Pursuant to the requirements of Section 13 or 15(d) 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

/s/ Ursula M. Burns
Ursula M. Burns
Chief Executive Officer
February 26, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

February 26, 2010

Signature	Title
Principal Executive Officer:	
/s/ Ursula M. Burns **Ursula M. Burns**	Chief Executive Officer and Director
Principal Financial Officer:	
/s/ Lawrence A. Zimmerman **Lawrence A. Zimmerman**	Vice Chairman and Chief Financial Officer
Principal Accounting Officer:	
/s/ Gary R. Kabureck **Gary R. Kabureck**	Vice President and Chief Accounting Officer
/s/ Anne M. Mulcahy **Anne M. Mulcahy**	Chairman of the Board and Director
/s/ Glenn A. Britt **Glenn A. Britt**	Director
/s/ Richard J. Harrington **Richard J. Harrington**	Director
/s/ William Curt Hunter **William Curt Hunter**	Director
/s/ Robert A. McDonald **Robert A. McDonald**	Director
/s/ N. J. Nicholas, Jr. **N. J. Nicholas, Jr.**	Director
/s/ Charles Prince **Charles Prince**	Director
/s/ Ann N. Reese **Ann N. Reese**	Director
/s/ Mary Agnes Wilderotter **Mary Agnes Wilderotter**	Director

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of Xerox Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 26, 2010 appearing in the 2009 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(1) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut
February 26, 2010

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
Year ended December 31, 2009, 2008 and 2007

(in millions)	Balance at beginning of period	Additions charged to bad debt provision (1)	Amounts (credited) charged to other income statement accounts (1)	Deductions and other, net of recoveries (2)	Balance at end of period
2009					
Allowance for Losses on:					
Accounts Receivable	$ 131	$ 114	$ (5)	$ (92)	$ 148
Finance Receivables	198	177	3	(156)	222
	$ 329	$ 291	$ (2)	$ (248)	$ 370
2008					
Allowance for Losses on:					
Accounts Receivable	$ 128	$ 64	$ 8	$ (69)	$ 131
Finance Receivables	203	124	3	(132)	198
	$ 331	$ 188	$ 11	$ (201)	$ 329
2007					
Allowance for Losses on:					
Accounts Receivable	$ 116	$ 55	$ (1)	$ (42)	$ 128
Finance Receivables	198	79	(2)	(72)	203
	$ 314	$ 134	$ (3)	$ (114)	$ 331

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Deductions and other, net of recoveries primarily relates to receivable write-offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

INDEX OF EXHIBITS

Document and Location

3(a) Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on November 7, 2003, as amended by: Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the 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; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009 and; Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 3, 2010.

Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated February 5, 2010.

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(a)(1) Indenture dated as of December 1, 1991, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "December 1991 Indenture").

Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement Nos. 33-44597, 33-49177 and 33-54629.

4(a)(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.

Incorporated by reference to Exhibit 4(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

4(a)(3) Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust Company, as prior trustee, Citibank,, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the December 1991 Indenture.

Incorporated by reference to Exhibit 4(a)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

4(b)(1) Indenture dated as of September 20, 1996, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "September 1996 Indenture").

Incorporated by reference to Exhibit 4(a) to Registration Statement No. 333-13179.

4(b)(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the September 1996 Indenture.

Incorporated by reference to Exhibit 4(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

4(b)(3) Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust, as prior trustee, Citibank,, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the September 1996 Indenture.

Incorporated by reference to Exhibit 4(b)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

4(c)(1) Indenture dated as of January 29, 1997, between Registrant and Bank One, National Association (as successor by merger with The First National Bank of Chicago) ("Bank One"), as trustee (the "January 1997 Indenture"), relating to Registrant's Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures").

	Incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-24193.
4(c)(2)	Form of Certificate of Exchange relating to Junior Subordinated Debentures. Incorporated by reference to Exhibit A to Exhibit 4.1 to Registration Statement No. 333-24193.
4(c)(3)	Certificate of Trust of Xerox Capital Trust I executed as of January 23, 1997. Incorporated by reference to Exhibit 4.3 to Registration Statement No. 333-24193.
4(c)(4)	Amended and Restated Declaration of Trust of Xerox Capital Trust I dated as of January 29, 1997. Incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-24193.
4(c)(5)	Form of Exchange Capital Security Certificate for Xerox Capital Trust I. Incorporated by reference to Exhibit A-1 to Exhibit 4.4 to Registration Statement No. 333-24193.
4(c)(6)	Series A Capital Securities Guarantee Agreement of Registrant dated as of January 29, 1997, relating to Series A Capital Securities of Xerox Capital Trust I. Incorporated by reference to Exhibit 4.6 to Registration Statement No. 333-24193.
4(c)(7)	Registration Rights Agreement dated January 29, 1997, among Registrant, Xerox Capital Trust I and the initial purchasers named therein. Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-24193.
4(c)(8)	Instrument of Resignation, Appointment and Acceptance dated as of November 30, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo Bank Minnesota, National Association ("Wells Fargo"), as successor Trustee, relating to the January 1997 Indenture. Incorporated by reference to Exhibit (c)(8) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
4(d)(1)	Indenture dated as of April 21, 1998, between Registrant and Bank One, as trustee, relating to $1,012,198,000 principal amount at maturity of Registrant's Convertible Subordinated Debentures due 2018 (the "April 1998 Indenture"). Incorporated by reference to Exhibit 4(b) to Registrant's Registration Statement No. 333-59355.
4(d)(2)	Instrument of Resignation, Appointment and Acceptance dated as of July 26, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture (the "April 1998 Indenture Trustee Assignment"). Incorporated by reference to Exhibit 4(e)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
4(d)(3)	Amendment to Instrument of Resignation, Appointment and Acceptance dated as of October 22, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture Trustee Assignment. Incorporated by reference to Exhibit 4(e)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
4(e)	Indenture dated as of October 2, 1995, between Xerox Credit Corporation ("XCC") and State Street Bank and Trust Company ("State Street"), as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors (the "XCC Indenture"). Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement Nos. 33-61481 and 333-29677.
4(f)(1)	Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "June 25, 2003 Indenture").

	Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated June 25, 2003.
4(f)(2)	First Supplemental Indenture, dated June 25, 2003 among Registrant, the guarantors named therein and Wells Fargo, as trustee, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K dated June 25, 2003.
4(f)(3)	Form of Second Supplemental Indenture to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit (4)(b)(3) to Registrant's Registration Statement No. 333-111623.
4(f)(4)	Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006.
4(f)(5)	Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006.
4(f)(6)	Form of Fifth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(8) to Registrant's Current Report on Form 8-K dated August 18, 2006.
4(f)(7)	Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.
	Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900.
4(g)(1)	Form of 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 (the "Credit Agreement").
	Incorporated by reference to Exhibit 10(j) to Registrant's Current Report on Form 8-K dated April 30, 2007.
4(g)(2)	Amendment No. 1 to Credit Agreement, dated as of October 27, 2008, among Registrant, the Lenders named therein, and Citibank, ,N.A., as agent for the Lenders.
	Incorporated by reference to Exhibit 4(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
4(g)(3)	Amendment No. 2 to Credit Agreement, dated as of April 23, 2009, 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.
	Incorporated by reference to Exhibit 4(g)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2009.
4(g)(4)	Amendment No. 3 to Credit Agreement, dated as of October 19, 2009, 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.
	Incorporated by reference to Exhibit 4(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.
4(h)	Master Demand Note dated December 10, 2003 between Registrant and Xerox Credit Corporation.
	Incorporated by reference to Exhibit 4(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
4(i)	Form of Indenture dated as of December 4, 2009 between Xerox Corporation and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities.
	Incorporated by reference to Exhibit 4(b)(5) to Post-Effective Amendment No. 1 to Registrant's Registration Statement No. 333-142900.
4(j)(1)	Indenture, dated as of June 6, 2005, by and between Affiliated Computer Services, Inc. ("ACS") as Issuer and The Bank of New York Trust Company, N.A. as Trustee (the "June 6, 2005 Indenture").

	Incorporated by reference to Exhibit 4.1 to ACS's Current Report on Form 8-K, filed June 6, 2005.
4(j)(2)	First Supplemental Indenture, dated as of June 6, 2005, to the June 6, 2005 Indenture.
	Incorporated by reference to Exhibit 4.2 to ACS's Current Report on Form 8-K, filed June 6, 2005.
4(j)(3)	Second Supplemental Indenture, dated as of June 6, 2005, to the June 6, 2005 Indenture.
	Incorporated by reference to Exhibit 4.3 to ACS's Current Report on Form 8-K, filed June 6, 2005.
4(j)(4)	Third Supplemental Indenture, dated as of February 5, 2010, to the June 6, 2005 Indenture between Boulder Acquisition Corp., the successor to ACS, and The Bank of New York Trust Company, N.A.
4(k)	Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
10	The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2010 Proxy Statement are preceded by an asterisk (*).
*10(a)(1)	Registrant's Form of Separation Agreement (with salary continuance) – February 2010.
*10(a)(2)	Registrant's Form of Separation Agreement (without salary continuance) – February 2010.
*10(b)(1)	Registrant's 1991 Long-Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
	Incorporated by reference to Exhibit 10(b)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(b)(2)	Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
	Incorporated by reference to Exhibit 10(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(b)(3)	Amendment dated December 4, 2007 to 1991 LTIP.
	Incorporated by reference to Exhibit 10(b)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(c)(1)	Registrant's 1996 Non-employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
	Incorporated by reference to Exhibit 10(c)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(c)(2)	Amendment dated December 5, 2007 to 1996 NDSOP.
	Incorporated by reference to Exhibit 10(c)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(d)(1)	Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED").
	Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(d)(2)	Form of Agreement under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(3)	Form of Grant Summary under 2004 ECPNED.
	Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(4)	Form of DSU Deferral under 2004 ECPNED.

Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.

10(d)(5)	Amendment dated December 5, 2007 to 2004 ECPNED.	
	Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.	
*10(e)(1)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 6, 2005 ("2004 PIP").	
	Incorporated by reference to Exhibit 10(e)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.	
*10(e)(2)	Form of Amendment to Agreements under 2004 PIP.	
	Incorporated by reference to Exhibit 10(e)(7) to Registrant's Current Report on Form 8-K dated May 19, 2005.	
*10(e)(3)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of February 15, 2007 ("2007 PIP").	
	Incorporated by reference to Exhibit 10(e)(10) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(4)	Performance Elements for 2007 Executive Long-Term Incentive Program ("2007 ELTIP").	
	Incorporated by reference to Exhibit 10(e)(12) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(5)	Form of Executive Long-Term Incentive Program Award Summary under 2007 ELTIP.	
	Incorporated by reference to Exhibit 10(e)(13) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(6)	2007 Form of Executive Long-Term Incentive Program Award Agreement under the 2007 PIP.	
	Incorporated by reference to Exhibit 10(e)(14) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(7)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007-2 PIP").	
	Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(8)	Performance Elements for 2008 Executive Long-Term Incentive Program ("2008 ELTIP").	
	Incorporated by reference to Exhibit 10(e)(17) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(9)	Form of Executive Long-Term Incentive Program Award Summary under 2008 ELTIP.	
	Incorporated by reference to Exhibit 10(e)(18) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(10)	2008 Form of Executive Long-Term Incentive Program Award Agreement under the 2007-2 PIP.	
	Incorporated by reference to Exhibit 10(e)(19) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(11)	Amendment dated December 4, 2007 to 2007-2 PIP.	
	Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.	
*10(e)(12)	Annual Performance Incentive Plan for 2009 (first half).	
	Incorporated by reference to Exhibit 10(e)(25) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009.	
*10(e)(13)	Amendment No. 1 dated December 17, 2008 to 2007-2 PIP.	

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*10(e)(14) Amendment No. 2 dated February 16, 2009 to 2007-2 PIP.

Incorporated by reference to Exhibit 10(e)(23) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

*10(e)(15) Performance Elements for 2009 Executive Long-Term Incentive Program ("2009 ELTIP").

Incorporated by reference to Item 5.02 of Registrant's Current Report on Form 8-K dated June 30, 2009.

*10(e)(16) Form of Executive Long-Term Incentive Program Award Agreement under 2009 ELTIP.

Incorporated by reference to Exhibit 10(e)(23) to Registrant's Current Report on Form 8-K dated June 30, 2009.

*10(e)(17) Form of Executive Long-Term Incentive Program Award Summary under 2009 ELTIP.

Incorporated by reference to Exhibit 10(e)(24) to Registrant's Current Report on Form 8-K dated June 30, 2009.

*10(e)(18) Annual Performance Incentive Plan for 2009 (first half).

Incorporated by reference to Exhibit 10(e)(25) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2009.

*10(e)(19) Annual Performance Incentive Plan for 2009 (second half).

*10(e)(20) Annual Performance Incentive Plan for 2010.

*10(e)(21) Performance Elements for 2010 Executive Long-Term Incentive Program ("2010 ELTIP").

*10(e)(22) Form of Executive Long-Term Incentive Program Award Agreement under 2010 ELTIP.

*10(e)(23) Form of Executive Long-Term Incentive Program Award Summary under 2010 ELTIP.

*10(f)(1) 2008 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through February 12, 2008 ("2008 URIGP").

Incorporated by reference to Exhibit 10(f)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*10(f)(2) Amendment No. 1 to 2008 URIGP.

Incorporated by reference to Exhibit 10(f)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*10(f)(3) Amendment No. 2 dated March 6, 2009 to 2008 URIGP.

Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2009.

*10(f)(4) Amendment No. 3 dated May 5, 2009 to 2008 URIGP.

Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2009.

*10(f)(5) Amendment No. 4 dated October 9, 2009 to 2008 URIGP.

Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.

*10(f)(6) Amendment No. 5 dated December 1, 2009 to 2008 URIGP.

*10(g)(1) 2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP").

Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

*10(g)(2)	Amendment dated December 4, 2007 to Registrant's 2007 USERP. Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(g)(3)	Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP. Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(h)	1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002. Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(i)(1)	Form of Severance Letter Agreement entered into with various executive officers, effective October 12, 2007 ("2007 Severance Letter"). Incorporated by reference to Exhibit 10(i)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(i)(2)	Amendment dated December 4, 2008 to 2007 Severance Letter. Incorporated by reference to Exhibit 10(i)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007
*10(i)(3)	Amendment dated December 17, 2008 to 2007 Severance Letter. Incorporated by reference to Exhibit 10(i)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(j)(1)	Registrant's Universal Life Plan effective July 1, 2003. Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(j)(2)	Amendment No. 3 to Registrant's Universal Life Plan. Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2006.
*10(j)(3)	Amendment No. 4 dated September 28, 2009 to Registrant's Universal Life Plan. Incorporated by reference to Exhibit 10(j)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009.
10(k)(1)	Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD"). Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(k)(2)	Amendment dated December 5, 2007 to DCPD. Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007
*10(l)	Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004. Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004.
*10(m)	Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000. Incorporated by reference to Exhibit 10(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

10(n)	Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.
	Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
*10(o)	Letter Agreement dated May 20, 2002 between Registrant and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(o) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(p)	Amended and Restated Loan Agreement dated as of October 21, 2002 between Xerox Lease Funding LLC and General Electric Capital Corporation.
	Incorporated by reference to Exhibit 10(p) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
*10(q)	Form of Cash Retention Agreement entered into with various executive officers during 2003.
	Incorporated by reference to Exhibit 10(w) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
*10(r)	Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.
	Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10(s)	2006 Technology Agreement, effective as of April 1, 2006, by and between Registrant and Fuji Xerox Co., Ltd.
	Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated March 9, 2006.**
*10(t)	Form of 2009 Long-Term Cash Incentive Award for Anne M. Mulcahy.
	Incorporated by reference to Exhibit 10(t) to Registrant's Current Report on Form 8-K dated June 30, 2009.
*10(u)	Form of 2009 Long-Term Cash Incentive Award for Lawrence A. Zimmerman.
	Incorporated by reference to Exhibit 10(u) to Registrant's Current Report on Form 8-K dated June 30, 2009.
10(v)	Senior Executive Agreement dated September 27, 2009 among ACS, Registrant and Lynn Blodgett.
	Incorporated by reference to Exhibit 10.2 to ACS's Current Report on Form 8-K dated September 27, 2009.
12	Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
13	Registrant's 2009 Annual Report to Shareholders.
21	Subsidiaries of Registrant.
23	Consent of PricewaterhouseCoopers LLP.
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. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
99.1	Order under Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Certain Provisions of the Act and Rules Thereunder, dated April 11, 2002 (Release No. 45730).
	Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K dated April 11, 2002.

101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition 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.

** Pursuant to the Freedom of Information Act and/or a request for confidential treatment filed with the Securities and Exchange Commission under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, the confidential portion of this material has been omitted and filed separately with the Securities and Exchange Commission.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, as well as any deficiency of earnings are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income (loss) from continuing operations before income taxes and equity income; (b) distributed equity income; (c) fixed charges, as defined below; and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest and net income attributable to noncontrolling interests.

Fixed charges are calculated as the sum of: (a) interest costs (both expensed and capitalized); (b) amortization of debt expense and discount or premium relating to any indebtedness; and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre-tax earnings required to cover dividends paid on our Series C mandatory convertible preferred stock. Series C mandatory convertible preferred stock was redeemed and converted to common stock as of July 3, 2006 and, as such, there were no dividends beyond such date.

	Year Ended December 31,				
(in millions)	2009	2008	2007	2006	2005
Fixed charges:					
Interest expense	$ 527	$567	$ 579	$ 544	$ 557
Capitalized interest	8	10	8	—	—
Portion of rental expense which represents interest factor	89	84	95	90	74
Total Fixed charges	$ 624	$661	$ 682	$ 634	$ 631
Earnings available for fixed charges:					
Pre-tax income (loss)	$ 627	$ (79)	$1,468	$ 830	$ 845
Distributed equity income of affiliated companies	16	60	37	44	44
Add: Fixed charges	624	661	682	634	631
Less: Capitalized interest	(8)	(10)	(8)	—	—
Less: Net income – noncontrolling interests	(31)	(35)	(30)	(22)	(15)
Total Earnings available for fixed charges	$1,228	$597	$2,149	$1,486	$1,505
Ratio of earnings to fixed charges	1.97	*	3.15	2.34	2.39

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend:

	Year Ended December 31,				
(in millions)	2009	2008	2007	2006	2005
Fixed charges:					
Interest expense	$ 527	$567	$ 579	$ 544	$ 557
Capitalized interest	8	10	8	—	—
Portion of rental expense which represents interest factor	89	84	95	90	74
Total Fixed charges before preferred stock dividends pre-tax requirements	$ 624	$661	$ 682	$ 634	$ 631
Preferred stock dividends pre-tax income requirements	—	—	—	48	94
Total Combined fixed charges and preferred stock dividends	$ 624	$661	$ 682	$ 682	$ 725
Earnings available for fixed charges:					
Pre-tax income (loss)	$ 627	$ (79)	$1,468	$ 830	$ 845
Distributed equity income of affiliated companies	16	60	37	44	44
Add: Fixed charges	624	661	682	634	631
Less: Capitalized interest	(8)	(10)	(8)	—	—
Less: Net income – noncontrolling interests	(31)	(35)	(30)	(22)	(15)
Total Earnings available for fixed charges and preferred stock dividends	$1,228	$597	$2,149	$1,486	$1,505
Ratio of earnings to fixed charges and preferred stock dividends	1.97	*	3.15	2.18	2.08

- Earnings for the year ended December 31, 2008 were inadequate to cover fixed charges by $64.

ANNUAL REPORT
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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 "Xerox Corporation" refer to the stand-alone parent company and do not include its subsidiaries.

Executive Overview

We are a technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance the industry's broadest portfolio of document equipment, software, solutions and services. The global document market continues to see significant trends toward color, enterprise print services, and electronic document management. Our broad portfolio of production, office and service offerings provide value to our customers and enable Xerox to lead and grow in the $132 billion market we serve.

In 2009, we agreed to acquire Affiliated Computer Services, Inc. ("ACS"). The acquisition was completed in February 2010. This acquisition transforms us into the world's leading enterprise for business process and document management and accelerates our growth in an expanding market. ACS is one of the largest providers of business process outsourcing ("BPO") and information technology ("IT") services and solutions to commercial and government clients worldwide. ACS's revenues for the calendar year ended December 31, 2009 were $6.6 billion and they employed 78,000 people and operated in over 100 countries. With the acquisition of ACS we have greatly expanded our market opportunity. The BPO market is estimated at $150 billion and the ITO market is estimated at $250 billion.

Our business strategy is built upon an annuity model that yields consistent strong cash flow, expanded earnings and enables us to provide good returns to shareholders. The majority of our revenue (supplies, service, paper, outsourcing, rentals and financing) is recurring, which we collectively refer to as post sale revenue. This recurring revenue provides a significant degree of stability to our revenue, profits and cash flow. Post sale revenue currently represents more than 75 percent of the Company's revenue and is driven by the amount of equipment installed at customer locations and the utilization of that equipment. As such, our critical success factors include equipment installations, which stabilize and grow our installed base of equipment at customer locations, page volume growth and higher revenue per page. Key drivers to increase equipment installations, usage and associated post-sale revenue include the following:

- Accelerate transition to color
- Build on services leadership
- Strengthening our leadership in digital production printing.

The transition to color is a primary driver to improve revenue per page, as color documents typically require significantly more toner coverage per page than traditional black-and-white printing. We have the broadest color portfolio in the industry and leading technologies. Our growing services business helps customers reduce their costs. We lead the industry with end-to-end managed print services. Lastly, we continue to create new market opportunities with digital printing as a complement to traditional offset printing.

We operate in a global business environment, serving a wide range of customers with about 50 percent of our revenue generated from customers outside the U.S. Our markets are competitive. Customers are demanding document services such as assessment consulting, managed print services, imaging and hosting and document-intensive business process improvements. Additionally, our customers demand improved technology solutions, such as the ability to print offset quality color documents on-demand; improved product functionality, such as the ability to print, copy, fax and scan from a single device; and lower prices for the same functionality.

Accretive acquisitions and expanded distribution to drive organic growth are also key elements of our business strategy. In addition to the ACS acquisition, in 2009 Global Imaging Systems, Inc. ("GIS") acquired ComDoc, Inc. ("ComDoc"), one of the larger independent dealers in the U.S., expanding coverage in Ohio, Pennsylvania, New York and West Virginia.

Financial Overview

Although we began to see some improvements in our markets in the fourth quarter 2009, we faced significant external challenges in 2009 including:

- A worldwide recession driving down demand and volumes;
- A credit market crisis impacting access, rates and creating liquidity pressures on our channels and customers; and
- The negative effects of currency changes on our revenue and costs.

The overall slowdown in business activity 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, also impacted our revenues. We reacted to these challenges by prioritizing cash generation and taking actions on cost and expense to help mitigate the effects of lower revenue.

The following is a summary of key 2009 highlights:

- Delivered strong operating cash flow and reduced spending;
- Operational performance continues to improve sequentially;
- Competitive position strengthened through innovative technology and industry leading Managed Print Services offering; and
- ACS acquisition opens new market opportunities and strengthens financial position.

Total revenue of $15,179 million for 2009 declined 14% from the prior year including a 3-percentage point negative impact from currency. Equipment sales of $3,550 million for 2009 decreased 24% from the prior year primarily reflecting the continued industry-wide slowdown in technology spending. Post-sale revenue of $11,629 million for 2009 was down 10% from the prior year primarily reflecting lower supplies revenue as distributors maintained lower inventory levels and businesses implemented their own cost-cutting measures.

The benefits from restructuring and operational cost improvements helped to relieve the pressure from revenue declines. Gross margins of 39.7% for 2009 increased 0.8-percentage points from the prior year despite the continued effect of higher product costs due to the strength of the Japanese Yen. Selling, administrative and general expenses ("SAG") for 2009 declined $385 million reflecting favorable currency, the benefits from restructuring and operational cost improvements, partially offset by increased bad debt expense.

Cash flows from operations of $2,208 million in 2009 were primarily driven by working capital improvements. Cash used in investing activities of $343 million reflected well controlled capital expenditures of $193 million, as well as $145 million for GIS's acquisition of ComDoc in the first quarter of 2009.

We continue to maintain debt levels primarily to support our customer financing operations and, at the end of 2009, to fund the ACS acquisition. Total Debt at December 31, 2009 of $9,264 million increased $880 million from the prior year as net debt repayments of approximately $1.8 billion were more than offset by the issuance of $2,750 million in Senior Notes. Our 2009 public offerings included $750 million of Senior Notes issued in May and $2.0 billion of Senior Notes issued in December. The net proceeds from the December Senior Notes offering were used in connection with the acquisition of ACS. We finished the year with cash and cash equivalents of $3,799 billion, which included funds subsequently used for the acquisition of ACS.

Our 2010 priorities include:

- Effective ACS transition, including synergies capture;
- Grow revenue and maintain leadership in innovation;
- Continue to aggressively manage spending and resize our cost base to align to current revenues; and
- Drive operating cash flow and achieve debt reduction goals.

Our 2010 balance sheet and cash flow strategy includes: sustaining our working capital improvements; maintaining our investment grade credit ratings; achieving an optimal cost of capital; and effectively deploying cash to deliver and maximize shareholder value through acquisitions and dividends. Our strategy also includes appropriately leveraging our financing assets (finance receivables and equipment on operating leases).

Currency Impacts

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenues and expenses. We refer to this analysis as "currency impact" or "the impact from currency". Revenues and expenses from our developing markets are analyzed 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.

Approximately 50% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue-weighted basis, the U.S. Dollar was 7% stronger in 2009 and 3% weaker in 2008, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 3% detriment in 2009 and a 1% benefit in 2008.

Summary Results

Revenue

Revenues for the three years ended December 31, 2009 were as follows:

(in millions)	Year Ended December 31,			Percent Change	
	2009	2008	2007	2009	2008
Equipment sales	$ 3,550	$ 4,679	$ 4,753	(24)%	(2)%
Post sale revenue (1)	11,629	12,929	12,475	(10)%	4 %
Total Revenue	**$ 15,179**	**$ 17,608**	**$ 17,228**	**(14)%**	**2 %**
Reconciliation to Consolidated Statements of Income					
Sales	$ 6,646	$ 8,325	$ 8,192		
Less: Supplies, paper and other sales	(3,096)	(3,646)	(3,439)		
Equipment Sales	**$ 3,550**	**$ 4,679**	**$ 4,753**		
Service, outsourcing and rentals	$ 7,820	$ 8,485	$ 8,214		
Finance income	713	798	822		
Add: Supplies, paper and other sales	3,096	3,646	3,439		
Post Sale Revenue	**$ 11,629**	**$ 12,929**	**$ 12,475**		
Memo: Color (2)	**$ 5,972**	**$ 6,669**	**$ 6,356**	**(10)%**	**5%**

Revenue 2009

Revenue decreased 14% compared to the prior year, including a 3-percentage point negative impact from currency. Although moderating in the fourth quarter 2009, worldwide economic weakness negatively impacted our major market segments during the year. Total revenues included the following:

- 10% decrease in post sale revenue including a 3-percentage point negative impact from currency. The components of post sale revenue decreased as follows:
  - 8% decrease in service, outsourcing and rentals revenue to $7,820 million reflecting a 3-percentage point negative impact from currency and an overall decline in page volume. Total digital pages declined 6% despite an increase in color pages of 10%.
  - Supplies, paper, and other sales of $3,096 million decreased 15% due primarily to currency, which had a 2-percentage point negative impact, and declines in channel supplies purchases, including lower purchases within developing markets, and lower paper sales.
- 24% decrease in equipment sales revenue, including a 1-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.
- 10% decrease in color revenue (2) including a 2-percentage point negative impact from currency. Color revenue of $5,972 million in 2009 comprised 43% of total revenue, excluding GIS,(3) compared to 41% in 2008 reflecting:
  - 5% decrease in color post sale revenue including a 3-percentage point negative impact from currency. The decline was partially driven by lower channel color printer supplies purchases. Color represented 40% and 37% of post sale revenue in 2009 and 2008 excluding GIS, (3), respectively.
  - 22% 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 53% and 50% of total equipment sales in 2009 and 2008, excluding GIS,(3) respectively.
  - 10%(4) growth in color pages. Color pages (4) represented 21% and 18% of total pages in 2009 and 2008, respectively.

Revenue 2008

Revenue increased 2% compared to the prior year and was flat when including GIS in our 2007 results.(5) Currency had a 1-percentage point positive impact on total revenues. Total revenues included the following:

- 4% increase in post sale revenue, or 2% including GIS in our 2007 results.(5) This included a 1-percentage point benefit from currency. Growth in GIS, color products and document management services offset the declines in high-volume black-and-white printing systems, black-and-white multifunction devices and light lens product revenue. The components of post sale revenue increased as follows:
  - 3% increase in service, outsourcing, and rentals revenue to $8,485 million reflected the full year inclusion of GIS and growth in document management services.
  - Supplies, paper, and other sales of $3,646 million grew 6% year-over-year due to the full year inclusion of GIS, as well as growth in color supplies and paper sales.
- 2% decrease in equipment sales revenue. There was no impact from currency on equipment sales revenue. When including GIS in our 2007 results,(5) equipment sales revenue decreased 5%, with a 1-percentage point benefit from currency. Overall price declines of between 5% - 10%, as well as product mix, more than offset overall growth in install activity.
- 5% growth in color revenue.(2) Color revenue of $6,669 million in 2008 represented 41% of total revenue, excluding GIS(3), compared to 39% in 2007 reflecting:
  - 10% growth in color post sale revenue to $4,590 million. Color post sale revenue represented 37% and 35% of post sale revenue in 2008 and 2007, respectively.(3)

- Color equipment sales revenue declined 4% to $2,079 million. Color equipment sales represented 50% of total equipment sales in 2008 and 2007,[3] respectively.
- 24%[4] growth in color pages. Color pages [4] represented 18% and 12% of total pages in 2008 and 2007, respectively.

(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 and associated services.
(2) Color revenues represent a subset of total revenue and excludes the impact of GIS's revenues.
(3) As of December 31, 2009 and 2008, total color, color post sale and color equipment sales revenues comprised 39%, 37% and 46%; and 38%, 36% 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 because the breakout of the information required to make this computation for all periods is not available.
(4) Pages include estimates for developing markets, GIS and printers.
(5) The percentage point impacts from GIS reflect the revenue growth year-over-year after including GIS's results for 2007 on a proforma basis. We acquired GIS in May 2007. See "Non-GAAP Financial Measures" section for an explanation of this non-GAAP measure.

Net Income

Net income and diluted earnings per share for the three years ended December 31, 2009 were as follows:

(in millions, except per share amounts)	2009	2008	2007
Net income attributable to Xerox	$ 485	$ 230	$ 1,135
Diluted earnings per share	$ 0.55	$ 0.26	$ 1.19

Net Income 2009

Net income attributable to Xerox of $485 million, or $0.55 per diluted share, included the following:

- A $49 million after-tax ($72 million pre-tax) charge, or $0.06 per diluted share, related to costs associated with the acquisition of ACS.
- A charge of $46 million or $0.05 per diluted share, for our share of Fuji Xerox's after-tax restructuring charge.

Net Income 2008

Net income of $230 million, or $0.26 per diluted share, included the following:

- $491 million after-tax charges ($774 million pre-tax) associated with securities-related litigation matters, as well as other probable litigation-related losses, including $36 million for the Brazilian labor-related contingencies.
- $292 million after-tax charge ($426 million pre-tax) for the second, third and fourth quarter 2008 restructuring and asset impairment actions.
- $24 million after-tax charge ($39 million pre-tax) for an Office product line equipment write-off.
- $41 million income tax benefit from the settlement of certain previously unrecognized tax benefits.

Application of Critical Accounting Policies

In preparing our Consolidated Financial Statements and accounting for the underlying transactions and balances, we apply various accounting policies. Senior management has discussed the development and selection of the critical accounting policies, estimates and related disclosures included herein with the Audit Committee of the Board of Directors. We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management's judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition for leases, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 1 - Summary of Significant Accounting Policies, in the Consolidated Financial Statements.

Revenue Recognition for Leases

Our accounting for leases involves specific determinations under applicable lease accounting standards, which often involve complex and prescriptive provisions. These provisions affect the timing of revenue recognition for our equipment. If a lease qualifies as a sales-type capital lease, equipment revenue is recognized upon delivery or installation of the equipment as sale revenue as opposed to ratably over the lease term. The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended.

Revenue Recognition Under Bundled Arrangements

We sell the majority of our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Typically these arrangements include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. Revenues under these arrangements are allocated, considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated relative fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of supplies and non-maintenance services. Our revenue allocation for lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. The remaining amounts are allocated to the equipment and financing elements. We perform analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must be reasonably consistent with the lease selling prices, taking into account residual values, in order for us to determine that such lease prices are indicative of fair value.

Our pricing interest rates, which are used in determining customer payments, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have been generally adjusted if the rates vary by twenty-five basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Allowance for Doubtful Accounts and Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that have been identified. We cannot guarantee that we will continue to experience credit loss rates similar to those we have experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We recorded bad debt provisions of $291 million, $188 million and $134 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, respectively.

Historically, the majority of the bad debt provision relates to our finance receivables portfolio. This provision is inherently more difficult to estimate than the provision for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. The estimated credit quality of any given customer and class of customer or geographic location can significantly change during the life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the provision for doubtful accounts.

The current economic environment has increased the risk of non-collection of receivables. We have accordingly considered this increased risk in the evaluation and assessment of our allowance for doubtful accounts at year-end. Bad debt provisions increased by $103 million in 2009 and reserves as a percentage of trade and finance receivables increased to 4.1% at December 31, 2009 as compared to 3.4% at December 31, 2008. However, collection risk is somewhat mitigated by the fact that our receivables are fairly well dispersed among a diverse customer base both in size and geography. Days sales outstanding improved slightly year-over-year. In addition, accounts receivable balances greater than 90 days outstanding were about 12% of total gross accounts receivables at December 31, 2009, which was relatively flat as compared to the prior year. However, we continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts.

As discussed above, in preparing our Consolidated Financial Statements for the three year period ended December 31, 2009, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology has been consistently applied for all periods presented. During the five year period ended December 31, 2009, our reserve for doubtful accounts ranged from 3.0% to 4.1% of gross receivables. Holding all other assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2009 rate of 4.1% would change the 2009 provision by approximately $91 million.

Pension and Post-retirement Benefit Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering substantially all employees who meet eligibility requirements. Post-retirement benefit plans cover primarily U.S. employees for retirement medical costs. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and post-retirement benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic pension cost generally over the average remaining service lives of the employees participating in the pension plan.

Cumulative actuarial losses for our pension plans of $1.8 billion as of December 31, 2009 were flat as compared to December 31, 2008. Positive returns on plan assets in 2009 as compared to expected returns offset a decrease in discount rates. The total actuarial loss will be amortized in the future, subject to offsetting gains or losses that will change the future amortization amount.

We have utilized a weighted average expected rate of return on plan assets of 7.4% for 2009 and 7.6% for both 2008 and 2007, on a worldwide basis.

During 2009, the actual return on plan assets was $720 million, primarily as a result of an improvement in the equity markets. In estimating the 2010 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will utilize for 2010 will be 7.3% as compared to 7.4% in 2009 and 7.6% in 2008.

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, as opposed to a fair market value approach. The primary difference between the two methods relates to a systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is then applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that can result from using the fair market value approach. The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative differences that arose in prior years. This amount is a component of the net actuarial gain or loss.

Another significant assumption affecting our pension and post-retirement benefit obligations and the net periodic pension and other post-retirement benefit cost is the rate that we use to discount our future anticipated benefit obligations. The discount rate reflects the current rate at which the pension liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider rates of return on high quality fixed-income investments included in various published bond indices, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In the U.S. and the U.K., which comprise approximately 80% of our projected benefit obligations, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The weighted average discount rate we utilized to measure our pension obligation as of December 31, 2009 and to calculate our 2010 expense was 5.7%, which is a decrease of 0.6% from 6.3% used in determining our 2009 expense.

Assuming settlement losses in 2010 are consistent with 2009, our 2010 net periodic defined benefit pension cost is expected to be approximately $70 million higher than 2009, primarily as a result of a decrease in the discount rate and increased amortization of actuarial losses, which includes the impact of the significant asset losses in 2008.

On a consolidated basis, we recognized net periodic pension cost of $270 million, $254 million and $315 million for the years ended December 31, 2009, 2008 and 2007, respectively. The costs associated with our defined contribution plans, which are included in net periodic pension cost, were $38 million, $80 million and $80 million for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in 2009 was primarily due to the April 2009 suspension of the 401(k) match in the U.S. Pension cost is included in several income statement components based on the related underlying employee costs. Pension and post-retirement benefit plan assumptions are included in Note 14 - Employee Benefit Plans in the Consolidated Financial Statements. Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2010 projected net periodic pension cost by $12 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2010 projected net periodic pension cost by $11 million.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions were to become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Adjustments to our valuation allowance, through (credits) charges to income tax expense, were $(11) million, $17 million and $14 million for the years ended December 31, 2009, 2008 and 2007, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of $55 million, $(136) million and $86 million for the years ended December 31, 2009, 2008 and 2007, respectively, that did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of $3.7 billion and $3.8 billion had valuation allowances of $672 million and $628 million at December 31, 2009 and 2008, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results.

We file income tax returns in the U.S. Federal jurisdiction and various foreign jurisdictions. In the U.S. we are no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2007. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Legal Contingencies

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and ERISA, as discussed in Note 16 - Contingencies in the Consolidated Financial Statements. 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.

Business Combinations and Goodwill

The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party appraisal firms.

As a result of our acquisition of GIS, as well as other prior year acquisitions, we have a significant amount of goodwill. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital for purposes of establishing a discount rate and relevant market data.

Our annual impairment test of goodwill was performed in the fourth quarter. The estimated fair values of our reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in those valuations incorporated the current economic environment. In performing our 2009 impairment test, the following were the overall composite assumptions regarding revenue and expense growth, which were the basis for estimating future cash flows used in the discounted cash flow model: 1) revenue growth 2-4%; 2) gross margin 39-40%; 3) RD&E 4-5%; 4) SAG 24-25%; and 5) return on sales 8-9%. We believe these estimated assumptions are appropriate for our circumstances, in-line with historical results, consistent with our forecasted long-term business model and give consideration to the current economic environment. Our forecast does not include the impact of the ACS acquisition completed in February 2010 since our impairment test was limited to goodwill as of the fourth quarter 2009.

Based on these valuations, we determined that the fair values of our reporting units exceeded their carrying values and no goodwill impairment charge was required during the fourth quarter 2009.

Refer to Note 1 – Summary of Significant Accounting Policies – "Goodwill and Intangible Assets" for further information regarding our goodwill impairment testing, as well as Note 8 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for further information regarding goodwill by operating segment.

Operations Review of Segment Revenue and Operating Profit

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Production, Office and Other. See Note 2 – Segment Reporting in the Consolidated Financial Statements for further discussion on our segment operating revenues and segment operating profit.

Revenues by segment for the years ended 2009, 2008 and 2007 were as follows:

	Year Ended December 31,			
(in millions)	Production	Office	Other	Total
2009				
Equipment sales	$ 1,031	$ 2,363	$ 156	$ 3,550
Post sale revenue	3,514	6,213	1,902	11,629
Total Revenues	**$ 4,545**	**$ 8,576**	**$ 2,058**	**$ 15,179**
Segment Profit (Loss)	**$ 217**	**$ 835**	**$ (274)**	**$ 778**
Operating Margin	**4.8%**	**9.7%**	**(13.3)%**	**5.1%**
2008				
Equipment sales	$ 1,325	$ 3,105	$ 249	$ 4,679
Post sale revenue	3,912	6,723	2,294	12,929
Total Revenues	**$ 5,237**	**$ 9,828**	**$ 2,543**	**$ 17,608**
Segment Profit (Loss)	**$ 394**	**$ 1,062**	**$ (165)**	**$ 1,291**
Operating Margin	**7.5%**	**10.8%**	**(6.5)%**	**7.3%**
2007				
Equipment sales	$ 1,471	$ 3,030	$ 252	$ 4,753
Post sale revenue	3,844	6,443	2,188	12,475
Total Revenues	**$ 5,315**	**$ 9,473**	**$ 2,440**	**$ 17,228**
Segment Profit (Loss)	**$ 562**	**$ 1,115**	**$ (89)**	**$ 1,588**
Operating Margin	**10.6%**	**11.8%**	**(3.7)%**	**9.2%**

Note: Install activity percentages include the Xerox-branded product shipments to GIS.

Production

Revenue 2009

Production revenue of $4,545 million decreased 13%, 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 and lower revenue from entry production color products which reflect the weak economic environment during the year.

- 22% decrease in equipment sales revenue, with a 2-percentage point negative impact from currency. The decline in revenue across all product groups reflects lower installs driven by the weak economic environment and delays in customer spending on technology.
- 11% decline in installs of production color products, as entry production color declines were partially offset by increased Xerox 700 installs and iGen4™.
- 22% decline in installs of production black-and-white systems, reflecting declines in all product groups.

Revenue 2008

Production revenue of $5,237 million decreased 1%, including a 1-percentage point benefit from currency, reflecting:

- 2% increase in post sale revenue as growth from color, continuous feed and light production products offset declines in revenue from black-and-white high-volume printing systems and light lens devices.
- 10% decrease in equipment sales revenue, primarily reflecting pricing declines in both black-and-white and color production systems, driven in part by weakness in the U.S.
- 1% increase in installs of production color products driven in part by Xerox 700 and iGen4 activity, as well as color continuous feed.
- 6% decline in installs of production black-and-white systems driven primarily by declines in installs of light production systems.

Operating Profit 2009

Production operating profit of $217 million decreased $177 million from 2008. The decrease is primarily the result of lower gross profit flow-through from revenue declines which were partially offset by lower RD&E and SAG spending as a result of favorable currency and cost reductions. The improvement in SAG was mitigated by an increase in bad debt provisions.

Operating Profit 2008

Production operating profit of $394 million decreased $168 million from 2007. The decrease is primarily the result of lower revenue and lower gross margins due to pricing and product mix, as well as increased SAG expenses.

Office

Revenue 2009

Office revenue of $8,576 million decreased 13%, including a 2-percentage point negative impact from currency, reflecting:

- 8% decrease in post sale revenue with a 3-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.
- 24% decrease in equipment sales revenue, including a 1-percentage point negative impact from currency. The decline in revenue across most product groups reflects lower installs driven by the weak economic environment during this year.
- 20% decline in installs of color multifunction devices driven by lower overall demand, which more than offset the impact of new products including the ColorQube and Office version of the Xerox 700.
- 37% decline in installs of black-and-white copiers and multifunction devices, including an 83% 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.
- 34% decline in installs of color printers due to lower demand and lower sales to OEM partners.

Revenue 2008

Office revenue of $9,828 million increased 4%, including a 1-percentage point benefit from currency, as well as the benefits from our expansion in the SMB market through GIS and Veenman. Revenue for 2008 reflects:

- 4% increase in post sale revenue, reflecting the full year inclusion of GIS, as well as growth from color multifunction devices and color printers partially offset by declines in black-and-white digital devices. Office post sale revenue was negatively impacted in the fourth quarter of 2008 by declines in channel supply purchases, including lower purchases within developing markets.

- 2% increase in equipment sales revenue, reflecting the full year inclusion of GIS, as well as growth from color digital products which more than offset declines from black-and-white devices primarily due to price declines and product mix.
- 24% color multifunction device install growth led by strong demand for Xerox WorkCentre® and Phaser® products.
- 8% increase in installs of black-and-white copiers and multifunction devices, including 8% growth in Segment 1&2 products (11-30 ppm) and 8% growth in Segment 3-5 products (31-90 ppm). Segment 3-5 installs include the Xerox 4595, a 95 ppm device with an embedded controller.
- 12% increase in color printer installs.

Operating Profit 2009
Office operating profit of $835 million decreased $227 million from 2008, as revenue declines were partially offset by lower RD&E and SAG as a result of favorable currency and cost actions. The improvement in SAG was mitigated by an increase in bad debt provisions.

Operating Profit 2008
Office operating profit of $1,062 million decreased $53 million from 2007. The decrease was primarily due to lower gross profits reflecting lower margins, as well as higher SAG expenses partially offset by the full year inclusion of GIS.

Other

Revenue 2009
Other revenue of $2,058 million decreased 19%, including a 2-percentage point negative impact from currency, primarily driven by declines in revenue from paper, wide format systems and licensing and royalty arrangements. Paper comprised approximately 50% of the Other segment revenue.

Revenue 2008
Other revenue of $2,543 million increased 4%, primarily reflecting the full year inclusion of GIS and increased paper revenue partially offset by lower revenue from wide format systems. There was no impact from currency. Paper comprised approximately 50% of the Other segment revenue.

Operating Loss 2009
Other operating loss of $274 million increased $109 million from 2008, primarily due to lower revenue, as well as lower interest income and equity income.

Operating Loss 2008
Other operating loss of $165 million increased $76 million from 2007, reflecting lower wide format revenue, higher foreign exchange losses and lower interest income partially offset by gains on sales of assets.

Costs, Expenses and Other Income

Gross Margin

Gross margins by revenue classification were as follows:

	Year Ended December 31,		
	2009	2008	2007
Sales	33.9%	33.7%	35.9%
Service, outsourcing and rentals	42.6%	41.9%	42.7%
Finance income	62.0%	61.8%	61.6%
Total Gross Margin	**39.7%**	**38.9%**	**40.3%**

Gross Margin 2009

Total gross margin increased 0.8-percentage points compared to 2008, primarily driven by cost improvements enabled by restructuring and our cost actions, which were partially offset by the 0.5-percentage point unfavorable impact of transaction currency, primarily the Yen, and price declines of 1.0-percentage points.

- Sales gross margin increased 0.2-percentage points primarily due to the cost improvements and the positive mix of revenues partially offset by the adverse impact of transaction currency on our inventory purchases of 1.0-percentage point and price declines of 1.2-percentage points.
- Service, outsourcing and rentals margin increased 0.7-percentage points primarily due to the positive impact from the reduction in costs driven by our restructuring and cost actions of 1.5-percentage points. These cost improvements more than offset the approximate 0.9-percentage points impact of pricing.
- Financing income margin of 62% remained comparable to 2008.

Gross Margin 2008

2008 Total gross margin decreased 1.4-percentage points compared to 2007 as price declines and mix of approximately 2.0-percentage points were only partially offset by cost productivity improvements. Cost improvements were limited by an unfavorable impact on product costs of approximately 0.5-percentage points from the significant strengthening of the Yen versus the U.S. Dollar and Euro. The negative impact of 0.3-percentage points from an Office product line equipment write-off was offset by positive adjustments related to the capitalized costs for equipment on operating leases and European product disposal costs.

- Sales gross margin decreased 2.2-percentage points primarily due to the approximately 2.5-percentage point impact of price declines, as well as channel and product mix. Cost improvements, which historically tend to offset price declines, were limited in 2008 by the adverse impact of the strengthening Yen on our inventory purchases.
- Service, outsourcing and rentals margin decreased 0.8-percentage points primarily due to mix as price declines of 1.3-percentage points were offset by cost improvements. Mix reflects margin pressure from document management services.
- Financing income margin of approximately 62% remained comparable to 2007.
- Since a large portion of our inventory procurement is from Japan, the strengthening of the Yen versus the U.S. Dollar and Euro in 2008 significantly impacted our product cost. The Yen strengthened approximately 14% against the U.S. Dollar and 6% against the Euro in 2008 as compared to 2007. A significant portion of that strengthening occurred in the fourth quarter 2008 when the Yen strengthened 17% against the U.S. Dollar and 29% against the Euro as compared to prior year.

Research, Development and Engineering Expenses ("RD&E")

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

	Year Ended December 31,			Change	
(in millions)	2009	2008	2007	2009	2008
RD&E % Revenue	5.5%	5.0%	5.3%	0.5pts	(0.3)pts
R&D	$ 713	$ 750	$ 764	$ (37)	$ (14)
Sustaining Engineering	127	134	148	(7)	(14)
Total RD&E Expenses	**$ 840**	**$ 884**	**$ 912**	**$ (44)**	**$ (28)**
R&D Investment by Fuji Xerox [1]	$ 796	$ 788	$ 672	$ 8	$ 116

[1] Increase in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E 2009: The decrease in RD&E spending for 2009 reflects our restructuring and cost actions which consolidated the Production and Office development and engineering infrastructures.

RD&E 2008: The decrease in R&D spending for 2008 reflects the capture of efficiencies following a significant number of new product launches over the previous two years, as well as leveraging our current R,D&E investments to support our GIS operations. Sustaining engineering costs declined in 2008 due primarily to lower spending related to environmental compliance activities and maturing product platforms in the Production segment.

Selling, Administrative and General Expenses ("SAG")

	Year Ended December 31,			Change	
(in millions)	2009	2008	2007	2009	2008
Total SAG	$ 4,149	$ 4,534	$ 4,312	$ (385)	$ 222
SAG as a % of revenue	27.3 %	25.7 %	25.0 %	1.6pts	0.7pts
Bad Debt Expense	$ 291	$ 188	$ 134	$ 103	$ 54
Bad Debt as a % of revenue	1.9 %	1.1 %	0.8 %	0.8pts	0.3pts

SAG 2009

SAG of $4,149 million was $385 million lower than 2008, including a $126 million benefit from currency. The SAG decrease was the result of the following:

- $311 million decrease in selling expenses reflecting favorable currency; benefits from restructuring, an overall reduction in marketing spend and lower commissions.
- $177 million decrease in general and administrative ("G&A") expenses reflecting favorable currency and benefits from restructuring and cost actions partially offset by higher compensation accruals.
- $103 million increase in bad debt expense reflecting increased write-offs in North America and Europe.

SAG 2008

SAG of $4,534 million was $222 million higher than 2007, including a $12 million unfavorable impact from currency. The SAG increase was the result of the following:

- $94 million increase in selling expenses primarily reflecting the full year inclusion of GIS, investments in selling resources and marketing communications and unfavorable currency partially offset by lower compensation.
- $75 million increase in G&A expenses primarily from the full year inclusion of GIS and unfavorable currency.
- $54 million increase in bad debt expense reflecting increased write-offs, particularly in the fourth quarter 2008, which included several high value account bankruptcies in the U.S., U.K. and Germany.

Bad debt expense, which is included in SAG, increased $103 million in 2009 and reserves as a percentage of trade and finance receivables increased to 4.1% at December 31, 2009 as compared to 3.4% at December 31, 2008. These increases reflect the weak worldwide economic conditions and the increased level of customer bankruptcies in certain industry groups during the year. Bad debts provision and write-offs in the fourth quarter 2009 were flat as compared to the prior year.

Restructuring and Asset Impairment Charges

For the years ended December 31, 2009, 2008 and 2007, we recorded net restructuring and asset impairment (credits)/charges of $(8) million, $429 million and $(6) million, respectively.

- Restructuring activity was minimal in 2009, and the credit of $8 million primarily reflected changes in estimates for prior year's initiatives.
- The 2008 net charge included $357 million related to head count reductions of approximately 4,900 employees primarily in North America and Europe and lease termination and asset impairment charges of $72 million primarily reflecting the exit from certain leased and owned facilities resulting from a rationalization of our worldwide operating locations. These actions applied equally to both North America and Europe with approximately half focused on SAG reductions, approximately a third on gross margin improvements and the remainder focused on the optimization of RD&E investments. Estimated savings from these initiatives were approximately $250 million in 2009.

- Restructuring activity was minimal in 2007 and the related credit of $6 million primarily reflected changes in estimates for prior year's severance costs.

The restructuring reserve balance as of December 31, 2009, for all programs was $74 million, of which approximately $64 million is expected to be spent over the next twelve months. Refer to Note 9 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for further information regarding our restructuring programs.

2010 Expected Actions
In connection with our continued objective to align our cost base to current revenues, we expect to record pre-tax restructuring charges of approximately $280 million in 2010, of which $250 million is expected to be recorded in the first quarter. These actions are expected to impact all geographies and segments with approximately equal focus on SAG reductions, gross margin improvements and optimization of RD&E investments. The restructuring is also expected to involve the rationalization of some of our facilities.

Acquisition-Related Costs

Acquisition-related costs of $72 million were incurred and expensed during 2009 in connection with our acquisition of ACS. $58 million of the costs relate to the write-off of fees associated with the Bridge Loan Facility commitment which was terminated as a result of securing permanent financing to fund the acquisition. The remainder of the costs represents transaction costs such as banking, legal and accounting fees, as well as some pre-integration costs such as external consulting services. Consistent with the new accounting guidance with respect to business combinations, adopted in 2009, all acquisition-related costs must be expensed as incurred.

Worldwide Employment

Worldwide employment of 53,600 as of December 31, 2009 decreased approximately 3,500 from December 31, 2008, primarily reflecting restructuring reductions, partially offset by additional headcount related to GIS acquisitions. Worldwide employment was approximately 57,100 and 57,400 at December 31, 2008 and 2007, respectively.

Other Expenses, Net

Other expenses, net for the years ended December 31, 2009, 2008 and 2007 consisted of the following:

	Year Ended December 31,		
(in millions)	2009	2008	2007
Non-financing interest expense	$ 256	$ 262	$ 263
Interest income	(21)	(35)	(55)
Gain on sales of businesses and assets	(16)	(21)	(7)
Currency losses, net	26	34	8
Amortization of intangible assets	60	54	42
Litigation matters	9	781	(6)
All Other expenses, net	31	12	20
Total Other Expenses, Net	**$ 345**	**$ 1,087**	**$ 265**

Non-financing interest expense: 2009 non-financing interest expense decreased compared to 2008, as interest expense associated with our $2.0 billion Senior Note offering for the funding of the ACS acquisition was more than offset by lower interest rates on the remaining debt.

In 2008, non-financing interest expense was flat compared to 2007, as the benefit of lower interest rates was offset by higher average non-financing debt balances.

Interest income: Interest income is derived primarily from our invested cash and cash equivalent balances. The decline in interest income in 2009 and 2008 was primarily due to lower average cash balances and rates of return.

Gain on sales of businesses and assets: 2009 and 2008 gain on sales of business and assets primarily consisted of the sales of certain surplus facilities in Latin America.

Currency losses, net: Currency losses primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities, the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities and the mark-to-market impact of hedges of anticipated transactions, primarily future inventory purchases, for those that we do not apply cash flow hedge accounting treatment.

The 2009 currency losses were primarily due to the significant movement in exchange rates among the U.S. Dollar, Euro and Yen in the first quarter of 2009, as well as the increased cost of hedging, particularly in developing markets.

The 2008 currency losses were primarily due to net re-measurement losses associated with our Yen-denominated payables, foreign currency denominated assets and liabilities in our developing markets and the cost of hedging. The currency losses on Yen-denominated payables were largely limited to the first quarter 2008 as a result of the significant and rapid weakening of the U.S. Dollar and Euro versus the Yen.

Amortization of intangible assets: The increase in 2009 and 2008 amortization as compared to prior years primarily reflects the full-year amortization of the assets acquired as part of our recent acquisitions.

Litigation matters: In 2008 legal matters consisted of the following:

- $721 million reflecting provisions for the $670 million court approved settlement of *Carlson v. Xerox Corporation* ("Carlson") and other pending securities-related cases, 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 settlement of the Carlson litigation.
- $36 million for probable losses on Brazilian labor-related contingencies. Following an assessment of the most recent trend in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of $36 million in the fourth quarter of 2008.
- $24 million associated with probable losses from various other legal matters.

Refer to Note 16 – Contingencies in the Consolidated Financial Statements for additional information regarding litigation against the Company.

All other expenses, net: All Other expenses in 2009 were $19 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

	Year Ended December 31,		
(in millions)	2009	2008	2007
Pre-tax income (loss)	$ 627	$ (79)	$ 1,468
Income tax expense (benefit)	152	(231)	400
Effective tax rate	24.2 %	292.4 %	27.2 %

The 2009 effective tax rate of 24.2% was 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 effective tax rates in those jurisdictions, and the settlement of certain previously unrecognized tax benefits partially offset by a reduction in the utilization of foreign tax credits.

The 2008 effective tax rate of 292.4% reflected the tax benefits from certain discrete items including the net provision for litigation matters; the second, third and fourth quarter restructuring and asset impairment charges; the product line equipment write-off; and the settlement of certain previously unrecognized tax benefits. Excluding these items, the adjusted effective tax rate was 20.9%*. The adjusted 2008 effective tax rate was 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 effective tax rates in those jurisdictions, the utilization of foreign tax credits and tax law changes.

The 2007 effective tax rate of 27.2% was lower than the U.S. statutory rate primarily reflecting tax benefits from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the utilization of foreign tax credits, as well as the resolution of other tax matters. These benefits were partially offset by changes in tax law.

Our effective tax rate will change based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes and the related effective 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 (such as audit settlements) that may not be predictable. Including the results from ACS, we anticipate that our effective tax rate for 2010 will be approximately 32%, excluding the effects of any discrete events.

Refer to Note 15 – Income and Other Taxes in the Consolidated Financial Statements for additional information.

* See the "Non-GAAP Measures" section for additional information.

Equity in Net Income of Unconsolidated Affiliates

2009 equity in net income of unconsolidated affiliates of $41 million is principally related to our 25% share of Fuji Xerox income. The $72 million decrease from 2008 is primarily due to Fuji Xerox's lower net income, which has been impacted by the worldwide economic weakness, and includes $46 million related to our share of Fuji Xerox after-tax restructuring costs.

2008 equity in net income of unconsolidated affiliates of $113 million increased by $16 million from 2007, primarily due to a $14 million reduction in our share of Fuji Xerox restructuring charges.

Subsequent Events

We have operations in Venezuela where the U.S. Dollar is the functional currency. At December 31, 2009 our Venezuelan operations had approximately 90 million in net Bolivar-denominated monetary assets that were re-measured to U.S. Dollars at the official exchange rate of 2.15 Bolivars to the Dollar. In January 2010, Venezuela announced a devaluation of the Bolivar to an official rate of 4.30 Bolivars to the Dollar for our products. As a result of this devaluation, we expect to record a loss of approximately $21 million in the first quarter of 2010 for the re-measurement of our net Bolivar-denominated monetary assets. Other than the loss from re-measurement, we do not expect the devaluation to materially impact our results of operations or financial position in 2010 since we derive less than 0.5% of our total revenue from Venezuela and expect to take actions to lessen the effect of the devaluation.

On January 20, 2010, we acquired Irish Business Systems Limited ("IBS") for approximately $31 million. This acquisition expands our reach into the small and mid-sized business (SMB) market in Ireland. IBS, with eight offices located throughout Ireland, is a managed print services provider and the largest independent supplier of digital imaging and printing solutions in Ireland.

On February 5, 2010, we completed the acquisition of ACS. Refer to Note 3-Acquisitions, Note 11-Debt and Note 17-Shareholders' Equity for further information regarding the acquisition and associated funding for it.

Recent Accounting Pronouncements

On January 1, 2009, we adopted SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51", (Accounting Standards Codification™ Topic 810-10-65). This guidance requires that minority interests be renamed noncontrolling interests and be presented as a separate component of equity. In addition, the Company must report a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests for all periods presented.

Refer to Note 1 - Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of all recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial condition.

Capital Resources and Liquidity

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2009, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,			Change	
(in millions)	2009	2008	2007	2009	2008
Net cash provided by operating activities	$ 2,208	$ 939	$ 1,871	$ 1,269	$ (932)
Net cash used in investing activities	(343)	(441)	(1,612)	98	1,171
Net cash provided by (used in) financing activities	692	(311)	(619)	1,003	308
Effect of exchange rate changes on cash and cash equivalents	13	(57)	60	70	(117)
Increase (decrease) in cash and cash equivalents	2,570	130	(300)	2,440	430
Cash and cash equivalents at beginning of year	1,229	1,099	1,399	130	(300)
Cash and Cash Equivalents at End of Year	**$ 3,799**	**$ 1,229**	**$ 1,099**	**$ 2,570**	**$ 130**

Cash Flows from Operating Activities

Net cash provided by operating activities was $2,208 million for the year ended December 31, 2009. The $1,269 million increase from 2008 was primarily due to the following:

- $587 million increase due to the absence of payments for securities-related litigation settlements.
- $433 million increase as a result of lower inventory levels reflecting aggressive supply chain actions in light of lower sales volume.
- $410 million increase from accounts receivables reflecting the benefits from sales of accounts receivables, lower revenue and strong collection effectiveness.
- $177 million increase due to lower contributions to our defined pension benefit plans. The lower contributions are primarily in the U.S. as no contributions were required due to the availability of prior years' credit balances.
- $116 million increase due to lower net tax payments.
- $84 million increase due to higher net run-off of finance receivables.
- $64 million increase due to lower placements of equipment on operating leases reflecting lower install activity.
- $440 million decrease in pre-tax income before litigation, restructuring and acquisition costs.
- $139 million decrease due to higher restructuring payments related to prior years' actions.

- $54 million decrease due to lower accounts payable and accrued compensation primarily related to lower purchases and the timing of payments to suppliers.

Net cash provided by operating activities was $939 million for the year ended December 31, 2008. The $932 million decrease from 2007 was primarily due to the following:

- $615 million decrease due to net payments for the settlement of the securities-related litigation.
- $330 million decrease in pre-tax income before litigation and restructuring.
- $90 million decrease due to higher net income tax payments, primarily resulting from the absence of prior year tax refunds.
- $74 million decrease primarily due to lower benefit and compensation accruals.
- $71 million decrease due to higher inventory levels as a result of lower equipment and supplies sales in 2008.
- $136 million increase from accounts receivable due to strong collection effectiveness throughout 2008.
- $107 million increase from derivatives, primarily due to the termination of certain interest rate swaps in fourth quarter 2008.

Cash Flows from Investing Activities

Net cash used in investing activities was $343 million for the year ended December 31, 2009. The $98 million increase from 2008 was primarily due to the following:

- $142 million increase due to lower capital expenditures (including internal use software), reflecting very stringent spending controls.
- $21 million decrease due to lower cash proceeds from asset sales.

Net cash used in investing activities was $441 million for the year ended December 31, 2008. The $1,171 million increase from 2007 was primarily due to the following:

- $1,460 million increase due to less cash used for acquisitions. 2008 acquisitions included $138 million for Veenman B.V. and Saxon Business Systems as compared to $1,568 million for GIS and its additional acquisitions in the prior year.
- $192 million decrease due to lower funds from escrow and other restricted investments in 2008. The prior year reflected funds received from the run-off of our secured borrowing programs.
- $134 million decrease in other investing cash flows due to the absence of proceeds from liquidations of short-term investments.

Cash Flows from Financing Activities

Net cash provided by financing activities was $692 million for the year ended December 31, 2009. The $1,003 million increase from 2008 was primarily due to the following:

- $812 million increase because no purchases were made under our share repurchase program during 2009.
- $170 million increase from lower net repayments on secured debt.
- $21 million increase due to lower share repurchases related to employee withholding taxes on stock-based compensation vesting.
- $3 million decrease due to lower net debt proceeds. 2009 reflects the repayment of $1,029 million for Senior Notes due in 2009, net payments of $448 million for Zero Coupon Notes, net payments of $246 million on the Credit Facility, net payments of $35 million primarily for foreign short-term borrowings and $44 million of debt issuance costs for the Bridge Loan Facility commitment, which was recently terminated. These payments were partially offset by net proceeds of $2,725 million from the issuance of Senior Notes in May and December 2009. 2008 reflects the issuance of $1.4 billion in Senior Notes, $250 million in Zero Coupon Notes and net payments of $354 million on the Credit Facility and $370 million on other debt.

Net cash used in financing activities was $311 million for the year ended December 31, 2008. The $308 million increase from 2007 was primarily due to the following:

- $1,642 million increase from lower net repayments on secured debt. 2007 reflects termination of our secured financing programs with GE in the United Kingdom and Canada of $634 million and Merrill Lynch in France for $469 million as well as the repayment of secured borrowings to DLL of $153 million. The remainder reflects lower payments associated with our GE U.S. secured borrowings.
- $888 million decrease from lower net cash proceeds from unsecured debt. 2008 reflects the issuance of $1.4 billion in Senior Notes, $250 million from a private placement borrowing and net payments of $354 million on the Credit Facility and $370 million on other debt. 2007 reflects the issuance of $1.1 billion Senior Notes, $400 million from private placement borrowings and net proceeds of $600 million on the Credit Facility, offset by net payments of $286 million on other debt.
- $180 million decrease due to additional purchases under our share repurchase program.
- $154 million decrease due to common stock dividend payments.
- $79 million decrease due to lower proceeds from the issuance of common stock, reflecting a decrease in stock option exercises as well as lower related tax benefits.
- $33 million decrease due to share repurchases related to employee withholding taxes on stock-based compensation vesting.

Financing Activities, Credit Facility and Capital Markets

Customer Financing Activities

We provide lease equipment financing to the majority of our customers. Our lease contracts permit customers to pay for equipment over time rather than at the date of installation. Our investment in these contracts is reflected in Total finance assets, net. We currently fund our customer financing activity through cash generated from operations, cash on hand, borrowings under bank credit facilities and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically through GIS, where third party financial institutions independently provide lease financing, on a non-recourse basis to Xerox, directly to our customers. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the unrelated third party finance receivable and debt are not included in our Consolidated Financial Statements.

The following represents Total finance assets associated with our lease and finance operations as of December 31, 2009 and 2008:

(in millions)	2009	2008
Total Finance receivables, net (1)	$ 7,027	$ 7,278
Equipment on operating leases, net	551	594
Total Finance Assets, net	**$ 7,578**	**$ 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 the Consolidated Balance Sheets as of December 31, 2009 and 2008.

The decrease of $294 million in Total finance assets, net includes favorable currency of $224 million.

We maintain a certain level of debt, referred to as financing debt, in order to support our investment in our lease contracts. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets for this financing aspect of our business. Based on this leverage, the following represents the breakdown of Total debt between financing debt and core debt as of December 31, 2009 and 2008:

(in millions)	2009	2008
Financing debt (1)	$ 6,631	$ 6,888
Core debt (2)	2,633	1,496
Total Debt	**$ 9,264**	**$ 8,384**

(1) Financing debt includes $6,149 million and $6,368 million as of December 2009 and 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.

(2) Core debt at December 31, 2009 includes the $2.0 billion Senior Notes issuance which was used to fund the acquisition of ACS.

The following summarizes our debt:

(in millions)	2009	2008
Principal debt balance(3)	$ 9,122	$ 8,201
Net unamortized discount	(11)	(6)
Fair value adjustments	153	189
Total Debt (3)	**9,264**	**8,384**
Less: Current maturities and short-term debt	(988)	(1,610)
Total Long-term Debt(3)	**$ 8,276**	**$ 6,774**

(3) Total debt at December 31, 2009 includes the $2.0 billion Senior Notes issuance which was used to fund the acquisition of ACS.

Principal debt balance at December 31, 2008 includes short-term debt of $61 million. Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding the above balances.

Financial Instruments

Refer to Note 13 - Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Share Repurchase Programs

Refer to Note 17 – Shareholders' Equity – "Treasury Stock" in the Consolidated Financial Statements for further information regarding our share repurchase programs.

Dividends

The Board of Directors declared a 4.25 cent per share dividend on common stock in each quarter of 2009 and 2008.

Credit Facility

In October 2009, in connection with our anticipated acquisition of ACS, we amended our $2.0 billion Credit Facility and entered into a Bridge Loan Facility commitment as noted below. The Credit Facility amendment extended the maximum 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 principal debt was calculated as of December 31, 2009 net of cash proceeds from the Senior Notes issued in connection 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 majority 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.

Capital Markets Offerings
In 2009, we raised net proceeds of $745 million and $1,980 million through the issuance of Senior Notes of $750 million in May and $2.0 billion in December, respectively. The net proceeds from the Senior Notes issued in December 2009 were used to fund the acquisition of ACS.

Refer to Note 3 – Acquisitions in the Consolidated Financial Statements for further information regarding the ACS acquisition, as well as Note 11 – Debt in the Consolidated Financial Statements for additional information regarding the Debt activity.

Bridge Loan Facility Commitment
In connection with the agreement to acquire ACS, in September 2009 we entered into a commitment for a syndicated $3.0 billion Bridge Loan Facility with several banks that was to be used for funding the acquisition in the event the transaction closed prior to obtaining permanent financing in the capital markets. Debt issuance costs for the Bridge Loan Facility commitment were $58 million. On December 4, 2009, the debt commitment was reduced to $500 million following our issuance of $2.0 billion of Senior Notes. On January 8, 2010, we terminated the remaining commitment because we concluded we had sufficient liquidity to complete the ACS acquisition without having to borrow under the Bridge Loan Facility.

Liquidity and Financial Flexibility

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.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and access to capital markets. 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 December 31, 2009:

- As of December 31, 2009, total cash and cash equivalents was $3.8 billion and our borrowing capacity under our Credit Facility was $2.0 billion, reflecting no outstanding borrowings or letters of credit. Cash and cash equivalents at December 31, 2009 included the net proceeds from the $2.0 billion Senior Notes issued in December 2009, which were used to fund the acquisition of ACS.
- Over the past three years we have consistently delivered strong cash flow from operations, driven by the strength of our annuity based revenue model. Cash flows from operations were $2,208 million, $939 million and $1,871 million for the years ended December 31, 2009, 2008 and 2007, respectively. Cash flows from operations in 2008 included $615 million in net payments for our securities litigation.

- Our principal 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
2010	$ 988
2011	802
2012	1,101
2013	961
2014	819
2015	1,000
2016	950
2017	500
2018	1,001
2019 and thereafter	1,000
Total	**$ 9,122**

In February 2010, in connection with the closing of our acquisition of ACS, we borrowed $649 million under our Credit Facility.

Loan Covenants and Compliance
At December 31, 2009, we were in full compliance with the covenants and other provisions of the Credit Facility, our Senior Notes and our Bridge Loan Facility commitment (which was terminated on January 8, 2010). We have the right to prepay any outstanding loans or to terminate the Credit Facility without penalty. Failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 11 – Debt for further information regarding debt arrangements.

Credit Ratings: We are currently rated investment grade by all major rating agencies. As of February 8, 2010 the ratings were as follows:

	Senior Unsecured Debt	Outlook
Moody's	Baa2	Stable
Standard & Poors	BBB-	Stable
Fitch	BBB	Negative

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2009, we had the following contractual cash obligations and other commercial commitments and contingencies (in millions):

	2010	2011	2012	2013	2014	Thereafter
Long-term debt, including capital lease obligations (1)	$ 988	$ 802	$ 1,101	$ 961	$ 819	$ 4,451
Minimum operating lease commitments (2)	224	181	128	99	70	80
Liability to subsidiary trust issuing preferred securities (3)	—	—	—	—	—	649
Retiree Health Payments	103	101	100	100	98	457
Purchase Commitments						
Flextronics (4)	503	—	—	—	—	—
Fuji Xerox (5)	1,256	—	—	—	—	—
EDS Contracts (6)	113	77	77	77	19	—
Other IM service contracts (7)	80	77	61	56	44	18
Total Contractual Cash Obligations	**$ 3,267**	**$ 1,238**	**$ 1,467**	**$ 1,293**	**$ 1,050**	**$ 5,655**

(1) Refer to Note 11 - Debt in our Consolidated Financial Statements for additional information and interest payments related to long-term debt (amounts above include principal portion only).
(2) Refer to Note 6 - Land, Buildings and Equipment, Net in our Consolidated Financial Statements for additional information related to minimum operating lease commitments.
(3) Refer to Note 12 - Liability to Subsidiary Trust Issuing Preferred Securities in our Consolidated Financial Statements for additional information and interest payments (amounts above include principal portion only).