GAMCO Global Gold, Natural Resources & Income Trust by Gabelli
Form N-Q
May 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21698

GAMCO Global Gold, Natural Resources & Income Trust by Gabelli (formerly, The Gabelli Global Gold, Natural Resources & Income Trust)

(Exact name of registrant as specified in charter)

One Corporate Center

Rye, New York 10580-1422

(Address of principal executive offices) (Zip code)

Bruce N. Alpert

Gabelli Funds, LLC

One Corporate Center

Rye, New York 10580-1422

(Name and address of agent for service)

Registrant s telephone number, including area code: 1-800-422-3554

Date of fiscal year end: **December 31**

Date of reporting period: **March 31, 2012**

Form N-Q is to be used by management investment companies, other than small business investment companies registered on

Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

GAMCO Global Gold, Natural Resources & Income Trust by Gabelli

First Quarter Report   March 31, 2012

Caesar Bryan   **Barbara G. Marcin, CFA**   **Vincent Hugonnard-Roche**

To Our Shareholders,

For the quarter ended March 31, 2012, the net asset value (NAV) total return of the GAMCO Global Gold, Natural Resources & Income Trust by Gabelli (the Fund) was 2.8%, compared with total returns of 5.0% and (2.9)% for the Chicago Board Options Exchange (CBOE) Standard & Poor s (S&P) 500 Buy/Write Index and the Philadelphia Gold & Silver Index, respectively. The total return for the Fund s publicly traded shares was 17.7%. On March 31, 2012, the Fund s NAV per share was $14.70, while the price of the publicly traded shares closed at $16.16 on the NYSE Amex.

Enclosed is the schedule of investments as of March 31, 2012.

Comparative Results

Average Annual Returns through March 31, 2012 (a) (Unaudited)

	Quarter	1 Year	3 Year	5 Year	Since Inception (03/31/05)
GAMCO Global Gold, Natural Resources & Income Trust by Gabelli					
NAV Total Return (b)	2.77%	(11.44)%	22.39%	(0.71)%	5.74%
Investment Total Return (c)	17.65	(4.90)	12.33	(0.11)	6.28
CBOE S&P 500 Buy/Write Index	4.99	9.38	14.95	2.21	4.09
Barclays Government/Credit Bond Index	(0.07)	8.40	7.03	6.19	5.60
Amex Energy Select Sector Index	4.28	(8.40)	21.32	5.40	9.43
Philadelphia Gold & Silver Index	(2.87)	(19.05)	9.27	5.07	9.37

(a) ***Returns represent past performance and do not guarantee future results.*** *Investment returns and the principal value of an investment will fluctuate. When shares are sold, they may be worth more or less than their original cost. Performance returns for periods of less than one year are not annualized. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end.* ***Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing.*** *The CBOE S&P 500 Buy/Write Index is an unmanaged benchmark index designed to reflect the return on a portfolio that consists of a long position in the stocks in the S&P 500 Index and a short position in a S&P 500 (SPX) call option. The Barclays Government/Credit Bond Index is a market value weighted index that tracks the performance of fixed rate, publicly placed, dollar denominated obligations. The Philadelphia Gold & Silver Index is an unmanaged indicator of stock market performance of large North American gold and silver companies, while the Amex Energy Select Sector Index is an unmanaged indicator of stock market performance of large U.S. companies involved in the development or production of energy products. Dividends and interest income are considered reinvested. You cannot invest directly in an index.*

(b) *Total returns and average annual returns reflect changes in the NAV per share and reinvestment of distributions at NAV on the ex-dividend date and are net of expenses. Since inception return is based on an initial NAV of $19.06.*

(c) *Total returns and average annual returns reflect changes in closing market values on the NYSE Amex and reinvestment of distributions. Since inception return is based on an initial offering price of $20.00.*

GAMCO Global Gold, Natural Resources & Income Trust by Gabelli

Schedule of Investments March 31, 2012 (Unaudited)

Shares			Market Value
	COMMON STOCKS 84.5%		
	Energy and Energy Services 36.1%		
280,000	Anadarko Petroleum Corp.	$	21,935,200
159,500	Apache Corp.		16,020,180
586,325	Baker Hughes Inc.(a)		24,590,470
585,000	BG Group plc		13,548,943
385,000	BP plc, ADR(a)		17,325,000
410,000	Cameron International Corp.		21,660,300
250,000	Canadian Natural Resources Ltd.		8,295,000
500,000	Canadian Oil Sands Ltd.		10,546,895
100,000	Chevron Corp.		10,724,000
250,000	Cobalt International Energy Inc.		7,507,500
307,692	Comanche Energy Inc. (b)(c)(d)		0
3,800	CVR Energy Inc.		101,650
170,000	Devon Energy Corp.		12,090,400
200,000	Encana Corp.		3,930,000
100,000	Ensco plc, ADR		5,293,000
75,000	EOG Resources Inc.		8,332,500
400,000	Forest Oil Corp. .		4,848,000
65,000	Galp Energia SGPS SA, Cl. B		1,069,766
666,600	Halliburton Co.(a)		22,124,454
140,000	Hess Corp.		8,253,000
250,000	Marathon Petroleum Corp.		10,840,000
380,000	Nabors Industries Ltd.		6,646,200
250,000	National Oilwell Varco Inc.		19,867,500
100,000	Newfield Exploration Co.		3,468,000
650,000	Nexen Inc.		11,927,500
156,800	Noble Energy Inc.		15,331,904
50,000	Occidental Petroleum Corp.		4,761,500
25,000	Oil States International Inc.		1,951,500
507,000	Petroleo Brasileiro SA, ADR(a)		13,465,920
200,000	Rowan Companies Inc. (a)		6,586,000
168,000	Royal Dutch Shell plc, Cl. A		5,867,370
430,000	Schlumberger Ltd.		30,069,900
150,000	Seadrill Ltd.		5,626,500
250,000	Statoil ASA, ADR		6,777,500
739,500	Suncor Energy Inc.(a)		24,181,650
1,000,000	Talisman Energy Inc.		12,600,000
510,000	Total SA, ADR		26,071,200
123,200	Transocean Ltd.(a)		6,739,040
1,235,500	Weatherford International Ltd. (a)		18,643,695
175,000	Whiting Petroleum Corp.		9,502,500
			459,121,637
	Metals and Mining 48.4%		
769,000	Agnico-Eagle Mines Ltd.(a)		25,669,220
300,000	Alacer Gold Corp.		2,553,511
393,000	Anglo American plc		14,690,354
683,500	AngloGold Ashanti Ltd., ADR(a)		25,234,820
439,000	Antofagasta plc		8,089,059
273,750	AuRico Gold Inc.		2,428,162

750,000	Avocet Mining plc		2,212,092
1,005,000	Barrick Gold Corp.(a)		43,697,400

Shares			**Market Value**
176,100	BHP Billiton Ltd., ADR(a)	$	12,749,640
1,070,000	Centamin plc		1,190,736
300,000	Compania de Minas Buenaventura SA, ADR		12,093,000
684,105	Comstock Mining Inc.		1,340,846
83,000	Detour Gold Corp.		2,069,487
1,100,000	Duluth Metals Ltd.		2,503,384
1,650,000	Eldorado Gold Corp.		22,662,790
400,000	Extorre Gold Mines Ltd.		2,406,136
670,000	Franco-Nevada Corp.		28,809,765
62,500	Franco-Nevada Corp.(d)		2,687,478
439,900	Freeport-McMoRan Copper & Gold Inc.(a)		16,733,796
538,500	Fresnillo plc		13,763,962
2,258,400	Gold Fields Ltd., ADR(a)		31,391,760
100,000	Gold Resource Corp.		2,431,000
790,000	Goldcorp Inc.(a)		35,597,400
1,141,600	Harmony Gold Mining Co. Ltd., ADR(a)		12,477,688
1,779,700	Hochschild Mining plc		13,213,958
195,000	Hummingbird Resources plc		413,268
555,000	IAMGOLD Corp.		7,375,950
433,542	Ivanhoe Mines Ltd.		6,823,951
2,115,500	Kinross Gold Corp., New York(a)		20,710,745
3,592	Kinross Gold Corp., Toronto		35,111
175,000	Kirkland Lake Gold Inc.		2,529,951
500,000	La Mancha Resources Inc.		1,594,065
250,600	Lundin Mining Corp., OTC (a)		1,117,676
1,400,000	Lundin Mining Corp., Toronto		6,273,999
321,000	MAG Silver Corp.		3,250,389
375,000	Medusa Mining Ltd.		1,957,758
1,069,725	Newcrest Mining Ltd.(c)		32,808,466
649,500	Newmont Mining Corp.(a)		33,299,865
165,000	Osisko Mining Corp.		1,915,585
2,847,511	PanAust Ltd.		8,966,775
211,300	Peabody Energy Corp.(a)		6,119,248
850,000	Perseus Mining Ltd. (e)		2,138,954
300,000	Queenston Mining Inc.		1,347,436
340,000	Randgold Resources Ltd., ADR(a)		29,913,200
385,129	Red 5 Ltd.		763,963
698,400	Red 5 Ltd., ASE		1,385,384
400,000	Rio Tinto plc, ADR(a)		22,236,000
1,800,000	Romarco Minerals Inc.		1,786,556
382,077	Royal Gold Inc.		24,919,062
500,000	SEMAFO Inc.		2,666,800
1,060,000	Silver Lake Resources Ltd.		3,744,187
457,015	Vale SA, ADR(a)		10,662,160
207,000	Witwatersrand Consolidated Gold Resources Ltd.		1,092,882
1,008,305	Xstrata plc		17,224,402
1,400,000	Yamana Gold Inc.(a)		21,868,000
			615,639,232
	TOTAL COMMON STOCKS		1,074,760,869

See accompanying notes to schedule of investments.

GAMCO Global Gold, Natural Resources & Income Trust by Gabelli

Schedule of Investments (Continued) March 31, 2012 (Unaudited)

Shares		Market Value
	CONVERTIBLE PREFERRED STOCKS 0.3%	
	Metals and Mining 0.3%	
	Vale Capital II	
10,000	6.750% Cv. Pfd., Ser. VALE	$ 634,200
35,000	6.750% Cv. Pfd., Ser. VALP	2,491,300
	TOTAL CONVERTIBLE PREFERRED STOCKS	3,125,500
	WARRANTS 0.0%	
	Energy and Energy Services 0.0%	
34,091	Comanche Energy Inc., Cl. A, expire 06/18/13 (b)(c)(d)	0
36,197	Comanche Energy Inc., Cl. B, expire 06/18/13 (b)(c)(d)	0
82,965	Comanche Energy Inc., Cl. C, expire 06/18/13 (b)(c)(d)	0
		0
	Metals and Mining 0.0%	
66,667	Duluth Metals Ltd., expire 01/18/13 (c)	0
87,500	Franco-Nevada Corp., expire, expire 06/16/17	482,480
		482,480
	TOTAL WARRANTS	482,480

Principal Amount		
	CONVERTIBLE CORPORATE BONDS 0.3%	
	Metals and Mining 0.3%	
$ 2,800,000	Detour Gold Corp., Cv. 5.500%, 11/30/17	2,853,312
725,000(f)	Wesdome Gold Mines Ltd., Deb. Cv. 7.000%, 05/31/12(b)(c)(e)	730,524
	TOTAL CONVERTIBLE CORPORATE BONDS	3,583,836
	CORPORATE BONDS 0.6%	
	Energy and Energy Services 0.2%	
4,144,074	Comanche Energy Inc., PIK, 15.500%, 10/01/12 (b)(c)(d)	0
2,000,000	OGX Petroleo e Gas Participacoes SA, 8.500%, 06/01/18(e)	2,088,000
500,000		572,500

	Tesoro Corp., 9.750%, 06/01/19		
			2,660,500
	Metals and Mining 0.4%		
5,000,000	Xstrata Canada Corp., 7.250%, 07/15/12		5,092,715
	TOTAL CORPORATE BONDS		7,753,215

Principal Amount		**Market Value**
	U.S. GOVERNMENT OBLIGATIONS 14.3%	
$ 182,320,000	U.S. Treasury Bills, 0.010% to 0.130% , 04/05/12 to 09/20/12(g)	$ 182,278,779
	TOTAL INVESTMENTS 100.0% (Cost $1,380,654,333)	$ 1,271,984,679
	Aggregate tax cost	$ 1,393,705,555
	Gross unrealized appreciation	$ 35,308,437
	Gross unrealized depreciation	(157,029,313)
	Net unrealized appreciation/depreciation	$ (121,720,876)

Number of Contracts		**Expiration Date/ Exercise Price**	**Market Value**
	OPTIONS CONTRACTS WRITTEN (h) (2.0)%		
	Call Options Written (1.5)%		
500	Agnico-Eagle Mines Ltd.	May 12/37.50	$ 28,500
3,000	Alacer Gold Corp.(i)	Jul. 12/11	45,115
2,300	Anadarko Petroleum Corp.	May 12/92.50	64,400
500	Anadarko Petroleum Corp.	Aug. 12/90	103,250
393	Anglo American plc(j)	Jun. 12/2800	113,148
500	AngloGold Ashanti Ltd., ADR	Apr. 12/47	5,000
4,000	AngloGold Ashanti Ltd., ADR	Apr. 12/48	30,000
2,335	AngloGold Ashanti Ltd., ADR	Jul. 12/48	23,350
439	Antofagasta plc(j)	Jun. 12/1400	80,750
1,300	Apache Corp.	Apr. 12/105	122,200
2,700	AuRico Gold Inc.	Jun. 12/11	40,500
1,500	Baker Hughes Inc.	Apr. 12/55	6,750
1,863	Baker Hughes Inc.	Apr. 12/60	7,452
1,500	Baker Hughes Inc.	Apr. 12/65	1,500
1,000	Baker Hughes Inc.	Jul. 12/60	4,500
8,370	Barrick Gold Corp.	Jul. 12/49	669,600
1,680	Barrick Gold Corp.	Jul. 12/52.50	55,440
260	BG Group plc(j)	Apr. 12/1500	58,221
325	BG Group plc(j)	Sep. 12/1600	262,516
1,761	BHP Billiton Ltd., ADR	May 12/85	19,371
1,350	BP plc, ADR	Apr. 12/46	67,500
2,500	BP plc, ADR	Apr. 12/48	25,000
4,100	Cameron International Corp.	May 12/57.50	287,000
2,500	Canadian Natural Resources Ltd.	Jun. 12/44	18,750
5,000	Canadian Oil Sands Ltd.(i)	Jul. 12/25	87,724
1,000	Chevron Corp.	Jun. 12/110	187,000

2,500	Cobalt International Energy Inc.	Jul. 12/35	518,750

See accompanying notes to schedule of investments.

GAMCO Global Gold, Natural Resources & Income Trust by Gabelli

Schedule of Investments (Continued) March 31, 2012 (Unaudited)

Number of Contracts		Expiration Date/ Exercise Price		Market Value
	OPTIONS CONTRACTS WRITTEN (h) (Continued)			
	Call Options Written (Continued)			
3,000	Compania de Minas Buenaventura SA, ADR	Jun. 12/44	$	180,000
1,700	Devon Energy Corp.	Apr. 12/67.50		705,500
13,500	Eldorado Gold Corp.(i)	May 12/17		67,672
1,600	Eldorado Gold Corp.(i)	Aug. 12/12		96,245
3,000	Eldorado Gold Corp.(i)	Aug. 12/18		12,031
2,000	Encana Corp.	Jul. 12/21		150,000
1,000	Ensco plc, ADR	Jun. 12/57.50		128,000
750	EOG Resources Inc.	Apr. 12/85		1,940,625
4,000	Forest Oil Corp.	Aug. 12/15		250,000
1,600	Franco-Nevada Corp.(i)	Apr. 12/42		220,562
2,825	Franco-Nevada Corp.(i)	Jul. 12/42		785,942
1,300	Franco-Nevada Corp.(i)	Jul. 12/44		228,082
1,600	Franco-Nevada Corp.(i)	Oct. 12/46		312,798
2,200	Freeport-McMoRan Copper & Gold Inc.	May 12/45		41,800
2,199	Freeport-McMoRan Copper & Gold Inc.	May 12/49		15,393
2,700	Gold Fields Ltd., ADR	Apr. 12/17		8,100
7,484	Gold Fields Ltd., ADR	Jul. 12/16		172,132
12,400	Gold Fields Ltd., ADR	Jul. 12/18		74,400
1,400	Goldcorp Inc.	Apr. 12/50		15,400
5,100	Goldcorp Inc.	Jul. 12/50		586,500
1,400	Goldcorp Inc.	Jul. 12/55		55,300
2,500	Halliburton Co.	Apr. 12/45		7,500
1,400	Halliburton Co.	Apr. 12/47		3,500
2,000	Harmony Gold Mining Co. Ltd., ADR	May 12/12		40,000
1,000	Harmony Gold Mining Co. Ltd., ADR	Aug. 12/13		32,500
8,416	Harmony Gold Mining Co. Ltd., ADR	Aug. 12/15		84,160
500	Hess Corp.	May 12/65		31,750
900	Hess Corp.	May 12/70		15,300
2,700	IAMGOLD Corp.	Sep. 12/18		67,500
2,335	Ivanhoe Mines Ltd.	Jun. 12/21		46,700
2,000	Ivanhoe Mines Ltd.	Sep. 12/22		80,000
2,000	Kinross Gold Corp.	May 12/15		2,000
5,800	Kinross Gold Corp.	Aug. 12/13		110,200
750	Kirkland Lake Gold Inc.(i)	Jul. 12/17		22,558
8,000	Lundin Mining Corp.(i)	Apr. 12/5		52,133
8,506	Lundin Mining Corp.(i)	Jul. 12/6		59,694
500	Marathon Petroleum Corp.	Apr. 12/41		136,350
2,000	Marathon Petroleum Corp.	Jul. 12/42.50		700,000
1,800	Nabors Industries Ltd.	Sep. 12/24		68,400
2,000	Nabors Industries Ltd.	Sep. 12/25		58,000
2,100	National Oilwell Varco Inc.	May 12/80		693,000
400	National Oilwell Varco Inc.	Aug. 12/90		90,000
1,000	Newfield Exploration Co.	Sep. 12/40		167,500
3,250	Newmont Mining Corp.	Jun. 12/60		139,750

Number of Contracts		Expiration Date/ Exercise Price		Market Value
2,500	Nexen Inc.	Sep. 12/21	$	193,750
4,000	Nexen Inc.	Sep. 12/22		210,000
1,068	Noble Energy Inc.	May 12/100		312,390
500	Noble Energy Inc.	Aug. 12/105		187,500

250	Occidental Petroleum Corp.	Aug. 12/105	62,750
250	Occidental Petroleum Corp.	Aug. 12/110	36,000
250	Oil States International Inc.	Jun. 12/90	28,750
2,500	PanAust Ltd.(k)	Apr. 12/2.80	746,590
1,000	Peabody Energy Corp.	Jun. 12/36	43,000
1,550	Randgold Resources Ltd., ADR	Jun. 12/105	143,375
1,250	Randgold Resources Ltd., ADR	Jun. 12/115	31,250
600	Randgold Resources Ltd., ADR	Sep. 12/100	240,000
2,500	Rio Tinto plc, ADR	Apr. 12/60	75,000
1,500	Rio Tinto plc, ADR	Jul. 12/65	135,000
2,000	Rowan Companies Inc.	Apr. 12/34	110,000
168	Royal Dutch Shell plc(j)	Jun. 12/2200	151,823
597	Royal Gold Inc.	Jul. 12/67.50	179,100
500	Royal Gold Inc.	Jul. 12/70	103,750
600			

	Nine Months Ended September 30,			
	2009	**2008**	**2009**	**2008**
Fuji Xerox	$ 13	$ 32	$ 6	$ 84
Other investments	2	3	8	8
Total	**$ 15**	**$ 35**	**$ 14**	**$ 92**

12

Table of Contents

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Summary of Operations				
Revenues	$ 2,442	$ 2,716	$ 7,364	$ 8,420
Costs and expenses	2,363	2,512	7,331	7,785
Income before income taxes	79	204	33	635
Income taxes	26	78		244
Net Income	53	126	33	391
Noncontrolling interests		1		5
Net Income Attributable to Fuji Xerox	**$ 53**	**$ 125**	**$ 33**	**$ 386**

Equity in net 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 income for the nine months ended September 30, 2009 and 2008 includes after-tax restructuring charges of $40 and $15, respectively, primarily reflecting Fuji Xerox s continued cost-reduction initiatives.

Note 7 Restructuring Programs

Information related to restructuring program activity during the nine months ended September 30, 2009 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Balance December 31, 2008	$ 320	$ 32	$ 352
Restructuring provision	28	8	36
Reversals of prior accruals	(38)	(3)	(41)
Net current period charges[1]	(10)	5	(5)
Charges against reserve and currency	(219)	(12)	(231)
Balance September 30, 2009	**$ 91**	**$ 25**	**$ 116**

(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 September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Charges to reserve, all programs	$ (65)	$ (40)	$ (231)	$ (96)
Effects of foreign currency and other non-cash	(1)	7		4

Payments for Restructurings	**$ (66)**	**$ (33)**	**$ (231)**	**$ (92)**

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Production	$ (1)	$ 10	$ (3)	$ 39
Office		3	(2)	32
Other	(1)	1		9
Total Net Charges	**$ (2)**	**$ 14**	**$ (5)**	**$ 80**

13

Table of Contents

Note 8 Debt

Senior Notes

In May 2009, we issued $750 of 8.25% senior notes due 2014 (the 2014 Senior Notes) at 99.982 percent of par resulting in net proceeds of approximately $745. The 2014 Senior Notes accrue interest at the rate of 8.25% per annum, payable semi-annually and, as a result of the discount, have a weighted average effective interest rate of 8.25%. Debt issuance costs of approximately $5 were deferred. The 2014 Senior Notes rank equally with our other existing senior unsecured indebtedness. Proceeds from the offering were used to repay borrowings under the Credit Facility and for general corporate purposes.

Zero Coupon Notes

In July 2009, we repaid a $300 Zero Coupon Note. The total repayment of $336 included interest accretion of $36. This Note was repaid when the holders exercised a put option to redeem the bond prior to the scheduled maturity date of July 30, 2022.

In August 2009, we repaid a $100 Zero Coupon Note. The total repayment of $112 included interest accretion of $12. This Note was repaid when the holder exercised a put option to redeem the bond prior to the scheduled maturity date of August 29, 2022.

Credit Facility

In April 2009, we amended our $2 billion Credit Facility with affiliates of Citibank, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners, and a group of lenders. The amendment increased the permitted leverage ratio (principal debt/consolidated EBITDA) to 4.25x through June 30, 2010 and 3.75x thereafter. The amendment included a re-pricing of the Credit Facility such that borrowings will bear interest at LIBOR plus a spread (including fees) that varies between 2.50% and 4.50%, subject to our credit rating at the time of borrowing.

In October 2009, in connection with entering into the Bridge Loan Facility as part of the acquisition of ACS, we again amended our $2 billion Credit Facility. The amendment extended the permitted leverage ratio of 4.25x through September 30, 2010, which will change to 4.00x through December 31, 2010, and to 3.75x thereafter. The amendment also included the following changes:

- The definition of principal debt was changed such that prior to the closing of the ACS acquisition, it will be calculated net of cash proceeds from certain debt issuances associated with the pre-funding of the ACS acquisition.

- A portion of the Credit Facility that had a maturity date of April 30, 2012, was extended to a maturity date of April 30, 2013, consistent with the remainder of the facility. Accordingly, after this amendment, approximately $1.6 billion, or approximately 80% of the Credit Facility, has a maturity date of April 30, 2013.

Based on our current credit rating, the applicable all-in spread for the Credit Facility would be 3.50%.

Note 9 Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest expense[(1)]	$ 131	$ 146	$ 392	$ 424
Interest income[(2)]	182	205	551	642

(1) Includes Equipment financing interest expense, 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.

Table of Contents

Note 10 Financial Instruments

(1) 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 September 30, 2009 and December 31, 2008, pay variable/receive fixed interest rate swaps with notional amounts of $1,375 and $675, and net asset fair values of $13 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.

The following is a summary of our fair value hedges at September 30, 2009:

Debt Instrument and Maturity	Year Designated As Hedge	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis
Senior Notes due 2012	2009	$ 475	$ 2	3.87%	5.50%	Libor
Senior Notes due 2013	2009	400		3.73%	5.65%	Libor
Senior Notes due 2014	2009	500	11	5.40%	8.25%	Libor
Total		**$ 1,375**	**$ 13**			

Cash Flow Hedges

We have a pay fixed/receive variable interest rate swap with a notional amount of $150 and a net liability fair value of $1 and $2 at September 30, 2009 and December 31, 2008, respectively, that was designated and accounted for as a cash flow hedge. This swap was 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 nine months ended September 30, 2009, and all components of the derivative gain or loss were included in the assessment of hedged effectiveness.

Terminated Swaps

There were no swaps terminated during the three months ended June 30 and September 30, 2009, which were designated as fair value hedges. 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 as an offset to interest expense over the remaining term of the related notes.

(2) Foreign Exchange Risk Management

Xerox is a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts, to hedge certain foreign currency exposures thereby reducing volatility of earnings or protecting fair values of assets and liabilities. Xerox does not use derivative contracts for speculative purposes.

Foreign Currency Denominated Assets and Liabilities

We generally utilize forward foreign exchange contracts to hedge these exposures. Changes in the value of these currency derivatives are recorded in Currency losses, net 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 to hedge these anticipated transactions. These contracts generally mature in six months or less. Some of these contracts are designated as cash flow hedges.

Table of Contents

Summary of Foreign Exchange Hedging Positions

At September 30, 2009, we had outstanding forward foreign exchange contracts with gross notional values of $1,482, 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 September 30, 2009:

Currency Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability)(1)
U.K. Pound Sterling/Euro	$ 468	$ (21)
Euro/U.S. Dollar	24	1
U.S. Dollar/Euro	87	(3)
Swedish Kronor/Euro	117	3
Swiss Franc/Euro	193	(2)
Japanese Yen/U.S. Dollar	147	6
Japanese Yen/Euro	122	1
Euro/U.K. Pound Sterling	19	
U.S. Dollar/Canadian Dollar	15	
Canadian Dollar/Euro	162	4
All other	128	
Total	**$ 1,482**	**$ (11)**

(1) Represents the net receivable (payable) amount included in the Condensed Consolidated Balance Sheet at September 30, 2009.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges. These contracts hedge our foreign currency denominated inventory purchases and sales. 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. The net asset (liability) fair value of these contracts was $1 and $(1) as of September 30, 2009 and December 31, 2008, respectively.

Table of Contents

Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	September 30, 2009	December 31, 2008
Derivatives Designated as Hedging Instruments	**Other current assets:**		
	Foreign exchange contracts forwards	$ 3	$
	Other long-term assets:		
	Interest rate contracts	13	53
	Total Assets	**$ 16**	**$ 53**
	Other current liabilities:		
	Interest rate contracts	$ 1	$ 2
	Foreign exchange contracts forwards	2	1
	Total Liabilities	**$ 3**	**$ 3**
Derivatives NOT Designated as Hedging Instruments	**Other current assets:**		
	Foreign exchange contracts forwards	$ 15	$ 39
	Other current liabilities:		
	Foreign exchange contracts forwards	$ 27	$ 131
	Total Derivative Assets	**$ 31**	**$ 92**
	Total Derivative Liabilities	**30**	**134**
	Total Net Derivative Asset (Liability)	**$ 1**	**$ (42)**

Summary of Derivative Instruments Gains (Losses)

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

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in Income Three Months Ended September 30, 2009	2008	Hedged Item Gain (Loss) Recognized in Income Three Months Ended September 30, 2009	2008
Interest rate contracts	Interest expense	$ 16	$ 38	$ (16)	$ (38)

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in	Hedged Item Gain (Loss) Recognized in Income

		Income Nine Months Ended September 30,		Nine Months Ended September 30,	
		2009	2008	2009	2008
Interest rate contracts	Interest expense	$ (6)	$ 45	$ 6	$ (45)

17

Table of Contents

Derivatives in Cash Flow Hedging Relationships		Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months Ended September 30, 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 September 30, 2009	2008
Interest rate contracts		$ 1	$	Interest expense	$	$
Foreign exchange contracts	forwards	9	2	Cost of sales	(2)	
Total Cash Flow Hedges		**$ 10**	**$ 2**		**$ (2)**	**$**

Derivatives in Cash Flow Hedging Relationships		Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30, 2009	2008	Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion) Nine Months Ended September 30, 2009	2008
Interest rate contracts		$ (1)	$	Interest expense	$	$
Foreign exchange contracts	forwards	(1)	2	Cost of sales	1	
Total Cash Flow Hedges		**$ (2)**	**$ 2**		**$ 1**	**$**

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

The following tables provide a summary of gains (losses) on **non-designated** derivative instruments. Non-designated derivative instruments are primarily instruments used to hedge foreign currency denominated assets and liabilities. They are not designated as hedges since there is a natural offset for the re-measurement of the underlying foreign currency denominated asset or liability.

Derivatives NOT Designated as Hedging Instruments		Location of Derivative Gain (Loss)	Three Months Ended September 30, 2009	2008
Foreign exchange contracts	forwards	Other expenses - Currency, net	$ (12)	$ 8
Foreign exchange contracts	options	Other expenses - Currency, net		1
		Total Non-Designated Derivatives	**$ (12)**	**$ 9**

Derivatives NOT Designated as Hedging Instruments		Location of Derivative Gain (Loss)	Nine Months Ended September 30, 2009	2008
Foreign exchange contracts	forwards	Other expenses - Currency, net	$ 33	$ (26)
Foreign exchange contracts	options	Other expenses - Currency, net		(1)
		Total Non-Designated Derivatives	**$ 33**	**$ (27)**

18

Table of Contents

During the three months ended September 30, 2009 and 2008, we recorded Currency losses, net of $5 and $9, respectively. During the nine months ended September 30, 2009 and 2008, we recorded Currency losses, net of $26 and $30, respectively. Currency losses, net includes the mark-to-market of the derivatives not designated as hedging instruments and the related cost of those derivatives as well as the re-measurement of foreign currency denominated assets and liabilities.

Fair Value of Financial Assets and Liabilities

The following tables represent our assets and liabilities measured at fair value on a recurring basis and the basis for that measurement:

	Total Fair Value Measurement September 30, 2009	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	**$ 31**	$	$ 31	$
Derivative Liabilities	**$ 30**	$	$ 30	$

	Total Fair Value Measurement December 31, 2008	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	**$ 92**	$	$ 92	$
Derivative Liabilities	**$ 134**	$	$ 134	$

We utilize the income approach to measure fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as level 2.

Summary of Other Assets & Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis were as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,159	$ 1,159	$ 1,229	$ 1,229
Accounts receivable, net	1,863	1,863	2,184	2,184
Short-term debt	1,149	1,167	1,610	1,593
Long-term debt	6,297	6,478	6,774	5,918
Liability to subsidiary trust issuing preferred securities	649	643	648	555

Table of Contents

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 11 Employee Benefit Plans

The components of Net periodic benefit cost and other amounts recognized in Other comprehensive income were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Retiree Health		Pension Benefits		Retiree Health	
	2009	2008	2009	2008	2009	2008	2009	2008
Net periodic benefit cost:								
Service cost	$ 44	$ 53	$ 1	$ 4	$ 129	$ 160	$ 5	$ 12
Interest cost	128	142	15	22	371	430	46	67
Expected return on plan assets	(132)	(164)			(382)	(495)		
Recognized net actuarial loss	6	9			18	28		1
Amortization of prior service credit	(5)	(4)	(10)	(3)	(16)	(14)	(31)	(9)
Recognized settlement loss	27	6			55	17		
Net periodic benefit cost	**68**	**42**	**6**	**23**	**175**	**126**	**20**	**71**
Other changes in plan assets and benefit obligations recognized in Other comprehensive income:								
Amortization of net prior service credit	5	5	10	3	16	15	31	9
Amortization of net actuarial losses	(33)	(15)			(73)	(45)		(1)
Total recognized in Other comprehensive income(1)	**(28)**	**(10)**	**10**	**3**	**(57)**	**(30)**	**31**	**8**
Total recognized in Net periodic benefit cost and Other comprehensive income	**$ 40**	**$ 32**	**$ 16**	**$ 26**	**$ 118**	**$ 96**	**$ 51**	**$ 79**

(1) Amount represents the pre-tax effect included within Other comprehensive income. The amount, net of tax, is included within Note 12, Shareholders Equity.

During the nine months ended September 30, 2009, we made contributions of $97 and $82 to our pension plans and our other post-retirement benefit plans, respectively. We presently anticipate contributing an additional $21 to our pension plans and $27 to our other post-retirement benefit plans in 2009 for a total of $118 for pension plans and $109 for other post-retirement benefit plans.

Table of Contents

Note 12 Shareholders Equity

(in millions, except share data in thousands)	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Amount	Retained Earnings	AOCL [1]	Xerox Shareholders Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2008	**$ 866**	**$ 2,447**		**$ 5,341**	**$ (2,416)**	**$ 6,238**	**$ 120**	**$ 6,358**
Net income				305		305	20	325
Translation adjustments					590	590		590
Changes in defined benefit plans[2]					(140)	(140)		(140)
Other unrealized losses, net					(1)	(1)		(1)
Comprehensive Income						**$ 754**	**$ 20**	**$ 774**
Cash dividends declared-common stock ($0.0425 per share per quarter)				(114)		(114)		(114)
Stock option and incentive plans, net	4	37				41		41
Tax loss on stock option and incentive plans, net		(21)				(21)		(21)
Distributions to noncontrolling interests							(7)	(7)
Balance at September 30, 2009	**$ 870**	**$ 2,463**	**$**	**$ 5,532**	**$ (1,967)**	**$ 6,898**	**$ 133**	**$ 7,031**
Balance at December 31, 2007	**$ 920**	**$ 3,176**	**$ (31)**	**$ 5,288**	**$ (765)**	**$ 8,588**	**$ 103**	**$ 8,691**
Net income				229		229	27	256
Translation adjustments					(453)	(453)	(1)	(454)
Changes in defined benefit plans[2]					35	35		35
Comprehensive (Loss) Income						**$ (189)**	**$ 26**	**$ (163)**
Cumulative affect of change in accounting principles				(25)	5	(20)		(20)
Cash dividends declared-common stock ($0.0425 per share per quarter)				(114)		(114)		(114)
Stock option and incentive plans, net	4	36				40		40
Payments to acquire treasury stock		1	(804)			(803)		(803)
Cancellation of treasury stock	(51)	(693)	744					
Distributions to noncontrolling interests							(11)	(11)
Balance at September 30, 2008	**$ 873**	**$ 2,520**	**$ (91)**	**$ 5,378**	**$ (1,178)**	**$ 7,502**	**$ 118**	**$ 7,620**

(1) Refer to the Accumulated Other Comprehensive Loss (AOCL) section for additional information.
(2) Refer to Note 11, Employee Benefit Plans for additional information.

Table of Contents

Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2009 and 2008 is as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income attributable to Xerox	$ 123	$ 258	$ 305	$ 229
Translation adjustments	138	(664)	590	(453)
Changes in defined benefit plans(1)	16	54	(140)	35
Other unrealized gains (losses), net	8		(1)	
Comprehensive Income (Loss) - Xerox	**285**	**(352)**	**754**	**(189)**
Net income attributable to noncontrolling interests	6	9	20	27
Translation adjustments - noncontrolling interests		(1)		(1)
Comprehensive income - noncontrolling interests	**6**	**8**	**20**	**26**
Total Comprehensive Income (Loss)	**$ 291**	**$ (344)**	**$ 774**	**$ (163)**

(1) 2009 Includes currency gains (losses) of $17 and $(83), our share of Fuji Xerox of $(12) and $(43) and other plan asset changes for the three and nine months ended September 30, 2009, respectively. 2008 includes currency impacts of $60 and $57 for the three and nine months ended September 30, 2008, respectively, as well as our share of Fuji Xerox of $(11) and $(37) for the three and nine months ended September 30, 2008, respectively.

Accumulated Other Comprehensive Loss (AOCL)

AOCL is composed of the following as of September 30, 2009 and December 31, 2008, respectively:

	September 30, 2009	December 31, 2008
Cumulative translation adjustments	$ (805)	$ (1,395)
Benefit plans net actuarial losses and prior service credits (includes our share of Fuji Xerox)	(1,161)	(1,021)
Other unrealized loss, net	(1)	
Total Accumulated Other Comprehensive Loss	**$ (1,967)**	**$ (2,416)**

Treasury Stock

We did not purchase any common stock during the nine months ended September 30, 2009 under our stock repurchase programs as described in our 2008 Annual Report. From inception in October 2005 through September 30, 2009, we have repurchased a cumulative total of 194.1 million shares at a cost of $2,945 (including associated fees of $4) under these stock repurchase programs.

Table of Contents

Note 13 Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic Earnings per Share:				
Net income attributable to Xerox	$ 123	$ 258	$ 305	$ 229
Weighted average common shares outstanding	871,304	870,849	869,544	891,032
Basic Earnings per Share	**$ 0.14**	**$ 0.30**	**$ 0.35**	**$ 0.26**
Diluted Earnings per Share:				
Net income attributable to Xerox	$ 123	$ 258	$ 305	$ 229
Interest on Convertible securities, net				
Adjusted Net income available to common shareholders	$ 123	$ 258	$ 305	$ 229
Weighted average common shares outstanding	871,304	870,849	869,544	891,032
Common shares issuable with respect to:				
Stock options	708	4,631	425	5,179
Restricted stock and performance shares	8,769	9,410	5,188	6,192
Convertible securities	1,992	1,992		
Adjusted weighted average common shares outstanding	882,773	886,882	875,157	902,403
Diluted Earnings per Share	**$ 0.14**	**$ 0.29**	**$ 0.35**	**$ 0.25**
Dividends per Common Share	**$ 0.0425**	**$ 0.0425**	**$ 0.1275**	**$ 0.1275**

The computation of diluted earnings per share for the three and nine months ended September 30, 2009 did not include the effects of approximately 35 million shares and 49 milion shares, respectively, because to do so would have been anti-dilutive. Similarly, the 2008 computation did not include the effects of approximately 30 million shares and 22 million shares, respectively.

Note 14 Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of September 30, 2009, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,184 with the increase from December 31, 2008 balance of approximately $839 primarily related to change in foreign currency exchange rate. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of September 30, 2009 we had $230 of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of

$21 and additional letters of credit of approximately $136. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Table of Contents

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (ERISA). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. 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 should any of these matters result in a final adverse judgment or be settled for significant amounts, they 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.

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive (Class Period) and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the Class). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (1934 Act), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company s common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company s operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company s common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants motion for dismissal of the complaint. The plaintiffs motion for class certification was denied by the Court in 2006, without prejudice to refiling. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius (Agius) and Georgia Stanley to appoint them as additional lead plaintiffs. In July 2007, the Court denied plaintiffs renewed motion for class certification, without prejudice to renewal after the Court holds a pre-filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius s withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as class counsel. Subsequently, on April 9, 2009, the Court denied defendants motion to disqualify Milberg LLP. The parties have filed motions to exclude certain expert testimony. On November 6, 2008, the defendants filed a motion for summary judgment. Briefing with respect to each of these motions is complete. On April 22, 2009, the Court denied plaintiffs motions to exclude the testimony of two of defendants experts. The Court has not yet rendered decisions regarding the other pending motions. The individual defendants and we deny any wrongdoing and are vigorously defending the action. In the course of litigation, we periodically engage in discussions with plaintiffs counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Table of Contents

Arbitration between MPI Technologies, Inc. and MPI Tech S.A. and Xerox Canada Ltd. and Xerox Corporation**:** In an arbitration proceeding the hearing of which commenced in January 2005, MPI Technologies, Inc. and MPI Tech S.A. (collectively MPI) sought damages from the Company and Xerox Canada Ltd. (XCL) for royalties owed under a license agreement between MPI and XCL (the Agreement) and breach of fiduciary duty, breach of confidence, equitable royalties and punitive damages and disgorgement of profits and injunctive relief with respect to a claim of copyright infringement. In September 2005, the arbitration panel rendered its decision, holding in part that the Agreement had been assigned to Xerox and that no punitive damages should be granted, and awarded MPI approximately $89, plus interest thereon. In December 2005, the arbitration panel rendered its decision on the applicable rate of pre-judgment interest resulting in an award of $13 for pre and post-judgment interest. In 2006, Xerox s application for judicial review of the award, seeking to have the award set aside in its entirety, was denied by the Ontario Superior Court in Toronto and Xerox released all monies and software it had placed in escrow. In January 2007, Xerox and XCL served an arbitration claim against MPI seeking a declaratory award concerning the preclusive effect of the remedy awarded by the prior arbitration panel. In March 2007, MPI delivered to Xerox a statement of defense and counterclaim in response to Xerox s arbitration claim. MPI claims entitlement to an unspecified amount of damages for royalties. In addition, MPI claims damages of $50 for alleged misuse of its licensed software by Xerox after December 2006. MPI also claims entitlement to unspecified amounts of pre and post-judgment interest and its costs of the arbitration. A panel of three arbitrators has been appointed to hear the dispute. The panel heard oral arguments relating to preliminary dispositive motions on May 20-21, 2008. The panel s decision was released on August 28, 2008, in which the panel determined that MPI is precluded from advancing certain claims to royalties in respect of Xerox s Version 8 software and its derivatives, but that certain other claims being advanced by MPI are not precluded. The parties entered into a settlement agreement effective September 16, 2009 covering all claims and counterclaims in the arbitration. The terms of the settlement agreement are not material to Xerox.

Merger Agreement Between Xerox and Affiliated Computer Services, Inc.**:** In late September and early October 2009, nine purported class action complaints were filed by Affiliated Computer Services, Inc. (ACS) shareholders challenging ACS s proposed merger with Xerox. (See Note 4-Acquisitions.) Two actions filed in state court in Delaware were subsequently consolidated into one action. Seven actions were filed in state courts in Texas. The complaints in all actions name as defendants ACS and/or various members of ACS s board of directors and Xerox Corporation. The complaints in six of the actions also name Boulder Acquisition Corp., a wholly owned subsidiary of Xerox, as a defendant. The plaintiffs generally allege that (i) the members of ACS s board of directors breached their fiduciary duties to ACS and its shareholders by authorizing the sale of ACS to Xerox for what plaintiffs deem inadequate consideration; (ii) ACS breached and/or aided and abetted the other defendants alleged breaches of fiduciary duties; and (iii) Xerox and Boulder Acquisition Corp. aided and abetted the alleged breaches of fiduciary duties by ACS and its directors. The plaintiffs seek, among other things, to enjoin the defendants from consummating the merger on the agreed-upon terms, and unspecified compensatory damages, together with the costs and disbursements of the action. The plaintiffs in the Consolidated Delaware action, now captioned *In re ACS Shareholder Litigation*, have filed a motion for class certification. Certain of the Texas plaintiffs have moved to transfer, consolidate and coordinate all of the actions pending in Texas. We deny any wrongdoing and are vigorously defending all of the actions.

Other Matters

It is our policy to promptly and carefully investigate, often with the assistance of outside advisers, allegations of impropriety that may come to our attention. If the allegations are substantiated, appropriate prompt remedial action is taken. When and where appropriate, we report such matters to the U.S. Department of Justice and to the SEC, and/or make public disclosure.

Table of Contents

India

We became aware of a number of matters at our Indian subsidiary, Xerox India Ltd. (formerly Xerox Modicorp Ltd.), much of which occurred over several years before we obtained majority ownership of these operations in mid-1999. These matters include misappropriations of funds and payments to other companies that may have been inaccurately recorded on the subsidiary s books and certain alleged improper payments in connection with sales to government customers. These transactions were not material to the Company s financial statements. In 2002, we reported these transactions to the Indian authorities, the U.S. Department of Justice (DOJ) and to the SEC. In 2005, the private Indian investigator engaged by the Indian Ministry of Corporate Affairs (MCA) completed an investigation of these matters and issued a report (Report). The Report addresses the previously disclosed misappropriation of funds and alleged improper payments and includes allegations that Xerox India Ltd. s senior officials and the Company were aware of such activities. The Report also asserts the need for further investigation into potential criminal acts related to the improper activities addressed by the Report. There is the possibility of fines and/or criminal penalties if conclusive proof of wrongdoing is found. The Company has made a copy of the Report available to the DOJ and the SEC. Xerox India Ltd. has asserted that the alleged violations of Indian Company Law by means of alleged improper payments and alleged defaults/failures of the Xerox India Ltd. board of directors are generally unsubstantiated and without any basis in law and that the Report s findings of other alleged violations are also unsubstantiated and unproven. In January 2006, the MCA issued a Show Cause Notice to certain former executives of Xerox India Ltd., seeking a response to allegations of potential violations of the Indian Companies Act. In February 2009, the MCA issued Show Cause Notices to certain individuals who served as directors of Xerox India Ltd. during 1999 to 2002, seeking a response to allegations of potential violations of the Indian Companies Act. These matters are now pending in the MCA.

In March 2006, Xerox India Ltd. received a formal Notice of Enquiry from the Indian Monopolies & Restrictive Trade Practices Commission (MRTPC) alleging that Xerox India Ltd. committed unfair trading practices arising from the events described in the Report. In a series of filings and hearings, Xerox India Ltd. has contested the Notice of Enquiry, arguing that it is not maintainable under the MRTPC s jurisdiction, and has been fully cooperating with the authorities.

Note 15 Subsequent Events

We have performed an evaluation of subsequent events through October 22, 2009, which is the date the financial statements were issued.

ITEM 2 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 this document, references to we, our, the Company, and Xerox refer to Xerox Corporation and its subsidiaries. References to Xe Corporation refer to the stand-alone parent company and do not include its subsidiaries.

To understand the trends in the 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. This includes translating the most recent financial results of operations using foreign currency of the earliest period presented. Currencies for our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe) are reflected at actual exchange rates for all periods presented, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Table of Contents

Overview

Results for the three and nine months ended September 30, 2009 largely reflect the continued effects of the worldwide economic downturn. The overall slowdown in business activity has reduced print volumes, especially in heavily document-driven processes, and our customers, in an effort to manage costs, are delaying spending on technology upgrades until there are stronger signs of economic improvement. The weak economies in developing markets, like Russia and Eurasia, where access to credit is still quite limited, has impacted our revenues. Total revenue of $3,675 million and $10,960 million for the three and nine months ended September 30, 2009 declined by 16% and 17%, respectively, from the prior year comparable periods including unfavorable impacts from currency of 2% and 4%, respectively. Equipment sales revenue of $802 million and $2,400 million for the three and nine months ended September 30, 2009 decreased by 29% in each period from the prior year comparable periods reflecting the continued industry-wide slowdown in technology spending. Post-sale revenue of $2,873 million and $8,560 million for the three and nine months ended September 30, 2009 was down 11% and 13%, respectively, from the prior year comparable periods reflecting lower supplies revenue as distributors continued to hold lower inventory levels and businesses implemented their own cost-cutting measures.

The benefits from restructuring and operational improvements are helping to relieve pressure from the revenue declines. Gross margins of 39.8% and 39.6%, respectively, for the three and nine months ended September 30, 2009 increased 0.6-percentage points and 0.3-percentage points, respectively, from the prior year comparable periods despite the continued effect of higher product costs due to transaction currency. Selling, administrative and general (SAG) expenses for the three and nine months ended September 30, 2009 declined $131 million and $408 million, respectively, from the prior year comparable periods reflecting favorable currency and the benefits from restructuring and operational improvements.

Cash flow from operations was $1,241 million for the nine months ended September 30, 2009, and cash used in investing activities of $274 million included $145 million for GIS s acquisition of ComDoc in the first quarter of 2009. Total Debt at September 30, 2009 was down $938 million from December 31, 2008.

Summary Results

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2009	2008	Change	2009	2008	Change
Equipment sales	$ 802	$ 1,125	(29)%	$ 2,400	$ 3,383	(29)%
Post sale revenue [(1)]	2,873	3,245	(11)%	8,560	9,855	(13)%
Total Revenue	**$ 3,675**	**$ 4,370**	**(16)%**	**$ 10,960**	**$ 13,238**	**(17)%**
Reconciliation to Condensed Consolidated Statements of Income:						
Sales	$ 1,555	$ 2,047		$ 4,651	$ 6,179	
Less: Supplies, paper and other sales	(753)	(922)		(2,251)	(2,796)	
Equipment Sales	**$ 802**	**$ 1,125**		**$ 2,400**	**$ 3,383**	
Service, outsourcing and rentals	$ 1,942	$ 2,126		$ 5,773	$ 6,446	
Finance income	178	197		536	613	
Add: Supplies, paper and other sales	753	922		2,251	2,796	
Post Sale Revenue	**$ 2,873**	**$ 3,245**		**$ 8,560**	**$ 9,855**	
Memo: Color [(2)]	**$ 1,411**	**$ 1,636**	**(14)%**	**$ 4,232**	**$ 4,938**	**(14)%**

27

Table of Contents

Third quarter 2009 total revenues decreased 16% compared to the third quarter 2008. Worldwide economic weakness continues to negatively impact our major market segments, and currency had a 2-percentage point negative impact on total revenues in the quarter. Total revenues included the following:

11% decrease in post sale revenue, with a 2-percentage point negative impact from currency. The components of post sale revenue decreased as follows:

- 9% decrease in service, outsourcing and rentals revenue to $1,942 million reflecting declines in technical service and outsourcing revenue primarily due to currency which had a 3-percentage point negative impact, and a decline in pages. Total digital pages declined 6%, while color pages increased by 7%.
- Supplies, paper and other sales of $753 million decreased 18% year-over-year, with a 1-percentage point negative impact from currency. Declines were driven by lower channel supplies purchases, most notably within developing markets and lower paper sales.

29% decrease in equipment sales revenue, with a 1-percentage point negative impact from currency. Overall declines in install activity were the primary driver along with price declines of 5% to 10% across Production and Office. Approximately two-thirds of the third quarter 2009 equipment sales were generated from products launched in the past 24 months.

14% decrease in color revenue[2], with a 3-percentage point negative impact from currency. Color revenue of $1,411 million comprised 42% of total revenue in the third quarter 2009[3], excluding GIS, and reflects:

- 6% decrease in color post sale revenue, including a 2-percentage point negative impact from currency. The decline was partially driven by lower channel color printer supplies purchases and lower page volume. Color represented 40% of post sale revenue in the third quarter 2009[3].
- 31% decrease in color equipment sales revenue, including a 2-percentage point negative impact from currency and lower installs driven by the impact of the economic environment. Color sales represented 51% of equipment sales in the third quarter 2009[3].

Total revenue for the nine months ended September 30, 2009 decreased 17% compared to the prior year period. Worldwide economic weakness negatively impacted our major market segments and currency had a 4-percentage point negative impact on total revenues. Total revenues included the following:

13% decrease in post sale revenue, with a 5-percentage point negative impact from currency. The components of post sale revenue decreased as follows:

- 10% decrease in service, outsourcing and rentals revenue to $5,773 million, reflecting declines in technical service and outsourcing revenue primarily due to currency, which had a 5-percentage point negative impact, and a decline in pages. Total digital pages declined 5%, while color pages increased by 12%.
- Supplies, paper and other sales of $2,251 million decreased 19% year-over-year primarily due to currency, which had a 3-percentage point negative impact, and declines in channel supplies purchases, including lower purchases within developing markets and lower paper sales.

29% decrease in equipment sales revenue, with a 3-percentage point negative impact from currency. The overall decline in install activity was the primary driver along with price declines of approximately 5% across the Production and Office segments.

14% decrease in color revenue[2] with a 5-percentage point negative impact from currency. Color revenue of $4,232 million comprised 42% of total revenue during the nine months ended September 30, 2009[3], excluding GIS, compared to 40% during the nine months ended September 30, 2008, reflecting:

- 9% decrease in color post sale revenue, including a 6-percentage point negative impact from currency. The decline was partially driven by lower channel color printer supplies purchases. Color represented 39% of post sale revenue during the nine months ended September 30, 2009, excluding GIS, compared to 37% in the prior year[3].
- 27% decrease in color equipment sales revenue, including a 4-percentage point negative impact from currency and lower installs driven by the impact of the economic environment. Color sales represented 53% of equipment sales during the nine months ended

September 30, 2009, excluding GIS, compared to 50% of equipment sales during the nine months ended September 30, 2008[3].

28

Table of Contents

Net Income

Third quarter 2009 net income attributable to Xerox of $123 million, or $0.14 per diluted share, included a charge of $9 million, or $0.01 per diluted share, for our share of Fuji Xerox s after-tax restructuring and an $8 million after-tax ($9 million pre-tax) charge or $0.01 per diluted share related to costs associated with the acquisition of Affiliated Computer Services, Inc. announced in September.

Third quarter 2008 net income attributable to Xerox of $258 million, or $0.29 per diluted share included a benefit of $41 million, or $0.04 per diluted share, from the settlement of certain previously unrecognized tax benefits and an after-tax restructuring of $9 million ($14 million pre-tax), or $0.01 per diluted share.

Total net income attributable to Xerox for the nine months ended September 30, 2009 of $305 million, or $0.35 per diluted share, included a $40 million charge, or $0.05 per diluted share, for our share of Fuji Xerox s after-tax restructuring charge as well as an after-tax charge of $8 million ($9 million pre-tax), or $0.01 per diluted share, related to costs associated with the acquisition of Affiliated Computer Services, Inc. announced in September.

Total net income attributable to Xerox for the nine months ended September 30, 2008 was $229 million, or $0.25 per diluted share, and included a benefit of $41 million, or $0.04 per diluted share, from the settlement of certain previously unrecognized tax benefits; an after-tax charge of $491 million ($795 million pre-tax), or $0.54 per diluted share, associated with securities-related litigation matters, as well as an after-tax charge of $52 million ($77 million pre-tax), or $0.06 per diluted share, for restructuring.

(1) Post sale revenue is largely a function of the equipment placed at customer locations, the volume of prints and copies that our customers make on that equipment, the mix of color pages, as well as associated services.
(2) Color revenues represent a subset of total revenues and exclude GIS revenues.
(3) For the three and nine months ended September 30, 2009, total color, color post sale, and color equipment sales revenues comprised 38%, 37% and 43%, respectively, and 39%, 37% and 44%, respectively, if calculated on total, total post sale and total equipment sales revenues, including GIS. GIS is excluded from the color information presented, as the breakout of the information required to make this computation for all periods is not available.

Table of Contents

Operations Review

(in millions)	Production	Three Months Ended September 30, Office	Other	Total
2009				
Equipment sales	$ 219	$ 545	$ 38	$ 802
Post sale revenue	873	1,525	475	2,873
Total Revenues	**$ 1,092**	**$ 2,070**	**$ 513**	**$ 3,675**
Segment Profit (Loss)	**$ 59**	**$ 201**	**$ (71)**	**$ 189**
Operating Margin	**5.4%**	**9.7%**	**(13.8)%**	**5.1%**
2008				
Equipment sales	$ 298	$ 766	$ 61	$ 1,125
Post sale revenue	974	1,680	591	3,245
Total Revenues	**$ 1,272**	**$ 2,446**	**$ 652**	**$ 4,370**
Segment Profit (Loss)	**$ 83**	**$ 260**	**$ (46)**	**$ 297**
Operating Margin	**6.5%**	**10.6%**	**(7.1)%**	**6.8%**

(in millions)	Production	Nine Months Ended September 30, Office	Other	Total
2009				
Equipment sales	$ 653	$ 1,634	$ 113	$ 2,400
Post sale revenue	2,587	4,573	1,400	8,560
Total Revenues	**$ 3,240**	**$ 6,207**	**$ 1,513**	**$ 10,960**
Segment Profit (Loss)	**$ 150**	**$ 568**	**$ (227)**	**$ 491**
Operating Margin	**4.6%**	**9.2%**	**(15.0)%**	**4.5%**
2008				
Equipment sales	$ 898	$ 2,297	$ 188	$ 3,383
Post sale revenue	2,982	5,122	1,751	9,855
Total Revenues	**$ 3,880**	**$ 7,419**	**$ 1,939**	**$ 13,238**
Segment Profit (Loss)	**$ 271**	**$ 804**	**$ (102)**	**$ 973**
Operating Margin	**7.0%**	**10.8%**	**(5.3)%**	**7.4%**

Note that install activity percentages include the Xerox-branded shipments to GIS. Refer to Note 3 Segment Reporting for the reconciliation of Segment Operating Profit to Pre-tax Income.

Production

Revenue

Third quarter 2009 Production revenue of $1,092 million decreased 14%, including a 3-percentage point negative impact from currency, reflecting:

- 10% decrease in post sale revenue with a 3-percentage point negative impact from currency, as declines were driven in part by lower black-and-white page volumes reflecting the continued weak economic environment.
- 27% decrease in equipment sales revenue with a 2-percentage point negative impact from currency. The decline in revenue across most product segments reflects lower installs driven by the continued weak economic environment.
- 32% decline in installs of production color systems, as entry production color declines driven in part by product launch timing are offset by increased installs for the Xerox 700 that was launched in 2008.
- 22% decline in installs of production black-and-white systems, reflecting declines in all product segments.

30

Table of Contents

Production revenue for the nine months ended September 30, 2009 of $3,240 million decreased 16%, including a 5-percentage point negative impact from currency, reflecting:

13% decrease in post sale revenue with a 6-percentage point negative impact from currency, as declines were driven in part by lower black-and-white page volumes reflecting the continued weak economic environment.

27% decrease in equipment sales revenue, with a 4-percentage point negative impact from currency. The decline in revenue across all product segments reflects lower installs likewise driven by the continued weak economic environment.

13% decline in installs of production color products, as entry production color declines were partially offset by increased Xerox 700 installs.

25% decline in installs of production black-and-white systems, reflecting declines in all product segments.

Operating Profit

Third quarter 2009 Production profit of $59 million decreased $24 million from third quarter 2008, due to lower gross profit flow-through from revenue declines partially offset by lower RD&E and SAG as a result of continued cost actions.

Production profit for the nine months ended September 30, 2009 of $150 million decreased $121 million from the nine months ended September 30, 2008, due to lower gross profit flow-through from revenue declines which were partially offset by lower RD&E and SAG spending as a result of continued cost actions.

Office

Revenue

Third quarter 2009 Office revenue of $2,070 million decreased 15%, including a 1-percentage point negative impact from currency, reflecting:

9% decrease in post sale revenue, with a 2-percentage point negative impact from currency. Revenue declined across most product segments and reflects lower channel supplies purchases, including purchases within developing markets, which more than offset the growth in GIS.

29% decrease in equipment sales revenue, with a 1-percentage point negative impact from currency. The decline in revenue across all product segments reflects lower installs driven by the continued weak economic environment.

31% decline in installs of color multifunction devices driven by lower overall demand, which more than offset the impact of new products including the partial launch of ColorQube and the Office version of the Xerox 700 that was launched in 2008.

48% decline in installs of black-and-white copiers and multifunction devices, including an 88% decline in the low dollar value Segment 1 products (11-20 ppm), driven primarily by lower activity in developing markets and a 4% decrease in Segment 2-5 products (21-90 ppm). Segment 2-5 installs include the Xerox 4505, a 95 ppm device with an embedded controller.

41% decline in installs of color printers due to lower demand and lower sales to OEM partners.

Office revenue for the nine months ended September 30, 2009 of $6,207 million decreased 16%, including a 3-percentage point negative impact from currency, reflecting:

11% decrease in post sale revenue with a 5-percentage point negative impact from currency. Revenue declined across most product segments and reflects lower channel supplies purchases, including purchases within developing markets, which more than offset the growth in GIS.

31

Table of Contents

29% decrease in equipment sales revenue, including a 3-percentage point negative impact from currency. The decline in revenue across most product segments reflects lower installs driven by the continued weak economic environment.

25% decline in installs of color multifunction devices driven by lower overall demand, which more than offset the impact of new products including the Office version of the Xerox 700 and ColorQube.

44% decline in installs of black-and-white copiers and multifunction devices, including an 86% decline in the low dollar value Segment 1 products (11-20 ppm), driven primarily by lower activity in developing markets, offset by a 4% increase in Segment 2-5 products (21-90 ppm). Segment 2-5 installs include the Xerox 4595, a 95 ppm device with an embedded controller.

35% decline in installs of color printers due to lower demand and lower sales to OEM partners and channel inventory levels.

Operating Profit

Third quarter 2009 Office profit of $201 million decreased $59 million from third quarter 2008, as revenue declines were partially offset by cost savings resulting in improved gross margin and lower RD&E and SAG.

Office profit for the nine months ended September 30, 2009 of $568 million decreased $236 million from the nine months ended September 30, 2008, as revenue declines were partially offset by lower RD&E and SAG as a result of continued cost savings.

Other

Revenue

Third quarter 2009 Other revenue of $513 million decreased 21%, including a 2-percentage point negative impact from currency, primarily driven by declines in revenue from paper, wide format and licensing arrangements. Paper comprised approximately half of third quarter 2009 and 2008 Other segment revenue.

Other segment revenue for the nine months ended September 30, 2009 of $1,513 million decreased 22%, including a 4-percentage point negative impact from currency, primarily driven by declines in revenue from paper, wide format systems and licensing arrangements.

Operating Profit

Third quarter 2009 Other loss of $71 million increased $25 million from third quarter 2008, reflecting lower income from licensing arrangements, wide format and equity income.

Other segment loss for the nine months ended September 30, 2009 of $227 million increased $125 million from the comparable 2008 period, primarily due to lower revenue, as well as lower interest income and equity income.

Table of Contents

Costs, Expenses and Other Income

Gross Margin

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Change
Sales	33.7%	34.5%	(0.8) pts	33.3%	34.3%	(1.0) pts
Service, outsourcing and rentals	42.7%	41.6%	1.1 pts	42.6%	41.9%	0.7 pts
Financing income	62.4%	61.9%	0.5 pts	61.9%	61.8%	0.1 pts
Total Gross Margin	**39.8%**	**39.2%**	**0.6 pts**	**39.6%**	**39.3%**	**0.3 pts**

Third quarter 2009 total gross margin increased 0.6-percentage points compared to the third quarter 2008, driven by cost improvements enabled by restructuring and cost actions, as well as the revenue declines from lower margin channels, which were only partially offset by the 0.8-percentage point unfavorable impact of transaction currency. Third quarter 2009 results included a benefit of 0.3-percentage points related to a favorable property tax adjustment in North America, and third quarter 2008 results included a benefit of 0.3-percentage points from a favorable adjustment related to European product disposal costs.

The gross margin increased 0.3-percentage points for the nine months ended September 30, 2009 as compared to the 2008 comparable period. The increase was primarily driven by cost improvements enabled by restructuring and our cost actions, as well as the decline of revenues from lower margin channels partially offset by the 1.0-percentage points unfavorable impact of transaction currency. 2009 included a benefit of 0.1-percentage points related to a favorable property tax adjustment in North America, and 2008 included a benefit of 0.1-percentage points from a favorable adjustment related to European product disposal costs.

Sales gross margin decreased 0.8-percentage points compared to the third quarter 2008 as the 1.7-percentage point adverse impact of transaction currency on our inventory purchases and price declines impact of 1.9-percentage points were partially offset by the positive mix of revenues and cost improvements. Third quarter 2008 results included a favorable adjustment related to European product disposal costs.

Sales gross margin decreased 1.0-percentage points for the nine months ended September 30, 2009 as compared to the 2008 comparable period primarily due to the adverse impact of transaction currency on our inventory purchases of 1.8-percentage points and price declines of 0.9-percentage points. This decline was partially offset by cost improvements and the positive mix of revenues.

Service, outsourcing and rentals margin increased 1.1-percentage points compared to the third quarter 2008 primarily due to restructuring savings and other costs actions, as well as a favorable property tax adjustment in North America. These improvements more than offset the approximate 0.7-percentage point impact of pricing declines.

Service, outsourcing and rentals margin increased 0.7-percentage points for the nine months ended September 30, 2009 as compared to the 2008 comparable period primarily due to the reduction in costs driven by our restructuring and cost actions. These cost improvements more than offset the approximate 0.9-percentage points impact of pricing.

Research, Development and Engineering Expenses (RD&E)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Change
RD&E % Revenue	**5.7%**	**5.2%**	**0.5 pts**	**5.6%**	**5.1%**	**0.5 pts**
R&D	$ 175	$ 196	$ (21)	$ 522	$ 570	$ (48)
Sustaining Engineering	34	32	2	93	102	(9)
Total RD&E	**$ 209**	**$ 228**	**$ (19)**	**$ 615**	**$ 672**	**$ (57)**

The decrease in RD&E spending for the three and nine months ended September 30, 2009 compared to the prior year comparable periods reflects our restructuring and cost actions which consolidated the Production and Office development and engineering infrastructure.

Table of Contents

We invest in technological research and development, particularly in color, software and services. We believe that our R&D spending is sufficient to remain technologically competitive. Our R&D is strategically coordinated with Fuji Xerox.

Selling, Administrative and General Expenses (SAG)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	**2008**	**Change**	**2009**	**2008**	**Change**
SAG % Revenue	27.4%	26.0%	1.4 pts	27.6%	25.9%	1.7 pts

SAG expenses of $1,007 million in the third quarter 2009 were $131 million lower than the third quarter 2008, including a $30 million benefit from currency. The SAG expense decrease reflected the following:

- $91 million decrease in selling expenses, reflecting favorable currency, benefits from restructuring and cost actions including reductions in marketing spend and lower commissions.

- $54 million decrease in general and administrative expenses, reflecting favorable currency and benefits from restructuring and cost actions.

- $14 million increase in bad debt expenses to $59 million, reflecting an increase in write-offs in North America and Europe. 2009 third quarter bad debt expense as a percentage of revenue improved compared with the first and second quarters of 2009, and continues to remain less than one percent of receivables.

SAG expenses of $3,024 million for the nine months ended September 30, 2009 were $408 million lower than the nine months ended September 30, 2008, including a $164 million benefit from currency. The SAG expense decrease reflected the following:

- $311 million decrease in selling expenses, reflecting favorable currency, benefits from restructuring, an overall reduction in marketing spend and lower commissions.

- $198 million decrease in general and administrative expenses, reflecting favorable currency and benefits from restructuring and cost actions.

- $101 million increase in bad debt expenses to $209 million, reflecting an increase in write-offs in North America and Europe. Bad debt expense as a percentage of revenue for the nine months ended September 30, 2009 was consistent with the fourth quarter 2008. Due to the current economic conditions, we expect bad debt expense to continue at this higher level for the fourth quarter 2009.

Worldwide Employment

Worldwide employment of 54,100 at September 30, 2009, decreased approximately 3,000 from December 31, 2008 and 3,300 from third quarter 2008, primarily due to restructuring reductions, partially offset by additional headcount related to GIS s acquisition of ComDoc, Inc.

Restructuring and Asset Impairment Charges

During the third quarter 2009, we recorded a net restructuring credit of $2 million. The net credit reflected $7 million of severance-related charges for new actions and $9 million of net reversals for changes in estimated reserves from prior year initiatives. During the third quarter 2008, we recorded restructuring charges of $14 million predominately in the U.S. related to headcount reductions of approximately 300.

During the nine months ended September 30, 2009, we recorded a net restructuring credit of $5 million. The net credit reflected $28 million of severance-related charges for new actions and $33 million of net reversals for changes in estimated reserves from prior year initiatives. During the nine months ended September 30, 2008, we recorded net restructuring charges of $80 million primarily related to headcount reductions of approximately 1,500 employees predominately in North America.

Table of Contents

The restructuring reserve balance as of September 30, 2009, for all programs was $116 million, of which approximately $103 million is expected to be spent over the next twelve months. Refer to Note 7, Restructuring Programs, in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Other Expenses, Net

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Non-financing interest expense	$ 64	$ 71	$ 188	$ 190
Interest income	(4)	(8)	(15)	(29)
Gains on sales of businesses and assets	(6)		(15)	(22)
Currency losses, net	5	9	26	30
Amortization of intangible assets	15	14	44	40
Litigation matters	1		8	802
Acquisition related costs	9		9	
All Other expenses, net	8	1	31	11
Total Other Expenses, Net	**$ 92**	**$ 87**	**$ 276**	**$ 1,022**

Non-financing interest expense

Third quarter 2009 Non-financing interest expense of $64 million was $7 million lower than the third quarter 2008 driven by the benefit of lower interest rates that more than offset the impact of higher average debt balances.

Non-financing interest expense of $188 million for the nine months ended September 30, 2009 was comparable with the prior year as lower interest rates partially offset higher average debt balances.

Interest income

Third quarter interest income of $4 million decreased $4 million, reflecting lower average cash balances and lower interest rates.

Interest income for the nine months ended September 30, 2009 was $14 million lower than the prior year reflecting lower average cash balances and lower interest rates.

Gains on sale of businesses and assets

The gains on sales of businesses and assets for 2009 and 2008 primarily relate to the sale of Latin American facilities.

Currency losses, net

2009 currency losses of $26 million for the nine months ended September 30, 2009 were primarily due to the significant movement in exchange rates among the U.S. Dollar, Euro and Yen in the first quarter 2009, as well as the increased cost of hedging, particularly in developing markets. 2008 currency losses of $30 million for the nine months ended September 30, 2008 were primarily due to the significant and rapid weakening of the U.S. Dollar and Euro as compared to the Yen in the first quarter 2008, net re-measurement losses associated with our foreign currency denominated assets and liabilities in our developing market units and the cost of hedging.

Litigation matters

2009 expense of $8 million for the nine months ended September 30, 2009 reflects probable losses from various legal matters. 2008 charges for the nine months ended September 30, 2008 include $795 million related to provisions for the $670 million settlement of Carlson v. Xerox Corporation (Carlson) and other securities-related litigation matters, net of expected insurance recoveries. On January 14, 2009, the United

States Court for the District of Connecticut entered a Final Order and Judgment approving the Carlson settlement. On April 13, 2009, the United States District Court for the District of Connecticut (Hartford) entered an order giving its final approval to the settlement of the *In Re Xerox Corporation ERISA Litigation*. The remainder of the charges in 2008 are primarily related to probable losses on various other legal matters.

35

Table of Contents

Acquisition related costs

Consistent with the new accounting guidance with respect to business combinations, acquisition related costs of approximately $9 million were incurred and expensed during the third quarter 2009 in connection with our previously announced pending acquisition of Affiliated Computer Services, Inc.

All Other expenses, net

Third quarter 2009 all other expenses, net increased $7 million from third quarter 2008 primarily driven by fees associated with the sale of receivables and an increase in interest expense on Brazil tax and labor contingencies.

All Other expenses, net for the nine months ended September 30, 2009 were $20 million higher than the prior year primarily due to fees associated with the sale of receivables, as well as an increase in interest expense related to Brazil tax and labor contingencies.

Income Taxes

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Change
Income tax expense (benefit)	$ 44	$ 15	$ 29	$ 122	$ (172)	$ 294
Effective tax rate	27.8%	6.1%	21.7 pts	28.2%	NM	NM

The effective tax rates for the three and nine months ended September 30, 2009 of 27.8% and 28.2%, respectively, were lower than the U.S. statutory tax rate primarily due to the net tax benefits from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions.

The third quarter 2008 effective tax rate was 6.1% and included a 17.3% benefit from the tax settlement of certain previously unrecognized tax benefits and the tax effect of the third quarter restructuring charges. Excluding the impact of these items, the third quarter 2008 adjusted effective tax rate was 23.4%[1]. These rates were lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related tax rates in those jurisdictions.

The effective tax rate for nine months ended September 30, 2008 included $370 million of benefit from the tax effects of the net provision for securities-related litigation matters, the second and third quarter 2008 restructuring charges and the benefit from the settlement of certain previously unrecognized tax benefits. Excluding these items, the adjusted effective tax rate was 22.9%[1], which was lower than the U.S. statutory tax rate primarily due to the net tax benefits from the utilization of foreign tax credits and the geographical mix of income before taxes and the related tax rates in those jurisdictions.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the geographical mix of income and the related tax rates in those jurisdictions, and available foreign tax credits. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable. We anticipate that our effective tax rate for the fourth quarter of 2009 will approximate 28%, excluding the effects of any future discrete events.

(1) See the non-GAAP measure section for an explanation of this non-GAAP measure.

Table of Contents

Equity in Net Income of Unconsolidated Affiliates

Equity in net income of unconsolidated affiliates of $15 million decreased $20 million compared to third quarter 2008, which reflects our 25% share of Fuji Xerox s lower net income which was impacted by the worldwide economic weakness. The third quarter 2009 included charges of $9 million related to our share of Fuji Xerox s after-tax restructuring.

Equity in net income of unconsolidated affiliates of $14 million for the nine months ended September 30, 2009 decreased $78 million, as compared to the 2008 comparable period, which reflects our 25% share of Fuji Xerox s lower net income which has been impacted by the worldwide economic weakness. The nine month period ended September 30, 2009 included charges of $40 million related to our share of Fuji Xerox s after-tax restructuring. The nine months ended September 30, 2008 included restructuring charges of $15 million primarily related to Fuji Xerox s pension settlements.

Capital Resources and Liquidity

The following table summarizes our cash and cash equivalents:

(in millions)	Nine Months Ended September 30, 2009	2008	Change
Net cash provided by operating activities	$ 1,241	$ 754	$ 487
Net cash used in investing activities	(274)	(706)	432
Net cash used in financing activities	(1,054)	(251)	(803)
Effect of exchange rate changes on cash and cash equivalents	17	(23)	40
Decrease in cash and cash equivalents	(70)	(226)	156
Cash and cash equivalents at beginning of period	1,229	1,099	130
Cash and cash equivalents at end of period	$ 1,159	$ 873	$ 286

Cash Flows from Operating Activities

Net cash provided by operating activities was $1,241 million for the nine months ended September 30, 2009. The $487 million increase in cash from the nine months ended September 30, 2008 was primarily due to the following:

$438 million decrease in pre-tax income before litigation and restructuring.

$438 million increase from accounts receivables, reflecting lower revenue, improved collections and benefits from the sales of accounts receivables.

$334 million increase as a result of lower inventory levels, reflecting focused supply chain actions in light of lower sales volume.

$174 million increase due to lower contributions to our defined pension benefit plans.

$57 million increase due to lower placements of equipment on operating leases reflecting lower install activity.

$28 million increase due to higher net run-off of finance receivables.

$139 million decrease due to higher restructuring payments associated with previously reported actions.

Cash Flows from Investing Activities

Net cash used in investing activities was $274 million for the nine months ended September 30, 2009. The $432 million increase in cash from the nine months ended September 30, 2008 was primarily due to the following:

$401 million increase due to lower escrow and other restricted investments. 2008 reflects the funding of the escrow account for the Carlson litigation settlement.

$100 million increase due to lower capital expenditures (including internal use software), reflecting focused management of our capital requirements.

37

$56 million decrease primarily due to the absence of insurance proceeds for the Carlson litigation settlement received in 2008.

$21 million decrease due to lower cash receipts from asset sales.

Cash Flows from Financing Activities

Net cash used in financing activities was $1,054 million for the nine months ended September 30, 2009. The $803 million decrease in cash from the nine months ended September 30, 2008 was primarily due to the following:

$1,771 million decrease due to lower net debt proceeds. 2009 reflects the repayment of the 2009 Senior Notes of $879 million, net payments of $448 million for two Zero Coupon Notes, net payments of $246 million on the Credit Facility, and net payments of $48 million primarily for foreign short-term borrowings. These payments were partially offset by the issuance of $750 million in Senior Notes. 2008 reflects the issuance of $1.4 billion in Senior Notes and $250 million in Zero Coupon Notes, and net payments of $352 million on the Credit Facility and $398 million on other debt.

$804 million increase due to the absence of purchases under the Company s share repurchase program.

$142 million increase primarily due to lower debt payments on secured financings.

$22 million increase due to the absence of repurchases related to stock-based compensation.

Customer Financing Activities

The following represents our Total finance assets associated with our lease and finance operations:

(in millions)	September 30, 2009	December 31, 2008
Total Finance receivables, net [(1)]	$ 7,023	$ 7,278
Equipment on operating leases, net	550	594
Total Finance Assets, net	**$ 7,573**	**$ 7,872**

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.

The reduction of $299 million in Total finance assets, net includes favorable currency of $238 million.

The following summarizes our debt:

(in millions)	September 30, 2009	December 31, 2008
Principal debt balance	$ 7,283	$ 8,201
Net unamortized discount	(7)	(6)

SFAS No. 133 fair value adjustments (Topic ASC 815)	170	189
Total Debt	7,446	8,384
Less: Current maturities and short-term debt	1,149	1,610
Total Long-Term Debt	**$ 6,297**	**$ 6,774**

38

Table of Contents

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation, therefore, we maintain a certain level of debt that we refer to as financing debt, to support our investment in these lease contracts, which are reflected in Total finance assets, net. For this financing aspect of our business, we maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets. Based on this leverage, the following represents the breakdown of total debt between financing debt and core debt:

(in millions)	September 30, 2009	December 31, 2008
Financing debt (2)	$ 6,626	$ 6,888
Core debt	820	1,496
Total Debt	**$ 7,446**	**$ 8,384**

(2) Financing debt includes $6,145 million and $6,368 million as of September 30, 2009 and December 31, 2008, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of equipment financing interest expense. The remainder of the financing debt is associated with Equipment on operating leases.

Sales of Accounts Receivables

During the third quarter 2009, we sold $349 million of accounts receivables without recourse, as compared to $373 million in the second quarter 2009 and $146 million in the third quarter 2008. Fees associated with these sales were approximately $3 million, $3 million and $1 million, respectively. $335 million of receivables sold to date remained uncollected by the third party purchasers as of September 30, 2009. We do not have any current or future liability for these non-recourse sales.

Liquidity, Financial Flexibility and Funding Plans

We manage our worldwide liquidity using internal cash management practices, which are subject to 1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, 2) the legal requirements of the agreements to which we are a party and 3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

We are currently rated investment grade by all major rating agencies. As of September 30, 2009 the ratings for our senior unsecured debt were as follows:

	Senior Unsecured Debt	Outlook
Moody s	Baa2	Stable
Standard & Poors (S&P)	BBB	Negative
Fitch	BBB	Negative

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets, securitizations, funding from third parties and borrowings secured by our finance receivables portfolios. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access to financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following is a discussion of our liquidity position as of September 30, 2009:

As of September 30, 2009, total cash and cash equivalents was $1.2 billion and our borrowing capacity under our Credit Facility was $2 billion, reflecting no outstanding borrowings and no outstanding letters of credit. In addition, we currently have approximately $1.0 billion available under our secured borrowing arrangement with General Electric Capital Corporation (the Loan Agreement). This Agreement is in place through 2010, and has not been accessed in almost four years.

Cash flows from operations were $1,241 million and $754 million for the nine months ended September 30, 2009 and 2008, respectively. Cash flows from operations were $939 million for the 2008 full-year and included $615 million in net payments for securities litigation. We expect 2009 full-year operating cash flows of about $1.7 billion.

39

Table of Contents

During the nine months ended September 30, 2009, total debt decreased by $938 million, and we expect to reduce debt by over $1 billion for the full year. Our debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows (in millions):

Year	Amount
Q4 2009	$ 181
2010	967
2011	802
2012	1,100
2013	961
2014	819
2015	
2016	951
2017	501
2018	1,001
2019 and thereafter	
Total	$ 7,283

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

In July 2009, we signed a five year contract with International Business Machines for approximately $70 million for mid-range applications support in North America. This contract replaces the EDS contract which expires in mid 2010.

In April 2009, we signed two seven year contracts with Computer Sciences Corporation (CSC) for approximately $40 million for mainframe application development and maintenance services and $51 million for mainframe computing services support in North America. These contracts replace the EDS mainframe applications, maintenance and support and mainframe process contracts in North America, which expire in June 2010 and December 2013, respectively.

In February 2009, we signed a six year contract with Hindustan Computers Limited (HCL) for approximately $100 million for mid range processing services in North America and Europe. This contract replaces the EDS server management contract, which expired in June 2009.

Financial Risk Management

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Yen, Euro, and Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

Table of Contents

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 10 Financial Instruments for further discussion and information on our financial risk management strategies.

Application of Critical Accounting Policies

Business Combinations and Goodwill

As discussed in the Overview section, our results for the nine months ended September 30, 2009 are largely due to the current global economic environment and the related current industry-wide slowdown in technology spending. We do not believe our results reflect a significant change in the overall long-term revenue and cash flow growth prospects or expectations for our business. The Company remains the prominent player in our industry and we expect to continue to grow market share even in this challenging environment primarily through our expanded distribution capabilities as well as new product and service offerings. We are offsetting the decline in revenues with $250 million in savings from previous restructuring actions and an additional $300 million in cost and expense reductions throughout this year. Our operating cash flows remain strong and are expected to approximate $1.7 billion for the 2009 full year. Accordingly, we continue to believe that our results for the nine months ended September 30, 2009 and our expectations for the remainder of the year are driven by the near-term economic conditions and that the long-term revenue and expense growth assumptions used to determine the fair values of our reporting units, as disclosed in the aggregate in our 2008 Annual Report under Application of Critical Accounting Policies Business Combinations and Goodwill , remain attainable. Based on those assumptions, we determined that the fair values of our reporting units sufficiently exceeded their carrying values.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). A reconciliation of the following non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP is set forth below:

Adjusted Effective Tax Rate

The effective tax rate for the three and nine months ended September 30, 2008 are discussed in this presentation using non-GAAP financial measures that exclude the benefit to taxes relating to the settlement of certain previously unrecognized tax benefits, the effects of charges associated with securities-related litigation matters and restructuring. Management believes that it is helpful to exclude these effects to better understand, analyze and compare the prior period s income tax expense and effective tax rate to the current period amounts given the discrete nature and size of these items in the prior periods.

Table of Contents

However, this non-GAAP financial measure should be viewed in addition to, and not as a substitute for, the Company s reported results prepared in accordance with GAAP.

	Three Months Ended September 30, 2008		
(in millions)	Pre-Tax Income	Income Taxes	Effective Tax Rate
As Reported	$ 247	$ 15	6.1%
Restructuring and asset impairment charges	14	5	
Tax Settlements		41	
As Adjusted	$ 261	$ 61	23.4%

	Nine Months Ended September 30, 2008		
(in millions)	Pre-Tax Income	Income Taxes	Effective Tax Rate
As Reported	$ (8)	$ (172)	2150.0%
Provision for securities litigation matters	795	304	
Restructuring and asset impairment charges	77	25	
Tax Settlements		41	
As Adjusted	$ 864	$ 198	22.9%

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption Financial Risk Management on Page 38 of this Quarterly Report on Form 10-Q is hereby incorporated by reference in answer to this Item.

ITEM 4 CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures**

The Company s management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms relating to Xerox Corporation, including our consolidated subsidiaries, and was accumulated and communicated to the Company s management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) **Changes in Internal Controls**

During the quarter ended September 30, 2009, the Company deployed a new Enterprise Resource Planning (ERP) system in support of our Office business in Europe. Due to the nature of a systems transition of this magnitude, a number of critical internal controls were affected. Although management believes the transition was successful and appropriate internal controls were maintained or implemented during the process, there can be no assurance that there may not be unidentified control deficiencies which may require remediation. Such controls will continue to be tested during the balance of the year. There were no other changes in the Company s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

The information set forth under Note 14-Contingencies contained in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our 2008 Annual Report. The Risk Factors remain applicable from our 2008 Annual Report, with the exception of the following changes:

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, primarily to support our customer financing activities. As of September 30, 2009, we had $7.4 billion of total debt ($9 million of which is secured by finance receivables) and a $649 million liability to a subsidiary trust issuing preferred securities. The total value of financing activities, shown on the balance sheet as Finance receivables and Equipment on operating lease, was $7.6 billion at September 30, 2009. The Total cash and cash equivalents was $1.2 billion at September 30, 2009. 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 business and the industry 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 such as the incurrence of debt to partially fund acquisitions, these related risks could increase.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements and to repay maturing debt and other obligations. 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 improvement therein, access to capital markets, securitizations, funding from third parties and borrowings secured by our finance receivables portfolios. As of September 30, 2009, total cash and cash equivalents was $1.2 billion, and our borrowing capacity under our Credit Facility was $2 billion, reflecting no outstanding borrowings. We also have funding available through a secured borrowing arrangement with General Electric Capital Corporation (GECC). 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, secured borrowings, securitizations and funding from third parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

Table of Contents

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt; (ii) certain fundamental changes to corporate structure; (iii) changes in nature of business; and (iv) limitations on debt incurred by certain subsidiaries. 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). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on: issuance of secured debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends; and certain other payments. They do not, however, contain financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments. Our U.S. Loan Agreement with GECC (effective through December 31, 2010) relating to our customer financing program (the Loan Agreement) provides for loans secured by eligible finance receivables up to $5 billion outstanding at any one time. As of September 30, 2009, $9 million was outstanding under the Loan Agreement. The Loan Agreement incorporates the financial maintenance covenants contained in the Credit Facility and contains other affirmative and negative covenants.

At September 30, 2009, we were in full compliance with the covenants and other provisions of the Credit Facility, the senior notes and the Loan Agreement. Any failure to be in compliance with any material provision or covenant of the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition. Failure to be in compliance with the covenants in the Loan Agreement, including the financial maintenance covenants incorporated from the Credit Facility, would result in an event of termination under the Loan Agreement and in such case GECC would not be required to make further loans to us. If GECC were to make no further loans to us, and assuming a similar facility was not established and that we were unable to obtain replacement financing in the public debt markets, it could materially adversely affect our liquidity and our ability to fund our customers purchases of our equipment and this could materially adversely affect our results of operations.

We need to successfully execute the transition of Affiliated Computer Services, Inc. in order to realize all of the anticipated benefits from the transaction.

Our ability to realize the anticipated benefits of the Affiliated Computer Services, Inc. (ACS) acquisition is subject to certain risks including, but not limited to, the risks that: the acquisition may not close; the future business operations of ACS will not be successful; customer retention, cost synergies and revenue expansion goals for the ACS transaction will not be met; and disruptions from the ACS transaction will harm relationships with customers, employees and suppliers. The consummation of the ACS acquisition is subject to the satisfaction or completion of a number of conditions, some of which are beyond our control. Any delay in completing the transaction could cause us not to realize or delay realization of some or all of the benefits we expect to achieve from the transaction.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2009

During the quarter ended September 30, 2009, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

Semi-Annual Director Fees

(a) Securities issued on July 15, 2009: Registrant issued 56,350 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: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $6.345 per DSU (aggregate price $357,541), based upon the market value of our Common stock on July 14, 2009, in payment of the semi-annual Directors fees 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.

Table of Contents

Dividend Equivalents

(a) Securities issued on July 31, 2009: Registrant issued 1,809 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: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter and to a retired Director, Vernon E. Jordan, Jr.

(c) The DSUs were issued at a deemed purchase price of $6.585 per DSU (aggregate price $11,912), 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.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2009

Repurchases of Xerox Common Stock, par value $1.00 per share include the following:

Board Authorized Share Repurchase Programs:

We did not purchase Common stock during the third quarter of 2009.

Of the cumulative $4.5 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately $2.9 billion has been used through September 30, 2009. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the SEC 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
July 1 through 31	18,299	$ 6.54	n/a	n/a
August 1 through 31	27,053	8.74	n/a	n/a
September 1 through 30	2,182	9.44	n/a	n/a
Total	47,534		n/a	n/a

(1) These repurchases are made under a provision in our restricted stock compensation programs for 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.

45

Table of Contents

ITEM 6 EXHIBITS

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of 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, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009.
	Incorporated by reference to Exhibit 3(a) to Registrant s Form 10-K for the year ended December 31, 2008.
3(b)	By-Laws of Registrant, as amended through May 21, 2009.
	Incorporated by reference to Exhibit 3(b) to Registrant s Current Report on Form 8-K dated May 21, 2009 (filed May 28, 2009).
4(g)(4)	Amendment No. 3 dated as of October 19, 2009 to Credit Agreement dated as of April 30, 2007 between Registrant and the initial lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.
10(f)(3)	Amendment No. 4 dated October 9, 2009 to 2008 Restatement of Xerox Corporation Unfunded Retirement Income Guarantee Plan.
10(j)(3)	Amendment No. 4 dated September 28, 2009 to Registrant s Universal Life Plan.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	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.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XEROX CORPORATION

(Registrant)

By: /s/ GARY R. KABURECK

Gary R. Kabureck

Vice President and

Chief Accounting Officer

(Principal Accounting Officer)

Date: October 22, 2009

Table of Contents

EXHIBIT INDEX

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of 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, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009.
	Incorporated by reference to Exhibit 3(a) to Registrant s Form 10-K for the year ended December 31, 2008.
3(b)	By-Laws of Registrant, as amended through May 21, 2009.
	Incorporated by reference to Exhibit 3(b) to Registrant s Current Report on Form 8-K dated May 21, 2009 (filed May 28, 2009).
4(g)(4)	Amendment No. 3 dated as of October 19, 2009 to Credit Agreement dated as of April 30, 2007 between Registrant and the initial lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners.
10(f)(3)	Amendment No. 4 dated October 9, 2009 to 2008 Restatement of Xerox Corporation Unfunded Retirement Income Guarantee Plan.
10(j)(3)	Amendment No. 4 dated September 28, 2009 to Registrant s Universal Life Plan.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	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.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.