XEROX CORP
Form 10-K
February 19, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2015

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

For the transition period from: ______ to: _______

Commission File Number 001-04471

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2015 was $11,371,974,991.
Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated herein by reference:

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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PART I

ITEM 1. BUSINESS
Planned Company Separation

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

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

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

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

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

Leverage Brand Strength and Market Position

We have a strong and valuable brand that continues to be ranked in the top percentile of the most valuable global brands. By applying our expertise in imaging, business process, analytics, automation and user-centric insights, we engineer the flow of work to provide greater productivity, efficiency and personalization. Well-recognized and respected, our brand is associated worldwide with delivering innovative solutions, and industry-leading business process and document management services and technology.

Xerox has a broad, diverse set of offerings in Services and a strong, well-positioned product portfolio in Document Technology. We are strengthening our market positions by constantly evaluating our businesses and focusing our investments in areas where we have an advantage, and where the greatest market opportunities exist. We expect to accomplish this by narrowing our focus, targeting acquisitions and investing in businesses that will enhance our Services offerings and capabilities, capitalize on our deep industry expertise and expand services globally, while maintaining our Document Technology leadership in attractive market segments.

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

Profitably Grow Services in Attractive Markets

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

Lead in Document Technology

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

Innovate to Differentiate Our Offerings

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

Drive Operational Excellence Across Our Businesses

Our operational excellence model leverages our global delivery capabilities, production model, incentive-based compensation process, proprietary systems and financial discipline to deliver increased productivity and lower costs for our customers and for our own business. Margin expansion is a key priority within Services and an overall opportunity for Xerox that we will achieve through specific initiatives aimed at improving our cost structure and portfolio mix. As markets shift, we undertake restructuring to optimize our workforce and facilities to best align our resources with the growth areas of our business, and to maximize profitability and cash flow in businesses that are declining. In Services, we realigned our delivery resources into global capability organizations in order to maximize our global scale and ensure service delivery excellence across our BPO offerings. We also have initiatives underway to continue improving our software platform implementation capability, particularly within our Government Healthcare business where we have narrowed the focus of our platform development initiatives. With our ongoing efforts and targeted initiatives in both Services and Document Technology, we expect over time to maintain or increase our profitability and overall competitive positioning.

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

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

We remain committed to using our solid cash flow to deliver shareholder returns now and in the future through a balanced capital allocation strategy that includes share repurchase, acquisitions and dividends.
Acquisitions and Divestitures
The following is a summary of our acquisitions and divestitures in 2015. Additional details can be found in Note 3 - Acquisitions and Note 4 - Divestitures, in the Consolidated Financial Statements.

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

- The learning services unit of Seattle-based Intrepid Learning Solutions (announced in 2014, closed January 2015).

- Healthy Communities Institute, a California-based company that helps hospitals and other health organizations manage population health.

- RSA Medical, an Illinois-based provider of health assessment and risk management for members interacting with health and life insurance companies.

- inVentiv Patient Access Solutions (iPAS), an inVentiv Health company that helps pharmaceutical companies drive product adoption and supports patients in minimizing or eliminating financial and reimbursement hurdles.

Additionally, we completed the sale of our Information Technology Outsourcing (ITO) business on June 30, 2015 to Atos SE. The sale enables Xerox to increase its focus and resources on expanding its BPO and DO businesses, areas where the company has competitive advantage. We continue to have a relationship with Atos in which Atos continues to provide IT services to us internally as well as to our current BPO customers.
In the Document Technology segment, consistent with our strategy to expand distribution in under-penetrated markets, we acquired Lancaster, PA based Conestoga Business Solutions and Fort Collins, Colorado based Capital Business Systems.
Innovation and Research
Xerox has a rich heritage of innovation, and innovation continues to be a core strength of the Company as well as a competitive differentiator. Our aim is to create value for our customers, our shareholders, and our people by driving innovation in key areas. Our investments in innovation align with our growth opportunities in areas like business process services, color printing and customized communication. Our research efforts can be categorized under four themes:

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

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

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

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

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

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

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

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

Global Research Centers

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

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

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

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

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

Segment Information

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

Revenues by Business Segment

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

Services Segment

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

Business Process Outsourcing

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

Industry Business Groups

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

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

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

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

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

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

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

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

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

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

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

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

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

Document Outsourcing

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

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

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

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

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

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

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

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

- Xerox Secure Print Manager Suite: services to help integrate advanced print security, control, reporting and analytics capabilities.

- Xerox Digital Alternatives: enables individuals and workgroups to complete multiple workflows within a single application without the need for paper.

- Xerox DocuShare 7.0: an on-premise or in the cloud enterprise content management (ECM) and process automation solution.
- Xerox Workflow Automation Solutions for Supply Chain Optimization: a service based solution that improves the processes between a retailer's head office, stores and back office operations.
- Xerox Workflow Automation Solutions for Loan Application Processing: an automation of loan application review process using document capture, e-forms, e-signature, content management and workflow technologies.
- Xerox Workflow Automation Solutions for Health Records Information Management: a solution that aggregates, manages and presents clinical healthcare data from diverse sources into a unified, configurable, easily accessed view: the Patient Window.
- Xerox Workflow Automation Solutions for Insurance: workflow solutions for New Business Processing and Claims Processing.
- Xerox Workflow Automation Solutions for Human Resources: three workflow solutions including HR Onboarding, Employee File Management and Policy and Procedure Administration that provide HR personnel the information they need to better streamline their HR processes.
- Xerox Workflow Automation Solutions for Finance & Accounting: workflow solutions for Accounts Payable and Accounts Receivable.
- Next Generation Xerox Partner Print Services: enabling Channel Partner expansion opportunities with Digital Alternatives, DocuShare 7.0, Client MPS Maturity Assessment and Demand Generation tools and solutions.

Document Technology Segment

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

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

Entry

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

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

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

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

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

Mid-Range

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

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

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

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

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

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

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

High-End

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

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

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

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

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

Other Segment

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

Geographic Information

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

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

Patents, Trademarks and Licenses

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

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

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

Marketing and Distribution

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

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

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

Competition

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

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

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

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

Global Employment

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

Customer Financing

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

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

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

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

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

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

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

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

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

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

Seasonality

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

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

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

Our Internet address is www.xerox.com.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

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

Stock Exchange Information

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

Xerox Common Stock Prices and Dividends

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

*Price as of close of business.

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

Common Shareholders of Record

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

PERFORMANCE GRAPH

Total Return To Shareholders

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

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

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

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

Dividend Equivalent

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

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

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

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

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

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

Board Authorized Share Repurchase Program:

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

(1) Exclusive of fees and costs.

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

Repurchases Related to Stock Compensation Programs[1]:

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

Executive Overview

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

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

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

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

Annuity-Based Business Model

In 2015, 85% of our total revenue was annuity-based, which includes contracted outsourcing services, equipment maintenance services, consumable supplies and financing, among other elements. Our annuity revenue significantly benefits from growth in Services. Some of the key indicators of annuity revenue growth include:

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

Planned Company Separation

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

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

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

Acquisitions and Divestitures

Consistent with our strategy to enhance our Services offerings and global presence and to expand our distribution capabilities in Document Technology, we completed several acquisitions during 2015. Refer to Acquisitions and Divestitures section in Item 1. Business in this Form 10-K as well as Note 3 - Acquisitions in our Consolidated Financial Statements for additional information regarding our 2015 acquisitions.

In December 2014, we announced an agreement to sell our Information Technology Outsourcing (ITO) business to Atos and began reporting it as a Discontinued Operation. The sale was completed on June 30, 2015. Refer to Note 4 - Divestitures in our Consolidated Financial Statements for additional information.

Significant 2015 Charges

During 2015, we announced several changes regarding the strategic direction of our Government Healthcare Solutions (GHS) business, specifically with respect to the implementation of our Health Enterprise (HE) Medicaid platform. In October 2015, we determined that we would not fully complete the implementation of the platform in California and Montana. This determination resulted in recording a pre-tax charge (HE charge) of $389 million ($241 million after-tax) in the third quarter 2015. $116 million of the charge was recorded as a reduction to revenues and the remaining $273 million was recorded to Cost of outsourcing, maintenance and rentals. This development followed the GHS strategy change announced in July 2015, regarding our decision to focus our future HE implementations on current Medicaid customers and to discontinue investment in and sales of the Xerox Integrated Eligibility System. This change in strategy resulted in pre-tax non-cash software platform impairment charges of $146 million in the second quarter 2015. Refer to the "Government Healthcare Strategy Change" section of the "Services Segment" review for further details of these decisions and charges.

As a result of the significant impact of the HE charge and the software impairment charges on our reported revenues, earnings and key metrics for the period, we are also discussing our results excluding the impact of these charges. These adjusted results are noted as “adjusted[1]” in the discussion below. Refer to the "Non-GAAP Financial Measures" section for an explanation of these non-GAAP financial measures.

Financial Overview

Total revenue of $18.0 billion in 2015 declined 8% from the prior year, with a 4-percentage point negative impact from currency. On an adjusted[1] basis, excluding the HE charge, total revenues decreased 7%, with a 4-percentage point negative impact from currency. Services segment revenues decreased 4%, with a 3-percentage point negative impact from currency. On an adjusted[1] basis Services segment revenues decreased 3%, with a 3-percentage point negative impact from currency, reflecting a 1% constant currency decrease in BPO revenues offset by a 3% increase in DO revenues. Services segment margin of 4.4% decreased 4.6-percentage points. On an adjusted[1] basis segment margin was 8.1% and decreased 0.9-percentage points primarily due to targeted resource and other investments and increased expenses associated with our GHS HE platform implementations prior to the change in strategy. Document Technology segment revenues declined 12%, with a 4-percentage point negative impact from currency reflecting lower sales of entry products particularly in developing markets and to OEM customers and

lower supplies demand as well as continued price and page declines. Document Technology segment margin of 11.9% decreased 1.8-percentage points from 2014, reflecting unfavorable product mix and price declines, within our historical range, and an increase in pension expense partially offset by restructuring and productivity benefits.
2015 Net income from continuing operations attributable to Xerox was $552 million and included the $241 million after-tax HE charge and $90 million after-tax GHS software impairment charges as well as $193 million of after-tax amortization of intangible assets. Net income from continuing operations attributable to Xerox for 2014 was $1,128 million and included $196 million of after-tax amortization of intangible assets. The decrease in net income, after consideration of the noted charges, is primarily due to the profit decline in both the Services and Document Technology segments.
Cash flow from operations was $1.6 billion in 2015 as compared to $2.1 billion in 2014. The decrease in operating cash flow was primarily due to lower earnings and the elimination of cash flows from the divested ITO business. Cash provided by investing activities of $508 million primarily reflects net proceeds from the sale of the ITO business of approximately $930 million partially offset by capital expenditures of $342 million and acquisitions of $210 million. Cash used in financing activities was $2.1 billion, reflecting $1.3 billion for share repurchases, $370 million of net payments on debt and $326 million for dividends.

2016 Outlook

We expect total revenues to decline 2 to 4% in 2016, excluding the impact of currency. At mid January 2016 exchange rates, we expect currency to have about a 1 to 2 percentage point negative impact on total revenues in 2016, reflecting the continued weakening of our major foreign currencies against the U.S. dollar as compared to prior year. Earnings in 2016 are expected to reflect margin improvements in the Services segment and a Document Technology margin generally consistent with 2015. Refer to the "2016 Segment Reporting Change" section for a discussion of planned changes in the measurement of segment revenues and profits in 2016. The discussion below reflects those changes and the "2016 Segment Reporting Change" section includes a summary of revised segment results for 2015 on the new basis for comparison purposes.
In our Services business, we expect flat to 3% revenue growth, excluding the impact of currency, with revenue growth improving through the year driven by continued growth in signings. Services margins are expected to improve and be in the range of 8 to 9.5% in 2016 as we continue to focus on productivity and cost improvements, capturing additional efficiencies, including streamlining and automating more of our service delivery capabilities, and continued improvements to our business mix with a greater proportion of revenue from higher value offerings.
In our Document Technology business, we expect revenue to decline 5 to 7%, excluding the impact of currency, as we continue to face secular declines in these markets. We expect to offset these expected declines through continued cost management as well as the benefits from productivity and restructuring actions. 2016 margins in Document Technology are expected to be in the range of 12 to 14%, in line with 2015.
We expect 2016 cash flows from operations to be between $1.3 and $1.5 billion in 2016 and capital expenditures to be approximately $300 million.

Our capital allocation plan for 2016 includes the following:

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

Currency Impact

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as “currency impact” or “the impact from currency” or "constant currency". In 2015 and 2014, this impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. Our calculation of this impact currently excludes the exchange impact from our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe). Revenues and expenses for these countries are analyzed at actual exchange rates for all periods presented, since these countries generally had unpredictable currency and inflationary environments, and our operations in these countries have historically been able to implement pricing actions to recover the impact of inflation and devaluation.

Approximately 30% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue-weighted basis, the U.S. Dollar was 16% stronger in 2015 and flat in 2014, each compared to the prior year. As a result, the foreign currency translation had a 4-percentage point negative impact on revenue in 2015 and no impact on revenue in 2014. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

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

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

Application of Critical Accounting Policies

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

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

Revenue Recognition

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

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

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

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

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

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

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

As noted previously, we apply the POC accounting method for arrangements in our government healthcare business. This includes the implementation of our HE Medicaid platform for various states in the U.S. Changes in the healthcare market, including evolving regulations, have continued to impact our development work and project scope for these arrangements including the development work required by our clients and their providers. This has contributed to delays in meeting client delivery dates as well as increased delivery costs for these contracts. In addition, the POC estimation process is particularly complex and challenging for these arrangements due to their significant scope and duration and the highly technical nature of the implementations. As a result, throughout the respective development and implementation periods, there is the potential for additional changes in contract costs, productivity, performance penalties and other factors, all of which may result in material increases or decreases in future revenues and costs.

As an example, during 2015 it was determined that we would not fully complete the HE Medicaid platform implementation projects in California and Montana. Revenues associated with these implementations were being recognized using the POC accounting method. As a result of the determination that we will not fully complete these implementations, we recorded a $116 million write-off of unbilled POC receivables associated with these projects and additional charges of $273 million. Based on the significance of these projects, we continually monitor the progress on our remaining HE Medicaid platform implementations and consider the potential for increased costs as well as risks and uncertainties in our estimates of revenues and costs under the POC accounting methodology. To the extent possible, we attempt to mitigate these risks through operational changes, project oversight and process improvements. Total unbilled receivables associated with our current HE Medicaid implementation projects were $51 million at December 31, 2015.

Allowance for Doubtful Accounts and Credit Losses

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We recorded bad debt provisions of $53 million, $53 million and $120 million in Selling, Administrative and General Expenses (SAG) expenses in our Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013, respectively.

Bad debt provisions remained fairly flat in 2015 reflecting a consistent trend in write-offs throughout the year as well as a continued disciplined credit process. Reserves, as a percentage of trade and finance receivables, were 3.0% at December 31, 2015, as compared to 3.1% and 3.4% at December 31, 2014 and 2013. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts.

As discussed above, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the five year period ended December 31, 2015, our reserve for doubtful accounts ranged from 3.0% to 3.4% of gross receivables. Holding all assumptions constant, a 0.5-percentage point increase or decrease in the reserve from the December 31, 2015 rate of 3.0% would change the 2015 provision by approximately $33 million.

Refer to Note 5 - Accounts Receivables, Net and Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

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

Cumulative net actuarial losses for our defined benefit pension plans of $3.1 billion as of December 31, 2015 decreased by $223 million from December 31, 2014, reflecting the decrease in our benefit obligations as a result of higher discount rates and the recognition of actuarial losses through amortization and U.S. settlement losses. These impacts were partially offset by losses as a result of actual plan asset returns being less than expected returns in

2015. The total actuarial loss at December 31, 2015 is subject to offsetting gains or losses in the future due to changes in actuarial assumptions and will be recognized in future periods through amortization or settlement losses.

We used a consolidated weighted average expected rate of return on plan assets of 6.0% for 2015, 6.7% for 2014 and 6.7% for 2013, on a worldwide basis. During 2015, the actual return on plan assets was $(89) million as compared to an expected return of $376 million, with the difference largely due to negative returns in the equity markets in 2015. When estimating the 2016 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future, particularly in light of current economic conditions, and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will use in 2016 is 5.8%. The decline in the 2016 rate primarily reflects the increased investment in fixed income securities as we reposition our investment portfolios in light of the freeze of plan benefits.

Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. In the U.S. and the U.K., which comprise approximately 77% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2015 and to calculate our 2016 expense was 3.7%; the rate used to calculate our obligations as of December 31, 2014 and our 2015 expense was 3.4%. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2015 and to calculate our 2016 expense was 4.1%; the rate used to calculate our obligation at December 31, 2014 and our 2015 expense was 3.8%.

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2016 projected net periodic pension cost by approximately $30 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2016 projected net periodic pension cost by $19 million.

One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through the receipt of a lump-sum payment. We recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were $3.1 billion at December 31, 2015, of which the U.S. primary domestic plans represented approximately $1,101 million. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs - i.e. the lump-sum payment is made. Since settlement is dependent on an employee's decision and election, the level of settlements and the associated losses can fluctuate significantly from period to period. During the three years ended December 31, 2015, U.S. plan settlements were $340 million, $250 million and $838 million, respectively, and the associated settlement losses on those plan settlements were $88 million, $51 million and $162 million, respectively. In 2016, on average, approximately $100 million of plan settlements will result in settlement losses of approximately $25 million.

The following is a summary of our benefit plan costs for the three years ended December 31, 2015 as well as estimated amounts for 2016:

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

(1) Excludes U.S. settlement losses.

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

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

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

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

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

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

Income Taxes

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

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Adjustments to our valuation allowance, through (credits)/charges to income tax expense, were $(3) million, $(20) million and $2 million for the years ended December 31, 2015, 2014 and 2013, respectively. There were other decreases to our valuation allowance, including the effects of currency, of $125 million, $56 million and $42 million for the years ended December 31, 2015, 2014 and 2013, respectively. These did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of $3.1 billion and $3.4 billion had valuation allowances of $410 million and $538 million at December 31, 2015 and 2014, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results. Unrecognized tax benefits were $247 million, $240 million and $267 million at December 31, 2015, 2014 and 2013, respectively.

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

Business Combinations and Goodwill

The accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party valuation firms. Refer to Note 3 - Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

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

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

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

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

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

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

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

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

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

Revenue Results Summary

Total Revenue

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

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

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

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

Revenue 2015

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

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

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

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

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

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

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

Revenue 2014

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

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

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

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

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

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

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

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,						Change				
	2015		2014		2013		2015 B/(W)	2014 B/(W)	2015 Adjusted(1)		2015 Adjusted(1) B/(W) 2014
Total Gross Margin	29.2	%	32.0	%	32.4	%	(2.8) pts	(0.4) pts	31.1	%	(0.9) pts
RD&E as a % of Revenue	3.1	%	3.0	%	3.0	%	(0.1) pts	—	3.1	%	(0.1) pts
SAG as a % of Revenue	19.7	%	19.4	%	20.4	%	(0.3) pts	1.0 pts	19.6	%	(0.2) pts
Operating Margin(1)	NM		9.6	%	9.0	%	NM	0.6 pts	8.4	%	(1.2) pts

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

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

Operating Margin

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

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

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

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

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

Gross Margins

Total Gross Margin

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

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

Services Gross Margin

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

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

Document Technology Gross Margin

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

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

Research, Development and Engineering Expenses (RD&E)

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

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

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

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

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

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

RD&E of