

XEROX CORP
Form 10-Q
October 22, 2009
Table of Contents

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, 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)

Edgar Filing: XEROX CORP - Form 10-Q

New York (State or other jurisdiction of incorporation or organization)	16-0468020 (IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue	
Norwalk, Connecticut (Address of principal executive offices)	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 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 x 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 September 30, 2009
Common Stock, \$1 par value	869,244,662 shares

Table of Contents

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 are used in this Report, 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; the risk that we will not realize all of the anticipated benefits from the acquisition of Affiliated Computer Services, Inc.; 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, 2009 and June 30, 2009 and 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.

Table of Contents**XEROX CORPORATION****FORM 10-Q****September 30, 2009****TABLE OF CONTENTS**

	Page
<u>Part I Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Balance Sheets</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Capital Resources and Liquidity</u>	37
<u>Contractual Cash Obligations and Other Commercial Commitments and Contingencies</u>	40
<u>Financial Risk Management</u>	40
<u>Application of Critical Accounting Policies</u>	41
<u>Non-GAAP Financial Measures</u>	41
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	42
<u>Part II Other Information</u>	43
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 6. <u>Exhibits</u>	46
<u>Signatures</u>	47
<u>Exhibit Index</u>	48

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.

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

(in millions, except per-share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Sales	\$ 1,555	\$ 2,047	\$ 4,651	\$ 6,179
Service, outsourcing and rentals	1,942	2,126	5,773	6,446
Finance income	178	197	536	613
Total Revenues	3,675	4,370	10,960	13,238
Costs and Expenses				
Cost of sales	1,031	1,340	3,100	4,059
Cost of service, outsourcing and rentals	1,113	1,241	3,313	3,747
Equipment financing interest	67	75	204	234
Research, development and engineering expenses	209	228	615	672
Selling, administrative and general expenses	1,007	1,138	3,024	3,432
Restructuring and asset impairment charges	(2)	14	(5)	80
Other expenses, net	92	87	276	1,022
Total Costs and Expenses	3,517	4,123	10,527	13,246
Income (Loss) before Income Taxes and Equity Income	158	247	433	(8)
Income tax expense (benefit)	44	15	122	(172)
Equity in net income of unconsolidated affiliates	15	35	14	92
Net Income	129	267	325	256
Less: Net income attributable to noncontrolling interests	6	9	20	27
Net Income Attributable to Xerox	\$ 123	\$ 258	\$ 305	\$ 229
Basic Earnings per Share	\$ 0.14	\$ 0.30	\$ 0.35	\$ 0.26
Diluted Earnings per Share	\$ 0.14	\$ 0.29	\$ 0.35	\$ 0.25

(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.

Table of Contents**XEROX CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) ⁽¹⁾**

(in millions, except share data in thousands)	September 30, 2009	December 31, 2008
Assets		
Cash and cash equivalents	\$ 1,159	\$ 1,229
Accounts receivable, net	1,863	2,184
Billed portion of finance receivables, net	256	254
Finance receivables, net	2,386	2,461
Inventories	1,069	1,232
Other current assets	707	790
Total current assets	7,440	8,150
Finance receivables due after one year, net	4,381	4,563
Equipment on operating leases, net	550	594
Land, buildings and equipment, net	1,351	1,419
Investments in affiliates, at equity	1,051	1,080
Intangible assets, net	609	610
Goodwill	3,405	3,182
Deferred tax assets, long-term	1,673	1,692
Other long-term assets	1,293	1,157
Total Assets	\$ 21,753	\$ 22,447
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 1,149	\$ 1,610
Accounts payable	1,292	1,446
Accrued compensation and benefits costs	616	625
Other current liabilities	1,373	1,769
Total current liabilities	4,430	5,450
Long-term debt	6,297	6,774
Liability to subsidiary trust issuing preferred securities	649	648
Pension and other benefit liabilities	1,870	1,747
Post-retirement medical benefits	873	896
Other long-term liabilities	603	574
Total Liabilities	14,722	16,089
Common stock	870	866
Additional paid-in capital	2,463	2,447
Retained earnings	5,532	5,341
Accumulated other comprehensive loss	(1,967)	(2,416)
Xerox Shareholders' Equity	6,898	6,238
Noncontrolling interests	133	120
Total Equity	7,031	6,358
Total Liabilities and Equity	\$ 21,753	\$ 22,447

Edgar Filing: XEROX CORP - Form 10-Q

Shares of common stock issued and outstanding

869,245

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.

Table of Contents**XEROX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in millions)	Three Months		Nine Months	
	Ended September 30, 2009	2008	Ended September 30, 2009	2008
Cash Flows from Operating Activities:				
Net income	\$ 129	\$ 267	\$ 325	\$ 256
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	176	175	513	498
Provision for receivables	61	49	207	114
Provision for inventory	15	16	44	59
Net gain on sales of businesses and assets	(6)		(15)	(22)
Undistributed equity in net income of unconsolidated affiliates	(12)	(31)	(6)	(60)
Stock-based compensation	23	26	54	66
Provision for litigation, net				795
Payments for securities litigation, net			(28)	
Restructuring and asset impairment charges	(2)	14	(5)	80
Payments for restructurings	(66)	(33)	(231)	(92)
Contributions to pension benefit plans	(38)	(205)	(97)	(271)
Decrease (increase) in accounts receivable and billed portion of finance receivables	5	(60)	310	(128)