

XEROX CORP  
Form 10-Q  
October 29, 2007  
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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, 2007

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 1-4471

\_\_\_\_\_  
**XEROX CORPORATION**

(Exact Name of Registrant as specified in its charter)

New York  
(State or other jurisdiction of

incorporation or organization)

P.O. Box 4505

16-0468020  
(IRS Employer

Identification No.)

06856-4505

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45 Glover Avenue

Norwalk, Connecticut  
(Address of principal executive offices)

(203) 968-3000

(Zip Code)

(Registrant's telephone number, including area code)

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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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer:  Accelerated filer:  Non-accelerated filer:

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2007
Common Stock, \$1 par value	924,426,231 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 the future business operations of Global Imaging Systems (GIS) will not be successful; the risk that customer retention and revenue expansion goals for the GIS transaction will not be met and that disruptions from the GIS transaction will harm relationships with customers, employees, agents, distributors and suppliers; 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 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, as well as in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007 and our 2006 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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**XEROX CORPORATION**

**Form 10-Q**

**September 30, 2007**

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Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on November 7, 2003 as amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19, 2004 and Certificate of Change filed with the Department of State of New York on October 24, 2007.

By-Laws of Registrant, as amended through May 24, 2007.

Amended and Restated Severance Letter Agreement

Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).

Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).

Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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](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		Nine Months	
	Ended		Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<b>Revenues</b>				
Sales	\$ 2,030	\$ 1,736	\$ 5,713	\$ 5,284
Service, outsourcing and rentals	2,068	1,900	6,019	5,600
Finance income	204	208	614	632
<b>Total Revenues</b>	<b>4,302</b>	<b>3,844</b>	<b>12,346</b>	<b>11,516</b>
<b>Costs and Expenses</b>				
Cost of sales	1,316	1,142	3,686	3,417
Cost of service, outsourcing and rentals	1,183	1,083	3,449	3,211
Equipment financing interest	79	75	236	227
Research, development and engineering expenses	233	230	674	685
Selling, administrative and general expenses	1,091	985	3,126	2,988
Restructuring and asset impairment charges	(3)	110	(7)	146
Other expenses, net	79	128	214	278
<b>Total Costs and Expenses</b>	<b>3,978</b>	<b>3,753</b>	<b>11,378</b>	<b>10,952</b>
<b>Income before Income Taxes and Equity Income</b>	<b>324</b>	<b>91</b>	<b>968</b>	<b>564</b>
Income tax expense (benefit)	97	(416)	275	(347)
Equity in net income of unconsolidated affiliates	27	29	60	85
<b>Net Income</b>	<b>\$ 254</b>	<b>\$ 536</b>	<b>\$ 753</b>	<b>\$ 996</b>
<b>Basic Earnings per Share</b>	<b>\$ 0.27</b>	<b>\$ 0.55</b>	<b>\$ 0.80</b>	<b>\$ 1.03</b>
<b>Diluted Earnings per Share</b>	<b>\$ 0.27</b>	<b>\$ 0.54</b>	<b>\$ 0.79</b>	<b>\$ 0.99</b>

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

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

	September 30,	December 31,
(in millions, except share data in thousands)	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 848	\$ 1,399
Short-term investments		137
Total cash, cash equivalents and short-term investments	848	1,536
Accounts receivable, net	2,572	2,199
Billed portion of finance receivables, net	323	273
Finance receivables, net	2,628	2,649
Inventories	1,450	1,163
Other current assets	955	934
Total current assets	8,776	8,754
Finance receivables due after one year, net	4,897	4,922
Equipment on operating leases, net	553	481
Land, buildings and equipment, net	1,579	1,527
Investments in affiliates, at equity	901	874
Intangible assets, net	622	286
Goodwill	3,482	2,024
Deferred tax assets, long-term	1,472	1,790
Other long-term assets	1,115	1,051
<b>Total Assets</b>	<b>\$ 23,397</b>	<b>\$ 21,709</b>
<b>Liabilities and Common Shareholders Equity</b>		
Short-term debt and current portion of long-term debt	\$ 1,021	\$ 1,485
Accounts payable	1,260	1,133
Accrued compensation and benefits costs	595	663
Other current liabilities	1,401	1,417
Total current liabilities	4,277	4,698
Long-term debt	7,038	5,660
Liability to subsidiary trust issuing preferred securities	620	624
Pension and other benefit liabilities	1,336	1,336
Post-retirement medical benefits	1,512	1,490
Other long-term liabilities	756	821
Total Liabilities	15,539	14,629
Common stock, including additional paid-in-capital	4,375	4,666
Treasury stock, at cost	(212)	(141)
Retained earnings	4,953	4,202
Accumulated other comprehensive loss	(1,258)	(1,647)
Total Common Shareholders Equity	7,858	7,080
<b>Total Liabilities and Common Shareholders Equity</b>	<b>\$ 23,397</b>	<b>\$ 21,709</b>

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Shares of common stock issued	936,765	954,568
Treasury stock	(12,339)	(8,363)
Shares of common stock outstanding	924,426	946,205

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, 2007	2006	Ended September 30, 2007	2006
<b>Cash Flows from Operating Activities:</b>				
Net income	\$ 254	\$ 536	\$ 753	\$ 996
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	171	163	485	481
Provisions for receivables and inventory	48	38	142	104
Net gain on sales of businesses and assets	(1)	(11)	(5)	(23)
Undistributed equity in net income of unconsolidated affiliates	(25)	(27)	(43)	(61)
Stock-based compensation	27	17	62	45
Restructuring and asset impairment charges	(3)	110	(7)	146
Cash payments for restructurings	(61)	(42)	(195)	(184)
Contributions to pension benefit plans	(197)	(40)	(252)	(320)
Increase in inventories	(29)	(74)	(189)	(226)
Increase in equipment on operating leases	(84)	(73)	(229)	(186)
Decrease in finance receivables	50	108	270	343
(Increase) decrease in accounts receivable and billed portion of finance receivables	(111)	9	(227)	(103)
Decrease in other current and long-term assets	22	28	76	57
Increase in accounts payable and accrued compensation	150	134	77	164
Net change in income tax assets and liabilities	57	(422)	200	(420)
Net change in derivative assets and liabilities	(20)	18	(44)	24
Increase (decrease) in other current and long-term liabilities	19	45	(8)	38
Other, net	19	13	(5)	22
Net cash provided by operating activities	286	530	861	897
<b>Cash Flows from Investing Activities:</b>				
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