XEROX CORP
Form 10-Q
April 30, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2009

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)

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

(203) 968-3000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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 x 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 x

Class	Outstanding at March 31, 2009
Common Stock, $1 par value	864,786,552 shares

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Forward-Looking Statements

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, estimate, expect, intend, will, should and similar expressions, as they re 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 unprecedented volatility in the global economy; 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, including savings from restructuring actions; 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, as well as in our 2008 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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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

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PART I, ITEM 1 FINANCIAL INFORMATION

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) [1]

(in millions, except per-share data)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues		
Sales	$ 1,494	$ 2,013
Service, outsourcing and rentals	1,880	2,113
Finance income	180	209
Total Revenues	**3,554**	**4,335**
Costs and Expenses		
Cost of sales	1,004	1,319
Cost of service, outsourcing and rentals	1,100	1,231
Equipment financing interest	69	80
Research, development and engineering expenses	204	221
Selling, administrative and general expenses	1,004	1,124
Restructuring and asset impairment charges	(2)	3
Other expenses, net	97	866
Total Costs and Expenses	**3,476**	**4,844**
Income (Loss) before Income Taxes and Equity Income	**78**	**(509)**
Income tax expense (benefit)	19	(246)
Equity in net (loss) income of unconsolidated affiliates	(10)	28
Net Income (Loss)	**49**	**(235)**
Less: Net Income attributable to noncontrolling interests	7	9
Net Income (Loss) Attributable to Xerox Corporation	**$ 42**	**$ (244)**
Basic Earnings (Loss) per Share	**$ 0.05**	**$ (0.27)**
Diluted Earnings (Loss) per Share	**$ 0.05**	**$ (0.27)**

[1] See Note 1, Basis of Presentation for a discussion of the change in presentation of Noncontrolling Interests.

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

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XEROX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) [(1)]

(in millions, except share data in thousands)

	March 31, 2009	December 31, 2008
Assets		
Cash and cash equivalents	$ 549	$ 1,229
Accounts receivable, net	1,930	2,184
Billed portion of finance receivables, net	257	254
Finance receivables, net	2,326	2,461
Inventories	1,295	1,232
Other current assets	725	790
Total current assets	7,082	8,150
Finance receivables due after one year, net	4,379	4,563
Equipment on operating leases, net	566	594
Land, buildings and equipment, net	1,380	1,419
Investments in affiliates, at equity	947	1,080
Intangible assets, net	635	610
Goodwill	3,275	3,182
Deferred tax assets, long-term	1,667	1,692
Other long-term assets	1,109	1,157
Total Assets	**$ 21,040**	**$ 22,447**
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 641	$ 1,610
Accounts payable	1,282	1,446
Accrued compensation and benefits costs	561	625
Other current liabilities	1,368	1,769
Total current liabilities	3,852	5,450
Long-term debt	7,258	6,774
Liability to subsidiary trust issuing preferred securities	648	648
Pension and other benefit liabilities	1,747	1,747
Post-retirement medical benefits	879	896
Other long-term liabilities	587	574
Total Liabilities	**14,971**	**16,089**
Common stock, including additional paid-in-capital	3,330	3,313
Retained earnings	5,345	5,341
Accumulated other comprehensive loss	(2,730)	(2,416)
Xerox Shareholders Equity	5,945	6,238
Noncontrolling Interests	124	120
Total Equity	**6,069**	**6,358**
Total Liabilities and Equity	**$ 21,040**	**$ 22,447**

Shares of common stock issued and outstanding	864,787	864,777

(1) See Note 1, Basis of Presentation for a discussion of the change in presentation of Noncontrolling Interests.

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 March 31, 2009	2008
Cash Flows from Operating Activities:		
Net Income (loss) attributable to Xerox Corporation	$ 42	$ (244)
Adjustments required to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization	169	145
Provisions for receivables and inventory	84	49
Net gain on sales of businesses and assets	(2)	(7)
Undistributed equity in net loss (income) of unconsolidated affiliates	10	(27)
Stock-based compensation	17	20
Provision for litigation, net	2	795
Payments for securities litigation, net	(28)	
Payments for restructurings	(87)	(37)
Contributions to pension benefit plans	(28)	(35)
Decrease (increase) in accounts receivable and billed portion of finance receivables	167	(28)
Increase in inventories	(105)	(129)
Increase in equipment on operating leases	(63)	(77)
Decrease in finance receivables	113	124
Decrease (increase) in other current and long-term assets	17	(34)
Decrease in accounts payable and accrued compensation	(168)	(183)
Decrease in other current and long-term liabilities	(105)	(23)
Net change in income tax assets and liabilities	2	(300)
Net change in derivative assets and liabilities	(40)	23
Other, net	25	20
Net cash provided by operating activities	22	52
Cash Flows from Investing Activities:		
Cost of additions to land, buildings and equipment	(37)	(44)
Proceeds from sales of land, buildings and equipment	3	9
Cost of additions to internal use software	(28)	(27)
Acquisitions, net of cash acquired	(145)	(4)
Net change in escrow and other restricted investments		1
Net cash used in investing activities	(207)	(65)
Cash Flows from Financing Activities:		
Net debt payments on secured financings	(25)	(88)
Net (payments) proceeds on other debt	(417)	246
Common stock dividends	(37)	(40)
Payments to acquire treasury stock, including fees		(335)
Repurchases related to stock-based compensation		(32)
Other, net	(3)	(1)
Net cash used in financing activities	(482)	(250)
Effect of exchange rate changes on cash and cash equivalents	(13)	6

Decrease in cash and cash equivalents	(680)	(257)
Cash and cash equivalents at beginning of period	1,229	1,099
Cash and cash equivalents at end of period	**$ 549**	**$ 842**

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

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XEROX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except per-share data and where otherwise noted)

Note 1 Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2008 Annual Report to Shareholders, which is incorporated by reference in our 2008 Annual Report on Form 10-K (2008 Annual Report), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2008 Annual Report.

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

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

On January 1, 2009, we adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which changed the presentation requirements for noncontrolling (minority) interests. Refer to Note 2 Recent Accounting Pronouncements Business Combinations and Noncontrolling Interests for more information.

Note 2 Recent Accounting Pronouncements

Fair Value Accounting

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

In April 2009, the FASB issued three FASB Staff Positions (FSPs) in order to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities.

FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments. This FSP is intended to bring consistency to the timing of impairment recognition, and provide improved disclosures about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

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FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP relates to fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

We have elected to early adopt these FSPs effective March 31, 2009. The adoption of these FSPs did not have a material effect on our financial condition or results of operations.

Business Combinations and Noncontrolling Interests

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

In April 2009, the FASB issued Staff Position No. FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1). This FSP amends the accounting in FAS 141(R) for assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, FSP FAS 141(R)-1 requires measurement based on the best estimate in accordance with SFAS No. 5, Accounting for Contingencies. FSP FAS 141(R)-1 is effective as of January 1, 2009 in connection with the adoption of FAS 141(R).

In 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 160 requires companies to present noncontrolling (minority) interests as equity (as opposed to a liability) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. In addition, FAS 160 requires companies to report a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests. We adopted FAS 160 effective January 1, 2009, and it applies to noncontrolling interests prospectively from that date. However, the presentation and disclosure requirements of FAS 160 were applied retrospectively for all periods presented. As a result of this adoption, we reclassified noncontrolling interests in the amount of $120 from Other long-term liabilities to equity in the December 31, 2008 balance sheet.

Other Accounting Changes

In 2008, the FASB issued Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1). This FSP expands the disclosure set forth in SFAS No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets and (3) significant concentrations of risk. Additionally, FSP FAS 132(R)-1 requires an employer to disclose information about the valuation of plan assets similar to that required under FAS 157. The standard is effective for our fiscal year ending December 31, 2009. The principal impact from this FSP will be to require us to expand our disclosures regarding our benefit plan assets.

Note 3 Segment Reporting

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Production, Office and Other. The Production and Office segments are centered around strategic product groups which share common technology, manufacturing and product platforms, as well as classes of customers.

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The Production segment includes black-and-white products which operate at speeds over 90 pages per minute (ppm) excluding 95 ppm with an embedded controller and color products which operate at speeds over 40 ppm excluding 50, 60 and 70 ppm products with an embedded controller. Products include the Xerox iGen3® and iGen4 digital color production press, Xerox Nuvera®, DocuTech®, DocuPrint® and DocuColor® families, as well as older technology light-lens products. These products are sold predominantly through direct sales channels to Fortune 1000, graphic arts, government, education and other public sector customers.

The Office segment includes black-and-white products which operate at speeds up to 90 ppm as well as 95 ppm with an embedded controller and color products up to 40 ppm as well as 50, 60 and 70 ppm products with an embedded controller. Products include the suite of CopyCentre®, WorkCentre®, WorkCentre Pro and Phaser® digital multifunction systems, DocuColor color multifunction products, color laser, solid ink color printers and multifunction devices, monochrome laser desktop printers, digital and light-lens copiers and facsimile products and non-Xerox branded products with similar specifications. These products are sold through direct and indirect sales channels to global, national and mid-size commercial customers as well as government, education and other public sector customers.

The segment classified as Other includes several units, none of which met the thresholds for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), Value-Added Services, Wide Format Systems, Xerox Technology Enterprises, royalty and licensing revenues, GIS network integration solutions and electronic presentation systems, equity net income and non-allocated Corporate items. Other segment profit (loss) includes the operating results from these entities, other less significant businesses, our equity in net income (loss) from Fuji Xerox, and certain costs which have not been allocated to the Production and Office segments, including non-financing interest as well as other items included in Other expenses, net.

Operating segment revenues and profitability for the three months ended March 31, 2009 and 2008 were as follows:

	Production	Office	Other	Total
2009				
Segment revenues	$ 1,053	$ 2,011	$ 490	**$ 3,554**
Segment profit (loss)	$ 40	$ 138	$ (90)	**$ 88**
2008				
Segment revenues	$ 1,271	$ 2,447	$ 617	**$ 4,335**
Segment profit (loss)	$ 101	$ 265	$ (40)	**$ 326**

Reconciliation to pre-tax income (loss)	**Three Months Ended March 31, 2009**	**2008**
Segment profit	$ 88	$ 326
Reconciling items:		
Restructuring and asset impairment charges	2	(3)
Restructuring charges of Fuji Xerox	(22)	(10)
Litigation matters[1]		(795)
Equity in net loss (income) of unconsolidated affiliates	10	(28)
Other		1
Pre-tax income (loss)	**$ 78**	**$ (509)**

[1] *The 2008 litigation matters represent the provision for the Carlson v. Xerox Corporation court approved settlement, as well as provisions for other securities-related cases, net of insurance recoveries.*

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Note 4 Acquisition

In February 2009, Global Imaging Systems, Inc. (GIS) acquired ComDoc, Inc. (ComDoc) for approximately $145 in cash. ComDoc is one of the larger independent dealers in the U.S. and expands GIS s coverage in Ohio, Pennsylvania, New York and West Virginia. This acquisition continues GIS s expansion of a national network of office technology suppliers to serve its growing base of small and mid-size businesses. The operating results of ComDoc are not material to our financial statements and are included within our Office segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on third-party valuations and management s estimates.

Note 5 Inventories

The following is a summary of Inventories by major category:

	March 31, 2009	December 31, 2008
Finished goods	$ 1,100	$ 1,044
Work-in-process	77	80
Raw materials	118	108
Total Inventories	**$ 1,295**	**$ 1,232**

Note 6 Investment in Fuji Xerox and Other Unconsolidated Affiliates

Our equity in net (loss) income of our unconsolidated affiliates was as follows:

	Three Months Ended March 31,	
	2009	2008
Fuji Xerox	$ (12)	$ 26
Other investments	2	2
Total Equity in Net (Loss) Income of Unconsolidated Affiliates	**$ (10)**	**$ 28**

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended March 31,	
	2009	2008
Summary of Operations:		
Revenues	$ 2,670	$ 3,033
Cost and expenses	2,763	2,822
(Loss) income before income taxes	(93)	211
Income tax (benefit) expense	(52)	83
Minorities interests		2
Net (Loss) Income	**$ (41)**	**$ 126**

Equity in net (loss) income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest. Equity (loss) income for first quarter 2009 and 2008 includes after-tax restructuring charges of $22 and $10, respectively, primarily reflecting Fuji Xerox s continued cost-reduction initiatives.

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Note 7 Restructuring Programs

Information related to restructuring program activity during the three months ended March 31, 2009 is outlined below.

	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Balance December 31, 2008	$ 320	$ 32	$ 352
Restructuring provision	10	3	13
Reversals of prior accruals	(14)	(1)	(15)
Net current period charges[1]	(4)	2	(2)
Charges against reserve and currency	(93)	(4)	(97)
Balance March 31, 2009	**$ 223**	**$ 30**	**$ 253**

[1] *Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown.*

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Charges to reserve, all programs	$ (97)	$ (35)
Effects of foreign currency and other non-cash	10	(2)
Cash payments for restructurings	**$ (87)**	**$ (37)**

Note 8 Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Interest expense[1]	$ 130	$ 134
Interest income[2]	$ 185	$ 221

[1] *Includes Equipment financing interest, as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.*

[2] *Includes Finance income, as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.*

Note 9 Financial Instruments

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. As of March 31, 2009 and December 31, 2008, pay variable/receive fixed interest rate swaps with notional amounts of $650 and $675 and net asset fair values of $4 and $53, respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2009 or 2008.

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The following is a summary of our fair value hedges at March 31, 2009:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2012	2009	$ 250	$ 1	4.20%	5.50%	Libor	2012
Senior Notes due 2013	2009	400	3	3.89%	5.65%	Libor	2013
Total		**$ 650**	**$ 4**				

Cash Flow Hedges

We have pay fixed/receive variable interest rate swaps with notional amounts of $150 and a net liability fair value of $2 at March 31, 2009 and December 31, 2008, that were designated and accounted for as cash flow hedges. These swaps were structured to hedge the LIBOR interest rate of the floating Senior Notes due 2009 by converting it from a variable rate instrument to a fixed rate instrument. No ineffective portion was recorded to earnings for the three months ended March 31, 2009, and all components of the derivative gain or loss was included in the assessment of hedged effectiveness.

Terminated Swaps

During the three months ended March 31, 2009, interest rate swaps which had been designated as fair value hedges of certain debt instruments were terminated. These terminated interest rate swaps had an aggregate notional value of $675. The associated net fair value adjustment of $(34) to the debt instruments is being amortized to interest income over the remaining term of the related notes.

Foreign Exchange Risk Management

We use certain derivative instruments to manage the exposures associated with the foreign currency exchange risks discussed below.

Foreign Currency Denominated Assets and Liabilities

We generally utilize forward foreign exchange contracts and purchased option contracts to hedge these exposures. Changes in the value of these currency derivatives are recorded in earnings together with the offsetting foreign exchange gains and losses on the underlying assets and liabilities.

Forecasted Purchases and Sales in Foreign Currency

We generally utilize forward foreign exchange contracts and purchased option contracts to hedge these anticipated transactions. These contracts generally mature in six months or less. A portion of these contracts are designated as cash-flow hedges.

At March 31, 2009, we had outstanding forward exchange and purchased option contracts with gross notional values of $1.74 billion, which is reflective of the amounts that are normally outstanding at any point during the year. The following is a summary of the primary hedging positions and corresponding fair values held as of March 31, 2009:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[(1)]
U.K. Pound Sterling/Euro	$ 475	$ (9)
Euro/U.S. Dollar	15	
U.S. Dollar/Euro	149	2
Swedish Kronor/Euro	99	

Swiss Franc/Euro	170	(4)
Japanese Yen/U.S. Dollar	241	(6)

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)[1]
Japanese Yen/Euro	182	(10)
Euro/U.K. Pound Sterling	32	
U.S. Dollar/Canadian Dollar	16	
Canadian Dollar/Euro	139	5
Canadian Dollar/U.S. Dollar	73	(2)
All Other	150	1
Total	**$ 1,741**	**$ (23)**

[1] *Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at March 31, 2009.*

Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency denominated inventory purchases and sales. The changes in fair value for these contracts were reported in Accumulated other comprehensive loss and reclassified to Cost of sales and Revenue in the period or periods during which the related inventory was sold to a third party. No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative s gain or loss was included in the assessment of hedge effectiveness. As of March 31, 2009, the net liability fair value of these contracts was $7.

The following tables provide a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	March 31, 2009	December 31, 2008
Derivatives designated as hedging instruments	**Other long-term assets:**		
	Interest rate swaps	$ 4	$ 53
	Other current liabilities:		
	Interest rate swaps	$ 2	$ 2
	Foreign exchange contracts forwards	7	1
	Total	$ 9	$ 3
Derivatives NOT designated as hedging instruments	**Other current assets:**		
	Foreign exchange contracts forwards	$ 13	$ 39
	Other current liabilities:		
	Foreign exchange contracts forwards	$ 29	$ 131
	Total Derivative Assets	**$ 17**	**$ 92**
	Total Derivative Liabilities	**38**	**134**
	Total Net Derivative Liability	**$ 21**	**$ 42**

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The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in Income Three Months Ended March 31, 2009	2008	Hedged Item Gain (Loss) Recognized in Income Three Months Ended March 31, 2009	2008
Interest rate contracts	Interest expense	$ 14	$ 31	$ (14)	$ (31)

Derivatives in Cash Flow Hedging Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended March 31, 2009	2008	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Three Months Ended March 31, 2009	2008
Interest rate contracts	$	$ (3)	Interest expense	$	$
Foreign exchange contracts forwards	5		Cost of sales	5	
Total Cash Flow Hedges	**$ 5**	**$ (3)**		**$ 5**	**$**

No amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative s gain or loss was included in the assessment of hedge effectiveness.

The following table provides a summary of gains (losses) on non-designated derivative instruments:

Derivatives Not designated as hedging instruments	Location of Derivative Gain (Loss)	Three Months Ended March 31, 2009	2008
Foreign exchange contracts forwards	Other expense	$ 8	$ (14)
Foreign exchange contracts options	Other expense		(1)
	Total Non-Designated Derivatives	**$ 8**	**$ (15)**

Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and the basis for that measurement:

	Total Fair Value Measurement March 31, 2009	Quoted Prices in Active&