

XEROX CORP  
Form 10-Q  
October 27, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: September 30, 2008

OR

**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)

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**New York**  
(State or other jurisdiction of  
incorporation or organization)  
P.O. Box 4505, 45 Glover Avenue

**Norwalk, Connecticut**  
(Address of principal executive offices)

**16-0468020**  
(IRS Employer  
Identification No.)

**06856-4505**  
(Zip Code)

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

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

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

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

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

<b>Class</b>	<b>Outstanding at September 30, 2008</b>
Common Stock, \$1 par value	865,600,051 shares

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**Forward-Looking Statements**

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, estimate, expect, intend, will, should and other similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: the risk that we will not realize all of the anticipated benefits from our 2007 acquisition of Global Imaging Systems, Inc.; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services and other risks that are set forth in the Risk Factors section, the Legal Proceedings section, the Management's Discussion and Analysis of Financial Condition and Results of Operations section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 and our 2007 Form 10-K filed with the Securities and Exchange Commission (SEC). The company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

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**Form 10-Q**

**September 30, 2008**

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

**Table of Contents****Item 1****PART I FINANCIAL INFORMATION****XEROX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(in millions, except per-share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Revenues</b>				
Sales	\$ 2,047	\$ 2,030	\$ 6,179	\$ 5,713
Service, outsourcing and rentals	2,126	2,068	6,446	6,019
Finance income	197	204	613	614
<b>Total Revenues</b>	<b>4,370</b>	<b>4,302</b>	<b>13,238</b>	<b>12,346</b>
<b>Costs and Expenses</b>				
Cost of sales	1,340	1,316	4,059	3,686
Cost of service, outsourcing and rentals	1,241	1,183	3,747	3,449
Equipment financing interest	75	79	234	236
Research, development and engineering expenses	228	233	672	674
Selling, administrative and general expenses	1,138	1,091	3,432	3,126
Restructuring and asset impairment charges	14	(3)	80	(7)
Provision for litigation, net			795	
Other expenses, net	96	79	254	214
<b>Total Costs and Expenses</b>	<b>4,132</b>	<b>3,978</b>	<b>13,273</b>	<b>11,378</b>
<b>Income (Loss) before Income Taxes and Equity Income</b>	<b>238</b>	<b>324</b>	<b>(35)</b>	<b>968</b>
Income tax expense (benefit)	15	97	(172)	275
Equity in net income of unconsolidated affiliates	35	27	92	60
<b>Net Income</b>	<b>\$ 258</b>	<b>\$ 254</b>	<b>\$ 229</b>	<b>\$ 753</b>
<b>Basic Earnings per Share</b>	<b>\$ 0.30</b>	<b>\$ 0.27</b>	<b>\$ 0.26</b>	<b>\$ 0.80</b>
<b>Diluted Earnings per Share</b>	<b>\$ 0.29</b>	<b>\$ 0.27</b>	<b>\$ 0.25</b>	<b>\$ 0.79</b>

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

**Table of Contents****XEROX CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in millions, except share data in thousands)	September 30, 2008	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 873	\$ 1,099
Accounts receivable, net	2,504	2,457
Billed portion of finance receivables, net	282	304
Finance receivables, net	2,544	2,693
Inventories	1,376	1,305
Other current assets	1,170	682
<b>Total current assets</b>	<b>8,749</b>	<b>8,540</b>
Finance receivables due after one year, net	4,658	5,051
Equipment on operating leases, net	604	587
Land, buildings and equipment, net	1,515	1,587
Investments in affiliates, at equity	1,017	932
Intangible assets, net	625	621
Goodwill	3,446	3,448
Deferred tax assets, long-term	1,522	1,349
Other long-term assets	1,489	1,428
<b>Total Assets</b>	<b>\$ 23,625</b>	<b>\$ 23,543</b>
<b>Liabilities and Shareholders' Equity</b>		
Short-term debt and current portion of long-term debt	\$ 1,457	\$ 525
Accounts payable	1,303	1,367
Accrued compensation and benefits costs	608	673
Other current liabilities	2,229	1,512
<b>Total current liabilities</b>	<b>5,597</b>	<b>4,077</b>
Long-term debt	6,783	6,939
Liability to subsidiary trust issuing preferred securities	637	632
Pension and other benefit liabilities	973	1,115
Post-retirement medical benefits	1,381	1,396
Other long-term liabilities	752	796
<b>Total Liabilities</b>	<b>16,123</b>	<b>14,955</b>
Common stock, including additional paid-in-capital	3,393	4,096
Treasury stock, at cost	(91)	(31)
Retained earnings	5,378	5,288
Accumulated other comprehensive loss	(1,178)	(765)
<b>Total Shareholders' Equity</b>	<b>7,502</b>	<b>8,588</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 23,625</b>	<b>\$ 23,543</b>

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Shares of common stock issued	872,442	919,013
Treasury stock	(6,842)	(1,836)
Shares of common stock outstanding	865,600	917,177

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

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## XEROX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Cash Flows from Operating Activities:</b>				
Net income	\$ 258	\$ 254	\$ 229	\$ 753
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	175	171	498	485
Provisions for receivables and inventory	65	48	173	142
Net gain on sales of businesses and assets		(1)	(22)	(5)
Undistributed equity in net income of unconsolidated affiliates	(31)	(25)	(60)	(43)
Stock-based compensation	26	27	66	62
Provision for litigation, net			795	
Restructuring and asset impairment charges	14	(3)	80	(7)
Payments for restructurings	(33)	(61)	(92)	(195)
Contributions to pension benefit plans	(205)	(197)	(271)	(252)
Increase in accounts receivable and billed portion of finance receivables	(60)	(111)	(128)	(227)
Increase in inventories	(10)	(29)	(175)	(189)
Increase in equipment on operating leases	(81)	(84)	(242)	(229)
Decrease in finance receivables	99	50	319	270
Decrease in other current and long-term assets	24	22	18	76
Increase (decrease) in accounts payable and accrued compensation	94	150	(49)	77
(Decrease) increase in other current and long-term liabilities	(85)	19	(132)	(8)
Net change in income tax assets and liabilities	(15)	57	(302)	200
Net change in derivative assets and liabilities	(1)	(20)	9	(44)
Other, net	26	19	40	(5)
<b>Net cash provided by operating activities</b>	<b>260</b>	<b>286</b>	<b>754</b>	<b>861</b>
<b>Cash Flows from Investing Activities:</b>				
Cost of additions to land, buildings and equipment	(43)	(56)	(142)	(164)
Proceeds from sales of land, buildings and equipment	1	7	37	13
Cost of additions to internal use software	(42)	(29)	(102)	(83)
Acquisitions, net of cash acquired	(11)	(44)	(153)	(1,574)
Net change in escrow and other restricted investments	(266)	12	(403)	52
Other, net	5	19	57	137
<b>Net cash used in investing activities</b>	<b>(356)</b>	<b>(91)</b>	<b>(706)</b>	<b>(1,619)</b>
<b>Cash Flows from Financing Activities:</b>				
Net debt payments on secured financings	(45)	(881)	(192)	(1,255)
Net cash proceeds on other debt	329	859	900	1,855
Common stock dividend payments	(37)		(116)	
Proceeds from issuances of common stock	2	8	6	59
Excess tax benefits from stock-based compensation	1	3	2	21
Payments to acquire treasury stock, including fees	(92)	(212)	(804)	(501)



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Repurchases related to stock-based compensation			(33)	
Other	(5)	(3)	(14)	(18)