing revenues are recognized as services are provided to the customer, generally at the contractual selling prices of resources consumed or capacity utilized by our customers. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on cost reimbursable contracts are recognized by applying an estimated factor to costs as incurred, determined by the contract provisions and prior experience. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer. Revenues on time and material contracts are recognized at the contractual rates as the labor hours and direct expenses are incurred.

In connection with our services arrangements, we incur costs to originate these long-term contracts and to perform the migration, transition and setup activities necessary to enable us to perform under the terms of the arrangement. We capitalize certain incremental direct costs that are related to the contract origination or transition, implementation and setup activities and amortize them over the term of the arrangement. From time to time, we also provide certain inducements to customers in the form of various arrangements, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. Customer-related deferred set-up/transition and inducement costs are being amortized over a weighted average period of approximately 8 years. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period.

Long-lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Revenues on certain fixed price contracts where we provide information technology system development and implementation services are recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract. These services require that we perform significant, extensive and complex design, development, modification or implementation of our customers' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with the agreement. During 2010, we recognized approximately $270 of revenue using the percentage-of-completion accounting method.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the period. Due to the long-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in income in the period in which the facts that give rise to that revision become known.

Revenues earned in excess of related billings are accrued, whereas billings in excess of revenues earned are deferred until the related services are provided. We recognize revenues for non-refundable, upfront implementation fees on a straight-line basis over the period between the initiations of the ongoing services through the end of the contract term.

Sales to distributors and resellers: We utilize distributors and resellers to sell certain of our products to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end-user customers who purchased equipment we sold to distributors or resellers. We compete with other third party leasing companies with respect to the lease financing provided to these end-user customers.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales terms.

Software: Most of our equipment has both software and non-software components that function together to deliver the equipment’s essential functionality and therefore they are accounted for together as part of the equipment sales or services revenues. Software accessories sold in connection with our equipment sales, as well as free-standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence (“VSOE”) of fair value. VSOE of fair value is based on the price charged when the deliverable is sold separately by us on a regular basis and not as part of the multiple-element arrangement. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Leases: The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: 1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Our leases in our Latin America operations have historically been recorded as operating leases given the cancellable nature of the contract or because the recoverability of the lease investment is deemed not to be predictable at lease inception.

For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases have original terms longer than five years. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values, if any, are established at lease inception using estimates of fair value at the end of the lease term.

The vast majority of our leases that qualify as sales-type are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. A portion of our business involves sales to governmental units. Governmental units are those entities that have statutorily defined funding or annual budgets that are determined by their legislative bodies. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependant on fiscal funding outside of a governmental unit's control, 2) those that can be cancelled if deemed in the best interest of the governmental unit's taxpayers or 3) those that must be renewed each fiscal year, given limitations that may exist on entering into multi-year contracts that are imposed by statute. In these circumstances, we carefully evaluate these contracts to assess whether cancellation is remote. The evaluation of a lease agreement with a renewal option includes an assessment as to whether the renewal is reasonably assured based on the apparent intent and our experience of such governmental unit. We further ensure that the contract provisions described above are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancelable and account for the lease as an operating lease.

After the initial lease of equipment to our customers, we may enter subsequent transactions with the same customer whereby we extend the term. Revenue from such lease extensions is typically recognized over the extension period.

Bundled Lease Arrangements: We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. Approximately 40% of our equipment sales revenue is related to sales made under bundled lease arrangements. These arrangements also typically include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price-per-page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract. Revenues under bundled arrangements are allocated considering the relative selling prices of the lease and non-lease deliverables included in the bundled arrangement. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of the supplies and non-maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements which are subjected to the accounting estimates noted above under "Leases."

Multiple Element Arrangements: We enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled lease arrangements, which typically include both lease deliverables and non-lease deliverables as described above.
- Sales of equipment with a related full-service maintenance agreement.
- Contracts for multiple types of outsourcing services, as well as professional and value-added services. For instance, we may contract for an implementation or development project and also provide services to operate the system over a period of time; or we may contract to scan, manage and store customer documents.

If a deliverable in a multiple-element arrangement is subject to specific guidance, such as leased equipment in our bundled lease arrangements (which is subject to specific leasing guidance) or accessory software (which is subject to software revenue recognition guidance), that deliverable is separated from the arrangement based on its relative selling price (the relative selling price method – see below) and accounted for in accordance with such specific guidance. The remaining deliverables in a multiple-element arrangement are accounted for based on the following guidance.

A multiple-element arrangement is separated into more than one unit of accounting if both of the following criteria are met:

- The delivered item(s) has value to the customer on a stand-alone basis; and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. If these criteria are not met, the arrangement is accounted for as one unit of accounting and the recognition of revenue is generally upon delivery/completion or ratably as a single unit of accounting over the contractual service period.

Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is determined using VSOE of the selling price, or TPE of the selling price. If neither VSOE nor TPE of the selling price exists for a deliverable, we will use our best estimate of the selling price for that deliverable.

The new guidance with respect to multiple-element arrangements did not change the allocation of arrangement consideration to the units of accounting or the pattern and timing of revenue recognition for those units. Normally our equipment and services will qualify as separate units of accounting, which are the majority of our multiple-element arrangements. In addition, under previous guidance, consideration for multiple-element arrangements was allocated based on VSOE or TPE, since products and services are generally sold separately or the selling price is determinable based on competitor prices for similar deliverables. As a result, for substantially all of our multiple-element arrangements, we will continue using VSOE or TPE to allocate the arrangement consideration to each respective deliverable.

Although infrequent, under previous guidance with respect to multiple-element arrangements, if we were unable to establish the selling price using VSOE or TPE, arrangement consideration was allocated using the residual method or recognized ratably over the contractual service period. However, since the new guidance allows for the use of our best estimate of the selling price in our allocation of arrangement consideration if VSOE or TPE is not determinable, we now use our best estimate of selling price in those infrequent situations. The objective of using estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. Estimated selling price based methodology generally will apply to an insignificant proportion of our arrangements with multiple deliverables.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money-market funds, and investments with original maturities of three months or less.

Restricted Cash and Investments

As more fully discussed in Note 17 – Contingencies, various litigation matters in Brazil require us to make cash deposits as a condition of continuing the litigation. In addition, several of our secured financing arrangements and other contracts require us to post cash collateral or maintain minimum cash balances in escrow. These cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released (refer to Note 10 – Supplementary Financial Information for classification of amounts).

Restricted cash amounts at December 31, 2010 and 2009 were as follows:

	2010	2009
Tax and labor litigation deposits in Brazil	$ 276	$ 240
Escrow and cash collections related to receivable sales	88	29
Other restricted cash	7	20
Total Restricted Cash and Investments	**$ 371**	**$ 289**

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value. Salvage value consists of the estimated market value (generally determined based on replacement cost) of the salvageable component parts, which are expected to be used in the remanufacturing process. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 5 – Inventories and Equipment on Operating Leases, Net and Note 6 – Land, Buildings and Equipment, Net for further discussion.

Software – Internal Use and Product

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented ("Internal Use Software"). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Useful lives of Internal Use Software generally vary from three to ten years.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility and amortize these costs based on estimated future revenues ("Product Software"). In recognition of the uncertainties involved in estimating revenue, that amortization is not less than straight-line amortization over the software's remaining estimated economic life. Useful lives of Product Software generally vary from three to ten years. Amounts capitalized for Product Software are included in Cash Flows from Operations.

Additions to:	2010	2009	2008
Internal use software	$ 164	$ 98	$ 129
Product software	70	1	1

	As of December 31,	
Capitalized costs, net:	2010	2009
Internal use software	$ 468	$ 354
Product software	145	10

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the 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 determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital and relevant market data.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company. Refer to Note 8 – Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal-use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of our Common shareholders' equity. Retirement of Treasury stock is recorded as a reduction of Common stock and Additional paid-in capital at the time such retirement is approved by our Board of Directors.

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

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Our RD&E expense for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
R&D	$ 653	$ 713	$ 750
Sustaining engineering	128	127	134
Total RD&E Expense	$ 781	$ 840	$ 884

Restructuring Charges

Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, plant closing or other activity, are recognized when they are incurred. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize severance costs when they are both probable and reasonably estimable. Refer to Note 9 – Restructuring and Asset Impairment Charges for further information.

Pension and Post-Retirement Benefit Obligations

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retiree medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated Other Comprehensive Loss, Net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases, and mortality. Actual returns on plan assets are not immediately recognized in our income statement, due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return to the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, rather than a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that would result from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments included in various published bond indexes, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds, as well as the expected timing of pension and other benefit payments. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligation, we consider the Moody’s Aa Corporate Bond Index and the International Index Company’s iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. Refer to Note 15 - Employee Benefit Plans for further information.

Each year, the difference between the actual return on plan assets and the expected return on plan assets, as well as increases or decreases in the benefit obligation as a result of changes in the discount rate are added to or subtracted from any cumulative actuarial gain or loss that arose in prior years. This resultant amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss and is subject to subsequent amortization to net periodic pension cost in future periods over the remaining service lives of the employees participating in the pension plan.

Foreign Currency Translation and Re-measurement

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain foreign subsidiaries that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in re-measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income.

Foreign currency losses were $11, $26 and $34 in 2010, 2009 and 2008, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income.

We sold our Venezuelan subsidiary during the fourth quarter of 2010 as part of our restructuring actions – refer to Note 9 – Restructuring and Asset Impairment Charges for further information. Prior to the sale, the U.S. Dollar was the functional currency of our Venezuelan operations. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the U.S. Dollar for the majority of our products. As a result of this devaluation, we recorded a currency loss of $21 in the first quarter of 2010 for the re-measurement of our net Bolivar denominated monetary assets. During 2010, the ability to obtain U.S. Dollars remained severely restricted. As a result, during 2010 we re-measured our net Bolivar denominated monetary transactions based on exchange rates available through alternative markets. The average rate during 2010 was approximately 5.77 Bolivars to the U.S. Dollar. The impact of this change in the exchange rate was not material to our results for the year since we derived less than 0.5% of our total revenues from Venezuela.

Accumulated Other Comprehensive Loss ("AOCL")

AOCL is composed of the following for the three years ending December 31, 2010:

	2010	2009	2008
Cumulative translation adjustments	$ (835)	$ (800)	$ (1,395)
Benefit plans net actuarial losses and prior service credits[1]	(1,167)	(1,190)	(1,021)
Other unrealized gains, net	14	2	—
Total Accumulated Other Comprehensive Loss	$ (1,988)	$ (1,988)	$ (2,416)

(1) Includes our share of Fuji Xerox.

Note 2 – Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. In 2010, as a result of our acquisition of ACS, we realigned our internal financial reporting structure (refer to Note 3 – Acquisitions for information regarding the ACS acquisition). We now report our financial performance based on the following two primary reportable segments – **Technology** and **Services**. The Technology segment represents the combination of our former Production and Office segments excluding the document outsourcing business, which was previously included in these reportable segments. The Services segment represents the combination of our document outsourcing business and ACS's business process outsourcing ("BPO") and information technology outsourcing ("ITO") businesses. We believe this realignment will help us to better manage our business and view the markets we serve, which are primarily centered around equipment systems and outsourcing services. Our Technology segment operations involve the sale and support of a broad range of document systems from entry level to the high-end. Our Services segment operations involve delivery of a broad range of outsourcing services including document, business processing and IT outsourcing services. Our 2009 and 2008 segment disclosures have been restated to reflect our new 2010 internal reporting structure.

Our **Technology** segment is centered on strategic product groups, which share common technology, manufacturing and product platforms. This segment includes the sale of document systems and supplies, technical services and product financing. Our products range from:

- "Entry," which includes A4 devices and desktop printers.
- "Mid-Range," which includes A3 devices that generally serve workgroup environments in mid to large enterprises. Mid-Range includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ppm priced at less than $100K.
- "High-End," which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

The **Services** segment comprises three outsourcing service offerings:

- Document Outsourcing (which includes Managed Print Services)
- Business Process Outsourcing
- Information Technology Outsourcing.

Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document-intensive business processes through automation and deployment of software applications and tools and the management of their printing needs. Business process outsourcing services include service arrangements where we manage a customer's business activity or process. Information technology outsourcing services include service arrangements where we manage a customer's IT-related activities, such as application management and application development, data center operations or testing and quality assurance.

The segment classified as **Other** includes several units, none of which meets the threshold for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems, non-allocated Corporate items including non-financing interest, as well as other items included in Other expenses, net.

Selected financial information for our Operating segments for the three years ended December 31, 2010 was as follows:

	Technology	Services	Other	Total
2010(1)				
Revenues	$ 9,790	$ 9,548	$ 1,635	$ 20,973
Finance income	559	89	12	660
Total Segment Revenues	$ 10,349	$ 9,637	$ 1,647	$ 21,633
Interest expense	$ 212	$ 28	$ 352	$ 592
Segment profit (loss) (2)	1,085	1,132	(342)	1,875
Equity in net income of unconsolidated affiliates	62	16	—	78
2009(1)				
Revenues	$ 9,470	$ 3,373	$ 1,623	$ 14,466
Finance income	597	103	13	713
Total Segment Revenues	$ 10,067	$ 3,476	$ 1,636	$ 15,179
Interest expense	$ 229	$ 36	$ 262	$ 527
Segment profit (loss) (2)	949	231	(342)	838
Equity in net income of unconsolidated affiliates	33	8	—	41
2008(1)				
Revenues	$ 11,041	$ 3,718	$ 2,051	$ 16,810
Finance income	673	110	15	798
Total Segment Revenues	$ 11,714	$ 3,828	$ 2,066	$ 17,608
Interest expense	$ 293	$ 5	$ 269	$ 567
Segment profit (loss) (2)	1,288	302	(245)	1,345
Equity in net income of unconsolidated affiliates	90	23	—	113

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our chief executive officer.
(2) Depreciation and amortization expense, which is recorded in cost of sales, RD&E and SAG are included in segment profit above. This information is neither identified nor internally reported to our chief executive officer. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

The following is a reconciliation of segment profit to pre-tax income (loss) for the three years ended December 31, 2010:

	2010	2009	2008
Total Segment Profit	$ 1,875	$ 838	$ 1,345
Reconciling items:			
Restructuring and asset impairment charges	(483)	8	(429)
Restructuring charges of Fuji Xerox	(38)	(46)	(16)
Acquisition-related costs	(77)	(72)	—
Amortization of intangible assets	(312)	(60)	(54)
Venezuelan devaluation costs	(21)	—	—
ACS shareholders' litigation settlement	(36)	—	—
Litigation matters (1)	—	—	(774)
Loss on early extinguishment of debt	(15)	—	—
Equity in net income of unconsolidated affiliates	(78)	(41)	(113)
Equipment write-off and other	—	—	(38)
Pre-tax Income (Loss)	$ 815	$ 627	$ (79)

(1) The 2008 provision for litigation represents $670 for the *Carlson v. Xerox Corporation* court approved settlement, as well as provisions for other litigation matters including $36 for the probable loss related to the Brazil labor related contingencies.

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows for the three years ended December 31, 2010:

	Revenues			Long-Lived Assets (1)		
	2010	2009	2008	2010	2009	2008
United States	$ 13,801	$ 8,156	$ 9,122	$ 1,764	$ 1,245	$ 1,386
Europe	5,332	4,971	6,011	741	717	680
Other areas	2,500	2,052	2,475	309	262	248
Total Revenues and Long-Lived Assets	$ 21,633	$ 15,179	$ 17,608	$ 2,814	$ 2,224	$ 2,314

(1) Long-lived assets are comprised of (i) land, buildings and equipment, net, (ii) equipment on operating leases, net, (iii) internal use software, net and (iv) product software, net.

Note 3 – Acquisitions

Affiliated Computer Services, Inc.

On February 5, 2010 ("the acquisition date"), we acquired all of the outstanding equity of ACS in a cash-and-stock transaction valued at approximately $6.5 billion. ACS provides business process outsourcing and information technology ("ITO") services and solutions to commercial and government clients worldwide. ACS delivers a full range of BPO and IT services, as well as end-to-end solutions to the public and private sectors and supports a variety of industries including education, energy, financial, government, healthcare, retail and transportation. ACS's revenues for the calendar year ended December 31, 2009 were $6.6 billion and they employed 78,000 people and operated in over 100 countries on the acquisition date.

Equity transaction: Each outstanding share of ACS Class A and Class B common stock was converted into a combination of 4.935 shares of Xerox common stock and $18.60 in cash for a combined value of $60.40 per share, or approximately $6.0 billion based on the closing price of Xerox common stock of $8.47 on the acquisition date. 489,802 thousand shares of Xerox common stock were issued. We also issued convertible preferred stock with a liquidation value of $300 and a fair value of $349 as of the acquisition date to ACS's Class B shareholder.

All ACS stock options outstanding at closing were assumed by Xerox and converted into Xerox stock options. ACS stock options issued prior to August 2009, whether or not then vested and exercisable, became fully vested and exercisable in accordance with preexisting change-in-control provisions. ACS stock options issued in August 2009 will continue to vest and become exercisable for Xerox common stock in accordance with their original terms. For the August 2009 options, the portion of the estimated fair value associated with service prior to the close was recorded as part of the acquisition fair value with the remainder to be recorded as future compensation cost over the remaining vesting period. Each assumed ACS option became exercisable for 7.085289 Xerox common shares for a total of 96,662 thousand shares at a weighted average exercise price of $6.79 per option. The estimated fair value associated with the Xerox options issued in exchange for the ACS options was approximately $222 based on a Black-Scholes valuation model (refer to Note 19 – Shareholders' Equity for assumptions). Approximately $168 of the estimated fair value is associated with options issued prior to August 2009, which became fully vested and exercisable upon the acquisition in accordance with preexisting change-in-control provisions, was recorded as part of the acquisition fair value. The remaining $54 is associated with options issued in August 2009 which continue to vest according to their original terms and therefore is being expensed as compensation cost over the remaining vesting period which is estimated to be approximately 3.9 years.

Fair value of consideration transferred: The table below details the consideration transferred to acquire ACS (certain amounts reflect rounding adjustments):

(shares in millions)	Conversion Calculation	Estimated Fair Value	Form of Consideration
ACS Class A shares outstanding as of the acquisition date	92.7		
ACS Class B shares outstanding as of the acquisition date	6.6		
Total ACS Shares Outstanding	99.3		
Xerox stock price as of the acquisition date	$ 8.47		
Multiplied by the exchange ratio	4.935		
Equity Consideration per Common Share Outstanding	$ 41.80	$ 4,149	Xerox common stock
Cash Consideration per Common Share Outstanding	$ 18.60	$ 1,846	Cash
ACS stock options exchanged for a Xerox equivalent stock option	13.6		
Multiplied by the option exchange ratio	7.085289		
Total Xerox Equivalent Stock Options	96.7	$ 168	Xerox stock options
Xerox Preferred Stock Issued to ACS Class B Shareholder		$ 349	Xerox preferred stock
Total Fair Value of Consideration Transferred		$ 6,512	

Recording of assets acquired and liabilities assumed: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed as of the acquisition date:

	February 5, 2010
Assets	
Cash and cash equivalents	$ 351
Accounts receivable	1,344
Other current assets	389
Land, buildings and equipment	416
Intangible assets	3,035
Goodwill	5,127
Other long-term assets	258
Liabilities	
Other current liabilities	645
Deferred revenue	161
Deferred tax liability	990
Debt	2,310
Pension liabilities	39
Other long-term liabilities	263
Net Assets Acquired	$ 6,512

Intangible assets: The following table is a summary of the fair value estimates of the identifiable intangible assets and their weighted-average useful lives:

	Estimated Fair Value	Estimated Useful Life
Customer relationships/contracts	$ 2,920	11.6 years
ACS tradename	100	4 years
Buck tradename	10	(1)
Title plant	5	(2)
Total Identifiable Intangible Assets	$ 3,035	

(1) Determined to be an indefinite-lived asset.
(2) Title plant is not subject to depreciation or charged to earnings based on ASC Topic 950 – Financial Services – Title Plant, unless circumstances indicate that the carrying amount of the title plant has been impaired.

Deferred revenue: As part of our purchase price allocation, we revalued ACS's existing deferred revenue to fair value based on the remaining post-acquisition service obligation. The total revaluation adjustment was $133 ($53 current; $80 non-current) and represented the value for services already rendered for which no future obligation to provide services remains. Post acquisition, revenue will accordingly be reduced for the value of this adjustment. Accordingly, the remaining balance of deferred revenue included in the above of $161 ($145 current; $16 non-current) primarily represents our estimate of the fair value for the remaining service obligation.

Deferred taxes: We provided deferred taxes and recorded other tax adjustments as part of the accounting for the acquisition primarily related to the estimated fair value adjustments for acquired intangible assets, as well as the elimination of a previously recorded deferred tax liability associated with ACS's historical goodwill that was tax deductible. In addition, we also provided deferred taxes of $48 for the outside basis difference associated with certain foreign subsidiaries of ACS for which no taxes have been previously provided. We expect to reverse the outside basis difference primarily through repatriating earnings from those subsidiaries in lieu of permanently reinvesting them as well as through the reorganization of those subsidiaries.

Debt: We repaid $1.7 billion of ACS's debt and assumed an additional $0.6 billion. The following is a summary of the third-party debt assumed and not repaid in connection with the close of the acquisition:

4.70% Senior Notes due June 2010	$ 250
5.20% Senior Notes due June 2015	250
Capital lease obligations and other debt	64
Principal debt balance	564
Fair value adjustments	13
Total Debt Assumed But Not Repaid	**$ 577**

Pension obligations: We assumed several defined benefit pension plans covering the employees of ACS's human resources consulting and outsourcing business in the U.S., U.K., Germany and Canada. The plans in the U.S. and Canada are both funded and unfunded; the plan in the U.K. is funded; and the plan in Germany is unfunded.

The following is a summary of the funded position of the assumed ACS plans as of the acquisition date, as well as associated weighted-average assumptions used to determine benefit obligations:

	Estimated Fair Value
Projected benefit obligation	$ 142
Fair value of plan assets	111
Net Unfunded Status	$ (31)

Amounts recognized in the Consolidated Balance Sheets:

Other long-term assets	$ 8
Pension liabilities	(39)
Net Amount Recognized	$ (31)

Weighted average assumption used to determine benefit obligations at the acquisition date and net periodic benefit cost from the acquisition date through December 31, 2010:

Discount rate	5.7%
Expected rate of return on plan assets	6.9%
Rate of compensation increase	3.9%

Change-in-control liabilities: We assumed liabilities due under contractual change-in-control provisions in employment agreements of certain ACS employees and its Chairman of approximately $95 ($15 current; $80 non-current). The liabilities include accruals for related excise and other taxes we are obligated to pay on these obligations.

Contingent consideration: Although there is no contingent consideration associated with our acquisition of ACS, ACS is obligated to make contingent payments in connection with prior acquisitions upon satisfaction of certain contractual criteria. Contingent consideration obligations must be recorded at their respective fair value. As of the acquisition date, the maximum aggregate amount of ACS's outstanding contingent obligations to former shareholders of acquired entities was approximately $46, of which $11 was recorded representing the estimated fair value of this obligation. We made contingent payments of $8 in 2010 which are reflected within investing activities in the Consolidated Statements of Cash Flows. As of December 31, 2010, the maximum aggregate amount of the outstanding contingent obligations to former shareholders of acquired entities was approximately $5.

Goodwill: Goodwill in the amount of $5.1 billion was recognized for this acquisition and is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of ACS includes:

- the expected synergies and other benefits that we believe will result from combining the operations of ACS with the operations of Xerox;
- any intangible assets that do not qualify for separate recognition such as the assembled workforce; and
- the value of the going-concern element of ACS's existing businesses (the higher rate of return on the assembled collection of net assets versus acquiring all of the net assets separately).

Goodwill of $2.3 billion is deductible for tax purposes as a result of previous taxable acquisitions made by ACS. While the allocation of goodwill among reporting units is not complete, we expect the majority of the goodwill will be related to our Services segment.

Pro-forma impact of the acquisition: The unaudited pro-forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2010 and 2009. The pro-forma results include the amortization associated with an estimate for the acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for unearned revenue, software and land, buildings and equipment. To better reflect the combined operating results, material non-recurring charges directly attributable to the transaction have been excluded. In addition, the pro-forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro-forma financial information below is not necessarily indicative of future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010 or 2009.

	2010	2009
Revenue	$ 22,252	$ 21,781
Net income – Xerox	592	795
Basic earnings per-share	0.41	0.57
Diluted earnings per-share	0.41	0.56

Note: The pro-forma information presented above is on a different basis than the pro-forma information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report for the year ended December 31, 2010.

Other Acquisitions

Irish Business Systems Limited: In January 2010, we acquired Irish Business Systems Limited ("IBS") for approximately $29 net of cash acquired. This acquisition expands our reach into the small and mid-size business market in Ireland. IBS has eight offices located throughout Ireland and is a managed print services provider and the largest independent supplier of digital imaging and printing solutions in Ireland.

Veenman B.V.: In 2008, we acquired Veenman B.V. ("Veenman"), expanding our reach into the small and mid-sized business market in Europe, for approximately $69 (€44 million) in cash, including transaction costs. Veenman is the Netherlands' leading independent distributor of office printers, copiers and multifunction devices serving small and mid-size businesses.

ACS Acquisitions

In November 2010, ACS acquired **Spur Information Solutions**, one of the United Kingdom's leading providers of computer software used for parking enforcement, for $12 in cash. The acquisition strengthens ACS's broad portfolio of services that support the transportation industry.

In October 2010, ACS acquired **TMS Health ("TMS")**, a U.S. based teleservices company that provides customer care services to the pharmaceutical, biotech and healthcare industries, for approximately $48 in cash. Through TMS, ACS improves communication between pharmaceutical companies, physicians, consumers and pharmacists. By providing customer education, product sales and marketing and clinical trial solutions, ACS builds on the IT and BPO services it already delivers to the healthcare and pharmaceutical industries.

In July 2010, ACS acquired **ExcellerateHRO, LLP ("EHRO")**, a global benefits administration and relocation services provider, for $125 net of cash acquired. This acquisition establishes ACS as one of the world's largest pension plan administrators and as a leading provider of outsourced health and welfare and relocation services. The purchase price was primarily allocated to intangible assets (consisting of customer relationships of $32 and software of $8) and goodwill of $77 based on third-party valuations and management's estimates.

GIS Acquisitions

In September 2010, GIS acquired **Georgia Duplicating Products**, an office equipment supplier, for approximately $21 net of cash acquired.

In February 2009, GIS acquired **ComDoc, Inc.** ("ComDoc") for approximately $145 in cash. ComDoc is one of the larger independent office technology dealers in the U.S. and expands GIS's coverage in Ohio, Pennsylvania, New York and West Virginia. GIS also acquired another business in 2009 for $18 in cash.

In 2008, GIS acquired **Saxon Business Systems**, an office equipment supplier in Florida, for approximately $69 in cash, including transaction costs. GIS acquired three other similar businesses in 2008 for a total of $17 in cash.

These acquisitions continue the development of GIS's national network of office technology suppliers to serve its expanding base of small and mid-size businesses.

Summary – Other Acquisitions

The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. Excluding ACS, our remaining 2010 acquisitions contributed aggregate revenues of approximately $140 to our 2010 total revenues from their respective acquisition dates. The ACS acquisitions are included within our Services segment while the other acquisitions, including the GIS acquisitions, are primarily included within our Technology segment. The purchase prices were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

Note 4 – Receivables, Net

Accounts Receivable

Accounts receivable, net at December 31, 2010 and 2009 were as follows:

	2010	2009
Amounts billed or billable	$ 2,491	$ 1,850
Unbilled amounts	447	—
Allowance for doubtful accounts	(112)	(148)
Accounts Receivable, net	$ 2,826	$ 1,702

Unbilled amounts include amounts associated with percentage-of-completion accounting, and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at December 31, 2010 and 2009 were approximately $1,066 and $603, respectively.

Finance Receivables

Finance receivables result from installment arrangements and sales-type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net at December 31, 2010 and 2009 were as follows:

	2010	2009
Gross receivables	$ 7,914	$ 8,427
Unearned income	(1,093)	(1,197)
Subtotal	6,821	7,230
Residual values	11	19
Allowance for doubtful accounts	(212)	(222)
Finance receivables, net	6,620	7,027
Less: Billed portion of finance receivables, net	(198)	(226)
Less: Current portion of finance receivables not billed, net	(2,287)	(2,396)
Finance Receivables Due After One Year, net	$ 4,135	$ 4,405

Contractual maturities of our gross finance receivables as of December 31, 2010 were as follows (including those already billed of $198):

2011	2012	2013	2014	2015	Thereafter	Total
$ 2,978	$ 2,178	$ 1,527	$ 862	$ 330	$ 39	$ 7,914

Provisions for Losses on Uncollectible Receivables

Accounts Receivable: The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

Finance Receivables: Finance receivables include sales-type leases, direct financing leases and installment loans. Our finance receivable portfolios are primarily in the US, Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis.

We establish credit limits based upon an initial evaluation of the customer's credit quality and adjust that limit accordingly based upon ongoing credit evaluations of the customer including payment history and changes in credit quality.

The allowance for doubtful accounts and credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine allowance for credit losses. This loss rate is primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups. The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Since our allowance for doubtful Finance receivables is determined by country, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of those countries/regions. The economies of the U.S., Canada and Europe continue to recover from the financial economic crises and recession which began in late 2008. Although loss rates across all our portfolio segments have declined in 2010, loss rates continue to be elevated as compared to prior years. Since Europe is composed of varied countries and regional economies, the risk profile within our European portfolio segment is somewhat more diversified due to the varying economic conditions among the countries. Credit losses have increased within southern Europe given the current economic difficulties facing the countries in this region.

The following table is a rollforward of the allowance for doubtful finance receivables for the years ended December 31, 2010 and 2009, as well as the related investment in finance receivables:

	United States	Canada	Europe	Other(2)	Total
Allowance for Credit Losses:					
Balance December 31, 2008	$ 93	$ 24	$ 78	$ 3	$ 198
Provision	77	21	78	1	177
Charge-offs	(79)	(19)	(73)	—	(171)
Recoveries and other(1)	8	7	4	(1)	18
Balance December 31, 2009	$ 99	$ 33	$ 87	$ 3	$ 222
Provision	47	22	59	—	128
Charge-offs	(58)	(23)	(59)	—	(140)
Recoveries and other(1)	3	5	(6)	—	2
Balance December 31, 2010	$ 91	$ 37	$ 81	$ 3	$ 212
Finance receivables collectively evaluated for impairment:					
December 31, 2009	$ 3,474	$ 873	$ 2,832	$ 51	$ 7,230
December 31, 2010	$ 3,177	$ 872	$ 2,706	$ 66	$ 6,821

(1) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.
(2) Includes developing market countries and smaller units.

In the U.S. and Canada, customers are further evaluated or segregated by class based on industry sector. The primary customer classes are Finance & Other Services, Government & Education; Graphic Arts; Industrial; Healthcare and Other. In Europe, customers are further grouped by class based on the country or region of the customer. The primary customer classes include the U.K./Ireland, France and the following European regions - Central, Nordic and Southern. These groupings or classes are used to understand the nature and extent of our exposure to credit risk arising from finance receivables.

We evaluate our customers based on the following credit quality indicators:

- **Investment grade:** This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at less than 1%.
- **Non-investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a S&P rating below BBB-. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.
- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded, during the term of the lease, from investment and non-investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

The credit quality indicators are updated at least annually. The credit quality of any given customer can significantly change during the life of the portfolio. Details about our finance receivables portfolio based by industry and by credit quality indicators are as follows:

	As of December 31, 2010			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
United States:				
Finance and Other Services	$ 360	$ 401	$ 190	$ 951
Government and Education	849	21	7	877
Graphics Arts	147	217	156	520
Industrial	206	91	38	335
Healthcare	134	48	32	214
Other	102	109	69	280
Total United States	1,798	887	492	3,177
Canada:				
Finance and Other Services	150	127	56	333
Government and Education	127	12	3	142
Graphics Arts	32	35	48	115
Industrial	57	47	30	134
Other	88	47	13	148
Total Canada	454	268	150	872
Europe:				
France	219	374	82	675
U.K./Ireland	206	164	51	421
Central(1)	297	551	65	913
Southern(2)	263	237	81	581
Nordics(3)	50	63	3	116
Total Europe	1,035	1,389	282	2,706
Other	33	33	—	66
Total	$ 3,320	$ 2,577	$ 924	$ 6,821

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

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that were more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured. The aging of our billed finance receivables is as follows:

	As of December 31, 2010						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed Finance Receivables	Unbilled Finance Receivables	Total Finance Receivables	Finance Receivables >90 Days and Accruing
United States:							
Finance and Other Services	$ 23	$ 5	$ 2	$ 30	$ 921	$ 951	$ 23
Government and Education	26	6	3	35	842	877	40
Graphics Arts	21	3	1	25	495	520	16
Industrial	11	2	1	14	321	335	10
Healthcare	6	2	1	9	205	214	9
Other	8	2	—	10	270	280	8
Total United States	95	20	8	123	3,054	3,177	106
Total Canada	3	3	1	7	865	872	28
Europe:							
France	1	1	—	2	673	675	5
U.K./Ireland	4	1	1	6	415	421	7
Central	9	2	4	15	898	913	39
Southern	32	10	15	57	524	581	99
Nordics	1	—	—	1	115	116	2
Total Europe	47	14	20	81	2,625	2,706	152
Other	2	—	—	2	64	66	—
Total	$ 147	$ 37	$ 29	$ 213	$ 6,608	$ 6,821	$ 286

Accounts Receivable Sales Arrangements

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third-parties, on an on-going basis, certain accounts receivable without recourse. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days. The agreements involve the sale of entire groups of accounts receivable for cash. In certain instances, a portion of the sales proceeds is held back and deferred until collection of the related receivables by the purchaser. Such holdbacks are not considered legal securities nor are they certificated. Deferred proceeds on accounts receivable sales in 2010 amounted to $307. We report collections on such receivables as operating cash flows in the Consolidated Statements of Cash Flows, because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. These receivables are included in the caption “Other current assets” in the accompanying Consolidated Balance Sheets and were $90 at December 31, 2010. Under most of the agreements, we also continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Accounts receivable sales for the three years ended December 31, 2010 were as follows:

	2010	2009	2008
Accounts receivable sales	$ 2,374	$ 1,566	$ 717
Deferred proceeds	307	—	—
Fees associated with sales	15	13	4
Estimated increase on operating cash flows (1)	106	309	51

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

Note 5 – Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2010 and 2009 were as follows:

	2010	2009
Finished goods	$ 858	$ 772
Work-in-process	46	43
Raw materials	87	85
Total Inventories	$ 991	$ 900

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non-cash adjustment. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. We recorded $31, $52 and $115 in inventory write-down charges for the years ended December 31, 2010, 2009 and 2008, respectively.

Equipment on operating leases and the related accumulated depreciation at December 31, 2010 and 2009 were as follows:

	2010	2009
Equipment on operating leases	$ 1,561	$ 1,583
Accumulated depreciation	(1,031)	(1,032)
Equipment on Operating Leases, net	$ 530	$ 551

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense for equipment on operating leases was $313, $329 and $298 for the years ended December 31, 2010, 2009 and 2008, respectively. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2011	2012	2013	2014	2015	Thereafter
$ 389	$ 279	$ 180	$ 87	$ 41	$ 14

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2010, 2009 and 2008 amounted to $133, $125 and $117, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net at December 31, 2010 and 2009 were as follows:

	Estimated Useful Lives (Years)	2010	2009
Land	—	$ 63	$ 45
Buildings and building equipment	25 to 50	1,133	1,192
Leasehold improvements	Varies	455	328
Plant machinery	5 to 12	1,607	1,686
Office furniture and equipment	3 to 15	1,306	994
Other	4 to 20	115	100
Construction in progress	—	67	33
Subtotal		4,746	4,378
Accumulated depreciation		(3,075)	(3,069)
Land, Buildings and Equipment, net		$ 1,671	$ 1,309

Depreciation expense and operating lease rent expense for the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Depreciation expense	$ 379	$ 247	$ 257
Operating lease rent expense (1)	632	267	252

(1) We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2010 were as follows:

2011	2012	2013	2014	2015	Thereafter
$ 669	$ 486	$ 337	$ 171	$ 118	$ 106

We have an information management contract with HP Enterprise Services ("HPES"), the legal successor to Electronic Data Systems Corp. through March 2014. Services to be provided under this contract include support for European mainframe system processing, as well as workplace, service desk and voice and data network management. Although the HPES contract runs through March 2014, we may choose to transfer some of the services to internal Xerox providers before the HPES contract ends. There are no minimum payments required under this contract. We can terminate the contract for convenience without paying a termination fee by providing sixty days prior notice. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the HPES contract. Payments to HPES, which are primarily recorded in selling, administrative and general expenses, were $98, $198 and $279 for the years ended December 31, 2010, 2009 and 2008, respectively.

During 2010 and 2009 we terminated several agreements with HPES for information management services and either terminated the services or entered into new agreements for similar services with several alternative providers. Services provided under these new contracts include mainframe application processing, development and support and mid-range applications processing and support. These contracts have various terms through 2015. Some of the contracts require minimum payments and include termination penalties. Payments for information management services which are primarily recorded in selling, administrative and general expenses were $44 and $26 for the years ended December 31, 2010 and 2009, respectively.

Note 7 – Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest at December 31, 2010 and 2009 were as follows:

	2010	2009
Fuji Xerox	$ 1,217	$ 998
All other equity investments	74	58
Investments in Affiliates, at Equity	$ 1,291	$ 1,056

Our equity in net income of our unconsolidated affiliates for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Fuji Xerox	$ 63	$ 30	$ 101
Other investments	15	11	12
Total Equity in Net Income of Unconsolidated Affiliates	$ 78	$ 41	$ 113

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand and other areas of the Pacific Rim. Our investment in Fuji Xerox of $1,217 at December 31, 2010, differs from our implied 25% interest in the underlying net assets, or $1,335 due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox, partially offset by goodwill related to the Fuji Xerox investment established at the time we acquired our remaining 20% of Xerox Limited from The Rank Group plc.

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different than that implied by our 25% ownership interest. Equity income for 2010 and 2009 includes after-tax restructuring charges of $38 and $46, respectively, primarily reflecting employee-related costs as part of Fuji Xerox's continued cost-reduction actions to improve its competitive position.

Condensed financial data of Fuji Xerox for the three calendar years ended December 31, 2010 was as follows:

	2010	2009	2008
Summary of Operations			
Revenues	$ 11,276	$ 9,998	$ 11,190
Costs and expenses	10,659	9,781	10,451
Income before income taxes	617	217	739
Income tax expense	291	67	287
Net Income	326	150	452
Less: Net income - noncontrolling interests	5	1	7
Net Income - Fuji Xerox	$ 321	$ 149	$ 445
Balance Sheet			
Assets:			
Current assets	$ 4,884	$ 4,111	$ 4,734
Long-term assets	5,978	5,457	5,470
Total Assets	$ 10,862	$ 9,568	$ 10,204
Liabilities and Equity:			
Current liabilities	$ 3,534	$ 2,643	$ 3,534
Long-term debt	1,260	1,368	996
Other long-term liabilities	707	1,104	1,095
Noncontrolling interests	22	19	23
Fuji Xerox shareholders' equity	5,339	4,434	4,556
Total Liabilities and Equity	$ 10,862	$ 9,568	$ 10,204

Yen/U.S. Dollar exchange rates used to translate are as follows:

	Exchange Basis	2010	2009	2008
Summary of Operations	Weighted Average Rate	87.64	93.51	103.31
Balance Sheet	Year-End Rate	81.66	92.46	90.28

Transactions with Fuji Xerox

We receive **dividends** from Fuji Xerox, which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive **royalty** payments for their use of our Xerox brand trademark, as well as rights to access their patent portfolio in exchange for access to our patent portfolio. These payments are included in Service, outsourcing and rental revenues in the Consolidated Statements of Income. We also have arrangements with Fuji Xerox whereby we **purchase inventory** from and **sell inventory** to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be conducted at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique **research and development** costs.

Transactions with Fuji Xerox for the three years ended December 31, 2010 were as follows:

	2010	2009	2008
Dividends received from Fuji Xerox	$ 36	$ 10	$ 56
Royalty revenue earned	116	106	112
Inventory purchases from Fuji Xerox	2,098	1,590	2,150
Inventory sales to Fuji Xerox	147	133	162
R&D payments received from Fuji Xerox	1	3	5
R&D payments paid to Fuji Xerox	30	33	34

As of December 31, 2010 and 2009, net amounts due to Fuji Xerox were $109 and $114, respectively.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

In 2010, as a result of our acquisition of ACS, we realigned our internal reporting structure (see Note 2 – Segments for additional information). Our December 31, 2010 goodwill balance was reallocated to properly reflect our new segments and to align goodwill to the reporting units benefiting from the synergies of our acquisitions.

The following table presents the changes in the carrying amount of goodwill, by reportable segment, for the three years ended December 31, 2010:

	Technology	Services	Other	Total
Balance at December 31, 2007	$ 2,317	$ 1,122	$ 9	$ 3,448
Foreign currency translation	(200)	(193)	(2)	(395)
Acquisition of Veenman B.V.	44	—	—	44
GIS acquisitions	73	—	—	73
Purchase Price allocation adjustment – GIS	12	—	—	12
Balance at December 31, 2008	$ 2,246	$ 929	$ 7	$ 3,182
Foreign currency translation	61	60	1	122
GIS acquisitions	118	—	—	118
Balance at December 31, 2009	$ 2,425	$ 989	$ 8	$ 3,422
Foreign currency translation	(25)	(22)	—	(47)
Acquisition of Affiliated Computer Services, Inc. (“ACS”)	—	5,127	—	5,127
ACS acquisitions	—	124	—	124
GIS acquisitions	11	—	—	11
Acquisition of Irish Business Systems, Ltd.	14	—	—	14
Other	—	(2)	—	(2)
Balance at December 31, 2010	$ 2,425	$ 6,216	$ 8	$ 8,649

Intangible Assets, Net

Intangible assets primarily relate to the Services operating segment. Intangible assets were comprised of the following as of December 31, 2010 and 2009:

		December 31, 2010			December 31, 2009		
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	12 years	$ 3,487	$ 464	$ 3,023	$ 525	$ 198	$ 327
Distribution network	25 years	123	54	69	123	49	74
Trademarks(1)	15 years	325	59	266	210	25	185
Technology, patents and non-compete(1)	6 years	47	34	13	40	28	12
Total Intangible Assets		$ 3,982	$ 611	$ 3,371	$ 898	$ 300	$ 598

(1) Includes $10 and $5 of non-amortizable assets within trademarks and technology, respectively, related to the 2010 acquisition of ACS.

Amortization expense related to intangible assets was $316, $64, and $58 for the years ended December 31, 2010, 2009 and 2008, respectively. Excluding the impact of additional acquisitions, amortization expense is expected to approximate $345 in 2011; $335 in 2012 and 2013 and $312 in 2014 and 2015.

Note 9 – Restructuring and Asset Impairment Charges

The net restructuring and asset impairment charges (credits) in the Consolidated Statements of Income totaled $483, $(8) and $429 in 2010, 2009 and 2008, respectively. Detailed information related to restructuring program activity during the three years ended December 31, 2010 is outlined below:

Restructuring Activity	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments(1)	Total
Balance December 31, 2007	$ 71	$ 38	$ —	$ 109
Restructuring provision	363	20	53	436
Reversals of prior accruals	(6)	(1)	—	(7)
Net current year charges(2)	357	19	53	429
Charges against reserve and currency	(108)	(25)	(53)	(186)
Balance December 31, 2008	320	32	—	352
Restructuring provision	28	9	—	37
Reversals of prior accruals	(39)	(6)	—	(45)
Net current year charges(2)	(11)	3	—	(8)
Charges against reserve and currency	(255)	(15)	—	(270)
Balance December 31, 2009	54	20	—	74
Restructuring provision	470	28	26	524
Reversals of prior accruals	(32)	(9)	—	(41)
Net current year charges(2)	438	19	26	483
Charges against reserve and currency	(194)	(14)	(26)	(234)
Balance December 31, 2010	$ 298	$ 25	$ —	$ 323

(1) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.
(2) Represents amount recognized within the Consolidated Statements of Income for the years shown.

The following table summarizes the reconciliation to the Consolidated Statements of Cash Flows for the three years ended December 31, 2010:

	2010	2009	2008
Charges to reserve	$ (234)	$ (270)	$ (186)
Asset impairments	26	—	53
Effects of foreign currency and other non-cash items	(5)	—	2
Cash Payments for Restructurings	$ (213)	$ (270)	$ (131)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment for the three years ended December 31, 2010:

	2010	2009	2008
Technology	$ 325	$ (5)	$ 288
Services	104	(2)	85
Other	54	(1)	56
Total Net Restructuring Charges	$ 483	$ (8)	$ 429

Over the past several years, we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily include severance actions and impact all major geographies and segments. Management continues to evaluate our business and, therefore, in future years, there may be additional provisions for new plan initiatives, as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed. However, we do not expect that there will be significant new restructuring initiatives in 2011. Asset impairment charges were also incurred in connection with these restructuring actions for those assets made obsolete as a result of these programs.

2010 Activity

During 2010, we recorded $483 of net restructuring and asset impairment charges, which included the following:

- $470 of severance costs related to headcount reductions of approximately 9,000 employees. The costs associated with these actions applied about equally to North America and Europe, with approximately 20% related to our developing market countries. Approximately 50% of the costs were focused on gross margin improvements, 40% on SAG and 10% on the optimization of RD&E investments and impacted the following functional areas:
  - Services
  - Supply chain and manufacturing
  - Back office administration
  - Development and engineering costs.
- $28 for lease termination costs primarily reflecting the continued rationalization and optimization of our worldwide operating locations, particularly in light of our recent acquisition of ACS.
- $19 loss associated with the sale of our Venezuelan subsidiary. The loss primarily reflects the write-off of our Venezuelan net assets including working capital and long-lived assets. We will continue to sell equipment, parts and supplies to the acquiring company through a distribution arrangement but will no longer have any direct or local operations in Venezuela. The sale of our operations and change in business model follows a decision by management in the fourth quarter of 2010 to reduce the Company’s future exposure and risk associated with operating in this unpredictable economy.

The above charges were partially offset by $41 of net reversals for changes in estimated reserves from prior period initiatives.

The restructuring reserve balance as of December 31, 2010, for all programs was $323, of which approximately $309 is expected to be spent over the next twelve months.

2009 Activity

Restructuring activity was minimal in 2009 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2008 Activity

During 2008, we recorded $357 of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in both North America and Europe. Focus areas for the actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources & training.
- Capturing efficiencies in technical services, managed services and supply chain and manufacturing infrastructure.
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of $19 and asset impairment charges of $53. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

Note 10 – Supplementary Financial Information

The components of other current assets and other current liabilities at December 31, 2010 and 2009 were as follows:

	2010	2009
Other Current Assets		
Deferred taxes and income taxes receivable	$ 345	$ 328
Royalties, license fees and software maintenance	155	23
Restricted cash	91	31
Prepaid expenses	133	86
Derivative instruments	45	16
Deferred purchase price from sale of receivables	90	—
Advances and deposits	23	19
Other	244	205
Total Other Current Assets	$ 1,126	$ 708
Other Current Liabilities		
Deferred taxes and income taxes payable	$ 59	$ 68
Other taxes payable	177	161
Interest payable	122	114
Restructuring reserves	309	64
Derivative instruments	19	15
Product warranties	17	19
Dividends payable	74	41
Distributor and reseller rebates/commissions	105	127
Other	925	517
Total Other Current Liabilities	$ 1,807	$ 1,126

The components of other long-term assets and other long-term liabilities at December 31, 2010 and 2009 were as follows:

	2010	2009
Other Long-term Assets		
Prepaid pension costs	$ 92	$ 155
Net investment in discontinued operations (1)	224	240
Internal use software, net	468	354
Product software, net	145	10
Restricted cash	280	258
Debt issuance costs, net	42	62
Customer contract costs, net	134	—
Derivative instruments	11	10
Other	378	231
Total Other Long-term Assets	$ 1,774	$ 1,320
Other Long-term Liabilities		
Deferred and other tax liabilities	$ 200	$ 167
Derivative instruments	—	9
Environmental reserves	20	23
Unearned income	36	—
Restructuring reserves	14	10
Other	527	363
Total Other Long-term Liabilities	$ 797	$ 572

(1) At December 31, 2010, our net investment in discontinued operations primarily consists of a $245 performance-based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of $21. The recovery of the performance-based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017.

Note 11 – Debt

Short-term borrowings at December 31, 2010 and 2009 were as follows:

	2010	2009
Commercial paper	$ 300	$ —
Current maturities of long-term debt	1,070	988
Total Short-term Debt	$ 1,370	$ 988

The weighted-average interest rate for commercial paper at December 31, 2010, including issuance costs, was 1.02 percent and had maturities ranging from 18 to 32 days.

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income.

Long-term debt at December 31, 2010 and 2009 was as follows:

	Weighted Average Interest Rates at December 31, 2010[2]	2010	2009
Xerox Corporation			
Senior Notes due 2010	—%	$ —	$ 700
Notes due 2011	0.09%	1	1
Notes due 2011	—%	—	50
Senior Notes due 2011	6.59%	750	750
Senior Notes due 2012	5.59%	1,100	1,100
Senior Notes due 2013	5.65%	400	400
Senior Notes due 2013	—%	—	550
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	750
Senior Notes due 2015	4.29%	1,000	1,000
Notes due 2016	7.20%	250	250
Senior Notes due 2016	6.48%	700	700
Senior Notes due 2017	6.83%	500	500
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.66%	650	650
Zero Coupon Notes due 2023	5.41%	283	267
Senior Notes due 2039	6.78%	350	350
Subtotal		$ 7,753	$ 9,037
Xerox Credit Corporation			
Notes due 2013	—%	—	10
Notes due 2014	—%	—	50
Subtotal		—	60
ACS			
Notes due 2015	4.25%	250	—
Borrowings secured by other assets	6.62%	71	—
Subtotal		321	—
Other U.S. Operations			
Borrowings secured by finance receivables	—%	—	2
Borrowings secured by other assets	12.39%	4	5
Subtotal		4	7
Total U.S. Operations		8,078	9,104
International Operations			
Other debt due 2011-2013	0.86%	2	18
Total International Operations		2	18
Principal Debt Balance		8,080	9,122
Unamortized discount		(1)	(11)
Fair value adjustments [1]		228	153
Less: current maturities		(1,070)	(988)
Total Long-term Debt		$ 7,237	$ 8,276

(1) Fair value adjustments represent changes in the fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported at an amount equal to the sum of their carrying value (principal value plus/minus premiums/discounts) and any fair value adjustment.
(2) Represents weighted average effective interest rate which includes the effect of discounts and premiums on issued debt.

Scheduled principal payments due on our long-term debt for the next five years and thereafter are as follows:

2011	2012	2013	2014	2015	Thereafter	Total
$ 1,070[1]	$ 1,126	$ 412	$ 771	$ 1,251	$ 3,450	$ 8,080

(1) Quarterly total debt maturities for 2011 are $11, $9, $1,041 and $9 for the first, second, third and fourth quarters, respectively.

Commercial Paper

In October 2010, Xerox's Board of Directors authorized the company to issue commercial paper ("CP"). Aggregate CP and Credit Facility borrowings may not exceed $2 billion outstanding at any time. Under the company's current private placement CP program, we may issue CP up to a maximum amount of $1.0 billion outstanding at any time. The maturities of the CP Notes will vary, but may not exceed 390 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at market rates.

Credit Facility

The Credit Facility is a $2.0 billion unsecured revolving credit facility including a $300 letter of credit subfacility. At December 31, 2010 we had no outstanding borrowings or letters of credit. Approximately $1.8 billion, or 90% of the Credit Facility, has a maturity date of April 30, 2013. The remaining portion of the Credit Facility has a maturity date of April 30, 2012.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries and includes provisions that would allow us to increase the overall size of the Credit Facility up to an aggregate amount of $2.5 billion. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than $100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

Borrowings under the Credit Facility bear interest at our choice, at either (a) a Base Rate as defined in our Credit Facility agreement, plus an all-in spread that varies between 1.5% and 3.5% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 2.5% and 4.5% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2010, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 2.5% and 3.5%, respectively.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

(a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, as defined) of 3.75x.
(b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00x.
(c) Limitations on (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in a termination by the lenders and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Capital Market Activity

During 2010, we redeemed the following Notes prior to their scheduled maturity:

- 7.625% Senior Notes due in 2013 for $550;
- 6.00% Medium-term Notes due 2011 for $25;
- 7.41% Medium-term Notes due 2011 for $25;
- 6.50% Medium-term Notes due 2013 for $10;
- 6.00% Medium-term Notes due 2014 for $25; and
- 6.125% Medium-term Notes due 2014 for $25.

We incurred a loss on extinguishment of approximately $16, representing the call premium of approximately $7 on the Senior Notes as well as the write-off of unamortized debt costs of $9.

Interest

Interest paid on our short-term debt, long-term debt and liability to subsidiary trust issuing preferred securities amounted to $586, $531 and $527 for the years ended December 31, 2010, 2009 and 2008, respectively.

Interest expense and interest income for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Interest expense (1)	$ 592	$ 527	$ 567
Interest income (2)	679	734	833

(1) Includes Equipment financing interest expense, as well as non-financing interest expense included in Other expenses, net in the Consolidated Statements of Income.
(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Consolidated Statements of Income.

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on our overall corporate cost of borrowing adjusted to reflect a rate that would be paid by a typical BBB rated leasing company. The estimated level of debt is based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net (payments) proceeds on debt other than secured borrowings as shown on the Consolidated Statements of Cash Flows for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Net proceeds (payments) on short-term debt	$ 300	$ (61)	$ (38)
Net payments on Credit Facility	—	(246)	(354)
Net proceeds from issuance of long-term debt	—	2,725	1,650
Net payments on long-term debt	(3,357)	(1,495)	(332)
Net (Payments) Proceeds on Other Debt	$ (3,057)	$ 923	$ 926

Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities

The Liability to Subsidiary Trust Issuing Preferred Securities included in our Consolidated Balance Sheets of $650 and $649 as of December 31, 2010 and 2009, respectively, reflects our obligations to Xerox Capital Trust I (“Trust I”) as a result of their loans to us from proceeds related to their issuance of preferred securities. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust.

In 1997, Trust I issued 650 thousand of 8.0% preferred securities (the “Preferred Securities”) to investors for $644 ($650 liquidation value) and 20,103 shares of common securities to us for $20. With the proceeds from these securities, Trust I purchased $670 principal amount of 8.0% Junior Subordinated Debentures due 2027 of the Company (“the Debentures”). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of $637 which was net of fees and discounts of $13. Interest expense, together with the amortization of debt issuance costs and discounts, was $54 in 2010, 2009 and 2008. We have guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities. The guarantee, our obligations under the Debentures, the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8% per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

Note 13 – Financial Instruments

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro and U.K. Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency exchange rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with our derivative instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged.

Fair Value Hedges

As of December 31, 2010 and 2009, pay variable/receive fixed interest rate swaps with notional amounts of $950 and $2,350 and net asset fair value of $11 and $1, respectively, were designated and accounted for as fair value hedges. No ineffective portion was recorded to earnings during 2010, 2009, or 2008.

The following is a summary of our fair value hedges at December 31, 2010:

Debt Instrument	Year First Designated as Hedge	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2013	2010	$ 400	$ —	4.71%	5.65%	Libor	2013
Senior Notes due 2014	2009	450	10	6.19%	8.25%	Libor	2014
Senior Notes due 2016	2010	100	1	3.96%	6.40%	Libor	2016
Total Fair Value Hedges		$ 950	$ 11				

Terminated Swaps

During the period from 2004 to 2010, we terminated early several interest rate swaps that were designated as fair value hedges of certain debt instruments. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2010, 2009 and 2008, the amortization of these fair value adjustments reduced interest expense by $28, $17 and $12, respectively, and we expect to record a net decrease in interest expense of $199 in future years through 2027.

Foreign Exchange Risk Management

We are exposed to foreign currency exchange rate fluctuations in the normal course of business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchase option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings and protecting fair values of assets and liabilities:

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

Summary of Foreign Exchange Hedging Positions

At December 31, 2010, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,968 which is reflective of the amounts that are normally outstanding at any point during the year. These contracts generally mature in 12 months or less.

The following is a summary of the primary hedging positions and corresponding fair values held as of December 31, 2010:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) (1)
U.K. Pound Sterling/Euro	$ 217	$ (1)
Euro/U.S. Dollar	370	(3)
U.S. Dollar/Euro	585	9
Swedish Kronor/Euro	93	2
Swiss Franc/Euro	194	8
Japanese Yen/U.S. Dollar	397	8
Japanese Yen/Euro	367	11
Euro/U.K. Pound Sterling	211	1
U.K. Pound Sterling/Swiss Franc	74	(7)
Danish Krone/Euro	57	—
Mexican Peso/U.S. Dollar	52	—
All Other	351	(2)
Total Foreign Exchange Hedging	**$ 2,968**	**$ 26**

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2010.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. As of December 31, 2010, the net asset fair value of these contracts was $18.

Summary of Derivative Instruments Fair Values

The following table provides a summary of the fair value amounts of derivative instruments at December 31, 2010 and 2009, respectively.

Designation of Derivatives	Balance Sheet Location	Fair Value 2010	Fair Value 2009
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 19	$ 4
	Other current liabilities	(1)	(3)
Interest rate swaps	Other long-term assets	11	10
	Other long-term liabilities	—	(9)
	Net Designated Assets	$ 29	$ 2
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 26	$ 12
	Other current liabilities	(18)	(12)
	Net Undesignated Assets	$ 8	$ —
Summary of Derivatives	Total Derivative Assets	$ 56	$ 26
	Total Derivative Liabilities	(19)	(24)
	Net Derivative Asset	$ 37	$ 2

Summary of Derivative Instruments Gains (Losses)

Derivative gains and losses affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and losses.

Designated Derivative Instruments Gains (Losses)

The following table provides a summary of the gains and losses on designated derivative instruments for the three years ended December 31, 2010:

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2010	2009	2008	2010	2009	2008
Interest rate contracts	Interest expense	$ 99	$ (18)	$ 206	$ (99)	$ 18	$ (206)

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2010	2009	2008	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) 2010	2009	2008
Interest rate contracts	$ —	$ —	$ (2)	Interest expense	$ —	$ —	$ —
Foreign exchange contracts – forwards	46	(1)	4	Cost of sales	28	2	2
Total Cash Flow Hedges	$ 46	$ (1)	$ 2		$ 28	$ 2	$ 2

No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness.

Non-Designated Derivative Instruments Gains (Losses)

Non-designated derivative instruments are primarily instruments used to hedge foreign currency denominated assets and liabilities. They are not designated as hedges because there is a natural offset for the re-measurement of the underlying foreign currency denominated asset or liability.

The following table provides a summary of gains (losses) on **non-designated** derivative instruments for the three years ended December 31, 2010:

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	2010	2009	2008
Foreign exchange contracts	Other expense – Currency losses, net	$ 113	$ 49	$ (147)

During the three years ended December 31, 2010, we recorded total Currency losses, net of $11, $26 and $34, respectively. Currency losses, net includes the mark-to-market of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re-measurement of foreign currency denominated assets and liabilities.

Accumulated Other Comprehensive Loss ("AOCL")

The following table provides a summary of the activity associated with all of our designated cash flow hedges (interest rate and foreign currency) reflected in AOCL for the three years ended December 31, 2010:

	2010	2009	2008
Beginning cash flow hedges balance, net of tax	$ 1	$ —	$ —
Changes in fair value gain (loss)	31	(1)	1
Reclass to earnings	(18)	2	(1)
Ending Cash Flow Hedges Balance, Net of Tax	$ 14	$ 1	$ —

Note 14 – Fair Value of Financial Assets and Liabilities

The following table represents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 and the basis for that measurement:

	Total Fair Value Measurement December 31, 2010	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign exchange contracts-forwards	$ 45	$ —	$ 45	$ —
Interest rate swaps	11	—	11	—
Deferred compensation investments in cash surrender life insurance	70	—	70	—
Deferred compensation investments in mutual funds	22	—	22	—
Total	$ 148	$ —	$ 148	$ —
Liabilities:				
Foreign exchange contracts-forwards	$ 19	$ —	$ 19	$ —
Deferred compensation plan liabilities	98	—	98	—
Total	$ 117	$ —	$ 117	$ —

	Total Fair Value Measurement December 31, 2009	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign exchange contracts-forwards	$ 16	$ —	$ 16	$ —
Interest rate swaps	10	—	10	—
Total	$ 26	$ —	$ 26	$ —
Liabilities:				
Foreign exchange contracts-forwards	$ 15	$ —	$ 15	$ —
Interest rate swaps	9	—	9	—
Total	$ 24	$ —	$ 24	$ —

We utilized the income approach to measure fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in Company-owned life insurance is reflected at cash surrender value. Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for actively traded investments similar to those held by the plan. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

Summary of Other Financial Assets & Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,211	$ 1,211	$ 3,799	$ 3,799
Accounts receivable, net	2,826	2,826	1,702	1,702
Short-term debt	1,370	1,396	988	1,004
Long-term debt	7,237	7,742	8,276	8,569
Liability to subsidiary trust issuing preferred securities	650	670	649	663

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 15 – Employee Benefit Plans

We sponsor numerous pension and other post-retirement benefit plans, primarily retiree health, in our domestic and international operations. December 31 is the measurement date for all of our other post-retirement benefit plans.

	Pension Benefits		Retiree Health	
	2010	2009	2010	2009
Change in Benefit Obligation:				
Benefit obligation, January 1	$ 9,194	$ 8,495	$ 1,102	$ 1,002
Service cost	178	173	8	7
Interest cost	575	508	54	60
Plan participants' contributions	11	9	26	36
Plan amendments[(3)]	(19)	4	(86)	1
Actuarial loss (gain)	477	209	13	124
Acquisitions[(2)]	140	1	1	—
Currency exchange rate changes	(154)	373	6	15
Curtailments	(1)	—	—	—
Benefits paid/settlements	(670)	(578)	(118)	(143)
Benefit obligation, December 31	9,731	9,194	1,006	1,102
Change in Plan Assets:				
Fair value of plan assets, January 1	7,561	6,923	—	—
Actual return on plan assets	846	720	—	—
Employer contribution	237	122	92	107
Plan participants' contributions	11	9	26	36
Acquisitions[(3)]	107	—	—	—
Currency exchange rate changes	(144)	349	—	—
Benefits paid/settlements	(669)	(578)	(118)	(143)
Other	(9)	16	—	—
Fair value of plan assets, December 31	7,940	7,561	—	—
Net funded status at December 31[(1)]	$ (1,791)	$ (1,633)	$ (1,006)	$ (1,102)
Amounts recognized in the Consolidated Balance Sheets:				
Other long-term assets	$ 92	$ 155	$ —	$ —
Accrued compensation and benefit costs	(44)	(47)	(86)	(103)
Pension and other benefit liabilities	(1,839)	(1,741)	—	—
Post-retirement medical benefits	—	—	(920)	(999)
Net Amounts Recognized	$ (1,791)	$ (1,633)	$ (1,006)	$ (1,102)

(1) Includes under-funded and non-funded plans.
(2) Primarily ACS's acquired balances.
(3) Refer to the "Plan Amendment" section for additional information.

Benefit plans pre-tax amounts recognized in AOCL:

	Pension Benefits		Retiree Health	
	2010	2009	2010	2009
Net actuarial loss (gain)	$ 1,867	$ 1,834	$ 54	$ 40
Prior service (credit) cost	(167)	(169)	(200)	(144)
Total Pre-tax Loss (Gain)	$ 1,700	$ 1,665	$ (146)	$ (104)

The Accumulated benefit obligation for all defined benefit pension plans was $9,256 and $8,337 at December 31, 2010 and 2009, respectively.

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	2010	2009
Projected benefit obligation	$ 5,726	$ 5,134
Accumulated benefit obligation	5,533	4,864
Fair value of plan assets	3,883	3,697

Our domestic retirement defined benefit plans provide employees a benefit, depending on eligibility, at the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

	Pension Benefits			Retiree Health		
	2010	2009	2008	2010	2009	2008
Components of Net Periodic Benefit Cost:						
Service cost	$ 178	$ 173	$ 209	$ 8	$ 7	$ 14
Interest cost [(1)]	575	508	(5)	54	60	84
Expected return on plan assets [(2)]	(570)	(523)	(80)	—	—	—
Recognized net actuarial loss	71	25	36	—	—	—
Amortization of prior service credit	(22)	(21)	(20)	(30)	(41)	(21)
Recognized settlement loss	72	70	34	—	—	—
Defined Benefit Plans	304	232	174	32	26	77
Defined contribution plans	51	38	80	—	—	—
Total Net Periodic Benefit Costs	355	270	254	32	26	77
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain) [(3)]	$ 198	$ 8	$ 1,062	$ 13	$ 126	$ (244)
Prior service cost (credit) [(4)]	(19)	—	1	(86)	1	(219)
Amortization of net actuarial (loss) gain	(143)	(95)	(70)	—	—	—
Amortization of prior service (cost) credit	22	21	20	30	41	21
Total Recognized in Other Comprehensive Income	58	(66)	1,013	(43)	168	(442)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$ 413	$ 204	$ 1,267	$ (11)	$ 194	$ (365)

(1) Interest cost includes interest expense on non-TRA obligations of $381, $390 and $408 and interest expense (income) directly allocated to TRA participant accounts of $194, $118 and $(413) for the years ended December 31, 2010, 2009 and 2008, respectively.

(2) Expected return on plan assets includes expected investment income on non-TRA assets of $376, $405 and $493 and actual investment income (expense) on TRA assets of $194, $118 and $(413) for the years ended December 31, 2010, 2009 and 2008, respectively.

(3) Includes adjustments as a result of the plan amendments as well as the actual valuation results based on January 1, 2010 plan census data for the U.S. and Canadian defined benefit plans and the U.S. retiree medical plan. Refer to the "Plan Amendment" section for additional information.

(4) Refer to "Plan Amendments" for additional information.

The following table provides a summary of the components of the Net change in benefit plans included within Other comprehensive income as reported in the Consolidated Statement of Shareholders' Equity

(Expense)/Benefit	2010	2009	2008
Other changes in plan assets and benefit obligations	$ (15)	$ (102)	$ (571)
Income tax	(12)	61	183
Fuji Xerox changes in defined benefit plans(1)	28	(36)	(75)
Currency, net(2)	22	(90)	175
Other, net	—	(2)	2
Net Change in Benefit Plans	$ 23	$ (169)	$ (286)

(1) Represents our share of Fuji Xerox's benefit plan changes.
(2) Represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits included in AOCL.

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $71 and $(24), respectively. The net actuarial loss and prior service credit for the retiree health benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are zero and $(41), respectively.

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown above in the "actual return on plan assets" caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

Plan Amendments

In 2010, we amended our domestic retiree health benefit plan to eliminate the use of the Retiree Drug Subsidy that the Company receives from Medicare as an offset to retiree contributions. This amendment is effective January 1, 2011. The Company will instead use this subsidy to reduce its retiree healthcare costs. The amendment resulted in a net decrease of $55 to the retiree medical benefit obligation and a corresponding $34 after tax increase to equity. This amendment will reduce 2011 expenses by approximately $13.

In 2010, as a result of a renegotiation of the contract with our largest union, we amended our union pension plan for this population to freeze the final average pay formula of the pension plan effective January 1, 2013 and our union retiree health benefits plan to eliminate a portion of the subsidy currently paid to current and future Medicare-eligible retirees effective January 1, 2011. These amendments are generally consistent with amendments previously made to our salaried employee retirement plans.

In 2009, the U.K. Final Salary Pension Plan was amended to close the plan to future accrual effective January 1, 2014. Benefits earned up to January 1, 2014 will not be affected; therefore, the amendment does not result in a material change to the projected benefit obligation at the re-measurement date, December 31, 2009. The amendment results in substantially all participants becoming inactive; therefore, the amortization period for actuarial gains and losses changes from the average remaining service period of active members (approximately 10 years) to the average remaining life expectancy of all members (approximately 27 years). As of December 31, 2010, the accumulated actuarial losses for our U.K. plan amounted to $707.

In 2008, we amended our domestic retiree health benefit plan to eliminate the subsidy currently paid to current and future Medicare-eligible retirees effective January 1, 2010. The amendment resulted in a net decrease of approximately $225 in the benefit obligation and a corresponding after-tax increase to equity.

Plan Assets

Current Allocation

As of the 2010 and 2009 measurement dates, the global pension plan assets were $7.9 billion and $7.6 billion, respectively. These assets were invested among several asset classes. None of the investments include debt or equity securities of Xerox Corporation.

The following table presents the defined benefit plans assets measured at fair value at December 31, 2010 and the basis for that measurement:

Asset Class	Valuation Based On: Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value December 31, 2010	% of Total
Cash and Cash Equivalents	$ 640	$ —	$ —	$ 640	8%
Equity Securities:					
U.S. Large Cap	507	54	—	561	7%
U.S. Mid Cap	84	—	—	84	1%
U.S. Small Cap	60	62	—	122	2%
International Developed	1,513	514	—	2,027	26%
Emerging Markets	324	—	—	324	4%
Global Equity	8	25	—	33	—%
Total Equity Securities	2,496	655	—	3,151	40%
Debt Securities:					
U.S. Treasury Securities	4	209	—	213	3%
Debt Security Issued by Government Agency	75	1,011	—	1,086	14%
Corporate Bonds	167	1,412	—	1,579	20%
Asset Backed Securities	2	15	—	17	—%
Total Debt Securities	248	2,647	—	2,895	37%
Common/Collective Trust	4	69	—	73	1%
Derivatives:					
Interest Rate Contracts	—	123	—	123	2%
Foreign Exchange Contracts	5	(12)	—	(7)	—%
Equity Contracts	—	53	—	53	—%
Credit Contracts	—	—	—	—	—%
Other Contracts	66	3	—	69	1%
Total Derivatives	71	167	—	238	3%
Hedge Funds	—	2	4	6	—%
Real Estate	103	73	275	451	6%
Private Equity/Venture Capital	—	—	308	308	4%
Guaranteed Insurance Contracts	—	—	96	96	1%
Other	7	49	(1)	55	—%
Total Defined Benefit Plans Assets(1)	$ 3,569	$ 3,662	$ 682	$ 7,913	100%

(1) Total fair value assets exclude $27 of other net non-financial assets (liabilities) such as due to/from broker, interest receivables and accrued expenses.

The following table presents the defined benefit plans assets measured at fair value at December 31, 2009 and the basis for that measurement:

Asset Class	Valuation Based On: Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value December 31, 2009	% of Total
Cash and Cash Equivalents	$ 748	$ —	$ —	$ 748	10%
Equity Securities:					
U.S. Large Cap	768	46	—	814	11%
U.S. Mid Cap	31	—	—	31	—%
U.S. Small Cap	90	70	—	160	2%
International Developed	1,292	493	—	1,785	24%
Emerging Markets	299	—	—	299	4%
Global Equity	12	—	—	12	—%
Total Equity Securities	2,492	609	—	3,101	41%
Debt Securities:					
U.S. Treasury Securities	4	185	—	189	3%
Debt Security Issued by Government Agency	114	798	—	912	12%
Corporate Bonds	145	1,570	—	1,715	23%
Asset Backed Securities	3	23	—	26	—%
Total Debt Securities	266	2,576	—	2,842	38%
Common/Collective Trust	2	26	—	28	—%
Derivatives:					
Interest Rate Contracts	—	52	—	52	—%
Foreign Exchange Contracts	15	(77)	—	(62)	(1)%
Equity Contracts	—	(24)	—	(24)	—%
Credit Contracts	—	(2)	—	(2)	—%
Other Contracts	—	(6)	—	(6)	—%
Total Derivatives	15	(57)	—	(42)	(1)%
Hedge Funds	—	—	4	4	—%
Real Estate	62	119	237	418	6%
Private Equity/Venture Capital	—	—	286	286	4%
Guaranteed Insurance Contracts	—	—	130	130	2%
Other	8	9	—	17	—%
Total Defined Benefit Plans Assets[(1)]	$ 3,593	$ 3,282	$ 657	$ 7,532	100%

(1) Total fair value assets exclude $29 of other net non-financial assets (liabilities) such as due to/from broker, interest receivables and accrued expenses.

The following table represents a roll-forward of the defined benefit plans assets measured using significant unobservable inputs (Level 3 assets):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)					
	Hedge Funds	Real Estate	Private Equity/Venture Capital	Guaranteed Insurance Contracts	Other	Total
December 31, 2008	$ 3	$ 279	$ 331	$ 104	$ —	$ 717
Net payments, purchases and sales	1	5	16	1	—	23
Net transfers in (out)	—	—	—	16	—	16
Realized gains (losses)	—	—	8	3	(1)	10
Unrealized gains (losses)	—	(66)	(69)	2	1	(132)
Currency translation	—	19	—	4	—	23
December 31, 2009	4	237	286	130	—	657
Net payments, purchases and sales	—	7	(8)	(12)	—	(13)
Net transfers in (out)	—	—	—	1	—	1
Realized gains (losses)	—	5	28	(2)	—	31
Unrealized gains (losses)	—	22	—	(2)	—	20
Currency translation	—	(6)	—	(9)	—	(15)
Other	—	10	1	(9)	(1)	1
December 31, 2010	$ 4	$ 275	$ 307	$ 97	$ (1)	$ 682

Our pension plan assets and benefit obligations at December 31, 2010 were as follows:

(in billions)	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S.	$ 3.2	$ 4.4	$ (1.2)
U.K.	2.9	2.9	—
Canada	0.6	0.8	(0.2)
Other	1.2	1.6	(0.4)
Total	$ 7.9	$ 9.7	$ (1.8)

Investment Strategy

The target asset allocations for our worldwide plans for 2010 and 2009 were:

	2010	2009
Equity investments	42%	41%
Fixed income investments	45%	45%
Real estate	7%	7%
Private equity	4%	4%
Other	2%	3%
Total Investment Strategy	100%	100%

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long-term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. This consideration involves the use of long-term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected Long-term Rate of Return

We employ a “building block” approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions

2010 contributions for our defined benefit pension plans were $237 and $92 for our retiree health plans. In 2011 we expect, based on current actuarial calculations, to make contributions of approximately $500 to our defined benefit pension plans and approximately $90 to our retiree health benefit plans.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

	Pension Benefits	Retiree Health
2011	$ 749	$ 87
2012	647	86
2013	644	85
2014	653	85
2015	668	84
Years 2016-2020	3,473	396

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits			Retiree Health		
	2010	2009	2008	2010	2009	2008
Discount rate	5.2%	5.7%	6.3%	4.9%	5.4%	6.3%
Rate of compensation increase	3.1%	3.6%	3.9%	— (1)	— (1)	— (1)

(1) Rate of compensation increase is not applicable to the retiree health benefits as compensation levels do not impact earned benefits.

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits				Retiree Health			
	2011	2010	2009	2008	2011	2010	2009	2008
Discount rate	5.2%	5.7%	6.3%	5.9%	4.9%	5.4%	6.3%	6.2%
Expected return on plan assets	7.2%	7.3%	7.4%	7.6%	— (1)	— (1)	— (1)	— (1)
Rate of compensation increase	3.1%	3.6%	3.9%	4.1%	— (2)	— (2)	— (2)	— (2)

(1) Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded.
(2) Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates at December 31,

	2010	2009
Health care cost trend rate assumed for next year	9.0%	9.8%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.9%	4.9%
Year that the rate reaches the ultimate trend rate	2017	2017

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	$ 6	$ (5)
Effect on post-retirement benefit obligation	82	(68)

Note 16 – Income and Other Taxes

Income (loss) before income taxes for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Domestic income (loss)	$ 433	$ 45	$ (622)
Foreign income	382	582	543
Income (Loss) Before Income Taxes	$ 815	$ 627	$ (79)

Provisions (benefits) for income taxes for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Federal income taxes			
Current	$ 153	$ (50)	$ (26)
Deferred	(17)	109	(285)
Foreign income taxes			
Current	59	84	118
Deferred	8	11	4
State income taxes			
Current	46	(2)	1
Deferred	7	—	(43)
Total Provision (Benefits)	$ 256	$ 152	$ (231)

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	6.3	3.2	(19.5)
Effect of tax law changes	(0.2)	—	16.1
Change in valuation allowance for deferred tax assets	2.6	(1.7)	(21.0)
State taxes, net of federal benefit	2.0	(0.2)	36.7
Audit and other tax return adjustments	(4.2)	(8.7)	84.4
Tax-exempt income	(0.4)	(0.5)	8.5
Other foreign, including earnings taxed at different rates	(8.1)	(3.7)	148.9
Other	(1.6)	0.8	3.3
Effective Income Tax Rate	31.4%	24.2%	292.4%

On a consolidated basis, we paid a total of $49, $78 and $194 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2010, 2009 and 2008, respectively.

Total income tax expense (benefit) for the three years ended December 31, 2010 was allocated as follows:

	2010	2009	2008
Pre-tax income	$ 256	$ 152	$ (231)
Common shareholders' equity:			
Changes in defined benefit plans	12	(61)	(183)
Stock option and incentive plans, net	(6)	21	(2)
Translation adjustments and other	11	(13)	10
Total Income Tax Expense (Benefit)	$ 273	$ 99	$ (406)

Unrecognized Tax Benefits and Audit Resolutions

Due to the extensive geographical scope of our operations, we are subject to ongoing tax examinations in numerous jurisdictions. Accordingly, we may record incremental tax expense based upon the more-likely-than-not outcomes of any uncertain tax positions. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2010, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2009	2008
Balance at January 1	$ 148	$ 170	$ 303
Additions from acquisitions	46	—	—
Additions related to current year	38	6	12
Additions related to prior years positions	24	27	13
Reductions related to prior years positions	(16)	(33)	(65)
Settlements with taxing authorities [(1)]	(19)	(7)	(28)
Reductions related to lapse of statute of limitations	(35)	(29)	(45)
Currency	—	14	(20)
Balance at December 31	$ 186	$ 148	$ 170

(1) Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2010, 2009 and 2008 are $39, $67 and $67, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

We have filed claims in certain jurisdictions to assert our position should the law be clarified by judicial means. At this point in time, we believe it is unlikely that we will receive any benefit from these types of claims but we will continue to analyze as the issues develop. Accordingly, we have not included any benefit for these types of claims in the amount of unrecognized tax benefits.

We recognized interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements within income tax expense. We had $31, $13 and $22 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2010, 2009 and 2008, respectively.

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

Deferred Income Taxes

In substantially all instances, deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings at December 31, 2010 was approximately $7 billion. These earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings. Our 2001 sale of half of our ownership interest in Fuji Xerox resulted in our investment no longer qualifying as a foreign corporate joint venture. Accordingly, deferred taxes are required to be provided on the undistributed earnings of Fuji Xerox, arising subsequent to such date, as we no longer have the ability to ensure indefinite reinvestment.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2010 and 2009 were as follows:

	2010	2009
Deferred Tax Assets:		
Research and development	$ 855	$ 752
Post-retirement medical benefits	373	421
Depreciation	200	246
Net operating losses	634	576
Other operating reserves	172	261
Tax credit carryforwards	409	525
Deferred compensation	340	233
Allowance for doubtful accounts	97	93
Restructuring reserves	78	16
Pension	437	403
Other	156	132
Subtotal	3,751	3,658
Valuation allowance	(735)	(672)
Total	$ 3,016	$ 2,986
Deferred Tax Liabilities:		
Unearned income and installment sales	$ (1,025)	$ (996)
Intangibles and goodwill	(1,207)	(154)
Other	(54)	(38)
Total	$ (2,286)	$ (1,188)
Total Deferred Taxes, Net	$ 730	$ 1,798

The above amounts are classified as current or long-term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate or, when applicable, based on the expected timing of the reversal. Current deferred tax assets at December 31, 2010 and 2009 amounted to $298 and $290, respectively.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2010 and 2009 was an increase of $63 and a increase of $44, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more-likely-than-not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more-likely-than-not that the deferred tax assets, for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2010, we had tax credit carryforwards of $409 available to offset future income taxes, of which $109 are available to carryforward indefinitely while the remaining $300 will expire 2011 through 2027 if not utilized. We also had net operating loss carryforwards for income tax purposes of $1,236 that will expire 2011 through 2029, if not utilized, and $2,478 billion available to offset future taxable income indefinitely.

Note 17 – Contingencies

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, 2010, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,274, with the increase from December 31, 2009 balance of approximately $1,225 primarily related to currency and current year interest indexation partially offset by matters that have been closed. With respect to the unreserved balance of $1,274, 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, 2010 we had $276 of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $19 and additional letters of credit of approximately $160. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (“ERISA”). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive ("Class Period") and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the "Class"). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants' alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company's operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to refiling. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius ("Agius") and Georgia Stanley to appoint them as additional lead plaintiffs. In July 2007, the Court denied plaintiffs' renewed motion for class certification, without prejudice to renewal after the Court holds a pre-filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius's withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as class counsel. Subsequently, on April 9, 2009, the Court denied defendants' motion to disqualify Milberg LLP. On November 6, 2008, the defendants filed a motion for summary judgment. Briefing with respect to the motion is complete. The Court has not yet rendered a decision. The parties also filed motions to exclude the testimony of certain expert witnesses. On April 22, 2009, the Court denied plaintiffs' motions to exclude the testimony of two of defendants' expert witnesses. On September 30, 2010, the Court denied plaintiffs' motion to exclude the testimony of another of defendants' expert witnesses. The Court also granted defendants' motion to exclude the testimony of one of plaintiffs' expert witnesses, and granted in part and denied in part defendants' motion to exclude the testimony of plaintiffs' two remaining expert witnesses. The individual defendants and we deny any wrongdoing and are vigorously defending the action. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Merger Agreement Between Xerox and Affiliated Computer Services, Inc.: In late September and early October 2009, nine purported class action complaints were filed by ACS shareholders challenging ACS's proposed merger with Xerox. Two actions were filed in the Delaware Court of Chancery which subsequently were consolidated into one action. Seven actions were filed in state courts in Texas, which subsequently were consolidated into one action in the Dallas County Court at Law No. 3. The operative complaints in the Delaware and Texas actions named as defendants ACS and/or the members of ACS's board of directors (the "Individual Defendants") and Xerox Corporation and/or Boulder Acquisition Corp., a wholly owned subsidiary of Xerox ("Boulder") (ACS, the Individual Defendants, Xerox Corporation and Boulder, collectively, the "Xerox Defendants"). A class of ACS shareholders was certified in the Delaware action. Pursuant to a stipulation entered into by all parties in the Delaware and Texas actions prosecution of the Texas action was stayed and further prosecution of the Delaware and Texas actions would proceed in the Delaware action.

The plaintiffs in the Delaware action alledged, among other things, that (i) the Individual Defendants breached their fiduciary duties to ACS and its shareholders by authorizing the sale of ACS to Xerox for what plaintiffs deemed was inadequate consideration and pursuant to inadequate process, and the Xerox Defendants aided and abetted those alleged breaches; (ii) the Individual Defendants breached their fiduciary duties to ACS and its shareholders by agreeing to the provisions of the merger agreement relating to the consideration to be paid to the holders of Class B shares which the Delaware plaintiffs alleged violated the ACS certificate of incorporation and was, therefore, void, and the Xerox Defendants aided and abetted those alleged breaches; and (iii) the Individual Defendants breached their fiduciary duties by failing to disclose material facts in the October 23, 2009 Form S-4 filed with the SEC in connection with the merger. The plaintiffs sought, among other things, to enjoin the defendants from consummating the merger on the agreed-upon terms, and unspecified compensatory damages, together with the costs and disbursements of the action.

On May 19, 2010, the parties in the Delaware and Texas Actions entered into a Stipulation and Agreement of Compromise and Settlement ("Settlement") resolving all claims by ACS shareholders arising out of Xerox's acquisition of ACS, including all claims in the Delaware and Texas Actions. The defendants in the Delaware and Texas Actions did not admit to any wrongdoing as part of the Settlement, which provided for an aggregate payment of $69 on behalf of all defendants, including a payment of approximately $36 by Xerox, net of insurance proceeds. The Delaware court approved the Settlement at a hearing held on August 24, 2010. In light of the Delaware court's approval of the Settlement, on October 13, 2010, the Texas court signed an order dismissing the Texas action.

Other Contingencies

Guarantees, Indemnifications and Warranty Liabilities

Guarantees and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2010, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Indemnifications Provided as Part of Contracts and Agreements

We are a party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Contracts that we entered into for the sale or purchase of businesses or real estate assets, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including obligations to pay rent. Typically, these relate to such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition.
- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.
- Agreements to indemnify various service providers, trustees and bank agents from any third party claims related to their performance on our behalf, with the exception of claims that result from third-party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. In addition, we indemnify certain software providers against claims that may arise as a result of our use or our subsidiaries', customers' or resellers' use of their software in our products and solutions. These indemnifications usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by-laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments may not be covered under our directors' and officers' insurance coverage. In addition, we indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales-type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our entry level products, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for the three years ended December 31, 2010 were $33, $34 and $39, respectively. Total product warranty liabilities as of December 31, 2010 and 2009 were $18 and $20, respectively.

Other Contingencies

We have issued or provided the following guarantees as of December 31, 2010:

- $270 for letters of credit issued i) to guarantee our performance under certain services contracts; ii) to support certain insurance programs; and iii) to support our obligations related to the Brazil tax and labor contingencies.
- $666 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, require us to provide a surety bond as a guarantee of our performance of contractual obligations.

In general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract; the probability of which we believe is remote. We believe that our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

We have service arrangements where we service third party student loans in the Federal Family Education Loan program ("FFEL") on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At December 31, 2010, we serviced a FFEL portfolio of approximately 3.6 million loans with an outstanding principal balance of approximately $51.4 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of December 31, 2010, other current liabilities include reserves of less than $1 for losses on defaulted loans purchased.

In connection with the acquisition of ACS, the Company agreed to provide certain tax and prior employment agreement-related indemnities to former officers and directors of ACS. Management does not anticipate any potential claims under these indemnities would have a material adverse effect on the Company's financial statements taken as a whole and accordingly no value has been assigned for financial reporting purposes.

Note 18 – Preferred Stock

Series A Convertible Preferred Stock

In connection with the acquisition of ACS in February 2010 (see Note 3 – Acquisitions for additional information), we issued 300,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of $300 and a fair value of $349 as of the acquisition date to the holder of ACS Class B common stock. The convertible preferred stock pays quarterly cash dividends at a rate of 8 percent per year and has a liquidation preference of $1,000 per share. Each share of convertible preferred stock is convertible at any time, at the option of the holder, into 89.8876 shares of common stock for a total of 26,966 thousand shares (reflecting an initial conversion price of approximately $11.125 per share of common stock and is a 25% premium over $8.90, the average closing price of Xerox common stock over the 7-trading day period ended on September 14, 2009 and the number used for calculating the conversion price in the ACS merger agreement), subject to customary anti-dilution adjustments. On or after the fifth anniversary of the issue date, we have the right to cause, under certain circumstances, any or all of the convertible preferred stock to be converted into shares of common stock at the then applicable conversion rate. The convertible preferred stock is also convertible, at the option of the holder, upon a change in control, at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for our common stock upon such change in control. In addition, upon the occurrence of certain fundamental change events, including a change in control or the delisting of Xerox's common stock, the holder of convertible preferred stock has the right to require us to redeem any or all of the convertible preferred stock in cash at a redemption price per share equal to the liquidation preference and any accrued and unpaid dividends to, but not including the redemption date. The convertible preferred stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

Note 19 – Shareholders' Equity

Preferred Stock

As of December 31, 2010 we had one class of preferred stock outstanding. See Note 18 – Preferred Stock for further information. We are authorized to issue approximately 22 million shares of cumulative preferred stock, $1.00 par value per share.

Common Stock

We have 1.75 billion authorized shares of common stock, $1 par value per share. At December 31, 2010, 167 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges, 27 million shares were reserved for conversion of the Series A convertible preferred stock and 2 million shares were reserved for the conversion of convertible debt.

In connection with the acquisition of ACS in February 2010 (see Note 3 – Acquisitions for further information), we issued 489,802 thousand shares of common stock to holders of ACS Class A and Class B common stock.

Treasury Stock

Our Board of Directors has authorized programs for repurchase of the Company's common stock. During the year ended December 31, 2010, we did not purchase any common stock.

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2010 (shares in thousands):

Authorized share repurchase	$ 4,500
Share repurchases	$ 2,941
Share repurchase fees	$ 4
Number of shares repurchased	194,093

The following table reflects the changes in Common and Treasury stock shares for the three years ended December 31, 2010 (shares in thousand):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2007	919,013	(1,836)
Stock option and incentive plans, net	4,442	—
Acquisition of Treasury stock	—	(56,842)
Cancellation of Treasury stock	(58,678)	58,678
Balance at December 31, 2008	864,777	—
Stock option and incentive plans, net	4,604	—
Balance at December 31, 2009	869,381	—
ACS acquisition [1]	489,802	—
Stock option and incentive plans, net	38,395	—
Balance at December 31, 2010	1,397,578	—

(1) Refer to Note 3 – Acquisitions for additional information.

Stock-Based Compensation

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (“RSUs”), performance shares (“PSs”) and non-qualified stock options.

We grant PSs and RSUs in order to continue to attract and retain employees and to better align employees’ interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2010 and 2009, 30 million and 15 million shares, respectively, were available for grant of awards.

Stock-based compensation expense for the three years ended December 31, 2010 was as follows:

	2010	2009	2008
Stock-based compensation expense, pre-tax	$ 123	$ 85	$ 85
Income tax benefit recognized in earnings	47	33	33

Restricted stock units: Compensation expense is based upon the grant date market price for most awards and a Monte Carlo simulation pricing model for a grant in 2009 that included a market condition; the expense is recorded over the vesting period, which ranges from three to five years from the date of grant. A summary of the activity for RSUs as of December 31, 2010, 2009 and 2008, and changes during the years then ended, is presented below (shares in thousands):

	2010		2009		2008	
Nonvested Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	25,127	$ 10.18	14,037	$ 15.43	11,696	$ 16.78
Granted	11,845	8.56	15,268	6.69	5,923	13.63
Vested	(3,671)	18.22	(3,764)	15.17	(3,350)	16.92
Cancelled	(870)	10.36	(414)	13.94	(232)	15.98
Outstanding at December 31	32,431	8.68	25,127	10.18	14,037	15.43

At December 31, 2010, the aggregate intrinsic value of RSUs outstanding was $374. The total intrinsic value and actual tax benefit realized for the tax deductions for vested RSUs for the three years ended December 31, 2010 were as follows:

Vested Restricted Stock Units	2010	2009	2008
Total intrinsic value of vested RSUs	$ 31	$ 19	$ 54
Tax benefit realized for vested RSUs tax deductions	10	6	18

At December 31, 2010, there was $135 of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized ratably over a remaining weighted-average contractual term of 1.7 years.

Performance shares: We grant officers and selected executives PSs that vest contingent upon meeting pre-determined Earnings per Share (“EPS”) and Cash Flow from Operations targets. These shares entitle the holder to one share of common stock, payable after a three-year period and the attainment of the stated goals. If the cumulative three-year actual results for EPS and Cash Flow from Operations exceed the stated targets, then the plan participants have the potential to earn additional shares of common stock. This overachievement can not exceed 50% for officers and 25% for non-officers of the original grant.

In connection with the ACS acquisition, selected ACS executives received a special one-time grant of PSs that vest over a three-year period contingent upon ACS meeting pre-determined annual earnings targets. These shares entitle the holder to one share of common stock, payable after the three-year period and the attainment of the targets. The aggregate number of shares that may be delivered based on achievement of the targets was determined on the date of grant and ranges in value as follows: 50% of base salary (threshold); 100% of base salary (target); and 200% of base salary plus 50% of the value of the August 2009 options (maximum).

A summary of the activity for PSs as of December 31, 2010, 2009 and 2008, and changes during the years then ended, is presented below (shares in thousands):

	2010		2009		2008	
Nonvested Performance Shares	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	4,874	$ 15.49	7,378	$ 15.39	6,585	$ 16.16
Granted	5,364	8.10	718	15.17	3,696	13.67
Vested	(1,566)	18.48	(3,075)	15.17	(2,734)	14.87
Cancelled	(901)	15.51	(147)	15.52	(169)	16.05
Outstanding at December 31	7,771	9.78	4,874	15.49	7,378	15.39

At December 31, 2010, the aggregate intrinsic value of PSs outstanding was $90. The total intrinsic value of PSs and the actual tax benefit realized for the tax deductions for vested PSs for the three years ended December 31, 2010 was as follows:

Vested Performance Shares	2010	2009	2008
Total intrinsic value of vested PSs	$ 12	$ 15	$ 41
Tax benefit realized for vested PSs tax deductions	5	6	13

We account for PSs using fair value determined as of the grant date. If the stated targets are not met, any recognized compensation cost would be reversed. As of December 31, 2010, there was $45 of total unrecognized compensation cost related to nonvested PSs; this cost is expected to be recognized ratably over a remaining weighted-average contractual term of 1.8 years.

Stock options

Employee stock options: With the exception of the stock options issued in connection with the ACS acquisition (see below), we have not issued any new stock options associated with our employee long-term incentive plan since 2004. All stock options previously issued under our employee long-term incentive plan and currently outstanding are fully vested and exercisable and generally expire between eight and ten years from the date of grant.

ACS Acquisition: In connection with the acquisition of ACS (see Note 3 – Acquisitions for further information), outstanding ACS options were converted into 96,662 thousand Xerox options. The Xerox options have a weighted average exercise price of $6.79 per option. The estimated fair value associated with the options issued was approximately $222 based on a Black-Scholes valuation model utilizing the assumptions stated below. Approximately $168 of the estimated fair value is associated with ACS options issued prior to August 2009, which became fully vested and exercisable upon the acquisition in accordance with preexisting change-in-control provisions, was recorded as part of the acquisition fair value. The remaining $54 is associated with ACS options issued in August 2009 which continue to vest according to their original terms and, therefore, is being expensed as compensation cost over the remaining vesting period. The options generally expire 10 years from date of grant.

Assumptions	Pre-August 2009 Options	August 2009 Options
Strike price	$ 6.89	$ 6.33
Expected volatility	37.90%	38.05%
Risk-free interest rate	0.23%	1.96%
Dividend yield	1.97%	1.97%
Expected term	0.75 years	4.2 years

The following table provides information relating to the status of, and changes in, outstanding stock options for each of the three years ended December 31, 2010 (stock options in thousands):

Employee Stock Options	2010 Stock Options	2010 Weighted Average Option Price	2009 Stock Options	2009 Weighted Average Option Price	2008 Stock Options	2008 Weighted Average Option Price
Outstanding at January 1	28,363	$ 10.13	45,185	$ 15.49	52,424	$ 19.73
Granted – ACS acquisition	96,662	6.79	—	—	—	—
Cancelled/Expired	(2,735)	7.33	(16,676)	24.68	(6,559)	50.08
Exercised	(51,252)	6.92	(146)	5.88	(680)	8.89
Outstanding at December 31	71,038	8.00	28,363	10.13	45,185	15.49
Exercisable at December 31	57,985	8.38	28,363	10.13	45,185	15.49

As of December 31, 2010, there was $35 of total unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized ratably over a remaining weighted-average vesting period of 3 years.

Information relating to options outstanding and exercisable at December 31, 2010 was as follows:

	Options Outstanding	Options Exercisable
Aggregate intrinsic value	$ 267	$ 199
Weighted-average remaining contractual life in years	4.42	3.46

The following table provides information relating to stock option exercises for the three years ended December 31, 2010:

	2010	2009	2008
Total intrinsic value of stock options	$ 155	$ —	$ 4
Cash received	183	1	6
Tax benefit realized for stock option tax deductions	56	—	2

Note 20 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock for the three years ended December 31, 2010 (shares in thousands):

	2010	2009	2008
Basic Earnings per Share:			
Net income attributable to Xerox	$ 606	$ 485	$ 230
Accrued dividends on preferred stock	(21)	—	—
Adjusted Net Income Available to Common Shareholders	$ 585	$ 485	$ 230
Weighted average common shares outstanding	1,323,431	869,979	885,471
Basic Earnings per Share	$ 0.44	$ 0.56	$ 0.26
Diluted Earnings per Share:			
Net income attributable to Xerox	$ 606	$ 485	$ 230
Accrued dividends on Preferred stock	(21)	—	—
Interest on Convertible securities, net	—	1	—
Adjusted Net Income Available to Common Shareholders	$ 585	$ 486	$ 230
Weighted-average common shares outstanding	1,323,431	869,979	885,471
Common shares issuable with respect to:			
Stock options	13,497	462	3,885
Restricted stock and performance shares	13,800	7,087	6,186
Convertible securities	—	1,992	—
Adjusted Weighted Average Shares Outstanding	1,350,728	879,520	895,542
Diluted Earnings per Share	$ 0.43	$ 0.55	$ 0.26

The following represents shares not included in the computation of diluted earnings per-share because to do so would have been anti-dilutive (shares in thousands):

Stock options	57,541	27,901	41,300
Restricted stock and performance shares	25,983	22,574	14,969
Convertible preferred stock	26,966	—	—
Convertible securities	1,992	—	1,992
	112,482	50,475	58,261
Dividends Declared per Common Share	$ 0.17	$ 0.17	$ 0.17

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

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

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

Management's Report on Internal Control Over Financial Reporting

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

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

/s/ URSULA M. BURNS	/s/ LUCA MAESTRI	/s/ GARY R. KABURECK
Chief Executive Officer	**Chief Financial Officer**	**Chief Accounting Officer**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut
February 23, 2011

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

(in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2010					
Revenues	$ 4,721	$ 5,508	$ 5,428	$ 5,976	$ 21,633
Costs and Expenses [(1)]	4,731	5,188	5,100	5,799	20,818
(Loss) Income before Income Taxes and Equity Income	(10)	320	328	177	815
Income tax expenses [(2)]	22	112	98	24	256
Equity in net (loss) income of unconsolidated affiliates [(3)]	(2)	28	26	26	78
Net (Loss) Income	(34)	236	256	179	637
Less: Net income - noncontrolling interests	8	9	6	8	31
Net (Loss) Income Attributable to Xerox	$ (42)	$ 227	$ 250	$ 171	$ 606
Basic Earnings per Share [(4)]	$ (0.04)	$ 0.16	$ 0.18	$ 0.12	$ 0.44
Diluted Earnings per Share [(4)]	(0.04)	0.16	0.17	0.12	0.43
2009					
Revenues	$ 3,554	$ 3,731	$ 3,675	$ 4,219	$ 15,179
Costs and Expenses [(1)]	3,476	3,534	3,517	4,025	14,552
Income before Income Taxes and Equity Income	78	197	158	194	627
Income tax expenses [(2)]	19	59	44	30	152
Equity in net (loss) income of unconsolidated affiliates [(3)]	(10)	9	15	27	41
Net Income	49	147	129	191	516
Less: Net income - noncontrolling interests	7	7	6	11	31
Net Income Attributable to Xerox	$ 42	$ 140	$ 123	$ 180	$ 485
Basic Earnings per Share [(4)]	$ 0.05	$ 0.16	$ 0.14	$ 0.21	$ 0.56
Diluted Earnings per Share [(4)]	0.05	0.16	0.14	0.20	0.55

(1) Costs and expenses for 2010 include: restructuring charges of $195, $11, $4 and $273; acquisition-related costs of $48, $15, $5 and $9, and amortization of intangible assets of $57, $85, $85 and $85, respectively, in the first, second, third and fourth quarters of 2010, currency losses associated with the Venezuelan devaluation of $21 in the first quarter of 2010, costs associated with the ACS shareholders litigation of $36 in the second quarter and the loss on early extinguishment of debt of $15 in the fourth quarter. Costs and expenses for 2009 include: restructuring credits of $2, $1, $2 and $3: amortization of intangible assets of $14, $15, $15 and $16, respectively, for the first, second, third and fourth quarters, as well as acquisition-related costs of $9 and $63, respectively, for the third and fourth quarters.

(2) Income tax expense for 2010 includes tax benefits for restructuring charges of $60, $4, $2 and $100; acquisition-related costs of $12, $1, $2 and $4 and amortization of intangible assets of $22, $32, $32 and $32, respectively, for the first, second, third and fourth quarters and for loss on early extinguishment of debt of $5 in the fourth quarter. Additional tax expense of $16 was incurred in the first quarter of 2010 due to the Medicare subsidy tax law change. The 2009 income tax expense includes tax benefits for amortization of intangible assets of $5, $6, $5 and $6, respectively, for the first, second, third and fourth quarters, as well as acquisition-related costs of $1 and $22, respectively, for the third and fourth quarters. Additional tax expense on restructuring of $1 was incurred in each of the first, third and fourth quarters of 2009.

(3) The first, second, third and fourth quarters of 2010 include $22, $5, $6 and $5 of charges, respectively, for our share of Fuji Xerox restructuring charges. The first, second, third and fourth quarters of 2009 include $22, $9, $9 and $6 of charges, respectively, for our share of Fuji Xerox restructuring charges.

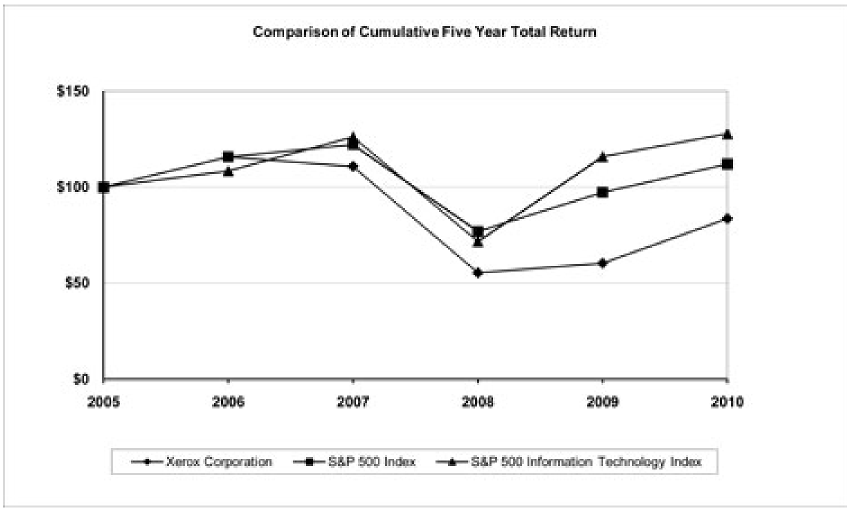
(4) The sum of quarterly earnings per share may differ from the full-year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti-dilutive in certain quarters may not be anti-dilutive on a full-year basis.

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

	2010[1]	2009	2008	2007[2]	2006
Per-Share Data					
Income from continuing operations					
Basic	$ 0.44	$ 0.56	$ 0.26	$ 1.21	$ 1.25
Diluted	0.43	0.55	0.26	1.19	1.22
Earnings					
Basic	0.44	0.56	0.26	1.21	1.25
Diluted	0.43	0.55	0.26	1.19	1.22
Common stock dividends declared	0.17	0.17	0.17	0.0425	—
Operations					
Revenues	$ 21,633	$ 15,179	$ 17,608	$ 17,228	$ 15,895
Sales	7,234	6,646	8,325	8,192	7,464
Service, outsourcing and rentals	13,739	7,820	8,485	8,214	7,591
Finance income	660	713	798	822	840
Income from continuing operations	637	516	265	1,165	1,232
Income from continuing operations – Xerox	606	485	230	1,135	1,210
Net income	637	516	265	1,165	1,232
Net income - Xerox	606	485	230	1,135	1,210
Financial Position					
Working capital	$ 2,222	$ 5,270	$ 2,700	$ 4,463	$ 4,056
Total Assets	30,600	24,032	22,447	23,543	21,709
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,370	988	1,610	525	1,485
Long-term debt	7,237	8,276	6,774	6,939	5,660
Total Debt	8,607	9,264	8,384	7,464	7,145
Liability to subsidiary trust issuing preferred securities	650	649	648	632	624
Series A convertible preferred stock	349	—	—	—	—
Xerox shareholders' equity	12,006	7,050	6,238	8,588	7,080
Noncontrolling interests	153	141	120	103	108
Total Consolidated Capitalization	$ 21,765	$ 17,104	$ 15,390	$ 16,787	$ 14,957
Selected Data and Ratios					
Common shareholders of record at year-end	43,383	44,792	46,541	48,261	40,372
Book value per common share	$ 8.59	$ 8.11	$ 7.21	$ 9.36	$ 7.48
Year-end common stock market price	$ 11.52	$ 8.46	$ 7.97	$ 16.19	$ 16.95
Employees at year-end	136,500	53,600	57,100	57,400	53,700
Gross margin	34.4%	39.7%	38.9%	40.3%	40.6%
Sales gross margin	34.5%	33.9%	33.7%	35.9%	35.7%
Service, outsourcing and rentals gross margin	33.1%	42.6%	41.9%	42.7%	43.0%
Finance gross margin	62.7%	62.0%	61.8%	61.6%	63.7%

(1) 2010 results include the acquisition of ACS
(2) 2007 results include the acquisition of GIS.

PERFORMANCE GRAPH



Total Return To Shareholders

(Includes reinvestment of dividends)	2005	2006	2007	2008	2009	2010
	Year Ended December 31,					
Xerox Corporation	**$ 100**	$ 115.70	$ 110.80	$ 55.37	$ 60.34	$ 83.61
S&P 500 Index	**100**	115.79	122.16	76.96	97.33	111.99
S&P 500 Information Technology Index	**100**	108.42	126.10	71.70	115.95	127.77

Source: Standard & Poor's Investment Services
Notes: Graph assumes $100 invested on December 31, 2005 in Xerox Corp., the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

CORPORATE INFORMATION

Stock Exchange Information

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

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
High	$ 10.11	$ 11.35	$ 10.55	$ 12.01
Low	8.38	8.04	7.91	10.44
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425
2009				
High	$ 9.10	$ 7.25	$ 9.57	$ 8.66
Low	4.17	4.70	6.05	7.25
Dividends Paid per Share	0.0425	0.0425	0.0425	0.0425

* Prices as of close of business

SUBSIDIARIES OF XEROX CORPORATION

The following companies are subsidiaries of Xerox Corporation as of December 31, 2010. Unless otherwise noted, a subsidiary is a company in which Xerox Corporation or a subsidiary of Xerox Corporation holds 50% or more of the voting stock. The names of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary/Affiliate	Jurisdiction of Incorporation
ACS@Xerox LLC	Delaware
ACS Holdings (UK) LLP	United Kingdom (48)
Affiliated Computer Services, Inc.	Delaware
ACS Application Management Services, Inc.	California
Agilera, Inc.	Delaware
Agilera Messaging, Inc.	Delaware
ACS BRC Holdings, Inc.	Delaware
ACS Enterprise Solutions, Inc.	Delaware
ACS Audit & Compliance Solutions, Inc.	Delaware
ACS BPO Services, Inc.	Delaware
Government Records Services, Inc.	Delaware
Title Records Corporation	Delaware
ACS Government Systems, Inc.	Delaware
ACS Heritage, Inc.	Virginia
ACS State Healthcare, LLC	Delaware
ACS EDI Gateway, Inc.	Delaware
ACS Federal Solutions LLC	Delaware
Consultec IPA, Inc.	New York
ACS TMC, Inc.	Delaware
Digital Information Systems Company, L.L.C.	Georgia
ACS Health Care, Inc.	Oregon
MidasPlus, Inc.	Arizona
Statit Software, Inc.	Oregon
ACS Care and Quality Solutions, Inc.	Wisconsin
ACS Commercial Solutions, Inc.	Nevada
ACS Global, Inc.	Delaware
Affiliated Computer Services (Australia) Pty. Ltd.	Australia
Market Line Colombia S.A.	Colombia (51)
Market Line Peru S.A.C.	Peru (52)
Market Line S.A.	Argentina (49)
Market Line Chile S.A.	Chile (50)
CDR Associates, L.L.C.	Delaware
TMS Health, LLC	Delaware
Truckload Management Services, Inc.	Colorado
ACS CompIQ Corporation	Nevada
ACS Consultant Holdings Corporation	Delaware
ACS Consultant Company, Inc.	Michigan
Superior Venture Partner, Inc.	Pennsylvania
ACS e-Services, LLC	Delaware
e-Services Group (St. Lucia) Limited	St. Lucia
e-Services Group International (Jamaica) Limited	Jamaica (47)
ACS Education Services, Inc.	Delaware
ACS Asset Management Group, Inc.	Oregon
Education Services Company	Delaware
ACS Education Loan Services LLC	Delaware
ACS Education Solutions, LLC	Delaware
ACS Health Administration, Inc.	Delaware
ACS Healthcare Analytics, Inc.	Delaware
ACS Human Resources Solutions, Inc.	Pennsylvania
ACS HR Solutions, LLC	Pennsylvania

ACS HR Solutions LLP	Delaware (67)
ACS HR Solutions Share Plan Services Guernsey	Guernsey
ACS HR Solutions UK Limited	United Kingdom
ACS HR Solucoes Servicos de Recursos Humanos do Brasil Ltda.	Brazil (72)
ACS Relocation & Assignment Service, LLC	Delaware
ACS HR Solutions World Services, LLC	Delaware
ACS HR Solutions Canada Company	Canada
ACS HR Solutions Nederland B.V.	Netherlands
ACS HR Solutions Deutschland GmbH	Germany
Buck Consultants, LLC	Delaware
Buck Consultants Limited/Conseilliers Buck Limitee	Ontario
Buck Consultants Insurance Agency Limited	Ontario
Buck Consultants	Belgium (44)
Buck Kwasha Securities LLC	Delaware
LiveWire, LLC	Missouri
ACS Image Solutions, Inc.	Louisiana
ACS IT Solutions, LP	Delaware (45)
ACS Lending, Inc.	Delaware (41)
ACS Business Services, LLC	Delaware
ACS/ECG Holdings, LLC	Delaware
ACS Defense, LLC	Delaware
ACS Outsourcing Solutions, Inc.	Michigan
ACS Print and Mail Services, Inc.	Michigan
ACS Properties, Inc.	Delaware
ACS Marketing, L.P.	Delaware (42)
ACS Protection Services, Inc.	Texas
ACS Puerto Rico, LLC	Puerto Rico
ACS REBGM, Inc.	Illinois
ACS Recovery Services, Inc.	Delaware
ACS Solutions Poland Sp. z.o.o.	Poland
ACS State & Local Solutions, Inc.	New York
ACS Human Services, LLC	Indiana
ACS Middle East, Inc.	Delaware
ACS China Solutions Hong Kong Limited	Hong Kong
ACS Road Technology Services (Beijing) Co. Ltd.	China
Parkindy LLC	Delaware
Transaction Processing Specialists, Inc.	Texas
ACS TradeOne Marketing, Inc.	Delaware
ACS Securities Services, Inc.	Texas
etravelexperts, LLC	Delaware
ACS Transport Solutions, Inc.	Georgia
ACB Airport Solutions, LLC	Georgia (46)
ACS Solutions de Mexico S.A. de C.V.	Mexico (68)
ACS Trust I	Delaware
ACS Trust II	Delaware
ACS Welfare Benefit Trust	Texas
Health Technology Acquisition Company	Indiana
Outsourced Administrative Systems, Inc.	Indiana
Intellinex LLC	Delaware
LiveBridge, Inc.	Oregon
Newspaper Services Holding, Inc.	Oregon
ACS Contact Solutions of Canada, ULC	Nova Scotia
Patient Accounting Service Center LLC	Washington
Specialty I, LLC	Delaware
The National Abandoned Property Processing Corporation	Delaware
Wagers & Associates, Inc.	Colorado
Global Imaging Systems, Inc.	Delaware
American Photocopy Equipment Company of Pittsburgh, LLC	Delaware
Arizona Office Technologies, Inc.	Arizona
Berney Office Solutions, LLC	Alabama

N&L Enterprises, LLC	Alabama
Capitol Office Solutions, LLC	Delaware
Carolina Office Systems, Inc.	South Carolina
Carr Business Systems, Inc.	New York
Chicago Office Technology Group, Inc.	Illinois
ComDoc, Inc.	Ohio
Consolidated, Inc.	Ohio
Information Works, Inc.	Ohio
Metropolitan Business Machines, Incorporated	Ohio
Connecticut Business Systems, LLC	Delaware
Arden Business Systems, Inc.	New York
Blackstone Valley Office Systems, Inc.	Rhode Island
Conway Office Products, LLC	New Hampshire
Business Equipment Unlimited	Maine
Cameron Office Products, LLC	Massachusetts
Eastern Copy Products, LLC	New York
Northeast Copier Systems, LLC	Massachusetts
CopyCo Office Solutions, Inc.	Indiana
MRSCO, Inc.	Indiana
CTX Business Solutions, Inc.	Oregon
Denitech Corporation	Texas
Electronic Systems, Inc.	Virginia
TML Enterprises, Inc.	Virginia
GDP Finance, Inc.	Georgia
Georgia Duplicating Products, Inc.	Georgia
Global Operations Texas, L.P. d/b/a Dahill	Texas (34)
ImageQuest, Inc.	Kansas
Image Technology Specialists, Inc.	Massachusetts
Inland Business Machines, Inc.	California
Precision Copier Service, Inc. d/b/a Sierra Office Solutions	Nevada
Lucas Business Systems, Inc.	Delaware
Lewan & Associates, Inc.	Colorado
Imaging Concepts of New Mexico, Inc.	New Mexico
Michigan Office Solutions, Inc.	Michigan
Minnesota Office Technology Group, Inc.	Minnesota
Mr. Copy, Inc.	California
MWB Copy Products, Inc.	California
SoCal Office Technologies, Inc.	California
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
Saxon Business Systems, Inc.	Florida
Stewart Business Systems, LLC	New Jersey
Xerox Audio Visual Solutions, Inc.	Georgia
Daniel Communications, Inc.	Alabama
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Infotonics Technology Center Inc.	New York (15)
Institute for Research on Learning	Delaware
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware
STHQ Realty LLC	Delaware
The Xerox Foundation	Delaware
Xerox Argentina Industrial y Comercial S.A.	Argentina (1)
Xerox Canada Capital Ltd.	Canada
Xerox Canada Inc.	Ontario
Xerox (Barbados) SRL	Barbados (14)
Approximo Limited	Ireland

Mega Colour Limited	Ireland
Oriel Star Limited	Ireland
Topspeed Limited	Ireland
Xerox (Barbados) Leasing SRL	Barbados
Xerox Finance (Luxembourg) Sarl	Luxembourg
Xerox Canada Facilities Management Inc.	Ontario
Xerox Canada Finance Inc.	Ontario
ACS Public Sector Solutions Inc.	Canada
ACS Business Process Solutions de Mexico S.A. de C.V.	Mexico (56)
ACS Government Solutions Canada Inc.	Ontario
Xerox Canada Leasing Partnership	Ontario (16)
Xerox Canada Ltd.	Canada (4)
Ionographic Operations Partnership	Massachusetts (18)
Xerox Capital LLC	Turks & Caicos Islands (9)
Xerox Capital Services, LLC	Delaware
Xerox Capital Trust I	Delaware (11)
Xerox de Chile S.A.	Chile (40)
Xerox de Colombia S.A.	Colombia (29)
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox del Ecuador, S.A.	Ecuador (32)
Xerox Engineering Systems NV	Belgium
Xerox Export, LLC	Delaware
Xerox Europe Finance Limited Partnership	Scotland (20)
Xerox European Funding LLC	Delaware
Affiliated Computer Services Holdings (Luxembourg) S.A.R.L.	Luxembourg
Xerox Finance, Inc.	Delaware
Xerox Investments Holding (Bermuda) Limited	Bermuda
Xerox Financial Services LLC	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox d’Haiti, S.A.	Haiti
Xerox Holdings, Inc.	Delaware
Talegen Holdings, Inc.	Delaware
Xerox Credit Corporation	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California (10)
Xerox Investments Europe B.V.	Netherlands
XC Global Trading B.V.	Netherlands
XC Trading Singapore Pte Ltd.	Singapore
XC Trading Hong Kong Limited	Hong Kong
XC Trading Japan G.K.	Japan
XC Trading Korea VH	Korea
XC Trading Malaysia	Malaysia
XC Trading Shenzhen Co., Ltd.	China
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Monocolour Limited	Ireland
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
Xerox Leasing Ireland Limited	Jersey
Xerox Israel Ltd.	Israel
Xerox Middle East Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt
Xerox Finance Leasing S.A.E.	Egypt
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda
Xerox UK Holdings Limited	United Kingdom

Triton Business Finance Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom
Affiliated Computer Services International B.V.	Netherlands
ACS-BPS (Ghana) Limited	Ghana
ACS BPS de Guatemala S.A.	Guatemala
ACS Business Process Solutions Limited	United Kingdom
ACS Malta Limited	Malta (66)
ACS Worldwide Lending Limited	United Kingdom
Buck Consultants Limited	United Kingdom
Bevis Trustees Limited	United Kingdom
Buckingham Trustees Limited	United Kingdom
Buck Consultants (Healthcare) Limited	United Kingdom
Buck Consultants (Administration & Investment) Limited	United Kingdom
Talking People Limited	United Kingdom
Spur Information Solutions Limited	United Kingdom
Syan Holdings Limited	United Kingdom
ACS Information Technologies UK Limited	United Kingdom
Anix Group Limited	United Kingdom
Anix Business Systems Limited	United Kingdom
Anix Computers Limited	United Kingdom
PR Systems Limited	United Kingdom
Syan Technology Limited	United Kingdom
VBHG Limited	United Kingdom
Anix Holdings Limited	United Kingdom
Blue River Systems Limited	United Kingdom
Posetiv Limited	United Kingdom
Red Squared Limited	United Kingdom
ACS (Cyprus) Holdings Limited	Cyprus
Affiliated Computer Services of India Private Limited	India (58)
ACS Czech Republic s.r.o.	Czech Republic
ACS of the Philippines, Inc.	Philippines (62)
ACS Solutions Chile SA	Chile (57)
ACS Solutions Hong Kong Limited	Hong Kong
ACS Solutions Schweiz AG	Switzerland
Affiliated Computer Services Austria GmbH	Austria
Affiliated Computer Services do Brasil Ltda.	Brazil (55)
Affiliated Computer Services (Fiji) Limited	Fiji (59)
Affiliated Computer Services GmbH	Switzerland
Affiliated Computer Services International (Barbados) Limited	Barbados
ACS Business Process Solutions (Dominican Republic), S.A.	Dominican Republic (54)
ACS Business Process Solutions (Jamaica) Limited	Jamaica (53)
Affiliated Computer Services Ireland Limited	Ireland
Affiliated Computer Services Malaysia Sdn. Bhd.	Malaysia (61)
Affiliated Computer Services (Netherlands) B.V.	Netherlands
Affiliated Computer Services of Poland Sp. z.o.o.	Poland (63)
Affiliated Computer Services (Proprietary) Limited	South Africa
Affiliated Computer Services (Tianjin) Co., Ltd.	China
Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox Limited	United Kingdom (6)
Continua Limited	United Kingdom
Continua Sanctum Limited	United Kingdom
Limited Liability Company Xerox (C.I.S.)	Russia
The Xerox (UK) Trust	United Kingdom
Xerox AS	Norway

Xerox Austria GmbH	Austria
Xerox Global Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Office Supplies GmbH	Austria
Xerox Bulgaria EOOD	Bulgaria
Xerox Buro Araclari Ticaret ve Servis A.S.	Turkey
Xerox Capital (Europe) Limited	United Kingdom
Imaging Business Systems (N.I.) Limited	Northern Ireland
Irish Business Systems Limited (Republic of Ireland)	Republic of Ireland
Veenman B.V.	Netherlands
Veenman Financial Services B.V.	Netherlands
Xerox AG	Switzerland
Xerox A/S	Denmark
Xerox Financial Services Danmark A/S	Denmark
Xerox Finance AG	Switzerland
Xerox Sverige AB	Sweden
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Xerox Finance Limited	United Kingdom
Xerox Channels Limited	United Kingdom
XEROX CZECH Republic s r.o.	Czech Republic
Xerox Direct Rhein-Main GmbH	Germany
Xerox Espana, S.A.U.	Spain
Affiliated Computer Services of Spain, S.L., Sociedad Unipersonal	Spain
Affiliated Computer Services Solutions Spain, S.L.	Spain
Buck Consultants, S.L.	Spain
Xerox Fabricacion S.A.U.	Spain
Xerox Renting S.A.U.	Spain
Xerox Office Supplies S.A.U.	Spain
Xerox Exports Limited (dormant)	United Kingdom
Xerox Financial Services Belux NV	Belgium
Xerox Financial Services Norway AS	Norway
Xerox Financial Services Sverige AB	Sweden
Xerox Hellas AEE	Greece
Xerox Holdings Deutschland GmbH	Germany
Affiliated Computer Services of Germany GmbH	Germany
ACS Holdings (Germany) GmbH	Germany
sds business services GmbH	Germany
Xerox GmbH	Germany
Xerox Capital Services Verwaltungs GmbH	Germany
Xerox Capital Services GmbH & Co. KG	Germany
Xerox Dienstleistungsgesellschaft mbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Hungary Trading Limited	Hungary
Xerox (Ireland) Limited	Ireland
Xerox India Limited	India (8)
Xerox Kazakhstan Limited Liability Partnership	Kazakhstan (38)
Xerox Management Services N.V.	Belgium
Xerox N.V.	Belgium
Xerox Luxembourg SA	Luxembourg (27)
Xerox (Nederland) BV	Netherlands
“Veco” Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands
Xerox Rentalease BV	Netherlands
Xerox Services BV	Netherlands
Xerox Oy	Finland
Xerox Financial Services Finland Oy	Finland
Xerox Pensions Limited	United Kingdom

Xerox Polska Sp.zo.o	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal (21)
CREDITEX - Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox Property Services Limited	United Kingdom
Xerox (Romania) Echipmante Si Servici S.A.	Romania
Xerox Slovenia d.o.o.	Slovenia
Xerox S.p.A.	Italy
ACS Solutions Italia, S.p.A.	Italy
Xerox Financial Services Italia S.p.A.	Italy
Xerox Italia Rental Services Srl	Italy
Xerox Telebusiness GmbH	Germany
Xerox (Ukraine) Ltd LLC	Ukraine
Xerox S.A.S.	France (22)
Affiliated Computer Services Holdings (France) SAS	France
Affiliated Computer Services Business Process Solutions SAS	France (64)
Affiliated Computer Services Strategic Support France EURL	France
Affiliated Computer Services Solutions France SAS	France
ACS Solutions Peru S.A.	Peru (65)
Xerobail SAS	France
Xerox Financial Services SAS	France (23)
Xerox Document Supplies SNC	France (24)
Xerox General Services SAS	France
Xerox XHB Limited	Bermuda (6)
Xerox XIB Limited	Bermuda (6)
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
XRI Limited	United Kingdom
RRXH Limited	United Kingdom
RRXO Limited	United Kingdom
RRXIL Limited	United Kingdom (6)
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico (28)
Xerox Mortgage Services, Inc.	Delaware
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox Serviços e Participações Ltda	Brazil
Xerox Comercio e Industria Ltda	Brazil
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Xerox Trinidad Limited	Trinidad
XESystems Foreign Sales Corporation	Barbados
XMPie Inc.	Delaware
Nuvisio Corporation	Delaware
Nuvisio, Ltd.	Israel
XMPie, Ltd.	Israel

(1) Xerox Corporation owns 90% of the shares of Xerox Argentina; the remaining 10% is owned by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
(2) Owned 99.9% by XMEIBL and .1% by several individuals.
(3) [Reserved]
(4) Owned 65% by Xerox Canada Inc. and 35% by Xerox Canada Finance Inc.
(5) [Reserved]
(6) Includes indirect holdings.
(7) [Reserved]
(8) Xerox Corporation indirectly owns 89.3% and 10.7% is privately held.
(9) Owned 99.9% by Xerox Corporation and .1% by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
(10) Xerox International Partners is a California general partnership between FX Global, Inc. (49%) and Xerox International Joint Marketing, Inc. (51%).
(11) Xerox Capital Trust I is a Delaware statutory business trust which is 100% beneficially owned by Xerox Corporation. The Trust is a special purpose financing vehicle.
(12) [Reserved]
(13) [Reserved]
(14) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation.
(15) This is a not-for-profit corporation which will act as a research and development consortium of businesses and universities. The initial members are Xerox, Corning, Kodak, University of Rochester, RIT and Cornell.
(16) Xerox Canada Leasing Partnership is an Ontario general partnership between Xerox Canada Inc. (99%) and Xerox Canada Finance Inc. (1%).
(17) [Reserved]
(18) Owned 66.995% by Xerox Canada Ltd. and 33.005% by Xerox Canada Inc. It was formerly known as Delphax Systems Partnership but changed to Ionographic Operations Partnership on 2/12/02. This name was registered under the Business Names Act in Ontario on 2/13/02.
(19) [Reserved]
(20) Xerox Europe Finance Limited Partnership is owned 99.9% by Xerox Export LLC and .1% by Xerox Corporation.
(21) Owned 74% by Xerox Limited and 26% by Xerox Property Services Limited.
(22) Remaining shares transferred in Xerox SAS to Xerox Overseas Holding Limited after share capital reduction exercise.
(23) Owned 87.5% by Xerobail SAS and 12.5% by Xerox SAS.
(24) Owned 99.99% by XEROX S.A.S. and .01% by Xerobail SAS.
(25) [Reserved]
(26) [Reserved]
(27) Owned 99% by NV Xerox SA and 1% by Xerox Financial Services Belux NV.
(28) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.
(29) Owned 94.24% by Xerox Corporation, 5.56% by Pacific Services and Development Corporation and .20% by a Minority owner.
(30) Owned 95.73% by Xerox Corporation and 4.27% by Pacific Services and Development Corporation.
(31) [Reserved]
(32) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation. (PSDC owns only one share)
(33) [Reserved]
(34) Owned 99% by Conway Office Products, LLC (limited partner) and 1% by Global Imaging Systems, Inc. (general partner).
(35) [Reserved]
(36) [Reserved]
(37) [Reserved]
(38) Owned 99% by Xerox Limited and 1% by Xerox Property Services Limited.
(39) [Reserved]
(40) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.
(41) Owned 19% by Affiliated Computer Services, Inc.; 37% by ACS State & Local Solutions, Inc.; 23% by Buck Consultants, LLC; 15% by ACS State Healthcare, LLC; 6% by ACS HR Solutions, LLC.
(42) Owned 99.9% by ACS Properties, Inc. and 0.1% by Affiliated Computer Services, Inc.
(43) [Reserved]
(44) Owned 79.884% by Buck Consultants, LLC and 20.116% by ACS Holdings (Germany) GmbH
(45) Owned 99.9% by Affiliated Computer Services, Inc. and 0.1% by ACS Business Services, LLC
(46) Owned 66% by ACS Transport Solutions, Inc.; 17% by Carter Brothers, LLC; and 17% by D&D Electric, Inc.
(47) Owned 99.9998% by eServices Group (St. Lucia) Limited; 0.0002% by ACS Global Inc.
(48) Owned 92.05% by Xerox Corporation, 7.871% by ACS Commercial Solutions, Inc.; .079% by ACS State and Local Solutions, Inc.
(49) Owned 90% by ACS Global Inc; 10% by ACS Commercial Solutions, Inc.
(50) Owned 93.3750% by Market Line S.A. in Argentina; 6.6250% by ACS Global, Inc.

(51) Owned 94.9% by ACS Global, Inc.; 2.1% ACS Commercial Solutions, Inc.; 1% LiveBridge, Inc.; 1% Market Line S.A. in Argentina; and 1% by ACS Middle East, Inc..
(52) Owned 90% by ACS Global, Inc.; 10% ACS Commercial Solutions, Inc.
(53) Owned 99.9090% by Affiliated Computer Services International (Barbados) Limited; .0910% by ACS Commercial Solutions, Inc
(54) Owned 99.9966 by Affiliated Computer Services International (Barbados) Limited; 0.0006% by ACS Business Services, LLC; .0006% by ACS Lending, Inc.; 0.0006% by ACS Outsourcing Solutions, Inc.; 0.0006% by ACS State & Local Solutions, Inc.; 0.0006% by ACS State Healthcare, LLC; 0.0006% by Affiliated Computer Services, Inc.
(55) Owned 99.9997 by Affiliated Computer Services International B.V.; .0003% by Affiliated Computer Services Inc.
(56) Owned 99% by ACS Public Sector Solutions, Inc; 1% by ACS State and Local Solutions, Inc.
(57) Owned 99.5% by Affiliated Computer Services International B.V.; .5% by ACS State and Local Solutions, Inc.
(58) Owned 99.0% by ACS (Cyprus) Holdings Limited; 1.0% by ACS Commercial Solutions, Inc.
(59) Owned 99.9999% by Affiliated Computer Services International B.V.; .0001% by ACS State and Local Solutions, Inc.
(60) [Reserved]
(61) Owned 99% by Affiliated Computer Services International B.V.; 1% by ACS Commercial Solutions, Inc.
(62) Owned 99.9822 by Affiliated Computer Services International B.V.; .0178% by a minority
(63) Owned 99.9290% by Affiliated Computer Services International B.V.; .0710% by ACS Commercial Solutions, Inc.
(64) Owned 99.9383% by Affiliated Computer Services Holdings (France) S.A.R.L.; 0.0616% by Affiliated Computer Services International B.V.; 0.0001 by ACS Commercial Solutions, Inc.
(65) Owned 99% by Affiliated Computer Services Solutions France SAS; 1% by ACS State & Local Solutions, Inc.
(66) Owned 99.8% by ACS Business Process Solutions Limited; 0.2% by ACS Commercial Solutions, Inc.
(67) Owned 99% by ACS HR Solutions LLC; 1% by ACS Human Resource Solutions, Inc.
(68) Owned 99% by ASC Transport Solutions, Inc.; 1% by ACS State & Local Solutions, Inc.
(69) [Reserved]
(70) [Reserved]
(71) [Reserved]
(72) Owned 99% by ACS HR Solutions, LLP; 1% by ACS HR Solutions World Services, LLC.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-166431 and Form S-8 (Nos. 333-162639, 333-164766, 333-160264, 333-142417, 333-125250, 333-93269, 333-09821, 333-22313, 33-65269, 33-44314 and 333-167922) of Xerox Corporation of our report dated February 23, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 23, 2011 relating to the financial statement schedule, which appears in this Form 10-K.

/S/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Stamford, CT
February 23, 2011

CEO CERTIFICATIONS

I, Ursula M. Burns, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 23, 2011

/S/ URSULA M. BURNS

Ursula M. Burns
Principal Executive Officer

CFO CERTIFICATIONS

I, Luca Maestri, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 23, 2011

/S/ LUCA MAESTRI

Luca Maestri
Principal Financial Officer

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-K of Xerox Corporation, a New York corporation (the "Company"), for the year ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ursula M. Burns, Chairman of the Board and Chief Executive Officer of the Company, and Luca Maestri, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ URSULA M. BURNS

Ursula M. Burns
Chief Executive Officer
February 23, 2011

/S/ LUCA MAESTRI

Luca Maestri
Chief Financial Officer
February 23, 2011

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.