XEROX CORP
Form 10-Q
July 31, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2015

OR

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

For the transition period from to

Commission File Number 001-04471

XEROX CORPORATION	
(Exact Name of Registrant as specified in its charter)	
New York	16-0468020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue Norwalk, Connecticut	06856-4505
(Address of principal executive offices)	(Zip Code)
(203) 968-3000	
(Registrant’s telephone number, including area code)	

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

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

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

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

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

Class	Outstanding at June 30, 2015
Common Stock, $1 par value	1,068,794,642 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect Management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that our bids do not accurately estimate the resources and costs required to implement and service very complex, multi-year governmental and commercial contracts, often in advance of the final determination of the full scope and design of such contracts or as a result of the scope of such contracts being changed during the life of such contracts; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; service interruptions; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions and the relocation of our service delivery centers; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; the risk in the hiring and retention of qualified personnel; the risk that unexpected costs will be incurred; our ability to recover capital investments; the risk that our Services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts; the collectibility of our receivables for unbilled services associated with very large, multi-year contracts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to expand equipment placements; interest rates, cost of borrowing and access to credit markets; the risk that our products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives; the outcome of litigation and regulatory proceedings to which we may be a party; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and our 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

XEROX CORPORATION
FORM 10-Q
June 30, 2015
TABLE OF CONTENTS

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

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per-share data)	2015	2014	2015	2014
Revenues				
Sales	$1,224	$1,342	$2,350	$2,599
Outsourcing, maintenance and rentals	3,279	3,501	6,532	6,915
Financing	87	98	177	198
Total Revenues	4,590	4,941	9,059	9,712
Costs and Expenses				
Cost of sales	776	832	1,450	1,610
Cost of outsourcing, maintenance and rentals	2,356	2,488	4,724	4,942
Cost of financing	32	36	65	72
Research, development and engineering expenses	142	143	283	288
Selling, administrative and general expenses	906	959	1,821	1,904
Restructuring and asset impairment charges	157	39	171	65
Amortization of intangible assets	79	78	156	155
Other expenses, net	68	65	114	104
Total Costs and Expenses	4,516	4,640	8,784	9,140
Income before Income Taxes and Equity Income	74	301	275	572
Income tax (benefit) expense	(9)	73	30	115
Equity in net income of unconsolidated affiliates	29	33	63	75
Income from Continuing Operations	112	261	308	532
(Loss) income from discontinued operations, net of tax	(95)	11	(61)	26
Net Income	17	272	247	558
Less: Net income attributable to noncontrolling interests	5	6	10	11
Net Income Attributable to Xerox	$12	$266	$237	$547
Amounts Attributable to Xerox:				
Net income from continuing operations	$107	$255	$298	$521
Net (loss) income from discontinued operations	(95)	11	(61)	26
Net Income Attributable to Xerox	$12	$266	$237	$547
Basic Earnings per Share:				
Continuing operations	$0.09	$0.21	$0.26	$0.43
Discontinued operations	(0.08)	0.01	(0.06)	0.03
Total Basic Earnings per Share	$0.01	$0.22	$0.20	$0.46
Diluted Earnings per Share:				
Continuing operations	$0.09	$0.21	$0.26	$0.43
Discontinued operations	(0.08)	0.01	(0.06)	0.02
Total Diluted Earnings per Share	$0.01	$0.22	$0.20	$0.45

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2015	2014	2015	2014
Net income	$17	$272	$247	$558
Less: Net income attributable to noncontrolling interests	5	6	10	11
Net Income Attributable to Xerox	12	266	237	547
Other Comprehensive Income (Loss), Net[1]:				
Translation adjustments, net	194	92	(315)	91
Unrealized (losses) gains, net	(19)	15	10	41
Changes in defined benefit plans, net	67	(70)	165	(154)
Other Comprehensive Income (Loss), Net	242	37	(140)	(22)
Less: Other comprehensive income, net attributable to noncontrolling interests	1	1	—	1
Other Comprehensive Income (Loss), Net Attributable to Xerox	241	36	(140)	(23)
Comprehensive Income, Net	259	309	107	536
Less: Comprehensive income, net attributable to noncontrolling interests	6	7	10	12
Comprehensive Income, Net Attributable to Xerox	$253	$302	$97	$524

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

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

XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	June 30, 2015	December 31, 2014 [1]
Assets		
Cash and cash equivalents	$1,641	$1,411
Accounts receivable, net	2,722	2,652
Billed portion of finance receivables, net	113	110
Finance receivables, net	1,328	1,425
Inventories	1,072	934
Assets of discontinued operations	—	1,260
Other current assets	956	1,082
Total current assets	7,832	8,874
Finance receivables due after one year, net	2,581	2,719
Equipment on operating leases, net	500	525
Land, buildings and equipment, net	1,078	1,123
Investments in affiliates, at equity	1,377	1,338
Intangible assets, net	1,890	2,031
Goodwill	8,810	8,805
Other long-term assets	1,948	2,243
Total Assets	$26,016	$27,658
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$1,648	$1,427
Accounts payable	1,568	1,584
Accrued compensation and benefits costs	664	754
Unearned income	428	431
Liabilities of discontinued operations	—	371
Other current liabilities	1,422	1,509
Total current liabilities	5,730	6,076
Long-term debt	5,998	6,314
Pension and other benefit liabilities	2,634	2,847
Post-retirement medical benefits	790	865
Other long-term liabilities	418	454
Total Liabilities	15,570	16,556
Series A Convertible Preferred Stock	349	349
Common stock	1,097	1,124
Additional paid-in capital	3,967	4,283
Treasury stock, at cost	(316)	(105)
Retained earnings	9,605	9,535
Accumulated other comprehensive loss	(4,299)	(4,159)
Xerox shareholders' equity	10,054	10,678
Noncontrolling interests	43	75
Total Equity	10,097	10,753
Total Liabilities and Equity	$26,016	$27,658
Shares of common stock issued	1,096,623	1,124,354
Treasury stock	(27,828)	(7,609)

Shares of Common Stock Outstanding	1,068,795	1,116,745

(1) Certain prior year amounts have been revised - Refer to Note 1 - Basis of Presentation for additional information.
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2015	2014	2015	2014
Cash Flows from Operating Activities:				
Net income	$17	$272	$247	$558
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	297	376	593	721
Provision for receivables	14	22	32	38
Provision for inventory	10	4	16	14
Net loss (gain) on sales of businesses and assets	74	1	62	(29)
Undistributed equity in net income of unconsolidated affiliates	(3)	2	(34)	(40)
Stock-based compensation	23	24	45	50
Restructuring and asset impairment charges	157	38	171	65
Payments for restructurings	(30)	(36)	(61)	(72)
Contributions to defined benefit pension plans	(57)	(68)	(98)	(105)
Increase in accounts receivable and billed portion of finance receivables	(6)	(150)	(245)	(389)
Collections of deferred proceeds from sales of receivables	62	106	134	226
Increase in inventories	(67)	(43)	(193)	(103)
Increase in equipment on operating leases	(69)	(66)	(139)	(123)
Decrease in finance receivables	6	18	78	54
Collections on beneficial interest from sales of finance receivables	12	21	27	42
Decrease (increase) in other current and long-term assets	11	(24)	(60)	(118)
Decrease in accounts payable and accrued compensation	(21)	(96)	(38)	(88)
Decrease in other current and long-term liabilities	(57)	(82)	(83)	(108)
Net change in income tax assets and liabilities	17	43	49	72
Net change in derivative assets and liabilities	14	(20)	2	(21)
Other operating, net	(55)	(17)	(43)	(33)
Net cash provided by operating activities	349	325	462	611
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(77)	(102)	(152)	(186)
Proceeds from sales of land, buildings and equipment	—	2	16	35
Cost of additions to internal use software	(25)	(21)	(45)	(40)
Proceeds from sale of businesses	930	15	933	15
Acquisitions, net of cash acquired	(20)	(227)	(48)	(281)
Other investing, net	23	7	29	11
Net cash provided by (used in) investing activities	831	(326)	733	(446)
Cash Flows from Financing Activities:				
Net proceeds (payments) on debt	53	(299)	(97)	(295)
Common stock dividends	(77)	(73)	(147)	(141)

Preferred stock dividends	(6)	(6)	(12)	(12)
Proceeds from issuances of common stock	4	19	14	39
Excess tax benefits from stock-based compensation	1	3	3	6
Payments to acquire treasury stock, including fees	(395)	(204)	(611)	(479)
Repurchases related to stock-based compensation	—	—	(1)	(1)
Distributions to noncontrolling interests	(2)	(1)	(56)	(17)
Other financing	(1)	—	(1)	(10)
Net cash used in financing activities	(423)	(561)	(908)	(910)
Effect of exchange rate changes on cash and cash equivalents	12	2	(57)	(12)
Increase (decrease) in cash and cash equivalents	769	(560)	230	(757)
Cash and cash equivalents at beginning of period	872	1,567	1,411	1,764
Cash and Cash Equivalents at End of Period	$1,641	$1,007	$1,641	$1,007

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

XEROX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2014 Annual Report on Form 10-K (2014 Annual Report), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2014 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. These adjustments consist of normal recurring items. Interim results of operations are not necessarily indicative of the results of the full year.

For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income.”

In December 2014 we announced an agreement to sell our Information Technology Outsourcing (ITO) business to Atos SE (Atos). As a result of this agreement and having met applicable accounting requirements, we reported the ITO business as held for sale and a discontinued operation at December 31, 2014. The sale was completed in June 2015. In 2014 we also completed the disposal of two smaller businesses - Xerox Audio Visual Solutions, Inc. (XAV) and Truckload Management Services (TMS) - that were also reported as discontinued operations. All prior periods have been reclassified to conform to the presentation of these businesses as discontinued operations. Refer to Note 5 - Divestitures for additional information regarding discontinued operations.

During second quarter 2015, in connection with Fuji Xerox’s (FX) payment of its semi-annual dividend, we determined that the dividends were no longer subject to an additional tax as a result of a change in the U.K. - Japan Tax Treaty in December 2014. As of December 31, 2014, we had a deferred tax liability of $44 associated with this additional tax on the undistributed earnings of FX through that date. This deferred tax liability was no longer required as a result of the change in the Tax Treaty and, therefore, should have been reversed in December 2014. There was no impact on operating cash flows from this adjustment. We assessed the materiality of this error on our 2014 financial statements and concluded that it was not material to the fourth quarter or annual period. However, due to the impact of this adjustment on the current year consolidated financial statements, the accompanying unaudited Condensed Consolidated Balance Sheet has been revised as of December 31, 2014 to increase retained earnings by $44 and decrease our deferred tax liabilities by the same amount.

The following table presents the effect of this correction on our Consolidated Statements of Income for all periods affected:

	Three Months Ended December 31, 2014		Year Ended December 31, 2014	
	As Reported	As Revised	As Reported	As Revised
Income tax expense	$78	$34	$259	$215
Income from Continuing Operations	311	355	1,107	1,151
Net Income	162	206	992	1,036
Net Income Attributable to Xerox	156	200	969	1,013
Net Income Attributable to Xerox - continuing operations	305	349	1,084	1,128
Basic Earnings per Share:				
Continuing Operations	$0.26	$0.30	$0.92	$0.96
Total Basic Earnings per Share	0.13	0.17	0.82	0.86
Diluted Earnings per Share:				
Continuing Operations	$0.26	$0.30	$0.90	$0.94
Total Diluted Earnings per Share	0.13	0.17	0.81	0.85

The following table presents the effect this correction had on our Consolidated Balance Sheet at December 31, 2014:

	December 31, 2014	
	As Reported	As Revised
Other long-term liabilities	$498	$454
Total Liabilities	16,600	16,556
Retained earnings	9,491	9,535
Xerox shareholders' equity	10,634	10,678
Total Equity	10,709	10,753

The correction did not have an effect on the Company's operating cash flows. The following table presents the effect on the individual line items within operating cash flows of our Consolidated Statement of Cash Flows for the year ended December 31, 2014:

	Year Ended December 31, 2014	
	As Reported	As Revised
Net income	$992	$1,036
Net change in income tax assets and liabilities	29	(15)

Note 2 – Recent Accounting Pronouncements

Fair Value Measurements: In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). The update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is being measured using the net asset value per share practical expedient. The amendments also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. ASU 2015-07 is effective for our fiscal year beginning January 1, 2016, and is not expected to have a material impact on our financial condition, results of operations or cash flows.

Intangibles - Goodwill and Other - Internal Use Software: In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal Use Software - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The update provides guidance on fees paid by an entity in a cloud computing arrangement and whether an arrangement includes a license to the underlying software. If a cloud computing arrangement includes a software license, then the entity should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. The guidance in this update does not change GAAP for an entity's accounting for service contracts. Additionally, this update does not change the accounting guidance for a provider of cloud computing services. This update is effective for our fiscal year beginning January 1, 2016. The adoption of this standard is not expected to have a material effect on our financial condition, results of operations or cash flows.

Interest: In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Debt issuance costs are currently reported as a deferred charge in Other long-term assets and were $33 at June 30, 2015. This update is effective for our fiscal year beginning January 1, 2016 with early adoption permitted. The adoption of this standard is not expected to have a material effect on our financial condition, results of operations or cash flows.

Consolidation: In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This update reduces the number of consolidation models by changing the evaluation of (a) limited partnerships and similar entities, (b) whether fees paid to a decision maker or service provider are variable interests in a variable interest entity, and (c) variable interests in a VIE held by related parties. This update is effective for our fiscal year beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective or modified retrospective basis. The adoption of this standard is not expected to have a material effect on our financial condition, results of operations or cash flows.

Income Statement: In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 is effective for our fiscal year beginning January 1, 2016, with early adoption permitted. The standard primarily involves presentation and disclosure and, therefore, is not expected to have a material impact on our financial condition, results of operations or cash flows.

Derivatives and Hedging: In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815) - Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. ASU 2014-16 does not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. ASU 2014-16 is effective for our fiscal year beginning January 1, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or cash flows.

Disclosures of Going Concern Uncertainties: In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for our fiscal year beginning January 1, 2016, with early adoption permitted. We do not expect the adoption of this standard to have an impact on our financial condition, results of operations, or cash flows.

Stock Compensation: In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for our fiscal year beginning January 1, 2016 and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.
Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for our fiscal year beginning January 1, 2018, with early adoption permitted for fiscal years beginning January 1, 2017. The standard will be adopted using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.
Discontinued Operations: In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The update changes the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Examples include a disposal of a major geographic area, a major line of business or a major equity method investment.
Additionally, the update requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This update was effective prospectively for our fiscal year beginning January 1, 2015. The standard primarily involves presentation and disclosure and, therefore, is not expected to have a material impact on our financial condition, results of operations or cash flows.
Service Concession Arrangements: In January 2014, the FASB issued ASU 2014-05, Service Concession Arrangements (Topic 853). This update specifies that an entity should not account for a service concession arrangement within the scope of this update as a lease in accordance with Topic 840, Leases. The update does not provide specific accounting guidance for various aspects of service concession arrangements but rather indicates that an entity should refer to other Topics as applicable to account for various aspects of a service concession arrangement. The update was effective for our fiscal year beginning January 1, 2015. The adoption of this standard did not have a material effect on our financial condition, results of operation or cash flows.

Note 3 – Segment Reporting
Our reportable segments are aligned with how we manage the business and view the markets we serve. We report our financial performance based on the following two primary reportable segments – Services and Document Technology. Our Services segment operations involve delivery of a broad range of services, including business process and document outsourcing. Our Document Technology segment includes the sale and support of a broad range of document systems from entry level to high-end.

The Services segment is comprised of two outsourcing service offerings:

- Business Process Outsourcing (BPO)
- Document Outsourcing (which includes Managed Print Services) (DO)

Business process outsourcing services include service arrangements where we manage a customer's business activity or process. We provide multi-industry offerings such as customer care, transaction processing, finance and accounting, and human resources, as well as industry-focused offerings in areas such as healthcare, transportation, financial services, retail and telecommunications. Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize document-intensive business processes through automation and deployment of software applications and tools and the management of their printing needs. Document outsourcing services also include revenues from our partner print services offerings.

Our Document Technology segment includes the sale of products that share common technology, manufacturing and product platforms. Our products groupings range from:

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

Customers range from small and mid-sized businesses to large enterprises. Customers also include graphic communication enterprises as well as channel partners including distributors and resellers. Segment revenues reflect the sale of document systems and supplies, technical services and product financing.

The segment classified as Other includes several units, none of which meet the thresholds for separate segment reporting. This group includes paper sales in our developing market countries, Wide Format Systems, licensing revenues, Global Imaging Systems (GIS) network integration solutions and electronic presentation systems, non-allocated corporate items including non-financing interest and other items included in Other expenses, net.

Operating segment revenues and profitability were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	Segment Revenue	Segment Profit (Loss)	Segment Revenue	Segment Profit(Loss)
2015				
Services	$2,569	$192	$5,083	$ 381
Document Technology	1,880	228	3,710	431
Other	141	(76)	266	(138)
Total	$4,590	$344	$9,059	$ 674
2014				
Services	$2,651	$226	$5,236	$ 448
Document Technology	2,126	306	4,170	555
Other	164	(75)	306	(125)
Total	$4,941	$457	$9,712	$ 878

	Three Months Ended June 30,		Six Months Ended June 30,	
Reconciliation to Pre-tax Income	2015	2014	2015	2014
Segment Profit	$344	$457	$674	$878
Reconciling items:				
Restructuring and asset impairment charges, and related costs(1)	(160)	(46)	(178)	(75)
Restructuring charges of Fuji Xerox	(1)	1	(2)	(2)
Amortization of intangible assets	(79)	(78)	(156)	(155)
Equity in net income of unconsolidated affiliates	(29)	(33)	(63)	(75)
Other	(1)	—	—	1
Pre-tax Income	$74	$301	$275	$572

(1) Includes business transformation costs of $3 and $7 for the three months ended June 30, 2015 and June 30, 2014, respectively, and $7 and $10 for the six months ended June 30, 2015 and June 30, 2014, respectively. Business transformation costs represent incremental costs incurred directly in support of our business transformation and restructuring initiatives such as compensation costs for overlapping staff, consulting costs and training costs.

Note 4 – Acquisitions

In January 2015, we acquired Intellinex LLC (Intellinex), formerly Intrepid Learning Solutions, Inc., a Seattle-based company, for $28 in cash. Intellinex provides outsourced learning services primarily in the aerospace manufacturing and technology industries. The acquisition of Intellinex will solidify the position of Xerox's Learning Services unit as a leading provider of end-to-end outsourced learning services, and adds key vertical market expertise in the aerospace industry. Intellinex is included in our Services segment.

During 2015 we also acquired one additional business in our Services segment for approximately $14 in cash, and one additional business in our Document Technology segment for approximately $6 in cash.

The operating results of these acquisitions are not material to our financial statements and are included within our results from the acquisition dates. The purchase prices were allocated primarily to intangible assets, goodwill and internal use software based on third-party valuations and management's estimates.

Note 5 – Divestitures

Information Technology Outsourcing (ITO)

In December 2014 we announced an agreement to sell the ITO business to Atos. As a result of this agreement and having met applicable accounting requirements, in the fourth quarter 2014, we began reporting the ITO business (disposal group) as a Discontinued Operation. All prior periods were accordingly revised to conform to this presentation. The sale was completed on June 30, 2015. The final sale price of approximately $940 ($930 net of cash sold) reflects closing adjustments, including an adjustment for changes in net asset values and additional proceeds for the condition of certain assets at the closing. Atos also assumed approximately $85 of capital lease obligations and pension liabilities. Net after-tax proceeds are estimated to be approximately $850, which reflects expected cash taxes as well as our transaction and transition costs associated with the disposal. The ITO business included approximately 9,600 employees in 42 countries, who were transferred to Atos upon closing.

In fourth quarter 2014, we recorded a net pre-tax loss of $181 related to the pending sale, reflecting the write-down of the carrying value of the ITO disposal group, inclusive of goodwill, to its estimated fair value less costs to sell. In 2015, we recorded an additional net pre-tax loss of $72 ($68 in second quarter 2015) primarily related to adjustment of the sales price and related expenses associated with the disposal, as well as reserves for certain obligations and indemnifications we retained as part of the final closing negotiations. In addition, in second quarter 2015 we recorded tax expense of $54 primarily related to the difference between the book basis and tax basis of allocated goodwill, which could only be recorded upon final disposal of the business.

The transaction continues to be subject to post-closing adjustments primarily related to a final true-up of net assets and other indemnification obligations. The additional loss recorded in the second quarter 2015 reflects current estimates for these items. In the event there are additional charges associated with this disposal, we will record such amounts through discontinued operations in future periods.

Other Discontinued Operations:
Other discontinued operations include the 2014 closure of Xerox Audio Visual Solutions, Inc. (XAV) and the 2014 sale of our Truckload Management Services, Inc. (TMS) business.
Summarized financial information for our Discontinued Operations is as follows:

	Three Months Ended June 30,						Six Months Ended June 30,					
	2015			2014			2015			2014		
	ITO	Other	Total	ITO	Other	Total	ITO	Other	Total	ITO	Other	Total
Revenues	$308	$—	$308	$341	$17	$358	$619	$—	$619	$669	$38	$707
Income (loss) from operations (1), (2)	43	—	43	23	—	23	104	—	104	44	(1)	43
Loss on disposal	(68)	—	(68)	—	(2)	(2)	(72)	—	(72)	—	—	—
Net (loss) income before income taxes	$(25)	$—	$(25)	$23	$(2)	$21	$32	$—	$32	$44	$(1)	$43
Income tax expense	(70)	—	(70)	(9)	(1)	(10)	(93)					